

REPORT OF THE DIRECTORS

The directors present their annual report and the audited financial statements for the year ended 31 March 2003 of the Company and its subsidiaries (“the Group”).

CHANGE OF NAME

Pursuant to a special resolution passed at an extraordinary general meeting held on 4 April 2003, the name of the Company was changed from Yew Sang Hong (Holdings) Limited to Hong Tong Holdings Limited (泓通控股有限公司). The Company obtained the Certificate of Incorporation on Change of Name from the Registry of Companies in the Cayman Islands on 7 April 2003 and obtained the Certificate of Registration of Change of Name of Oversea Company from the Registrar of Companies in Hong Kong on 5 May 2003.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 48 to the financial statements. During the year, the three subsidiaries of the Company engaging in electrical installation work and the supply of electrical materials have been suspended from tendering for electrical installation projects and supplying materials to projects of Hong Kong Housing Authority (“HKHA”) in light of a former director and some subsidiaries being referred to in the particulars of charges filed by the Independent Commission Against Corruption against an officer of the HKHA. The Company has already made representations to the HKHA for a review of its decision of the said suspension for a subsidiary and is still awaiting the review decision of the HKHA. On similar grounds, the Environment, Transport and Works Bureau (“ETWB”) has also notified two of the aforesaid three subsidiaries that they have been suspended from tendering for government and public works. The Company has also made a representation to the ETWB for a review of its suspension decision but was not successful. However, the respective decisions of the HKHA and ETWB do not affect the existing contracts and the material supply contracts for which approval has already been given.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2003 are set out in the consolidated income statement on page 37 of the annual report.

The directors do not recommend the payment of a dividend.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group and the Company during the year are set out in note 14 to the financial statements.



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SHARE CAPITAL

Details of movements in the share capital of the Company during the year are 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

Details of the share option schemes of the Company are set out in note 36 to the financial statements.

As at the date of this report, the total number of securities available for issue under the existing share option scheme is 22,380,000 shares, representing 10.00% of the issued share capital of the Company.

The fair value of the options granted in the current year totalled approximately HK\$20,545,129. The following significant assumptions were used to derive the fair values using the Black-Scholes option pricing model:

1. an expected volatility of 98.17%;
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:

| Option type | Exchange Fund Note Rate | Expected Life |
|-------------|----------------------------|---------------|
| 2003A | 5.49% | 5 years |
| 2003B | 5.20% | 5 years |
| 2003C | 4.92% | 5 years |
| 2003D | 4.96% | 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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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 1 April 2002 | Granted during the year | Lapsed during the year | Exercised during the year | Outstanding at 31 March 2003 |
| Director: | | | | | |
| Mr. Lee Yu Leung 2002A | 2,000,000 | — | — | — | 2,000,000 |
| Mr. Zhang Dachun 2003B | — | 2,000,000 | — | — | 2,000,000 |
| Mr. Hon Ming Kong 2003D | — | 2,000,000 | — | — | 2,000,000 |
| | <u>2,000,000</u> | <u>4,000,000</u> | <u>—</u> | <u>—</u> | <u>6,000,000</u> |
| Employees: | | | | | |
| 2002A | 2,000,000 | — | (2,000,000) | — | — |
| 2002B | 500,000 | — | (500,000) | — | — |
| 2003A | — | 500,000 | — | — | 500,000 |
| 2003C | — | 2,000,000 | — | — | 2,000,000 |
| | <u>—</u> | <u>2,500,000</u> | <u>—</u> | <u>—</u> | <u>2,500,000</u> |
| Total | <u>2,500,000</u> | <u>2,500,000</u> | <u>(2,500,000)</u> | <u>—</u> | <u>2,500,000</u> |

Details of specific categories of options are as follows:

| Option type | Date of grant | Exercise period | Closing price immediately before/on the date of grant HK\$ | Exercise price per share HK\$ |
|-------------|-----------------|--|---|----------------------------------|
| 2002A | 1 February 2002 | 8 August 2002 — 7 August 2007 | 1.520 | 1.4944 |
| 2002A | 1 February 2002 | 1 September 2002 — 31 August 2007 | 1.520 | 1.4944 |
| 2002B | 1 March 2002 | 2 September 2002 — 1 September 2007 | 2.825 | 2.8750 |
| 2003A | 2 April 2002 | 3 October 2002 — 2 October 2007 | 3.000 | 3.0550 |
| 2003B | 8 April 2002 | 9 October 2002 — 8 October 2007 | 3.300 | 3.3000 |
| 2003C | 3 May 2002 | 3 November 2002 — 2 November 2007 | 4.530 | 4.6200 |
| 2003D | 14 May 2002 | 14 November 2002 — 13 November 2007 | 4.950 | 4.9600 |



