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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>
<http://www.irasia.com/listco/hk/yaulee>

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
Shanghai Commercial Bank Limited

AUDITORS

PricewaterhouseCoopers

SOLICITORS

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

HONG KONG SHARE REGISTRARS AND TRANSFER OFFICE

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

RESULTS OF THE YEAR

The consolidated turnover of Yau Lee Holdings Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31st March 2004 was HK\$1,069,158,000 compared with HK\$933,992,000 in 2003. The gross profit, however, decreased to HK\$105,845,000 (2003: HK\$113,187,000). The decline in gross profit is mainly caused by the continuing decline in the number of construction projects from the public sector which leads to intensive competition as well as declining tender pricing. However, owing to stringent control on administration costs, and no further provision is required for interests in associated companies, development costs and patent costs, the Group achieved a profit before taxation of HK\$703,000 (2003: loss of HK\$13,121,000).

DIVIDEND

The Directors recommend the payment of a final dividend of HK\$0.01 per share (2003: Nil) for the year ended 31st March 2004. Subject to shareholders' approval at the forthcoming Annual General Meeting, the final dividend will be paid on 22nd September 2004 to shareholders whose names appear on the Company's register of members on 20th August 2004.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 16th August 2004 to Friday, 20th August 2004, both dates inclusive, during which no transfer of shares will be effected. In order to qualify for the proposed final dividend, all share transfers accompanied by the relevant share certificate must be lodged with the Company's branch share register in Hong Kong, Computershare Hong Kong Investor Services Limited at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:00 p.m. on Friday, 13th August 2004.

REVIEW OF OPERATION

Building Construction, Building Renovation and Maintenance

During the year under review, the Group's wholly owned subsidiary, Yau Lee Construction Company Limited ("Yau Lee Construction") has successfully completed five contracts with a total contract value of HK\$910,000,000. The contracts completed are Development of Tung Chung Area 31 Phase 3, District Term Contract for the Maintenance and the Vacant Flats Refurbishment of Tsing Yi District 2001/2003, Conversion and Extension to Existing Schools – Group 2 under School Improvement Programme Phase IV Package 1, Development of Tin Shui Wai Area 102 Phase 3 and Hong Kong International Airport Toilet Improvement Works Phase IV.

Despite the current difficult business environment in Hong Kong, Yau Lee Construction was able to secure seven new contracts with a total contract value of HK\$1,490,000,000 through competitive tender prices achieved by successful cost control and efficiency enhancement. As a result, the total value of contracts in hand as at 31st March 2004 was HK\$3,506,000,000, representing an increase of HK\$391,000,000 from the previous year. These new contracts include two design and build contracts, building renovation and maintenance contracts and hospital renovation and improvement works. Subsequent to 31st March 2004, Yau Lee Construction has further obtained a public housing maintenance contract worth approximately HK\$32,000,000.

Although there are signs of recovery of the Hong Kong economy in the second half of last year, the construction industry is yet to benefit from this recovery. Pressure of the Government to reduce its budget deficit by cutting expenditure and that both private and public development activities remained at low level have intensified competition. The Group believes not only that increasing productivity through application of innovative building methods and information technologies, stringent quality control, efficient safety and environmental management will achieve cost control objectives. These measures will also enable the Group to capture other potential business opportunities when the business environment improves.

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

1. the "Silver Award for Outstanding Contractor under the Building Category" for the **Quality Public Housing Construction & Maintenance Award 2003**.
2. the "Bronze Award for Outstanding Contractor under the District Term Contract Category" for the **Quality Public Housing Construction & Maintenance Award 2003**.
3. the "Outstanding Site Team" and "Outstanding Supervisor" for the **Quality Public Housing Construction & Maintenance Award 2003**.
4. the "Considerate Site Award" for the **Considerate Contractors Site Award Scheme** (Tung Chung Area 31 Phase 2).
5. the "Considerate Site Award" for the **Considerate Contractors Site Award Scheme** (Tung Chung Area 31 Phase 3).
6. the "Site Cleanliness and Tidiness Grand Award – Bronze Award (Non-Public Works)" for the **Considerate Contractors Site Award Scheme** (Tung Chung Area 31 Phase 2).
7. the "Silver Award for Building Sites (Public Sector)" for **Safety Award Scheme for the Construction Industry** (Education Resource Centre Cum Public Transport Interchange at Kowloon Tong).
8. the "Silver Award for Building Sites (Public Sector)" for **Safety Award Scheme for the Construction Industry** (Redevelopment of Kwai Chung Estate Phase 3).
9. the "Bronze Award for Building Sites (Public Sector)" for **Safety Award Scheme for the Construction Industry** (Tung Chung Area 31 Phase 2).
10. the "Bronze Award and two Merit Awards for Safety Team" for **Safety Award Scheme for the Construction Industry** (Education Resource Centre Cum Public Transport Interchange at Kowloon Tong, Redevelopment of Kwai Chung Estate Phase 3 and Tung Chung Area 31 Phase 2).
11. the "Safety Worker Award for Safety Team" for **Safety Award Scheme for the Construction Industry**.

Building Components Trading and Manufacturing

Despite the fact that the construction market has not yet recovered, the Group's prefabricated building components business has been able to achieve business growth through development of new products and expansion into the private sector. The Group's wholly owned subsidiary, Yau Lee Wah Concrete Precast Products Company Limited ("Yau Lee Wah") has successfully obtained contracts with an estimated total value of HK\$140,000,000, including projects from the Government as well as private property developers. In the near future, Yau Lee Wah will continue to explore new markets and businesses, as well as striving for contracts of precast products and other building materials from both public and private sectors.

Property Development

The Group purchased a combined site for development at Sharp Street East and Yiu Wah Street in Causeway Bay in 2001. The development site area is approximately 10,500 square feet and has been built into a 27-storey commercial building, named as "33 Sharp Street East". The project was completed and occupation permit was issued in December 2003. A number of floors have been leased to various restaurants and catering groups which have already started their respective operations in the first and second quarters of 2004. The leases will generate a constant stream of rental income to the Group.

Information Technology

The Group's wholly owned subsidiary, VHSoft Technologies Company Limited ("VHSoft"), has been actively marketing its self-developed software systems in Hong Kong and Mainland China, as well as providing tailor-made project management, tendering system and property management software development services for public and private sectors. VHSoft has obtained over HK\$8,000,000 worth of software development contracts.

Plumbing Works and Building Material Trading

Ming Hop Company Limited ("Ming Hop") of the Group specialises in plumbing works and building materials trading. In addition to providing reliable installation and design services to Yau Lee Construction's projects, Ming Hop has successfully entered the plumbing and drainage maintenance market for private buildings. Going forward, Ming Hop will continue to focus on both streams of business.

OUTLOOK

Although Hong Kong economy has started to improve in the third quarter of 2003, the business environment in the construction industry has remained difficult. Due to the reduction in Government spending to ease the budget deficit, a complete revival of the construction industry is not expected in the near future, and the Group's outlook has also been affected. However, the Group will continue its effort in cost control and productivity enhancement to maintain the Group's competitive advantages on pricing and technology. The above measures are expected to 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 opportunities in local, mainland and overseas

markets. The management believes, following the opening of 33 Sharp Street East and its continuous tenanting, together with the Group's solid strength and concrete experience, application of advanced construction techniques and technologies, the objectives of further cost control and increasing competitiveness can be achieved.

PURCHASE, SALE OR REDEMPTION OF SHARES

There was no purchase, sale or redemption of the Company's shares by the Company or any of its subsidiaries during the year ended 31st March 2004.

