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Board of Directors and Corporate Information

DIRECTORS

Wong Ip Kuen (*Chairman*)
Wong Tin Cheung (*Vice Chairman*)
Sun Chun Wai
So Yau Chi
Dr. Yeung Tsun Man, Eric*
Wu King Cheong*
Chan, Bernard Charnwut*
(*Appointed on 5th June, 2000*)

* *Independent Non-executive Director*

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

10th Floor, Tower 1
Enterprise Square
9 Sheung Yuet Road
Kowloon Bay
Kowloon
Hong Kong

URL: <http://www.yaulee.com>

COMPANY SECRETARY

Chui Man Lung, Everett

PRINCIPAL BANKERS

Nanyang Commercial Bank, Limited
BNP Paribas
The Sanwa Bank Limited
The Hongkong and Shanghai Banking
Corporation Limited
Hang Seng Bank Limited

AUDITORS

Arthur Andersen & Co

SOLICITORS

Denton Wilde Sapte
Gallant Y. T. Ho & Co

HONG KONG SHARE REGISTRARS AND TRANSFER OFFICE

Central Registration Hong Kong Limited
17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 2001 Annual General Meeting of Yau Lee Holdings Limited (the "Company") will be held on Monday, 20th August, 2001 at 10:00 a.m. at Kublai Khan Room, 4th Floor, Mandarin Oriental Hong Kong, 5 Connaught Road, Central, Hong Kong for the following purposes:—

1. To receive and consider the audited consolidated financial statements and the Reports of the Directors and Auditors for the year ended 31st March, 2001.
2. To declare a final dividend.
3. To re-elect the Directors and to authorise the Board of Directors to fix their remuneration.
4. To re-appoint the Auditors and to authorise the Board of Directors to fix their remuneration.
5. As a special business, to consider and, if thought fit, pass the following resolutions as ordinary resolutions:—

ORDINARY RESOLUTIONS

(A) **THAT:—**

there be granted to the Directors of the Company an unconditional general mandate to purchase shares of HK\$0.20 each in the capital of the Company, and that the exercise by the Directors of the Company of all powers of the Company to purchase shares of the Company subject to and in accordance with all applicable laws, and to make or grant offers, agreements and options which might require the exercise of such power be and are hereby generally and unconditionally approved, subject to the following conditions:—

- (a) such mandate shall not extend beyond the Relevant Period;
- (b) the aggregate nominal amount of share capital of the Company to be purchased or agreed conditionally or unconditionally to be purchased by the Directors of the Company during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of this resolution; and
- (c) for the purposes of this resolution:—

"Relevant Period" means the period from the date of the passing of this resolution until whichever is the earliest of:—

- (i) the conclusion of the next Annual General Meeting of the Company;

Notice of Annual General Meeting

- (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by the bye-laws of the Company or any applicable law of Bermuda to be held; and
- (iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.

(B) **THAT:—**

there be granted to the Directors of the Company an unconditional general mandate to issue, allot and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options in respect thereof, subject to the following conditions:—

- (a) such mandate shall not extend beyond the Relevant Period save that the Directors of the Company may during the Relevant Period make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;
- (b) the aggregate nominal amount of share capital of the Company allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors of the Company, other than pursuant to a Rights Issue or the exercise of the share warrants or any share option scheme or with the consent of the Company in general meeting, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of this resolution; and
- (c) for the purposes of this resolution:—

“Relevant Period” means the period from the date of the passing of this resolution until whichever is the earliest of:—

- (i) the conclusion of the next Annual General Meeting of the Company;
- (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by the bye-laws of the Company or any applicable law of Bermuda to be held; and
- (iii) the revocation or variation of this resolution by an ordinary resolution of the shareholders of the Company in general meeting.

Notice of Annual General Meeting

“Rights Issue” means an offer of shares open for a period fixed by the Directors of the Company to holders of shares of the Company on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restriction or obligation under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, or in any territory outside, Hong Kong).

(C) **THAT:—**

conditional upon the passing of Ordinary Resolutions (A) and (B) as set out in the notice of this meeting, the aggregate nominal amount of the shares in the capital of the Company which are purchased by the Company pursuant to and in accordance with Ordinary Resolution (A) aforesaid shall be added to the aggregate nominal amount of the share capital of the Company that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors of the Company pursuant to and in accordance with Ordinary Resolution (B) aforesaid.

6. To transact any other ordinary business of the Company.

By Order of the Board
Chui Man Lung, Everett
Company Secretary

Hong Kong, 17th July, 2001

Notes:—

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of the member. A proxy needs not be a member of the Company.
2. In order to be valid, a form of proxy, together with any power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney or other authority, must be deposited at the principal place of business of the Company in Hong Kong at 10th Floor, Tower 1, Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong not less than 48 hours before the time appointed for the meeting or any adjournment thereof.

Chairman's Statement

RESULT FOR THE YEAR

The consolidated turnover for the year ended 31st March, 2001 of the Company and its subsidiaries (the "Group") was HK\$1,781,341,000. Despite the decrease in turnover for the year by HK\$260,607,000 when compare with the record turnover of HK\$2,041,948,000 last year, the Group was able to achieve an improved pre-tax profit of HK\$43,077,000. This represents an increase of HK\$3,020,000 when compare with last year.

DIVIDENDS

The Board of Directors recommends the payment of a final dividend of HK1.4 cents per share (2000 – HK2.8 cents as adjusted) which, subject to shareholders' approval at the forthcoming Annual General Meeting, will be payable on or about 19th September, 2001 to the shareholders whose names appear on the register of members at the close of business on 17th August, 2001.

This final dividend together with an interim dividend of HK1.6 cents (2000 – nil) per share declared and paid produce a total dividend of HK3 cents for the year.

REVIEW OF OPERATION

Despite difficult economic situation in the HKSAR, the Group was able to achieve an improved profit margin for the year as a result of the Group's effort in cost control and efficiency enhancement. Effective cashflow management has kept the Group's interest burden at a very low level. In fact the Group was able to achieve zero bank borrowings as of 31st March, 2001.

In addition to sound financial management, quality and safety management are also major contributors to the Group's success. As a result of effective quality management, quality workmanship was achieved at first hand and costs were therefore reduced. Moreover, performance in these respects will enhance the Group's chance of tendering for future government contracts. The Group's efforts in quality and safety were also evidence by the winning of the following awards during the year:

- (i) the 2000 Hong Kong Awards for Industry – Industry and Trade Department Quality Award;
- (ii) the Silver Award for Building Sites (Public Sector) of the Safety Award Scheme for the Construction Industry;
- (iii) Award for Merit for Building Sites (Public Sector) of the Safety Award Scheme for the Construction Industry;
- (iv) Safety Team Award for Merit for Building Sites (Public Sector) of the Safety Award Scheme for the Construction Industry; and
- (v) Works Bureau Considerate Contractors Site Award Scheme 2000.

Apart from quality and safety, the Group is also very concerned about environmental protection. Active participation in the Wastewise Scheme promoted by the Environmental Protection Department has resulted in the Group being the first contractor to be awarded with the Wastewise Logo in June 2001.

Chairman's Statement

During the year the Group successfully completed five contracts with a total original contract value of HK\$967 million. The contracts completed were:

- (i) Regional Term Contract N3 & N4;
- (ii) Design and Construction of Maintenance Depot at Siu Ho Wan in Lantau Island;
- (iii) Construction of Tuen Mun Polyclinic at Tuen Mun Hospital;
- (iv) Workshop Conversion & Fitting-out Works for Implementing the New Technical Curriculum in Prevocational & Technical Schools; and
- (v) Development of Pokfulam Training Centre Complex Chinese Cuisine Training Institute Phase 1.

A new contract of HK\$470 million, the Construction of Tseung Kwan O Area 73A Phase 2, was awarded during the year. Subsequent to 31st March, 2001, two contracts with a total value of HK\$147 million were awarded. The contracts are Relocation of Tang Shiu Kin Hospital A&E Department to Ruttonjee Hospital and District Term Contract for the Maintenance and the Vacant Flat Refurbishment for Tsing Yi District 2001/2003 with contract values of HK\$101 million and HK\$46 million respectively.

The Company's wholly owned subsidiary, Yau Lee Wah Concrete Precast Products Company Limited ("Yau Lee Wah"), continue to support the Group's business with the production of high quality precast products for construction use in Hong Kong. A number of new products such as Precast Bathroom and Light Weight Cladding Wall have been launched to suit the Hong Kong construction environment and to improve the quality of buildings.

VHSoft Technologies Company Limited ("VHSoft"), which is a wholly owned subsidiary set up to develop IT applications in the construction industry, has been progressing according to expectation. Total expenditure incurred so far was in accordance with the budget. A building material trading website has been launched in Shanghai. Marketing for the web based project management tools earned a lot of positive feed backs and commends from the industry. We trust the target of generating income from the 2001/2002 financial year will be met.

PROSPECTS

Due to the slowing down of the public housing program of the Hong Kong Housing Authority and private sector developments, the construction industry has been facing a very difficult time. Therefore it will be difficult for the Group to maintain the growth of the past two years by relying on construction business alone. In order to minimize the effect of the industry downturn, the Group will continue its efforts in cost control, efficiency improvement in construction by using in house developed information technologies and quality maintenance to maintain our competitiveness in the construction industry. The Group will also continue to explore long term investment opportunities which can generate long term cashflow and other revenue sources by capitalising on Yau Lee Wah's new products and VHSoft's new technologies.

Chairman's Statement

Subsequent to the financial year end, on 3rd May, 2001, the Group has entered into a sale and purchase agreement to purchase a piece of land in Causeway Bay for HK\$275 million. The details of the agreement have already been set out in the circular to shareholder dated 31st May, 2001. The Group intends to build a composite building of retail and office spaces and hold the building as a long term investment. The Board believes, with the low interest environment, it is a good opportunity to acquire assets for long term income yield.

With the prospect of the PRC being admitted in the WTO and the development of the Great West being pushed by the PRC Government, we believe there will be more opportunities available in Mainland China for building contractors and building materials and components traders. The Group, with its ample experience, diversified precast products and advanced technologies, will explore opportunities in these areas with caution and will consider participation in suitable projects when available.

CONSOLIDATION OF SHARES

Pursuant to an ordinary resolution of the shareholders passed in the special general meeting held on 17th October, 2000, every four issued and unissued shares of HK\$0.05 each were consolidated into one share of HK\$0.20 each (the "Consolidated Shares") on 18th October, 2000. As a result, the 1,770,984,402 ordinary shares in issue before the share consolidation were consolidated to 442,746,100 Consolidated Shares. The Consolidated Shares rank pari passu in all respect with each other.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31st March, 2001, the Company purchased 1,796,500 shares of the Company on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") for a total consideration of HK\$614,169 including transaction costs of HK\$5,646. All the shares purchased have been cancelled.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the code of best practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the year under review.

