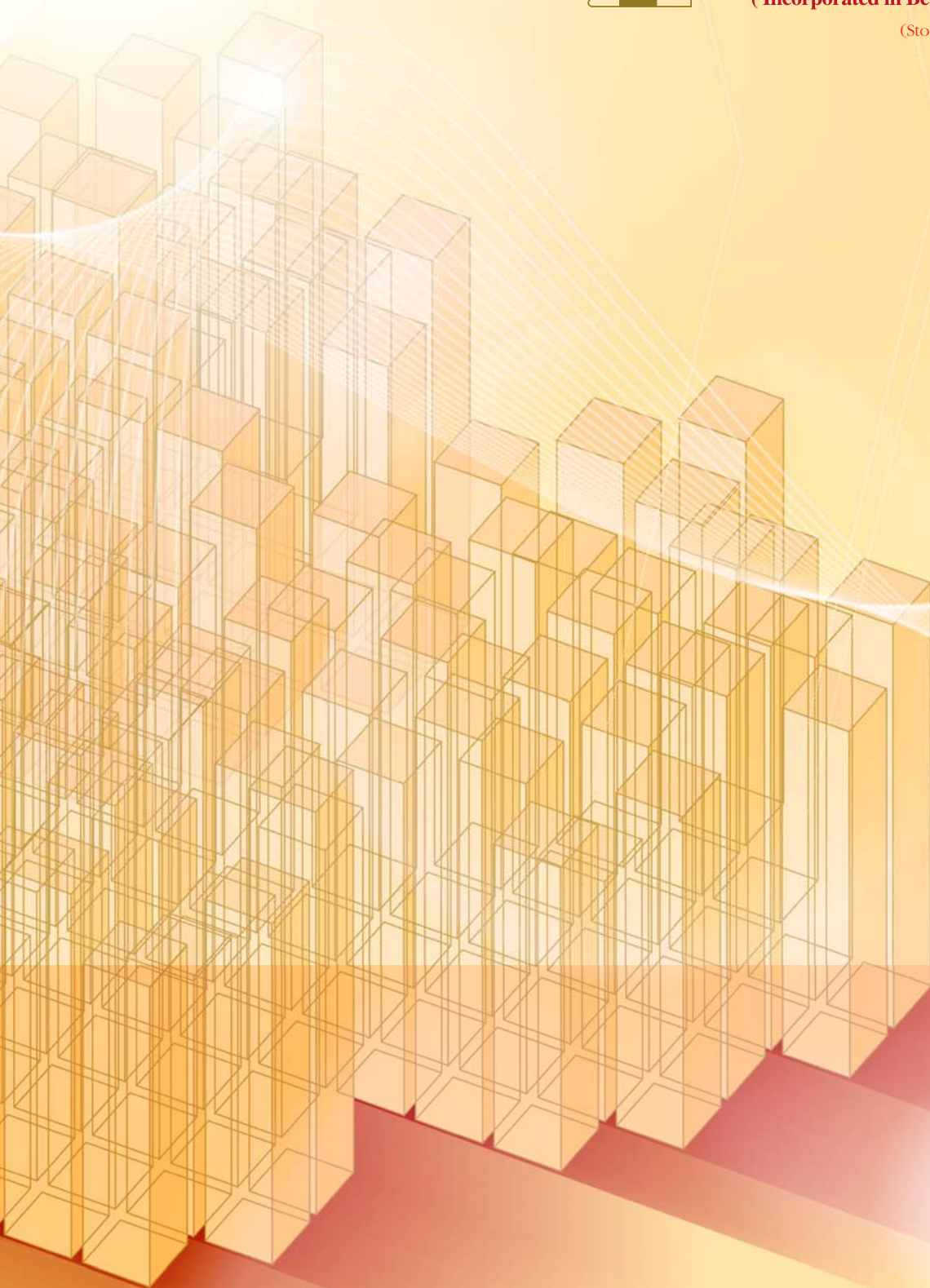




有利集團有限公司
Yau Lee Holdings Limited
(Incorporated in Bermuda with limited liability)

(Stock Code: 406)



ANNUAL REPORT

2006



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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 Hong Kong Branch
Bank of Tokyo-Mitsubishi UFJ, 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 (collectively the "Group") for the year ended 31st March 2006 has increased by 7% to HK\$1,452,208,000 (2005: HK\$1,355,583,000) while the gross profit increased by 3% to HK\$125,290,000 (2005: HK\$121,497,000). The gross profit margin remains stable at approximately 9% for this year and the previous year. The operating profit has, however, decreased by 61% to HK\$27,044,000 (2005: HK\$69,067,000) due to the HK\$46 million decrease in the fair value gain of the Group's investment properties. If the fair value gain on properties are excluded, the Group's operating profit recorded a 27% growth to HK\$18,044,000 compare with HK\$14,210,000 of 2005. This increase was mainly contributed by the profit generated by the hotel owned by the Group which began its operations in November 2005. However the Group's results was affected by the increases in finance costs due to the increase in interest rates during the year. The profit attributable to shareholders as a result was only HK\$1,967,000 (2005: HK\$47,085,000). The net assets value of the Group as at 31st March 2006 was HK\$814,332,000 (2005: HK\$818,263,000) equivalent to HK\$1.85 (2005: HK\$1.86) per share based on the 440,949,600 (2005: 440,949,600) ordinary shares in issue.

DIVIDENDS

No interim dividend (2005: HK\$0.0035) was declared during the year. The Board of Directors of the Company (the "Directors") does not recommend the payment of a final dividend for the year ended 31st March 2006 (2005: HK\$0.0075).

REVIEW OF OPERATION

Building Construction, Renovation and Maintenance

During the year, the Group completed eight contracts with a total contract value of HK\$2,783 million and secured six new contracts with total contract sum of HK\$2,319 million. As a result the total value of contracts in hand has decreased to HK\$3,277 million (2005: HK\$3,741 million). Subsequent to the year end, the Group has further secured the Completion Contract for the Construction of Fanling Area 36 Phase 1 with a contract value of HK\$552 million.