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 Ip Kuen

Chairman

Hong Kong

20th July 2004

FINANCIAL REVIEW

For the year ended 31st March 2004, the Group has achieved growth in turnover of 14.5% from HK\$933,992,000 in 2003 to HK\$1,069,158,000 this year in a competitive operating environment of construction market in Hong Kong. However due to intensified competition and cost fluctuation in certain materials, the gross profit ratio has decreased from 12.1% in 2003 to 9.9% in 2004.

At 31st March 2004, the Group's total cash in hand was HK\$183,360,000 (2003: HK\$161,281,000) and bank borrowings increased from HK\$429,647,000 in 2003 to HK\$590,893,000. The increase in bank borrowings was due to additional loan of HK\$97,000,000 drawn for the property development project at 33 Sharp Street East and approximately HK\$64,000,000 additional borrowing required to finance the working capital requirement for the increased number of construction projects in progress. As a result, the Group's net debt (total bank borrowings less total cash in hand) to equity ratio increased slightly to 50.1% (2003: 44.9%). If the property development loan of HK\$307,800,000 is excluded the Group has a net debt of only HK\$99,733,000 (2003: HK\$57,466,000) representing a healthy net debt to equity ratio of 12.3% (2003: 9.6%). As the long term loan for property development is due in August 2004 it is classified as current liabilities, the current ratio (total current assets: total current liabilities) has dropped to 0.9. However subsequent to 31st March 2004, the Group has entered into an arrangement with a bank to refinance the loan with a 5 year term loan. Therefore the Group pro-forma current ratio, after excluding the property development loan of HK\$307,800,000, shall be substantially improved to 1.48.

The short-term and long-term bank borrowings are secured by the Group's investment property, investment in unit trust and certain time deposits. Interest on bank loans are charged at floating rates and the Company monitors interest rate risks continuously and hedges any excessive risk when necessary. The total bank facilities granted to the Group at 31st March 2004 was approximately HK\$748 million (2003: HK\$693 million), of which approximately HK\$601 million (2003: HK\$432 million) had been utilised.

In the normal course of its business, the Group is subject to various claims under its construction contracts including liquidated damages claims. 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.

HUMAN RESOURCES

At 31st March 2004, the Group employed approximately 680 employees in Hong Kong and approximately 610 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 locations of their employments.

SUMMARY OF CONTRACTS

CONTRACTS COMPLETED DURING THE YEAR ENDED 31ST MARCH 2004

	Commencement date	Completion date	Original contract value <i>HK\$ million</i>
Development of Tung Chung Area 31 Phase 3	July 2001	December 2003	675
Maintenance and the Vacant Flats Refurbishment of Tsing Yi District 2001/2003	July 2001	November 2003	46
Conversion and Extension to Existing Schools – Group 2 under School Improvement Programme Phase IV Package 1	September 2001	September 2003	140
Development of Tin Shui Wai Area 102 Phase 3	August 2002	June 2003	44
Hong Kong International Airport – Toilets Improvement Works Phase IV	July 2003	December 2003	5
Total			<hr/> 910 <hr/>

CONTRACTS SECURED IN PRIOR YEARS AND IN PROGRESS DURING THE YEAR ENDED 31ST MARCH 2004

	Commencement date	Original contract value <i>HK\$ million</i>	Estimated remaining works as at 31st March 2004 <i>HK\$ million</i>
Redevelopment of Kwai Chung Estate Phase 3	March 2002	845	381
Remodelling of Tang Shiu Kin Hospital	December 2002	180	126
Design & Construction of Fitting-out Works to Buildings and Lands and Other Properties for Kowloon and New Territories -Western Region	June 2002	550	155
Development of Tung Chung Area 31 Phase 2	December 2002	441	298
Total		<u>2,016</u>	<u>960</u>

CONTRACTS SECURED IN CURRENT YEAR AND IN PROGRESS DURING THE YEAR ENDED 31ST MARCH 2004

	Commencement date	Original contract value <i>HK\$ million</i>	Estimated remaining works as at 31st March 2004 <i>HK\$ million</i>
Construction of Education Resource Center cum Public Transport Interchange at Kowloon Tong	May 2003	397	353
Design and Construction of Joint User Building at Rock Hill Street Kennedy Town	July 2003	213	182
Po Leung Kuk School Improvement Programme – Group 2	December 2003	87	86
Design Renovation and Conversion of Old Married Quarters and the Design and Construction of Supporting Facilities for the Reprovisioning of Victoria Prison at Lai Chi Kok reception Centre	March 2004	228	228
Total		<u>925</u>	<u>849</u>

CONTRACTS SECURED IN CURRENT YEAR BUT COMMENCE WORK SUBSEQUENT TO THE YEAR ENDED 31ST MARCH 2004

	Commencement date	Original contract value <i>HK\$ million</i>	Estimated remaining works as at 31st March 2004 <i>HK\$ million</i>
Term Contract for the Alterations, Additions, Maintenance & Repairs of Buildings and Lands and Other Properties for which the Architectural Services Department (Property Services Branch) is responsible (Kwun Tong, Mongkok & Yaumatei)	April 2004	218	218
Term Contract for the Alterations, Additions, Maintenance & Repairs of Buildings and Lands and Other Properties for which the Architectural Services Department (Property Services Branch) is responsible (Tuen Mun & Yuen Long)	April 2004	347	347
Total		<u>565</u>	<u>565</u>
Contracts in hand as at 31st March 2004		<u>3,506</u>	<u>2,374</u>

EXECUTIVE DIRECTORS

Mr. Wong Ip Kuen

aged 68, 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 40, 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 43, 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 60, 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 58, 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 electronics, 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, Trustee of Macau Foundation, Member of Macau Economic Council, Member of Macau Science and Technology Council, 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 in 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 53, 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 Hong Kong Housing Authority, 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 an Executive Director of Lee Cheong Gold Dealers Limited. Mr. Wu is also a Non-Executive Director of Chevalier iTech Holdings Limited, a company listed on the Stock Exchange.

Hon. Chan, Bernard Charnwut

aged 39, was appointed as a Non-Executive Director of the Company in 2000. A graduate from Pomona College in California, USA, he holds the positions of Deputy Managing Director of Asia Financial Group, President of Asia Insurance and Director of 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 Limited and a Council Member of Lingnan University. He is also a member of the Mandatory Provident Fund Schemes Advisory Committee, Insurance Advisory Committee, Greater Pearl River Delta Business Council, Economic & Employment Council, and the Committee on Financial Assistance for Family Members of Those Who Sacrifice Their Lives to Save Others. In addition, he is also an Advisor of the Bangkok Bank (Hong Kong Branch), the Chairman of Hong Kong – Thailand Business Council, 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 51, joined Yau Lee Construction 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 47, 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 25 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.

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

aged 40, 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 18 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 50, joined Yau Lee Construction in 1988 and was promoted to his present post in 2002. He has over 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 57, joined the Group in 2000. Mr. Chan is a Professional Member of Royal Institution of Chartered Surveyors. He has 35 years of experience in quantity surveying. He is responsible for contractual matters of Yau Lee Construction.

Site Management

Contract Managers*

- Cheung Yu Wai
- 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 |
| • Wong Wai Man | Corporate Development 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 2004.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

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

The Group's turnover and operating profit for the year ended 31st March 2004 are analysed as follows:

	Turnover <i>HK\$'000</i>	Operating profit/(loss) <i>HK\$'000</i>
Contracting of building construction, plumbing, maintenance and fitting-out projects	1,047,856	8,546
Property leasing	241	(1,986)
Others	21,061	2,880
	<u>1,069,158</u>	<u>9,440</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 recommend the payment of a final dividend of HK\$0.01 per share, totaling approximately HK\$4,409,000.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in Note 27 to the accounts.

