

The directors of the Company herein present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2003.

## **PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding. The principal activities of the principal subsidiaries of the Company are set out in note 17 to the financial statements.

## **CHANGE OF COMPANY NAME**

With effect from 9 July 2003, the name of the Company was changed from “China Logistics Group Limited” to “China Chengtong Development Group Limited”.

## **SEGMENT INFORMATION**

An analysis of the Group’s turnover and contribution to trading results by principal activities and geographical area of operations for the year ended 31 March 2003 is set out in note 4 to the financial statements.

## **RESULTS AND DIVIDENDS**

The Group’s results for the year ended 31 March 2003 are set out in the consolidated profit and loss account on page 30.

No interim dividend was paid during the year (2002: Nil) and the directors do not recommend the payment of a final dividend in respect of the year (2002: Nil).

## **ACCOUNTING POLICIES**

The principal accounting policies of the Group are set out in note 2 to the financial statements.

## **INVESTMENT PROPERTIES, PROPERTY UNDER DEVELOPMENT AND PROPERTIES, PLANT AND EQUIPMENT**

Details of movements in investment properties, property under development and properties, plant and equipment of the Group during the year are set out in notes 14, 15 and 16 to the financial statements, respectively.

## **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 note 29 to the financial statements.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

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

## **RESERVES**

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

## **DISTRIBUTABLE RESERVES**

As at 31 March 2003, the Company had no distributable reserves (2002: Nil), calculated in accordance with section 79B of the Hong Kong Company Ordinance.

## **POST BALANCE SHEET EVENTS**

Details of the significant post balance sheet events relating to the Group are set out in note 34 to the financial statements.

## **MAJOR CUSTOMERS AND SUPPLIERS**

For the year ended 31 March 2003:

- (i) the aggregate amount of turnover attributable to the five largest customers represented 48.12% (2002: 61.57%) of the Group's total turnover. Sales to the largest customer included therein amounted to 12.82% (2002: 21.64%); and
- (ii) the aggregate amount of purchases (not including purchases of items which are of a capital nature) attributable to the five largest suppliers represented 57.14% (2002: 46.69%) of the Group's total purchases. Purchases from the largest supplier amounted to 21.55% (2002: 24.98%) of the Group's total purchases.

None of the directors of the Company or any of their associates or any shareholders, which to the best knowledge of the Company's directors, own more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers or suppliers for the year ended 31 March 2003.

## DIRECTORS

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

### *Name of Director*

Mr. ZHANG Guotong	<i>(Executive Director, Vice Chairman, appointed on 17 February 2003)</i>
Mr. LI Tiefeng	<i>(Executive Director)</i>
Mr. GU Laiyun	<i>(Executive Director, appointed on 17 February 2003)</i>
Mr. WU Chun Wah	<i>(Executive Director, appointed on 17 February 2003)</i>
Mr. YUEN Wai	<i>(Executive Director, resigned on 28 May 2002)</i>
Mr. Mongkon CHERLOEMCHOEDCHOO	<i>(Executive Director, resigned on 27 February 2003)</i>
Mr. WU Guang Liang	<i>(Executive Director, resigned on 27 February 2003)</i>
Mr. LI Xianghong	<i>(Executive Director, resigned on 27 February 2003)</i>
Mr. WONG Sun Keung	<i>(Executive Director, resigned on 13 August 2002)</i>
Mr. MA Zhengwu	<i>(Non-executive Director, Chairman, appointed on 17 February 2003)</i>
Mr. HONG Shuikun	<i>(Non-executive Director, appointed on 17 February 2003)</i>
Mr. CHEN Shengjie	<i>(Non-executive Director, appointed on 17 February 2003)</i>
Mr. CHUNG Ho	<i>(Non-executive Director, resigned on 30 December 2002)</i>
Mr. WU Yuehua	<i>(Non-executive Director, resigned on 27 August 2002)</i>
Mr. LEE Hoong Seun	<i>(Non-executive Director, resigned on 30 December 2002)</i>
Mr. KWONG Che Keung, Gordon	<i>(Independent non-executive Director, appointed on 3 March 2003)</i>
Mr. TSUI Yiu Wa, Alec	<i>(Independent non-executive Director, appointed on 3 March 2003)</i>
Mr. LAO Youan	<i>(Independent non-executive Director)</i>
Mr. LAI Yau Hong, Thomson	<i>(Independent non-executive Director, resigned on 13 August 2002)</i>
Mr. IP Ying Chuen	<i>(Independent non-executive Director, resigned on 13 August 2002)</i>

In accordance with Article 96 of the Company's Articles of Association, Mr. Ma Zhengwu, Mr. Zhang Guotong, Mr. Hong Shuikun, Mr. Chen Shengjie, Mr. Tsui Yiu Wa, Alec, Mr. Kwong Che Keung, Gordon, Mr. Gu Laiyun and Mr. Wu Chun Wah retire and being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

In accordance with Article 105 of the Company's Articles of Association, Mr. Lao Youan retires by rotation and being eligible, will offer himself for re-election at the forthcoming annual general meeting.

