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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*

* *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
UFJ Bank Limited
Hang Seng Bank Limited
The Hongkong and Shanghai Banking
Corporation Limited

AUDITORS

PricewaterhouseCoopers

SOLICITORS

Gallant Y.T. Ho & Co
T. H. Koo & Associates

HONG KONG SHARE REGISTRARS AND TRANSFER OFFICE

Computer Share Hong Kong Investor Services Ltd.
17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2003 Annual General Meeting of Yau Lee Holdings Limited (the "Company") will be held on Friday, 22nd August 2003 at 10:00 a.m. at 10th Floor, Tower 1, Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong for the following purposes:–

1. To receive and consider the audited consolidated accounts and the Reports of the Directors and Auditors for the year ended 31st March 2003.
2. To re-elect the Directors and to authorise the Board of Directors to fix their remuneration.
3. To re-appoint the Auditors and to authorise the Board of Directors to fix their remuneration.
4. 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;
- (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 share holders 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.

“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.

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

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

Hong Kong, 16th July 2003

Notes:—

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of him. 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 OF THE YEAR

The consolidated turnover of the Company and its subsidiaries (the "Group") for the year ended 31st March 2003 was HK\$933,992,000 compared to HK\$773,413,000 in 2002. The operating profit has decreased by 9% from HK\$14,216,000 in 2002 to HK\$12,894,000 this year. The decline in operating profit is mainly caused by intensive competition as well as declining tender price as a result of the contraction of the construction market in general and the continuing decline in the number of construction projects from the public sector. However, owing to the effective measures such as stringent cost control, efficiency and quality enhancement and total co-operation and commitment of staff members, the operating profit margin has decreased by only 0.4%. However one-off provisions for certain interests in associated companies which include a 25% interest in a property project in Mainland China, information technology research and development costs and application costs for several patent rights totaling HK\$23,378,000 have caused the Group to suffer a net loss of HK\$18,976,000 (2002: profit of HK\$6,455,000).

DIVIDENDS

The Board of Directors does not recommend the payment of a final dividend for the year ended 31st March 2003 (2002: Nil).

REVIEW OF OPERATION

Construction

During the year under review, the Group's wholly owned subsidiary, Yau Lee Construction Company Limited ("Yau Lee Construction") has successfully completed two contracts with a total value of HK\$571 million. The contracts completed are Development at Tseung Kwan O Area 73A and the Relocation of Tang Shiu Kin Hospital A & E Department to Ruttonjee Hospital.

Although the business environment in Hong Kong was difficult, Yau Lee Construction was able to secure four contracts with a total contract value of HK\$1,215 million through competitive tender prices achieved by successful cost control and efficiency enhancement. As a result, the total value of contracts in hand as of 31st March 2003 was HK\$3,115 million, an increase of HK\$839 million from 31st March 2002. Subsequent to 31st March 2003, Yau Lee Construction further secured two contracts with total value of HK\$610 million.

As a result of the decline in construction industry and the pressure of the Government to reduce its budget deficit, the number of both private and public developments have decreased substantially and the competition has intensified. The Group believes that productivity and competitiveness enhancement, quality, safety and environmental management are the keys to survive and success in this difficult time. Despite the continuous drop in tender prices, the Group's ability to effectively control the costs through new and improved construction methods, application of information technologies, efficiency enhancement and uncompromising quality and safety controls have resulted in Yau Lee Construction's success in acquiring of various contracts and awards during the year. This is evidence of the Group's effort being recognised by the industries and will improve the prospect of the Group's future acquisition of government contracts.

Awards received by Yau Lee Construction and its employees during the year:

1. the "Silver Award for the Building Sites (Public Sector)" for the **"Safety Award Scheme for the Construction Industry"** (Development of Tung Chung Area 31 Phase 3)
2. a "Certificate of Merit for the Building Sites (Public Sector)" for the **"Safety Award Scheme for the Construction Industry"** (Redevelopment of Kwai Chung Estate Phase 3)
3. three Awards for "Safety Teams" and "Safety Workers" for the **"Safety Award Scheme for the Construction Industry"** (Redevelopment of Kwai Chung Estate Phase 3, Conversion and Extension to existing schools – Group 2 under School Improvement Programme Phase IV Package I and the Development of 33 Sharp Street East)
4. the "Considerate Contractors Site Award" for the **"Considerate Contractors Site Award Scheme"** (Relocation of Tang Siu Kin Hospital A&E Department to Ruttonjee Hospital and the Development of 33 Sharp Street East)
5. a "Merit Award for Best Safety Working Cycle Site" in the **"Safety Working Cycle Competition"** (Development of Tung Chung Area 31 Phase 3)
6. a "Merit Award for Best Foreman/Supervisor" in the **"Safety Working Cycle Competition"** (Development of Tung Chung Area 31 Phase 3)
7. the "Bronze Award for Best Project Manager/Site Agent" in the **"Safety Working Cycle Competition"** (Development of Tung Chung Area 31 Phase 3)
8. the "Bronze Award for Best Hazard Identification Activity Team (E&M)" in the **"Safety Working Cycle Competition"** (Development of Tung Chung Area 31 Phase 3)
9. the "Bronze Award for Presentation" in the **"Safety Working Cycle Competition"** (Development of Tung Chung Area 31 Phase 3)
10. the "Outstanding Contractor – District Term Contract – Gold Award" in the **"Excellent Estate Maintenance Services Award 2002"** (District Term Contract for the Maintenance and the Vacant Flat Refurbishment)
11. the "Outstanding Supervisor" and "Outstanding Worker" award in the **"Excellent Estate Maintenance Services Award 2002"** (District Term Contract for the Maintenance and the Vacant Flat Refurbishment)

Apart from the above awards, Yau Lee Construction's ISO9001: 2000 certification by HKQAA in August 2002, including "Building Design" and "Renovation Design", will become a great asset to our tendering of design and build contracts in the future.

Building Components Trading and Manufacturing

The continuous downturn of the market has also adversely affected the Group's prefabricated building components business. However, the Group's wholly owned subsidiary, Yau Lee Wah Concrete Precast Products Limited ("Yau Lee Wah") has successfully obtained several contracts with an estimated total value of HK\$100 million, which ensure that there will be adequate volume of work for the coming year. In the coming future, Yau Lee Wah will explore new markets and new businesses. Yau Lee Wah has developed a new metal formwork business line and has planned to participate in several construction products exhibitions in North America, Europe and Japan to further introduce its products to overseas market. Besides, Yau Lee Wah has obtained ISO9001: 2000 certification and implemented Total Quality Management to increase its competitiveness through production process improvement, cost control and management optimisation.

Property Development

The Group purchased a combined site for development at Sharp Street East and Yiu Wah Street in Causeway Bay in 2001 for a total consideration of HK\$299,800,000. The development site area is approximately 10,500 square feet and will be built into a 27-storey commercial building, tentatively named **"33 Sharp Street East"**, with gross floor area of approximately 156,000 square feet. The development work has been progressing smoothly and at its final stage. It is expected to be completed by the end of the third quarter of 2003. Marketing activities for the leasing of units has begun in the second quarter of 2003. The second stage of marketing activities will begin before the issue of the occupation permit. The estimated total investment for the whole development is approximately HK\$500 million. Based on the current market rental level, the property is expected to generate a constant stream of rental income to the Group.

Information Technology

In respect of information technology and construction software business, the Group's wholly owned subsidiary, VHSoft Technologies Company Limited ("VHSoft"), has been actively engaged in products development and market development activities. In Hong Kong, VHSoft was awarded the "Certificate of Merit – 2002 Hong Kong Awards for Industry" by the Industry Department and had successfully acquired contracts from Hong Kong Housing Authority. VHSoft's business in Mainland China is progressing well. It has established branches in Shenzhen, Nanjing, Shanghai and Beijing for agency management and support. VHSoft aims to capture the opportunities and expand its market share in the light of China's admission to the WTO and the increasing infrastructure development. At the same time, product development operation has been relocated to Mainland China to lower the cost.

Building Renovation and Maintenance

As the demand of building renovation and maintenance is increasing, the Building Renovation and Maintenance Division of Yau Lee Construction has introduced the Group's technological advanced project management tools and "Simple Partition System" into new projects to improve efficiency and

reduce costs. The type of contracts includes schools, government departments, public estates and public facilities improvement projects, renovation and maintenance works, etc. The division has received "Certificate of Quality Maintenance Contractors" from the Director of Housing and was awarded the "Outstanding Contractor – District Term Contract Award" in September 2002.