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately HK\$48,000.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in Note 11 to the accounts.

PRINCIPAL PROPERTY

Details of the principal property held for investment purposes are set out on page 76.

DISTRIBUTABLE RESERVES

At 31st March 2004, the reserves of the Company available for distribution amounted to approximately HK\$151,490,000 (2003: HK\$151,429,000).

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 26 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 75.

PURCHASE, SALE OR REDEMPTION OF SHARES

There was no purchase, sale or redemption of the Company's shares by the Company or any of its subsidiaries during the year ended 31st March 2004.

SHARE OPTION SCHEMES AND DIRECTORS' RIGHTS TO ACQUIRE SHARES

Since 17th October 2000, the Company has operated a share option scheme (the "Share Option Scheme") under which the Company may grant options to Directors and employees of the Group to subscribe for shares in the Company. At 31st March 2004, no share options have been granted under the Share Option Scheme.

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

A summary of the details of the Share Option Scheme are as follows:

Purpose of the scheme	: To retain qualified and skilled employees to contribute to the development of the Group
Participants	: Full-time employees (including Executive Directors of the Company and any of its subsidiaries)
Total number of 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 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 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

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

In addition, VHSoft Technologies Company Limited ("VHSoft"), a wholly owned subsidiary of the Group, has operated a share option scheme effective on 17th October 2000 (the "VHSoft Share Option Scheme"). Under the VHSoft Share Option Scheme, the board of directors of VHSoft 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 2004, no share options have been granted under the VHSoft Share Option Scheme.

A summary of the details of the VHSoft Share Option Scheme are as follows:

Purpose of the scheme	: To retain qualified and skilled employees to contribute to the development of VHSoft
Participants	: Directors and full-time employees of VHSoft
Total number of ordinary shares of VHSoft available for issue and the percentage of the issued share capital that it represents at the date of annual report	: 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

Save as otherwise disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement 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.

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

In accordance with the Company's bye-laws, Dr. Yeung Tsun Man, Eric and Mr. Wu King Cheong retire by rotation at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

Dr. Yeung Tsun Man, Eric and Mr. Wu King Cheong were appointed for a two-year term expiring on 31st March 2006. Mr. Chan, Bernard Charnwut was appointed for a two-year term expiring on 4th June 2006.

DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Group which is not determinable by the employer 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' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 31st March 2004, the interests of each Director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Shares of HK\$0.2 each in the Company

Director	Number of shares held (long position)	
	Corporate interest	Percentage
Mr. Wong Ip Kuen	230,679,599	52.3%

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, none of the Directors and chief executives (including their spouses and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares or debentures of the Company and its associated corporations.

At no time during the year was the Company, its subsidiaries or, its associated companies a party to any arrangement to enable the Directors and chief executives of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporation.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES OF THE COMPANY

At 31st March 2004, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had not been notified of any substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital, other than those of the Directors and chief executives as disclosed above.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company 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	9.08%
– five largest suppliers	21.34%

Sales

– the largest customer	70.52%
– five largest customers	98.50%

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 an interest 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 2004, which do not constitute connected transactions under the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules") are disclosed in Note 32 to the accounts.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year.

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 external 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

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Wong Ip Kuen

Chairman

Hong Kong
20th July 2004

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 74 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 solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 as at 31st March 2004 and of the Group's loss and cash flows 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
20th July 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st March 2004

		2004	As restated
	Notes	HK\$'000	2003 HK\$'000
Turnover	2	1,069,158	933,992
Cost of sales		(963,313)	(820,805)
Gross profit		105,845	113,187
Other revenues	2	1,896	2,545
Administrative expenses		(100,943)	(102,194)
Other operating income/(expenses), net		2,642	(644)
Operating profit	3	9,440	12,894
Finance costs	5	(8,808)	(6,278)
Provision for patents, trademarks and development costs	13, 14	–	(13,298)
Provision on amounts due from associated companies	17	–	(10,080)
Share of profit of associated companies		71	3,641
Profit/(loss) before taxation		703	(13,121)
Taxation	6	(1,491)	(4,541)
Loss after taxation		(788)	(17,662)
Minority interests		779	(260)
Loss attributable to shareholders	7	(9)	(17,922)
Dividend	8	4,409	–
Loss per share	9	(0.002) cents	(4.06) cents

BALANCE SHEETS

As at 31st March 2004

		2004		2003	
				As restated	
	Note	Group HK\$'000	Company HK\$'000	Group HK\$'000	Company HK\$'000
Non-current assets					
Fixed assets	11	831,142	–	152,169	–
Property under development	12	–	–	380,230	–
Development costs	13	1,798	–	2,295	–
Patents and trademarks	14	–	–	–	–
Long-term trade debtors	22	42,691	–	39,045	–
Loans to employees	15	2,385	–	3,204	–
Subsidiaries	16	–	361,075	–	361,075
Associated companies	17	26,315	909	26,569	637
Deferred tax assets	25	111	–	1,139	–
Other investments	18	5,484	5,461	5,484	5,461
		<u>909,926</u>	<u>367,445</u>	<u>610,135</u>	<u>367,173</u>
Current assets					
Cash and bank balances		14,281	292	16,088	342
Time deposits		4,565	1,989	2,485	–
Restricted deposits	19	164,514	4,540	142,708	6,499
Trade debtors, net	20	159,688	–	146,766	–
Inventories	21	12,098	–	8,884	–
Prepayments, deposits and other receivables	15	20,174	787	25,697	963
Prepaid tax		231	–	181	37
Due from customers on construction contracts	22	316,219	–	277,570	–
Short-term investments		366	–	12,043	1,630
Due from subsidiaries	16	–	381,727	–	380,562
Due from related parties	32	30	30	30	30
		<u>692,166</u>	<u>389,365</u>	<u>632,452</u>	<u>390,063</u>

BALANCE SHEETS

As at 31st March 2004

	Note	2004		2003	
		Group HK\$'000	Company HK\$'000	As restated Group HK\$'000	Company HK\$'000
Current liabilities					
Bank overdrafts – secured		53,723	–	33,247	–
Short-term bank loans – secured		229,370	–	185,500	–
Current portion of long-term liabilities	23	308,412	–	212,467	–
Payables to suppliers and subcontractors	24	101,656	–	102,503	–
Accruals, retentions payable and other liabilities		68,023	242	73,934	137
Taxation payable		709	–	4,316	–
Due to customers on construction contracts	22	11,985	–	16,667	–
Due to subsidiaries	16	–	101,099	–	101,691
Due to related parties	32	1,104	–	1,104	–
		<u>774,982</u>	<u>101,341</u>	<u>629,738</u>	<u>101,828</u>
Net current (liabilities)/assets		<u>(82,816)</u>	<u>288,024</u>	<u>2,714</u>	<u>288,235</u>
Total assets less current liabilities		<u>827,110</u>	<u>655,469</u>	<u>612,849</u>	<u>655,408</u>
Non-current liabilities					
Long-term liabilities	23	387	–	188	–
Deferred tax liabilities	25	5,864	–	8,621	–
		<u>6,251</u>	<u>–</u>	<u>8,809</u>	<u>–</u>
Minority interests		5,076	–	5,839	–
		<u>815,783</u>	<u>655,469</u>	<u>598,201</u>	<u>655,408</u>

