



有利集團有限公司
Yau Lee Holdings Limited
(Incorporated in Bermuda with limited liability)

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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

Chairman's Statement

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 2005 was HK\$1,355,583,000 compared to HK\$1,069,158,000 in 2004. The gross profit has increased moderately to HK\$121,497,000 (2004: HK\$105,845,000). The operating profit has, however, decreased to HK\$69,067,000 (2004: HK\$227,107,000, as restated) due to the significant decrease in fair value gain on the Group's investment properties from HK\$217,591,000 in 2004 to HK\$54,857,000 in 2005. Excluding the fair value gain, the operating profit has increased by 49% despite the difficult market condition in the construction sector owing to relentless efforts in cost control.

Dividends

An interim dividend of HK\$0.0035 (2004: Nil) per share was declared and paid during the year. The Board of Directors recommends the payment of a final dividend of HK\$0.0075 (2004: HK\$0.01) for the year ended 31st March 2005. Together with the interim dividend paid, the total dividend declared for the year is HK\$4,851,000.

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 completed one contract with contract sum of HK\$180 million. Contracts newly secured during the year amounted to HK\$415 million; namely District Term Contract for the Maintenance and Vacant Flat Refurbishment for Chuk Yuen, Choi Wan and Tsui Ping Estates, Redevelopment of Kwai Chung Flatted Factory Site and No.8 Essex Crescent. The total value of contracts in hand as at 31st March 2005 was HK\$3,741 million (2004: HK\$3,506 million). Subsequent to the year end, Yau Lee Construction has further secured three contracts with total value of HK\$1,399 million (including Science Park Phase 2 Area B, Term contract for fitting out works at Kowloon and New Territories West and No. 6 Essex Crescent).

Although the Hong Kong economy has improved since 2004, the construction industry is yet to be benefited. In order to remain competitive, the Group continues to enhance productivity through application of innovative building techniques and information technologies, practice stringent quality control and effective safety and environmental management. The Group firmly believes that the aforementioned will give us a competitive edge and this was reflected in the successful bidding of the Redevelopment of Kwai Chung Flatted Factory Site and Science Park Phase 2 Area B projects.

The Group's effort in quality, safety and environmental protection are well recognised by clients and resulted in over 16 awards received by Yau Lee Construction, its employees and subcontractors during the year. The major awards received are:

1. the "Gold Award in the Category of Green Construction Contractor" for the **2004 Hong Kong Eco-Business Award**
2. the "Gold Award for Building Sites (Public Sector)" for **Safety Award Scheme for the Construction Industry**
3. the "Gold Award for Building Sites (Sub-contractor Category)" for **Safety Award Scheme for the Construction Industry**

Chairman's Statement

Review of Operation *(Continued)*

Building Components Trading and Manufacturing

Despite the fact that the construction market has not yet recovered, the Group's prefabricated building components business recorded an increased turnover of approximately HK\$94 million during the year. The Group's wholly owned subsidiary, Yau Lee Wah Concrete Precast Products Company Limited ("Yau Lee Wah") has successfully completed contracts with an estimated total value of HK\$91.4 million, including projects from the Government as well as private property developers. Going forward, Mainland China, Macau and Hong Kong will continue to be the major markets of Yau Lee Wah. Yau Lee Wah will continue to explore new markets and new product lines such as decorative products in addition to the existing building products base. Subsequent to the year end, Yau Lee Wah has entered into a joint venture with a Canadian company to develop the market of gypsum based decorative products in the region.

Property Development

The Group development project at Sharp Street East and Yiu Wa Street in Causeway Bay, a 27-storey building named as "33 Sharp Street East", has obtained Government approvals to change the use of certain floors of the building to hotel. Conversion work for the hotel has been completed. The Group is finalising the lease modification requirements with the Government before the hotel licence can be issued. It is expected that the hotel will commence its business in the third quarter of 2005. The Group has also contracted the InterContinental Hotels Group (the "IHG") as the manager of the hotel. The IHG is one of the largest hotel chains in the world which operates reputable brands such as InterContinental, Holiday Inn and Express by Holiday Inn etc. The management believes IHG's experience and marketing network in the field will add value to the hotel. The commercial floors of the building are fully let to a variety of retailers and food and beverage outlets. The leases have started to generate a constant stream of rental income to the Group.

Plumbing Works and Building Material Trading

Ming Hop Company Limited ("Ming Hop"), a wholly owned subsidiary of the Group, specializes in plumbing works and building materials trading and provides reliable installation and design service to Yau Lee Construction's projects. To take advantage of the CEPA, Ming Hop has formed a trading subsidiary in the Mainland China to engage in the import/export of building materials subsequent to year end.

Chairman's Statement

Outlook

Despite signs of recovery continue to emerge and the Hong Kong economy and confidence are bound to improve as a whole, recovery in the Hong Kong construction market is not so obvious. In fact there are signs of further decline in construction output in the first half of 2005 when compare with last year. With a team of highly professional and committed staff, the management believes that the Group will be able to keep abreast of the highly competitive environment and will be one of the first to capture the opportunities when the industry rebounds.

The diversification of the Group's business into property investments and hotel operation will bring an extra source of income to the Group in the years to come. With the continuing increase of both business and leisure visitors to Hong Kong, the management expects the Group's investments in hotel and retail properties to contribute a stable and reasonable return.

Apart from thriving to excel in its existing business, the Group will continue its pursuit for opportunities in different areas related to the property and construction sector. The management shall adopt a prudent approach while evaluating opportunities to diversify the Group's business to avoid exposing the Group to unnecessary risks.

By order of the Board

Wong Ip Kuen

Chairman

Hong Kong, 21st July 2005

Management Discussion and Analysis

Financial Review

For the year ended 31st March 2005, the Group has achieved a growth of turnover by 26.8% from HK\$1,069,158,000 in 2004 to HK\$1,355,583,000 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 9.9% in 2004 to 9.0% in 2005.

At 31st March 2005, the Group's total cash in hand was HK\$195,313,000 (2004: HK\$183,360,000) and bank borrowings decreased from HK\$590,893,000 in 2004 to HK\$575,371,000. During the year, the Group has entered into an arrangement with a bank to refinance the long-term loan for property development and investment properties, which shall be repaid by instalments and the last instalment is due in November 2009. The Group's net debt (total bank borrowings less total cash in hand) to equity ratio decreased slightly to 46.5% (2004: 52.5%, as restated). If the HK\$349,800,000 (2004: HK\$307,800,000) long-term loan for property development and investment properties is excluded, the Group has a net debt of only HK\$30,258,000 (2004: HK\$99,733,000) representing a healthy net debt to equity ratio of 3.7% (2004: 12.8%, as restated). The current ratio (total current assets: total current liabilities) has also increased to 1.6 (2004: 0.9).

The short-term and long-term bank borrowings are secured by the Group's investment properties, property, plant and equipment, investment in securities and certain time deposits. Interest on bank loans are charged at floating rates and the Company monitors interest rate risks continuously and hedge any excessive risk when necessary. The total bank facilities granted to the Group at 31st March 2005 was approximately HK\$758 million (2004: HK\$748 million), of which approximately HK\$593 million (2004: HK\$601 million) had been utilised.

Human Resources

At 31st March 2005, the Group employed approximately 850 employees in Hong Kong and approximately 700 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 the Mainland China are remunerated according to the prevailing market conditions in the location of their employment.