Plumbing Works and Building Material Trading

The Group's wholly owned subsidiary, Ming Hop Company Limited ("Ming Hop"), which specialises in plumbing works and building material trading, has upgraded the ISO9002 certificate to ISO9001:2000 in December 2002 and was awarded the "Gold Award for Building Sites (Sub-contractor)" of the "Safety Award Scheme for the Construction Industry". In the coming year, Ming Hop intends to expand its plumbing work business to the private sector.

OUTLOOK

Due to weak sentiment of the Hong Kong Economy, the difficult business environment in the construction industry and the reduction in Government spending to ease the budget deficit, a complete revival of the construction industry is not expected in the near future. The Group's business prospect is definitely affected. However the Group will continue its efforts in costs control, productivity enhancement to maintain the Group's competitive advantages on technology and pricing. The above measures will increase the Group's competitiveness in tendering of Government building and maintenance contracts and will sustain the Group's profitability. At the same time, the Group will diversify its precast module and building material businesses to seek business opportunities in local and overseas markets. The management believes, empowered by the Group's solid strength and concrete experience, together with the application of advanced construction techniques and new technologies, the objective of further cost control and increasing competitiveness can be accomplished.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

CODE OF BEST PRACTICE

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

By order of the Board

Wong Tin Cheung

Vice Chairman

Hong Kong, 16th July 2003

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31st March 2003, the Group has achieved a growth of turnover by 20.8% from HK\$773,413,000 in 2002 to HK\$933,992,000 this year in a competitive operating environment for the construction market in Hong Kong. However due to the decrease in awarded tender price and continuing contraction of construction market in Hong Kong, the gross profit ratio has decreased from 15.2% in 2002 to 12.1% in 2003.

At 31st March 2003, the Group's total cash in hand was HK\$161,281,000 (2002: HK\$150,477,000) and bank borrowings increased from HK\$315,812,000 in 2002 to HK\$429,647,000. The increase in bank borrowings was due to financing requirement of the property development at 33 Sharp Street East and the increased number of construction projects in progress.

The Group's net debt (total bank borrowings less total cash in hand) to equity ratio increased to 44.9% (2002: 26.8%). The increase was mainly due to the drawdown of the bank loan to finance the property under development. If the property development loan is excluded, the Group has a net debt of only HK\$57,466,000 (2002: HK\$435,000) representing a net debt to equity ratio of 9.6% (2002: 0.1%). As a result of the reclassification of the long-term loan for property under development to current liabilities (as the loan is due for renewal within the coming year), the current ratio (total current assets: total current liabilities) has dropped to 1.0 as compared to 1.7 of 2002 and the Group's net current assets decreased from HK\$225,566,000 in 2002 to HK\$2,714,000.

The short-term and long-term bank borrowings are secured by the Group's property under development, investment in unit trust and certain time deposits. The total bank facilities granted to the Group at 31st March 2003 was approximately HK\$693 million (2002: HK\$665 million), of which HK\$432 million (2002: HK\$317 million) had been utilised.

HUMAN RESOURCES

At 31st March 2003, the Group employed approximately 600 employees in Hong Kong and approximately 350 employees 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 bonus which are based on their performance, double pay, defined contribution provident funds, annual leave, employer sponsored trainings and others.

Employees in Mainland China are remunerated according to the prevailing market conditions in the location of their employment.

SUMMARY OF CONTRACTS

MAJOR CONTRACTS COMPLETED DURING THE YEAR ENDED 31ST MARCH 2003

	Commencement date	Completion date	Original contract value <i>HK\$ million</i>
Relocation of Tang Shiu Kin Hospital A&E Department to Ruttonjee Hospital	May 2001	January 2003	101
Development at Tseung Kwan O Area 73A	August 2000	February 2003	470
Total			<u>571</u>

MAJOR CONTRACTS SECURED IN PRIOR YEAR AND IN PROGRESS DURING THE YEAR ENDED 31ST MARCH 2003

	Commencement date	Original contract value <i>HK\$ million</i>	Estimated remaining works as at 31st March 2003 <i>HK\$ million</i>
Development of Tung Chung Area 31 Phase 3	July 2001	675	409
District Term Contract for the Maintenance and the Vacant Flats Refurbishment of Tsing Yi District 2001/2003	July 2001	46	26
Development of 33 Sharp Street East	August 2001	194	145
Conversion and Extension to Existing Schools – Group 2 under School Improvement Programme Phase IV Package 1	September 2001	140	63
Redevelopment of Kwai Chung Estate Phase 3	March 2002	845	705
Total		<u>1,900</u>	<u>1,348</u>

SUMMARY OF CONTRACTS

MAJOR CONTRACTS SECURED IN CURRENT YEAR AND IN PROGRESS DURING THE YEAR ENDED 31ST MARCH 2003

	Commencement date	Original contract value <i>HK\$ million</i>	Estimated remaining works as at 31st March 2003 <i>HK\$ million</i>
Design and Construction of Fitting-out Works to Buildings and Lands and Other Properties for Kowloon and New Territories-Western Region	June 2002	550	526
Development of Tin Shui Wai Area 102 Phase 3	August 2002	44	10
Remodelling of Tang Shiu Kin Hospital	December 2002	180	164
Development of Tung Chung Area 31 Phase 2	December 2002	441	425
Total		<u>1,215</u>	<u>1,125</u>
Contracts in hand as at 31 March 2003		<u>3,115</u>	<u>2,473</u>

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Wong Ip Kuen

aged 67, 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 39, is the Vice Chairman of the Company, Managing Director of Yau Lee Construction and CEO of VHSoft. Having earned his Bachelor Degree in Civil Engineering at the University of Southampton, Master Degree in Foundation Engineering at the University of Birmingham, and EMBA at the Chinese University of Hong Kong, he has been taking an active role in Hong Kong construction industry for the past decade. He is also the Building Committee Chairman and the Vice-President of the Hong Kong Construction Association, as well as an Adjunct Professor in the Department of Building and Real Estate of the Hong Kong Polytechnic University. He won the “2001 Hong Kong Outstanding Young Digi Persons Award” and the “Bauhinia Cup Outstanding Entrepreneur Award 2002” presented by the Hong Kong Polytechnic University.

Mr. Sun Chun Wai

aged 42, joined the Group in 1992 and was appointed as a Director of the Company in 1994. He has extensive experience in managing and setting up of business operations and manufacturing facilities in Mainland China. He is also responsible for the Group’s marketing and business development in Mainland China. Mr. Sun has been the General Manager of Yau Lee Wah since 1997. He holds a Bachelor of Science degree.

Mr. So Yau Chi

aged 59, joined the Group in 1994 as the General Manager of Yau Lee Construction and was appointed as a Director of the Group 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 sessions.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Yeung Tsun Man, Eric

aged 57, has been a Non-Executive Director of the Company since 1993. Dr. Yeung is Director and Vice President of Perfekta Enterprises Limited, a toy manufacturing company. He holds directorship in companies in Hong Kong, Macau, China, the United States of America and Australia, which are engaged in trading and agriculture businesses. He is a National Standing Committee Member of The Chinese People's Political Consultative Conference, an Executive Committee Council Member of the Hong Kong Management Association, the Chairman of Macau Productivity and Technology Transfer Centre, Member of World Presidents' Organisation and Chief Executives' Organisation. He was awarded the Medal of Merit by the Macau Government in 1994, Commander of the Order of Merit by the Government of Portugal in 1998 & the Medal of Professional Merit by the Macau SAR Government 2001. 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 52, 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), Councillor of the Eastern District Council of the HKSAR, Vice Chairman of the Chinese General Chamber of Commerce, 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.

Mr. Chan, Bernard Charnwut

aged 38, was appointed as a Non-Executive Director of the Company in 2000. A graduate of Pomona College in California, the United States of America, he holds the positions of Deputy Managing Director of Asia Financial Group and Executive Director of Asia Insurance and Asia Commercial Bank. While he is a Councillor of the Legislative Council of the HKSAR, he also serves as the Chairman of the Standing Committee on Disciplined Services Salaries and Conditions of Service, a Director of The Hong Kong Mortgage Corporation Ltd. and a Council Member of Lingnan University. He is also a Member of the Mandatory Provident Fund Schemes Advisory Committee, the Process Review Panel of Securities & Futures Commission, the Hong Kong Government's Business Advisory, the Task Force on Employment, the Fight Crime Committee, and the Committee on Financial Assistance for Family Members of Those Who Sacrifice Their Lives to Save Others. In addition, he serves as an Advisor of the Bangkok Bank, Hong Kong Branch, the Chairperson of The Hong Kong Council of Social Service and the Vice Chairperson of the Community Investment & Inclusion Fund Committee.

SENIOR MANAGEMENT

Mr. Cheung Woon Yin, *Deputy General Manager*

aged 50, joined the Group in 1986 as a Contract Manager and was promoted to his present post in 1996. He has over 30 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.

