

# REPORT OF THE DIRECTORS

The Directors have the pleasure of presenting the annual report together with the audited financial statements of Forefront International Holdings Limited (hereinafter as the “Company”) and its subsidiaries (together with the Company hereinafter as the “Group”) for the year ended 31 December 2001.

## GROUP REORGANISATION AND BASIS OF PRESENTATION

Forefront International Holdings Limited (“the Company”) was incorporated in the Cayman Islands on 10 September 1998 as an exempted company with limited liability under the Companies Law (Revised). Its shares have been listed on The Stock Exchange of Hong Kong Limited since 12 July 2001.

Pursuant to a group reorganisation scheme, which included exchanges of shares (“the Reorganisation”) in preparation for the listing of the Company’s shares, the Company became the holding company of the other companies comprising the group. The Reorganisation involved companies under common control, and the Company and its subsidiaries (“the Group”) resulting from the Reorganisation have been regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting. The consolidated income statements include the results of the Company and its subsidiaries as if the group structure resulting from the Reorganisation had been in existence throughout the years ended 31 December 2000 and 2001 or since the dates of incorporation of the respective group companies where these were of a shorter period. The consolidated balance sheet of the Group as at 31 December 2000 has been prepared to present the assets and liabilities of the Group as at those dates as if the group structure resulting from the Reorganisation had been in existence as at 31 December 2000.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the trading of motor trucks, coaches and vehicles accessories, provision of motor vehicle repair and maintenance services, sales of fuel, provision of other motor vehicle related services and motor vehicle financing business. Other activities and particulars of the Group’s subsidiaries are set out in Note 11 to the financial statements.

## CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2001, the five largest customers accounted for approximately 31.1% of the Group’s total turnover and the five largest suppliers of the Group accounted for approximately 87.5% of the Group’s total purchases. The largest customer of the Group accounted for approximately 14.3% of the Group’s turnover while the largest supplier accounted for approximately 68.8% of the Group’s total purchases.

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For the year ended 31 December 2001, Scania CV AB (publ), a shareholder of the Company, was the largest supplier of the Group and accounted for approximately 68.8% of the Group's purchases.

For the year ended 31 December 2001, Sunshine Finance Co., Ltd., a subsidiary of Forefront International Limited which is a shareholder of the Company, was the largest customer of the Group and accounted for approximately 14.3% of the Group's sales.

Save as disclosed above, none of the Directors, their associates, or any shareholders (which, to the knowledge of the Directors, owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers or five largest suppliers.

### RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2001 are set out in the consolidated income statement on page 30 of this annual report.

The directors declared a special dividend, totalling HK\$48,573,000, to the shareholders of the Company as the close of business on 31 May 2001, which was paid on 31 May 2001.

The directors declared an interim dividend of HK\$0.023 per share, totalling HK\$9,373,000, which was paid on 30 November 2001. The directors recommend that payment of a final dividend of HK\$0.008 per share, totalling HK\$3,550,000.

### SHARE CAPITAL AND SHARE OPTIONS

Details of movements in share capital and the share option scheme of the Company are set out in Notes 20 and 21, respectively, to the accompanying financial statements.

### RESERVES AND RETAINED PROFITS

Movements in reserves of the Group and the Company during the year are set out in Note 22 to the accompanying financial statements. Movements in retained profits of the Group during the year are set out in the consolidated income statement on page 30 of this annual report.

### CONVERTIBLE SECURITIES OPTIONS, WARRANTS OR OTHER SIMILAR RIGHTS

The Company had no outstanding convertible securities options, warrants or other similar rights as at 31 December 2001. There has been no exercise of convertible securities, options, warrants or other similar rights during the year ended 31 December 2001.

## PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2001.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws and the laws in the Cayman Islands.

## SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 11 to the accompanying financial statements.

## PROPERTY AND EQUIPMENT

Details of movements in property and equipment during the year are set out in Note 12 to the accompanying financial statements.

## BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2001 are set out in Notes 17, 19 and 27 to the financial statements.