## MANAGEMENT CONTRACTS

No contracts, other than contract of service with any person engaged in the full time employment of the Company, concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year under review.

## **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 other than statutory compensation.

## **DIRECTORS' INTERESTS IN SHARES**

As at 31 March 2003, none of the directors of the Company had interests in or short positions of the Shares, underlying Shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Apart from as disclosed under the paragraph headed "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, chief executives 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 or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## **DIRECTORS' INTERESTS IN CONTRACTS**

No contract of significance in relation to the Group's business to which the Company, its fellow subsidiaries or its holding companies was a party and in which any director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## **SHARE OPTIONS SCHEME**

The Company operates a share option scheme for the purpose of promoting additional commitment and dedication to the objectives of the Company by the participants.

The Company's share options scheme ("Scheme") was adopted on 22 September 1998. Eligible participants of the Scheme are the employees of the Company and its subsidiaries (including the executive directors of the Company and its subsidiaries). The offer of a grant of share options under the Scheme may be accepted within 28 days from the date of the offer together with the payment of nominal consideration of HK\$1 in total by the grantee.

Pursuant to the terms of the scheme, (a) the maximum number of shares issued and permitted to be issued on the exercise of options under the Scheme and other executive and/or employment share scheme established by the Company and/or any of its subsidiaries from time to time shall not exceed 10 per cent. of the issued share capital of the Company from time to time, excluding any shares allotted and issued pursuant to the Scheme, (b) no participant shall be granted an option which, if exercised in full, would result in the such participant becoming entitled to subscribe for such number of shares as, when aggregated with the total number of shares already issued to him under all options previously granted to him which have been exercised, and, issuable to him under all the options previously granted to him which are for the time being subsisting and unexercised, would exceeding 25 per cent. of the aggregate number of shares for the time being issued and issuable under the Scheme; and (c) the exercise price of the options is determined by the Board which shall be higher of the nominal value of the share or a price being not less than 80 per cent. of the average closing price of the Shares on the Stock Exchange as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the relevant date of grant of options in respect of such options. However, these terms do not comply with the current requirements set out in the amended Chapter 17 of the Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

Since 1 September 2001, major amendments have been introduced to Chapter 17 of the Listing Rules. Pursuant to Rule 17.10(1) of the Listing Rules, grant of options under the Scheme must comply with the requirements of the amended Chapter 17 of the Listing Rules. Pursuant to the amended Chapter 17 of the Listing Rules, (a) the total number of securities which may be allotted and issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the share options scheme and any other scheme of the listed issuer (or its subsidiary) to be granted under the share options scheme and any other scheme of the listed issuer must not in aggregate exceed 10 per cent. of the relevant class of securities of the listed issuer (or the subsidiary) in issue as at the date of approval of the share options scheme; (b) the total number of securities issued and which may fall to be issued upon exercise of the options granted to each participant (including both exercised or outstanding options) in any 12-month period shall not exceed one per cent. of the relevant class of securities of the listed issuer (or the subsidiary) in issue; (c) the exercise price of the options shall be not less than the higher of (i) the closing price of the securities as stated in the Stock Exchange's daily quotations sheet on the date of grant which must be a business day; (ii) the average closing price of the securities as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant.

Therefore, the Company terminated the Scheme and adopted a new share options scheme ("New Scheme"), which complies with the requirements of the amended Chapter 17 of the Listing Rules, pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 24 June 2003. However, options already granted by the Company under the Scheme are governed by the terms of the Scheme and will not be affected by the terms of the New Scheme.