The Group has always placed significant effort in safety, quality and environmental protection. The effort is well recognized by our clients and the Group's subsidiary, Yau Lee Construction Company Limited ("Yau Lee Construction") was awarded 25 awards during the year. A few of the major awards are:

1. the "Gold Award for Outstanding Contractor (Building Category)" for the **2005 Quality Public Housing Construction & Maintenance Award**
2. the "Gold Award for Outstanding Contractor (District Term Contract Category)" for the **2005 Quality Public Housing Construction & Maintenance Award**
3. the "Gold Award in the Category of Green Construction Contractor" for the **2005 Hong Kong Eco-Business Award**
4. the "Gold Award for Building Sites (Public Sector)" for **Safety Award Scheme for the Construction Industry**
5. 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 Manufacturing and Trading

The Group recorded a decline in the turnover of building material and components trading during the year due to the slowdown of both public and private housing development in Hong Kong.

The Group has continuously expanded its product range as a strategy to increase revenue source. During the year, the Group formed a joint venture company, Yau Lee Formglas Limited (the "JV") with a Canadian company to engage in the supply and install of decorative products for both local and overseas markets. The JV successfully secured a fitting-out contract in Macau with a contract sum of approximately HK\$168 million.

Property Development

The Group's property development project, 33 Sharp Street East, in Causeway Bay comprises of 6 floors of commercial units and a 269 rooms hotel. All the commercial units were fully let since last year. The hotel is branded "Express by Holiday Inn" and managed by the InterContinental Hotels Group under a management contract. The hotel began operation in November 2005 and average occupancy rate was higher than the market average.

Other Operations

The Group's plumbing division continues to provide reliable design and installation services to construction projects undertaken by Yau Lee Construction.

The information technology division has not reached its sales target and remained a cost centre for the Group. Efforts to reduce costs by shifting the work into Mainland China and to increase income by stronger marketing activities have achieved some result. The division will continue its efforts to increase sales and control costs.

OUTLOOK

The Hong Kong Economy has recorded healthy growth since 2004. However, signs of recovery in construction sector are less obvious than those of other sectors of the economy. The competitiveness of the market also resulted in consolidation within the industry. The contracts available in the market demand greater technical and financial strength, especially with a number of major Government design and build contracts to be tender in the near future. The Group, foreseeing such trend, has been strengthening its technical ability to be well prepared to face the market challenge. And at the same time planning to form joint ventures with fellow construction companies to bid for those contracts. The management is of the view that the industry will become more lively and the Group will actively participate in tendering to capture the opportunities from the improved market conditions.

The tremendous building and infrastructure activities in the Macau SAR have created opportunities for construction companies in Hong Kong. The Group has been trying to capture the opportunities there since last year, and successfully obtained a contract there. The management shall continue to look for opportunities in both the public and private sectors in Macau in the coming year.

The tourism industry has maintained its growth momentum during the year and the trend is expected to continue in the years to come. Tourists from Mainland China will continue to increase with the approval of more cities to allow individual travelers to visit Hong Kong. The expansion of trade exhibition facilities in Hong Kong will also bring in more visitors to Hong Kong. Therefore the management is confident that the Group's hotel, with its convenient location for both business and leisure travelers, will continue to do well and will contribute a stable stream of income in the years to come.

By order of the Board

Wong Ip Kuen

Chairman

Hong Kong, 17th July 2006

Management Discussion and Analysis

FINANCIAL POSITION

At 31st March 2006 the Group's total cash in hand was HK\$257,696,000 (2005: HK\$195,313,000) and bank borrowings increased from HK\$575,371,000 in 2005 to HK\$732,303,000. The Group's net debt (total bank borrowings less total cash in hand) to equity ratio increased to 58.3% (2005: 46.5%). If the HK\$446,800,000 (2005: HK\$349,800,000) long-term loan secured by the Group's hotel and investment properties is excluded the Group has a net debt of only HK\$27,807,000 (2005: HK\$30,258,000) representing a healthy net debt to equity ratio of 3.4% (2005: 3.7%). The current ratio (total current assets: total current liabilities) has maintained at 1.6 (2005: 1.6).

The short-term and long-term bank borrowings are secured by the Group's investment properties, leasehold land, certain property, plant and equipment, investment in unit trust and certain time deposits. Interest on bank loans are charged at floating rates and the Group monitors interest rate risks continuously and hedge any excessive risk when necessary. The total bank facilities granted to the Group at 31st March 2006 was approximately HK\$951 million (2005: HK\$758 million), of which approximately HK\$747 million (2005: HK\$593 million) had been utilised.

HUMAN RESOURCES

At 31st March 2006, the Group employed approximately 940 employees in Hong Kong and approximately 750 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.

Employees are encouraged to participate voluntary community services as part of their development. The Group was awarded "Caring Company 2005/2006" organised by the Hong Kong Council of Social Service.

Summary of Contracts

CONTRACTS COMPLETED DURING THE YEAR ENDED 31ST MARCH 2006

Contracts	Commencement date	Completion Date	Original contract value <i>HK\$ million</i>
Redevelopment of Kwai Chung Estate Phase 3	March 2002	April 2005	845
Term Contract for the Design & Construction of Fitting-out Works to Buildings and Lands and Other Properties for which the Architectural Services Department (Property Services Branch) is responsible (Kowloon and New Territories-Western Region)	June 2002	May 2005	550
Development of Tung Chung Area 31 Phase 2	December 2002	May 2005	441
Construction of Education Resource Center cum Public Transport Interchange at Kowloon Tong	May 2003	October 2005	397
Po Leung Kuk School Improvement Programme – Group 2	December 2003	September 2005	87
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	February 2006	228
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	September 2005	218
Construction of 8 Essex Crescent	December 2004	February 2006	17
			2,783

Summary of Contracts

CONTRACTS SECURED IN PRIOR YEAR AND IN PROGRESS DURING THE YEAR ENDED 31ST MARCH 2006

Contracts	Commencement date	Original contract value <i>HK\$ million</i>	Estimated remaining works as at 31st March 2006 <i>HK\$ million</i>
Design and Construction of Joint User Building at Rock Hill Street Kennedy Town	July 2003	213	16
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	116
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	4
Redevelopment of Kwai Chung Flatted Factory	January 2005	366	315
Total		958	451

