

Report of the Directors

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activity of the subsidiaries comprises the provision of logistics technology services. There were no significant changes in the nature of the Group's principal activity during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2002 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 24 to 79.

The directors do not recommend the payment of any dividend in respect of the year.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 80 of the annual report. This summary does not form part of the audited financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Company and of the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 28 and 29 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 30 to the financial statements and in the consolidated summary statement of changes in equity.

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Details of the distributable reserves of the Company are also set out in note 30 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 43% of the total sales for the year and sales to the largest customer included therein amounted to 18%. Purchases from the Group's five largest suppliers accounted for 78% of the total purchases for the year and purchases from the largest supplier included therein amounted to 72%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Lo Lin Shing, Simon

Mr. Chan Ki

Mr. Chan Wai Keung, Ringo

Mr. Yu Ansheng, Ben

Mr. Lo Lin Kwong

(appointed on 15 February 2002)

Mr. Zhao Rui

(appointed on 30 October 2002)

Mr. Wu Wing Kin

(resigned on 1 March 2002)

Non-executive directors:

Dr. Cheng Kar Shun, Henry

Mr. Ho Hau Chong, Norman

Independent non-executive directors:

Mr. To Hin Tsun, Gerald

Mr. Wei Chi Kuan, Kenny

In accordance with articles 99 and 116 of the Company's articles of association, Messrs. Chan Ki, Chan Wai Keung, Ringo, Ho Hau Chong, Norman and Zhao Rui will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The non-executive directors do not have specific terms of appointment, but are subject to the retirement provisions contained in the Company's articles of association.

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DIRECTORS' BIOGRAPHIES

Biographical details of the directors of the Company are set out on pages 14 to 15 of the annual report.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 33 to the financial statements, no director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

At 31 December 2002, the interests of certain directors and their associates in the share capital of the Company, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

| Director | Number of ordinary shares held and nature of interest | | |
|-------------------------|--|-------------|---------------|
| | Corporate | Family | Total |
| Mr. Lo Lin Shing, Simon | 1,129,758,000* | — | 1,129,758,000 |
| Mr. Chan Ki | 225,400,000^ | 41,200,000# | 266,600,000 |

* These shares are beneficially owned by Golden Infinity Co., Ltd., a company incorporated in the British Virgin Islands whose entire issued share capital is legally and beneficially owned by Mr. Lo Lin Shing, Simon.

^ These shares are beneficially owned by Silver Valley Limited, a company incorporated in the British Virgin Islands whose entire issued share capital is legally and beneficially owned by Mr. Chan Ki.

These shares are beneficially owned by the spouse of Mr. Chan Ki.

The interests of the directors in the share options of the Company are separately disclosed in note 29 to the financial statements.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

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DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed in the share option scheme disclosures in note 29 to the financial statements, at no time during the year were there rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

Due to the adoption of Hong Kong Statement of Standard Accounting Practice No. 34 "Employee benefits" during the year, most of the detailed disclosures relating to the Company's share option scheme have been set out in note 29 to the financial statements.

The directors do not consider it appropriate to disclose a theoretical value of the share options granted during the year to the directors and employees of the Group because in the absence of a readily available market value of the share options on the ordinary shares of the Company, the directors of the Company were unable to arrive at an accurate assessment of the value of these share options.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2002, the following interest of 10% or more of the issued share capital of the Company was recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

| Name | Number of shares held | Percentage of the Company's issued share capital |
|-----------------------------|--------------------------|--|
| Golden Infinity Co., Ltd. # | 1,129,758,000 | 31.02 |

The shareholding is duplicated in the "Directors' interests in shares" disclosed above.