BALANCE SHEETS

As at 31st March 2004

	Note	2004		2003	
		Group HK\$'000	Company HK\$'000	As restated Group HK\$'000	Company HK\$'000
Financed by:					
Share capital	26	88,190	88,190	88,190	88,190
Other reserves	27	633,380	415,789	415,789	415,789
Retained profits					
Proposed final dividend	27	4,409	4,409	—	—
Others	27	89,804	147,081	94,222	151,429
Shareholders' equity		<u>815,783</u>	<u>655,469</u>	<u>598,201</u>	<u>655,408</u>

Wong Ip Kuen
Director

Wong Tin Cheung
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March 2004

		2004	As restated
	<i>Note</i>	HK\$'000	2003 HK\$'000
Total equity at beginning of year, as previously reported		598,035	617,011
Change in accounting policy for deferred taxation (Note 1(p))	27	166	(888)
Total equity at beginning of year, as restated		598,201	616,123
Surplus on revaluation of investment property	27	217,591	–
Loss attributable to shareholders	27	(9)	(17,922)
Total equity at end of year		815,783	598,201

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March 2004

	Note	2004 HK\$'000	2003 HK\$'000
Cash flows from operating activities			
Net cash used in operations	28(a)	(32,690)	(13,785)
Hong Kong profits tax paid		(6,859)	(5,971)
Net cash used in operating activities		(39,549)	(19,756)
Cash flows from investing activities			
Payments for property under development		(87,490)	(44,465)
Additions of development costs		(102)	(4,688)
Additions of patents and trademarks		–	(862)
Purchase of fixed assets		(13,253)	(9,310)
Purchase of short-term investments		–	(9,746)
Proceeds from disposal of short-term investments		13,455	–
Proceeds from disposal of fixed assets		991	484
Dividends received		226	116
Interest received		1,723	2,504
Net cash used in investing activities		(84,450)	(65,967)
Cash flows from financing activities			
Drawdown of long-term bank loans		96,900	46,000
Increase in short-term bank loans		43,870	53,000
Increase in restricted deposits		(21,806)	(14,381)
Capital element of finance lease payments		(1,650)	(5,086)
Interest paid		(13,485)	(12,060)
Interest element of finance lease payments		(49)	(162)
Increase in due to minority shareholders		16	–
Net cash inflow from financing activities	28(b)	103,796	67,311
Decrease in cash and cash equivalents		(20,203)	(18,412)
Cash and cash equivalents at beginning of year		(14,674)	3,738
Cash and cash equivalents at end of year		(34,877)	(14,674)
Analysis of cash and cash equivalents			
Cash and bank balances		14,281	16,088
Time deposits		4,565	2,485
Bank overdrafts – secured		(53,723)	(33,247)
		(34,877)	(14,674)

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 and investment property are stated at fair value.

In the current year, the Group adopted the Statement of Standard Accounting Practice No. 12 "Income Taxes" (revised) ("SSAP 12") issued by the HKSA, which is effective for accounting periods commencing on or after 1st January 2003.

The changes to the Group's accounting policy and the effect of adopting this revised standard are set out in Note 1(p) below.

(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 a majority of the members of the board of directors; or to cast a 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 interests 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 received and receivable.

(c) 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.

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)***(c) Associated companies** *(Continued)*

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 and goodwill or negative goodwill (net of accumulated amortisation) on acquisition.

In the Company's balance sheet, the interests 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 received and receivable.

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.

(d) Fixed assets**(i) Investment property**

Investment property is an interest in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential.

Investment property is carried at fair value. Valuations are performed at intervals of not more than three years by independent valuers; in each of the intervening years valuations are undertaken by professionally qualified executives of the Group. The valuations are on an open market value basis and separate values are not attributed to land and building. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the property revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are charged to operating profit. Any subsequent increases are credited to operating profit up to the amount previously charged.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the property revaluation reserve to the profit and loss account.

(ii) Other fixed assets and depreciation

Other fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Other 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:

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)***(d) Fixed assets** *(Continued)**(ii) Other fixed assets and depreciation (Continued)*

Land and buildings	2% – 5%
Leasehold improvements	25%
Plant and machinery	10%
Furniture, fixtures and office equipment	25%
Motor vehicles	25%
Motor launch	10%

(iii) Impairment of fixed assets

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 in the profit and loss account to reduce the asset to its recoverable amount.

(iv) Gain or loss on disposal of fixed assets

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.

(e) Property under development

Property under development 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)***(f) Assets under 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 the 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.

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

(g) 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)***(g) 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 the 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 is accounted for in the profit and loss account.

(h) 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.

When there is an indication of impairment, the carrying amount of patents and trademarks is assessed and written down immediately to their recoverable amount.

(i) 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.

When there is an indication of impairment, the carrying amount of research and development costs is assessed and written down immediately to their recoverable amount.

(j) Inventories

Inventories comprise building materials and equipment 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)***(k) 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.

(l) Trade debtors and receivables

Provision is made against trade debtors and receivables to the extent they are considered to be doubtful. Trade debtors and receivables in the balance sheet are stated net of such provision.

(m) Cash and cash equivalents

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.

(n) 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)***(o) 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.

(p) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associated companies, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

In previous years, deferred taxation was accounted for at the current taxation rate 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 was expected to be payable or recoverable in the foreseeable future. The adoption of new SSAP 12 (revised) represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)***(p) Deferred taxation** *(Continued)*

As a result of adoption of the revised SSAP 12, the opening retained profits at 1st April 2003 and 2002 have been increased by HK\$166,000 and reduced by HK\$888,000, respectively, which represent the unrecognised net deferred tax assets and liabilities, at the respective dates. The loss attributable to shareholders for the year ended 31st March 2003 has been decreased by HK\$1,054,000.

(q) 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.

(r) Employee benefits

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

(s) 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.

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)***(s) Revenue recognition** *(Continued)**(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) Rental income

Rental income is recognised on a straight-line accrual basis over the terms of the lease agreement.

(iv) 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.

(v) Dividend income

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

(t) 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 movements in reserves.

(u) 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.

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)***(u) Segment reporting** *(Continued)*

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

2. TURNOVER, REVENUES AND SEGMENT INFORMATION

	2004 HK\$'000	2003 HK\$'000
Turnover		
Contracting of building construction, plumbing, maintenance and fitting-out projects	1,047,856	913,198
Property leasing	241	–
Others	21,061	20,794
	1,069,158	933,992
Other revenues		
Dividend income on listed short-term investments	173	41
Interest income	1,723	2,504
	1,896	2,545
Total revenues	1,071,054	936,537

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

The Group is principally engaged in contracting of building construction, plumbing, maintenance and fitting-out projects and property leasing. The Group is organised into two main business segments:

- Construction – Contracting of building construction, plumbing, maintenance and fitting-out projects in Hong Kong
- Property investment – Property leasing in Hong Kong

Other operations of the Group mainly comprise the manufacture and supply of building materials, which is not 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 <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Others <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31st March 2004					
External sales	1,047,856	241	21,061	-	1,069,158
Inter-segment sales	92,506	-	81,920	(174,426)	-
Total sales	1,140,362	241	102,981	(174,426)	1,069,158
Segment results	15,044	(1,986)	8,065	(13,677)	7,446
Unallocated income					1,994
Operating profit					9,440
Finance costs					(8,808)
Share of profit of associated companies			71		71
Profit before taxation					703
Taxation					(1,491)
Loss after taxation					(788)
Minority interests			779		779
Loss attributable to shareholders					(9)
Segment assets	714,532	691,143	154,626	-	1,560,301
Associated companies			26,315		26,315
Unallocated assets					15,476
Total assets					1,602,092
Segment liabilities	(441,389)	(312,402)	(20,441)	-	(774,232)
Unallocated liabilities					(12,077)
Total liabilities					(786,309)
Capital expenditure	3,979	92,179	10,270	-	106,428
Depreciation	12,458	-	10,500	-	22,958
Amortisation of development costs	-	-	599	-	599
Other non-cash expenses/(income)	1,249	-	(384)	-	865