Ms. Tang Wai Chun, *Chief Quantity Surveyor*

aged 46, joined the Group in 1993, Ms. Tang is a Professional Member of the Royal Institution of Chartered Surveyors and of the Hong Kong Institute of Surveyors, Member of the Chartered Institute of Arbitrators and Registered Professional Surveyor (QS). She is also a Certified General Contractor in Construction in the state of Florida, the United States of America. She holds a Bachelor Degree in Quantity Surveying. She has 24 years of experience in mediation, quantity surveying, project management and subcontracting business in civil, building, maintenance & repair and fitting-out works in Hong Kong, the United Kingdom, Central America and the United States of America. She is responsible for quantity surveying management and contract administration of Yau Lee Construction's projects.

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

aged 39, joined the Group in 1995. Mr. Chui is a Fellow of both the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants. He has 17 years of experience in auditing, accounting and financial management. He holds a BSc(Hons) in Business Economics and Accounting. He is responsible for all corporate finance, accounting and company secretarial matters of the Group.

Mr. Pang Tak Him, *General Manager – Building Renovation Division*

aged 49, joined the Group in 1988 and was promoted to his present post in 2002. He has 30 years of experience in the construction industry. He holds a Higher Certificate in Construction Engineering. He is responsible for overall administration and supervision of the project design & supervisory teams of the Building Renovation Division.

Mr. Chan Sau Kai, *Chief Quantity Surveyor*

aged 56, joined the Group in 2000. Mr. Chan is a Professional Member of Royal Institution of Chartered Surveyors. He has 34 years of experience in quantity surveying. He is responsible for contractual matters of Yau Lee Construction.

Site Management

Contract Managers*

- Cheung Yu Wai
- Ho Tak Ho
- Lam Wai Chung
- Lau Wai Foo
- Wong Kwok Keung

Project Managers*

- Lam Lap Wa
- Man Tin Hung

Head Office Management – Department Heads*

- | | |
|-------------------------|--|
| • Chan Chi Ming Antonio | Building Services Department |
| • Ho Chi Man | Training Department |
| • Ko Hwee Sau Chun | Administration Department |
| • Kwan Man Ho | Machinery & Logistics Department |
| • Kwong Yuk Fong | Information Technology Department |
| • Lam Chan Sing | Health & Safety Department |
| • Lee Shiu Ming | Research Design & Development Department |
| • Leung Sau Lin | Finance & Accounts Department |
| • Wong Ming Tak | Tender Department |
| • Yu Chi Kin | Quality Department |

Subsidiaries Management

VHSoft

- | | |
|-----------------------|-------------------------|
| • Mak Yiu Kau, Hubert | Chief Operating Officer |
|-----------------------|-------------------------|

Yau Lee Wah

- | | |
|------------------|---------------------------|
| • Wong Chi Leung | Assistant General Manager |
|------------------|---------------------------|

*Ming Hop**

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

* *In alphabetical order*

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited accounts of Yau Lee Holdings Limited (the “Company”) and its subsidiaries (collectively the “Group”) for the year ended 31st March 2003.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are contracting of building construction, plumbing, maintenance and fitting-out projects in Hong Kong. In addition, the Group is engaged in other activities which include the manufacture and supply of building materials and the development of a property.

The Group’s turnover and gross profit for the year ended 31st March 2003, which were derived principally from the contracting of building construction, plumbing, maintenance and fitting-out projects carried out in Hong Kong, are as follows:

	Turnover <i>HK\$’000</i>	Operating profit/(loss) contributed to the Group’s results <i>HK\$’000</i>
Contracting of building construction, plumbing, maintenance and fitting-out projects	913,198	31,062
Others	20,794	(18,168)
	<u>933,992</u>	<u>12,894</u>

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 25.

The Directors do not recommend the payment of a dividend.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in Note 25 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in Note 10 to the accounts.

PRINCIPAL PROPERTY

Details of the principal property held for development purposes are set out on page 70.

DISTRIBUTABLE RESERVES

At 31st March 2003, the reserves of the Company available for distribution amount to approximately HK\$151,429,000 (2002: HK\$151,661,000).

SHARE CAPITAL AND SHARE PREMIUM

Details of the share capital and share premium of the Group and the Company are set out in Notes 24 and 25 respectively to the accounts.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws and there is no restriction against such rights under the laws of Bermuda.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 69.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

SHARE OPTION SCHEMES AND DIRECTORS' RIGHTS TO ACQUIRE SHARES

The Company has the following share option schemes 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 also set out in Note 24(a) to the accounts.

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.

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

Summary of details of the Share Option Scheme:

Participants	: Full-time employees (including Executive Directors of the Company or any of its subsidiaries)
Total number of ordinary shares of the Company available for issue and the percentage of the issued share capital that it represents at the date of annual report	: 44,094,960 ordinary shares (10% of the issued share capital of the Company)
Maximum entitlement of each participant	: Shall not exceed 25% of the aggregate number of shares subject to the Share Option Scheme at the time of the proposed grant of that option
Period within which the securities must be taken up under an option	: One year after the date of grant and no later than ten years from the date of adoption of the Share Option Scheme
Minimum period for which an option must be held before it can be exercised	: Not applicable
Period within which payments/calls/loan must be made/repaid	: Not applicable
Basis of determining the exercise price	: 80% of the average closing price of the Company's ordinary shares as stated in the daily quotation sheets issued by the Stock Exchange of Hong Kong Limited (the "SEHK") for the five business days immediately preceding the date of offer or the nominal value of the shares, whichever is higher.
The remaining life of the share option scheme	: The scheme remains in force for a period of 10 years until 16th October 2010.

At 31st March 2003, no share options were granted under the Share Option Scheme.

SHARE OPTION SCHEMES AND DIRECTORS' RIGHTS TO ACQUIRE SHARES *(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. At 31st March 2003, no share options were granted under the VHSOFT Share Option Scheme.

Summary of details of the VHSOFT Share Option Scheme:

Participants	:	Directors and full-time employees of VHSOFT
Total number of ordinary shares of VHSOFT available for issue	:	10% of the issued share capital of VHSOFT
Maximum entitlement of each participant	:	Shall not exceed 25% of the aggregate number of shares subject to the VHSOFT Share Option Scheme at the time of the proposed grant of that option
Period within which the securities must be taken up under an option	:	No later than five years from the date of adoption of the VHSOFT Share Option Scheme
Minimum period for which an option must be held before it can be exercised	:	Not applicable
Period within which payments/calls/loan must be made/repaid	:	Not applicable
Basis of determining the exercise price	:	Not less than the nominal value of the shares of VHSOFT
The remaining life of the share option scheme	:	The scheme remains in force for a period of five years until 16th October 2005 or expires on the date on which application for the initial public offering of the shares of VHSOFT on an international recognised stock exchange is submitted, whichever is earlier.

DIRECTORS

The Directors during the year were:

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

Dr. Yeung Tsun Man, Eric and Mr. Wu King Cheong were appointed for a two-year term expiring on 31st March 2004. As for Mr. Chan, Bernard Charnwut, he was also appointed for a two-year term expiring on 4th June 2004.

In accordance with the Company's bye-laws, Mr. Wong Ip Kuen and Mr. So Yau Chi retire by rotation and being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the Directors who is proposed for re-election at the forthcoming annual general meeting has a service contract with the Group which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 31st March 2003, 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 of its associated companies thereof (within the meaning of the SDI Ordinance) of which the Company and the SEHK 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	230,679,599

The 230,679,599 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 2003, no right to subscribe for equity of the Company was exercised by any of the Directors or chief executive of the Company or the spouses or children under 18 years of age of such Directors and chief executive.

Save as otherwise disclosed in this report, none of the Directors or chief executive or their associated companies had any other interests (whether beneficial or non-beneficial) in the share capital of the Company or any other associated companies as defined in the SDI Ordinance at 31st March 2003.

SUBSTANTIAL SHAREHOLDERS

At 31st March 2003, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the Company had not been notified of any substantial shareholders' interests, being 5% or more of the Company's issued share capital, other than the Director's interests as disclosed above.

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.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases

– the largest supplier	4.85%
– five largest suppliers	18.34%

Sales

– the largest customer	78.88%
– five largest customers	98.80%

None of the Directors, their associates, or any shareholder (which to the best knowledge of the Directors owns more than 5% of the Company's share capital) had any interests in the major suppliers or customers noted above.

CONNECTED TRANSACTIONS

Significant related party transactions entered into by the Group during the year ended 31st March 2003, which did not constitute connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") are disclosed in Note 28 to the accounts.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in the Listing Rules.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the group audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The Committee comprises three independent Non-Executive Directors, namely Dr. Yeung Tsun Man, Eric, Mr. Wu King Cheong and Mr. Chan, Bernard Charnwut. Two meetings were held during the current financial year.

