

# Report of the Directors

The directors herein present their report and the audited financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2001.

## **Principal activities**

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 16 to the financial statements. During the year, the Group has commenced the trading of petroleum oil. Apart from the above, there were no significant changes in the nature of the principal activities of the Group during the year.

## **Segment information**

An analysis of the turnover and results of the Group by principal activity and geographical location of customers for the year ended 31 December 2001 is set out in note 5 to the financial statements.

## **Results and dividends**

The loss of the Group for the year ended 31 December 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 19 to 54.

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

### Summary financial information

The following is a summary of the published consolidated/pro forma combined results and of the assets and liabilities of the Group for the last five financial years, reclassified as appropriate, prepared on the basis set out in notes 1 and 2 below. The amounts for the year ended 31 December 1998 have been adjusted for the effect of the retrospective changes in accounting policy affecting dividends, as detailed in note 2 to the financial statements.

	Year ended 31 December				
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
TURNOVER	<b>143,092</b>	153,445	198,448	214,374	162,339
(LOSS)/PROFIT FROM OPERATING ACTIVITIES	<b>(9,075)</b>	(22,457)	26,289	49,414	39,475
Finance costs	<b>(2,179)</b>	(2,093)	(2,674)	(4,512)	(6,327)
(LOSS)/PROFIT BEFORE TAX	<b>(11,254)</b>	(24,550)	23,615	44,902	33,148
Tax	<b>(8)</b>	(730)	(3,227)	(5,014)	(4,052)
(LOSS)/PROFIT BEFORE MINORITY INTERESTS	<b>(11,262)</b>	(25,280)	20,388	39,888	29,096
Minority interests	<b>40</b>	–	–	–	–
NET (LOSS)/PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<b>(11,222)</b>	(25,280)	20,388	39,888	29,096

## Report of the Directors

### ASSETS AND LIABILITIES

	At 31 December				
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
NON-CURRENT ASSETS	<b>34,200</b>	33,957	37,485	31,964	30,705
CURRENT ASSETS	<b>141,106</b>	141,011	178,869	142,007	96,522
<b>TOTAL ASSETS</b>	<b>175,306</b>	174,968	216,354	173,971	127,227
CURRENT LIABILITIES	<b>34,547</b>	42,605	58,578	61,709	77,179
NON-CURRENT LIABILITIES	<b>805</b>	137	319	–	–
<b>TOTAL LIABILITIES</b>	<b>35,352</b>	42,742	58,897	61,709	77,179
<b>NET ASSETS</b>	<b>139,954</b>	132,226	157,457	112,262	50,048

#### Notes:

1. The summaries of the combined results of the Group for the year ended 31 December 1997 have been extracted from the prospectus of the Company dated 3 June 1998. Such summaries were prepared from the audited financial statements of the companies now comprising the Group, after appropriate adjustments and reclassifications, as if the current structure of the Group had been in existence throughout these financial years. The results of the Group for the three years ended 31 December 2000 have been extracted from the published audited financial statements. The results of the Group for the year ended 31 December 2001 are those set out on page 19 of the financial statements.
2. The combined balance sheet of the Group as at 31 December 1997 has been extracted from the prospectus of the Company dated 3 June 1998. The audited consolidated balance sheets of the Group as at 31 December 1998, 1999 and 2000 have been extracted from the published audited financial statements of the Group for the years ended 31 December 1998, 1999 and 2000. The audited consolidated balance sheet of the Group as at 31 December 2001 is that set out on page 21 of the financial statements.

#### Fixed assets and investment property

Details of movements in the fixed assets and investment property of the Group during the year are set out in notes 14 and 15 to the financial statements, respectively.

#### Share capital and share options

Details of movements in the share capital and share options of the Company during the year, together with the reasons therefor, are set out in note 24 to the financial statements.

**Pre-emptive rights**

There are no provisions for pre-emptive rights under the bye-laws of the Company or the laws of Bermuda, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

**Purchase, redemption or sale of listed securities of the Company**

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

**Reserves**

Details of movements in the reserves of the Company and the Group during the year are set out in note 25 to the financial statements.