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

	Construction <i>HK\$'000</i>	Property development <i>HK\$'000</i>	Others <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	As restated Total <i>HK\$'000</i>
Year ended 31st March 2003					
External sales	913,198	–	20,794	–	933,992
Inter-segment 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 patents, trademarks and development costs					(13,298)
Provision on amounts due from associated companies			(10,080)		(10,080)
Share of profit of associated companies			3,641		<u>3,641</u>
Loss before taxation					(13,121)
Taxation					<u>(4,541)</u>
Loss after taxation					(17,662)
Minority interests			(260)		<u>(260)</u>
Loss attributable to shareholders					<u>(17,922)</u>
Segment assets	664,401	381,212	152,280	–	1,197,893
Associated companies			26,569		26,569
Unallocated assets					<u>18,125</u>
Total assets					<u>1,242,587</u>
Segment liabilities	(409,639)	(210,908)	(17,389)	–	(637,936)
Unallocated liabilities					<u>(6,450)</u>
Total liabilities					<u>(644,386)</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>

3. OPERATING PROFIT

Operating profit is stated after charging and crediting the following:

	2004 HK\$'000	2003 HK\$'000
Charging:		
Depreciation		
Owned assets	22,275	24,256
Leased fixed assets	683	764
	22,958	25,020
Operating lease rentals of		
Land and buildings	4,003	4,417
Other equipment	16,104	13,616
	20,107	18,033
Cost of inventories sold	68,909	49,982
Staff costs (excluding Directors' emoluments) (<i>Note 10</i>)	154,087	147,237
Amortisation of development costs (included in administrative expenses)	599	—
Provision for doubtful debts	—	645
Write-off of doubtful debts	282	119
Provision for other investments	—	247
Write-off of obsolete inventories	—	548
Auditors' remuneration	960	960
Unrealised loss on short-term investments	—	1,073
Loss on disposal of fixed assets	1,225	413
Crediting:		
Gross rental income from an investment property less outgoings	241	—
Unrealised gain on short-term investments	51	—
Realised gain on disposal of short-term investments	1,727	—
Gain on disposal of an associated company	848	—
Exchange gain, net	643	148

4. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

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

	2004 HK\$'000	2003 HK\$'000
Executive Directors:		
Fees	—	—
Salaries	8,843	8,562
Performance-related bonus	815	774
Retirement benefits	384	384
	<u>10,042</u>	<u>9,720</u>
Independent Non-Executive Directors:		
Fees	750	750
	<u>10,792</u>	<u>10,470</u>

The emoluments of the Directors fell within the following bands:

Emolument bands	Number of Directors	
	2004	2003
Nil – HK\$1,000,000	4	4
HK\$1,500,001 – HK\$2,000,000	1	2
HK\$2,000,001 – HK\$2,500,000	1	—
HK\$5,000,001 – HK\$5,500,000	1	1
	<u>1</u>	<u>1</u>

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 (2003: three) Directors whose emoluments are reflected in the analysis above. The emoluments paid to the remaining two (2003: two) highest paid individuals during the year were as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Salaries	1,708	1,708
Performance-related bonus	506	505
Retirement benefits	79	79
	2,293	2,292

The emoluments fell within the following band:

Emolument band	Number of individuals 2004	2003
HK\$1,000,001 – HK\$1,500,000	2	2

5. FINANCE COSTS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interest on overdrafts and short-term bank loans	7,242	6,272
Interest on long-term bank loans wholly repayable within five years	6,243	5,788
Interest element of finance lease contract payments	49	162
Total borrowing costs incurred	13,534	12,222
Less: Interest capitalised as cost of property under development	(4,689)	(5,788)
Classified under contract cost	(37)	(156)
	8,808	6,278

The capitalisation rate applied to funds borrowed and used for the property under development (Note 12) is between 1.58% and 3.06% (2003: 2.88% and 3.41%) per annum.

6. TAXATION

Hong Kong profits tax is calculated at 17.5% (2003: 16%) on the estimated assessable profits for the year. In 2003, the Hong Kong government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. Taxation on overseas profits has been calculated on the estimated assessable profits 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:

	2004 HK\$'000	As restated 2003 HK\$'000
Current taxation		
Hong Kong profits tax	3,913	7,343
Over provisions in prior years	(711)	(1,673)
Deferred taxation relating to the origination and reversal of temporary differences (<i>Note 25</i>)	(1,729)	(1,797)
Deferred taxation resulting from an increase in tax rate	—	641
	1,473	4,514
Share of taxation attributable to associated companies	18	27
	1,491	4,541

6. TAXATION (Continued)

The tax charge on the Group's profit/(loss) before taxation differs from the theoretical amount that would arise using the Hong Kong taxation rate as follows:

	2004 HK\$'000	2003 HK\$'000
Profit/(loss) before taxation	703	(13,121)
Calculated at a taxation rate of 17.5% (2003: 16%)	123	(2,099)
Effect of different tax rates in other countries	(608)	(540)
Income not subject to taxation	(293)	(690)
Expenses not deductible for taxation purposes	823	3,239
Temporary differences not recognised	1,662	3,341
Tax losses not recognised	2,439	4,016
Utilisation of previously unrecognised tax losses	(1,540)	(1,694)
Recognition of previously unrecognised tax losses	(404)	–
Over provisions in prior years	(711)	(1,673)
Increase in closing net deferred tax liabilities resulting from an increase in tax rate	–	641
Taxation charge	1,491	4,541

7. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of a profit of approximately HK\$61,000 (2003: loss of HK\$232,000).

8. DIVIDEND

	2004 HK\$'000	2003 HK\$'000
Final dividend proposed of HK\$0.01 (2003: Nil) per share	4,409	–

At a meeting held on 20th July 2004, the Directors proposed a final dividend of HK\$0.01 per share. This proposed dividend is not reflected as a dividend payable in these accounts but will be reflected as an appropriation of the retained profits for the year ending 31st March 2005.

9. LOSS PER SHARE

The calculation of loss per share is based on the Group's loss attributable to shareholders of approximately HK\$9,000 (2003: HK\$17,922,000) and on the 440,949,600 (2003: 440,949,600) shares in issue during the year.

Diluted earnings per share for the year ended 31st March 2004 and 2003 are not presented as there are no potential dilutive shares during the years.

10. STAFF COSTS

Staff costs, excluding Directors' emoluments, represent:

	2004	2003
	HK\$'000	HK\$'000
Salaries, wages and bonus	147,725	135,586
Unutilised annual leave	–	870
Long service payments	139	2,895
Termination benefits	233	1,358
Pension costs – defined contribution scheme	5,990	6,528
	154,087	147,237

The Group contributes to the Mandatory Provident Fund Scheme (the "MPF Scheme") which is 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. For those employees with monthly earnings less than HK\$5,000, the employees' contributions are voluntary. 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.