Save as disclosed above, no person, other than a director of the Company whose interests are set out above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

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CONNECTED TRANSACTIONS

- (1) On 8 January 2002, Asia Logistics Management Services Limited (“ALM”), a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company, entered into a loan agreement with 北京金柏新幹線信息科技有限公司 (“Xinganxian”), a non wholly-owned subsidiary of the Company at that date, pursuant to which ALM arranged a banking facility of up to HK\$7,490,000 granted by a bank operating in Mainland China to Xinganxian by way of a standby letter of credit facility. ALM deposited a sum of up to HK\$7,490,000 with a bank determined by ALM from time to time as security for the loan facility. Since Xinganxian was an indirect wholly-owned subsidiary of Fusion Tech Holding Limited (“Fusion Tech”), a company incorporated in the British Virgin Islands which was owned as to 54.298% by an indirect wholly-owned subsidiary of the Company and as to 45.702% by Southern Victory Developments Limited which is wholly owned by Mr. Lam Yan Chit, a director of Fusion Tech, the aforesaid loan agreement constituted a connected transaction for the Company. For further details of the transaction, please refer to the press announcement dated 8 January 2002.
- (2) On 21 January 2002, Vision On-Line Limited (“Vision”), a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company, agreed to subscribe for convertible notes of HK\$9,260,000 issued by Han International Consulting Company Limited (“HAN BVI”), a company incorporated in the British Virgin Islands and a non wholly-owned subsidiary of the Company at that date. These notes were convertible, at the option of Vision, into 141 new ordinary shares of US\$1 each in the share capital of HAN BVI. These notes bore interest at a rate of 5% per annum payable to Vision in arrears on the date of conversion or redemption of the notes. Dr. Zhang Hou Qi, a director of HAN BVI, beneficially owns approximately 34% of the issued share capital of HAN BVI. Accordingly, the subscription for such convertible notes constituted a connected transaction for the Company. For further details of the transaction, please refer to the Company’s press announcement dated 21 January 2002. HAN BVI paid interest of approximately HK\$100,000 to Vision in relation to the convertible notes during the year. On 17 April 2002, these notes were exercised and converted into 141 new ordinary shares of HAN BVI.
- (3) Pursuant to a loan agreement entered into between the Company and HAN BVI, the Company granted to HAN BVI a loan of RMB10 million. The loan from the Company was interest-bearing at 1% over the Hong Kong prime lending rate per annum. The loan was fully repaid in April 2002 and the interest paid by HAN BVI to the Company was approximately HK\$164,000 during the year.

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- (4) On 21 March 2002, the Company and Legend Group Limited (“Legend”, then known as Legend Holdings Limited), a company incorporated in Hong Kong and whose shares are listed on The Stock Exchange of Hong Kong Limited, entered into a conditional subscription agreement (the “HAN Subscription Agreement”) pursuant to which Legend agreed to subscribe (or procure its nominee to subscribe) for 2,550 new ordinary shares in HAN BVI, representing 51% of the entire issued share capital of HAN BVI immediately after the completion of the HAN Subscription Agreement, at a consideration of HK\$55 million (the “HAN Subscription”). Following the completion of the HAN Subscription Agreement, the Group beneficially owned a 30% equity interest in HAN BVI. The HAN Subscription resulted in a deemed disposal of HAN BVI by the Company, and since Dr. Zhang Hou Qi, a director of HAN BVI, was also a substantial shareholder of HAN BVI, the HAN Subscription constituted a connected transaction for the Company. For further details of the transaction, please refer to the press announcement dated 21 March 2002 and the circular to the shareholders of the Company dated 10 April 2002.
- (5) On 5 September 2002, the Company and Southern Victory Developments Limited (“Southern Victory”), a company incorporated in the British Virgin Islands, entered into a sale and purchase agreement (the “Sale and Purchase Agreement”) pursuant to which the Company agreed to purchase 45,702 shares of US\$1.00 each representing 45.702% of the issued share capital of Fusion Tech. The consideration was satisfied by (i) HK\$400,000 in cash; and (ii) as to the balance of HK\$45,000,000, by way of the issue and allotment of 300,000,000 new ordinary shares of the Company. Following the completion of the Sale and Purchase Agreement, Fusion Tech became a wholly-owned subsidiary of the Company. Since Southern Victory was a substantial shareholder of Fusion Tech, the purchase of the remaining 45.702% equity interest in Fusion Tech constituted a connected transaction for the Company. For further details of the transaction, please refer to the Company’s press announcement dated 5 September 2002 and the circular to the shareholders of the Company dated 27 September 2002.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the “Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, throughout the accounting period covered by the annual report, except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to the retirement provisions contained in the Company’s articles of association.

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AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Lo Lin Shing, Simon
Chairman

Hong Kong, 24 April 2003