**Distributable reserves**

At 31 December 2001, the Company had distributable reserves of approximately HK\$53,768,000. Under the laws of Bermuda, the share premium of the Company of approximately HK\$56,171,000 as at 31 December 2001 may be distributed in the form of fully paid bonus shares.

**Major customers and suppliers**

During the year, sales to the five largest customers of the Group accounted for 59% of the total sales for the year and the sales to the largest customer included therein amounted to 14%.

Purchases from the five largest suppliers of the Group accounted for 36% of the total purchases for the year and the purchases from the largest supplier included therein amounted to 10%.

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

### Post balance sheet event

Subsequent to the balance sheet date, on 27 February 2002, Regal China Development Limited (“Regal China”), the former ultimate holding company of the Company, entered into an agreement (the “Agreement”) with Great Logistics Holdings Limited (“Great Logistics”) and Mr. Tsoi Kwing Ming, the sole beneficial owner of Regal China and an executive director of the Company. Pursuant to the Agreement, Great Logistics agreed to purchase and Regal China agreed to sell its entire equity interest in 1,800,000,000 ordinary shares of HK\$0.01 each in the share capital of the Company. The Agreement was duly completed on 14 March 2002.

Pursuant to the Hong Kong Code on Takeovers and Mergers (the “Takeovers Code”), Great Logistics is obliged to make a mandatory unconditional cash offers (the “Offers”) to acquire all of the remaining issued ordinary shares of the Company and to cancel all of the outstanding share options granted under the Company’s share option scheme (the “SO Scheme”). The closing date of the Offers (the “Closing Date”) is 2 May 2002, or if the Offers are extended, the closing date of the Offers is extended in accordance with the Takeovers Code.

Details of this significant post balance sheet event of the Group are also set out in note 31 to the financial statements.

### Directors

The directors during the year were as follows:

#### *Executive directors*

Mr. Tsoi Kwing Ming

Mr. Leung Kam Pui

Ms. Tsoi Lai Na (appointed on 1 June 2001)

Mr. Li Chak Hung (resigned on 1 June 2001)

#### *Independent non-executive directors*

Mr. Sze Kin Sun

Mr. Wong Ming Yeung

Mr. Sze Chi Ching (resigned on 23 April 2001)

Mr. Yuen Philip Pak Yiu (resigned on 21 April 2001)

Subsequent to the balance sheet date, on 14 March 2002, all of the existing executive and independent non-executive directors (except Mr. Tsoi Kwing Ming) have tendered their resignation as directors of the Company. Their resignation shall take effect from the Closing Date.

On 14 March 2002, Mr. Tsoi Tin Chun and Mr. Lu Ping Lang have been nominated as executive directors of the Company; Mr. Cheong Soo Kiong has been nominated as non-executive director of the Company; and Mr. Zheng Dun Xun and Mr. Wong Kwong Hon have been nominated as independent non-executive directors of the Company. The appointment of the new directors shall take effect from the Closing Date.

In accordance with the Company's bye-laws, Mr. Tsoi Kwing Ming will retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

In accordance with the Company's bye-laws, Mr. Tsoi Tin Chun, Mr. Lu Ping Lang, Mr. Cheong Soo Kiong, Mr. Zheng Dun Xun and Mr. Wong Kwong Hon, whose appointments will take effect from the Closing Date, will retire and offer themselves for re-election at the forthcoming annual general meeting.

Independent non-executive directors are not appointed for specific terms as all of the directors, without limitation to independent non-executive directors, are subject to retirement by rotation and re-election at the annual general meeting, in accordance with the Company's bye-laws.

#### **Biographical details of the directors and senior management**

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 6 to 7 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**

No directors had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries was a party during the year.

#### **Management contracts**

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in existence during the year.