Summary of Contracts

Contract completed during the year ended 31st March 2005

	Commencement date	Completion Date	Original contract value <i>HK\$ million</i>
Remodelling of Tang Shiu Kin Hospital	December 2002	January 2005	180
Total			180

Summary of Contracts

Contracts secured in prior years and in progress during the year ended 31st March 2005

	Commencement date	Original contract value <i>HK\$ million</i>	Estimated remaining works as at 31st March 2005 <i>HK\$ million</i>
Redevelopment of Kwai Chung Estate Phase 3	March 2002	845	113
Design & Construction of Fitting-out Works to Buildings and Lands and Other Properties for Kowloon and New Territories- Western Region	June 2002	550	46
Development of Tung Chung Area 31 Phase 2	December 2002	441	96
Construction of Education Resource Center cum Public Transport Interchange at Kowloon Tong	May 2003	397	227
Design and Construction of Joint User Building at Rock Hill Street Kennedy Town	July 2003	213	145
Po Leung Kuk School Improvement Programme – Group 2	December 2003	87	46

Summary of Contracts

Contracts secured in prior years and in progress during the year ended 31st March 2005 *(Continued)*

	Commencement date	Original contract value <i>HK\$ million</i>	Estimated remaining works as at 31st March 2005 <i>HK\$ million</i>
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	142
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	73
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	231
Total		3,326	1,119

Summary of Contracts

Contracts secured in current year and in progress during the year ended 31st March 2005

	Commencement date	Original contract value <i>HK\$ million</i>	Estimated remaining works as at 31st March 2005 <i>HK\$ million</i>
District Term Contract for the Maintenance and the Vacant Flat refurbishment for Chuk Yuen (South), Choi Wan (II) and Tsui Ping (South) Estates	July 2004	32	26
Construction of 8 Essex Crescent	December 2004	17	16
Redevelopment of Kwai Chung Flatted Factory	January 2005	366	363
Total		415	405
Contracts in hand as at 31st March 2005		3,741	1,524

Biographical Details of Directors and Senior Management

Executive Directors

Mr. Wong Ip Kuen

aged 69, 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 strategic development and management of the Group.

Mr. Wong Tin Cheung

aged 41, is the Vice Chairman of the Group, Managing Director of Yau Lee Construction and CEO of VHSoft Technologies Company Limited ("VHSoft"). He is responsible for overall corporate development and management of the Group. 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 the President of the Hong Kong Construction Association, a Member of the Provisional Construction Industry Co-ordination Board and the Chairman of Pneumoconiosis Compensation Fund Board. Mr. Wong is a Fellow of the Chartered Institute of Building. He is also 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 44, he earned a Bachelor Degree in Britain. He joined the Group in 1992, to manage the Group's property development in Mainland China, construction works, manufacturing and trading of construction materials, and development and marketing of computer software. He was appointed as a Director of the Company in 1994 and is responsible for the Group's business management and development in Mainland China.

Mr. So Yau Chi

aged 61, 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.

Biographical Details of Directors and Senior Management

Independent Non-executive Directors

Dr. Yeung Tsun Man, Eric

aged 59, has been appointed as an Independent 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 Standing Committee Member of the National Committee, The Chinese People's Political Consultative Conference, an Executive Committee Council Member of the Hong Kong Management Association, the Chairman of Macau Productivity and Technology Transfer Centre, Member of World Presidents' Organisation and Chief Executives' Organisation. He was awarded the Medal of Merit by the Macau Government in 1994, Commander of the Order of Merit by the Government of Portugal in 1998 & the Medal of Professional Merit by the Macau SAR Government 2001. He is also listed in "The Marquis Who's Who in the World" and "The International Who's Who of Professionals".

Mr. Wu King Cheong

aged 54, has been appointed as an Independent Non-Executive Director of the Company since 1994. Mr. Wu is a Councillor of the Eastern District Council of the Hong Kong Special Administrative Region, the Assistant Treasurer of the Chinese General Chamber of Commerce, a Member of Statistics Advisory Board of the Hong Kong Special Administrative Region, a Member of Hong Kong Housing Authority, 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. He is also an Independent Non-executive Director of Chevalier iTech Holdings Limited, Henderson Land Development Company Limited, Henderson Investment Limited, Miramar Hotel and Investment Company Limited and Hong Kong Ferry (Holding) Company Limited, all of which are companies listed on the Stock Exchange of Hong Kong Limited.

Mr. Chan, Bernard Charnwut

aged 40, has been appointed as an Independent Non-Executive Director of the Company in 2000. A graduate of Pomona College in California USA, he holds the positions of Executive Director and President of Asia Financial Holdings Limited and Asia Insurance Company Limited. While he is a member of both the Executive Council and Legislative Council of the Hong Kong Special Administrative Region, he also serves as the Chairman of the Standing Committee on Disciplined Services Salaries and Conditions of Service and the Deputy Chairman of Lingnan University. He is also a member of the Insurance Advisory Committee, Greater Pearl River Delta Business Council and the Committee on Financial Assistance for Family Members of Those Who Sacrifice Their Lives to Save Others. He is a Non-Executive Director of City e-Solutions Limited, an Independent Non-Executive Director of each of Peaktop International Holdings Limited and Pioneer Global Group Limited, all of which are listed on the Stock Exchange. In addition, he is also an Advisor of the Bangkok Bank (Hong Kong Branch), the Chairman of Hong Kong-Thailand Business Council and the Chairperson of The Hong Kong Council of Social Service.

Biographical Details of Directors and Senior Management

Senior Management

Mr. Cheung Woon Yin, *Deputy General Manager*

aged 52, 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 48, 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 26 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 has been the chairperson of the Course Advisory Committee on Measurement Technician Programme and Course Advisory Committee on Certificate in Quantity Measurement of the Construction Industry Training Authority since 2002 and 2004 respectively. 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 41, joined the Group in 1995. Mr. Chui is a Fellow of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He has 19 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 51, 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 58, joined the Group in 2000. Mr. Chan is a Professional Member of Royal Institution of Chartered Surveyors. He has 36 years of experience in quantity surveying. He is responsible for contractual matters of Yau Lee Construction.

Biographical Details of Directors and Senior Management

Site Management

Contract Managers*

- Cheung Hon Ying
- Cheung Yu Wai
- Lam Wai Chung
- Lau Wai Foo
- Tsang Kwok Man
- Wong Kwok Keung

Project Managers*

- Cheng Tsz Yin
- Chung Chi Hung
- Lam Chi Kin
- 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

Ming Hop*

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

VHSoft

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

Yau Lee Wah

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

* In alphabetical order

Report of the Directors

The Directors submit their report together with the audited accounts of the Company and the Group for the year ended 31st March 2005.

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 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 2005 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	1,291,309	23,985
Property leasing	7,903	54,062
Others	56,371	(8,980)
	1,355,583	69,067

Results and Appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 24.

The Directors have declared an interim dividend of HK\$0.0035 per share, totaling approximately HK\$1,544,000 which was paid on 7th March 2005.

The Directors recommend the payment of a final dividend of HK\$0.0075 per share, totaling approximately HK\$3,307,000.

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\$45,000.

Report of the Directors

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group are set out in Note 11 to the accounts.

Principal Properties

Details of the principal properties held for investment purposes are set out on page 74.

Distributable Reserves

At 31st March 2005, the reserves of the Company available for distribution amounted to approximately HK\$143,641,000 (2004: HK\$151,490,000).

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 73.

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 2005.

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 2005, no share options have been granted under the Share Option Scheme.