Summary of Contracts

CONTRACTS SECURED IN CURRENT YEAR AND IN PROGRESS DURING THE YEAR ENDED 31ST MARCH 2006

Contracts	Commencement date	Original contract value <i>HK\$ million</i>	Estimated remaining works as at 31st March 2006 <i>HK\$ million</i>
Main Works (Area B) for Hong Kong Science Park Phase 2 at Pak Shek Kok, Tai Po	May 2005	1,270	949
Term Contract for the Design and Construction of Fitting-Out Works to Buildings and Lands and Other Properties for which the Architectural Services Department (Property Services Branch) is Responsible (Kowloon and New Territories – Western Region)	July 2005	113	69
Construction of 6 Essex Crescent	July 2005	16	9
Redevelopment of Un Chau Street Estate Phases 2 and 4 and Minor Works	August 2005	640	565
Term Contract for the Alterations, Additions, Maintenance and Repair of Buildings and Lands and Other Properties for which the Architectural Services Department (Property Services Branch) is Responsible (Kowloon City, Sai Kung and Outlying Islands (Sai Kung))	October 2005	239	199
Residential Development at 3 Middle Gap Road, Hong Kong	December 2005	41	35
Total		2,319	1,826
Contracts in hand as at 31st March 2006		3,277	2,277

Contracts secured by Jointly Controlled Entity

Podium Internal Facade for Venetian Macao Resort Hotel in Cotai, Macau	September 2005	168	160
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Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Wong Ip Kuen

aged 70, 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 42, 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 and is 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 45, he earned a Bachelor Degree in Britain. He joined the Group in 1992 to manage the Group's property development, construction works, manufacturing and trading of construction materials, and development and marketing of computer software in Mainland China. 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 62, 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 60, 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 55, 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 Hong Kong Housing Authority, the Honorary Permanent President of the Chinese Gold & Silver Exchange Society and the Permanent Honorary 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 (Holdings) Company Limited, all of which are companies listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Mr. Chan, Bernard Charnwut

aged 41, 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 and Greater Pearl River Delta Business Council. He is a Non-Executive Director of City e-Solutions Limited and New Heritage Holdings Ltd, an Independent Non-Executive Director of each of Peaktop International Holdings Limited, Pioneer Global Group Limited and Chen Hsong Holdings Ltd, 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 53, 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 an associate of the Chartered Institute of Building.

Ms. Tang Wai Chun, *Chief Quantity Surveyor*

aged 49, 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 27 years of experience in arbitration 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 and member 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 advisory of Yau Lee Construction.

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

aged 42, 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 20 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 52, 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 Sou Kai, *Chief Quantity Surveyor*

aged 59, joined the Group in 2000. Mr. Chan is a Professional Member of Royal Institution of Chartered Surveyors. He has 37 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
- Man Tin Hung
- Tsang Kwok Man
- Wong Kwok Keung

Project Managers*

- Cheng Tsz Yin
- Ho Chi Man
- Lam Chi Kin
- Lam Lap Wa
- Ng Fuk Ping Edwin

Head Office Management – Department Heads*

- | | |
|-------------------------|--|
| • Chan Chi Ming Antonio | Building Services 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 and Purchase Department |
| • Wong Wai Man | Corporate Development Department |
| • Yu Chi Kin | Quality Department |

Subsidiaries Management

*Ming Hop Company Limited**

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

VHSoft

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

Yau Lee Wah Concrete Precast Products Company Limited

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

* In alphabetical order

Report of the Directors

The Directors submit their report together with the audited financial statements of the Company and the Group for the year ended 31st March 2006.

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, building materials trading, property leasing and the operation of a hotel in Hong Kong. In addition, the Group is engaged in other activities which mainly include computer software development and provision for website hosting services.

The Group's turnover and operating profit for the year ended 31st March 2006 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	1,372,317	15,141
Building materials trading	29,588	(4,958)
Property leasing	10,934	16,203
Hotel operation	30,467	5,910
Others	8,902	(5,252)
	1,452,208	27,044

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 23.

The Directors do not recommend the payment of a final dividend.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in Note 33 to the financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately HK\$151,000.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in Note 15 to the financial statements.

PRINCIPAL PROPERTIES

Details of the principal properties held for investment purposes are set out on page 78.

Report of the Directors

DISTRIBUTABLE RESERVES

At 31st March 2006, the reserves of the Company available for distribution, calculated under section 79B of the Hong Kong Companies Ordinance, amounted to approximately HK\$142,893,000 (2005: HK\$143,641,000).

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 32 to the financial statements.

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, assets and liabilities of the Group for the last five financial years is set out on page 77.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

SHARE OPTION SCHEMES AND DIRECTORS' RIGHTS TO ACQUIRE SHARES

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 2006, no share options have been granted under the Share Option Scheme.

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

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: *(Continued)*

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	:	Details are set out in note 32 to the financial statements
The remaining life of the share option scheme	:	The scheme remains in force for a period of 10 years until 16th October 2010

In addition, 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. VHSoft Share Option Scheme ceased to operate on 16th October 2005 and no share options have been granted under the VHSoft Share Option Scheme.

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. Wong Tin Cheung and Mr. So Yau Chi retire by rotation at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

Report of the Directors

DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Group which is not determinable by the employer within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 31st March 2006, 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 ("Model Code") were as follows:

Shares of HK\$0.2 each in the Company

Director	Number of shares held (long position)	
	Corporate interest	Percentage
Mr. Wong Ip Kuen	234,033,599	53.07%

The shares referred to above are registered in the names of All Fine Investment Company Limited and Billion Goal Holdings Limited with respective registered holding of 230,679,599 shares and 3,354,000 shares. Mr. Wong Ip Kuen owns the entire issued share capital of All Fine Holdings Company Limited and Billion Goal Holdings Limited. All Fine Holdings Company Limited owns the entire issued share capital of All Fine Investment Company Limited, both of which are companies incorporated in the Cook Islands. Billion Goal Holdings Limited is a company incorporated in the British Virgin Islands. Mr. Wong Ip Kuen is a director of All Fine Holdings Company Limited, All Fine Investment Company Limited and Billion Goal Holdings 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, its associated companies or its jointly controlled entity 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.