By Order of the Board

Wong Ip Kuen

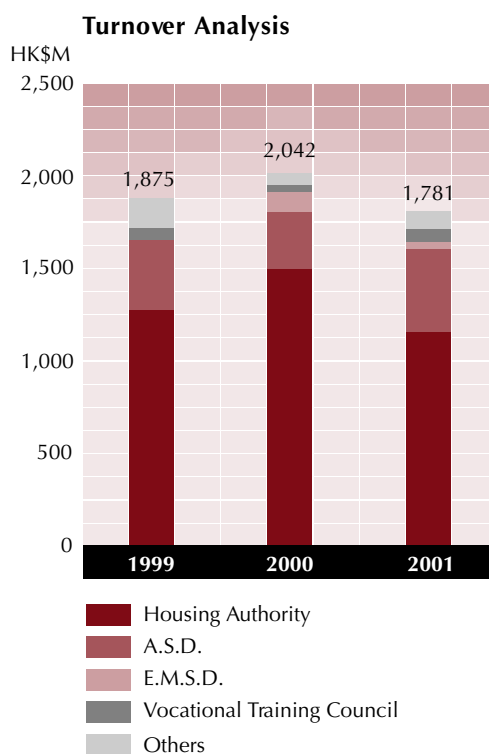
Chairman

Hong Kong, 17th July, 2001

Management Discussion and Analysis

FINANCIAL RESULTS AND POSITION

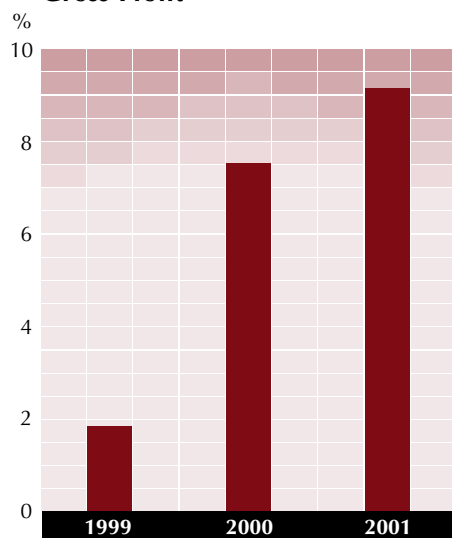
The Group's turnover for the year was 1,781 million, representing a decrease of 13% compared with last year. This was resulted mainly from the continual downturn in local property markets and the slowing down of public sector developments. Please refer to the following chart for the customers mix of the turnover for the last three years.



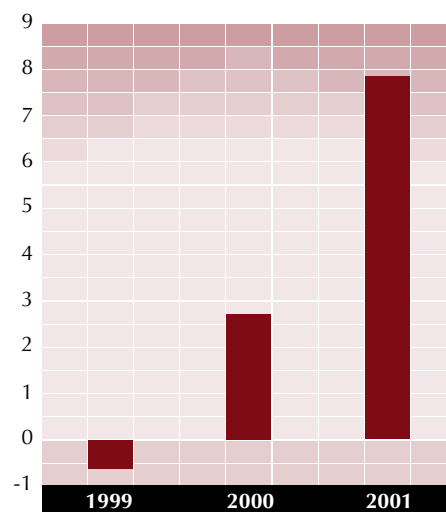
Despite the decrease in turnover, the Group continued to achieve an improvement in the Gross Profit Ratio (gross profit : turnover) from 7.51% in 2000 to 9.26% in 2001. It was the result of our consistent effort in cost control and improved efficiency of our operations during the year. The liquidity of the Group as evidenced by the improvement of the current ratio (total current assets : total current liabilities) from 1.67 last year to 2.06 this year. It is mainly due to an improved profit margin and healthy recoverability of contract receivables and effective cash flow management. As at 31st March 2001, the Group has a total cash balance of HK\$265 million (2000: HK\$237 million) and zero bank borrowings (2000: HK\$104 million). The Group is practically debt-free, other than trade payables, hence the Group's interest burden was kept at a very low level. The interest coverage [(profit before taxation + interest expenses)/Interest expenses] of the Group increased significantly from 2.76 times to 7.84 times when compared with last year.

Management Discussion and Analysis

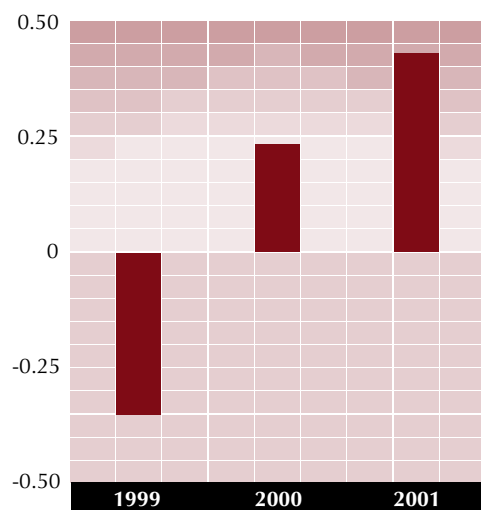
Gross Profit



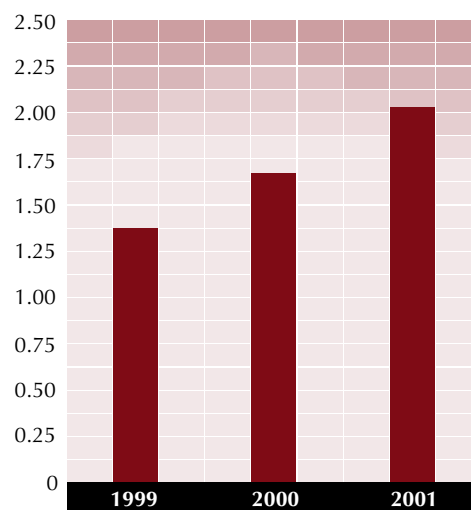
Interest Coverage



Net Cash/Net Assets



Current Ratio



HUMAN RESOURCES

As at 31st March, 2001, the Group employed approximately 700 people in Hong Kong and 350 people in Mainland China.

Employees in Hong Kong are either paid on a monthly salary basis or daily wages basis. Salaried employees are entitled to benefits according to seniority such as discretionary year end bonus which is based on the performance of the employees concerned, double pay, provident fund, medical insurance, company sponsored training courses, educational sponsorships and other allowances. All employees in Hong Kong are admitted to the Mandatory Provident Fund Scheme as from 1st December, 2000.

Share options are granted to certain employees in 1997 to subscribe for shares in the Company. The adjusted exercise price of the options were HK\$0.8876 per share as at 31st March, 2001.

Summary of Contracts

Contracts completed during the year ended 31st March, 2001

	Commencement date	Completion Date	Original contract value <i>HK\$ million</i>
Design and Construction of Maintenance Depot at Siu Ho Wan in Lantau Island	October 1998	June 2000	304
Pokfulam Training Centre Complex Chinese Cuisine Training Institute Phase 1 Development	January 2000	August 2000	80
Regional Term Contract N3 & N4	April 1998	September 2000	160
Workshop Conversion and Fitting-out Works for Implementing the New Technical Curriculum in Prevocational and Technical Schools	February 1999	December 2000	57
Tuen Mun Polyclinic at Tuen Mun Hospital	February 1999	February 2001	<u>366</u>
Total			<u>967</u>

Summary of Contracts

Contracts in progress during the year ended 31st March, 2001

	Commencement date	Original Contract Value <i>HK\$ million</i>	Estimated remaining works as at 31st March, 2001 <i>HK\$ million</i>
Development of Cheung Sha Wan Phase 2	November 1998	752	118
Development of Cheung Sha Wan Phase 1	December 1998	804	131
Development at Po Lam Road	January 1999	860	162
Design and Construction of Government Quarters at Fanling Area 28A, N.T.	October 1999	<u>395</u>	<u>215</u>
Total		<u>2,811</u>	<u>626</u>

Contracts secured during the year ended 31st March, 2001

	Commencement date	Original Contract Value <i>HK\$ million</i>	Estimated remaining works as at 31st March, 2001 <i>HK\$ million</i>
Development at Tseung Kwan O Area 73A Phase 2	August 2000	<u>470</u>	<u>442</u>
Total		<u>470</u>	<u>442</u>

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Wong Ip Kuen

aged 65, is the Chairman of the Company. Mr. Wong has over 50 years of experience in the building construction industry of Hong Kong. He is responsible for the overall development and management of the Group.

Mr. Wong Tin Cheung

aged 37, is the Vice Chairman of the Company, CEO of VHSoft and the Managing Director of Yau Lee Construction Company Limited ("Yau Lee Construction"). Mr. Wong joined the Group in 1988 and was appointed as a Director of the Company in 1991. He is responsible for assisting the Chairman in the overall development and management of the Group with special focus on technology research and development. He holds a Bachelor Degree in Civil Engineering, a Master Degree in Foundation Engineering and a Master Degree in Business Administration. He has been a Council Member of the Hong Kong Construction Association ("HKCA") since 1995 and the Honorary Secretary of the HKCA for 2001-2002.

Mr. Sun Chun Wai

aged 40, joined the Group in 1992 and was appointed as a Director of the Company in 1994. Mr. Sun has extensive experience in establishing joint ventures in the Mainland China and is responsible for the Group's business development. He holds a Bachelor of Science Degree.

Mr. So Yau Chi

aged 57, joined the Group in 1994 as the General Manager of Yau Lee Construction and was appointed as a Director of the Company and Yau Lee Construction in 1996. He is responsible for the overall management of Yau Lee Construction. Before joining the Group, he worked in the Housing Department for over 17 years and held the post of Senior Structural Engineer before he left. Mr. So is a Fellow of the Institution of Structural Engineers in the United Kingdom and was the Vice President of the Hong Kong Institution of Engineers for the 1994/95 session.

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Yeung Tsun Man, Eric

aged 55, has been a Non-executive Director of the Company since 1993. Dr. Yeung is the Vice President of Perfekta Enterprises Limited, a toy manufacturing company. He holds directorship in companies in Hong Kong, Macau, China, United States and Australia, which are engaged in businesses ranging from trading, hotels, mining and agriculture. He is the Deputy Chairman of Council & Court of Hong Kong Baptist University and an Executive Committee Council Member of the Hong Kong Management Association. Moreover, he is a Member of The Chinese People's Political Consultative Conference, Macau Government Technology Innovation Council, Macau SAR Government Economic Council, the Chairman of Macau Productivity and Technology Transfer Centre, a Member of World Presidents' Organisation and Chief Executives' Organisation. He was awarded the Medal of Merit by the Macau Government in 1994 and Commander of the Order of Merit by the Government of Portugal in 1998. He is also listed in "The Marquis Who's Who in the World" and "The International Who's Who of Professionals".

Mr. Wu King Cheong

aged 50, has been appointed as a Non-executive Director of the Company since 1994. Mr. Wu is a Councillor of the Legislative Council of the HKSAR (Financial Services Constituency), a Councillor of the Eastern District Council of the HKSAR, a Standing Committee Member of the Chinese General Chamber of Commerce, a Member of Environmental Campaign Committee, a Member of Lord Wilson Heritage Trust – Board of Trustees, the Honorary Permanent President of the Chinese Gold & Silver Exchange Society and the Honorary Permanent President of the Hong Kong Stockbrokers Association. He is also an Executive Director of Lee Cheong Gold Dealers Limited, and a Non-executive Director of China Apollo Holding Limited, a company listed on the Stock Exchange of Hong Kong Limited.