Report of the Directors

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

Report of the Directors

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 2005, 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, Mr. Sun Chun Wai and Mr. Chan, Bernard Charnwut retire by rotation at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

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.

Report of the Directors

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or any Associated Corporation

At 31st March 2005, 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	
	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 (within the meaning of the SFO).

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 2005, 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.

Report of the Directors

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	6.91%
– five largest suppliers	18.18%

Sales

– the largest customer	44.41%
– five largest customers	96.49%

None of the Directors, their associates, or any shareholder (which to the 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

No significant related party transactions were entered into by the Group during the year ended 31st March 2005.

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 (in force prior to 1st January 2005) throughout the year ended 31st March 2005.

During the year, the Company continued to comply with the Code of Best Practice as set out in Appendix 14 of the Listing Rules issued by the SEHK. On 1st January 2005, the Code of Best Practice was replaced by the Code on Corporate Governance Practices (the "new Code"). Listed issuers are expected to comply with the new Code's provisions starting from 1st January 2005.

Adoption of Code of Conduct Regarding Directors' Securities Transactions

The Company has adopted a code of conduct regarding Directors' securities transactions in accordance with terms set out in the Model Code of Appendix 10 of the Listing Rules. The Directors have complied with such code of conduct throughout the year covered by this Annual Report.

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 Institute of Certified Public 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 (committee chairman), Mr. Wu King Cheong and Mr. Chan, Bernard Charnwut. Two meetings were held during the current financial year. The accounts for the year ended 31st March 2005 has been reviewed by the audit committee.

Report of the Directors

Remuneration Committee and Nomination Committee

Remuneration Committee and Nomination Committee have been set up in April 2005 and are chaired by Mr. Chan, Bernard Charnwut and Mr. Wu King Cheong respectively. Both Mr. Chan and Mr. Wu are Independent Non-Executive Directors of the Company.

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, 21st July 2005

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 24 to 72 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 Institute of Certified Public 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 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 21st July 2005

Consolidated Profit and Loss Account

For the year ended 31st March 2005

	Note	2005 HK\$'000	As restated 2004 HK\$'000
Turnover	2	1,355,583	1,069,158
Cost of sales		(1,234,086)	(963,313)
Gross profit		121,497	105,845
Other revenues	2	2,639	1,896
Administrative expenses		(105,674)	(100,867)
Other operating (expenses)/income, net		(4,252)	2,642
Fair value gain on investment properties		54,857	217,591
Operating profit	3	69,067	227,107
Finance costs	5	(8,701)	(8,808)
Share of (loss)/profit of associated companies		(2,384)	71
Profit before taxation		57,982	218,370
Taxation	6	(12,281)	(38,945)
Profit after taxation		45,701	179,425
Minority interests		1,384	779
Profit attributable to shareholders	7	47,085	180,204
Dividends	8	4,851	4,409
Earnings per share	9	10.68 cents	40.87 cents

Balance Sheets

As at 31st March 2005

		2005		2004	
		Group	Company	As restated	
	Note	HK\$'000	HK\$'000	Group	Company
				HK\$'000	HK\$'000
Non-current assets					
Property, plant and equipment	11	291,889	–	102,331	–
Investment properties	12	290,000	–	690,000	–
Leasehold land	13	342,189	–	36,857	–
Subsidiaries	14	–	361,075	–	361,075
Associated companies	15	15,860	1,030	26,315	909
Deferred tax assets	25	46	–	111	–
Other non-current assets	16	37,009	–	52,358	5,461
		976,993	362,105	907,972	367,445
Current assets					
Cash and bank balances	19	195,313	6,933	183,360	6,821
Trade debtors, net	20	181,228	–	159,688	–
Inventories	21	10,908	–	12,098	–
Prepayments, deposits and other receivables		44,148	581	20,174	787
Prepaid tax		402	–	231	–
Due from customers on construction contracts	22	224,928	–	316,219	–
Short-term investments		10,335	5,461	366	–
Due from subsidiaries	14	–	383,077	–	381,727
Due from related parties	32	30	30	30	30
		667,292	396,082	692,166	389,365

Balance Sheets

As at 31st March 2005

	Note	2005		2004	
		Group HK\$'000	Company HK\$'000	As restated Group HK\$'000	Company HK\$'000
Current liabilities					
Bank overdrafts – secured		29,715	–	53,723	–
Short-term bank loans – secured		195,856	–	229,370	–
Current portion of long-term liabilities	23	11,179	–	308,412	–
Payables to suppliers and subcontractors	24	100,161	–	101,656	–
Accruals, retentions payable and other liabilities		76,166	228	68,023	242
Taxation payable		1,259	–	709	–
Due to customers on construction contracts	22	15,776	–	11,985	–
Due to subsidiaries	14	–	110,339	–	101,099
Due to related parties	32	529	–	1,104	–
		430,641	110,567	774,982	101,341
Net current assets/(liabilities)		236,651	285,515	(82,816)	288,024
Total assets less current liabilities		1,213,644	647,620	825,156	655,469
Non-current liabilities					
Long-term liabilities	23	340,291	–	387	–
Deferred tax liabilities	25	51,843	–	43,318	–
		392,134	–	43,705	–
Minority interests		4,003	–	5,076	–
		817,507	647,620	776,375	655,469

Balance Sheets

As at 31st March 2005

	Note	2005		2004	
		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	415,789	415,789	415,789	415,789
Retained profits					
Proposed final dividend	27	3,307	3,307	4,409	4,409
Others	27	310,221	140,334	267,987	147,081
Shareholders' equity		817,507	647,620	776,375	655,469

Wong Ip Kuen
Director

Wong Tin Cheung
Director

Consolidated Statement of Changes in Equity

For the year ended 31st March 2005

	Note	2005 HK\$'000	As restated 2004 HK\$'000
Total equity at beginning of year, as previously reported		815,783	598,201
Change in accounting policies (Note 1(a))	27	(39,408)	(2,030)
Total equity at beginning of year, as restated		776,375	596,171
Dividends paid	27	(5,953)	–
Profit attributable to shareholders	27	47,085	180,204
Total equity at end of year		817,507	776,375

Consolidated Cash Flow Statement

For the year ended 31st March 2005

	Note	2005 HK\$'000	2004 HK\$'000
Cash flows from operating activities			
Net cash generated from/(used in) operations	28(a)	102,346	(32,690)
Hong Kong profits tax paid		(3,312)	(6,859)
Net cash from/(used in) operating activities		99,034	(39,549)
Cash flows from investing activities			
Payments for property under development		–	(87,490)
Additions of development costs		(19)	(102)
Additions of investment properties		(143)	–
Purchase of property, plant and equipment		(57,333)	(13,253)
Purchase of short-term investments		(5,157)	–
Proceeds from disposal of short-term investments		–	13,455
Proceeds from disposal of property, plant and equipment		278	991
Proceeds from disposal of an associated company		7,352	–
Dividends received		4	226
Interest received		2,635	1,723
Net cash used in investing activities		(52,383)	(84,450)
Cash flows from financing activities	28(c)		
Drawdown of long-term bank loans		42,000	96,900
(Decrease)/increase in short-term bank loans		(33,514)	43,870
Decrease/(increase) in restricted deposits		4,449	(21,806)
Capital element of finance lease payments		(939)	(1,650)
Interest paid		(12,231)	(13,485)
Dividends paid		(5,953)	–
Interest element of finance lease payments		(53)	(49)
Increase in amounts due to minority shareholders		–	16
Net cash (used in)/from financing activities		(6,241)	103,796
Increase/(decrease) in cash and cash equivalents		40,410	(20,203)
Cash and cash equivalents at beginning of year		(34,877)	(14,674)
Cash and cash equivalents at end of year		5,533	(34,877)
Analysis of cash and cash equivalents			
Cash and bank balances		30,638	14,281
Time deposits		4,610	4,565
Bank overdrafts - secured		(29,715)	(53,723)
		5,533	(34,877)

Notes to the Accounts

1 Principal Accounting Policies

The principal accounting policies adopted in the preparation of these accounts are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(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 Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention as modified by the revaluation of short-term investments and investment properties, which are carried at fair value.

