

Management Discussion and Analysis

REVIEW OF RESULTS

For the six months ended 30 June 2003 (the "Period"), the unaudited turnover of the Group, together with the Group's share of turnover of associates and jointly controlled entities, amounted to HK\$305 million (2002: HK\$262 million) and represented an increase of 16.4% over the corresponding period of 2002. Profit attributable to shareholders was HK\$303 million (2002: HK\$263 million), representing an increase of 15.2% over the corresponding period in 2002. Basic earnings per share was HKcents 2.70 (2002: HKcents 2.34), representing an increase of 15.4% over the corresponding period in 2002. As at 30 June 2003, the total assets and net asset value of the Group were HK\$3,209 million (31 December 2002: HK\$3,406 million) and HK\$2,246 million (31 December 2002: HK\$1,944 million) respectively, representing a decrease of 5.8% and an increase of 15.5% as compared with those of 31 December 2002.

THE OUTBREAK OF SARS AFFECTED THE DEVELOPMENT OF LOGISTICS BUSINESS SLIGHTLY

The general domestic economy of China suffered from the outbreak and indulgence of SARS in the first half of 2003. The growth rate of GDP in China for the second quarter of this year dropped from the first quarter's 9.9% to 6.7% which is the lowest level for the corresponding periods since 1992.

Logistics business is a composite industry closely linked with other industries. It therefore suffered from the prolonged, probable and extensive adverse impacts brought by SARS seriously. In addition, the Pearl River delta, the core operating region of the Group's logistics business, was one of the seriously infected areas. This had direct and unfavourable impacts to the logistics business within the region and caused a lower business volume, slow development pace and high operating costs.

Despite the slower pace in the development of logistics business during the first half of the year, the Group focused on studying and reviewing its corporate development strategies and operating approaches so as to work out measures to explore the Group's intrinsic potential.

NET PROFIT FOR THE PERIOD INCREASED BY 15.2% OVER 2002

During the Period, Xin Tong Chan Development (Shenzhen) Co., Ltd. ("XTC Development"), a wholly-owned subsidiary of the Company, recorded a profit after taxation of HK\$202 million (2002: HK\$54 million), representing a substantial increase of 2.7 times over the corresponding period in 2002. The amount was mainly attributable by the profit generated by Shenzhen Expressway Company Limited ("Shenzhen Expressway"), an associate in which the Group has 30.03% interest.

During the Period, turnover and profit attributable to shareholders of Shenzhen Expressway were approximately HK\$196 million (2002: HK\$236 million) and HK\$716 million (2002: HK\$188 million) respectively, representing a decrease of 17% and an increase of 2.8 times over those of the corresponding period in 2002. The increase in profit attributable to shareholders of Shenzhen Expressway was mainly contributed by the non-recurring profit after taxation of HK\$554 million arising from the disposal of two toll roads namely, NH107 (Shenzhen Section) ("NH107") and NH205 (Shenzhen Section) ("NH205"), to the Shenzhen Communications Bureau. On the other hand, the profit generated from the core business of Shenzhen Expressway was HK\$162 million, representing a decrease of 13.8% over the corresponding period of 2002. NH107 and NH205 accounted for a total of 32% of the profit after taxation of Shenzhen Expressway for the corresponding period of 2002. Since the Shenzhen Communications Bureau took over the control of NH107 and NH205 on 19 March 2003, the number of days for toll collection decreased by 104 days when compared with the corresponding period in 2002, resulting in decreases in both toll income and operating profit. This caused a decrease in profit generated from the core business of Shenzhen Expressway for the Period.

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In April 2003, the Group disposed of its entire shareholding of 50 million A shares in China Merchants Bank Co., Limited (“CMB”) at a price of RMB9.2 per share with a total consideration of RMB460 million (approximately HK\$430 million) following the expiry of a one-year lock-up period of those A shares. The investment in the A shares of CMB generated a total profit before taxation of HK\$90 million to the Group, out of which approximately HK\$40 million had been recognised in the annual results of 2002 with the remaining amount of approximately HK\$50 million recognised in the results for the Period. For the corresponding period in 2002, the A shares in CMB were stated at market value of RMB11.5 per share as at 30 June 2002 and accordingly contributed an unrealised profit of approximately HK\$190 million to the Group.

Both the profit of HK\$166 million shared by the Group from the disposal of NH107 and NH205 by Shenzhen Expressway and the profit on disposal of 50 million A shares in CMB of approximately HK\$50 million represent non-recurring profit of the Group in 2003.