Mr. Chan, Bernard Charnwut

aged 36, was appointed as a Non-executive Director of the Company on 5th June, 2000. He holds a Bachelor of Arts Degree from Pomona College, California, U.S.A. He is the Deputy Managing Director of Asia Financial Group and the Executive Director of Asia Insurance, Asia Commercial Bank and Asia Investment Services. In addition, he is also the Chairman of Standing Committee on Disciplined Services Salaries & Conditions of Service, a Director of the Hong Kong Mortgage Corporation Ltd. and Securities and Futures Commission; a Council Member of Lingnan University and Vocational Training Council; a Member of the Mandatory Provident Fund Schemes Advisory Committee, Business Advisory Group, Standing Committee on Language Education & Research, Hong Kong Sports Development Board, Estate Agents Authority, Elderly Commission and Fight Crime Committee. He also serves as the Chairperson of The Hong Kong Council of Social Service, a Legislative Councillor and a Committee Member of the Chinese People's Political Consultative Committee of Guangxi Zhuang Autonomous Region in China.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

Mr. Cheung Woon Yin, *Deputy General Manager*

aged 48, joined the Group in 1986 as a Contract Manager and was promoted to his present post in 1996. He has over 28 years of experience in the construction industry. He holds a higher certificate in Construction Technology and is a licentiate of the Chartered Institute of Building.

Mr. Cheng Jick Nin, *Contract Advisor*

aged 67, joined the Group in 1987. Mr. Cheng has worked in the quantity surveying profession for more than 30 years. Prior to joining the Group, he worked in the Architectural Services Department and retired in 1985. He is responsible for contractual matters relating to construction particularly in the handling of contractual disputes and claims.

Ms Tang Wai Chun, *Chief Quantity Surveyor*

aged 44, joined the Group in 1993. Ms Tang is a Professional Member of the Royal Institution of Chartered Surveyors and Hong Kong Institute of Surveyors, a Member of the Chartered Institute of Arbitrators and a Registered Professional Surveyor (QS). She is also a Certified General Contractor in the United States. She holds a Bachelor degree in Quantity Surveying. She has 22 years of experience in quantity surveying, project management and subcontracting business in both residential and commercial projects in Hong Kong, the United Kingdom, Central America and the United States. She is responsible for quantity surveying works including handling contractual claims and disputes, training and contract administration of Yau Lee Construction's projects.

Mr. Chui Man Lung Everett, *Financial Controller and Company Secretary*

aged 37, joined the Group in 1995. Mr. Chui is a Fellow Member of the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants. He has 15 years of experience in auditing, accounting and financial management and holds Bachelor Degree in Business Economics and Accounting. He is responsible for all financial, accounting and company secretarial matters of the Group.

Site Management

Contract Managers*

- Cheung Yue Wai
- Lam Wai Chung
- Lau Wai Foo
- Pang Tak Him
- Wong Kwok Keung

* In alphabetical order

Biographical Details of Directors and Senior Management

Site Management *(Continued)*

Project Managers*

- Lam Lap Wah
- Man Tin Hung

Head Office Management – Department Heads*

- | | |
|--------------------------|--|
| • Ho Chi Man | Training Department |
| • Ko Hwee Sau Chun | Administration Department |
| • Kwan Man Ho | Materials Control Department |
| • Kwong Yuk Fong, Jenny | Information Technology Department |
| • Lam Chan Sing | Health & Safety Department |
| • Lee Shiu Ming, Richard | Research Design & Development Department |
| • Leung Sau Lin | Finance Department |
| • Wong Ming Tak, Patrick | Tender Department |
| • Yu Chi Kin | Quality Department |

Subsidiaries Management

VHSoft Technologies Company Limited

- | | |
|------------------------|-------------------------|
| • Mak Yiu Kau, Hubert | Chief Operating Officer |
| • Chiu Siu Pik, Dibble | Chief Strategy Officer |

Ming Hop Company Limited

- | | |
|-----------------|---------------------------|
| • Ng Hak Ming | Contract Manager |
| • Wong Lai Ying | Assistant General Manager |

Chapman Engineering Consultant Company Limited

- | | |
|--------------------------|-------------------|
| • Luk Wai Man | Managing Director |
| • Chan Chi Ming, Antonio | Project Manager |

* *In alphabetical order*

Report of the Directors

The Directors are pleased to present their report together with the audited financial statements of the Company and the Group for the year ended 31st March, 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its major subsidiaries are contracting of building construction, maintenance and decoration projects in Hong Kong. In addition, the Group is engaged in other activities which include plumbing contracts and the manufacture and supply of building materials.

The Group's turnover and gross profit for the year ended 31st March, 2001, which were derived principally from the contracting of building construction, maintenance and decoration projects carried out in Hong Kong, are as follows:

	Turnover <i>HK\$'000</i>	Contribution to Group's results <i>HK\$'000</i>
Contracting of building construction, maintenance and decoration projects	1,713,508	142,673
Sale of building materials	56,066	20,027
Others	11,767	2,305
	<u>1,781,341</u>	<u>165,005</u>

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st March, 2001 are set out in the consolidated income statement on page 25.

The Directors declared an interim dividend on 18th December, 2000 of HK1.6 cents (2000 – nil) per Consolidated Share, totalling HK\$7,083,938 (2000 – nil), which was paid on 16th March, 2001. Consolidation of the Company's shares occurred on 18th October, 2000 and is described more fully in Note 18(b) to the financial statements.

The Directors recommend the payment of a final dividend of HK1.4 cents (2000 – HK2.8 cents) per Consolidated Share, totalling HK\$6,173,294 (2000 – HK\$12,396,891), for the year ended 31st March, 2001.

Subject to shareholders' approval at the forthcoming Annual General Meeting, the final dividend will be payable on or about 19th September, 2001 to the shareholders whose names appear on the register of members at the close of business on 17th August, 2001.

Report of the Directors

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 13th August, 2001 to 17th August, 2001, both days inclusive, during which period no transfer of shares will be effected.

In order to qualify for the proposed final dividend, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Central Registration Hong Kong Limited on 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:00 p.m. on 10th August, 2001.

FIVE YEAR FINANCIAL SUMMARY

A summary of the Group's consolidated results for each of the last five years ended 31st March, 2001 and the consolidated assets and liabilities as at 31st March of each of the respective years is set out on page 64.

SUBSIDIARIES AND ASSOCIATES

Particulars regarding the Company's principal subsidiaries and associates are set out in Notes 13 and 14 respectively to the financial statements.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year totaled HK\$71,275 (2000 – HK\$61,900).

FIXED ASSETS

Movements in fixed assets of the Group during the year are set out in Note 9 to the financial statements.

SHARE CAPITAL AND SHARE PREMIUM

Details of the movement in share capital and share premium of the Group and the Company are set out in Notes 18 and 19 respectively to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's by-laws and the laws in Bermuda.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st March, 2001, turnover attributable to the Group's five largest customers and the largest customer amounted to 96% and 64% of the total turnover, respectively. Purchases attributable to the Group's five largest suppliers and the largest supplier amounted to 9% and 2% of the total purchases, respectively.

None of the Directors, their associates, or any shareholders who, to the knowledge of the Directors, own more than 5% of the Company's share capital has a beneficial interest in the Group's top five customers or suppliers.

DIRECTORS

The Directors who held office during the year and up to the date of this report are as follows:

Executive Directors

Mr. Wong Ip Kuen (*Chairman*)
Mr. Wong Tin Cheung (*Vice Chairman*)
Mr. Sun Chun Wai
Mr. So Yau Chi

Independent non-executive Directors

Dr. Yeung Tsun Man, Eric
Mr. Wu King Cheong
Mr. Chan, Bernard Charnwut (Appointed on 5th June, 2000)

In accordance with the Company's bye-laws, Mr. So Yau Chi and Mr. Chan, Bernard Charnwut will retire by rotation and, being eligible, offer themselves for re-election.

Report of the Directors

PURCHASE, SALE OR REDEMPTION OF SHARES

Date of purchase	Number of shares purchased	Price per share		Total cash paid (Including related expenses) HK\$'000
		Highest price paid	Lowest price paid	
20th October, 2000	197,500	0.335	0.300	64
23rd October, 2000	293,500	0.340	0.330	99
24th October, 2000	461,500	0.350	0.340	161
27th October, 2000	400,000	0.350	0.340	139
7th November, 2000	48,000	0.340	0.330	16
8th November, 2000	140,000	0.340	0.330	48
16th November, 2000	256,000	0.340	0.325	87
	<u>1,796,500</u>			<u>614</u>

SHARE OPTION SCHEMES AND DIRECTORS' RIGHTS TO ACQUIRE SHARES

The Company has the following share option schemes (as described in the paragraph below) under which the Company may grant options to Directors and employees of the Group to subscribe for shares in the Company. Details of the share option schemes are set out in Note 18(c) to the financial statements.

On 25th August, 1997, pursuant to the 1991 Share Option Scheme, the Directors were granted options to subscribe for a number of shares of HK\$0.05 each in the Company. Options to subscribe for a total of 28,000,000 shares of HK\$0.05 each were outstanding as at 31st March, 2001. As a result of the consolidation of shares as mentioned in Note 18(b) to the financial statements, the number of shares granted under the 1991 Share Option Scheme were adjusted to 7,000,000 shares of HK\$0.2 each. The subscription price is the higher of 80% of the average closing price of the shares of the Company on the Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of grant of the option and the nominal value of the shares. The above Directors have not exercised any of their options during the year. Details of the options granted to the Directors are as follows:

Name	Date of grant	Number of shares of options granted
Mr. Wong Ip Kuen	25th August, 1997	3,000,000
Mr. Wong Tin Cheung	25th August, 1997	2,750,000
Mr. Sun Chun Wai	25th August, 1997	375,000
Mr. So Yau Chi	25th August, 1997	375,000
Dr. Yeung Tsun Man, Eric	25th August, 1997	250,000
Mr. Wu King Cheong	25th August, 1997	250,000

Report of the Directors

SHARE OPTION SCHEMES AND DIRECTORS' RIGHTS TO ACQUIRE SHARES *(Continued)*

Save as otherwise disclosed in this report, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Company's Directors or members of its management to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

On 17th October, 2000, the Company adopted a new share option scheme (the "2000 Share Option Scheme") which replaced the 1991 Share Option Scheme mentioned above. Upon adoption of the 2000 Share Option Scheme, no further options will be granted under the 1991 Share Option Scheme but in all other respects, the provisions of the 1991 Share Option Scheme shall remain in full force and effect in respect of options which have been granted prior to the adoption of the 2000 Share Option Scheme and which shall continue to be exercisable in accordance with their terms of issue.

Under the 2000 Share Option Scheme, the Board of Directors of the Company may, at their absolute discretion, offer to any Director or employee of the Company or any of its subsidiaries options to subscribe for shares in the Company. Subject to adjustment as a result of any alteration in the capital structure of the Company, the subscription price is the higher of 80% of the average closing price of the shares of the Company on the Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of grant of the option and the nominal value of the shares. The maximum number of shares in respect of which options may be granted under the 2000 Share Option Scheme is such number of shares, which, when aggregated with shares subject to any other similar scheme of the Company, represents 10% of the issued share capital of the Company from time to time. The 2000 Share Option Scheme remains in force for a period of 10 years. As at 31st March, 2001, no share options were granted under the 2000 Share Option Scheme.