The HKICPA issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") (collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005. The Group has early adopted the following new HKFRSs in the accounts for the year ended 31st March 2005:

HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 40	Investment Property
HKAS Interpretation 21	Income Taxes - Recovery of Revalued Non-Depreciable Assets

The adoption of revised HKAS 17 has resulted in a change in the accounting policy giving rise to the reclassification of leasehold land from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land are expensed in the profit and loss account on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the profit and loss account. In prior years, the leasehold land was accounted for at cost less accumulated depreciation and accumulated impairment and was included under property, plant and equipment.

The adoption of revised HKAS 40 has resulted in a change in the accounting policy for changes in fair value of investment properties. In prior years, the increases in fair value were credited to the property revaluation reserve (with subsequent decreases first set off against earlier increases on a portfolio basis and thereafter charged to the profit and loss account), whereas under HKAS 40, the changes in fair value are recorded in the profit and loss account.

The adoption of revised HKAS Interpretation 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of such asset through use. In prior years, the carrying amount of such asset was assumed to be recovered through sale in determining the deferred tax impact.

The adoption of HKAS 16 did not result in substantial changes to the Group's accounting policies.

Changes in the accounting policies have been applied retrospectively so that the comparatives presented have been restated to conform to the changed policies.

Notes to the Accounts

1 Principal Accounting Policies *(Continued)*

(a) Basis of preparation *(Continued)*

The effect of the changes in accounting policies on the profit attributable to shareholders and various balance sheet items is summarised below:

	2005			Total HK\$'000
	HKAS 17 HK\$'000	HKAS 40 HK\$'000	HKAS Interpretation 21 HK\$'000	
Decrease in property, plant and equipment	(37,871)	-	-	(37,871)
Increase in leasehold land	35,993	-	-	35,993
Increase in deferred tax liabilities	-	-	46,907	46,907
Decrease in property revaluation reserve	-	(272,448)	-	(272,448)
(Decrease)/increase in retained profits at 1st April 2004	(1,954)	217,591	(37,454)	178,183
Increase/(decrease) in profit attributable to the shareholders	76	54,857	(9,453)	45,480

	2004			Total HK\$'000
	HKAS 17 HK\$'000	HKAS 40 HK\$'000	HKAS Interpretation 21 HK\$'000	
Decrease in property, plant and equipment	(38,811)	-	-	(38,811)
Increase in leasehold land	36,857	-	-	36,857
Increase in deferred tax liabilities	-	-	37,454	37,454
Decrease in property revaluation reserve	-	(217,591)	-	(217,591)
Decrease in retained profits at 1st April 2003	(2,030)	-	-	(2,030)
Increase/(decrease) in profit attributable to shareholders	76	217,591	(37,454)	180,213

The new HKFRSs early adopted by the Group are believed to have the most material effect on the Group's accounts. The Group has also been considering the potential impact of the other new HKFRSs which have not been early adopted by the Group and considered that those new HKFRSs would not have a significant impact on its results of operations and financial position.

Notes to the Accounts

1 Principal Accounting Policies *(Continued)*

(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.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets.

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.

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.

1 Principal Accounting Policies *(Continued)*

(d) Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value, representing market value determined annually by external valuers. The fair value of investment property reflects rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. Changes in fair values are recognised in the profit and loss account.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the profit and loss account during the financial period in which they are incurred.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes.

(e) Property, plant and equipment

(i) *Construction in progress*

Construction in progress included construction and development expenditure incurred and other direct costs attributable to the construction and development. On completion, the construction is transferred to appropriate categories of other property, plant and equipment. No depreciation is provided for construction in progress.

(iii) *Other property, plant and equipment and depreciation*

Buildings comprise mainly factories and offices. Other property, plant and equipment are stated at cost less depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the profits and loss account during the financial period in which they are incurred.

Notes to the Accounts

1 Principal Accounting Policies *(Continued)*

(e) Property, plant and equipment *(Continued)*

(ii) Other property, plant and equipment and depreciation (Continued)

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives. The principal annual rates are as follows:

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1(f)).

(iii) Gain or loss on disposal of property, plant and equipment

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

(f) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(g) 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.

1 Principal Accounting Policies *(Continued)*

(h) Investments in securities

(i) *Short-term investments*

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

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.

(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.

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

Notes to the Accounts

1 Principal Accounting Policies *(Continued)*

(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.

(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.

(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.

Notes to the Accounts

1 Principal Accounting Policies *(Continued)*

(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 payments are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service payments 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.

(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.

1 Principal Accounting Policies *(Continued)*

(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 segment be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of investment properties, intangible assets, property, plant and equipment, 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, property, plant and equipment and investment properties.

Notes to the Accounts

2 Turnover, Revenues and Segment Information

	2005 HK\$'000	2004 HK\$'000
Turnover		
Contracting of building construction, plumbing, maintenance and fitting-out projects	1,291,309	1,047,856
Property leasing	7,903	241
Others	56,371	21,061
	1,355,583	1,069,158
Other revenues		
Dividend income on listed short-term investments	4	173
Interest income	2,635	1,723
	2,639	1,896
Total revenues	1,358,222	1,071,054

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.

Notes to the Accounts

2 Turnover, Revenues and Segment Information *(Continued)*

Primary reporting format – business segments

	Construction HK\$'000	Property investment HK\$'000	Others HK\$'000	Elimination HK\$'000	Total HK\$'000
Year ended 31st March 2005					
External sales	1,291,309	7,903	56,371	–	1,355,583
Inter-segment sales	45,742	–	72,253	(117,995)	–
Total sales	1,337,051	7,903	128,624	(117,995)	1,355,583
Segment results	22,198	54,062	3,020	(9,666)	69,614
Unallocated expenses					(547)
Operating profit					69,067
Finance costs	(6,416)	(2,128)	(157)		(8,701)
Share of loss of associated companies			(2,384)		(2,384)
Profit before taxation					57,982
Taxation					(12,281)
Profit after taxation					45,701
Minority interests					1,384
Profit attributable to shareholders					47,085
Segment assets	639,572	800,566	172,827		1,612,965
Associated companies			15,860		15,860
Unallocated assets					15,460
Total assets					1,644,285
Segment liabilities	(390,738)	(359,883)	(18,365)		(768,986)
Unallocated liabilities					(57,792)
Total liabilities					(826,778)
Capital expenditure	3,087	51,256	8,327		62,670
Depreciation	11,835	19	9,452		21,306
Amortisation of prepaid operating lease payment	117	204	747		1,068
Amortisation of development costs			606		606
Fair value gain on investment properties		(54,857)			(54,857)
Other non-cash expenses	2		358		360