AUDITORS

Arthur Andersen & Co. were auditors of the Company for the year ended 31st March 2001.

The accounts have been audited by PricewaterhouseCoopers for the years ended 31st March 2002 and 2003 who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Wong Tin Cheung
Vice Chairman

Hong Kong,
16th July 2003

AUDITORS' REPORT

AUDITORS' REPORT TO THE SHAREHOLDERS OF
YAU LEE HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the accounts on pages 25 to 68 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's Directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts 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 accounts 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 accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, 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 accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group at 31st March 2003 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong,
16th July 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st March 2003

	Notes	2003 HK\$'000	2002 HK\$'000
Turnover	2	933,992	773,413
Cost of sales		<u>(820,805)</u>	<u>(656,010)</u>
Gross profit		113,187	117,403
Other revenues	2	2,545	6,508
Administrative expenses		(102,194)	(113,647)
Other operating (expenses)/income, net		<u>(644)</u>	<u>3,952</u>
Operating profit	3	12,894	14,216
Finance costs	5	(6,278)	(4,688)
Provision for impairment of patents, trademarks and development costs	12(b), 13(b)	(13,298)	–
Provision for impairment of interests in associated companies	16(c)	(10,080)	–
Share of profit of associated companies		<u>3,641</u>	<u>809</u>
(Loss)/profit before taxation		(13,121)	10,337
Taxation	6	<u>(5,595)</u>	<u>(3,379)</u>
(Loss)/profit after taxation		(18,716)	6,958
Minority interests		<u>(260)</u>	<u>(503)</u>
(Loss)/profit attributable to shareholders	7	<u>(18,976)</u>	<u>6,455</u>
Dividend		<u>–</u>	<u>–</u>
(Loss)/earnings per share	8	<u>(4.30) cents</u>	<u>1.46 cents</u>

BALANCE SHEETS

As at 31st March 2003

		2003		2002	
	Note	Group HK\$'000	Company HK\$'000	Group HK\$'000	Company HK\$'000
Non-current assets					
Fixed assets	10	152,169	–	165,918	–
Property under development	11	380,230	–	329,977	–
Development costs	12	2,295	–	6,433	–
Patents and trademarks	13	–	–	3,610	–
Long-term trade debtors	21	39,045	–	17,515	–
Loans to employees	14	3,204	–	3,417	–
Interests in subsidiaries	15	–	361,075	–	364,225
Interests in associated companies	16	26,569	637	37,175	486
Other investments	17	5,484	5,461	5,731	5,461
		<u>608,996</u>	<u>367,173</u>	<u>569,776</u>	<u>370,172</u>
Current assets					
Cash and bank balances		16,088	342	16,341	503
Time deposits		2,485	–	5,809	1,883
Restricted deposits	18	142,708	6,499	128,327	4,540
Trade debtors	19	146,766	–	143,282	–
Inventories	20	8,884	–	8,475	–
Prepayments, deposits and other receivables	14	25,697	963	21,127	1,172
Prepaid tax		181	37	474	–
Due from customers on construction contracts	21	277,570	–	215,282	–
Short-term investments		12,043	1,630	3,370	–
Due from subsidiaries		–	380,562	–	375,510
Due from related parties	28(a)	30	30	29	29
		<u>632,452</u>	<u>390,063</u>	<u>542,516</u>	<u>383,637</u>

BALANCE SHEETS

As at 31st March 2003

	Note	2003		2002	
		Group HK\$'000	Company HK\$'000	Group HK\$'000	Company HK\$'000
Current liabilities					
Bank overdrafts – secured		33,247	–	18,412	–
Short-term bank loans					
– secured		185,500	–	132,500	–
Current portion of finance					
lease obligations	22	1,567	–	3,881	–
Current portion of long-term					
bank loans – secured	22	210,900	–	–	–
Payable to suppliers and					
subcontractors	23	102,503	–	66,480	–
Accruals, retentions payable					
and other liabilities		73,934	137	83,675	137
Taxation payable		4,316	–	4,910	418
Due to customers on					
construction contracts	21	16,667	–	5,698	–
Due to subsidiaries		–	101,691	–	97,614
Due to related parties	28(a)	1,104	–	1,394	–
		<u>629,738</u>	<u>101,828</u>	<u>316,950</u>	<u>98,169</u>
Net current assets		<u>2,714</u>	<u>288,235</u>	<u>225,566</u>	<u>285,468</u>
Total assets less current liabilities		<u>611,710</u>	<u>655,408</u>	<u>795,342</u>	<u>655,640</u>
Non-current liabilities					
Long-term liabilities	22	188	–	165,002	–
Deferred taxation	6	7,648	–	7,750	–
		<u>7,836</u>	<u>–</u>	<u>172,752</u>	<u>–</u>
Minority interests		<u>5,839</u>	<u>–</u>	<u>5,579</u>	<u>–</u>
		<u>598,035</u>	<u>655,408</u>	<u>617,011</u>	<u>655,640</u>

BALANCE SHEETS

As at 31st March 2003

	Note	2003		2002	
		Group HK\$'000	Company HK\$'000	Group HK\$'000	Company HK\$'000
Financed by:					
Share capital	24	88,190	88,190	88,190	88,190
Other reserves	25	415,789	415,789	415,789	415,789
Retained profits	25	94,056	151,429	113,032	151,661
Shareholders' equity		<u>598,035</u>	<u>655,408</u>	<u>617,011</u>	<u>655,640</u>

Wong Tin Cheung
Director

Sun Chun Wai
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March 2003

	2003 HK\$'000	2002 HK\$'000
Total equity at beginning of year	617,011	616,729
(Loss)/profit for the year	(18,976)	6,455
Dividend paid	—	(6,173)
Total equity at end of year	<u>598,035</u>	<u>617,011</u>

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March 2003

	Note	2003 HK\$'000	2002 HK\$'000
Cash flows from operating activities			
Net cash used in operations	(a)	(13,785)	(60,492)
Hong Kong profits tax paid		(5,971)	(10,976)
Net cash used in operating activities		(19,756)	(71,468)
Cash flows from investing activities			
Payment for property under development		(44,465)	(326,527)
Addition of development costs		(4,688)	(3,877)
Addition of patents and trademarks		(862)	(2,407)
Purchase of fixed assets		(9,310)	(11,240)
Payment for other investments		–	(5,461)
Payment for short-term investments		(9,746)	(3,233)
Proceeds from disposal of short-term investments		–	3,276
Proceeds from disposal of fixed assets		484	1,403
Dividends received		116	1,386
Interest received		2,504	6,235
Net cash used in investing activities		(65,967)	(340,445)
Cash flows from financing activities			
Drawdown of long-term bank loans		46,000	164,900
Addition of short-term bank loans		53,000	132,500
(Increase)/decrease in restricted deposits		(14,381)	5,468
Capital elements of finance lease payments		(5,086)	(4,214)
Dividend paid		–	(6,173)
Interest paid		(12,060)	(8,104)
Interest element of finance lease payments		(162)	(349)
Net cash from financing activities	(b)	67,311	284,028
Decrease in cash and cash equivalents		(18,412)	(127,885)
Cash and cash equivalents at beginning of year		3,738	131,623
Cash and cash equivalents at end of year		(14,674)	3,738
Analysis of cash and cash equivalents			
Cash and bank balances		16,088	16,341
Time deposits		2,485	5,809
Bank overdrafts – secured		(33,247)	(18,412)
		(14,674)	3,738

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March 2003

(a) Reconciliation of operating profit to net cash used in operations

	2003 HK\$'000	2002 HK\$'000
Operating profit	12,894	14,216
Interest income	(2,504)	(6,235)
Dividend income	(41)	(273)
Loss/(gain) on disposal of fixed assets	413	(22)
Interest element of finance lease payments	156	315
Amortisation of development costs	—	1,195
Amortisation of patents and trademarks	—	35
Depreciation	25,020	25,035
Unrealised losses on short-term investments	1,073	1,571
Realised gains on short-term investments	—	(290)
Provision for impairment in value of other investments	247	2,161
Operating profit before working capital changes	37,258	37,708
(Increase)/decrease in long-term trade debtors	(21,530)	9,335
Decrease in loans to employees	213	1,061
(Increase)/decrease in trade debtors	(3,484)	76,945
(Increase)/decrease in inventories	(409)	1,412
(Increase)/decrease in prepayments, deposits and other receivables	(4,570)	5,916
Increase in due from customers on construction contracts	(62,288)	(30,481)
Increase in amounts due from related parties	(1)	(2)
Decrease in amounts due from associated companies	5,243	2,697
Increase/(decrease) in payable to suppliers and subcontractors	36,023	(76,587)
Decrease in accruals, retentions payable and other liabilities	(9,741)	(10,431)
Increase/(decrease) in due to customers on construction contracts	10,969	(79,051)
(Decrease)/increase in amounts due to related parties	(290)	74
(Decrease)/increase in amounts due to associated companies	(1,178)	912
Net cash used in operations	(13,785)	(60,492)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March 2003