## Report of the Directors

### Director's interests in shares

At 31 December 2001, the interests of a director in the share capital of the Company or its associated corporation, 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:

(a) *Interest in the Company*

<b>Name of director</b>	<b>Corporate interest</b>
Mr. Tsoi Kwing Ming	1,800,000,000

*Note:* These shares are owned by Regal China, a company incorporated in the British Virgin Islands. The entire issued share capital of Regal China is beneficially owned by Mr. Tsoi Kwing Ming.

(b) *Interest in an associated corporation*

As mentioned above, Mr. Tsoi Kwing Ming beneficially owns all the 150,000 ordinary shares of Regal China, the former ultimate holding company of the Company.

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

### Directors' rights to acquire shares or debentures

Apart from as disclosed under the heading "Directors' interests in shares" above and "Share option scheme" below, at no time during the year were 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, its holding company, or any of its subsidiaries a party to any arrangement to enable the directors or their respective spouse or children under 18 years of age to acquire such rights in any other corporate.

### Share option scheme

The Company operates the SO Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the operations of the Group. Eligible participants of the SO Scheme are full-time employees and directors of the Company and its subsidiaries. The SO Scheme became effective on 12 June 1998 and, unless otherwise cancelled or amended, remains in force for ten years from its date of adoption on 18 May 1998.

At 31 December 2001, the number of shares issuable under share options granted under the SO Scheme was 57,060,000, which represented approximately 1.9% of the shares of the Company in issue as at that date. The maximum number of shares issuable under share options to each eligible participant in the SO Scheme is limited to 2.5% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of the offer. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than ten years from the date of grant of the share options or the expiry date of the SO Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of: (i) 80% of the average closing price of the shares of the Company as stated in the daily quotation sheets of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the five trading days immediately preceding the date of grant of the share options; or (ii) the nominal value of the ordinary shares of the Company.

The following share options were outstanding under the SO Scheme during the year:

Category or name of participant	Number of share options				At 31 December 2001	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$
	At 1 January 2001	Granted during the year	Exercised during the year	Lapsed during the year				
<b>Directors</b>								
Mr. Tsoi Kwing Ming	14,000,000	-	-	-	14,000,000	2 February 2000	2 March 2000 to 2 February 2003	0.133
Mr. Leung Kam Pui	10,000,000	-	-	-	10,000,000	2 February 2000	2 March 2000 to 2 February 2003	0.133
Mr. Li Chak Hung	10,000,000	-	-	-	10,000,000	2 February 2000	2 March 2000 to 2 February 2003	0.133
	34,000,000	-	-	-	34,000,000			
<b>Other employees</b>								
In aggregate	24,560,000	-	-	(1,500,000)#	23,060,000	2 February 2000	2 March 2000 to 2 February 2003	0.133
	58,560,000	-	-	(1,500,000)	57,060,000			

# Share options lapsed upon the termination of an employee's employment during the year.

\* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

\*\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the share capital of the Company.



## Report of the Directors

Summary details of the SO Scheme of the Company are also set out in note 24 to the financial statements.

The financial impact of share options granted is not recorded in the balance sheet of the Company or the Group until such time as the share options are exercised, and no charge is recorded in the profit and loss account or the balance sheet for their costs. Upon exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options, which are cancelled, are deleted from the register of outstanding options.

### Substantial shareholders

At 31 December 2001, the following interest of 10% or more of the 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 holding
Regal China	1,800,000,000#	60%

# The shareholding is duplicated in the disclosure in the "Director's interests in shares" section above.

Save as disclosed above, no persons, other than the directors 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 under Section 16(1) of the SDI Ordinance.

### Directors' interests in competing business

During the year and up to date of this report, no director is considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), other than those business of which the directors were appointed as directors to represent the interest of the Company and/or the Group.

### 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 Listing Rules throughout the accounting period covered by the annual report, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election in accordance with the Company's bye-laws.

**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 financial reporting process and internal controls of the Group. The audit committee comprises two of the 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

**Tsoi Kwing Ming**

*Chairman*

Hong Kong  
25 April 2002