

Chairman's Statement

On behalf of the board of directors (the "Board"), I am pleased to announce the Annual Report of China Chengtong Development Group Limited (the "Company") together with its subsidiaries (the "Group") for the financial year ended 31 March 2004.

In December 2002, China Chengtong Holdings Company ("Chengtong Holdings"), through its beneficially wholly-owned subsidiary, World Gain Holdings Limited ("World Gain") acquired the controlling interest of the Company and became the ultimate controlling shareholder. Subsequently the Company implemented various measures to improve the business operation and financial position of the Group. The Group successfully restored into a profitable position with profit attributable to shareholders of HK\$93 million for the fiscal year of 2003.

In 2004, the Group has been carrying on effective measures dedicated to strengthening the operation and business performance, disposal of non-core assets and improvement of financial position of the Group. In this year, the Company commenced the business of trading of chemical products and metal commodities and enhanced the business operation of Suzhou Nanda Cement Company Limited, the strategic investment of the Group. As a result, turnover of the Group recorded HK\$175 million, representing an increase of 62% compared with previous year. Coping with the booming Hong Kong and China property market, the Group promptly disposed the investment properties of Winner Building in Shatin, Hong Kong and about 25% equity interest of Suzhou Shilu Commercial Centre in Suzhou, the PRC. The Group will focus on investing in assets with better return and exploring new projects with good development potential. The proceeds from disposals have been used for repayment of bank loans and working capital requirement. Under the continuous implementation of effective program for cost reduction, improvement of operational efficiency and decrease in financial expenses, the profit attributable to shareholders of HK\$44 million was recorded in this year. The Group has achieved reasonable profits for the past two consecutive years. Meanwhile, current liabilities dropped significantly by about HK\$58 million. With the continuous financial support from Chengtong Holdings, the financial position of the Group has been substantially improved with good liquidity. The sound financial position of the Group laid a solid foundation for the Group's future development.

Chengtong Holdings is the pillar state-owned enterprise under the direct supervision of the State-Owned Assets Supervision and Administration Commission of the State Council of the PRC. It is one of the largest on-shore logistics groups in China. Its principal business includes modern logistics, metal distribution, project investment and real estates development. Chengtong Holdings has over 13 million square metres storage facilities and over 60 logistics and distribution centers built in major cities in the PRC which formulate a nation-wide integrated transportation, storage and logistics network.

In the recent years, following the development of global economy, the integrated relationship of purchasing, warehousing, sales and distribution among enterprises becomes more complicated. China, as the world factory, has huge demand on logistics services. Perceiving the prospective development outlook, Chengtong Holdings is dedicating to reforming its established nation-wide logistics and warehousing network so as to enhance its logistics business technique and capability and aggressively explore the third-party logistics sector. Taking advantage of its massive land bank for storage facilities, Chengtong Holdings commenced the logistics property development business. All in all, Chengtong Holdings is aiming at being a modern on-shore logistics group with international competitive competency.

Being the major overseas subsidiary of Chengtong Holdings, the Group will take advantage of its core competency and proximity to the international market to cope with the future overall development of Chengtong Holdings. Particularly the Group will introduce international co-operation partners for modernizing the logistics and distribution centers and assisting Chengtong Holdings in development of its huge storage land bank resources in an effective manner in promoting the development of logistics property development business. It will result in substantial growth in revenues supported by strong cashflow. In March 2004, the Group announced that it had entered into the Share Sale Agreement with China Chengtong Hong Kong Company Limited, a wholly-owned subsidiary of Chengtong Holdings for the sale of 45% effective equity interest and all debt interest in Panyu Times Place. In turn, the Company will acquire a 70% effective equity interest of a residential development project, namely City of Mergence, located at Xicheng District, Beijing. This transaction is a benchmark evidencing the Group's participation of Chengtong Holdings' logistics property development business.

In the coming year, the Group will continue to aggressively explore the businesses of modern logistics and logistics property development with the strong support from the parent company, Chengtong Holdings and our solid operation and financial foundation. The Group is also identifying potential businesses and / or assets which can generate reasonable return in order to improve the earning capability. The Group is also committed to achieve better performance so as to maximize shareholder's value.

Finally, on behalf of the Board, I would like to express my sincere gratitude to our shareholders, business partners and customers for their support. I would also like to thank our employees for their loyalty, dedication and hard work throughout the year.

Ma Zhengwu
Chairman

Beijing, 22 July 2004