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

Name or category of participant	Number of underlying shares				Date of grant of share options	Exercise period of share options	Exercise price of each share option HK\$
	As at 1 April 2002	Exercised during the year	Lapsed during the year	As at 31 March 2003			
Directors, chief executive and substantial shareholders, and their respective associates							
YUEN Wai	6,500,000	–	(6,500,000)	–	30/03/01	01/10/01 to 30/09/04	0.1491
CHUNG Ho	4,000,000	–	(4,000,000)	–	30/03/01	01/07/01 to 30/06/04	0.1491
	4,000,000	–	(4,000,000)	–	30/03/01	01/10/01 to 30/09/04	0.1491
	8,000,000	–	(8,000,000)	–			
Mongkon							
CHERLOEM-	2,000,000	–	(2,000,000)	–	30/03/01	01/07/01 to 30/06/04	0.1491
CHOEDCHOO	2,000,000	–	(2,000,000)	–	30/03/01	01/10/01 to 30/09/04	0.1491
	4,000,000	–	(4,000,000)	–			
WU Yuehua	2,000,000	–	(2,000,000)	–	30/03/01	01/10/01 to 30/09/04	0.1491
	2,000,000	–	(2,000,000)	–	30/03/01	31/03/02 to 30/03/05	0.1491
	4,000,000	–	(4,000,000)	–			
Other employees							
In aggregate	2,725,000	–	(1,750,000)	975,000	30/03/01	01/07/01 to 30/06/04	0.1491
	2,725,000	–	(1,750,000)	975,000	30/03/01	01/10/01 to 30/09/04	0.1491
	6,575,000	(850,000)	(5,150,000)	575,000	30/03/01	01/10/01 to 30/09/04	0.1491
	6,575,000	(850,000)	(5,150,000)	575,000	30/03/01	31/03/02 to 30/03/05	0.1491
	18,600,000	(1,700,000)	(13,800,000)	3,100,000			
	41,100,000	(1,700,000)	(36,300,000)	3,100,000			

In accordance with the provisions of the Scheme, share options will be lapsed upon the grantee ceasing to be an employee (including a director) of the Company after one month following the date of such cessation.

Save as disclosed in the above table, no options were lapsed or cancelled during the year under review.

## SUBSTANTIAL SHAREHOLDERS AND OTHERS

Substantial shareholders and other persons who are required to disclose their interests pursuant to Part XV of the SFO.

As at 31 March 2003, the following shareholders had interests in or short positions of the shares and underlying shares of the Company as recorded in the register required to be kept the Company under section 336 of the SFO:

### (1) Substantial shareholders of the Company

Name	Capacity	Number of Shares (Note 1)	Approximate percentage
World Gain Holdings Limited	beneficial owner	608,201,500(L)	36.10%
China Chengtong Hong Kong (Note 2) Company Limited	interest of a controlled corporation	608,201,500(L)	36.10%
China Chengtong Holdings Company (Note 2)	interest of a controlled corporation	608,201,500(L)	36.10%

*Notes:*

- The letter "L" represents the entity's long position in the shares.
- The entire issued share capital of World Gain Holdings Limited is beneficially owned by China Chengtong Hong Kong Company Limited, the entire issued share capital of which is beneficially owned by China Chengtong Holdings Company.

### (2) Other persons who are required to disclose their interests pursuant to Part XV of the SFO

Save as disclosed in paragraph (1) above, as at 31 March 2003, no other person had interests or short positions in the shares and underlying shares of the Company which are required to be recorded in the register required to be kept by the Company under section 336 of the SFO.

### **AUDIT COMMITTEE**

The Company has an audit committee, which was established in accordance with requirements of the Code of Best Practice, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises Mr. Tsui Yiu Wa, Alec, Mr. Kwong Che Keung, Gordon and Mr. Lao Youan, all being independent non-executive directors of the Company.

### **DIRECTORS' INTERESTS IN COMPETING BUSINESS**

None of the directors is interested in any business which competes, either directly or indirectly, with the Company's business.

### **CODE OF BEST PRACTICE**

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by this annual report. None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by this annual report, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules except that non-executive directors are not appointed for a specific term as they are subject to retirement by rotation and re-election at annual general meetings in accordance with Article 105 of the Company's articles of association.



## DISCLOSURE PURSUANT TO PRACTICE NOTE 19 OF THE LISTING RULES

The proforma balance sheet of an associate, Goodwill (Overseas) Limited as at 31 March 2003 disclosed in accordance with 3.10 of the Practice Note 19 of the Listing Rules is as follows:

	HK\$'000
Long-term investments	592,741
Current assets	356
Current liabilities	(372)
Net current liabilities	(16)
Non-current liabilities	
– Shareholders' loans	(595,601)
Net liabilities	(2,876)
Group's share of net liabilities	(920)

## AUDITORS

Moore Stephens retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Moore Stephens as auditors of the Company will be proposed at the forthcoming annual general meeting.