Report of the Directors

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

At 31st March 2006, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had not been notified of any substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital, other than those of the Directors and chief executives as disclosed above.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases

- | | |
|--------------------------|-----|
| – the largest supplier | 6% |
| – five largest suppliers | 17% |

Sales

- | | |
|--------------------------|-----|
| – the largest customer | 43% |
| – five largest customers | 91% |

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

Significant related party transactions entered into by the Group during the year ended 31st March 2006, which do not constitute connected transactions under the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules") are disclosed in Note 38 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available and within the knowledge of the Directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares at the date of this report.

CORPORATE GOVERNANCE

The Company's Corporate Governance Report is set out on pages 19 to 21.



Report of the Directors

AUDITORS

The financial statements 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, 17th July 2006

Corporate Governance Report

The Directors is committed to safeguard the interest of its shareholders by complying with the corporate governance requirements set out in the Code on Corporate Governance Practice (the "Code") as set out in the Appendix 14 of the Listing Rules. The Company strives to improve the transparency of its corporate governance practices and maximise the return to its shareholders through prudent management, investment and treasury policies.

COMPLIANCE WITH LISTING RULES

In the opinion of the Directors, the Company has complied with the requirements of the Code as set out in Appendix 14 of the Listing Rules for the year ended 31st March 2006.

THE BOARD OF DIRECTORS

During the year, the Board of Directors of the Company comprised of four Executive Directors and three Independent Non-Executive Directors, whose personal biographies are set out in pages 9 to 10 of this Annual Report.

The Company forms its Board of Directors based on the characteristics and uniqueness of its operations to ensure that each director possesses the required experience and management expertise. In order to balance the power between the Executive Directors and Independent Non-Executive Directors, the Company appointed three qualified candidates to become its Independent Non-Executive Directors to ensure the independence of the policy making process of the Board and protect the interest of its shareholders. The Company has received confirmations of independence from each of the Independent Non-Executive Directors. The Company considers them to be independent.

The responsibilities of the chairman and vice chairman of the Company are properly defined and separated. The chairman is responsible for leading the Board of Directors to ensure effective operation of the Board and full compliance with corporate governance requirements. The vice chairman is responsible for the day-to-day operation of the Company and implementation of the development strategy adopted by the Board of Directors. The chairman is the father of the vice-chairman.

The Directors delegates day-to-day operation of the business of the Group to the management of relevant subsidiaries or divisions.

The Directors held regular meetings during the year to discuss the overall development strategy, operations and financial reporting of the Company. The matters resolved and considered by the Directors include overall development strategies, major acquisition, annual and interim results, dividend policy, proposed appointment and re-election of directors, appointment of auditors and other operation and financial matters relating to the Company. The time, agenda and related documents of the board meeting will be available to the Directors at least 14 working days in advance to enable each director to fully understand the matters to be discussed and make an informed opinion. Each Director has the right to seek independent professional advice in furtherance of his duties at the expense of the Company. No Director has requested to seek professional advice as mentioned above during the year.

During the year ended 31st March 2006, four board meetings were held. The attendance of the Directors at the meetings of the Board and its respective committees is as follows:

	Board meeting	Audit Committee	Remuneration Committee	Nomination Committee
Mr. Wong Ip Kuen	4/4	N/A	N/A	N/A
Mr. Wong Tin Cheung	4/4	N/A	1/1	N/A
Mr. Sun Chun Wai	4/4	N/A	N/A	N/A
Mr. So Yau Chi	4/4	N/A	0/1	N/A
Dr. Yeung Tsun Man, Eric	3/4	2/2	1/1	0/0
Mr. Wu King Cheong	4/4	2/2	1/1	0/0
Mr. Chan, Bernard Charnwut	4/4	1/2	1/1	0/0

Corporate Governance Report

SUB-COMMITTEES OF THE BOARD

The Directors has set up an audit committee, a remuneration committee and nomination committee, all of them are chaired by an Independent Non-Executive Director with written terms of reference which were discussed and approved by the Directors. The duties of the three committees are as follows:

AUDIT COMMITTEE

The Audit Committee was established in April 1999 and its responsibilities include the reviewing of the Company's financial reporting and internal control system, appointment of auditors and review of corporate governance issues and make recommendations to the Board. The committee comprises:

Dr. Yeung Tsun Man, Eric – *Chairman of the Committee*

Mr. Wu King Cheong

Mr. Chan, Bernard Charnwut

The chairman of the Audit Committee is an independent non-executive director and its members are all independent non-executive directors with relevant financial and commercial experience. Their role is to ensure objectivity and credibility of financial reporting, and that the Directors have exercised the care, diligence and skills prescribed by law when presenting results to the shareholders.

The Audit Committee held two meetings in the year ended 31st March 2006 to review the results, the accounting principles and practices adopted by the Company, the requirements of the Listing Rules and discuss the auditing, internal control, risk management and financial reporting matters with the Company's senior management and external auditors. The record of attendance of the members is listed on page 19.

AUDITORS' REMUNERATION

The Company engaged PricewaterhouseCoopers as the Company's external auditors. For the year ended 31st March 2006, PricewaterhouseCoopers provided the following services to the Group:

	HK\$'000
Audit services	1,323
Taxation services	239
	1,562

Corporate Governance Report

REMUNERATION COMMITTEE

The Remuneration Committee was established in April 2005 and is chaired by Mr. Chan, Bernard Charnwut. The Remuneration Committee is responsible for the approval of remuneration packages (including non-monetary benefits, retirement benefits and share option scheme) for all executive directors and senior management and advising on the remuneration of Independent Non-Executive Directors. The Remuneration Committee met once during the year ended 31st March 2006 and the record of attendance of the members is listed on page 19. The members of the Remuneration Committee are as follows:

Mr. Chan, Bernard Charnwut – *Chairman of the Committee*
Dr. Yeung Tsun Man, Eric
Mr. Wu King Cheong
Mr. Wong Tin Cheung
Mr. So Yau Chi

NOMINATION COMMITTEE

The Nomination Committee was established in April 2005 and is chaired by Mr. Wu King Cheong. The terms of reference of the Nomination Committee was formulated in accordance with the requirements of the new Code on Corporate Governance Practices. The Nomination Committee is responsible for making recommendations to the Board on the appointment of Directors. Since there is no casual vacancy in the Board, the Nomination Committee has not held any meeting during the year ended 31st March 2006.