11. FIXED ASSETS

	Investment property <i>HK\$'000</i>	Land and buildings <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	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>	Total <i>HK\$'000</i>
Group								
Cost or valuation								
Beginning of year	–	85,851	5,216	138,116	40,660	20,757	1,685	292,285
Transferred from property under development (Note 12)	472,409	–	–	–	–	–	–	472,409
Revaluation	217,591	–	–	–	–	–	–	217,591
Additions	–	2,511	–	7,334	3,088	1,214	–	14,147
Disposals	–	–	–	(6,308)	(2,564)	(2,488)	–	(11,360)
End of year	690,000	88,362	5,216	139,142	41,184	19,483	1,685	985,072
Accumulated depreciation								
Beginning of year	–	14,565	4,668	73,805	28,219	17,174	1,685	140,116
Charge for the year	–	2,260	217	12,458	5,914	2,109	–	22,958
Write-back on disposals	–	–	–	(4,386)	(2,469)	(2,289)	–	(9,144)
End of year	–	16,825	4,885	81,877	31,664	16,994	1,685	153,930
Net book value								
End of year	690,000	71,537	331	57,265	9,520	2,489	–	831,142
Beginning of year	–	71,286	548	64,311	12,441	3,583	–	152,169

11. FIXED ASSETS *(Continued)*

- (a) The Group's interests in investment property and land and buildings at their net book values are analysed as follows:

	Investment property		Land and buildings	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
In Hong Kong, held on:				
Leases of over 50 years	690,000	—	—	—
Leases of between 10 to 50 years	—	—	52,477	53,782
Outside Hong Kong, held on:				
Leases of between 10 to 50 years	—	—	19,060	17,504
	690,000	—	71,537	71,286

The investment property is carried at valuation on 31st March 2004 on open market value basis by Chesterton Petty Limited, an independent professional property valuer. All the other fixed assets are carried at cost.

The investment property was pledged as security for a bank loan of the Group (Notes 23 and 29(e)).

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Motor vehicles	2,152	2,510

12. PROPERTY UNDER DEVELOPMENT

	2004 HK\$'000	Group 2003 HK\$'000
Land costs	299,800	299,800
Development costs	158,682	71,192
Interest capitalised	13,927	9,238
	472,409	380,230
Transferred to investment property (<i>Note 11</i>)	(472,409)	–
	–	380,230

13. DEVELOPMENT COSTS

	2004 HK\$'000	Group 2003 HK\$'000
Cost		
Beginning of year	12,603	7,915
Additions	102	4,688
Write-off for the year	(10,308)	–
End of year	2,397	12,603
Accumulated amortisation and impairment losses		
Beginning of year	10,308	1,482
Amortisation for the year	599	–
Provision for impairment during the year	–	8,826
Write-off for the year	(10,308)	–
End of year	599	10,308
Net book value		
End of year	1,798	2,295
Beginning of year	2,295	6,433

14. PATENTS AND TRADEMARKS

	2004 HK\$'000	Group 2003 HK\$'000
Cost		
Beginning of year	4,507	3,645
Additions	—	862
End of year	4,507	4,507
Accumulated amortisation and impairment losses		
Beginning of year	4,507	35
Provision during the year	—	4,472
End of year	4,507	4,507
Net book value		
End of year	—	—
Beginning of year	—	3,610

15. LOANS TO EMPLOYEES

The Group provides housing loans to certain employees and the loans are secured by second mortgages of the related properties of the employees. The repayment period ranges from two to twelve years with interest at one per cent below prime rate. Amounts receivable within one year of approximately HK\$509,000 (2003: HK\$543,000) are included in prepayments, deposits and other receivables.

16. SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	276,075	276,075
Advance to a subsidiary	85,000	85,000
	361,075	361,075
Due from subsidiaries	381,727	380,562
Due to subsidiaries	101,099	101,691

The advance to a subsidiary is unsecured, bears interest at two per cent below Hong Kong dollar prime rate (2003: 5%) per annum and not repayable within next twelve months from the balance sheet date.

The amounts due from and to subsidiaries are unsecured, have no fixed terms of repayment and are interest free except for a receivable of approximately HK\$21,795,000 (2003: Nil) which bears interest at two per cent below Hong Kong dollar prime rate (2003: Nil) per annum.

The following is a list of the principal subsidiaries at 31st March 2004:

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	Property investment	–	100%	100%
Chapman Engineering Consultant Company Limited	Hong Kong	HK\$100	Building services engineering consultant	–	60%	60%

16. SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ operation	Particulars of issued capital	Principal activities	Percentage of issued share capital held by		Group
				Company	Subsidiaries	
Koshen Engineering Limited	Hong Kong	HK\$10,000	Provision of design, consulting and project management services	–	100%	60%
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%

16. SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ operation	Particulars of issued capital	Principal activities	Percentage of issued share capital held by		Group
				Company	Subsidiaries	
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%
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	Property investment	–	100%	100%

16. 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 Hotel Management Limited	Hong Kong	HK\$2	Provision of hotel management services	–	100%	100%
Yau Lee Investment Limited	The Cook Islands/ Hong Kong	US\$100	Investment holding	100%	–	100%
Yau Lee Technology Limited	The British Virgin Islands/ Hong Kong	US\$1	Investment holding and trading of construction equipment and development of computer control software	–	100%	100%
Yau Lee Wah Concrete Precast Products Company Limited	Hong Kong	HK\$10,000,000	Sale of precast products	–	100%	100%
Yau Lee Wah Concrete Precast Products (Shenzhen) Company Limited <i>(Note a)</i>	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.

17. ASSOCIATED COMPANIES

	2004		2003	
	Group HK\$'000	Company HK\$'000	Group HK\$'000	Company HK\$'000
Share of net assets	7,412	–	6,501	–
Amounts due from associated companies	28,983	909	30,148	637
	36,395	909	36,649	637
Less: Provision on amounts due from associated companies	(10,080)	–	(10,080)	–
	26,315	909	26,569	637

(a) The following is a list of the principal associated companies at 31st March 2004:

Name	Place of incorporation/ operation	Particulars of issued share capital	Principal activities	Percentage of issued share capital held by subsidiaries	Group
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%
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%

17. ASSOCIATED COMPANIES *(Continued)*

- (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.
- (d) The amounts due from associated companies are unsecured, interest free and have no fixed repayment terms.

18. OTHER INVESTMENTS

	2004		2003	
	Group HK\$'000	Company HK\$'000	Group HK\$'000	Company HK\$'000
Listed shares in Hong Kong, at cost less provision	23	—	23	—
Guaranteed unit trust fund	5,461	5,461	5,461	5,461
	<u>5,484</u>	<u>5,461</u>	<u>5,484</u>	<u>5,461</u>
Market value of listed shares	<u>23</u>	<u>—</u>	<u>23</u>	<u>—</u>

The investment in the guaranteed unit trust fund is pledged to secure the banking facilities of the Group (Note 29(c)).

19. RESTRICTED DEPOSITS

Restricted deposits are funds which are pledged to secure the bank overdrafts and short-term bank loans (Note 29(a)).