(b) Analysis of changes in financing during the year

	2003							2002
	Share capital	Share premium	Minority interests	Finance lease obligations	Long-term bank loans	Short-term bank loans	Restricted deposits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at beginning of year	88,190	415,430	5,579	3,983	164,900	132,500	(128,327)	382,617
Net cash (outflow)/inflow from financing activities	-	-	-	(5,086)	46,000	53,000	(14,381)	298,654
Share of profit by minority shareholders	-	-	260	-	-	-	-	503
Inception of finance lease obligations	-	-	-	2,858	-	-	-	481
Balance at end of year	88,190	415,430	5,839	1,755	210,900	185,500	(142,708)	682,255

NOTES TO THE ACCOUNTS

31st March 2003

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, short-term investments are stated at fair value.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for the current accounting period:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 15 (revised)	:	Cash flow statements
SSAP 34 (revised)	:	Employee benefits

Certain presentational changes have been made upon the adoption of SSAP 1 (revised) and SSAP 15 (revised). The effects of adopting SSAP 34 (revised) are set out in the accounting policies below.

The Group has adopted paragraph 162 of SSAP 34 (revised) which is effective for periods commencing on or after 1st January 2003, in advance of its effective date.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st March. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one-half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend income.

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)***(c) Goodwill/negative goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary or associated company at the date of acquisition.

Goodwill is amortised over a period ranging from five to fifteen years.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

For acquisitions after 1st April 2001, negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately.

For acquisitions prior to 1st April 2001, negative goodwill was taken directly to reserves on acquisition.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of.

(d) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies on acquisition.

In the Company's balance sheet, the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividend income.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)***(e) Fixed assets**

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Plant and machinery	10%
Furniture, fixtures and office equipment	25%
Motor vehicles	25%
Motor launch	10%
Land and buildings held under medium-term lease	2% – 5%
Leasehold improvements	25%

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(f) Property under development

Property under development is under construction and intend to be held for investment purposes. The property is carried at cost which includes development and construction expenditure incurred and interest and other direct costs attributable to the development less any accumulated impairment losses.

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)***(g) Assets under leases***(i) Finance leases*

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over their estimated useful lives.

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(h) Investments in securities*(i) Short-term investments*

Short-term investments are carried at fair value in the balance sheet. Any unrealised holding gain and loss on short-term investments is recognised in the profit and loss account in the period when it arises. Upon disposal or transfer of short-term investments, any profit or loss thereon is accounted for in the profit and loss account.

(ii) 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 profit and loss account unless there is evidence that the decline is temporary.

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)***(h) Investments in securities** *(Continued)***(ii) Other investments** *(Continued)*

Provisions against the carrying value of other investments are reversed to the profit and loss account 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 of other investments, any profit and loss thereon are accounted for in the profit and loss account.

(i) Patents and trademarks

Patents and trademarks, which represent costs incurred in respect of the application for patents and trademarks for construction-related software and website hosting services, are capitalised and amortised on a straight-line basis over a period of four years.

(j) Research and development costs

Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than four years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Research costs are expensed as incurred.

(k) Inventories

Inventories represent building materials for sale and are stated at the lower of cost and net realisable value.

Cost, calculated on the first-in, first-out basis, 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 determined on the basis of anticipated sales proceeds less estimated selling expenses.

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)***(l) Construction contracts in progress**

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are probable of recovery. Contract costs are recognised when incurred.

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised over the period of the contract, respectively, as revenues and expenses. The Group uses the percentage of completion method to determine the appropriate amount of revenue and costs to be recognised in a given period; the stage of completion is measured by reference to contract revenue certified to date as a percentage of total contract value. When it is probable total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The aggregate of the costs incurred and the profit/loss recognised on each contract is compared against the progress billings up to the year-end. Where costs incurred and recognised profits (less recognised losses) exceed progress billings, the balance is shown as due from customers on construction contracts, under current assets. Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as due to customers on construction contracts, under current liabilities.

(m) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(n) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

(o) Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where a provision is expected to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)***(p) Contingent liabilities and contingent assets**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(q) Deferred taxation

Deferred taxation is accounted for at the current taxation rate using the liability method in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(r) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)***(s) Employee benefits**

Contributions to the defined contribution retirement scheme are charged to the profit and loss account in the year in which the contributions relate.

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity are not recognised until the time of leave.

Provisions for bonus plans due wholly within twelve months after balance sheet date are recognised when there is a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(t) Revenue recognition**(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 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, taking into account the principal amounts outstanding and the interest rates applicable.

(iv) Dividend income

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

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)***(u) Translation of foreign currencies**

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at that date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at weighted average rate for the year. Exchange differences arising are dealt with as a movement in reserves.

(v) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash, and mainly exclude investments in securities and investment properties. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to intangible assets, fixed assets and property under development.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

2. TURNOVER, REVENUES AND SEGMENT INFORMATION

The Group is principally engaged in contracting of building construction, maintenance and fitting-out projects. Revenues recognised during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Turnover		
Contracting of building construction, maintenance and fitting-out projects	913,198	744,469
Others	20,794	28,944
	933,992	773,413
Other revenues		
Dividend income on listed short-term investments	41	273
Interest income	2,504	6,235
	2,545	6,508
Total revenues	936,537	779,921

Primary reporting format – business segments

The Group is organised into two main business segments:

- Construction – Contracting of building construction, plumbing, maintenance and fitting-out projects
- Property development – Development of a property in Hong Kong

Other operations of the Group mainly comprise investment holding and the manufacture and supply of building materials neither of which are of a sufficient size to be reported separately.

Secondary reporting format – geographical segments

The Group's operation is primarily conducted in Hong Kong and over 90% of the Group's assets are located in Hong Kong. Therefore, no geographical segment information is presented.

2. TURNOVER, REVENUES AND SEGMENT INFORMATION (Continued)**Primary reporting format – business segments**

	Construction HK\$'000	Property Development HK\$'000	Others HK\$'000	Elimination HK\$'000	Total HK\$'000
Year ended 31st March 2003					
External sales	913,198	–	20,794	–	933,992
Intersegment sales	49,075	–	61,577	(110,652)	–
Total sales	<u>962,273</u>	<u>–</u>	<u>82,371</u>	<u>(110,652)</u>	<u>933,992</u>
Segment results	<u>52,396</u>	<u>8</u>	<u>(3,669)</u>	<u>(33,002)</u>	15,733
Unallocated costs					<u>(2,839)</u>
Operating profit					12,894
Finance costs					(6,278)
Provision for impairment of patents, trademarks and development costs					(13,298)
Provision for impairment of interests in associated companies					(10,080)
Share of profits of associated companies					<u>3,641</u>
Loss before taxation					(13,121)
Taxation					<u>(5,595)</u>
Loss after taxation					(18,716)
Minority interests					<u>(260)</u>
Loss attributable to shareholders					<u>(18,976)</u>
Segment assets	664,401	381,212	152,280		1,197,893
Interests in associated companies					26,569
Unallocated assets					<u>16,986</u>
Total assets					<u>1,241,448</u>
Segment liabilities	(409,639)	(210,908)	(17,389)		(637,936)
Unallocated liabilities					<u>(5,477)</u>
Total liabilities					<u>(643,413)</u>
Capital expenditure	6,633	50,253	8,191		65,077
Depreciation	14,163	–	10,857		25,020
Other non-cash expenses	1,399	–	14,796		<u>16,195</u>

2. TURNOVER, REVENUES AND SEGMENT INFORMATION (Continued)**Primary reporting format – business segments** (Continued)

	Construction HK\$'000	Property Development HK\$'000	Others HK\$'000	Elimination HK\$'000	Total HK\$'000
Year ended 31st March 2002					
External sales	744,469	–	28,944	–	773,413
Intersegment sales	14,100	–	43,059	(57,159)	–
Total sales	<u>758,569</u>	<u>–</u>	<u>72,003</u>	<u>(57,159)</u>	<u>773,413</u>
Segment results	<u>32,644</u>	<u>(170)</u>	<u>(14,496)</u>	<u>(60)</u>	<u>17,918</u>
Unallocated costs					<u>(3,702)</u>
Operating profit					14,216
Finance costs					(4,688)
Share of profits of associated companies					809
Profit before taxation					10,337
Taxation					<u>(3,379)</u>
Profit after taxation					6,958
Minority interests					<u>(503)</u>
Profit attributable to shareholders					<u>6,455</u>
Segment assets	572,497	330,470	155,962		1,058,929
Interests in associated companies					37,175
Unallocated assets					<u>16,188</u>
Total assets					<u>1,112,292</u>
Segment liabilities	(305,645)	(166,222)	(16,819)		(488,686)
Unallocated liabilities					<u>(6,595)</u>
Total liabilities					<u>(495,281)</u>
Capital expenditure	4,342	329,977	13,663		347,982
Depreciation	14,746	–	10,289		25,035
Amortisation	–	–	1,230		1,230
Other non-cash expenses	2,927	–	2,738		<u>5,665</u>