Notes to the Accounts

2 Turnover, Revenues and Segment Information *(Continued)*

Primary reporting format – business segments *(Continued)*

	Construction HK\$'000	Property investment HK\$'000	Others HK\$'000	Elimination HK\$'000	Total HK\$'000
Year ended 31st March 2004, as restated					
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	15,053	215,605	8,132	(13,677)	225,113
Unallocated income					1,994
Operating profit					227,107
Finance costs	(7,254)	(1,554)			(8,808)
Share of profit of associated companies			71		71
Profit before taxation					218,370
Taxation					(38,945)
Profit after taxation					179,425
Minority interests					779
Profit attributable to shareholders					180,204
Segment assets	714,263	691,143	152,941		1,558,347
Associated companies			26,315		26,315
Unallocated assets					15,476
Total assets					1,600,138
Segment liabilities	(441,389)	(312,402)	(20,441)		(774,232)
Unallocated liabilities					(49,531)
Total liabilities					(823,763)
Capital expenditure	3,979	92,179	10,270		106,428
Depreciation	12,332		9,685		22,017
Amortisation of prepaid operating lease payment	117		747		864
Amortisation of development costs			599		599
Fair value gain on investment properties	–	(217,591)	–		(217,591)
Other non-cash expenses/(income)	1,249	–	(384)		865

Notes to the Accounts

3 Operating Profit

Operating profit is stated after charging and crediting the following:

	2005 HK\$'000	As restated 2004 HK\$'000
Charging:		
Depreciation		
Owned property, plant and equipment	20,695	21,334
Leased property, plant and equipment	611	683
	21,306	22,017
Operating lease rentals of		
Land and buildings	4,063	4,003
Other equipment	13,226	16,104
	17,289	20,107
Staff costs (excluding directors' emoluments) (Note 10)	186,619	154,087
Amortisation of prepaid operating lease payment	1,068	864
Amortisation of development costs	606	599
Impairment of development costs	1,211	–
Write-off of doubtful debts	463	282
Unrealised loss on short-term investments	529	–
Loss on liquidation of subsidiaries	264	–
Auditors' remuneration	1,030	960
Loss on disposal of an associated company	840	–
Loss on disposal of property, plant and equipment	–	1,225
Crediting:		
Gross rental income from investment properties less outgoings	5,815	241
Unrealised gain on short-term investments	–	50
Realised gain on disposal of short-term investments	–	1,727
Gain on disposal of an associated company	–	848
Gain on disposal of property, plant and equipment	34	–
Write back of provision for doubtful debts	319	–
Exchange gain, net	498	643

Notes to the Accounts

4 Directors' and Senior Management's Emoluments

(a) Directors' emoluments

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

	2005 HK\$'000	2004 HK\$'000
Executive Directors:		
Fees	–	–
Salaries	8,587	8,843
Performance-related bonus	840	815
Retirement benefits	384	384
	9,811	10,042
Independent Non-Executive Directors:		
Fees	750	750
	10,561	10,792

The emoluments of the Directors fell within the following bands:

Emolument bands	Number of Directors	
	2005	2004
Nil – HK\$1,000,000	4	4
HK\$1,500,001 – HK\$2,000,000	2	1
HK\$2,000,001 – HK\$2,500,000	–	1
HK\$5,000,001 – HK\$5,500,000	1	1

Notes to the Accounts

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 (2004: three) Directors whose emoluments are reflected in the analysis above. The emoluments paid to the remaining two (2004: two) highest-paid individuals during the year were as follows:

	2005 HK\$'000	2004 HK\$'000
Salaries	1,708	1,708
Performance-related bonus	520	506
Retirement benefits	83	79
	2,311	2,293

The emoluments fell within the following band:

Emolument band	Number of individuals	
	2005	2004
HK\$1,000,001 – HK\$1,500,000	2	2

- (c) During the year, no emoluments have been paid by the Group to the Directors or the five highest-paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office. None of the Directors waived or has agreed to waive any emoluments.

Notes to the Accounts

5 Finance Costs

	2005 HK\$'000	2004 HK\$'000
Interest on overdrafts and short-term bank loans	6,538	7,242
Interest on long-term bank loans repayable within five years	5,693	6,243
Interest element of finance lease contract payments	53	49
Total borrowing costs incurred	12,284	13,534
Less: Interest capitalised as cost of construction in progress/property under development	(3,565)	(4,689)
Classified under contract cost	(18)	(37)
	8,701	8,808

The capitalisation rate applied to funds borrowed and used for the construction in progress is between 1.425% and 1.938% per annum.

6 Taxation

	2005 HK\$'000	As restated 2004 HK\$'000
Current taxation		
Hong Kong profits tax	3,798	3,913
Over provisions in prior years	(107)	(711)
Deferred taxation (Note 25)	8,590	35,725
	12,281	38,927
Share of taxation attributable to associated companies	–	18
	12,281	38,945

Hong Kong profits tax is calculated at 17.5% (2004: 17.5%) on the estimated assessable profits for the year. 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.

Notes to the Accounts

6 Taxation *(Continued)*

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

	2005 <i>HK\$'000</i>	As restated 2004 <i>HK\$'000</i>
Profit before taxation	57,982	218,370
Calculated at a taxation rate of 17.5% (2004: 17.5%)	10,147	38,215
Effect of different tax rates in other countries	(1,307)	(608)
Income not subject to taxation	(8)	(293)
Expenses not deductible for taxation purposes	1,532	637
Temporary differences not recognised	84	1,661
Tax losses not recognised	6,925	2,218
Utilisation of previously unrecognised tax losses	(4,956)	(1,540)
Recognition of previously unrecognised tax losses	(29)	(634)
Over provisions in prior years	(107)	(711)
Taxation charge	12,281	38,945

7 Profit attributable to Shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of a loss of approximately HK\$1,896,000 (2004: profit of HK\$61,000).

8 Dividends

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Interim dividend paid of HK\$0.0035 (2004: Nil) per share	1,544	–
Final dividend proposed of HK\$0.0075 (2004: HK\$0.01) per share	3,307	4,409
	4,851	4,409

At a meeting held on 21st July 2005, the Directors proposed a final dividend of HK\$0.0075 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 2006.

Notes to the Accounts

9 Earnings Per Share

The calculation of earnings per share is based on the Group's profit attributable to shareholders of approximately HK\$47,085,000 (2004: HK\$180,204,000, as restated) and on the 440,949,600 (2004: 440,949,600) shares in issue during the year.

Diluted earnings per share for the year ended 31st March 2005 and 2004 are not presented as there are no potential dilutive shares during the years.

10 Staff Costs

Staff costs, excluding Directors' emoluments, represent:

	2005 HK\$'000	2004 HK\$'000
Salaries, wages and bonus	176,239	147,725
Unutilised annual leave	1,576	–
Long service payments	331	139
Termination benefits	811	233
Pension costs – defined contribution scheme	7,662	5,990
	186,619	154,087

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.

