

## REPORT OF THE DIRECTORS

The directors present their annual report and the audited financial statements for the year ended 31 March 2002 of the Company and its subsidiaries ("the Group").

### **CORPORATE REORGANISATION**

During the year, the Company together with certain companies controlled by a director underwent a corporate organisation ("Corporate Reorganisation") for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Details of the Corporate Reorganisation have been set out in the paragraph headed "Corporate reorganisation" in appendix V of the prospectus of the Company dated 11 April 2001.

### **PRINCIPAL ACTIVITIES**

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 36 to the financial statements.

### **RESULTS AND APPROPRIATIONS**

The results and appropriations of the Group for the year ended 31 March 2002 are set out in the consolidated income statement on page 36 of the annual report.

The directors do not recommend the payment of a final dividend.

### **FINANCIAL SUMMARY**

A summary of the results and assets and liabilities of the Group for each of the five years ended 31 March 2002 is set out on page 6 of the annual report.

### **PROPERTY, PLANT AND EQUIPMENT**

Details of the movements during the year in the property, plant and equipment of the Group are set out in note 13 to the financial statements.

### **SHARE CAPITAL**

Details of movements in the authorised, issued and fully paid share capital of the Company during the year are set out in note 25 to the financial statements.

Further issue of shares after balance sheet date was set out in note 35 to the financial statements.

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

### SHARE OPTION SCHEME

The Company's share option scheme was adopted on 3 April 2001 and will expire in April 2010.

Under the terms of the Company's share option scheme, the directors of the Company may, at their discretion, grant options to the employees, including executive directors of the Company and its subsidiaries to subscribe for shares of the Company. Option granted must be taken up within 30 days of the date of grant. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option which will entitle the holders to subscribe for shares of the Company during such periods commencing six months after the date of acceptance of option, in any event not later than 5 years from the date of grant of the option, as may be determined by the directors of the Company at a price not less than the higher of (i) the nominal value of the shares, and (ii) 80% of the average of the closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of the grant of the option. Subject to the shareholders' approval, the maximum number of shares in respect of which options may be granted under the share option scheme and other schemes of the Company shall not exceed, in nominal amount, 10% of the share capital of the Company in issue from time to time, or the maximum number of shares in respect of which options may be granted to any employee may not exceed 25% of the maximum number of shares in respect of which options may be granted under the share option scheme. Any shares allotted and issued on the exercise of option will rank pari passu with the other shares in issue at the date of exercise of the relevant option.

As at 31 March 2002, the number of shares in respect of which options had been granted under the share option scheme was 4,500,000, representing 2.25% of the shares of the Company in issue at the date.

The fair value of the options granted in the current year totalled approximately HK\$5,093,246. The following significant assumptions were used to derive the fair values using the Black-Scholes option pricing model:

1. an expected volatility of 135.69%;
2. no annual dividend; and
3. the following Hong Kong Exchange Fund Notes rates for the option category indicated and based on the estimated expected life indicated:
  - a. Director, 5.15%, 5 years; and
  - b. Employees, 4.78% and 5.15%, 5 years.

No charge is recognised in the income statement in respect of the value of options granted in the year.

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### SHARE OPTION SCHEME (Continued)

A summary of the movements during the year in the Company's share options is as follows:

Option type	Number of share options					
	Outstanding at 3 April 2001	Granted during the year	Lapsed during the year	Exercised during the year	Outstanding at 31 March 2002	
<i>Director:</i>						
Mr. Lee Yu Leung	2002A	—	2,000,000	—	—	2,000,000
<i>Employees</i>						
	2002A	—	2,000,000	—	—	2,000,000
	2002B	—	500,000	—	—	500,000
Total		—	2,500,000	—	—	2,500,000

Details of specific categories of options are as follows:

Option type	Date of grant	Exercise period	Exercise price per share <i>HK\$</i>	Closing price immediately before the date of grant
2002A	1 February 2002	8 August 2002 – 8 August 2007	1.4944	1.520
2002A	1 February 2002	1 September 2002 – 1 September 2007	1.4944	1.520
2002B	1 March 2002	2 September 2002 – 2 September 2007	2.8750	2.825

**DIRECTORS**

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

**Executive directors:**

Mr. Lai Sai Sang	<i>(Chairman &amp; Managing Director)</i>
Ms. Leung Sau Che, Jennifer	
Mr. Chuk Wai Chun, Winston	
Mr. Lee Yu Leung	<i>(appointed on 1 February 2002)</i>
Mr. Zhang Dachun	<i>(appointed on 8 April 2002)</i>
Mr. Hon Ming Kong	<i>(appointed on 25 April 2002)</i>
Mr. Yung Kin Sing, Thomas	<i>(resigned on 1 February 2002)</i>