3. OPERATING PROFIT

Operating profit is stated after charging/(crediting) the following:

	2003 HK\$'000	2002 HK\$'000
Depreciation		
– Owned assets	24,256	23,755
– Leased fixed assets	764	1,280
	25,020	25,035
Operating lease rental of		
– Land and buildings	4,417	5,087
– Other equipment	13,616	13,743
	18,033	18,830
Cost of inventories	49,982	43,544
Provision for doubtful debts	645	1,674
Write-off of doubtful debts	119	259
Provision for impairment of value in other investments	247	2,161
Write-off of obsolete inventories	548	–
Auditors' remuneration	960	988
Unrealised losses on short-term investments	1,073	1,571
Loss/(gain) on disposal of fixed assets	413	(22)
Exchange gain, net	(148)	(160)

4. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments paid to Directors of the Company during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Executive Directors:		
Fees	—	—
Salaries	8,562	9,301
Performance-related bonus	774	1,106
Retirement benefits	384	428
	<u>9,720</u>	<u>10,835</u>
Independent Non-Executive Directors:		
Fees	750	750
	<u>10,470</u>	<u>11,585</u>

The emoluments of the Directors fell within the following bands:

Emolument bands	2003 Number of Directors	2002 Number of Directors
HK\$Nil – HK\$1,000,000	4	3
HK\$1,000,001 – HK\$1,500,000	—	1
HK\$1,500,001 – HK\$2,000,000	2	1
HK\$2,000,001 – HK\$2,500,000	—	1
HK\$5,000,001 – HK\$5,500,000	1	—
HK\$5,500,001 – HK\$6,000,000	—	1

4. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)**(b) Five highest-paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include three (2002: three) Directors whose emoluments are reflected in the analysis above. The emoluments paid to the remaining two (2002: two) individuals during the year were as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries	1,708	1,854
Performance-related bonus	505	721
Retirement benefits	79	86
	<u>2,292</u>	<u>2,661</u>

The emoluments fell within the following bands:

Emolument bands	2003 Number of individuals	2002 Number of individuals
HK\$1,000,001 – HK\$1,500,000	<u>2</u>	<u>2</u>

5. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on overdrafts and short-term bank loans	6,272	4,654
Interest on long-term bank loans wholly repayable within five years	5,788	3,450
Interest element of finance lease payments	<u>162</u>	<u>351</u>
Total borrowing costs incurred	12,222	8,455
Less:		
Interest capitalised in property under development	(5,788)	(3,450)
Transferred to construction cost	<u>(156)</u>	<u>(317)</u>
	<u>6,278</u>	<u>4,688</u>

The capitalisation rate applied to funds borrowed for the property under development (Note 11) is between 2.88% and 3.41% (2002: 3.29% and 5.09%) per annum.

6. TAXATION

- (a) Hong Kong profits tax has been provided at the rate of 16% (2002: 16%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents:

	2003 HK\$'000	2002 HK\$'000
Current taxation		
Hong Kong profits tax	5,694	8,353
Over provisions in prior years	(24)	(2,741)
Deferred taxation	(102)	(2,644)
	<u>5,568</u>	<u>2,968</u>
Share of taxation attributable to associated companies	27	411
	<u>5,595</u>	<u>3,379</u>

- (b) Movement in deferred taxation comprises:

	2003 HK\$'000	2002 HK\$'000
Balance at beginning of year	7,750	10,394
Reversal of net timing differences	(102)	(2,644)
	<u>7,648</u>	<u>7,750</u>

- (c) Deferred taxation has been provided in respect of accelerated depreciation allowances. There are no material deferred taxation not provided for in the accounts.

7. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of approximately HK\$232,000 (2002: profit of HK\$6,046,000).

8. (LOSS)/EARNINGS PER SHARE

The calculation of loss per share is based on the Group's loss attributable to shareholders of HK\$18,976,000 (2002: profit of HK\$6,455,000) and on the weighted average of 440,949,600 (2002: 440,949,600) issued shares during the year.

Diluted earnings per share is not presented as there are no dilutive potential shares for the options granted under the Company's share option scheme.

9. STAFF COSTS

	2003 HK\$'000	2002 HK\$'000
Salaries and wages (excluding Directors' emoluments)	140,709	151,585
Pension costs	6,528	6,563
	147,237	158,148

The Group contributes to the Mandatory Provident Fund Scheme (the "MPF Scheme") which was provided to all the employees in Hong Kong. The Group and each of the employees make monthly contributions to the MPF Scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. Employees' contributions are subject to a cap of monthly earnings of HK\$20,000. In addition to the mandatory contributions, the Group makes monthly voluntary contributions to the MPF Scheme at 5% of certain employees' earnings in excess of HK\$20,000. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

NOTES TO THE ACCOUNTS

31st March 2003

10. FIXED ASSETS

	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Motor launch <i>HK\$'000</i>	Land and buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Total <i>HK\$'000</i>
Group							
Cost							
Balance at beginning of year	137,351	43,074	20,859	1,685	85,010	4,808	292,787
Additions	4,386	3,267	2,855	–	841	819	12,168
Disposals	(3,621)	(5,681)	(2,957)	–	–	(411)	(12,670)
Balance at end of year	138,116	40,660	20,757	1,685	85,851	5,216	292,285
Accumulated depreciation							
Balance at beginning of year	64,278	27,253	16,590	1,643	12,361	4,744	126,869
Charge for the year	12,922	6,389	3,428	42	2,204	35	25,020
Write-back on disposals	(3,395)	(5,423)	(2,844)	–	–	(111)	(11,773)
Balance at end of year	73,805	28,219	17,174	1,685	14,565	4,668	140,116
Net book value							
At 31st March 2003	64,311	12,441	3,583	–	71,286	548	152,169
At 31st March 2002	73,073	15,821	4,269	42	72,649	64	165,918

(a) Cost of land and buildings is made up as follows:

	Hong Kong <i>HK\$'000</i>	Mainland China <i>HK\$'000</i>	Total <i>HK\$'000</i>
Medium-term leasehold, at cost	65,255	20,596	85,851

10. FIXED ASSETS (Continued)

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

	2003	Group
	HK\$'000	2002
		HK\$'000
Plant and machinery	—	7,377
Motor vehicles	<u>2,510</u>	<u>1,038</u>
Total	<u>2,510</u>	<u>8,415</u>

11. PROPERTY UNDER DEVELOPMENT

	2003	Group
	HK\$'000	2002
		HK\$'000
Land costs	299,800	299,800
Development costs	71,192	26,727
Interest capitalised	<u>9,238</u>	<u>3,450</u>
	<u>380,230</u>	<u>329,977</u>

The property under development is held in Hong Kong under a long-term lease and is pledged as security for a bank loan (Note 22).

The Directors are of the opinion that there is no impairment in the value of the property under development at 31st March 2003.

12. DEVELOPMENT COSTS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Cost		
Balance at beginning of year	7,915	8,538
Additions	4,688	3,877
Disposals	—	(4,500)
	<hr/>	<hr/>
Balance at end of year	12,603	7,915
	<hr/>	<hr/>
Accumulated amortisation and accumulated impairment losses		
Balance at beginning of year	1,482	4,787
Amortisation for the year	—	1,195
Write-back on disposals	—	(4,500)
Provision for impairment during the year	8,826	—
	<hr/>	<hr/>
Balance at end of year	10,308	1,482
	<hr/>	<hr/>
Net book value		
At 31st March 2003	2,295	6,433
	<hr/>	<hr/>
At 31st March 2002	6,433	3,751
	<hr/>	<hr/>

- (a) Development costs mainly represent expenditures incurred to develop a unique type of partition for office use, and construction-related computer software and website hosting services.
- (b) Although the construction-related computer software developed and the website hosting services have started to generate income for the Group, the uncertainty of the future economy in Hong Kong has rendered it difficult to reasonably estimate the amount of future cash flows to be derived from the sales as well as the use of the construction-related technologies in construction contracts. As a result, management has made a provision against the remaining unamortised balance of the related development costs. The construction-related computer software and website hosting services are being employed in the Group construction contracts and have resulted in a more efficient and effective construction process, which would ultimately benefit the customers. The Group will continue to market the software and utilise its construction related technology in its construction work for the long-term benefit of its construction business.