Notes to the Accounts

11 Property, Plant and Equipment

	Construction in progress HK\$'000	Buildings HK\$'000	Leasehold improve- ments HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Motor launch HK\$'000	Total HK\$'000
Group								
At 1st April 2003								
Cost	-	38,789	5,216	138,116	40,660	20,757	1,685	245,223
Accumulated depreciation	-	(7,255)	(4,668)	(73,805)	(28,219)	(17,174)	(1,685)	(132,806)
Net book amount	-	31,534	548	64,311	12,441	3,583	-	112,417
Year ended 31st March 2004								
Opening net book amount	-	31,534	548	64,311	12,441	3,583	-	112,417
Additions	-	2,511	-	7,334	3,088	1,214	-	14,147
Disposals	-	-	-	(1,922)	(95)	(199)	-	(2,216)
Depreciation	-	(1,319)	(217)	(12,458)	(5,914)	(2,109)	-	(22,017)
Closing net book amount	-	32,726	331	57,265	9,520	2,489	-	102,331
At 31st March 2004								
Cost	-	41,300	5,216	139,142	41,184	19,483	1,685	248,010
Accumulated depreciation	-	(8,574)	(4,885)	(81,877)	(31,664)	(16,994)	(1,685)	(145,679)
Net book amount	-	32,726	331	57,265	9,520	2,489	-	102,331
Year ended 31st March 2005								
Opening net book amount	-	32,726	331	57,265	9,520	2,489	-	102,331
Additions	50,906	391	-	7,167	1,817	2,227	-	62,508
Transfer from investment properties (Note 12)	148,600	-	-	-	-	-	-	148,600
Disposals	-	-	-	(65)	(124)	(55)	-	(244)
Depreciation	-	(1,422)	(217)	(13,098)	(4,921)	(1,648)	-	(21,306)
Closing net book amount	199,506	31,695	114	51,269	6,292	3,013	-	291,889
At 31st March 2005								
Cost	199,506	41,691	5,216	145,721	40,407	20,497	-	453,038
Accumulated depreciation	-	(9,996)	(5,102)	(94,452)	(34,115)	(17,484)	-	(161,149)
Net book amount	199,506	31,695	114	51,269	6,292	3,013	-	291,889

Notes to the Accounts

11 Property, Plant and Equipment *(Continued)*

(a) The net book value of property, plant and equipment held under finance lease contracts comprises:

	Group 2005 HK\$'000	2004 HK\$'000
Motor vehicles	2,068	2,152

(b) At 31st March 2005, the net book value of property, plant and equipment pledged as securities for the Group's bank loans amounted to approximately HK\$204,000,000 (2004: Nil) (Notes 23 and 29(e)).

12 Investment Properties

	Group 2005 HK\$'000	2004 HK\$'000
Beginning of year	690,000	–
Additions	143	–
Transfer (to)/from construction in progress/ property under development <i>(Note 11)</i>	(148,600)	472,409
Transfer to leasehold land <i>(Note 13)</i>	(306,400)	–
Fair value gain	54,857	217,591
End of year	290,000	690,000

Investment properties are held under long-term leases and situated in Hong Kong. The investment properties were revalued as at 31st March 2005 by Chesterton Petty Limited, an independent firm of qualified property valuers. Valuation reflects rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The investment properties are pledged as securities for the bank loans of the Group (Notes 23 and 29(e)).

Notes to the Accounts

13 Leasehold Land

	Group 2005 HK\$'000	2004 HK\$'000
Opening	36,857	37,721
Transfer from investment properties (Note 12)	306,400	–
Amortisation	(1,068)	(864)
	342,189	36,857
In Hong Kong held on		
Leases of over 50 years	306,196	–
Leases of between 10 to 50 years	35,993	36,857
	342,189	36,857

The Group's interests in leasehold land represented prepaid operating lease payment.

As at 31st March 2005, leasehold land with a net book value of approximately HK\$308,427,000 (2004: HK\$2,298,000) was pledged as securities for the Group's bank loans (Notes 23 and 29(e)).

14 Subsidiaries

	Company 2005 HK\$'000	2004 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	383,077	381,727
Due to subsidiaries	110,339	101,099

Notes to the Accounts

14 Subsidiaries (Continued)

The advance to a subsidiary is unsecured, bears interest at Hong Kong dollar prime rate less two per cent (2004: Hong Kong dollar prime rate less two per cent) 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 interest free.

The following is a list of the principal subsidiaries at 31st March 2005:

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

Notes to the Accounts

14 Subsidiaries *(Continued)*

Name	Place of incorporation/ operation	Particulars of registered/ issued share capital	Principal activities	Percentage of registered/issued share capital held by		
				Company	Subsidiaries	Group
Nanjing Nanda VH Software Intelligence Company Limited <i>(Note b)</i>	Mainland China	RMB1,500,000	Development and sale of computer software	–	70%	70%
Right Motive Limited	Hong Kong	HK\$6,000	Property holding	–	100%	100%
Solid Star Company Limited	Hong Kong	HK\$2	Property holding	–	100%	100%
SPS Company Limited	Hong Kong	HK\$2	Manufacturing and trading of office partition	–	100%	100%
Trendplot Investments Limited	Hong Kong	HK\$2	Provision of management services	–	100%	100%
VHBuild Company Limited	Hong Kong	HK\$2	Provision of website hosting services	–	100%	100%
VHCOME Company Limited	Hong Kong	HK\$2	Business to business sale of construction materials	–	100%	100%
VHSoft Company Limited	Hong Kong	HK\$5,000,000	Computer software development	–	100%	100%
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%
VHSoft Technologies (SZ) Company Limited <i>(Note a)</i>	Mainland China	HK\$3,000,000	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%

Notes to the Accounts

14 Subsidiaries *(Continued)*

Name	Place of incorporation/ operation	Particulars of registered/ issued share capital	Principal activities	Company	Percentage of registered/issued share capital held by Subsidiaries	Group
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 Construction (Macau) Company Limited	Macau	MOP1,000,000	Building construction, maintenance and fitting-out	–	100%	100%
Yau Lee Hotel Management Limited	Hong Kong	HK\$2	Provision of hotel and property 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%

Notes to the Accounts

14 Subsidiaries *(Continued)*

Name	Place of incorporation/ operation	Particulars of registered/ issued share capital	Principal activities	Company	Percentage of registered/issued share capital held by Subsidiaries	Group
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 Lee Wah Concrete Precast Products (Macau) Company Limited	Macau	MOP200,000	Sale 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.

15 Associated Companies

	2005		2004	
	Group HK\$'000	Company HK\$'000	Group HK\$'000	Company HK\$'000
Share of net assets	39	–	7,412	–
Amounts due from associated companies, net	27,558	1,030	28,983	909
	27,597	1,030	36,395	909
Less: Provision on amounts due from associated companies	(11,737)	–	(10,080)	–
	15,860	1,030	26,315	909

Notes to the Accounts

15 Associated Companies *(Continued)*

(a) The following is a list of the principal associated company at 31st March 2005:

Name	Place of incorporation/ operation	Particulars of issued share capital	Principal activities	Particulars of issued share capital held by	
				Subsidiaries	Group
Yau Lee Development Company Limited	Hong Kong	HK\$100	Property development (holds 50% interest in Fuli Building, a residential and commercial property project in Shunde, Mainland China)	50%	50%

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

16 Other Non-Current Assets

	2005		2004	
	Group HK\$'000	Company HK\$'000	Group HK\$'000	Company HK\$'000
Long-term trade debtors <i>(Note 22)</i>	35,398	–	42,691	–
Loans to employees <i>(Note 17)</i>	1,468	–	2,385	–
Development costs <i>(Note 18)</i>	–	–	1,798	–
Other investments	143	–	5,484	5,461
	37,009	–	52,358	5,461

Notes to the Accounts

17 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\$240,000 (2004: HK\$509,000) are included in prepayments, deposits and other receivables.