ON-GOING DEVELOPMENT OF CORE BUSINESS

LOGISTICS AND RELATED BUSINESS

During the Period, the Group focused on the development of South China International Logistics Center and Western Port Logistics District, which are two key projects of the six major logistics districts in Shenzhen City. The first phase trial run of commercial operation of South China International Logistics Center was successfully commenced in April 2003 where unloaded containers depot with a site area of 100,000 square meters was duly opened. The depot handles unloaded containers over 1,500 TEUs per day which meets the target of the first phase of operating plan and laying a solid foundation for the remaining phases of the project. On the other hand, the provisional design layout of Western Port Logistics District was completed in the first half of 2003. The design layout comprises a comprehensive container transportation center with a site area of 1.2 million square meters. The Shenzhen Municipal Government has confirmed in June 2003 that this center is one of the five key logistics projects in Shenzhen City and accordingly the center is entitled to the related preferential policies and supports from the government.

During the Period, revenue of the core business of Total Logistics (Shenzhen) Co., Ltd. (“Total Logistics”), a wholly-owned subsidiary of the Company, enjoyed continuous growth. Turnover of Total Logistics was HK\$49.41 million (2002: HK\$26.64 million) and represented an increase of 86% over the corresponding period in 2002. It was mainly contributed to the successful and efficient marketing strategy of Total Logistics, which targeted at customers with established scale and promising potential for future development. However, the outbreak of SARS during the Period has exerted negative impact on the business development of Total Logistics. Most negotiations with new customers had been suspended while part of the fixed costs was not able to be covered by the expected growth in revenue. Coupled with the keen competition of the market, the profit after taxation of Total Logistics decreased by 53% to HK\$1 million (2002: HK\$2.11 million) when compared with the corresponding period of 2002.

During the Period, Shenzhen Airport International Express Supervision Center Co., Ltd. (“Airport Express Center”), 50% interest of which is held by Total Logistics, recorded turnover and profit attributable to shareholders of HK\$26.41 million (2002: HK\$20.96 million) and HK\$14.30 million (2002: HK\$11.45 million) respectively, representing increases of 26% and 25% over the corresponding period in 2002. After two years of operation, the Airport Express Center has secured its competitive advantage in the Pearl River delta. It has been developed into an established express customs supervision center with systematic management mechanism in the PRC.

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INFORMATION AND HIGH-TECH RELATED MANUFACTURING BUSINESS

The occurrence of certain domestic and international significant events, including SARS and the war in Iraq, has exerted negative impact on the production, operation and construction of CSG Technology Holding Co., Ltd. ("CSG"), a principal associate of the Group, to a certain extent. With continuous efforts made by CSG in strengthening its management mechanism and core competitiveness, CSG has attained profit attributable to shareholders of HK\$87.24 million (2002: HK\$79.74 million) for the Period, representing an increase of 9.4% and the highest profit level of corresponding periods. The Group shared a profit of approximately HK\$21.18 million (2002: HK\$19.36 million).

During the Period, turnover of Shenzhen High-Tech Holdings Limited ("Shenzhen High-Tech"), another associate of the Group, was HK\$91.44 million (2002: HK\$68.92 million), representing an increase of 32.7%. Its loss attributable to shareholders was approximately HK\$39.01 million (2002: loss of HK\$34.11 million), of which approximately HK\$7.39 million (2002: loss of HK\$7 million) was shared by the Group. The loss incurred by Shenzhen High-Tech was mainly attributable to the operating loss of Dawning Information Industry (Shenzhen) Limited (formerly known as Dawning Information Industry Company Limited, "Dawning") which suffered from the continuous decrease in profit margin as a result of keen competition of the market. During the Period, Shenzhen High-Tech issued a total of 520 million new shares at a price representing a premium of 1.66 times to its net asset value per share as at 31 December 2002 and as a result the Group derived a dilution gain of approximately HK\$12 million.

FACILITATING THE DEVELOPMENT OF EXISTING LOGISTICS PROJECTS AND EXPLORING QUALITY INVESTMENT OPPORTUNITIES

In the second half of 2003, the Group will focus on facilitating the development of existing logistics projects and will take an active role to explore new quality investment opportunities and to streamline the mechanism of its core business in order to further strengthen its competitiveness and profitability.