The members of the Nomination Committee are as follows:

Mr. Wu King Cheong – *Chairman of the Committee*
Mr. Chan, Bernard Charnwut
Dr. Yeung Tsun Man, Eric

The record of attendance of the members is listed on page 19.

DIRECTORS' AND EMPLOYEES' SECURITIES TRANSACTIONS

The Company has adopted the requirements of the Model Code as set out in Appendix 10 of the Listing Rules regarding the securities transactions of the Directors of the Company. Having made specific enquiry of all Directors of the Company, they have confirmed that they complied with the required standard set out in the Model Code during the accounting period covered by this annual report.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL STATEMENTS

During each financial period, the Directors are responsible for the preparation of financial statements that give a true and fair view of the state of affairs of the Group and of the Group's results and cash flows during the relevant period. In preparing the financial statements for the year ended 31st March 2006, appropriate accounting policies are selected and applied consistently by the Directors, who made careful and reasonable judgements and estimates, and prepared the financial statements on an on-going basis. The Directors are responsible for the filing of appropriate accounting records that reasonably and accurately disclose the financial position of the Company from time to time.



Auditors' Report

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

We have audited the financial statements on pages 23 to 76 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 financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements 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 Hong Kong Standards on Auditing 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st March 2006 and of 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, 17th July 2006

Consolidated Income Statement

For the year ended 31st March 2006

	Note	2006 HK\$'000	2005 HK\$'000
Turnover	5	1,452,208	1,355,583
Cost of sales		(1,326,918)	(1,234,086)
Gross profit		125,290	121,497
Other income	6	7,713	2,639
Administrative expenses		(112,154)	(105,674)
Other operating income		775	795
Other operating expenses		(3,580)	(5,047)
Change in fair value of investment properties		9,000	54,857
Operating profit	7	27,044	69,067
Finance costs	9	(21,435)	(8,701)
Share of loss of associated companies	19	–	(2,384)
Share of loss of a jointly controlled entity	20	(510)	–
Profit before income tax		5,099	57,982
Income tax expense	10	(3,079)	(12,281)
Profit for the year		2,020	45,701
Attributable to:			
Equity holders of the Company	11	1,967	47,085
Minority interests		53	(1,384)
		2,020	45,701
Dividends	12	–	4,851
Earnings per share	13	0.45 cents	10.68 cents

Balance Sheets

As at 31st March 2006

		2006		2005	
	Note	Group HK\$'000	Company HK\$'000	Group HK\$'000	Company HK\$'000
ASSETS					
Non-current assets					
Property, plant and equipment	15	303,543	–	291,889	–
Investment properties	16	299,000	–	290,000	–
Leasehold land	17	353,321	–	342,189	–
Subsidiaries	18	–	361,075	–	361,075
Associated companies	19	39	–	39	–
Deferred income tax assets	30	30	–	46	–
Other non-current assets	21	29,779	–	37,009	–
		985,712	361,075	961,172	361,075
Current assets					
Cash and bank balances	24	257,696	12,901	195,313	6,933
Trade debtors, net	25	171,235	–	181,228	–
Prepayments, deposits and other receivables	25	63,516	331	44,148	581
Inventories	26	11,599	–	10,908	–
Prepaid income tax		1,783	–	402	–
Due from customers on construction contracts	27	299,423	–	224,928	–
Short-term investments	28	–	–	10,335	5,461
Financial assets at fair value through profit or loss	28	4,973	–	–	–
Due from associated companies	19	9,730	1,179	15,821	1,030
Due from subsidiaries	18	–	373,287	–	383,077
Due from related parties	38	30	30	30	30
		819,985	387,728	683,113	397,112
Total assets		1,805,697	748,803	1,644,285	758,187
EQUITY					
Share capital	32	88,190	88,190	88,190	88,190
Other reserves	33	416,515	415,789	415,789	415,789
Retained profits					
Proposed final dividend	33	–	–	3,307	3,307
Others	33	308,818	142,893	310,221	140,334
Equity holders		813,523	646,872	817,507	647,620
Minority interests		809	–	756	–
Total equity		814,332	646,872	818,263	647,620

Balance Sheets

As at 31st March 2006

		2006		2005	
	Note	Group HK\$'000	Company HK\$'000	Group HK\$'000	Company HK\$'000
LIABILITIES					
Non-current liabilities					
Long-term borrowings	29	427,285	–	340,291	–
Deferred income tax liabilities	30	53,102	–	51,843	–
		480,387	–	392,134	–
Current liabilities					
Bank overdrafts – secured	29	1,549	–	29,715	–
Short-term bank loans – secured	29	283,954	–	195,856	–
Current portion of long-term borrowings	29	21,655	–	11,179	–
Payables to suppliers and subcontractors	31	102,802	–	100,161	–
Accruals, retention payables and other liabilities		88,542	163	79,413	228
Income tax payable		790	15	1,259	–
Due to customers on construction contracts	27	2,479	–	15,776	–
Due to subsidiaries	18	–	101,753	–	110,339
Due to jointly controlled entity	20	9,207	–	–	–
Due to related parties	38	–	–	529	–
		510,978	101,931	433,888	110,567
Total liabilities		991,365	101,931	826,022	110,567
Total equity and liabilities		1,805,697	748,803	1,644,285	758,187
Net current assets		309,007	285,797	249,225	286,545
Total assets less current liabilities		1,294,719	646,872	1,210,397	647,620