## FOUR YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on page 81 and 82 of the annual report.

## PENSION SCHEMES

Details of the pension schemes are set out in Note 26 to the accompanying financial statements.

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## CONNECTED TRANSACTIONS

Related party transactions disclosed in Note 3 to the accompanying financial statements constituted connected transactions under Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“the Listing Rules”). Details of such connected transactions are as follows:

- (i) Sale of goods in the amount of approximately HK\$104,103,000 (2000: HK\$85,352,000) to Sunshine Finance Co Ltd, a company of which 80.5% of its shares is owned by a substantial shareholder.
- (ii) Sale of goods to a substantial shareholder in the amount of approximately HK\$3,123,000 (2000: Nil).
- (iii) Rental expenses in the amount of approximately HK\$4,037,000 (2000: HK\$4,357,000) paid to a substantial shareholder.
- (iv) Fees in respect of a computer licence in the amount of approximately HK\$100,000 (2000: Nil) earned from a substantial shareholder.
- (v) Disposal of a long-term investment at approximately HK\$ 2,322,000 to Cyber Resources and Technology Limited, a company beneficially owned by Mr. Yang kwn San, the Honorary Chairman.

## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors who held office during the year and up to the date of this report were:

### Executive directors

Mr. Liu Chen Wei, Jerry, Chairman

Mr. Yang Chien Chi, Allen

Mr. Lee Mao Fang

Mr. So George Siu Ming (Appointed on 26 February 2001)

Mr. Yang Chien Nan (Resigned on 26 February 2001)

### Non-executive director

Mr. Claes Torén (Appointed on 16 November 2001)

### Independent non-executive directors

Mr. Lau Siu Ki, Kevin (Appointed on 25 May 2001)

Mr. Cheong Ying Chew, Henry (Appointed on 18 April 2001)

Mr. Lu Gong (Appointed on 18 April 2001)

In accordance with the Articles of Association of the Company, Mr. Yang Chien Chi, Allen and Mr. Lee Mao Fang will retire from office and, being eligible, offer themselves for re-election. All other remaining directors continue in office.

Each of the executive Directors has entered into a service contract with the Company for an initial fixed term of three years commencing from 12 July 2001, and will continue thereafter until terminated by not less than six months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term. Other than these service contracts, none of the directors has an unexpired service contract with the Company which is not terminable by the Company within one year without payment of compensation other than statutory compensation.

#### **Non-executive director**

The non-executive director was appointed by the board of directors not for specific terms. His remuneration is determined by the board of directors on the anniversary date of their appointment.

#### **Independent non-executive directors**

The independent non-executive directors were appointed by the board of directors not for specific terms. Their remuneration is determined by the board of directors on the anniversary of the date of their appointment.

## REPORT OF THE DIRECTORS

### DIRECTORS' INTERESTS IN SHARES

As at 31 December 2001, the directors of the Company had the following beneficial interests in the shares of \$0.1 each in the capital of the Company within the meaning of the Securities (Disclosure of Interests) Ordinance ("the SDI Ordinance"), as recorded in the Register of Directors' Interests required to be kept by the Company pursuant to Section 29 of the SDI Ordinance:

	<i>Note</i>	Number of shares		<b>Total</b>
		<b>Family Interest</b>	<b>Corporate Interest</b>	
Lee Mao Fang	1	3,041,832	–	3,041,832
Liu Chen Wei, Jerry	2	–	13,473,047	13,473,047
Yang Chien Chi, Allen	3	–	894,328	894,328
	4	–	129,888,805	129,888,805

Save as disclosed above, none of the Directors of the Company or any of their associates had any personal, family, corporate or other interests in the securities of the Company or its associated corporations as defined in the SDI Ordinance as at 31 December 2001.