Following the conclusion of the "Mainland/Hong Kong Closer Economic Partnership Arrangement", new opportunities and challenges for logistics business in Shenzhen City and Hong Kong are emerging. The position of logistics business in Shenzhen City in future will be far more than merely a regional domestic logistics center. Instead, Shenzhen City will work together with Hong Kong to develop into a first class regional based logistics hub to serve the international logistics market.

The Group will capitalise on every valuable opportunity brought by this new arrangement. By making full use of shareholders' competitive edge and relying on competence of the management of the Company, the Group will enlarge and consolidate its operation and the structure of its assets and will participate in various market sectors of the logistics business. The Group will gradually establish a business system equipped with airports, harbours and land logistics resources and other infrastructure projects and supported by logistics information platforms and supply chain management techniques.

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ANALYSIS OF MAJOR BUSINESS OPERATIONS

LOGISTICS AND RELATED BUSINESS

TOTAL LOGISTICS

During the Period, turnover of Total Logistics was HK\$49.41 million (2002: HK\$26.64 million), representing an increase of 86% over the corresponding period of 2002. The turnover of Total Logistics was mainly derived from the provision of agency services of ancillary transportation of cargoes, of which 55% (2002: 39%), 35% (2002: 52%) and 10% (2002: 9%) was by land, air and sea respectively. The continuous growth of revenue of Total Logistics' core business was mainly attributable to the successful and efficient marketing strategy of Total Logistics which targeted at customers with established scale. In order to strengthen its market position, Total Logistics focuses on the development of comprehensive logistics business of land transportation and provides ever improving quality services to the business sectors in transportation, warehousing and electronic logistics system.

The land transportation agency services of Total Logistics experienced steady growth during the Period. The marketing strategy of Total Logistics is to focus on customers with established scale of business volume. In addition to its existing major customers, including CSG, Jiangzhong Pharmacy Group (Holding) Company Limited, Shenzhen B&Q Decoration and Building Material Co., Ltd., Eagle Brand Holding Limited, Henan Genron Food Co., Ltd., etc., Total Logistics also developed into markets in northern and eastern part of China. During the Period, Total Logistics was appointed as the agent for ancillary transportation services of Beijing Huiyuan Juice and Beverage Group Corporation and has set up offices in major cities in the said regions, including Beijing and Shanghai. These offices have been able to solicit new customers and generate new income sources.

Though the pace of business development of Total Logistics remained satisfactory, turnover and gross profit margin for the second quarter of this year suffered from the adverse impact of the outbreak of SARS to a great extent. Turnover of Total Logistics for the first quarter of the year increased by 2.4 times whereas turnover for the second quarter only increased by 32% when compared with the corresponding periods in 2002. During the outbreak of SARS, the business volume of existing customers decreased and most negotiations with new customers had been suspended, resulting in a suspension in enlarging new customer base. All these factors contributed to the drastic decrease in turnover growth during the second quarter. The gross profit margin of Total Logistics for the first quarter was about the same as that of last year, but the gross profit margin for the second quarter decreased by approximately 47% over the corresponding period in 2002. Airfreight transportation services recorded gross loss in April and May when the impact of SARS was the most significant due to the costs incurred for contracted flights were not able to reduce with the corresponding decrease in turnover. In addition, alternative transportation modes with higher costs had to be sourced as a result of suspension of certain domestic flights. With respect to the comprehensive logistics business of land transportation, the gross profit margin for the second quarter decreased by 34% over that of the corresponding period in 2002. This was mainly attributable to the overall increase in transportation costs incurred between Guangdong Province and other parts of the PRC, particularly Beijing, Shanghai and Shanxi during the outbreak of SARS. This caused a substantial increase in operating costs and decrease in gross profit margin. As a result, profit after taxation of Total Logistics for the Period was HK\$1 million (2002: HK\$2.11 million), representing a decrease of 53% over the corresponding period in 2002.

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With the resumption of a normal market condition, Total Logistics will return to the right track in the second half of 2003 and will make every endeavour to develop comprehensive logistics business which has been temporarily slowed down during the outbreak of SARS. Besides, Total Logistics will also take part in the establishment of an ancillary transportation center in Huangpu Technology Park in Guangzhou. It is expected that multi-national corporations and manufacturers stationed in the park are potential customers of the center and this will be beneficial to the development of Total Logistics' warehousing and ancillary transportation agency services. With the strategy of focusing on Shenzhen City and nearby areas as a base, Total Logistics will continue to penetrate into markets of international cargo forwarders in other more developed areas, particularly Beijing and Shanghai, so as to sustain the growth in turnover.