18 Development Costs

	Group	
	2005	2004
	HK\$'000	HK\$'000
Cost		
Beginning of year	2,397	12,603
Additions	19	102
Write-off for the year	–	(10,308)
End of year	2,416	2,397
Accumulated amortisation and impairment losses		
Beginning of year	599	10,308
Amortisation for the year	606	599
Impairment charge	1,211	–
Write-off for the year	–	(10,308)
End of year	2,416	599
Net book value		
End of year	–	1,798
Beginning of year	1,798	2,295

Notes to the Accounts

19 Cash and Bank Balances

	2005		2004	
	Group HK\$'000	Company HK\$'000	Group HK\$'000	Company HK\$'000
Cash and bank balances	30,638	358	14,281	292
Time deposits	4,610	2,035	4,565	1,989
Restricted deposits (Note a)	160,065	4,540	164,514	4,540
	195,313	6,933	183,360	6,821

(a) Restricted deposits are funds which are pledged to secure the bank overdrafts and short-term bank loans (Notes 23 and 29(a)).

20 Trade Debtors, Net

	Group 2005 HK\$'000	2004 HK\$'000
Trade debtors	182,584	161,363
Provision for doubtful debts	(1,356)	(1,675)
	181,228	159,688

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 (stated net of provision) is as follows:

	2005 HK\$'000	2004 HK\$'000
Not yet due	156,500	145,533
Overdue by:		
1-30 days	13,145	5,096
31-90 days	4,254	3,153
91-180 days	905	1,287
Over 180 days	6,424	4,619
	181,228	159,688

Notes to the Accounts

21 Inventories

	Group 2005 HK\$'000	2004 HK\$'000
Raw materials, at cost	6,419	9,481
Finished goods, at cost	4,489	2,617
	10,908	12,098

22 Construction Contracts in Progress

	Group 2005 HK\$'000	2004 HK\$'000
Contract costs incurred plus attributable profits less foreseeable losses to date	7,370,726	10,057,617
Progress billings to date	(7,161,574)	(9,753,383)
	209,152	304,234
Included in current assets/(liabilities) under the following captions:		
Due from customers on construction contracts	224,928	316,219
Due to customers on construction contracts	(15,776)	(11,985)
	209,152	304,234

- (a) Retention receivables from customers in respect of construction contracts in progress amounting to approximately HK\$35,398,000 (2004: HK\$42,691,000) and HK\$29,977,000 (2004: HK\$12,728,000) are classified under long-term trade debtors and trade debtors respectively.
- (b) In 2004, 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. The likely recoverable amount as estimated by the Directors has been included in "Due from customers on construction contracts".

Notes to the Accounts

23 Long-Term Liabilities

	Group 2005 HK\$'000	2004 HK\$'000
Obligations under finance lease contracts		
Repayable within one year	1,179	612
Repayable in the second to fifth years	491	387
	1,670	999
Amounts due within one year included under current liabilities	(1,179)	(612)
	491	387
Long-term bank loans – secured		
Repayable within one year	10,000	307,800
Repayable in the second to fifth years	339,800	–
	349,800	307,800
Amount due within one year included under current liabilities	(10,000)	(307,800)
	339,800	–
	340,291	387

Interest on the long-term bank loans is charged on the outstanding balance at 1.05 per cent (2004: 1.50 per cent) per annum above HIBOR. The bank loans are secured by the Group's investment properties and certain property, plant and equipment, leasehold land and certain time deposits (Notes 11, 12, 13 and 19).

Notes to the Accounts

23 Long-term Liabilities *(Continued)*

The Group's finance lease obligations were as follows:

	Group 2005 HK\$'000	2004 HK\$'000
Within one year	1,219	640
In the second year	504	393
Future finance charges on finance leases	1,723 (53)	1,033 (34)
Present value of finance lease obligations	1,670	999
The present value of finance lease obligations is as follows:		
Within one year	1,179	612
In the second year	491	387
	1,670	999

24 Payables to Suppliers and Subcontractors

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

	Group 2005 HK\$'000	2004 HK\$'000
Not yet due	98,359	94,935
Overdue by:		
1-30 days	1,623	6,051
31-90 days	-	-
91-180 days	-	-
Over 180 days	179	670
	100,161	101,656

Notes to the Accounts

25 Deferred Taxation

The movements in net deferred tax liabilities are as follows:

	Group	
	2005	As restated
	HK\$'000	2004
		<i>HK\$'000</i>
Beginning of year	43,207	7,482
Charged to profit and loss account (<i>Note 6</i>)	8,590	35,725
End of year	51,797	43,207

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\$79,400,000 million (2004: HK\$64,100,000 million, as restated) to carry forward against future taxable income. These unrecognised tax losses are analysed according to their expiry dates as follows:

	Group	
	2005	As restated
	HK\$'000	2004
		<i>HK\$'000</i>
With no expiry date	57,435	27,242
Expiring not later than one year	2,946	4,205
Expiring later than one year and not later than five years	18,998	32,607
	79,379	64,054

Notes to the Accounts

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	
	2005	As restated 2004	2005	2004	2005	As restated 2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Beginning of year	5,848	546	56	–	5,904	546
Credited/(charged) to profit and loss account	54	5,302	(56)	56	(2)	5,358
End of year	5,902	5,848	–	56	5,902	5,904

Deferred tax liabilities:

	Revaluation of investment properties		Accelerated taxation depreciation		Total	
	2005	As restated 2004	2005	As restated 2004	2005	As restated 2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Beginning of year	38,078	–	11,033	8,028	49,111	8,028
Charged/(credited) to profit and loss account	9,600	38,078	(1,012)	3,005	8,588	41,083
End of year	47,678	38,078	10,021	11,033	57,699	49,111

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:

	2005	As restated 2004
	HK\$'000	HK\$'000
Deferred tax assets	(46)	(111)
Deferred tax liabilities	51,843	43,318
	51,797	43,207

Notes to the Accounts

26 Share Capital

	2005 HK\$'000	2004 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 2005, 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 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 2005, no share options have been granted under the VHSOFT Share Option Scheme.

Notes to the Accounts

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 2004, as previously reported	415,430	217,591	359	94,213	727,593
Change in accounting policies (<i>Note 1(a)</i>)	–	(217,591)	–	178,183	(39,408)
At 1st April 2004, as restated	415,430	–	359	272,396	688,185
Dividends paid	–	–	–	(5,953)	(5,953)
Profit attributable to shareholders	–	–	–	47,085	47,085
At 31st March 2005	415,430	–	359	313,528	729,317
Representing:					
2005 final dividend proposed				3,307	
Others				310,221	
At 31st March 2005				313,528	
Company and subsidiaries	415,430	–	359	315,452	731,241
Associated companies	–	–	–	(1,924)	(1,924)
At 31st March 2005	415,430	–	359	313,528	729,317

Notes to the Accounts

27 Other Reserves and Retained Profits *(Continued)*

	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	As restated Retained profits <i>HK\$'000</i>	As restated Total <i>HK\$'000</i>
Group				
At 1st April 2003, as previously reported	415,430	359	94,222	510,011
Change in accounting policies <i>(Note 1(a))</i>	–	–	(2,030)	(2,030)
At 1st April 2003, as restated	415,430	359	92,192	507,981
Profit attributable to shareholders	–	–	180,204	180,204
At 31st March 2004	415,430	359	272,396	688,185
Representing:				
2004 final dividend proposed			4,409	
Others			267,987	
At 31st March 2004			272,396	
Company and subsidiaries	415,430	359	271,936	687,725
Associated companies	–	–	460	460
At 31st March 2004	415,430	359	272,396	688,185

Notes to the Accounts

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 2004	415,430	359	151,490	567,279
Dividends paid	–	–	(5,953)	(5,953)
Loss attributable to shareholders	–	–	(1,896)	(1,896)
At 31st March 2005	415,430	359	143,641	559,430
Representing:				
2005 final dividend proposed			3,307	
Others			140,334	
At 31st March 2005			143,641	
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	

The entire amounts of retained profits of the Company at 31st March 2005 are distributable.