**Independent non-executive directors:**

Mr. Lau Chun Kay	
Mr. Ip Ying Chuen	<i>(appointed on 1 September 2001)</i>
Mr. Wong Tik Tung	<i>(appointed on 23 January 2002)</i>
Mr. Lam Kwok Cheong	<i>(appointed on 1 February 2002)</i>
Mr. Wong Chi Kit, Peter	<i>(resigned on 1 September 2001)</i>

In accordance with Article 116 of the Company's Articles of Association, one-third of the directors except for Mr. Lai Sai Sang are subject to retirement by rotation at annual general meeting of the Company. Messrs. Chuk Wai Chun, Winston, Lau Chun Kay and Ip Ying Chuen retire but do not offer themselves for re-election at the forthcoming annual general meeting. In accordance with Article 98 of the Company's Articles of Association, Messrs. Lee Yu Leung, Zhang Dachun, Hon Ming Kong, Wong Tik Tung and Lam Kwok Cheong retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

**DIRECTORS' SERVICE CONTRACTS**

Each of the executive directors has entered into a service contract with the Company for terms of three or two years, commencing from 3 April 2001. These contracts will continue thereafter until terminated by either party with three months' prior notice in writing.

Each of the independent non-executive directors was appointed for a period of one or two years commencing on their respective appointment dates.

Save as disclosed above, none of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

**CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS**

Other than those disclosed under "Share Option Scheme" above, the Company had no outstanding convertible securities, options, warrants or similar rights as at 31 March 2002 and there has been no other issue or exercise of any convertible securities, options, warrants or similar rights during the year.

# REPORT OF THE DIRECTORS

## DIRECTORS' INTERESTS IN SHARES

As at 31 March 2002, the interests of the directors and their associates in shares of the Company and its subsidiaries within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") as recorded in the register maintained by the Company pursuant to section 29 of the SDI Ordinance, were as follows:

### (i) Shares of the Company

Name of director	Note	Number of shares held	
		family interests	corporate interests
Mr. Lai Sai Sang	(1)	—	94,000,000
Ms. Leung Sau Che, Jennifer	(2)	94,000,000	—

Notes:

- (1) These shares are owned by Yew Sang Hong Investments Limited ("YSH Investments Limited"), a company incorporated in the British Virgin Islands. YSH Investments Limited is 90.4% beneficially owned by Mr. Lai Sai Sang.
- (2) Ms. Leung Sau Che, Jennifer is the wife of Mr. Lai Sai Sang.

### (ii) Shares in subsidiaries

At 31 March 2002, the following directors held interests in the shares of the Group's wholly owned subsidiaries as follows:

	Number of non-voting deferred shares
<b>Yew Sang Hong Limited</b>	
Mr. Lai Sai Sang	1,252,399 shares of HK\$10 each
Ms. Leung Sau Che, Jennifer	1 share of HK\$10
<b>Yew Sang Hong Trading Limited</b>	
Mr. Lai Sai Sang	1 share of HK\$1
Ms. Leung Sau Che, Jennifer	1 share of HK\$1
<b>Brongham Park Limited</b>	
Mr. Lai Sai Sang	100,000 shares of HK\$10 each

### (iii) Options

Details of personal interests of the directors in the share option to subscribe for shares in the Company are disclosed under "Share Option Scheme" above.

**DIRECTORS' INTERESTS IN SHARES** *(Continued)*

Save as disclosed above, none of the directors had any personal, family, corporate or other interests in shares of the Company or any of its associated corporations as defined in the SDI Ordinance as recorded in the register as at 31 March 2002 maintained under section 29 of the SDI Ordinance, to be notified to the Company and the Stock Exchange.

**ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES**

Other than the issue of shares of the Company pursuant to the Corporate Reorganisation and options granted under the Company's share option scheme mentioned above, at no time during the year was the Company, or any of its subsidiaries a party to any arrangements 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 OF SIGNIFICANCE**

Other than contracts in connection with the Corporate Reorganisation and the transactions as disclosed in note 34 to the financial statements, no other contracts of significance to which the Company, or any of its 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.

**DIRECTORS' INTERESTS IN COMPETING BUSINESS**

None of the directors of the Company is interested in any business apart from the Group's business, which compete or is likely to compete either directly or indirectly, with business of the Group.