20. TRADE DEBTORS, NET

	2004	Group
	2003	
	HK\$'000	HK\$'000
Trade debtors	161,363	149,085
Provision for doubtful debts	(1,675)	(2,319)
	159,688	146,766

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

The aging analysis of the trade debtors of the Group (state net of provision) is as follows:

	2004	2003
	2003	
	HK\$'000	HK\$'000
Not yet due	145,533	130,607
Overdue by:		
1-30 days	5,096	7,272
31-90 days	3,153	777
91-180 days	1,287	551
Over 180 days	4,619	7,559
	159,688	146,766

21. INVENTORIES

	2004	Group
	2003	
	HK\$'000	HK\$'000
Raw materials, at cost	9,481	6,377
Finished goods, at cost	2,617	2,507
	12,098	8,884

22. CONSTRUCTION CONTRACTS IN PROGRESS

	2004 HK\$'000	Group 2003 HK\$'000
Contract costs incurred plus attributable profits less foreseeable losses to date	10,057,617	9,178,083
Progress billings to date	(9,753,383)	(8,917,180)
	304,234	260,903
Included in current assets/(liabilities) under the following captions:		
Due from customers on construction contracts	316,219	277,570
Due to customers on construction contracts	(11,985)	(16,667)
	304,234	260,903

- (a) Retention receivables from customers in respect of construction contracts in progress amounting to approximately HK\$42,691,000 (2003: HK\$39,045,000) and HK\$12,728,000 (2003: HK\$8,767,000) is classified under long-term trade debtors and trade debtors respectively.
- (b) During the year, the Group instigated a mediation process with one of its customers in an attempt to reach a satisfactory commercial settlement on outstanding claims made by the Group relating to one of its completed construction contracts. Based on an external consultant's evaluation, the likely recoverable amount has been included in "Due from customers on construction contracts".

23. LONG-TERM LIABILITIES

	2004 HK\$'000	Group 2003 HK\$'000
Obligations under finance lease contracts		
Repayable within one year	612	1,567
Repayable in the second to fifth years	387	188
	999	1,755
Amounts due within one year included under current liabilities	(612)	(1,567)
	387	188
Long-term bank loans wholly repayable within five years	307,800	210,900
Amounts due within one year included under current liabilities	(307,800)	(210,900)
	—	—
	387	188

The bank loans are wholly repayable on 30th August 2004. Interest is charged on the outstanding balance at 1.5 per cent per annum above HIBOR. The bank loan is secured by the Group's investment property (Note 11).

On 13th July 2004, the Group obtained term loan facilities totaling HK\$352,800,000. The facilities are primarily for the re-financing of the Group's existing long-term bank loans of approximately HK\$307,800,000. Interest is charged on the outstanding balance at 1.05 per cent per annum above HIBOR. The bank loan shall be repaid by nine consecutive semi-annual instalments on a progress schedule, the first of which commences twelve months from the date of the loan agreement.

23. LONG-TERM LIABILITIES *(Continued)*

The Group's finance lease obligations were as follows:

	2004 HK\$'000	Group 2003 HK\$'000
Minimum lease payments:		
Within one year	640	1,580
In the second year	393	223
	1,033	1,803
Future finance charges on finance leases	(34)	(48)
Present value of finance lease obligations	999	1,755
The present value of finance lease obligations is as follows:		
Within one year	612	1,567
In the second year	387	188
	999	1,755

24. PAYABLES TO SUPPLIERS AND SUBCONTRACTORS

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

	2004 HK\$'000	Group 2003 HK\$'000
Not yet due	94,935	95,342
Overdue by:		
1-30 days	6,051	6,784
31-90 days	—	—
91-180 days	—	—
Over 180 days	670	377
	101,656	102,503

25. DEFERRED TAXATION

The movement in net deferred tax liabilities are follows:

	2004	Group
	HK\$'000	As restated 2003 HK\$'000
Beginning of year	7,482	8,638
Credited to profit and loss account (<i>Note 6</i>)	(1,729)	(1,156)
End of year	5,753	7,482

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefits through future taxable profits are probable. The Group has unrecognised tax losses of approximately HK\$67.6 million (2003: HK\$70.2 million) to carry forward against future taxable income. These unrecognised tax losses are analysed according to their expiry dates as follows:

	2004	Group
	HK\$'000	2003 HK\$'000
With no expiry date	30,809	34,850
Expiring not later than one year	4,205	8,254
Expiring later than one year and not later than five years	32,607	27,108
	67,621	70,212

25. DEFERRED TAXATION *(Continued)*

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax assets:

	Tax losses		Provisions		Total	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Beginning of year	546	1,907	–	–	546	1,907
(Charged)/credited to profit and loss account	(114)	(1,361)	56	–	(58)	(1,361)
End of year	432	546	56	–	488	546

Deferred tax liabilities:

	Accelerated taxation depreciation	
	2004	2003
	HK\$'000	HK\$'000
Beginning of year	8,028	10,545
Credited to profit and loss account	(1,787)	(2,517)
End of year	6,241	8,028

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against tax liabilities and when the deferred taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2004	2003
	HK\$'000	HK\$'000
Deferred tax assets	(111)	(1,139)
Deferred tax liabilities	5,864	8,621
	5,753	7,482

26. SHARE CAPITAL

	2004 HK\$'000	2003 HK\$'000
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

(a) Share option schemes

Since 17th October 2000, the Company has operated 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 or the nominal value of the shares, whichever is higher. 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 2004, 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 VHSOFT 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 2004, no share options have been granted under the VHSOFT Share Option Scheme.

27. OTHER RESERVES AND RETAINED PROFITS

	Share premium <i>HK\$'000</i>	Property revaluation reserve <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Group					
At 1st April 2003, as previously reported	415,430	–	359	94,056	509,845
Change in accounting policy for deferred taxation (Note 1(p))	–	–	–	166	166
At 1st April 2003, as restated	415,430	–	359	94,222	510,011
Loss attributable to shareholders	–	–	–	(9)	(9)
Revaluation of investment property	–	217,591	–	–	217,591
At 31st March 2004	415,430	217,591	359	94,213	727,593
Representing:					
2004 final dividend proposed				4,409	
Others				89,804	
At 31st March 2004				94,213	
Company and subsidiaries	415,430	217,591	359	93,753	727,133
Associated companies	–	–	–	460	460
At 31st March 2004	415,430	217,591	359	94,213	727,593

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

	Share premium <i>HK\$'000</i>	Property revaluation reserve <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Group					
At 1st April 2002, as previously reported	415,430	–	359	113,032	528,821
Change in accounting policy for deferred taxation (Note 1(p))	–	–	–	(888)	(888)
At 1st April 2002, as restated	415,430	–	359	112,144	527,933
Loss attributable to shareholders	–	–	–	(17,922)	(17,922)
At 31st March 2003	<u>415,430</u>	<u>–</u>	<u>359</u>	<u>94,222</u>	<u>510,011</u>
Representing:					
Company and subsidiaries	415,430	–	359	94,673	510,462
Associated companies	–	–	–	(451)	(451)
At 31st March 2003	<u>415,430</u>	<u>–</u>	<u>359</u>	<u>94,222</u>	<u>510,011</u>

27. OTHER RESERVES AND RETAINED PROFITS (Continued)

	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Company				
At 1st April 2003	415,430	359	151,429	567,218
Profit attributable to shareholders	—	—	61	61
At 31st March 2004	415,430	359	151,490	567,279
Representing:				
2004 final dividend proposed			4,409	
Others			147,081	
At 31st March 2004			151,490	
At 1st April 2002	415,430	359	151,661	567,450
Loss attributable to shareholders	—	—	(232)	(232)
At 31st March 2003	415,430	359	151,429	567,218

The entire amounts of retained profits of the Company at 31st March 2004 are distributable.