The various quality strategic logistics assets held by Total Logistics generated promising profits during the Period. Turnover and profit attributable to shareholders of Airport Express Center for the Period were HK\$26.41 million (2002: HK\$20.96 million) and HK\$14.30 million (2002: HK\$11.45 million) respectively, representing increases of 26% and 25% when compared with the corresponding periods in 2002. During the Period, import and export trading volume of the PRC registered satisfactory growth. The Airport Express Center adopted a series of measures to the effect of strengthening the communication and coordination with customs and quarantine authorities, maintaining efficient customs declaration procedures, enhancing the management of both markets and customers and stabilising its market share. Airport Express Center also adopted efficient precautions during the outbreak of SARS, thus maintaining a satisfactory operating environment.

During the Period, the express cargo volume handled by Airport Express Center accumulated to 69,200 tons (2002: 49,200 tons) in total, representing an increase of 41% over the corresponding period in 2002. The growth rate of import express cargo volume remained higher than that of export express cargo volume and their respective growth rates were 55% and 19% (excluding air express cargo volume). In addition, the share of import express cargo volume in the total cargo handling volume increased from an annual average of 22% in 2002 to 26% for the Period, whereas import express cargo volume accounted for 56% in the overall growth of express cargo volume of the Airport Express Center. On the other hand, the volume of air express cargo increased steadily, thereby constituting an integral portion of the growth of express cargo volume handled by Airport Express Center.

The Airport Express Center will fully utilise the resources of Shenzhen Airport to develop its air express services in the second half of 2003. Meanwhile, Airport Express Center will introduce flexible and competitive pricing strategies in order to stabilise and strengthen its existing market share. The Airport Express Center will further improve its customs declaration procedures effectiveness, improve the quality of service and strengthen the quality assurance level and costs control in order to enhance its economic efficiency.

Shenzhen EDI Co., Ltd. ("Shenzhen EDI"), in which Total Logistics has 39% interest, maintained a breakeven position during the Period. The Shenzhen Municipal Government has recognised the operation of Shenzhen EDI as the platform of public logistics information networks of Shenzhen City. Shenzhen EDI therefore has certain level of market monopoly and direct market competition is relatively mild. Shenzhen EDI is still at the initial operation stage and is making its way to explore and develop its business.

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Shenzhen Airlines, 10% interest of which is held by Total Logistics, was seriously affected by the outbreak of SARS during the Period. Various major airlines in the PRC suffered from losses and certain number of routes had suspended services. For the first quarter, turnover and profit attributable to shareholders of Shenzhen Airlines increased by 53% and 83% over those of the corresponding periods in 2002 respectively. However, with the impact of SARS, airline business shrank significantly. Turnover of Shenzhen Airlines for the second quarter decreased by 15% as compared with 2002. This is mainly attributable to the adoption of a flexible pricing strategy by Shenzhen Airlines so as to maintain normal operation of all route services during the SARS outbreak period. However, it was inevitable that Shenzhen Airlines suffered from significant operating loss in the second quarter and resulted in an overall decrease in profit by 80% in the first half of the year. Nevertheless, with the arrival of peak season for passenger transportation and the infection of SARS has been drawing to an end in the second half of 2003, economic activities have been back to normal. The profit of Shenzhen Airlines recorded a rapid growth at the beginning of the third quarter, indicating a significant improvement as compared with the period when SARS prevailed.

SOUTH CHINA INTERNATIONAL LOGISTICS CENTER

In July 2002, the Group, through XTC Development invested RMB111 million and owns 50% interest in South China International Logistics Center. South China International Logistics Center is an essential part of Long Hua Logistics District which is one of the key projects of the six major logistics districts in Shenzhen City. South China International Logistics Center enjoys overwhelming advantages in terms of geographic location and information technology and will focus on the development of cross border container transportation business with the business model of an international cargo transit center under the supervision of customs authorities. It will become an intelligent and multi-functional logistics center. South China International Logistics Center has commenced its first phase trial run of commercial operation in April 2003 where unloaded container depot with a site area of 100,000 square meters has been put into operation.

The outbreak of SARS caused the business development and marketing activities with customers of South China International Logistics Center lagged behind the expected schedule. Coupled with the recognition of a one-off pre-operating expenses in the accounts, South China International Logistics Center incurred a loss of HK\$12 million during the Period. Nevertheless, the depots of the existing unloaded container business has reached a capacity of over 1,500 TEUs per day. Its major customers consist of various shippers such as P&O Nedlloyd, OOCL, Taiwan Wan Hai and Yang Ming.

