

## CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Yew Sang Hong (Holdings) Limited, I am pleased to present the Annual Report 2002 of Yew Sang Hong (Holdings) Limited, the second report since the first listing of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 3 May 2001.

The financial year ended 31 March 2002 ("Financial Year") posed the Group an unfavourable challenge, interrupting somewhat the performance of the Group's business. The Group faced much pressure in its opportunity of business under recession of global economy after the "911" incident and the sluggishness of the Hong Kong economy caused by chronic deflation, depressed consumption and record high unemployment. In particular, the changes in the recent housing policies of the Hong Kong Government were, as a whole, quite negative to the building services industry to which the Group is relevant. The Financial Year also saw a general shrinkage in the overall volume of building projects put to the market, those offered by the public sector in particular.

Despite various unfavourable economic factors and pressures in the industry, the Group managed to control the operating costs at the minimum levels; and, in the interests of our shareholders, the Group endeavoured to maintain profits, though marginal, for the Financial Year.

For the Financial Year, the Group's turnover fell by about 70% to approximately HK\$106,217,000 (2001: HK\$354,444,000) and the Group's profit attributable to shareholders was also down by about 98% to approximately HK\$885,000 (2001: HK\$47,195,000), when comparing with those of last year. The Board has declared not to pay any dividend for the Financial Year (2001: Nil)

### BUSINESS REVIEW

As mentioned in last year's annual report, the Group has laid down several objectives including the strengthening of its capital base and the increase in exposure for building business partnership in the future. By way of new issue of 30,000,000 shares through public offer and private placing on 3 May 2001, the Group's equity capital had been substantially strengthened. As a result, the Group's operations were mainly financed by shareholders' funds during the Financial Year,

To realize its objectives as a comprehensive building services provider during the financial year, the Group endeavored to grasp any business opportunity in the markets. In November 2001, as one of the Group's diversification plan, the trading division had also secured another distributorship right from a manufacturer in Singapore in respect of a comprehensive range of high quality unplasticised polyvinyl chloride (uPVC) pipeline system with pipes and fittings for building drainage business. This is a brand new building line that the Group adheres to its diversification plan. I believe that the Group will be benefited from the sale of such new lines in the coming financial years. Active marketing of these new products has already been commenced towards the end of the Financial Year.

In view of the decreasing opportunity in the public sector, the Group had been refocusing its business direction through the development of its core-business in the private sector. In November 2001, the Group's engineering division has obtained a signaling system installation at MTR's Tseung Kwan O Extension with contract value of about HK\$5.1 million, a project offered by a private client. Contacts of various kinds with private enterprises and organizations such as property developers, utility companies, traffic corporations as well as educational institutions have been actively made during the past year and a number of such private enterprises have already placed our Group on their lists of contractors, heralding the Group's increased opportunity of corporation with such private enterprises in the coming future.

To further reduce the Group's reliance on new building projects and to capitalize on the increasingly stringent Government Safety Regulations, the Group has established in June 2001 a new company, Yew Sang Hong Building Services (Maintenance) Engineering Ltd., emphasizing on one stop maintenance services to old and aged buildings in Hong Kong.

In July 2001, the Group set up a wholly-owned subsidiary, namely Yew Sang Hong (China) Limited "YSH (China)", as a vehicle to accelerate the Group's business development in PRC. YSH (China) has so far established re-export trading of some PRC-made industrial items as well as consumer goods first to Australia, and then to other overseas countries such as Italy, England, Japan, etc. YSH (China) continues seeking other potential cooperations with enterprises or manufacturers in PRC.

The Group has dedicated to expand its core business cross border to the PRC. In March 2002, the Groups' engineering team had successfully negotiated a new electrical installation for a 500,000 sq.ft. printing factory project in Dongguan, Guangdong, the PRC with contract sum of approximately HK\$5,100,000. This would act as a stepping stone for the Group to increase its PRC connection and exposure and to readily tender for other similar projects in the Mainland, China.

During the Financial Year, the Group attempted to seek investment potentials regarding acquisitions of suppliers of electrical equipment and materials or other building installation services such as fire service installation and air-conditioning installation. However, the Group has not yet identified any target that meets its investment requirements. On the other hand, the Group's application for the HKHA's approval as a supplier of the Automated Refuse Collection System (ARCS) is still under review by the Authority. Plans will be developed once the approved is obtained.