Wong Ip Kuen
Director

Wong Tin Cheung
Director

Consolidated Statement of Changes in Equity

For the year ended 31st March 2006

	Attributable to equity holders of the Company				Minority interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Other reserves HK\$'000	Retained earnings HK\$'000	Sub-total HK\$'000		
As at 1st April 2005, as previously reported	88,190	415,789	313,528	817,507	756	818,263
Opening adjustment for HKAS 39 (Note 2(b)(ii))	–	–	(3,370)	(3,370)	–	(3,370)
As at 1st April 2005, as restated	88,190	415,789	310,158	814,137	756	814,893
Profit for the year	–	–	1,967	1,967	53	2,020
Currency translation differences	–	726	–	726	–	726
Dividends	–	–	(3,307)	(3,307)	–	(3,307)
As at 31st March 2006	88,190	416,515	308,818	813,523	809	814,332
As at 1st April 2004	88,190	415,789	272,396	776,375	2,140	778,515
Profit for the year	–	–	47,085	47,085	(1,384)	45,701
Dividends	–	–	(5,953)	(5,953)	–	(5,953)
As at 31st March 2005	88,190	415,789	313,528	817,507	756	818,263

Consolidated Cash Flow Statement

For the year ended 31st March 2006

	Note	2006 HK\$'000	2005 HK\$'000
Cash flows from operating activities			
Net cash (used in)/generated from operations	34(a)	(32,584)	102,346
Hong Kong profits tax paid		(3,654)	(3,312)
Net cash (used in)/from operating activities		(36,238)	99,034
Cash flows from investing activities			
Additions of development costs		–	(19)
Additions of investment property		–	(143)
Additions of leasehold land		(12,381)	–
Purchase of property, plant and equipment		(26,403)	(57,333)
Purchase of short-term investments		–	(5,157)
Proceeds from disposal of financial assets at fair value through profit or loss		5,817	–
Proceeds from disposal of property, plant and equipment		1,464	278
Proceeds from disposal of other non-current assets		121	–
Proceeds from disposal of associated company		–	7,352
Dividends received		110	4
Interest received		7,603	2,635
Net cash used in investing activities		(23,669)	(52,383)
Cash flows from financing activities	34(c)		
Drawdown of long-term bank loans		97,000	42,000
Increase/(decrease) in short-term bank loans		88,098	(33,514)
(Increase)/decrease in restricted deposits		(7,448)	4,449
Capital element of finance lease payments		(1,862)	(939)
Interest paid		(29,446)	(12,231)
Dividends paid		(3,307)	(5,953)
Interest element of finance lease payments		(27)	(53)
Net cash from/(used in) financing activities		143,008	(6,241)
Increase in cash and cash equivalents		83,101	40,410
Cash and cash equivalents at beginning of year		5,533	(34,877)
Cash and cash equivalents at end of year		88,634	5,533
Analysis of cash and cash equivalents			
Cash and bank balances		86,576	30,638
Time deposits		3,607	4,610
Bank overdrafts – secured		(1,549)	(29,715)
		88,634	5,533

Notes to the Financial Statements

1. GENERAL INFORMATION

Yau Lee Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") is principally engaged in the contracting of building construction, plumbing, maintenance and fitting-out projects, building materials trading, property leasing and the operation of a hotel in Hong Kong. The Group is also engaged in other activities which mainly include computer software development and provision for website hosting services.

The Company is a limited liability company incorporated in Bermuda on 25th June 1991. The address of its registered office is Clarendon House, Church Street, Hamilton HM11, Bermuda. The Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited ("SEHK").

These financial statements are presented in thousands of Hong Kong dollars ("HK\$'000"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 17th July 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") 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 financial assets at fair value through profit or loss and investment properties, which are carried at fair value.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

(b) Changes in accounting policies

The HKICPA issued a number of new and revised HKFRSs which are effective for accounting periods beginning on or after 1st January 2005. The Group has early adopted certain of these HKFRSs and interpretation in the financial statements for the financial year ended 31st March 2005 as follows:

HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 40	Investment Property
HK(SIC)-Int 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Changes in accounting policies *(Continued)*

For the financial year ended 31st March 2006, the Group adopted all remaining new/revised standards and interpretations of HKFRSs below, which are relevant to its operations.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 11	Construction Contracts
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 18	Revenues
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provision, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HK(SIC)-Int 15	Operating Leases – Incentives
HK(SIC)-Int 27	Evaluating the Substance of Transactions in the Legal Form of a Lease
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 11, 12, 14, 18, 19, 21, 23, 24, 27, 28, 31, 33, 36, 37, 38, HK(SIC)-Ints 15, 27 and HKFRS 3 did not result in substantial changes to the Group's accounting policies. In summary, HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associated companies, jointly controlled entity and other disclosures.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Changes in accounting policies (Continued)

(i) HKAS 32 and HKAS 39

The adoption of HKAS 32 and HKAS 39 has resulted in change in accounting policies for recognition, measurement, derecognition and disclosures of financial instruments.

Investment securities

By 31st March 2005, investments in equity securities are classified as short-term investments. From 1st April 2005, the investments in securities were re-designated as financial assets at fair value through profit or loss.

Loans and receivables

Prior to 31st March 2005, loans and receivables were carried at cost less impairment losses. From 1st April 2005 onwards, loans and receivables are carried at amortised cost using the effective interest method. HKAS 39 does not permit to recognise and measure financial assets and liabilities in accordance with the standard on a retrospective basis. Hence, HKAS 39 is applied on a prospective basis.

The effect of the adoption of HKASs 32 and 39 are as follows:

	HK\$'000
Decrease in long-term retention receivables as at 1st April 2005	3,370
Decrease in retained earnings as at 1st April 2005	3,370
Increase in profit for the year ended 31st March 2006	823
Increase in earnings per share (HK cents)	0.19

(ii) HKFRS 2

The adoption of the HKFRS 2 has resulted in a change in the accounting policy for share-based payment. Until 31st March 2005, cost in respect of provision for share options to employees was not recognised in the income statement. Effective on 1st April 2005, the fair value of the employee services received in exchange for the grant of the options is recognised as an expense. There is no impact on the Group's financial statements as no share option have been granted under the share option scheme as at 31st March 2006. The Group had no unvest share options outstanding as at 1st April 2005.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Changes in accounting policies (Continued)

(iii) Standards, amendments and interpretations to published standards that are not yet effective

The following new standards, amendments and interpretations to existing standards have been published that are mandatory and relevant to the Group's accounting periods beginning on or after 1st January 2006 or later periods:

	Effective for accounting periods beginning on or after
HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease"	1st January 2006
Amendments to HKAS 39 "Financial Instruments: Recognition and Measurement":	
– The fair value option	1st January 2006
– Financial guarantee contracts	1st January 2006
Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:	
– HKAS 1 "Presentation of Financial Statements"	1st January 2006
– HKAS 27 "Consolidated and Separate Financial Statements"	1st January 2006
– HKFRS 3 "Business Combinations"	1st January 2006
HKFRS 7 "Financial Instruments: Disclosures"	1st January 2007
Amendments to HKAS 1 "Presentation of Financial Statements: Capital Disclosures"	1st January 2007

The Group has not early adopted any of the above standards, amendments and interpretations in the financial statements for the year ended 31st March 2006. The Group has already commenced an assessment of the related impact to the Group but is not yet in a position to ascertain the impact of these changes to its financial statements.