In the second half of 2003, South China International Logistics Center will continue to facilitate the simultaneous progress and interacting development of its construction and operation. In accordance with the scheduled investment plan, various ancillary facilities within or outside the center will be further complemented in the next twelve months. These projects include completion of construction works of roads and bridges connecting the center and nearby areas, the confirmation of a service complex and two warehouses as well as the related requisite ancillary facilities for operations, further improvement of the maintenance workshop for containers and trailers as well as the sewage treatment center.

In addition, South China International Logistics Center will take an active role to enlarge its customer base by soliciting shippers, container leasing companies and container manufacturers. It will closely work with the customs authorities of Shenzhen City to seek their stationing in its operating premises and will also install exclusive data line to enable efficient exchange of information and data with the customs authorities to enable the function of off-site real time monitoring. With respect to information management system, South China International Logistics Center will further develop a series of operating systems according to the needs of the customs authorities and customers. These systems include warehouse management system, connection management system and loading and unloading management system.

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South China International Logistics Center has successfully implemented the first phase of its operating plan, thereby laying a solid foundation for the remaining development of the project. The Group will foster the establishment of South China International Logistics Center by rendering full support in terms of funding, human resources and business development. Accordingly, South China International Logistics Center will become an intelligent and multi-functional logistics center with a leading position in Shenzhen City.

SHENZHEN WESTERN LOGISTICS CO., LTD. (“SHENZHEN WESTERN LOGISTICS”)

Following a year of preliminary preparation, Shenzhen Western Logistics, in which the Group owns a 20% interest, was duly incorporated in March 2003 for the purpose of developing, constructing, operating and managing Western Port Logistics District. Western Port Logistics District takes the pole position in the six major logistics districts in Shenzhen City. The principal activities of Shenzhen Western Logistics include collection and distribution of bulk and miscellaneous cargoes from sea and land, containers transferring, storage, loading and unloading, customs inspection as well as transiting and delivery services.

Shenzhen Western Logistics has completed the provisional design layout of Western Port Logistics District in the first half of 2003. The design layout comprises a comprehensive container transportation center with a site area of 1.2 million square meters. The Shenzhen Municipal Government has confirmed in June 2003 that this center is one of the five key logistics projects in Shenzhen City and accordingly it is entitled to the related preferential policies and supports from the government such as discounted land premium and electricity charges. The provisional layout of Western Port Logistics District has entered the stage of joint review and approval by various government authorities.

In the second half of 2003, the major tasks of Shenzhen Western Logistics include: seeking confirmation for land use rights of the district; completing the overall layout of the district; submit application for approval of the land use right to relevant government authorities; completing the acquisition of logistics related assets with sound business potential such as warehouses and depots; and commencing the construction of railway warehouses and other ancillary transportation facilities.

XTC DEVELOPMENT

During the Period, XTC Development recorded a profit after taxation of HK\$202 million (2002: HK\$54 million), representing a substantial increase of 2.7 times over the corresponding period in 2002. The amount was mainly attributable by the profit generated by Shenzhen Expressway, an associate in which the Group has 30.03% interest, and included a non-recurring profit of HK\$652 million arising from the disposal of NH107 and NH205 to the Shenzhen Communications Bureau by Shenzhen Expressway. Profit before taxation shared by the Group was approximately HK\$196 million and after deduction of relevant tax charges, the Group shared a profit of approximately HK\$166 million.

During the Period, turnover of Shenzhen Expressway was HK\$196 million (2002: HK\$236 million), representing a decrease of approximately 17% over the corresponding period in 2002. Profit attributable to shareholders was HK\$71.6 million (2002: HK\$188 million), representing a substantial increase of 2.8 times over that of 2002 and was mainly derived from the profit on disposal of NH107 and NH205 as mentioned above. The expressways operated by Shenzhen Expressway sustained a growth in toll income by 13% over the period. This is mainly attributable to the growth in traffic volume of Jihe Expressway (Western Section), Meiguan Expressway and Yanba Expressway. However, since the control of NH107 and NH205 was taken over by the Shenzhen Communications Bureau on 19 March 2003, the number of days for toll collection of these two highways decreased by 104 days when compared with the corresponding period of 2002. This resulted in a decrease in turnover of Shenzhen Expressway by 17% for the Period. The traffic volume of these two national highways had been closed to saturation

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and had limited growth potential. As a result of the change in policies by the Shenzhen Municipal Government, Shenzhen Expressway capitalised on this opportunity to capture abundant cash inflow from this transfer. Part of the proceeds had been applied to repay bank loans in order to reduce interest expenses and the balance will be invested in other expressway projects with high growth potential in Shenzhen City and other parts of the PRC so as to enlarge the earning base.