#### *Notes:*

- (1) These shares were held by Mr. Lee Mao Fang's spouse, Ms. Cheng Mei Lin, and therefore Mr. Lee Mao Fang was deemed by virtue of the SDI Ordinance to be interested in these shares.
- (2) These shares were held by Lius Investment Limited, which is wholly-owned by Mr. Liu Chen Wei, Jerry, the Chairman and an executive director of the Group, and therefore Mr. Liu Chen Wei, Jerry was deemed by virtue of the SDI Ordinance to be interested in these shares.
- (3) These shares were held by Golden Prosperity Profits Limited, which is owned as to 50% by Mr. Yang Chien Chi, Allen, the Chief Executive and an executive director of the Company, and so to 50% by Mr. Yang Kwn San, the Honorary Chairman of the Group, and therefore Mr. Yang Chien Chi, Allen was deemed by virtue of the SDI Ordinance to be interested in these shares.
- (4) These shares were held by Forefront International Limited ("FIL"). Jetwide Limited, which owns 45% of the issued share capital of FIL, is wholly-owned by Mr. Yang Chien Chi, Allen, and therefore Mr. Yang Chien Chi, Allen was deemed by virtue of the SDI Ordinance to be interested in these shares.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

The Company has a share option scheme, under which it may grant options to employees of the Group (including executive directors of the Company) to subscribe for shares in the Company. Details of the scheme are set out in Note 21 to the accompanying financial statements. As at 31 December 2001, no option has been granted to the Company's directors under the share option scheme.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries or holding companies a party to any arrangements to enable any of the Company's directors or members of its management to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

## DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in the preceding paragraph, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries or holding companies was a party and in which any of the Company's directors or members of its management had a material interests, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001, the following entities (not being a director or chief executive of the Company) had registered an interest in 10% or more of the issued share capital of the Company:

Name	Number of issued shares	Percentage holding
Ever Wealth Management Limited	110,896,638 ( <i>Note 1</i> )	27.21%
FIL	129,888,805	31.87%
Jetwide Limited ("Jetwide")	129,888,805 ( <i>Note 2</i> )	31.87%

Save as disclosed above, the Company had no notice of any interests to be disclosed under Section 16(1) of the SDI Ordinance as at 31 December 2001.

### Note:

1. The issued share capital of Ever Wealth Management Limited is beneficially owned as to 50% by Mr. Yang Kwn San, Honorary Chairman of the Group, and as to the remaining 50% by his wife, Mrs. Yang Wu Tsai Hsia.
2. Jetwide owns 45% of the issued share capital of FIL and therefore Jetwide was deemed by virtue of the SDI Ordinance to be interested in these shares.

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## MANAGEMENT CONTRACTS

No contract 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.

## USE OF PROCEEDS

The net proceeds of the share offer in connection with the listing of the shares of the Company on the Stock Exchange was approximately \$92.8 million. Part of the proceeds has been applied in the following areas during the year.

	<b>Originally planned \$'000</b>	<b>Amount utilised up to 31 December 2001 \$'000</b>
Expansion of the Group's after sales services by establishing additional self-operated service centres and authorised service centres	35,000	9,632
Expansion of the financing capabilities of Forefront Finance Co. Limited	20,000	1,315
Expansion of the chain services provided by U-Drive Co. Limited in Hong Kong and setting up of U-Drive in Taiwan and in the Mainland China	15,000	2,039
Development of and the further upgrading of the Group's information system and information technology	5,000	343
General working capital	17,800	17,800
	<u>92,800</u>	<u>31,129</u>

## AUDIT COMMITTEE

In accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group established an Audit Committee comprising three independent non-executive directors of the Company. They will be responsible for dealing with audit related matters which include reviewing and supervising the financial reporting process and internal control to protect the interests of the shareholders.

## CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice (“the Code”) as set out in 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 but are subject to retirement by rotation in accordance with the Company’s Articles of Association.

## AUDITORS

In March 2002, the Company’s former auditors resigned and the Directors appointed Messrs. Arthur Andersen & Co to fill the casual vacancy. Apart from this, there has been no change in auditors of the Group in any of the preceding three years.

The accompanying financial statements were audited by Messrs. Arthur Andersen & Co. A resolution for the re-appointment of Messrs. Arthur Andersen & Co as the Company’s auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board of Directors,

**LIU CHEN WEI, JERRY**

*Chairman*

Hong Kong, 25 April 2002.