PricewaterhouseCoopers were auditors of the Company for the years ended 31 March 2000 and 2001 and resigned on 29 August 2002. On their resignation, Moore Stephens were appointed as auditors of the Company.

## OTHERS

### Application of the De-minimis Concession, the Modified Calculation Concession and the “modified assets test” under the Modified Calculation Concession

The Company had an audited consolidated net tangible deficit as at 31 March 2002 of about HK\$255,351,000. The net tangible deficit of the Company for the year ended 31 March 2002 was attributable to, among other factors, the provisions made for two irregular transactions of the Group, namely the provision for advance to Sharp Class International Limited of about HK\$358,445,000 and the provision for acquisition of the entire issued share capital of Shanghai Pudong CNCC Logistics Development Limited of about HK\$232,657,000. The Directors are of the view that the provisions made for the irregular transactions are non-recurring in nature and thus consider that such causes to the decrease in the net asset value of the Company did not arise as a result of operational losses in the ordinary and usual course of business of the Group during the current and/or prior financial years.

As a result of the audited consolidated net tangible deficit of the Company as described above, it will be impracticable and unduly onerous on the Company in complying fully with those provisions in the Listing Rules which require comparisons to be made with its net tangible assets and render the Company subject to all of the disclosure and shareholders' approval requirements in respect of every transaction of the Group, notwithstanding the value of such transaction may be insignificant in monetary terms or compared to the total assets of the Group. The Company thus made an application to the Stock Exchange for the approval of the adoption of the De-minimis Concession, the Modified Calculation Concession and the "modified assets test" under the Modified Calculation Concession in accordance with the guidelines ("Guidelines") for issuers with negative or negligible net tangible asset as set forth in the Stock Exchange's announcements dated 3 May 2001, 24 August 2001 and 9 October 2001 and the Stock Exchange granted the approval on 4 April 2003. Details of the application are set out in the Company's announcement dated 9 April 2003.

**Basis for the Company's application for the Modified Calculation Concession and the "modified assets test" under the Modified Calculation Concession**

The Company's application for its adoption of the Modified Calculation Concession and the "modified assets test" under the Modified Calculation Concession as described above was based on the Group's latest published audited financial statements as at 31 March 2002 ("2002 Annual Results"). The "modified asset value" of the Group is equal to about HK\$532,394,000 ("Modified Asset Value"), which was arrived at after taking into account the following items which took place after publication of the 2002 Annual Results and are set out under the paragraph headed "Unaudited pro forma adjusted consolidated net tangible assets of the Group" in appendix II to the Composite Document:

	HK\$'000
Modified asset value of the Group as at 31 March 2002 ( <i>Note</i> )	279,863
Unaudited net loss attributable to shareholders for the six months ended 30 September 2002	(17,067)
Unaudited net loss attributable to shareholders for the month of October 2002 based on the management account of the Group	(1,028)
Subscription monies received from the exercise of 1,700,000 Share Options (as defined in the Composite Document) from 1 April 2002 to 29 January 2003	253
Revaluation deficit of investment properties for the period up to 31 October 2002	(36,227)
Net proceeds from the subscription of 219,000,000 Conversion Shares by United City on 30 January 2003	306,600
<b>Present modified asset value of the Group</b>	<b>532,394</b>

*Note:* The "modified asset value" of the Group as at 31 March 2002 of about HK\$279,863,000 is the net sum between the gross tangible assets of the Group of about HK\$555,663,000 less current liabilities of the Group of about HK\$275,800,000.

### Adoption of the De-minimis Concession

The Stock Exchange has approved the Company's application for the adoption of the De-minimis Concession for the purposes of classifying notifiable transactions (other than connected transactions). Each transaction carried out in the ordinary course of business of the Group, which was entered into on normal commercial terms, and where the consideration or value of the transaction was less than HK\$1,000,000 would be considered as de-minimis. In such circumstances, the "assets test" and the "consideration test" under Chapter 14 of the Listing Rules (collectively, the "Relevant Tests") would not apply and such transactions would not be subject to disclosure or shareholders' approval requirements.

### Adoption of the Modified Calculation Concession

The Stock Exchange has approved the Company's application for the adoption of the Modified Calculation Concession in accordance with the Guidelines in calculating the Relevant Tests for the purposes of classifying notifiable transactions (other than connected transactions). Accordingly:

- (a) the "assets test" under Chapter 14 of the Listing Rules would be performed by dividing the gross assets less intangibles and current liabilities of the asset to be acquired or disposed of by the Modified Asset Value; and
- (b) the "consideration test" under Chapter 14 of the Listing Rules would be performed by dividing the consideration for the asset to be acquired or disposed of by the Modified Asset Value.