13. PATENTS AND TRADEMARKS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Cost		
Balance at beginning of year	3,645	1,238
Additions	862	2,407
	<hr/>	<hr/>
Balance at end of year	4,507	3,645
	<hr/>	<hr/>
Accumulated amortisation and accumulated impairment losses		
Balance at beginning of year	35	–
Amortisation for the year	–	35
Provision for impairment during the year	4,472	–
	<hr/>	<hr/>
Balance at end of year	4,507	35
	<hr/>	<hr/>
Net book value		
At 31st March 2003	–	3,610
	<hr/>	<hr/>
At 31st March 2002	3,610	1,238
	<hr/>	<hr/>

- (a) Patents and trademarks represent costs incurred to apply for patent and trademark rights in relation to the development of construction-related computer software and website hosting services.
- (b) In relation to the provision made against the development cost incurred on the construction-related computer software and website hosting services as described in Note 12(b), a provision has been made against the remaining unamortised balance of the associated cost of patents and trademarks.

14. LOANS TO EMPLOYEES

The Group provides housing loans to certain employees and the loans are secured by second mortgage of the related properties of the employees. The repayment period ranges from two to twelve years with interest at 1% below prime rate. Amounts receivable within one year of approximately HK\$543,000 (2002: HK\$626,000) are included in prepayments, deposits and other receivables.

15. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	276,075	276,075
Advances to subsidiaries	85,000	88,150
	<u>361,075</u>	<u>364,225</u>

The directors are of the opinion that there is no impairment in the value of interests in subsidiaries at 31st March 2003.

The following is a list of the principal subsidiaries at 31st March 2003:

Name	Place of incorporation/ operation	Particulars of issued capital	Principal activities	Percentage of issued share capital held by		Group
				Company	Subsidiaries	
Australian Development Holdings Pty. Limited	Australia	A\$2	Investment holding	–	100%	100%
Bellaglade Company Limited	Hong Kong	HK\$2	Property holding	–	100%	100%
Century Score Limited	Hong Kong	HK\$2	Investment in real estate properties	–	100%	100%
Chapman Engineering Consultant Company Limited	Hong Kong	HK\$100	Building services engineering consultant	–	60%	60%
Koshen Engineering Limited	Hong Kong	HK\$10,000	Provision of design, consulting and project management services	–	100%	60%

15. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ operation	Particulars of issued capital	Principal activities	Percentage of issued share capital held by		Group
				Company	Subsidiaries	
Ming Hop Company Limited	Hong Kong	HK\$500,000	Sourcing of construction materials and execution of plumbing work	–	100%	100%
Nanjing Autocon Technology Company Limited (Note a)	Mainland China	US\$500,000	Development and sale of construction equipment and computer software	–	100%	100%
Nanjing Nanda VH Software Intelligence Company Limited (Note b)	Mainland China	RMB1,500,000	Development and sale of computer software	–	70%	70%
Right Motive Limited	Hong Kong	HK\$6,000	Property holding	–	100%	100%
Solid Star Company Limited	Hong Kong	HK\$2	Property holding	–	100%	100%
SPS Company Limited	Hong Kong	HK\$2	Manufacturing and trading of office partition	–	100%	100%
Trendplot Investments Limited	Hong Kong	HK\$2	Provision of management services	–	100%	100%
VHBuild Company Limited	Hong Kong	HK\$2	Provision of website hosting services	–	100%	100%
VHCOME Company Limited	Hong Kong	HK\$2	Business to business sale of construction materials	–	100%	100%
VHSoft Company Limited	Hong Kong	HK\$5,000,000	Computer software development	–	100%	100%

NOTES TO THE ACCOUNTS

31st March 2003

15. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ operation	Particulars of issued capital	Principal activities	Percentage of issued share capital held by		Group
				Company	Subsidiaries	
VHSoft I.P. Company Limited	Hong Kong	HK\$2	Patent holding	–	100%	100%
VHSoft Technologies Company Limited	Hong Kong	HK\$2	Computer software development	–	100%	100%
Yau Lee Building Construction and Decoration Company Limited	Hong Kong	HK\$100,000	Building construction, maintenance and fitting-out	–	100%	100%
Yau Lee Construction Company Limited	Hong Kong	HK\$100,000,000	Building construction, maintenance and fitting-out	–	100%	100%
Yau Lee Construction Materials & Technology Limited	Hong Kong	HK\$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	HK\$2	Investment holding	–	100%	100%
Yau Lee Equipment Leasing Limited	Hong Kong	HK\$2	Investment in real estate properties	–	100%	100%
Yau Lee Investment Limited	The Cook Islands/ Hong Kong	US\$100	Investment holding	100%	–	100%

15. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ operation	Particulars of issued capital	Principal activities	Percentage of issued share capital held by		Group
				Company	Subsidiaries	
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	HK\$10,000,000	Sale of precast products	–	100%	100%
Yau Lee Wah Concrete Precast Products (Shenzhen) Company Limited (Note a)	Mainland China	RMB39,076,066	Manufacture of precast products	–	100%	100%
Yau Sing Building Materials Company Limited	Hong Kong	HK\$500,000	Investment holding	–	63%	63%
Yau Lee Property Management Limited	Hong Kong	HK\$2	Provision of property management services	–	100%	100%

(a) These subsidiaries are wholly foreign-owned enterprises established in Mainland China.

(b) The subsidiary is a contractual joint venture established in Mainland China.

16. INTERESTS IN ASSOCIATED COMPANIES

	2003		2002	
	Group HK\$'000	Company HK\$'000	Group HK\$'000	Company HK\$'000
Share of net assets	6,501	—	2,962	—
Amounts due from associated companies	30,148	637	35,391	486
Amounts due to associated companies	—	—	(1,178)	—
	36,649	637	37,175	486
Less: Provision for impairment in interests in associated companies (Note c)	(10,080)	—	—	—
	26,569	637	37,175	486

(a) The following is a list of the principal associated companies at 31st March 2003:

Name	Place of incorporation/ operation	Particulars of issued share capital	Principal activities	Percentage of issued share capital held by		Group
				Subsidiaries	Associated companies	
Bonland Investment Limited	Hong Kong	HK\$100	Investment holding	30%	—	30%
Bonjoy Company Limited	Hong Kong	HK\$100	Provision of shipping transportation services and investment holding	—	100%	30%
Shunde Yau Lee Building Components Company Limited ("Shunde Yau Lee") (Note b)	Mainland China	US\$1,707,714	Manufacture of building materials	52.7%	—	33.2%

16. INTERESTS IN ASSOCIATED COMPANIES (Continued)

(a) (Continued)

Name	Place of incorporation/ operation	Particulars of issued share capital	Principal activities	Percentage of issued share capital held by		Group
				Subsidiaries	Associated companies	
Yau Lee Development Company Limited ("YLDC") (Note c)	Hong Kong	HK\$100	Property development	50%	–	50%
Yau Lee Property Development (China) Company Limited	Hong Kong	HK\$200	Investment holding	46%	–	46%

- (b) One of the subsidiaries of the Group has a 52.7% interest in Shunde Yau Lee. However, the subsidiary can only appoint 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 which is therefore accounted for as an associated company.
- (c) The Company has an indirect interest of 25% in Fuli Building, a residential and commercial property project in Shunde, Mainland China, which was jointly developed by YLDC and a Chinese party. Due to the sluggishness of the Shunde property market, an impairment provision has been made to reflect the Group's proportionate share of the recoverable value in Fuli Building.
- (d) The amounts due from and to associated companies are unsecured, interest-free and have no fixed repayment terms.
- (e) Except as disclosed above, the Directors are of the opinion that there is no other impairment in the value of interests in associated companies at 31st March 2003.

17. OTHER INVESTMENTS

	2003		2002	
	Group HK\$'000	Company HK\$'000	Group HK\$'000	Company HK\$'000
Listed shares in Hong Kong, at cost less provision	23	–	270	–
Guaranteed unit trust fund	5,461	5,461	5,461	5,461
	5,484	5,461	5,731	5,461
Market value of listed shares	23	–	270	–

The Directors are of the opinion that there is no other impairment that is other than temporary in the value of other investments at 31st March 2003.

18. RESTRICTED DEPOSITS

Restricted deposits are funds which are pledged to secure the bank overdrafts and short-term bank loans.