Notes to the Accounts

28 Notes to Consolidated Cash Flow Statement

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

	Note	2005 HK\$'000	As restated 2004 HK\$'000
Operating profit		69,067	227,107
Interest income		(2,635)	(1,723)
Dividend income		(4)	(173)
(Gain)/loss on disposal of property, plant and equipment		(34)	1,225
Loss/(gain) on disposal of an associated company		840	(848)
Fair value gain on investment properties		(54,857)	(217,591)
Interest element of finance lease payments		18	37
Amortisation of development costs		606	599
Amortisation of prepaid operating lease payment		1,068	864
Depreciation		21,306	22,017
Loss on liquidation of subsidiaries	28(b)	264	–
Unrealised loss/(gain) on short-term investments		529	(50)
Realised gain on short-term investments		–	(1,727)
Impairment of development costs		1,211	–
Operating profit before working capital changes		37,379	29,737
Decrease/(increase) in long-term trade debtors		7,293	(3,646)
Decrease in loans to employees		917	819
Increase in trade debtors, net		(21,540)	(12,922)
Decrease/(increase) in inventories		1,190	(3,214)
(Increase)/decrease in prepayments, deposits and other receivables		(23,974)	5,523
Decrease/(increase) in due from customers on construction contracts		91,291	(38,649)
(Increase)/decrease in due from associated companies		(121)	1,102
Decrease in payables to suppliers and subcontractors		(1,495)	(847)
Increase/(decrease) in accruals, retentions payable and other liabilities		8,190	(5,911)
Increase/(decrease) in due to customers on construction contracts		3,791	(4,682)
Decrease in due to related parties		(575)	–
Net cash generated from/(used in) operations		102,346	(32,690)

Notes to the Accounts

28 Notes to Consolidated Cash Flow Statement *(Continued)*

(b) Liquidation of subsidiaries

	Note	2005 HK\$'000	2004 HK\$'000
Cash consideration received		-	-
Less: Accruals and other liabilities		47	-
Minority interests		(311)	-
Loss on liquidation of subsidiaries	28(a)	(264)	-

(c) Analysis of changes in financing during the year

	Share capital HK\$'000	Share Premium HK\$'000	Minority interests HK\$'000	Finance lease obligations HK\$'000	Long-term bank loans HK\$'000	Short-term bank loans HK\$'000	Restricted deposits HK\$'000	Total HK\$'000
At 1st April 2004	88,190	415,430	5,076	999	307,800	229,370	(164,514)	882,351
Net cash (used in)/from financing activities	-	-	-	(939)	42,000	(33,514)	4,449	11,996
Share of loss by minority shareholders	-	-	(1,384)	-	-	-	-	(1,384)
Liquidation of subsidiaries	-	-	311	-	-	-	-	311
Inception of finance lease obligations	-	-	-	1,610	-	-	-	1,610
At 31st March 2005	88,190	415,430	4,003	1,670	349,800	195,856	(160,065)	894,884
At 1st April 2003	88,190	415,430	5,839	1,755	210,900	185,500	(142,708)	764,906
Net cash from/(used in) 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	-	-	-	894	-	-	-	894
At 31st March 2004	88,190	415,430	5,076	999	307,800	229,370	(164,514)	882,351

Notes to the Accounts

29 Banking Facilities

As at 31st March 2005, the Group had total banking facilities in respect of bank overdrafts, bank loans, bank guarantees and trade financing of approximately HK\$758 million (2004: HK\$748 million), of which HK\$593 million (2004: HK\$601 million) had been utilised. These banking facilities are secured by the following:

- (a) Time deposits of approximately HK\$160 million (2004: HK\$165 million) (Note 19).
- (b) Guarantees of approximately HK\$764 million (2004: HK\$764 million) given by the Company.
- (c) Investment in the guaranteed unit trust fund and securities of approximately HK\$10 million (2004: HK\$5 million).
- (d) Trade receivables of certain construction contracts.
- (e) Investment properties of HK\$290 million (2004: HK\$690 million), property, plant and equipment of approximately HK\$204 million (2004: Nil) and leasehold land of approximately HK\$308 million (2004: HK\$2 million) (Notes 11, 12 and 13).

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 2005, 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) Pursuant to a lease modification arrangement in respect of the construction in progress, the Group has undertaken to settle a lease premium to the Government of Hong Kong Special Administrative Region. As at the date of this report, the amount of the lease premium is yet to be agreed.

Notes to the Accounts

30 Commitments and Contingent Liabilities *(Continued)*

- (c) During the year, the Group received a writ of summon claiming for an aggregate amount of approximately HK\$15 million for alleged breach of contract and uncertified workdone in connection with contract works from a subcontractor. The Group will defend vigorously against the claim and a counter claim of approximately HK\$1.5 million has been submitted. Based on legal advice, the Directors are of the opinion that the Group has valid defences against the claims and no additional provision has been made in the accounts.
- (d) Guarantees in respect of performance bonds amounted to approximately HK\$15 million (2004: HK\$13 million) in favour of the Group's customers.
- (e) The future aggregate minimum lease rental payable under non-cancellable operating lease is as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Land and buildings		
– Within one year	2,884	2,324
– One year to five years	8,197	7,143
– More than five years	44,012	45,857
	55,093	55,324
Other equipment		
– Within one year	18	19
– One year to five years	10	28
	28	47
	55,121	55,371

Notes to the Accounts

31 Future Minimum Rental Payments Receivable

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

	Group	
	2005	2004
	HK\$'000	HK\$'000
– Within one year	9,278	3,590
– One year to five years	12,623	10,643
	21,901	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 21st July 2005.

Five Year Financial Summary

Consolidated results

Year ended 31st March

	As restated				2005 HK\$'000
	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000	
Turnover	1,781,341	773,413	933,992	1,069,158	1,355,583
Profit/(loss) before taxation	43,153	10,413	(13,045)	218,370	57,982
Taxation	(10,331)	(3,379)	(4,541)	(38,945)	(12,281)
Minority interests	(592)	(503)	(260)	779	1,384
Profit/(loss) attributable to shareholders	32,230	6,531	(17,846)	180,204	47,085

Consolidated assets and liabilities

As at 31st March

Total assets	971,227	1,110,186	1,240,557	1,600,138	1,644,285
Total liabilities	(356,680)	(495,281)	(644,386)	(823,763)	(826,778)
Shareholders' equity	614,547	614,905	596,171	776,375	817,507

Comparatives figures for the years ended 31st March 2001, 2002, 2003 and 2004 have been restated to reflect the early adoption of HKAS 16 "Property, Plant and Equipment", HKAS 17 "Leases", HKAS 40 "Investment Property" and HKAS Interpretation 21 "Income Taxes- Recovery of Revalued Non-Depreciable Assets" which are effective for accounting periods commencing on or after 1st January 2005.

Properties held for Investment Purposes

As at 31st March 2005

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 Wa 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 and hotel	155,896