(c) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31st March. Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) **Consolidation** *(Continued)*

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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.

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.

(d) **Transactions with minority interests**

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(e) **Associated companies**

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associated companies includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associated companies' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) **Jointly controlled entity**

A jointly controlled entity is an entity which operates under a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Jointly controlled entity is accounted for in the consolidated financial statements using equity method of accounting and is initially recognised at cost. The Group's share of the post-acquisition, post-tax results of the jointly controlled entity for the year, including any impairment loss on goodwill relating to the investment in a jointly controlled entity recognised for the year, is recognised in the consolidated income statement, and its share of post-acquisition movements is recognised in reserves.

(g) **Investment properties**

A property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the 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 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 income statement.

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 income statement 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.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) **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.

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

Buildings comprise mainly factories and offices. Other property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical 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 income statement during the financial period in which they are incurred.

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, as follows:

Buildings	20 – 50 years
Leasehold improvements	4 years
Plant and machinery	10 years
Furniture, fixtures and office equipment	4 years
Motor vehicles	4 years

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 2(m)).

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

The gain or loss on disposal of a 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 income statement.

(i) **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 income statement 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 income statement on a straight-line basis over the lease periods.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Financial assets

From 1st April 2005 onwards:

The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) *Financial assets at fair value through profit or loss*

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are classified under 'Other non-current assets', 'Trade debtors, net' and 'Prepayments, deposits and other receivables' in the balance sheet.

Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category including interest and dividend income, are presented in the income statement within 'other operating income/(expenses)', in the period in which they arise.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Prior to 31st March 2005, the Group classified its investment in securities, other than subsidiaries, associated companies and a jointly controlled entity, as short-term investments which were carried at fair value in the balance sheet. Any unrealised holding gain or loss on short-term investments was recognised in the income statement in the period when it arose. Upon disposal or transfer of short-term investments, any profit or loss thereon was accounted for in the income statement.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) **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.

(l) **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 the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(m) **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). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(n) **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 balance sheet date. 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.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Trade debtors and other receivables

Trade debtors and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade debtors and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade debtors is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within administrative expenses.

(p) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown in current liabilities on the balance sheet.

(q) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(r) Deferred income tax

Deferred income tax 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 financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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 income tax is provided on temporary differences arising on investments in subsidiaries, associated companies and a jointly controlled entity, 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.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(t) 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 financial statements. 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 financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(u) 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 income statement in the year in which they are incurred.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Employee benefits

(i) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) *Retirement benefit obligations*

The Group operates defined contribution schemes which are available to all employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries or a fixed sum and are charged to the income statement as incurred. The assets of the schemes are held separately from those of the Group in an independently administered fund. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due and are not reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iii) *Share-based compensation*

The Company operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement with a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(iv) *Bonus entitlements*

The Group recognises a liability and an expense for bonus when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue/income is recognised as follows:

(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) Operating lease rental income

Operating lease rental income is recognised on a straight-line basis over the terms of the respective lease.

(iv) Interest income

Interest income from bank deposits is recognised on a time proportion basis using the effective interest method.

(v) Dividend income

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

(x) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in HK dollar, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) **Foreign currency translation** *(Continued)*

(iii) *Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations and of borrowings are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

(y) **Segment reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those segments operating in other economic environments.

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.

(z) **Dividends distribution**

Dividends distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends become legal and constructive obligations of the Company.

Notes to the Financial Statements

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(i) Market risk

(a) Foreign exchange risk

The Group mainly operates in Hong Kong and Mainland China and is exposed to foreign exchange risk arising from Renminbi with respect to Hong Kong dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in operations in Mainland China. The Group continuously monitors its foreign currency positions and does not consider that it has a significant exposure to risk arising from Renminbi.

(b) Price risk

The Group is exposed to equity securities price risk because of its investments in financial assets. The Group is not exposed to commodity price risk.

(ii) Credit risk

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that provision of services are made to customers with an appropriate credit history. Cash transactions are limited to high credit quality financial institutions.

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market position. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

(iv) Cash flow and fair value interest rate risk

As the Group has no significant interest bearing assets other than bank balances and cash, the Group's income and operating cash flows are substantially independent of changes in markets interest rates.

The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The management closely monitors the interest rate fluctuation and will consider the use of financial instruments such as interest rate swap to manage its interest rate risk, if necessary.

(b) Fair value estimation

There were no material differences between the carrying amounts and estimated fair values of the Company and the Group's significant financial assets and liabilities as at 31st March 2005 and 2006.

Notes to the Financial Statements

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Income taxes

The Group is mainly subject to income taxes in Hong Kong and Mainland China. Significant judgement is required in determining the provision for income taxes in Hong Kong and Mainland China. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(ii) Investment properties

The fair values of investment properties are determined by independent valuers on an open market value basis. In making the judgements, consideration has been given to assumptions that are mainly based on market condition existing at the balance sheet date and appropriate capitalisation rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

(iii) Depreciation of property, plant and equipment

The Group's management determines the estimated useful lives and residual values for the related depreciation charges for its property, plant and equipment. Management will revise the depreciation charge where useful lives and residual values are different to previous estimate, or will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(iv) Percentage of completion of construction works

The Group recognises its contract revenue according to the percentage of completion of the individual contract of construction works. The Group's management estimates the percentage of completion of construction works based on total amount of workdone certified by customers over total estimated contract sum. Because of the nature of the activity undertaken in construction contracts, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting period. The Group reviews and revises the estimates of contract revenue, contract costs, variation orders and contract claims prepared for each construction contract as the contract progresses. Management regularly reviews the progress of the contracts and the corresponding costs of the contract revenue.