In addition, VHSoft Technologies Company Limited ("VHSoft"), a wholly owned subsidiary of the Group, adopted a share option scheme on 17th October, 2000 (the "VHSoft Share Option Scheme"). Under the VHSoft Share Option Scheme, the Board of Directors of the Company may, at their absolute discretion, offer to any Director or employee of VHSoft options to subscribe for shares in VHSoft in accordance with the terms of the VHSoft Share Option Scheme. Subject to adjustment as a result of any alteration in the capital structure of VHSoft, the subscription price is not less than the nominal value of the shares of VHSoft. The maximum number of shares in respect of which options may be granted under the VHSoft Share Option Scheme is such number of shares, which, when aggregated with shares subject to any other similar scheme of VHSoft, represents 10% of the issued share capital of VHSoft from time to time. The VHSoft Share Option Scheme remains in force for a period of 5 years or expires on the date on which an application for the initial public offering of the shares of VHSoft on an international recognised stock exchange is submitted, whichever is earlier. As at 31st March, 2001, no share options were granted under the VHSoft Share Option Scheme.

DIRECTORS' SERVICE AGREEMENTS

None of the Directors has a service contract with the Group which cannot be terminated within one year without payment of compensation (other than statutory compensation).

Report of the Directors

DIRECTORS' INTERESTS

As at 31st March, 2001, the following Director had or was deemed to have interests under the provisions of the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong) (the "SDI Ordinance") in the Company or any associated corporations thereof (within the meaning of the SDI Ordinance) of which the Company and the Stock Exchange of Hong Kong Limited had to be notified pursuant to Section 28 of the SDI Ordinance (including interests which the Director is deemed or taken to have under Section 31 or Part I of the Schedule of the SDI Ordinance) and which were required to be entered into the register kept by the Company pursuant to Section 29 of the SDI Ordinance:

Director	Company	Number of shares interested
Mr. Wong Ip Kuen	Yau Lee Holdings Limited	223,617,599

Note:

The 223,617,599 shares of the Company referred to above are registered in the name of All Fine Investment Company Limited. Mr. Wong Ip Kuen owns the entire issued share capital of All Fine Holdings Company Limited, which owns the entire issued share capital of All Fine Investment Company Limited, both of which are companies incorporated in the Cook Islands. Mr. Wong Ip Kuen is a director of both All Fine Holdings Company Limited and All Fine Investment Company Limited.

During the year ended 31st March, 2001, no right to subscribe for equity of the Company was exercised by any of the Directors or chief executives of the Company or the spouses or children under 18 years of age of such Directors and chief executives.

Save as otherwise disclosed in this report, none of the Directors or chief executives or their associates had any other interests (whether beneficial or non-beneficial) in the share capital of the Company or any other associated corporations as defined in the SDI Ordinance as at 31st March, 2001.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31st March, 2001, the following persons (other than the Directors or chief executives of the Company) had or were deemed to have interests in the Company under the provisions of the SDI Ordinance which have been entered into the register kept by the Company under Section 16(1) of the SDI Ordinance:

Substantial shareholders	Number of shares interested
All Fine Investment Company Limited (<i>see Note above</i>)	223,617,599
All Fine Holdings Company Limited (<i>see Note above</i>)	223,617,599

Report of the Directors

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company or any of its subsidiaries was a party and in which any of the Directors had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

CODE OF BEST PRACTICE

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not in any part of the year, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of the Stock Exchange of Hong Kong Limited throughout the year.

AUDITORS

The financial statements have been audited by Arthur Andersen & Co. A resolution for their reappointment as auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Wong Ip Kuen

Chairman

Hong Kong,
17th July, 2001

Report of the Auditors

**ARTHUR ANDERSEN****Arthur Andersen & Co**

21st Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

**TO THE SHAREHOLDERS OF
YAU LEE HOLDINGS LIMITED**

(Incorporated in Bermuda with limited liability)

We have audited the financial statements of Yau Lee Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") set out on pages 25 to 63 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st March, 2001 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Companies Ordinance.

Arthur Andersen & Co

Certified Public Accountants

Hong Kong,
17th July, 2001

Consolidated Income Statement

For the year ended 31st March, 2001 (Amounts expressed in Hong Kong dollars)

	Note	2001 \$'000	2000 \$'000
TURNOVER	2	1,781,341	2,041,948
COST OF SALES		<u>(1,616,336)</u>	<u>(1,888,646)</u>
GROSS PROFIT		165,005	153,302
ADMINISTRATIVE EXPENSES		(125,150)	(114,724)
LOSS ON SALE OF INVESTMENT PROPERTIES		–	(1,920)
OTHER REVENUE, NET		<u>5,933</u>	<u>9,186</u>
OPERATING PROFIT		45,788	45,844
FINANCE COSTS		<u>(1,591)</u>	<u>(6,225)</u>
PROFIT BEFORE SHARE OF (LOSS) PROFIT OF ASSOCIATES AND TAXATION		44,197	39,619
SHARE OF (LOSS) PROFIT OF ASSOCIATES, NET		<u>(1,120)</u>	<u>438</u>
PROFIT BEFORE TAXATION	3	<u>43,077</u>	<u>40,057</u>
TAXATION			
Company and subsidiaries		(9,696)	(8,482)
Associates		<u>(635)</u>	<u>(604)</u>
	5	<u>(10,331)</u>	<u>(9,086)</u>

Consolidated Income Statement

For the year ended 31st March, 2001 (Amounts expressed in Hong Kong dollars)

	Note	2001 \$'000	2000 \$'000
PROFIT AFTER TAXATION		32,746	30,971
MINORITY INTERESTS		(592)	(646)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	6	32,154	30,325
RETAINED PROFITS, BEGINNING OF YEAR AS PREVIOUSLY REPORTED		87,925	74,595
PRIOR YEAR ADJUSTMENTS	31	–	(4,598)
RETAINED PROFITS, BEGINNING OF YEAR AS RESTATED		87,925	69,997
DIVIDENDS	7	(13,257)	(12,397)
REPURCHASE OF SHARES	18(b)	(614)	–
RETAINED PROFITS, END OF YEAR	21	106,208	87,925
EARNINGS PER SHARE	8	7.29 cents	9.11 cents
DILUTED EARNINGS PER SHARE	8	7.29 cents	9.11 cents

A separate statement of recognised gains and losses is not presented because there were no recognised gains or losses other than the net profit for the year.

Balance Sheets

As at 31st March, 2001 (Amounts expressed in Hong Kong dollars)

	Note	2001		2000	
		Group \$'000	Company \$'000	Group \$'000	Company \$'000
Fixed assets, net	9	180,613	–	182,203	–
Development costs, net	10	3,751	–	1,531	–
Patents	11	1,238	–	–	–
Loans to subsidiaries	29(b)	–	88,150	–	88,150
Long-term trade debtors	24	26,850	–	26,557	–
Loans to employees	12	4,556	–	4,606	–
Interests in subsidiaries	13	–	276,075	–	276,075
Interests in associates	14	41,499	548	52,101	363
Other investments	15	2,431	–	2,431	–
Net current assets	16	365,885	284,821	341,089	281,284
Total assets less current liabilities		626,823	649,594	610,518	645,872
Long-term liabilities	17	(16,267)	–	(18,245)	–
Net assets		610,556	649,594	592,273	645,872
Financed by:					
Share capital	18	88,190	88,190	88,549	88,549
Share premium	19	415,430	415,430	415,430	415,430
Capital reserve	20	369	–	369	–
Capital redemption reserve	18(b)	359	359	–	–
Retained profits	21	106,208	145,615	87,925	141,893
Shareholders' equity		610,556	649,594	592,273	645,872

Approved by the Board of Directors on 17th July, 2001 and signed on behalf of the Board by

Wong Ip Kuen
Director

Wong Tin Cheung
Director

Consolidated Cash Flow Statement

For the year ended 31st March, 2001 (Amounts expressed in Hong Kong dollars)

	Note	2001 \$'000	2000 \$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	(a)	187,010	266,646
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Dividends received		1,501	1,172
Dividends paid		(19,481)	–
Interest paid on overdrafts and bank loans		(6,299)	(22,792)
Interest element of finance lease contract payments		(671)	(1,220)
Interest received		14,907	8,149
Net cash outflow from returns on investments and servicing of finance		(10,043)	(14,691)
TAXATION			
Hong Kong profits tax paid		(1,831)	(1,241)
INVESTING ACTIVITIES			
Payment of development costs		(2,507)	(1,053)
Payment of patents		(1,238)	–
Proceeds from disposal of investment in associates		–	18,493
Purchase of fixed assets		(20,714)	(23,736)
Proceeds from disposal of investment properties		–	19,680
Payment of short-term investments		(8,437)	–
Proceeds from disposal of fixed assets		1,852	1,085
Net cash (outflow) inflow from investing activities		(31,044)	14,469
Net cash inflow before financing activities		144,092	265,183
FINANCING ACTIVITIES			
Repayment under finance lease contracts		(12,014)	(11,956)
Proceeds from issuance of share capital, net		–	59,970
Repurchase of shares		(614)	–
Advances from minority shareholders, net		344	3
Net cash (outflow) inflow from financing activities		(12,284)	48,017
Increase in cash and cash equivalents		131,808	313,200
Cash and cash equivalents, beginning of year		133,610	(179,590)
Cash and cash equivalents, end of year		265,418	133,610
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Time deposits		208,353	145,917
Cash and bank balances		57,065	91,193
Short-term bank loans		–	(103,500)
		265,418	133,610

Consolidated Cash Flow Statement

For the year ended 31st March, 2001 (Amounts expressed in Hong Kong dollars)

(a) RECONCILIATION OF PROFIT BEFORE SHARE OF (LOSS) PROFIT OF ASSOCIATES AND TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2001 \$'000	2000 \$'000
Profit before share of (loss) profit of associates and taxation	44,197	39,619
Interest income	(14,907)	(8,149)
Dividend income	–	(131)
Loss on disposals of fixed assets	5,560	319
Interest expenses on overdrafts and bank loans	6,299	22,792
Interest element of finance lease contract payments	671	1,220
Amortisation of development costs	287	–
Depreciation	24,647	21,606
Provision for inventory obsolescence	–	921
Write-off of obsolete inventory	585	–
Provision for doubtful debts	2,000	5,000
Unrealised losses on short-term investments	1,154	–
Realised losses on short-term investments	2,589	–
Gain on disposal of investment in associates	–	(4,633)
Loss on disposal of investment properties	–	1,920
Changes in non-cash working capital balances:		
Increase in long-term trade debtors	(293)	(4,563)
Increase in loans to employees	(305)	(1,655)
Decrease (Increase) in trade debtors	99,177	(53,027)
Decrease (Increase) in inventories	5,196	(8,003)
Decrease in prepayments, deposits and other receivables	4,925	12,651
Decrease in gross amount due from customers for contract work	54,496	101,174
Increase in amounts due from related parties	(5)	(19)
Decrease in amounts due from associates	7,092	7,805
Increase in payable to suppliers and subcontractors	19,172	17,733
Increase in accruals, retention payable and other liabilities	6,860	9,480
(Decrease) Increase in gross amount due to customers for contract work	(82,715)	115,549
Increase in amounts due to related parties	74	–
Increase (Decrease) in amounts due to associates	254	(10,963)
NET CASH INFLOW FROM OPERATING ACTIVITIES	187,010	266,646

Consolidated Cash Flow Statement

For the year ended 31st March, 2001 (Amounts expressed in Hong Kong dollars)

(b) ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	2001					2000
	Share capital \$'000	Share premium \$'000	Minority interests \$'000	Finance lease obligations \$'000	Total \$'000	Total \$'000
Balance, beginning of year	88,549	415,430	4,140	9,975	518,094	469,042
Net cash inflow (outflow) from financing activities	(359)	–	344	(12,014)	(12,029)	48,017
Share of profit by minority shareholders	–	–	592	–	592	646
Inception of finance lease obligations	–	–	–	9,755	9,755	389
Balance, end of year	88,190	415,430	5,076	7,716	516,412	518,094

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(1) PRINCIPAL ACCOUNTING POLICIES

(a) Basis of Presentation

The Group's financial statements are prepared under the historical cost convention as modified by the revaluation of short-term investments, and in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong.