Subsequent to the interim report of the Group for the six months ended 30 September 2001, the Company has completed a number of transactions.

On 2 May 2002, the Company entered into a letter of intent with 深圳市一輝實業有限公司 ("深圳一輝"), an independent PRC party, relating to the formation of a joint venture company in the PRC. The joint venture company is expected to be principally engaged in consultancy and advisory services in respect of various construction engineering (including electrical and mechanical engineering) and equipment and materials trading business (including electrical and mechanical engineering equipment and materials) in the PRC.

On 21 May 2002, the Company entered into a conditional placing and underwriting agreement with two independent placing agents for the placing of 23,800,000 new shares of the Company at a placing price of HK\$5.13 per share to independent investors.

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In accordance with the corporate strategy of the Company as mentioned in the interim report of the Company, the Directors have always been exploring investment opportunities in the PRC for the Group. To diversify the business portfolio of the Group, the Company has established certain companies to engage in corporate and business consultancy and securities businesses.

In anticipation of the upsurge of investment activities in the capital market of the PRC after the accession of the PRC into the World Trade Organisation, an indirect wholly-owned subsidiary of the Company on 27 June 2002 has entered into certain agreements with 大公國際資信評估有限公司 (Dagong International Credit Rating Company Limited) ("Dagong International") in relation to the formation of 大公信用信息服務有限公司 (Dagong Credit Information Service Co., Ltd.) ("Dagong Credit"), a joint venture company in the PRC. The joint venture is being established and is expected to be principally engaged in the provision of various kinds of credit information services to local and overseas institutional investors, financial institutions, regulatory authorities, government departments and economic research houses.

Subsequent to the above transactions, an indirect subsidiary of the Company also entered into a sale and purchase agreement dated 18 July 2002 in relation to the acquisition of 60% of the issued share capital in a company incorporated in the British Virgin Islands. The principal asset of the company is its 100% interest in a company incorporated in the PRC which is principally engaged in the provision of information technology services to enterprises including financial institutions in the PRC.

### OUTLOOK

During the past few months, the United States economy has shown signs of recovery in terms of increased confidence in consumption, stable interest rates, improved enterprises earnings, etc. In Hong Kong, the economy sees new wave of consumption from increased travelers boom from the Mainland China commencing on Labour Day. The on-going booming economy of the PRC with the injection of its capital into Hong Kong might help alleviating the sluggishness of the Hong Kong economy. Coupled with the recent increased activity in the property market and the augmentation in volume of turnover in the securities market in Hong Kong, it is believed that the deflationary economy has been stabilized, despite the latest record high unemployment rate reported at 7% in March 2002.

As already mentioned, the Group has reshaped its corporate directions and placed more emphasis on the business development of private sector in Hong Kong and of those opportunities in the PRC.

The Directors have always been exploring investment opportunities in the PRC for the Group with an objective to capture any business potential arising as a result of the growing economy of the PRC.

In connection to further diversify the business portfolio of the Group, the Company has established certain companies to engage in corporate and business consultancy and securities business. Furthermore, the Group has already entered into an agreement to acquire a Stock Exchange trading right and has applied for a dealer licence that is expected to be approved and granted in due course.

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In anticipation of the upsurge of investment activities in the capital market of the PRC after the accession of the PRC into the World Trade Organisation and taking advantage of the reputation and expertise of Dagong International in the credit rating industry of the PRC, the Directors believe that the formation of Dagong Credit, a joint venture company with Dagong International, represents an excellent opportunity for the Company to invest in a unique business with vast market potential.

### ACKNOWLEDGEMENT

I would like to take this opportunity to present my deepest gratitude to our shareholders for their unfailing support throughout the year. I also wish to thank our staff, our business associates and our customers for their loyalty and guidance all along. The Group will strive to maximize its profitability and returns to shareholders through improvement in efficiency and competitiveness and is heading for a fruitful and prosperous future.

On behalf of the Board,

**Lai Sai Sang**

*Chairman*

Hong Kong, 30 July, 2002