During the first half of 2003, the toll road operations of Shenzhen Expressway maintained a stable growth and generated steadily increasing cash flow, which is a major source of revenue to Shenzhen Expressway. During the Period, all of Meiguan Expressway, Jihu Expressway (Eastern Section), Jihe Expressway (Western Section) and Shuiguan Expressway recorded satisfactory performance with steadily increasing toll income and traffic volume. The rapid growth registered in 2002 by Jihe Expressway (Western Section) has sustained throughout the Period. Both its toll income and daily traffic volume had recorded growth of over 20%. In addition, the results of Changsha Ring Road, in which Shenzhen Expressway has 51% interest, continued to improve and recorded increases in daily traffic volume and toll income by 40% and 51% over the corresponding period of 2002 respectively.

Shuiguan Expressway, 40% interest of which was acquired by Shenzhen Expressway in December 2002, witnessed a satisfactory performance in both traffic volume and toll income during the Period. In March 2003, its daily average toll income hit its historical record. The construction works of the connecting section of Shuiguan Expressway which links up the urban area of Shenzhen City has commenced. It is expected that the growth in Shuiguan Expressway will be further improved when the construction works of the connecting section completes and operation commences by the end of 2004. Section B of Yanba Expressway was put into operation in mid-June 2003 and this forms a road network with Section A of Yanba Expressway. It is anticipated that there will be a rapid growth in both traffic volume and toll income of Section A of Yanba Expressway.

In accordance with the trunk highway network planning in Shenzhen City, the Shenzhen Municipal Government will invest RMB20,000 million to build expressways with a total length of 270 kilometers in the coming decade. This will provide valuable opportunities for the future development of the core business of Shenzhen Expressway. With the economic development of Shenzhen City and the ever increasing in number of private vehicles in Shenzhen City and the Pearl River delta region, the demand for transportation is ever increasing and thus providing satisfactory market conditions for toll road operation of Shenzhen Expressway.

INVESTMENT HOLDING

On 9 April 2003, the Group disposed of its entire shareholding of 50 million A shares in CMB at a net price per share of RMB9.2 (approximately HK\$8.68) with a total consideration of RMB460 million (approximately HK\$430 million). The investment in CMB generated a total profit before taxation of HK\$90 million to the Group, out of which approximately HK\$40 million had been recognised in the annual results of 2002 with the remaining amount of approximately HK\$50 million recognised as profit for the Period. During the corresponding period in 2002, the CMB A shares were stated at market value as at 30 June 2002 of RMB11.5 per share and contributed an unrealised profit of approximately HK\$190 million to the Group. During the Period, Shenzhen High-Tech issued a total of 520 million new shares at a price representing a premium of 1.66 times to its net asset value per share as at 31 December 2002 and as a result the Group derived a dilution gain of approximately HK\$12 million.

During the Period, the Group had no material acquisitions and disposals of subsidiaries or associates.

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INFORMATION AND HIGH-TECH RELATED MANUFACTURING BUSINESS

CSG

Turnover of CSG for the Period was HK\$537 million (2002: HK\$462 million), an increase of 16.2% over the corresponding period in 2002. Profit attributable to shareholders was HK\$87.24 million (2002: HK\$79.74 million), an increase of 9.4% over the corresponding period in 2002, and out of which approximately HK\$21.18 million (2002: HK\$19.36 million) was attributable to the Group. Net profit of CSG for the Period recorded a historical high amongst the corresponding periods of previous years and was mainly attributed to the profit brought about by the substantial growth of productivity and sales volume of various major industrial products. In addition, the second floating glass production line for the manufacture of refined coating glass was put into full operation at the beginning of 2003 and has become a new source of income growth of CSG.