28. NOTES TO CONSOLIDATED CASH FLOW STATEMENT**(a) Reconciliation of operating profit to net cash used in operations**

	2004 HK\$'000	2003 <i>HK\$'000</i>
Operating profit	9,440	12,894
Interest income	(1,723)	(2,504)
Dividend income	(173)	(41)
Loss on disposal of fixed assets	1,225	413
Gain on disposal of an associated company	(848)	–
Interest element of finance lease payments	37	156
Amortisation of development costs	599	–
Depreciation	22,958	25,020
Unrealised (gain)/loss on short-term investments	(51)	1,073
Realised gain on short-term investments	(1,727)	–
Provision for other investments	–	247
Operating profit before working capital changes	29,737	37,258
Increase in long-term trade debtors	(3,646)	(21,530)
Decrease in loans to employees	819	213
Increase in trade debtors, net	(12,922)	(3,484)
Increase in inventories	(3,214)	(409)
Decrease/(increase) in prepayments, deposits and other receivables	5,523	(4,570)
Increase in due from customers on construction contracts	(38,649)	(62,288)
Increase in due from related parties	–	(1)
Decrease in due from associated companies	1,102	5,243
(Decrease)/increase in payables to suppliers and subcontractors	(847)	36,023
Decrease in accruals, retentions payable and other liabilities	(5,911)	(9,741)
(Decrease)/increase in due to customers on construction contracts	(4,682)	10,969
Decrease in due to related parties	–	(290)
Decrease in due to associated companies	–	(1,178)
Net cash used in operations	(32,690)	(13,785)

28. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)**(b) Analysis of changes in financing**

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	Finance lease obligations <i>HK\$'000</i>	Long-term bank loans <i>HK\$'000</i>	Short-term bank loans <i>HK\$'000</i>	Restricted deposits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April 2003	88,190	415,430	5,839	1,755	210,900	185,500	(142,708)	764,906
Net cash inflow/(outflow) from financing activities	–	–	16	(1,650)	96,900	43,870	(21,806)	117,330
Share of loss by minority shareholders	–	–	(779)	–	–	–	–	(779)
Inception of finance lease obligations (Note c)	–	–	–	894	–	–	–	894
At 31st March 2004	88,190	415,430	5,076	999	307,800	229,370	(164,514)	882,351
At 1st April 2002	88,190	415,430	5,579	3,983	164,900	132,500	(128,327)	682,255
Net cash inflow/(outflow) from financing activities	–	–	–	(5,086)	46,000	53,000	(14,381)	79,533
Share of profit by minority shareholders	–	–	260	–	–	–	–	260
Inception of finance lease obligations (Note c)	–	–	–	2,858	–	–	–	2,858
At 31st March 2003	88,190	415,430	5,839	1,755	210,900	185,500	(142,708)	764,906

(c) Major non-cash transactions

During the year, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of approximately HK\$894,000 (2003: HK\$2,858,000).

29. BANKING FACILITIES

As at 31st March 2004, the Group had total banking facilities in respect of bank overdrafts, bank loans, bank guarantees and trade financing of approximately HK\$748 million (2003: HK\$693 million), of which HK\$601 million (2003: HK\$432 million) had been utilised. These banking facilities are secured by the following:

- (a) Time deposits of approximately HK\$165 million (2003: HK\$143 million).
- (b) Guarantees of approximately HK\$764 million (2003: HK\$788 million) given by the Company.
- (c) Investment in the guaranteed unit trust fund of approximately HK\$5 million (2003: HK\$5 million).
- (d) Trade receivables of certain construction contracts.
- (e) Investment property of HK\$690 million (2003: property under development of approximately HK\$380 million) (Note 11).

30. 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 2004, 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\$1,712 million (2003: HK\$1,084 million) extending to various dates, the latest being March 2007.
- (c) Guarantees in respect of performance bonds that amount to approximately HK\$4 million (2003: HK\$3 million) in favour of the Group's customers.
- (d) Guarantees in respect of hire purchase amounting to HK\$3 million (2003: HK\$3 million) in favour of the lessors.
- (e) Guarantee in respect of the Group's performance of its obligations under a construction contract that amount to approximately HK\$9 million (2003: Nil) in favour of a customer.

30. COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

- (f) The future aggregate minimum lease rental payable under non-cancellable operating lease is as follows:

	2004	Group
	HK\$'000	2003
		HK\$'000
Land and buildings		
– Within one year	2,324	3,109
– One year to five years	7,143	7,660
– More than five years	45,857	41,242
	55,324	52,011
Other equipment		
– Within one year	19	238
– One year to five years	28	47
	47	285
	55,371	52,296

31. FUTURE MINIMUM RENTAL PAYMENTS RECEIVABLE

The Group had future aggregate minimum lease receipts under non-cancellable operating leases in respect of the investment property as follows:

	2004	Group
	HK\$'000	2003
		HK\$'000
– Within one year	3,590	–
– One year to five years	10,643	–
	14,233	–

32. RELATED PARTY BALANCES

The balances due from and to related parties are unsecured, interest free and have no fixed repayment terms.

33. APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 20th July 2004.

FIVE YEAR FINANCIAL SUMMARY

CONSOLIDATED RESULTS

Year ended 31st March

	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	As restated 2003 HK\$'000	2004 HK\$'000
Turnover	<u>2,041,948</u>	<u>1,781,341</u>	<u>773,413</u>	<u>933,992</u>	<u>1,069,158</u>
Profit/(loss) before taxation	40,057	43,077	10,337	(13,121)	703
Taxation	(9,086)	(10,331)	(3,379)	(4,541)	(1,491)
Minority interests	<u>(646)</u>	<u>(592)</u>	<u>(503)</u>	<u>(260)</u>	<u>779</u>
Profits/(loss) attributable to shareholders	<u>30,325</u>	<u>32,154</u>	<u>6,455</u>	<u>(17,922)</u>	<u>(9)</u>
Dividends	<u>12,396</u>	<u>6,173</u>	<u>–</u>	<u>–</u>	<u>4,409</u>
Earnings/(loss) per share	<u>9.1 cents</u>	<u>7.3 cents</u>	<u>1.46 cents</u>	<u>(4.06 cents)</u>	<u>(0.002 cents)</u>

CONSOLIDATED ASSETS AND LIABILITIES

At 31st March

Total assets	1,117,653	973,409	1,112,292	1,242,587	1,602,092
Total liabilities	<u>(525,380)</u>	<u>(356,680)</u>	<u>(495,281)</u>	<u>(644,386)</u>	<u>(786,309)</u>
Shareholders' equity	<u>592,273</u>	<u>616,729</u>	<u>617,011</u>	<u>598,201</u>	<u>815,783</u>

Comparative figures for the year ended 31st March 2003 have been restated to reflect the adoption of Statement of Standard Accounting Practice 12 "Income Taxes" which is effective for accounting periods commencing on or after 1st January 2003. The comparative figures for the three years ended 31st March 2002 have not been restated as the Directors are of the opinion that it is impracticable to do so.

PROPERTY HELD FOR INVESTMENT PURPOSES

As at 31st March 2004

Address	Lot number	Leasehold expiry	Site area in square feet	Use	Gross floor area in square feet
23, 25, 27, 29, 31, 33, 35 37, 39, 41, 43 and 45 Sharp Street East and 11 and 13 Yiu Wah Street, Causeway Bay, Hong Kong	IL 730 sB ss4 sC ss1 IL 730 sB ss4 sC RP IL 730 sB ss4 sD ss1 IL 730 sB ss4 sD RP IL 730 sB ss6 sA IL 730 sB ss6 RP IL 730 sC RP IL 730 sC ss1 IL 5457 RP IL 5458 RP IL 5459 RP IL 5460 RP IL 5461 IL 5462	2880	10,428	Commercial	155,896