(b) Basis of Consolidation

The Group's financial statements include the financial statements of the Company and its subsidiaries, together with the Group's share of post-acquisition profit or loss and reserves of its associates under the equity method of accounting. The results of subsidiaries and associates acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal. Significant intra-group transactions and balances have been eliminated on consolidation.

(c) Negative Goodwill

Negative goodwill, which represents the excess of the fair value attributable to the separable net assets at the date of acquisition of an associate over the purchase consideration, is credited to capital reserve.

On disposal of an associate, the attributable amount of negative goodwill previously credited to capital reserve is included in the determination of the profit or loss on disposal of the associate.

(d) Turnover

Turnover mainly represents the following:

- (i) The aggregate amount of gross certified value earned from construction contracts, which include various maintenance and decoration projects; and
- (ii) Gross invoiced sales, net of discounts and returns, of building materials sold.

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(1) PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Revenue Recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably, turnover and other revenue are recognised on the following bases:

(i) Contract revenue

To the extent that the outcome of the contract can be estimated reliably, revenue from construction contracts is recognised using the percentage of completion method, measured by reference to the percentage of revenue certified to date to estimated total contract value. When the outcome of a contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that are probable of recovery.

(ii) Sale of building materials

Sale of building materials is recognised when the significant risks and rewards of ownership of the goods have been transferred to customers.

(iii) Interest income

Interest income from bank deposits is recognised on a time proportion basis on the principal outstanding and at the rate applicable.

(iv) Dividend income

Dividend income is recognised when the right to receive payment is established.

(f) Fixed Assets and Depreciation

Fixed assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed assets, the expenditure is capitalised as an additional cost of the fixed asset.

Properties under construction are stated at cost. No depreciation is provided until the properties are completed and used.

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(1) PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Fixed Assets and Depreciation (Continued)

Depreciation of fixed assets is provided using the straight-line method over their estimated useful lives. The principal annual rates used are as follows:

Plant and machinery	10%
Furniture, fixtures and office equipment	25%
Motor vehicles	25%
Motor launch	10%
Land and buildings in Hong Kong held under medium-term lease	2%
Leasehold improvements	25%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

(g) Subsidiaries

A company is a subsidiary of another company if the latter controls more than half of the voting power of the former. Investments in subsidiaries in the accounts of the Company are carried at cost less provision for impairment in value where considered necessary by the directors. The results of the subsidiaries are included in the income statement of the Company to the extent of dividends declared by the subsidiaries.

(h) Associates

An associate is an enterprise in which the Group has significant influence, but not control or joint control, and thereby has the ability to participate in its financial and operating policy decisions.

In the consolidated financial statements, investments in associates are accounted for under the equity method of accounting, whereby the investments are initially recorded at cost and the carrying amount is adjusted to recognise the Group's share of the post-acquisition profits or losses of the associates, distributions received from the associates and other necessary alterations in the Group's proportionate interest in the associates arising from changes in the equity of the associates that have not been included in the income statement.

Where, in the opinion of the directors, there is an impairment in value of an associate, or the market value has fallen below the carrying value over a sustained period, a provision is made for such impairment in value.

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(1) PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) Other Investments

Other investments intended to be held on a continuing basis are included in the balance sheet at cost less any provision for impairment in value.

The carrying amounts of other investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When such a decline has occurred, the carrying amounts are reduced and the reduction is recognised as an expense in the income statement unless there is evidence that the decline is temporary.

Provisions against the carrying value of other investments are reversed to the income statement when circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Upon disposal or transfer of other investments, any profit and loss thereon is accounted for in the income statement.

(j) Short-term Investments

Short-term investments are listed shares carried at fair value in the balance sheet. Any unrealised holding gain and loss on short-term investments is recognised in the income statement in the period when it arises.

Upon disposal or transfer of short-term investments, any profit or loss thereon is accounted for in the income statement.

(k) Patents

Patents represent amounts paid or payable in respect of the application of patents for construction related software and website hosting services. The amounts are capitalised in the balance sheet and are to be amortised over 4 years upon official granting of the patents by the relevant authorities.

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(1) PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) Development Costs

Expenditures for research and development are charged against income in the period incurred except for project development costs which meet the following criteria:

- * The technological feasibility of completing the product so that it will be available for use or sale;
- * Management's intention to complete the product and use or sell it;
- * The ability to use or sell the product;
- * The existence of a market for the product or, if it is to be used internally, the usefulness of the product;
- * The availability of adequate technical, financial and other resources to complete the development and to use or sell the product; and
- * The ability to measure the expenditure attributable to the product during its development reliably.

Development costs are stated at cost less accumulated amortisation. Capitalised development costs are amortised on a straight-line basis over their expected useful lives not exceeding four years.

(m) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is based on the first-in, first-out cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(1) PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) Construction Contracts

The accounting policy for contract revenue is set out at Note 1(e)(i) above. When the outcome of a construction contract can be estimated reliably, contract costs are recognised as expenses by reference to the stage of completion of the contract at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected total loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the balance sheet date are recorded at the net amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the balance sheet as "Gross amount due from customers for contract work" (as an asset) or "Gross amount due to customers for contract work" (as a liability), as applicable. Amounts billed, but not yet paid by customers, for work performed on a contract are included in the balance sheet under "Trade debtors".

(o) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in Hong Kong requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(p) Leases

(i) Finance leases

Leases that transfer to the Group substantially all the rewards and risks of ownership of the assets, other than legal title, are accounted for as finance leases.

Fixed assets held under finance leases are initially recorded at the present value of the minimum lease payments at the inception of the leases, with the equivalent liabilities recorded as appropriate under current or long-term liabilities.

Finance charges, which represent the difference between the minimum lease payments at the inception of the leases and the fair value of the assets, are allocated to accounting periods over the period of the relevant leases so as to produce a constant periodic rate of charge on the outstanding balances.

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(1) PRINCIPAL ACCOUNTING POLICIES (Continued)

(p) Leases (Continued)

(ii) Operating leases

Leases where substantially all the rewards and risks of ownership remain with the leasing company are accounted for as operating leases. Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the relevant leases.

(q) Deferred Taxation

Deferred taxation is provided under the liability method, at the current tax rate, in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except where it is considered that no liability will arise in the foreseeable future.

A deferred tax asset is not recognised unless the related benefits are expected to crystallise in the foreseeable future.

(r) Foreign Currency Translation

Companies within the Group maintain their books and records either in Hong Kong dollars or Chinese Renminbi ("functional currencies"). In the financial statements of the individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. All such exchange differences are dealt with the income statements of the individual companies.

The Group prepares consolidated financial statements in Hong Kong dollars. For the purpose of consolidation, assets and liabilities of those subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date, and income and expense items are translated into Hong Kong dollars at the average exchange rate during the year. Exchange differences arising from such translation are dealt with as movements in cumulative translation adjustments, if material.

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(1) PRINCIPAL ACCOUNTING POLICIES (Continued)

(s) Borrowing Costs

Interest is expensed as incurred, except for interest directly attributable to construction contracts which is capitalised as part of the contract cost. Interest is capitalised at the weighted average cost of the related borrowings up to the date of completion of the construction contract.

Other borrowing costs, including amortisation of a discount or premium relating to borrowings, amortisation of ancillary costs incurred in connection with arranging financing and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs, are expensed in the income statement.

(2) TURNOVER

Contribution to the Group's turnover by principal activity is as follows:

	2001 \$'000	2000 \$'000
Contracting of building construction, maintenance and decoration projects	1,713,508	1,962,768
Sale of building materials	56,066	66,627
Others	11,767	12,553
Total	<u>1,781,341</u>	<u>2,041,948</u>

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(3) PROFIT BEFORE TAXATION

Profit before taxation is determined after charging (crediting) the following:

	2001 \$'000	2000 \$'000
Depreciation		
– Owned assets	20,208	15,307
– Assets held under finance lease contracts	4,439	6,299
	<u>24,647</u>	<u>21,606</u>
Less: Amount recorded as construction costs	(10,950)	(10,961)
	<u>13,697</u>	<u>10,645</u>
Staff costs (excluding directors)	184,807	201,373
Less: Amount recorded as construction costs	(138,040)	(160,184)
	<u>46,767</u>	<u>41,189</u>
Amortisation of development costs	287	–
Cost of inventories	87,513	77,406
Provision for doubtful debts	2,000	5,000
Provision for inventory obsolescence	–	921
Write-off of obsolete inventory	585	–
Loss on disposal of fixed assets	5,560	319
Auditors' remuneration	1,180	1,100

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(3) PROFIT BEFORE TAXATION (Continued)

Profit before taxation is determined after charging (crediting) the following: (Continued)

	2001 \$'000	2000 \$'000
Operating lease rental of		
– Land and buildings	4,169	2,141
– Other equipment	31,043	33,577
	<u>35,212</u>	<u>35,718</u>
Less: Amount recorded as construction costs	<u>(30,464)</u>	<u>(33,668)</u>
	<u>4,748</u>	<u>2,050</u>
Interest element of finance lease contract payments	671	1,220
Less: Amount recorded as construction costs	<u>(310)</u>	<u>(857)</u>
	<u>361</u>	<u>363</u>
Unrealised losses on short-term investments	1,154	–
Realised losses on short-term investments	2,589	–
Interest on overdrafts and bank loans repayable within five years	6,299	22,792
Less: Amount recorded as construction costs	<u>(5,069)</u>	<u>(16,930)</u>
	<u>1,230</u>	<u>5,862</u>
Exchange loss, net	182	957
Gain on disposal of investment in associates	–	(4,633)
Rental income from investment properties	–	(200)
Interest income on bank deposits	(14,907)	(8,149)
Dividend income	–	(131)
Construction contract revenue	<u>(1,713,508)</u>	<u>(1,962,768)</u>

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(4) DIRECTORS' EMOLUMENTS AND FIVE HIGHEST-PAID INDIVIDUALS

(a) Directors' emoluments

Directors' emoluments disclosed in accordance with Section 161(1) of the Companies Ordinance are as follows:

	2001 \$'000	2000 \$'000
Independent Non-executive Directors	<u>708</u>	<u>750</u>
Executive Directors:		
Fees	–	–
Salaries	11,879	9,317
Performance-related bonus	1,580	1,270
Contribution to pension schemes	<u>440</u>	<u>413</u>
	<u>13,899</u>	<u>11,000</u>
	<u>14,607</u>	<u>11,750</u>

The Directors received emoluments in the following bands during the year:

	2001 <i>Number of Directors</i>	2000 <i>Number of Directors</i>
Up to \$1,000,000	3	4
\$1,000,001 – \$1,500,000	1	–
\$2,000,001 – \$2,500,000	2	2
\$5,500,001 – \$6,000,000	–	1
\$8,000,001 – \$8,500,000	<u>1</u>	<u>–</u>

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(4) DIRECTORS' EMOLUMENTS AND FIVE HIGHEST-PAID INDIVIDUALS (Continued)

(b) Five highest-paid individuals

The five highest-paid individuals included three (2000 – three) Executive Directors whose emoluments are disclosed in (a) above. The details of the emoluments of the other two (2000 – two) individuals are as follows:

	2001 \$'000	2000 \$'000
Salaries	1,894	1,792
Performance-related bonus	1,030	950
Contribution to pension schemes	87	85
	<u>3,011</u>	<u>2,827</u>

The emoluments of the other two highest-paid individuals fell within the following bands:

	2001 Number of Employees	2000 Number of Employees
\$1,000,001 – \$1,500,000	1	1
\$1,500,001 – \$2,000,000	<u>1</u>	<u>1</u>

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(5) TAXATION

(a) Taxation in the consolidated income statement represents:

	2001 \$'000	2000 \$'000
Company and subsidiaries		
Provision for Hong Kong profits tax in respect of the estimated assessable profit for the year at 16% (2000 – 16%)	10,779	5,089
Under (Over) provision of prior year profits tax	867	(392)
(Reversal of) Provision for deferred taxation	(1,950)	3,785
	<u>9,696</u>	<u>8,482</u>
Associates	<u>635</u>	<u>604</u>
	<u>10,331</u>	<u>9,086</u>

(b) Movement in deferred taxation comprises:

	2001 \$'000	2000 \$'000
Balance, beginning of year	12,344	8,559
(Reversal of) Provision for net timing differences	(1,950)	3,785
	<u>10,394</u>	<u>12,344</u>

(c) Deferred taxation as of year end arose from:

	2001 \$'000	2000 \$'000
Accelerated depreciation allowances	8,510	11,253
Tax losses	–	(25)
Others	1,884	1,116
	<u>10,394</u>	<u>12,344</u>

There was no other material unprovided deferred taxation as at 31st March, 2001.

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(6) PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a profit of approximately \$17,593,000 (2000 – \$22,219,000) dealt with in the financial statements of the Company.

(7) DIVIDENDS

The Directors declared an interim dividend on 18th December, 2000 of 1.6 cents (2000 – nil) per Consolidated Share, totalling \$7,083,938 (2000 – nil), which was paid on 16th March, 2001. Consolidation of the Company's shares occurred on 18th October, 2000 and is described more fully in Note 18(b) to the financial statements.

The Directors recommend the payment of a final dividend of 1.4 cents (2000 – 2.8 cents) per Consolidated Share, totalling \$6,173,294 (2000 – \$12,396,891), for the year ended 31st March, 2001.

(8) EARNINGS PER SHARE AND DILUTED EARNINGS PER SHARE

Earnings per share and diluted earnings per share have been calculated based on the audited consolidated profit attributable to shareholders for the year of \$32,154,000 (2000 – \$30,325,000) and the weighted average number of 440,779,479 shares (2000 – 332,767,160 shares) in issue during the year.

The weighted average number of shares, for the purposes of earnings per share calculation, has been adjusted for the effect of consolidation of shares during the year as described in Note 18(b) to the financial statements.

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(9) FIXED ASSETS

(a) Movements in fixed assets of the Group during the year are as follows:

	2001							2000	
	Properties under construction \$'000	Plant and machinery \$'000	Furniture, fixtures and office equipment \$'000	Motor vehicles \$'000	Motor launch \$'000	Land and buildings \$'000	Leasehold improve- ments \$'000	Total \$'000	Total \$'000
Cost									
Balance, beginning of year	89	132,166	28,954	22,004	1,685	85,022	4,722	274,642	255,184
Additions	762	15,852	12,796	922	–	51	86	30,469	24,125
Inter-category transfer	(140)	140	–	–	–	–	–	–	–
Disposals	–	(10,039)	(3,612)	(6,395)	–	–	–	(20,046)	(4,667)
Balance, end of year	711	138,119	38,138	16,531	1,685	85,073	4,808	285,065	274,642
Accumulated depreciation									
Balance, beginning of year	–	42,509	20,268	15,385	1,334	8,221	4,722	92,439	74,096
Charge for the year	–	14,249	4,780	3,141	168	2,304	5	24,647	21,606
Written back on disposals	–	(3,446)	(3,382)	(5,806)	–	–	–	(12,634)	(3,263)
Balance, end of year	–	53,312	21,666	12,720	1,502	10,525	4,727	104,452	92,439
Net book value									
Balance, end of year	711	84,807	16,472	3,811	183	74,548	81	180,613	182,203
Balance, beginning of year	89	89,657	8,686	6,619	351	76,801	–	182,203	181,088

- (b) The Group's land and buildings are held in Hong Kong under medium-term leases. As at 31st March, 2001, the land, with net book value of approximately \$32,698,000 (2000 – \$33,425,000) included in the above analysis, is held under a crown lease in Hong Kong which extends to the year 2047.
- (c) The properties under construction mainly represent the costs incurred to construct the office building near the semi-precast plant in Shenzhen, Mainland China.

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(9) FIXED ASSETS (Continued)

(d) The net book value of fixed assets held under finance lease contracts comprises:

	2001 \$'000	2000 \$'000
Plant and machinery	8,264	18,509
Furniture, fixtures and office equipment	–	39
Motor vehicles	1,045	3,241
	<u> </u>	<u> </u>
Total	9,309	21,789

(10) DEVELOPMENT COSTS

Development costs of the Group mainly represent expenditure incurred to develop a unique type of partition for office use and construction related computer software and website hosting services.

	2001 \$'000	2000 \$'000
Cost		
Balance, beginning of year	6,031	4,978
Additions	2,507	1,053
	<u> </u>	<u> </u>
Balance, end of year	8,538	6,031
Accumulated amortisation		
Balance, beginning of year	4,500	4,500
Amortisation for the year	287	–
	<u> </u>	<u> </u>
Balance, end of year	4,787	4,500
Net book value		
Balance, end of year	3,751	1,531
	<u> </u>	<u> </u>
Balance, beginning of year	1,531	478
	<u> </u>	<u> </u>

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(11) PATENTS

Patents represent costs incurred to apply for patent rights in relation to the Group's development of construction related computer software and website hosting services.

	2001 \$'000	2000 \$'000
Cost		
Balance, beginning of year	–	–
Additions	1,238	–
	<u>1,238</u>	<u>–</u>
Balance, end of year	1,238	–
Accumulated amortisation		
Balance, beginning of year	–	–
Amortisation for the year	–	–
	<u>–</u>	<u>–</u>
Balance, end of year	–	–
Net book value		
Balance, end of year	1,238	–
	<u>1,238</u>	<u>–</u>
Balance, beginning of year	–	–
	<u>–</u>	<u>–</u>

(12) LOANS TO EMPLOYEES

The Group has provided housing loans to certain employees. The repayment period ranges from 2 to 12 years with interest at prime rate minus 1 per cent, depending on the terms of the individual loan agreements. Amounts due within one year of approximately \$548,000 (2000 – \$193,000) are included in prepayments, deposits and other receivables.

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(13) INTERESTS IN SUBSIDIARIES

(a) Interests in subsidiaries in the accounts of the Company as at 31st March, 2001 comprise:

	2001 \$'000	2000 \$'000
Unlisted shares, at cost	51,575	51,575
Capital contributed to a subsidiary	224,500	224,500
	<u>276,075</u>	<u>276,075</u>

The Directors are of the opinion that there is no impairment in the value of interests in subsidiaries as at 31st March, 2001.

(b) Particulars of principal subsidiaries as at 31st March, 2001 are:

Name of Company	Country of Incorporation	Country of Operation	Issued and fully paid share capital	Principal activities	% of issued ordinary share capital held by		Group equity interest
					Company	Subsidiaries	
Australian Development Holdings Pty. Limited	Australia	Australia	A\$2	Investment holding	–	100%	100%
Bellaglade Company Limited	Hong Kong	Hong Kong	\$2	Property holding	–	100%	100%
Century Score Investment Limited	Hong Kong	Hong Kong	\$2	Investment in real estate properties	–	100%	100%
Chapman Engineering Consultant Company Limited	Hong Kong	Hong Kong	\$100	Building services engineering consultant	–	60%	60%
Koshen Engineering Limited	Hong Kong	Hong Kong	\$10,000	Provision of design, consulting and project management services	–	100%	60%
Lucky Fame Investment Limited	Hong Kong	Hong Kong	\$2	Investment in real estate properties	–	100%	100%
Ming Hop Company Limited	Hong Kong	Hong Kong	\$500,000	Sourcing of construction materials and execution of plumbing work	–	100%	100%

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(13) INTERESTS IN SUBSIDIARIES (Continued)

(b) Particulars of principal subsidiaries as at 31st March, 2001 are: (Continued)

Name of Company	Country of Incorporation	Country of Operation	Issued and fully paid share capital	Principal activities	% of issued ordinary share capital held by Company Subsidiaries		Group equity interest
Nanjing Autocon Technology Company Limited	Mainland China	Mainland China	US\$500,000	Development and sale of construction equipment and computer software	–	100%	100%
Nanjing Nanda VH Software Intelligence Company Limited	Mainland China	Mainland China	Rmb1,500,000	Development and sale of computer software	–	70%	70%
Right Motive Limited	Hong Kong	Hong Kong	\$6,000	Property holding	–	100%	100%
Solid Star Company Limited	Hong Kong	Hong Kong	\$2	Property holding	–	100%	100%
SPS Company Limited	Hong Kong	Hong Kong	\$2	Manufacturing and trading	–	100%	100%
Trendplot Investments Limited	Hong Kong	Hong Kong	\$2	Provision of management services	–	100%	100%
VHBuild Company Limited	Hong Kong	Hong Kong	\$2	Provision of website hosting services	–	100%	100%
VHCOME Company Limited	Hong Kong	Hong Kong	\$2	Business to business sale of construction materials	–	100%	100%
VHSoft Company Limited	Hong Kong	Hong Kong	\$5,000,000	Computer software development	–	100%	100%
VHSoft I.P. Company Limited	Hong Kong	Hong Kong	\$2	Patent holding	–	100%	100%
VHSoft Technologies Company Limited	Hong Kong	Hong Kong	\$2	Computer software development	–	100%	100%
Yau Lee Building Construction and Decoration Company Limited	Hong Kong	Hong Kong	\$100,000	Building construction, maintenance and decoration	–	100%	100%
Yau Lee Construction Company Limited	Hong Kong	Hong Kong	\$100,000,000	Building construction	–	100%	100%

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(13) INTERESTS IN SUBSIDIARIES (Continued)