**CONNECTED TRANSACTIONS**

The Stock Exchange has granted a conditional waiver to the Company from strict compliance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange ("the Listing Rules") on the following recurring connected transactions for each of the three financial years ending 31 March 2004. Pursuant to the waiver, the Company is not required to disclose details of such connected transactions by press notice and/or circular and/or to obtain prior independent shareholders' approval. Details of such connected transactions during the year are as follows:

The Group sold goods comprising mainly of electrical parts and diesel generator sets, amounting to approximately HK\$14,087,000, to Hing Yip Electrical Engineering and Supplier Limited ("HYEESL").

HYEESL is 99.9% owned by Mr. Lai Yun Sang, brother of Mr. Lai Sai Sang, director and shareholder of the Company.

The independent non-executive directors have reviewed the Group's sales to HYEESL ("the transactions") and confirmed that:

- (i) the transactions have been conducted on normal commercial terms and in the ordinary and usual course of the business of the Group; and are fair and reasonable so far as the shareholders of the Company are concerned;
- (ii) the transactions have been carried out on terms no less favourable than terms available from independent third parties;

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### CONNECTED TRANSACTIONS *(Continued)*

- (iii) during the year ended 31 March 2002, sales to HYEESL amounted to approximately HK\$14,087,000 which has not exceeded the annual sales to HYEESL in respect of the year concerned as permitted under the said waiver from the Stock Exchange;
- (iv) the transactions have been conducted in accordance with the terms and conditions of the relevant supply agreement governing them; and
- (v) the disclosure provided herein in respect of the details of the transactions is in compliance with Rule 14.25(1)(A) to (D) of the Listing Rules.

### SUBSTANTIAL SHAREHOLDERS

As at 31 March 2002, the register of substantial shareholders required to be maintained under section 16(1) of the SDI Ordinance showed that, other than the interests disclosed above in respect of the directors of the Company, the Company was not notified of any other interests representing 10% or more of the Company's issued share capital:

<u>Name</u>	<u>Number of shares</u>	<u>Approximate percentage of holding</u>
YSH Investments Limited	94,000,000 <i>(Note i)</i>	47%
Mr. Lai Sai Sang	94,000,000 <i>(Note i)</i>	47%
Highworth Venture Limited	56,000,000 <i>(Note ii)</i>	28%
Mr. Hon Ming Kong	56,000,000 <i>(Note ii)</i>	28%

*Notes:*

- (i) Mr. Lai Sai Sang has a 90.4% beneficial interest in YSH Investments Limited and therefore Mr. Lai Sai Sang is deemed to be interest in the 94,000,000 shares held by YSH Investments Limited in accordance with the SDI Ordinance. Therefore, both YSH Investments Limited and Mr. Lai Sai Sang are deemed to have the duplicate interests in the share capital of the Company.
- (ii) Highworth Venture Limited is wholly-owned by Mr. Hon Ming Kong and therefore Mr. Hon Ming Kong is deemed to be interest in the 56,000,000 shares held by Highworth Venture Limited in accordance with the SDI Ordinance. Therefore, both Highworth Venture Limited and Mr. Hon Ming Kong are deemed to have the duplicate interests in the share capital of the Company.

Other than as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31 March 2002.

### MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group accounted for about 54% of the turnover of the Group and the largest customer accounted for about 27% of the total turnover.

The five largest suppliers of the Group in aggregate accounted for about 52% of its purchases for the year. Purchases from the largest supplier accounted for about 20% of its purchases.

None of the directors, their respective associates, or any shareholders (which to the knowledge of the directors own more than 5% of the Company's share capital) has any interest in any of the five largest customers and the five largest suppliers of the Group for the financial year ended 31 March 2002.

### RETIREMENT BENEFITS SCHEMES

The Group strictly complies with the Mandatory Provident Fund Ordinance in making mandatory contributions for its staff.

### POST BALANCE SHEET EVENT

Details of significant events occurring after the balance sheet date are set out in note 35 to the financial statements.

### CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 March 2002 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on pro-rata basis to existing shareholders.

### AUDITORS

During the year, Messrs. Arthur Anderson & Co. who acted as auditors for the Company for the two years ended 31 March 2001, resigned and Messrs. PricewaterhouseCoopers were appointed as auditors for the Company. On 31 December 2001, PricewaterhouseCoopers resigned and Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company. A resolution will be submitted to the annual general meeting to re-appoint the auditors, Messrs. Deloitte Touche Tohmatsu.

On behalf of the Board

**Lai Sai Sang**

*CHAIRMAN*

Hong Kong, 30 July 2002