19. TRADE DEBTORS

	Group	
	2003 HK\$'000	2002 HK\$'000
Trade debtors	149,085	144,956
Less: Provision for doubtful debts	(2,319)	(1,674)
	146,766	143,282

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

19. TRADE DEBTORS (Continued)

The aging analysis of the trade debtors of the Group after provision is as follows:

	2003	2002
	HK\$'000	HK\$'000
Not yet due	130,607	129,842
Overdue by:		
0-30 days	7,272	3,023
31-90 days	777	3,715
91-180 days	551	3,516
over 180 days	7,559	3,186
	146,766	143,282

20. INVENTORIES

	2003	Group 2002
	HK\$'000	HK\$'000
Raw materials	2,507	3,276
Finished goods	6,377	5,199
	8,884	8,475

21. CONSTRUCTION CONTRACTS IN PROGRESS

	2003	Group 2002
	HK\$'000	HK\$'000
Contract costs incurred plus attributable profits less foreseeable losses to date	9,178,083	8,229,176
Less: Progress billings to date	(8,917,180)	(8,019,592)
	260,903	209,584
Included in current assets/(liabilities) under the following captions:		
Due from customers on construction contracts	277,570	215,282
Due to customers on construction contracts	(16,667)	(5,698)
	260,903	209,584

21. CONSTRUCTION CONTRACTS IN PROGRESS (Continued)

- (a) Retention receivables from customers in respect of construction contracts in progress amounting to HK\$39,045,000 (2002: HK\$17,515,000) and HK\$8,767,000 (2002: HK\$39,474,000) are classified under long-term trade debtors and trade debtors respectively.
- (b) The Board of Directors has indicated that the Group will instigate a formal arbitration process with one of its customers as provided for in the construction contract in an attempt to reach a satisfactory 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 HK\$93,000,000, a portion of which is included in "Due from customers on construction contracts" in the consolidated balance sheet at 31st March 2003 based on an external consultant's evaluation of the likely recoverable amount.

22. LONG-TERM LIABILITIES

	2003 HK\$'000	Group 2002 HK\$'000
Obligations under finance lease contracts		
– Repayable within one year	1,567	3,881
– Repayable in the second to fifth years	188	102
	1,755	3,983
Amounts due within one year included under current liabilities	(1,567)	(3,881)
	188	102
Long-term bank loans wholly repayable within five years	210,900	164,900
Amounts due within one year included under current liabilities	(210,900)	–
	–	164,900
	188	165,002

The bank loans are wholly repayable on 30th October 2003. Interest is charged on the outstanding balance at HIBOR plus 1.5%. The bank loan is secured by the property under development (Note 11).

23. PAYABLE TO SUPPLIERS AND SUBCONTRACTORS

The aging analysis of the payable to suppliers and subcontractors of the Group is as follows:

	2003 HK\$'000	2002 <i>HK\$'000</i>
Not yet due	95,342	59,558
Overdue by:		
0-30 days	6,784	6,922
31-90 days	—	—
91-180 days	—	—
over 180 days	377	—
	102,503	66,480

24. SHARE CAPITAL

	2003 HK\$'000	2002 <i>HK\$'000</i>
Authorised:		
1,000,000,000 shares of HK\$0.2 each	200,000	200,000
Issued and fully paid:		
440,949,600 shares of HK\$0.2 each	88,190	88,190

24. SHARE CAPITAL *(Continued)***(a) Share Option Schemes**

On 17th October 2000, the Company adopted a share option scheme (the “Share Option Scheme”) under which 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 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 Share Option Scheme remains in force for a period of 10 years. At 31st March 2003, no share options have been granted under the 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 internationally recognised stock exchange is submitted, whichever is earlier. At 31st March 2003, no share options have been granted under the VHSoft Share Option Scheme.

25. OTHER RESERVES AND RETAINED PROFITS

Group	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April 2002	415,430	359	113,032	528,821
Loss for the year	—	—	(18,976)	(18,976)
At 31st March 2003	415,430	359	94,056	509,845
Representing:				
Company and subsidiaries	415,430	359	84,744	500,533
Associated companies	—	—	9,312	9,312
At 31st March 2003	415,430	359	94,056	509,845
At 1st April 2001	415,430	359	112,750	528,539
Profit for the year	—	—	6,455	6,455
2001 Final dividend declared and paid	—	—	(6,173)	(6,173)
At 31st March 2002	415,430	359	113,032	528,821
Representing:				
Company and subsidiaries	415,430	359	107,334	523,123
Associated companies	—	—	5,698	5,698
At 31st March 2002	415,430	359	113,032	528,821

25. OTHER RESERVES AND RETAINED PROFITS *(Continued)*

	2003 HK\$'000	2002 HK\$'000
Company		
Retained profits		
Balance at beginning of year	151,661	151,788
(Loss)/profit for the year	(232)	6,046
2001 Final dividend declared and paid	<u>—</u>	<u>(6,173)</u>
Balance at end of year	<u>151,429</u>	<u>151,661</u>

The entire amount of retained profits of the Group and the Company at 31st March 2003 is distributable.

26. BANKING FACILITIES

The Group had total banking facilities in respect of overdrafts, short-term bank loans, bank guarantees and trade financing of approximately HK\$693 million (2002: HK\$665 million), of which HK\$432 million (2002: HK\$317 million) had been utilised. These banking facilities are secured by the following:

- (a) Time deposits of approximately HK\$143 million (2002: HK\$128 million).
- (b) Guarantees of approximately HK\$788 million (2002: HK\$770 million) given by the Company.
- (c) Investment in unit trust of approximately HK\$5 million (2002: HK\$5 million).
- (d) Trade receivables of certain construction contracts.
- (e) Property under development (Note 11).

27. COMMITMENTS AND CONTINGENT LIABILITIES

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. At 31st March 2003, 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 HK\$1,084 million (2002: HK\$1,269 million) extending to various dates, the latest being March 2005.
- (c) Guarantees in respect of performance bonds that amount to approximately HK\$3 million (2002: HK\$3 million) in favour of the Group's customers.
- (d) Guarantees in respect of hire purchase amount to HK\$3 million (2002: HK\$9 million) in favour of certain subsidiaries.
- (e) The future aggregate minimum lease rental payable under non-cancellable operating lease is as follows:

	2003	Group
	2003	2002
	HK\$'000	HK\$'000
Land and buildings		
– Not later than one year	3,109	2,772
– Later than one year and not later than five years	7,660	6,466
– Later than five years	41,242	44,613
	52,011	53,851
Other equipment		
– Not later than one year	238	41
– Later than one year and not later than five years	47	65
	285	106
	52,296	53,957

28. RELATED PARTY TRANSACTIONS

- (a) The balances due from and to 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.

29. APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 16th July 2003.

FIVE YEAR FINANCIAL SUMMARY

CONSOLIDATED RESULTS

Year ended 31st March

	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000
Turnover	<u>1,875,177</u>	<u>2,041,948</u>	<u>1,781,341</u>	<u>773,413</u>	<u>933,992</u>
(Loss)/profit before taxation	(53,272)	40,057	43,077	10,337	(13,121)
Taxation	4,884	(9,086)	(10,331)	(3,379)	(5,595)
Minority interests	<u>(293)</u>	<u>(646)</u>	<u>(592)</u>	<u>(503)</u>	<u>(260)</u>
(Loss)/profit attributable to shareholders	<u>(48,681)</u>	<u>30,325</u>	<u>32,154</u>	<u>6,455</u>	<u>(18,976)</u>

CONSOLIDATED ASSETS AND LIABILITIES

At 31st March

	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000
Total assets	1,162,678	1,117,653	973,409	1,112,292	<u>1,241,448</u>
Total liabilities	<u>(648,303)</u>	<u>(525,380)</u>	<u>(356,680)</u>	<u>(495,281)</u>	<u>(643,413)</u>
Shareholders' equity	<u>514,375</u>	<u>592,273</u>	<u>616,729</u>	<u>617,011</u>	<u>598,035</u>

PROPERTY HELD FOR DEVELOPMENT

As at 31st March 2003

					Gross			
		Leasehold	Site area		floor area	State of	Expected	
	Lot number	expiry	in square	Use	in square	completion	completion	Remarks
			feet		feet		date	
23, 25, 27,	IL 730 sB ss4 sC ss1	1881– 2880	10,428	Commercial	155,896	Construction	September	A single
29, 31, 33,	IL 730 sB ss4 sC RP					in progress	2003	office and
35, 37, 39,	IL 730 sB ss4 sD ss1							commercial
41, 43 and	IL 730 sB ss4 sD RP							tower
45 Sharp	IL 730 sB ss6 sA							
Street East	IL 730 sB ss6 RP							
and 11 and	IL 730 sC RP							
13 Yiu Wah	IL 730 sC ss1							
Street,	IL 5457 RP							
Causeway	IL 5458 RP							
Bay, Hong	IL 5459 RP							
Kong	IL 5460 RP							
	IL 5461							
	IL 5462							