(b) Particulars of principal subsidiaries as at 31st March, 2001 are: (Continued)

Name of Company	Country of Incorporation	Country of Operation	Issued and fully paid share capital	Principal activities	% of issued ordinary share capital held by		Group equity interest
					Company	Subsidiaries	
Yau Lee Construction Materials & Technology Limited	Hong Kong	Hong Kong	\$2	Sale of building materials and precast products	–	100%	100%
Yau Lee Construction Materials & Technology Limited	The British Virgin Islands	Hong Kong	US\$2	Sale of precast products	–	100%	100%
Yau Lee Environmental Development Limited	Hong Kong	Hong Kong	\$2	Investment holding	–	100%	100%
Yau Lee Equipment Leasing Limited (formerly known as “Global Winner Investment Limited”)	Hong Kong	Hong Kong	\$2	Equipment leasing	–	100%	100%
Yau Lee Investment Limited	The Cook Islands	Hong Kong	US\$100	Investment holding	100%	–	100%
Yau Lee Technology Limited	The British Virgin Islands	Hong Kong	US\$1	Investment holding and trading of construction equipment and development of computer control software	–	100%	100%
Yau Lee Wah Concrete Precast Products Company Limited	Hong Kong	Hong Kong	\$10,000,000	Sale of precast products	–	100%	100%
Yau Lee Wah Concrete Precast Products (Shenzhen) Company Limited	Mainland China	Mainland China	Rmb39,076,066	Manufacture of precast products	–	100%	100%
Yau Sing Building Materials Company Limited	Hong Kong	Hong Kong	\$500,000	Investment holding	–	63%	63%

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(14) INTERESTS IN ASSOCIATES

(a) Interests in associates comprise:

	2001		2000	
	Group \$'000	Company \$'000	Group \$'000	Company \$'000
Group's share of attributable net assets of associates	3,677	–	6,933	–
Amounts due from associates	38,088	548	45,180	363
Amounts due to associates	(266)	–	(12)	–
	<u>41,499</u>	<u>548</u>	<u>52,101</u>	<u>363</u>

(b) Particulars of principal subsidiaries as at 31st March, 2001 are:

Name of Company	Country of Incorporation	Country of Operation	Issued and fully paid share capital	Principal activities	% of issued ordinary share capital held by		Group equity interest
					Subsidiaries	Associates	
Bestlink Shipping Limited	Hong Kong	Hong Kong	\$100	Provision of shipping transportation services	–	100%	30%
Bonland Investment Limited	Hong Kong	Hong Kong	\$100	Investment holding	30%	–	30%
Bonjoy Company Limited	Hong Kong	Hong Kong	\$100	Provision of shipping transportation services and investment holding	–	100%	30%
Rich Fame Shipping Limited	Hong Kong	Hong Kong	\$100	Provision of shipping transportation services	–	100%	30%
Shunde Yau Lee Building Components Company Limited ("Shunde Yau Lee")	Mainland China	Mainland China	US\$1,707,714	Manufacture of building materials	52.7%	–	33.2%
Yau Lee Development Company Limited ("YLDC")	Hong Kong	Hong Kong	\$100	Property development	50%	–	50%
Yau Lee Property Development (China) Company Limited	Hong Kong	Hong Kong	\$200	Investment holding	46%	–	46%

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(14) INTERESTS IN ASSOCIATES (Continued)

- (c) The Company has an indirect interest of 25% in Fuli Building, a residential and commercial property project in Shunde PRC, which was jointly developed by YLDC and a Chinese party.
- (d) One of the subsidiaries of the Group has a 52.7% interest in Shunde Yau Lee. Despite the controlling interest, the subsidiary appoints the same number of members to the Board of Directors of Shunde Yau Lee as the other shareholder. Consequently, the Group does not have control over the operational and financial matters of Shunde Yau Lee. The Directors believe that the Group exercises significant influence over Shunde Yau Lee and as a result, this investment is accounted for using the equity method of accounting.
- (e) The amounts due from and to associates are unsecured, interest free and have no fixed repayment terms.
- (f) The Directors are of the opinion that there is no impairment in the value of interests in associates as at 31st March, 2001.

(15) OTHER INVESTMENTS

- (a) Other investments comprise:

	2001		2000	
	Group	Company	Group	Company
	\$'000	\$'000	\$'000	\$'000
Unlisted shares, at cost	976	–	976	–
Listed shares in Hong Kong, at cost	1,455	–	1,455	–
	<u>2,431</u>	<u>–</u>	<u>2,431</u>	<u>–</u>

The market value of the Group's investment in listed shares in Hong Kong as at 31st March, 2001 was approximately \$404,000 (2000 – \$1,648,000).

- (b) In January 1995, one of the subsidiaries of the Group entered into an agreement with Nanjing FEAT Advanced Sciences and Technology Industry Corp. ("Nanjing FEAT") in Mainland China to engage in the development and trading of environmental products. The Group has a 60% interest in Nanjing FEAT and has injected the agreed capital contribution of RMB1,000,000.

The Directors are of the opinion that the Group has no control and does not exercise any influence over the operations of Nanjing FEAT and therefore, the investment is recorded at cost.

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(16) NET CURRENT ASSETS

	2001		2000	
	Group \$'000	Company \$'000	Group \$'000	Company \$'000
CURRENT ASSETS				
Cash and bank balances	57,065	563	91,193	406
Time deposits (Note 26)	208,353	12,399	145,917	12,259
Trade debtors, net (Notes 23 & 24)	220,227	–	321,404	–
Inventories, net (Note 22)	9,887	–	15,668	–
Prepayments, deposits and other receivables	26,965	316	31,535	318
Prepaid tax	452	–	3,188	46
Gross amount due from customers for contract work (Note 24)	184,801	–	239,297	–
Short-term investments	4,694	–	–	–
Due from subsidiaries (Note 29(a))	–	361,086	–	324,155
Due from related parties (Note 29(a))	27	27	22	22
Total current assets	<u>712,471</u>	<u>374,391</u>	<u>848,224</u>	<u>337,206</u>
CURRENT LIABILITIES				
Short-term bank loans	–	–	103,500	–
Payable to suppliers and subcontractors (Note 28)	143,067	–	123,895	–
Accruals, retention payable and other liabilities	94,106	142	87,246	91
Dividend payable	6,173	6,173	12,397	12,397
Taxes payable	10,252	358	3,173	–
Gross amount due to customers for contract work (Note 24)	84,749	–	167,464	–
Current portion of finance lease obligations (Note 17)	6,919	–	8,214	–
Due to subsidiaries (Note 29(a))	–	82,897	–	43,434
Due to related parties (Note 29(a))	1,320	–	1,246	–
Total current liabilities	<u>346,586</u>	<u>89,570</u>	<u>507,135</u>	<u>55,922</u>
NET CURRENT ASSETS	<u>365,885</u>	<u>284,821</u>	<u>341,089</u>	<u>281,284</u>

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(17) LONG-TERM LIABILITIES

	2001		2000	
	Group \$'000	Company \$'000	Group \$'000	Company \$'000
Due to minority shareholders, net	<u>5,076</u>	<u>–</u>	<u>4,140</u>	<u>–</u>
Obligations under finance lease contracts				
– Repayable within one year	6,919	–	8,214	–
– Repayable in the second to fifth years	<u>797</u>	<u>–</u>	<u>1,761</u>	<u>–</u>
	7,716	–	9,975	–
Amounts due within one year included under current liabilities (Note 16)	<u>(6,919)</u>	<u>–</u>	<u>(8,214)</u>	<u>–</u>
	<u>797</u>	<u>–</u>	<u>1,761</u>	<u>–</u>
Deferred taxation (Note 5(b))	<u>10,394</u>	<u>–</u>	<u>12,344</u>	<u>–</u>
	16,267	–	18,245	–

The balances due to minority shareholders are unsecured, interest free and not repayable within the next year.

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(18) SHARE CAPITAL

(a) Authorised:

	2001 \$'000	2000 \$'000
1,000,000,000 shares of \$0.2 each		
(2000 – 4,000,000,000 shares of \$0.05 each)	<u>200,000</u>	<u>200,000</u>

(b) Issued and fully paid:

2001		2000	
Number of shares of \$0.2 each	Nominal value \$'000	Number of shares of \$0.05 each	Nominal value \$'000
<u>440,949,600</u>	<u>88,190</u>	<u>1,770,984,402</u>	<u>88,549</u>

Pursuant to an ordinary resolution passed on 17th October, 2000, every four issued or unissued shares of \$0.05 each in the capital of the Company were consolidated into one share of \$0.2 each (the "Consolidated Shares") on 18th October, 2000. As a result of this consolidation of shares, the number of authorised shares of the Company decreased from 4,000,000,000 shares to 1,000,000,000 shares and the number of issued and fully paid shares of the Company decreased from 1,770,984,402 shares to 442,746,100 shares.

Subsequent to the consolidation of the shares, the Company repurchased 1,796,500 issued shares at an aggregate price of approximately \$614,000. These shares were subsequently cancelled and the Company's issued number of shares were reduced from 442,746,100 shares to 440,949,600 shares. The nominal value of the cancelled shares of approximately \$359,000 was credited to a capital redemption reserve.

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(18) SHARE CAPITAL (Continued)

(c) Share Option Schemes

Under the terms of the Share Option Scheme which became effective on 5th August, 1991 (the "1991 Share Option Scheme"), the Board of Directors of the Company may, at their absolute discretion, offer to any Director or employee of the Company or any of its subsidiaries options to subscribe for shares in the Company. The maximum number of shares in respect of which options may be granted under the 1991 Share Option Scheme is such number of shares, which, when aggregated with shares subject to any other similar scheme of the Company, represents 10% of the issued share capital of the Company from time to time. The 1991 Share Option Scheme remains in force for a period of 10 years.

On 25th August, 1997, pursuant to the 1991 Share Option Scheme, certain employees and the Directors were granted options to subscribe for a number of shares of \$0.05 each in the Company. Options to subscribe for a total of 45,940,000 shares of \$0.05 each were outstanding as at 31st March, 2001. As a result of the consolidation of shares described in (b) above, the number of shares granted under the 1991 Share Option Scheme was adjusted to 11,485,000 shares of \$0.2 each. The subscription price is the higher of 80% of the average closing price of the shares of the Company on the Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of grant of the option and the nominal value of the shares. No granted options were exercised during the year.

On 17th October, 2000, the Company adopted a new share option scheme (the "2000 Share Option Scheme") which replaced the 1991 Share Option Scheme mentioned above. Upon adoption of the 2000 Share Option Scheme, no further options will be granted under the 1991 Share Option Scheme but in all other respects, the provisions of the 1991 Share Option Scheme shall remain in full force and effect in respect of options which have been granted prior to the adoption of the 2000 Share Option Scheme and which shall continue to be exercisable in accordance with their terms of issue.

Under the 2000 Share Option Scheme, the Board of Directors of the Company may, at their absolute discretion, offer to any Director or employee of the Company or any of its subsidiaries options to subscribe for shares in the Company. Subject to adjustment as a result of any alteration in the capital structure of the Company, the subscription price is the higher of 80% of the average closing price of the shares of the Company on the Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of grant of the option and the nominal value of the shares. The maximum number of shares in respect of which options may be granted under the 2000 Share Option Scheme is such number of shares, which, when aggregated with shares subject to any other similar scheme of the Company, represents 10% of the issued share capital of the Company from time to time. The 2000 Share Option Scheme remains in force for a period of 10 years. As at 31st March, 2001, no share options were granted under the 2000 Share Option Scheme.