During the Period, the production, operation and construction of CSG were adversely affected by the occurrence of certain domestic and international significant events. The massive fluctuation in international foreign exchange market and the substantial increase in oil prices caused further difficulties for CSG in production and construction costs control. Notwithstanding these unfavourable conditions, CSG recorded an encouraging result which was mainly attributed to the increased investment in the glass industry during the Period. As a result, turnover of floating, coating, laminated and steel glass as well as glass for motor vehicles was substantially higher than those of the corresponding period in 2002. The productivity and turnover of most other major industrial products also outperformed other industry players in this very competitive market. Besides, the second floating glass production line for the manufacture of refined coating glass came on stream during the Period, bringing about an increase of over 60% in productivity and turnover of floating glass over the period. Profit generated therefrom accounted for 48% of the total profit of CSG.

In the second half of 2003, in order to further strengthen the competitiveness of its core business, CSG will invest in various projects as scheduled. These include the establishment of a production line for special glass in Guangzhou, the expansion of production lines for glass of motor vehicles and the introduction of equipment for the production of colour filters. Moreover, the establishment of an architectural glass company by CSG in Tianjin will be completed and put into operation in the second half of 2003. This will further increase the productivity and turnover of architectural glass. In order to support the rapid growth of its investment and development, CSG will continue to strengthen its internal management in the areas of corporate, finance, marketing and human resources functions. On the other hand, CSG will further enhance its sales and marketing management systems and improve its operational mechanism and practice so as to enlarge market share of its major products.

SHENZHEN HIGH-TECH

During the Period, the turnover of Shenzhen High-Tech was HK\$91.44 million (2002: HK\$68.92 million), representing an increase of 32.7%. Its loss attributable to shareholders was approximately HK\$39.01 million (2002: loss of HK\$34.11 million), of which approximately HK\$7.39 million (2002: loss of HK\$7 million) was shared by the Group. The loss of Shenzhen High-Tech was mainly attributable to the operating loss of Dawning and the amortisation of goodwill totalling approximately HK\$23.42 million.

Turnover of Shenzhen High-Tech for the Period recorded an increase of over 30%. The main reason was that a number of primary schools in the PRC established "On-line Classrooms" to cope with the effect brought by the outbreak of SARS and servers produced by Dawning were widely used in that respect. Consequently, turnover of Dawning servers substantially increased by 37% as compared with the corresponding period in 2002. Notwithstanding the substantial increase in the sales of servers over the period, Dawning incurred an operating loss which was mainly attributed to the decrease in profit margin resulting from the continuous decrease in price of servers in the first half of 2003 caused by keen market competition.

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The computing speed of Dawning 4000L server, a data processing super server developed by Dawning, is as high as 4,200 Giga Floating Point Operation per second. Dawning 4000L server is the largest data processing super server developed by manufacturers in the PRC and was launched into the market in March 2003. In June 2003, Dawning entered into an agreement with PetroChina Group, pursuant to which Dawning 4000L super server will be used in the exploration of crude oil. The successful launch of Dawning 4000L server greatly enhanced the market recognition of the "Dawning" brand name, which will bring about positive impact on sales of Dawning for the second half of 2003. During the Period, Shenzhen High-Tech also entered into an agreement for the acquisition of 20% interest in 雲南綠大地生物科技股份有限公司, a company principally engaged in the research, development, growing, cultivation and sales of horticultural plants. It is expected that satisfactory profit will be contributed to Shenzhen High-Tech upon completion of the acquisition in the second half of 2003.

In the second half of 2003, in order to enlarge its income base, Shenzhen High-Tech will adhere to its established development strategies to concentrate its resources on core high-tech business with higher profitability and to continue to identify feasible projects with substantial potential in the immense information technology industry.

FINANCIAL POSITION

	30 June 2003	31 December 2002	Increase/ (Decrease) %
	HK\$ million	HK\$ million	
Total Assets	3,209	3,406	(6)
Current Assets	360	761	(53)
Current Liabilities	272	592	(54)
Net Current Assets	88	169	(48)
Net Tangible Assets	2,435	2,155	13
Net Assets	2,246	1,944	16
Issued Share Capital	1,122	1,122	—
Net Assets per Share	HK\$0.20	HK\$0.17	18
Cash and Bank Deposits	292	286	2
Bank Loans and Other Borrowings	397	1,030	(61)
Non-interest Bearing Convertible Note - SIHC	330	330	—
Net Borrowings	435	653	(33)
Ratio of Net Borrowings to Shareholders' Equity	19%	34%	(15)*

* Change in percentage point

As at 30 June 2003, the Group's current assets and current liabilities decreased by 53% and 54% respectively as compared with those of 31 December 2002. This was mainly attributable to the Group's disposal of all the 50 million A shares in CMB during the Period and the early repayment of a portion of bank loans by abundant cash, which further lowered the gearing ratio and finance costs of the Group.