The above modified assets test would be applied for the purposes of classifying notifiable transactions (other than connected transactions) in accordance with the following thresholds:

- (a) if the value of a transaction exceeds 5% of the Modified Asset Value (being about HK\$26,619,700) or above but is less than 15% of the Modified Asset Value (being about HK\$79,859,100), the Company shall comply with the requirements for discloseable transactions;
- (b) if the value of a transaction exceeds 15% of the Modified Asset Value (being about HK\$79,859,100) or above but is less than 25% of the Modified Asset Value (being about HK\$133,098,500), the Company shall comply with the requirements for major transactions;
- (c) if the value of a transaction exceeds 25% of the Modified Asset Value (being about HK\$133,098,500) or above, the Company shall comply with the requirements for very substantial acquisitions; and
- (d) if the transaction is an acquisition of assets (including securities but excluding cash) for consideration that include securities for which listing will be sought, the Company shall comply with the requirements for share transactions if the value of the transaction is less than 5% of the Modified Asset Value (being about HK\$26,619,700).

The above ratios would apply only to the Relevant Tests. The profits test and equity test will remain applicable to the Company.

**Adoption of the modified assets test under the Modified Calculation Concession**

The Stock Exchange has also approved the Company's application for the adoption of the "modified assets test" under the Modified Calculation Concession with respect to the following items:

**(1) Connected transactions**

In relation to the connected transactions set out in Rule 14.24(5), 14.25(1) and 14.25(2)(b)(i) of the Listing Rules where there are references to net tangible assets or net assets, as applicable, such assets of the Group will be calculated in accordance with the "modified assets test" under the Modified Calculation Concession and the following percentage ratio will apply:

(a) *for Rule 14.24(5), the threshold will be the higher of either:*

- (i) HK\$ 1,000,000 or
- (ii) 0.01% of the Modified Assets Value (being about HK\$53,240).

(b) *for Rule 14.25(1), the threshold will be the higher of either:*

- (i) HK\$10,000,000 or
- (ii) 1% of the Modified Assets Value (being about HK\$5,323,940).

(c) *for Rule 14.25(2)(b)(i), the threshold will be 5% of the Modified Assets Value (being about HK\$26,619,700).*

**(2) Modified assets test only while maintaining the percentage ratio prescribed under the relevant provisions of the Listing Rules**

In respect of the following provisions in the Listing Rules where there are references to net tangible assets, or net assets, as applicable, the basic set out in the "modified asset tests" under the Modified Calculation Concession would be adopted as the basis for comparison to determine the relevant disclosure requirements and the percentage ratio prescribed under the relevant provisions would remain unchanged and continue to apply:

- (a) Paragraphs 17(2) of Appendix 7A;
- (b) Paragraph 5.1 of Practice Notice 13;
- (c) Paragraph 3(e)(ii) of Practice Notice 15;
- (d) Paragraph 36 of Appendix 16; and
- (e) Paragraph 1.3 of Practice Note 19.

Since the numerator and denominator would be using the same modified basis, there was no need to change the percentage ratios prescribed under these provisions.

**(3) Modified assets test and different percentage ratios**

In respect of the following provisions in the Listing Rules where there are references to net tangible assets, or net assets, as applicable, such assets of the Group will be calculated in accordance with the “modified assets test” under the Modified Calculation Concession but different percentage ratio as set against the relevant provisions below will apply:

<b>Provisions in the Listing Rule</b>	<b>Applicable ratio</b>	<b>Approximate Modified Asset Value</b>
(a) Paragraph 15.2 of Appendix 16	1%	HK\$ 5,323,940
(b) Paragraph 23 of Appendix 16	5%	HK\$26,619,700
(c) Paragraph 3.2.1 of Practice Note 19	8%	HK\$42,591,520
(d) Paragraph 3.2.2 of Practice Note 19	3%	HK\$15,971,820
(e) Paragraph 3.3 of Practice Note 19	8%	HK\$42,591,520

**Period for which the De-minimis Concession, the Modified Calculation Concession and the “Modified assets test” under the Modified Calculation Concession will apply**

The Stock Exchange’s approval for the adoption of the De-minimis Concession, the Modified Calculation Concession and the “modified assets test” under the Modified Calculation Concession by the Company expired on 22 July 2003, being the date on which the Company published its annual report for the year ended 31 March 2003.

On behalf of the Board

**Ma Zhengwu**

*Chairman*

Hong Kong, 22 July 2003