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(18) SHARE CAPITAL (Continued)

(c) Share Option Schemes (Continued)

In addition, VHSoft Technologies Company Limited ("VHSoft"), a wholly owned subsidiary of the Group, adopted a share option scheme on 17th October, 2000 (the "VHSoft Share Option Scheme"). Under the VHSoft Share Option Scheme, the Board of Directors of the Company may, at their absolute discretion, offer to any Director or employee of VHSoft options to subscribe for shares in VHSoft in accordance with the terms of the VHSoft Share Option Scheme. Subject to adjustment as a result of any alteration in the capital structure of VHSoft, the subscription price is not less than the nominal value of the shares of VHSoft. The maximum number of shares in respect of which options may be granted under the VHSoft Share Option Scheme is such number of shares, which, when aggregated with shares subject to any other similar scheme of VHSoft, represents 10% of the issued share capital of VHSoft from time to time. The VHSoft Share Option Scheme remains in force for a period of 5 years or expires on the date on which an application for the initial public offering of the shares of VHSoft on an international recognised stock exchange is submitted, whichever is earlier. As at 31st March, 2001, no share options were granted under the VHSoft Share Option Scheme.

(19) SHARE PREMIUM

The share premium represents the premium received on shares issued.

Movements during the year are as follows:

	2001		2000	
	Group \$'000	Company \$'000	Group \$'000	Company \$'000
Balance, beginning of year	415,430	415,430	384,976	384,976
Provision arising from Rights Issue	–	–	34,239	34,239
Direct expenses of Rights Issue	–	–	(3,785)	(3,785)
Balance, end of year	<u>415,430</u>	<u>415,430</u>	<u>415,430</u>	<u>415,430</u>

(20) CAPITAL RESERVE

The amount represents the negative goodwill arising from the acquisition of an associate in 1997.

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(21) RETAINED PROFITS

	2001 \$'000	2000 \$'000
Company	145,615	141,893
Subsidiaries	(44,707)	(61,023)
Associates	5,300	7,055
	<u> </u>	<u> </u>
Total	106,208	87,925

The entire amount of the retained profits of the Group as at 31st March, 2001 is distributable.

(22) INVENTORIES

	2001		2000	
	Group \$'000	Company \$'000	Group \$'000	Company \$'000
Raw materials	5,164	–	7,868	–
Finished goods	4,723	–	8,721	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	9,887	–	16,589	–
Less: Provision for inventory obsolescence	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	–	–	(921)	–
	9,887	–	15,668	–

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(23) TRADE DEBTORS

	2001		2000	
	Group \$'000	Company \$'000	Group \$'000	Company \$'000
Trade debtors	224,051	–	326,404	–
Less: Provision for bad and doubtful debts	(3,824)	–	(5,000)	–
	<u>220,227</u>	<u>–</u>	<u>321,404</u>	<u>–</u>

Aging analysis of trade debtors after provision is as follows:

	2001		2000	
	Group \$'000	Company \$'000	Group \$'000	Company \$'000
Not yet due	208,585	–	288,656	–
Overdue by:				
0–30 days	6,471	–	15,918	–
31–90 days	2,130	–	10,383	–
91–180 days	1,293	–	906	–
over 180 days	1,748	–	5,541	–
	<u>220,227</u>	<u>–</u>	<u>321,404</u>	<u>–</u>

The trade debtors are due after 21 days to one year depending on the nature of services or products.

(24) CONSTRUCTION CONTRACTS

- (a) The aggregate amount of costs incurred plus recognised profits less recognised losses to date, included in “Gross amount due from/to customers for contract work” as at 31st March, 2001, was approximately \$8,039 million (2000 – \$8,046 million).

In respect of construction contracts in progress at the balance sheet date, the amount of retention receivable from customers, recorded under “Long-term trade debtors” and “Trade debtors” included in current assets (Note 16) as at 31st March, 2001, was approximately \$26,850,000 (2000 – \$26,557,000) and \$40,136,000 (2000 – \$56,785,000) respectively.

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(24) CONSTRUCTION CONTRACTS (Continued)

- (b) Subsequent to the year end, the Group has indicated to one of its customers that the Group is considering mediation as an attempt to reach an early commercial settlement on outstanding claims made by the Group relating to one of its completed construction contracts. The amount of the claims made by the Group under this contract including amounts receivable on contract work is approximately \$170 million, a portion of which is included in "Gross amount due from customers for contract work" in the consolidated balance sheet as at 31st March, 2001 based on an external consultant's evaluation of the likely recoverable amount.

(25) PENSION SCHEMES

A defined contribution pension scheme is provided to all the employees eligible and employed by the Group in Hong Kong (the "Employees"). The Group is required to make monthly contributions to the scheme at 5% of the Employees' monthly salary but the Employees are not required to contribute to the scheme. Employees under the defined contribution scheme are entitled to 100% of the employer's contribution and the accrued interest upon retirement or leaving the Group after completing 10 years of service from the date of joining the Group, or at a scale of between 30% and 90% after completing 3 to 9 years of service from the date of joining the Group.

During the year, the employer's contribution charged to the consolidated income statement under the defined contribution scheme amounted to approximately \$5,948,000 (2000 – \$5,758,000).

Since 1st December, 2000, the Group has arranged for its Employees in Hong Kong to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). The MPF Scheme was introduced pursuant to the Mandatory Provident Fund legislation introduced during the year. Under the MPF Scheme, the Group and each of the Employees make monthly contributions to the scheme at 5% of the Employees' earnings as defined under the Mandatory Provident Fund legislation. Both the employer's and the Employees' contributions are subject to a cap of monthly earnings of \$20,000. For those Employees with monthly earnings less than \$4,000, the Employees' contributions are voluntary.

During the year, the aggregate amount of employer's contribution made by the Group to the MPF Scheme was approximately \$2,318,000. The Group's contributions to the MPF Scheme are charged to the consolidated income statement in the period to which they relate.

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(26) BANKING FACILITIES

As at 31st March, 2001, the Group had total banking facilities in respect of overdrafts, short-term bank loans, bank guarantees and trade financing of approximately \$352 million (2000 – \$375 million), none of which (2000 – \$104 million) had been utilised. As at 31st March, 2001, these banking facilities were secured by:

- (a) time deposits of approximately \$134 million (2000 – \$142 million);
- (b) guarantees of approximately \$408 million (2000 – \$439 million) given by the Company; and
- (c) progress billings of certain construction contracts.

(27) COMMITMENTS AND CONTINGENT LIABILITIES

As at 31st March, 2001, the Group had the following outstanding commitments and contingent liabilities:

- (a) In the normal course of its business, the Group is subject to various claims under its construction contracts. As at 31st March, 2001, the Group had various liquidated damages claims on certain contracts for which the Group has filed extension of time claims with the customers. The amount of the ultimate liquidated damages, if any, cannot be ascertained but the Directors are of the opinion that any resulting liability would not materially affect the financial position of the Group.
- (b) Commitments under various contracts entered into in the normal course of business to complete construction and other contracts with a total value of approximately \$474 million (2000 – \$1,235 million) extending to various dates, the latest being January 2003.
- (c) Guarantees in respect of performance bonds which amounted to approximately \$5 million (2000 – \$90 million) in favour of the Group's customers.
- (d) Guarantees in respect of lease, hire purchase or instalment loan facilities to third parties which amounted to approximately \$9 million (2000 – \$17 million) in favour of certain subsidiaries.

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(27) COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

- (e) Operating lease commitments at 31st March, 2001 amounted to approximately \$55,550,000 (2000 – \$54,274,000). Such operating lease commitments as at 31st March, 2001, payable in the next twelve months, analysed according to the period in which the lease expires, are as follows:

	Group	
	2001	2000
	\$'000	\$'000
Land and buildings		
– expiring in the first year	1,142	102
– expiring in the second to fifth years inclusive	1,392	180
– expiring over the fifth year	1,187	1,186
	<u>3,721</u>	<u>1,468</u>
Other equipment		
– expiring in the first year	46	60
	<u>46</u>	<u>60</u>
Total	<u>3,767</u>	<u>1,528</u>

(28) PAYABLE TO SUPPLIERS AND SUBCONTRACTORS

Aging analysis of payable to suppliers and subcontractors is as follows:

	2001		2000	
	Group	Company	Group	Company
	\$'000	\$'000	\$'000	\$'000
Not yet due	132,661	–	105,584	–
Overdue by:				
0–30 days	10,400	–	17,358	–
31–90 days	6	–	920	–
91–180 days	–	–	1	–
over 180 days	–	–	32	–
	<u>143,067</u>	<u>–</u>	<u>123,895</u>	<u>–</u>

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(29) RELATED PARTY TRANSACTIONS

- (a) The balances due from/to subsidiaries and related parties are unsecured, interest free and have no fixed repayment terms.
- (b) The loans to subsidiaries are unsecured, interest free and not repayable within the next year.

(30) SUBSEQUENT EVENT

In May 2001, the Group entered into an agreement to purchase a parcel of land in Causeway Bay at a consideration of \$275 million. The purchase was partly financed by a mortgage loan from a bank.

(31) PRIOR YEAR ADJUSTMENTS

In the prior year, as a result of the adoption of the revised Statement of Standard Accounting Practice Number 1 "Presentation of Financial Statements" issued by the Hong Kong Society of Accountants, the accounting policy for pre-operating expenditures was changed from a straight-line amortisation basis over 5 years to being expensed as incurred. The change in accounting policy was retrospectively applied which resulted in an adjustment of \$4,598,000 to the beginning retained profits of the prior year.

Five Year Financial Summary

(Amounts expressed in Hong Kong dollars)

CONSOLIDATED RESULTS

Year ended 31st March,

	1997 \$'000	1998 \$'000	1999 \$'000	2000 \$'000	2001 \$'000
Turnover	<u>1,614,587</u>	<u>1,620,645</u>	<u>1,875,177</u>	<u>2,041,948</u>	<u>1,781,341</u>
Profit (Loss) before taxation	37,057	21,384	(53,272)	40,057	43,077
Taxation	(7,281)	(6,410)	4,884	(9,086)	(10,331)
Minority interests	<u>622</u>	<u>255</u>	<u>(293)</u>	<u>(646)</u>	<u>(592)</u>
Profit (Loss) attributable to shareholders	<u>30,398</u>	<u>15,229</u>	<u>(48,681)</u>	<u>30,325</u>	<u>32,154</u>

CONSOLIDATED ASSETS AND LIABILITIES

As at 31st March,

	1997 \$'000	1998 \$'000	1999 \$'000	2000 \$'000	2001 \$'000
Total assets	1,125,156	1,360,237	1,162,678	1,117,653	973,409
Total liabilities	<u>(603,554)</u>	<u>(823,037)</u>	<u>(648,303)</u>	<u>(525,380)</u>	<u>(362,853)</u>
Shareholders' equity	<u>521,602</u>	<u>537,200</u>	<u>514,375</u>	<u>592,273</u>	<u>610,556</u>