

The directors present their report and the audited financial statements for the year ended 31 March 2004.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries are set out in note 16 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 (中國物流集團有限公司) to China Chengtong Development Group Limited (中國誠通發展集團有限公司).

## RESULTS

The results of the Group for the year ended 31 March 2004 are set out in the consolidated income statement on page 25.

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

Details of movements in property, plant and equipment, investment properties and property under development during the year are set out in notes 12, 13 and 14 to the financial statements respectively.

## SHARE CAPITAL

Details of movements in the share capital during the year are set out in note 27 to the financial statements.

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

## DISTRIBUTABLE RESERVES

As at 31 March 2004, the Company had no distributable reserves, calculated in accordance with Section 79B of the Companies Ordinance.

## POST BALANCE SHEET EVENTS

Details of the significant events occurring after the balance sheet date are set out in note 33 to the financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate amount of turnover attributable to the five largest customers represented 38.05% of the Group's total turnover. Sales to the largest customer included therein amounted to 14.26%.

During the year, the aggregate amount of purchases (not including purchases of items which are of a capital nature) attributable to the five largest suppliers represented 56.35% of the Group's total purchases. Purchases from the largest supplier amounted to 26.02% 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 2004.

## DIRECTORS

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

Mr. ZHANG Guotong	<i>(Executive Director, Vice Chairman and Managing Director)</i>
Mr. LI Tiefeng	<i>(Executive Director)</i>
Mr. WU Chun Wah, Michael	<i>(Executive Director)</i>
Mr. MA Zhengwu	<i>(Non-executive Director, Chairman)</i>
Mr. HONG Shuikun	<i>(Non-executive Director)</i>
Mr. CHEN Shengjie	<i>(Non-executive Director)</i>
Mr. GU Laiyun	<i>(Non-executive Director, redesignated from the office of Executive Director on 20 February 2004)</i>
Mr. KWONG Che Keung, Gordon	<i>(Independent non-executive Director)</i>
Mr. TSUI Yiu Wa, Alec	<i>(Independent non-executive Director)</i>
Mr. LAO Youan	<i>(Independent non-executive Director)</i>

In accordance with Article 105 of the Company's Articles of Association, Messrs. Li Tiefeng, Chen Shengjie, Gu Laiyun and Lao Youan retire by rotation and being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The term of office of each non-executive director is the period up to his retirement by rotation in accordance with the Company's Articles of Association.

## 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.

## 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 2004, none of the directors nor their associates had any interests or short positions in any shares and underlying shares of the Company or any of its associated corporations (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 maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the share options disclosed below, at no time during the year was the Company, its holding company, or any of its subsidiaries, or fellow subsidiaries, a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures, of the Company or any other body corporate.

## DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company, its holding company, subsidiaries or fellow subsidiaries was a party and in which a director of the Company 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

### a) *Old Scheme*

The Company's share options scheme (the "Old Scheme") was adopted on 22 September 1998. Eligible participants of the Old Scheme are the employees of the Company and its subsidiaries (including the executive directors of the Company and its subsidiaries).

Pursuant to the terms of the Old Scheme, (a) the maximum number of shares issued and permitted to be issued on the exercise of options under the Old 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 percent of the issued share capital of the Company from time to time, excluding any shares allotted and issued pursuant to the Old Scheme; (b) no participant shall be granted an option which, if exercised in full, would result in 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 exceed 25 percent of the aggregate number of shares for the time being issued and issuable under the Old Scheme; and (c) the exercise price of the options is determined by the Board of the Company which shall be higher of the nominal value of the share or a price being not less than 80 percent 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 Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

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

Category of participant	Number of share options			At 31 March 2004	Date of grant of share options	Exercisable period of share options	Exercise price of share options HK\$
	At 1 April 2003	Exercised during the year	Lapsed during the year				
Other employees							
In aggregate	975,000	(975,000)	–	–	30.3.2001	1.7.2001 to 30.6.2004	0.1491
	1,550,000	(1,350,000)	(150,000)	50,000	30.3.2001	1.10.2001 to 30.9.2004	0.1491
	575,000	(375,000)	(150,000)	50,000	30.3.2001	31.3.2002 to 30.3.2005	0.1491
	<u>3,100,000</u>	<u>(2,700,000)</u>	<u>(300,000)</u>	<u>100,000</u>			

The closing price of the Company's shares immediately before the dates on which the options were exercised was as follows:

<b>Date of exercise</b>	<b>Number of share options exercised</b>	<b>Price of the Company's shares</b>
8.4.2003	550,000	0.19
15.9.2003	700,000	0.21
3.10.2003	200,000	0.23
31.10.2003	1,000,000	0.20
6.1.2004	250,000	0.21
	<hr/>	
	2,700,000	
	<hr/> <hr/>	

In accordance with the provisions of the Old 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.

The Company terminated the Old Scheme and adopted a new share options scheme (the "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 Old Scheme are governed by the terms of the Old Scheme and will not be affected by the terms of the New Scheme.

**(b) New Scheme**

Under the New Scheme approved by the shareholders at an extraordinary general meeting of the Company held on 24, June 2003 ("Adoption Date"), the Directors may, at their discretion, invite any participants to take up options to subscribe for fully paid ordinary shares ("Shares") in the Company subject to the terms and conditions stipulated therein.

Details of the New Scheme are as follow:

**(i) Purpose**

The purpose of the New Scheme is to provide incentives or rewards to participants thereunder for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any invested entity.