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The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

DIRECTORS

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

Executive directors:

| | |
|--|--|
| Mr. Hon Ming Kong (Chairman & Managing Director) | (appointed on 25 April 2002) |
| Mr. Hon Yik Kwong | (appointed on 20 February 2003) |
| Mr. Lee Yu Leung | |
| Mr. Zhang Dachun | (appointed on 8 April 2002 and resigned on 14 April 2003) |
| Mr. Lai Sai Sang (former Chairman & Managing Director) | (resigned on 19 February 2003) |
| Ms. Leung Sau Che, Jennifer | (resigned on 9 September 2002) |
| Mr. Chuk Wai Chun, Winston | (resigned on 9 September 2002) |

Independent non-executive directors:

| | |
|-------------------------|---------------------------------|
| Mr. Lam Kwok Cheong | |
| Mr. Fork Siu Lun, Tommy | (appointed on 28 February 2003) |
| Mr. Wong Tik Tung | (resigned on 3 January 2003) |
| Mr. Lau Chun Kay | (resigned on 9 September 2002) |
| Mr. Ip Ying Chuen | (resigned on 31 March 2003) |

In accordance with Article 116 of the Company's Articles of Association, no director is required to retire by rotation at the forthcoming annual general meeting of the Company. In accordance with Article 99, Messrs. Hon Yik Kwong and Fork Siu Lun, Tommy 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 one year, commencing on their respective appointment dates. 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 year commencing on their respective appointment dates or the dates of renewal of the new contracts.

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.

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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 2003 and there has been no other issue or exercise of any convertible securities, options, warrants or similar rights during the year.

DIRECTORS' INTERESTS IN SHARES

As at 31 March 2003, 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, are as follows:

(i) Shares of the Company

| Name of director | Number of shares held Corporate interests |
|-----------------------------------|--|
| Mr. Hon Ming Kong (<i>Note</i>) | 54,900,000 |

Note: These shares are owned by Highworth Venture Limited, a company incorporated in the British Virgin Islands which is wholly-owned by Mr. Hon Ming Kong.

(ii) Options

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

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 2003 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 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 the transactions as disclosed in note 46 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.



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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\$2,597,000, to Hing Yip Electrical Engineering and Supplier Limited ("HYEESL").

HYEESL is 99.9% owned by Mr. Lai Yun Sang and 0.01% owned by his wife. Mr Lai Yun Sang is the brother of Mr. Lai Sai Sang, a former director and a substantial 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;
- (iii) during the year ended 31 March 2003, sales to HYEESL amounted to approximately HK\$2,597,000 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.

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SUBSTANTIAL SHAREHOLDERS

As at 31 March 2003, 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 following shareholders had an interest of 10% or more in the share capital of the Company:

| Name | Number of shares | Approximate percentage of holding |
|-------------------------|--------------------------|-----------------------------------|
| YSH Investments Limited | 58,916,000 <i>(Note)</i> | 26% |
| Mr. Lai Sai Sang | 58,916,000 <i>(Note)</i> | 26% |
| AWH Fund Ltd. | 27,366,000 | 12% |

Note: Mr. Lai Sai Sang has a 90.4% beneficial interest in YSH Investments Limited and therefore Mr. Lai Sai Sang is deemed to be interested in the 58,916,000 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 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 2003.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group accounted for about 86% of the turnover of the Group and the largest customer accounted for about 38% of the total turnover.

The five largest suppliers of the Group in aggregate accounted for about 44% of its purchases for the year. Purchases from the largest supplier accounted for about 12% 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 2003.

DONATIONS

During the year, the Group made charitable donations amounting to HK\$4,000.

RETIREMENT BENEFITS SCHEMES

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



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POST BALANCE SHEET EVENT

Details of a significant event which occurred after the balance sheet date are set out in note 47 to the financial statements.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 March 2003 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 a pro-rata basis to existing shareholders.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as the auditors of the Company.

On behalf of the Board

Hon Yik Kwong

Executive Director

Hong Kong, 18 July 2003