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As at 30 June 2003, bank loans and other borrowings of the Group amounted to HK\$397 million (31 December 2002: HK\$1,030 million), of which 54%, 28% and 18% were due for repayment in the first year, the second year and the third year and after respectively. Bank loans and other borrowings decreased significantly over the Period which was mainly attributable to the early repayment of a portion of bank loans by abundant cash. Moreover, due to the adoption of SSAP 35 "Accounting for Government Grants and Disclosure of Government Assistance", advances and other payables of HK\$174 million as at 31 December 2002 was reclassified to deferred income (details of the reclassification are set out in note 13 to the condensed consolidated financial statements). Approximately 77% of the Group's borrowings were Renminbi denominated loans from banks and other institutions in the PRC. Since the business of the Group is mainly operated in the PRC, revenue and cash flow are primarily denominated in Renminbi, thereby minimising exchange exposures. Meanwhile, the Group also capitalised on the comparatively lower interest rate of Hong Kong dollar denominated loans and increased its Hong Kong dollar borrowings to reduce the overall finance costs.

As at 30 June 2003, the ratio of net borrowings to shareholders' equity of the Group was as follows:

	30 June 2003 HK\$ million	31 December 2002 HK\$ million
Shareholders' Equity	2,246	1,944
Cash and Cash Equivalents		
Cash and Bank Balances	292	286
Short Term Investment Securities	—	421
	292	707
Total Borrowings		
Short Term Bank Loans	62	85
Long Term Bank Loans due for repayment within one year	—	217
Short Term Loans and Others	152	233
Long Term Bank Loans	183	321
Advances and Other Payables	—	174
Non-Interest Bearing Convertible Note - SIHC	330	330
Total Borrowings Before Non-Interest Bearing Convertible Note	397	1,030
Total Borrowings	727	1,360
Net Borrowings Before Non-Interest Bearing Convertible Note	105	323
Net Borrowings	435	653
Ratio of Net Borrowings to Shareholders' Equity		
Before Non-Interest Bearing Convertible Note	5%	17%
Ratio of Net Borrowings to Shareholders' Equity	19%	34%

Management Discussion and Analysis

The Group's ratio of net borrowings to shareholders' equity decreased from 34% as at 31 December 2002 to 19% as at 30 June 2003. The decrease was mainly attributable to the early repayment of a portion of bank loans and the reclassification of advances and other payables of HK\$174 million to deferred income as mentioned in the previous section. These resulted in a substantial decrease in the Group's gearing ratio as a whole. For details of charges and contingent liabilities of the Group as at 30 June 2003, please refer to notes 11 and 17 to the condensed consolidated financial statements respectively.

Currently, the Group has cash in hand and standing banking facilities of approximately HK\$1,100 million in total, of which only HK\$245 million has been utilised. The Group has a sound financial position which provides sufficient funds for the investment and development of major logistics projects such as South China International Logistics Center and Western Port Logistics District. The Group is actively identifying investment opportunities with promising potential to make use of its existing financial resources. In addition, the Group reviews its capital structure regularly with a view to working out the most efficient funding channel to maximise returns to its shareholders.

HUMAN RESOURCE

The management of the Company considers human resource as an invaluable asset and a key factor to the profitability of the Group, and recruiting talents, rewarding staff with outstanding performance and providing professional training are all essential to the success of the Company. In order to attract talents and retain competent staff and to be impartial, employees' remuneration packages are determined according to their qualification, competency and performance, and also by reference to market terms. The remuneration packages of Hong Kong staff include salary payments, medical subsidies, hospitalisation scheme and mandatory provident fund retirement benefit scheme and those of staff in the PRC include salary payments, medical subsidies and retirement funds. In order to encourage and reward staff, the Group operates an annual appraisal system to review the salary of employees and assess their performance during the year, upon which the basis of payment of year-end bonus will be determined. In addition, eligible employees contributed to the results and business development of the Group may be granted options to acquire shares in the Company pursuant to the share option scheme of the Company. The Group also provides professional trainings to the employees to encourage them to continue studies and equip themselves.

As at 30 June 2003, the Group had 358 employees in total, comprising 25 employees in Hong Kong, the majority of them were management and finance personnel, and 333 employees in the PRC, approximately 220 of them served in the logistics and related business.