*(ii) Participants*

The Directors may, at their discretion, invite any participant including any executive director, non-executive director or employee (whether full time or part time), shareholder, supplier, customer, consultant, adviser, other service provider or any joint venture partner, business or strategic alliance partner, in each case, of the Company, any subsidiary of the Company or any invested entity, to take up options to subscribe for Shares in the Company.

*(iii) Maximum number of shares**(1) 30% Limit*

The limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and Old Scheme of the Company must not exceed 30% of the Shares in issue from time to time (the "Scheme Limit").

*(2) 10% Limit*

In addition to the Scheme Limit, and subject to the following, the total number of shares which may be issued upon exercise of all options granted under the New Scheme and Old Scheme of the Company must not in aggregate exceed 10% of the Shares in issue as at the date of approval of the Scheme (excluding any options which have lapsed) (the "Scheme Mandate Limit").

The Company may, from time to time, renew the Scheme Mandate Limit by obtaining the approval of its shareholders in general meeting. The Company may also seek separate approval by its shareholders in general meeting for granting options beyond the renewed Scheme Mandate Limit provided the options in excess of such limit are granted only to participants specifically identified.

*(iv) Maximum entitlement of each participant*

Unless approved by shareholders of the Company, the total number of securities issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12 month period must not exceed 1% of the Shares in issue. Where any further grant of options to a participant would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12 month period up to and including the date of such further grant representing in aggregate over 1% of the relevant class of securities in issue, such further grant must be separately approved by shareholders of the Company in general meeting with such participant and his associates abstaining from voting.

(v) *Price of Shares*

The exercise price must be at least the higher of: (a) the nominal value of a Share at the date of grant; (b) the closing price of a Share as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a business day and (c) the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant.

(vi) *Amount payable upon acceptance of the option*

Acceptance of an offer of the grant of an option shall be by the delivery to and receipt by the Company at its registered office of the form of acceptance sent to the Participant duly completed and signed by the Participant together with a remittance of HK\$1.

(vii) *Time of exercise of option*

An option shall be exercisable at such time(s) or during such period(s) and subject to such terms, as the Directors may, at their discretion specify, provided that 50% of the option shall be exercisable within a period of three (3) years commencing from twelve (12) months after the date of acceptance of the offer and the balance 50% may be exercisable at any time within a period of three (3) years commencing from twenty-four (24) months after the date of acceptance of the offer.

(viii) *The remaining life of the New Scheme*

The life of the New Schemes is 10 years commencing on the Adoption Date and will end on 23th June 2013.

(ix) *Shares available for issue under the New Scheme*

As at 31st March 2004, the total number of shares available for issue under the New Scheme was approximately 143,561,000 shares which represented approximately 8.5% of the total issued share capital of the Company.

The following table shows share options granted under the New Scheme during the year:-

	Number of Share Options	Date of grant	Exercisable period	Exercise price HK\$
<b>Directors</b>				
Ma Zhengwu	1,200,000	8.3.2004	8.3.2005 to 7.3.2009	0.364
Zhang Gutong	1,200,000	8.3.2004	8.3.2005 to 7.3.2009	0.364
Li Tiefeng	1,200,000	8.3.2004	8.3.2005 to 7.3.2009	0.364
Wu Chun Wah, Michael	1,200,000	8.3.2004	8.3.2005 to 7.3.2009	0.364
Hong Shuikun	1,200,000	8.3.2004	8.3.2005 to 7.3.2009	0.364
Chen Shengjie	1,200,000	8.3.2004	8.3.2005 to 7.3.2009	0.364
Gu Laiyun	1,200,000	8.3.2004	8.3.2005 to 7.3.2009	0.364
	<u>8,400,000</u>			
<b>Other employees</b>				
In aggregate	<u>16,750,000</u>	8.3.2004	8.3.2005 to 7.3.2009	0.364
<b>Total</b>	<u><u>25,150,000</u></u>			



## SUBSTANTIAL SHAREHOLDERS

As at 31 March 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests of 5% or more in the issued share capital of the Company:

Name of shareholder	Capacity	Number of shares held for long positions	Percentage of issued share capital of the Company
World Gain Holdings Limited	Controlled corporation	608,201,500	36%
China Chengtong Hong Kong Company Limited	Controlled corporation	608,201,500	36%
China Chengtong Holdings Company	Beneficial owner ( <i>note</i> )	608,201,500	36%

*Note:* 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.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the shares and underlying shares of the Company as at 31 March 2004.

## 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.

## DISCLOSURE PURSUANT TO THE LISTING RULES

As at 31 March 2004, the aggregate amount of advances made by the Group to its associates was approximately HK\$198,306,000. Particulars of these advances are set out in note 17 to the financial statements.

The proforma balance sheet of associates, Goodwill (Overseas) Limited and Success Project Investments Ltd. as at 31 March 2004 disclosed in accordance with 13.22 of Chapter 13 of the Listing Rules is as follows:

	<i>HK\$'000</i>
Non-current assets	566,850
Current assets	40,991
Current liabilities	(960)
Net current assets	40,031
Non-current liabilities	
Shareholders' loans	608,789
Net liabilities	(1,908)

## AUDITORS

The financial statements for the year ended 31 March 2004 were audited by Messrs. Deloitte Touche Tohmatsu.

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

Messrs. Moore Stephens were auditors of the Company for the years ended 31 March 2002 and 2003 and resigned on 4 June 2004. On their resignation, Deloitte Touche Tohmatsu were appointed as auditors of the Company.

On behalf of the Board

**Ma Zhengwu**

*Chairman*

Beijing, 22 July 2004