(v) Estimation of foreseeable losses in respect of construction works

The Group's management estimates the amount of foreseeable losses of construction works based on the management budgets prepared for the construction works. Budgeted construction income is determined in accordance with the terms set out in the relevant contracts. Budgeted construction costs which mainly comprise sub-contracting charges and costs of materials are prepared by the management on the basis of quotations from time to time provided by the major contractors/suppliers/vendors involved and the experience of the management. In order to keep the budget accurate and up-to-date, the Group's management conducts periodic review on the management budgets by comparing the budgeted amounts to the actual amounts incurred.

Notes to the Financial Statements

5. TURNOVER AND SEGMENT INFORMATION

	2006 HK\$'000	2005 HK\$'000
Turnover		
Contracting of building construction, plumbing, maintenance and fitting-out projects	1,372,317	1,291,309
Building materials trading	29,588	52,484
Property leasing	10,934	7,903
Hotel operation	30,467	–
Others	8,902	3,887
	1,452,208	1,355,583

Primary reporting format – business segments

The Group is principally engaged in contracting of building construction, plumbing, maintenance and fitting-out projects, building materials trading, property leasing and the operation of a hotel in Hong Kong. The Group is organised into four main business segments:

- Construction – Contracting of building construction, plumbing, maintenance and fitting-out projects in Hong Kong
- Building materials trading – Trading of construction and building materials
- Property leasing – Property leasing in Hong Kong
- Hotel operation – Operating a hotel in Hong Kong

Other operations of the Group mainly comprise of computer software development and provision for website hosting services 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 Financial Statements

5. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Primary reporting format – business segments

	Construction HK\$'000	Building materials trading HK\$'000	Property leasing HK\$'000	Hotel operation HK\$'000	Others HK\$'000	Elimination HK\$'000	Total HK\$'000
Year ended 31st March 2006							
External sales	1,372,317	29,588	10,934	30,467	8,902	–	1,452,208
Inter-segment sales	–	48,073	–	–	4,312	(52,385)	–
Total sales	1,372,317	77,661	10,934	30,467	13,214	(52,385)	1,452,208
Segment results	12,721	(6,711)	16,203	5,910	(8,647)	(139)	19,337
Unallocated income							7,707
Operating profit							27,044
Finance costs	(13,855)	(61)	(7,519)	–	–		(21,435)
Share of loss of a jointly controlled entity	(510)	–	–	–	–		(510)
Profit before income tax							5,099
Income tax expense							(3,079)
Profit for the year							2,020
Segment assets	775,338	99,428	621,715	225,546	56,919		1,778,946
Interests in an associated company	–	–	–	–	9,769		9,769
Unallocated assets							16,982
Total assets							1,805,697
Segment liabilities	(450,606)	(16,197)	(450,884)	(7,133)	(2,305)		(927,125)
Unallocated liabilities							(64,240)
Total liabilities							(991,365)
Capital expenditure	9,735	9,059	–	8,690	9,289		36,773
Depreciation	11,467	6,404	–	4,966	1,262		24,099
Amortisation of leasehold land	145	–	356	–	748		1,249
Other non-cash income	(12)	–	(8,992)	(350)	(302)		(9,656)

Notes to the Financial Statements

5. TURNOVER AND SEGMENT INFORMATION (Continued)

Primary reporting format – business segments (Continued)

	Construction HK\$'000	Building materials trading HK\$'000	Property leasing HK\$'000	Hotel operation HK\$'000	Others HK\$'000	Elimination HK\$'000	Total HK\$'000
Year ended 31st March 2005							
External sales	1,291,309	52,484	7,903	–	3,887	–	1,355,583
Inter-segment sales	45,742	58,116	–	–	14,137	(117,995)	–
Total sales	1,337,051	110,600	7,903	–	18,024	(117,995)	1,355,583
Segment results	22,198	10,405	54,062	–	(7,394)	(9,657)	69,614
Unallocated expenses							(547)
Operating profit							69,067
Finance costs	(6,416)	(157)	(2,128)	–	–		(8,701)
Share of loss of associated companies	–	–	–	–	(2,384)		(2,384)
Profit before income tax							57,982
Income tax expense							(12,281)
Profit for the year							45,701
Segment assets	639,572	108,671	600,667	199,899	64,156		1,612,965
Interests in associated companies	–	–	–	–	15,860		15,860
Unallocated assets							15,460
Total assets							1,644,285
Segment liabilities	(390,738)	(21,355)	(353,129)	(1,257)	(2,507)		(768,986)
Unallocated liabilities							(57,036)
Total liabilities							(826,022)
Capital expenditure	3,087	8,053	143	51,113	274		62,670
Depreciation	11,835	6,546	–	19	2,906		21,306
Amortisation of leasehold land	117	–	204	–	747		1,068
Amortisation of development costs	–	–	–	–	606		606
Other non-cash expenses/(income)	2	(659)	(54,857)	–	1,017		(54,497)

Notes to the Financial Statements

6. OTHER INCOME

	2006 HK\$'000	2005 HK\$'000
Dividend income from listed investments	110	4
Bank interest income	5,792	2,518
Interest income from subcontractors	1,811	117
	7,713	2,639

7. OPERATING PROFIT

Operating profit is stated after charging and crediting the following:

	2006 HK\$'000	2005 HK\$'000
Charging:		
Depreciation		
Owned property, plant and equipment	23,300	20,695
Leased property, plant and equipment	799	611
	24,099	21,306
Operating lease rentals of		
Land and buildings	3,372	4,063
Other equipment	24,929	13,226
	28,301	17,289
Cost of inventories sold	61,281	86,023
Staff costs (excluding Directors' emoluments) (Note 14)	207,717	186,619
Amortisation of leasehold land	1,249	1,068
Amortisation of development costs	–	606
Impairment for development costs	–	1,211
Write-off of doubtful debts	63	463
Loss on liquidation of subsidiaries	–	264
Auditors' remuneration – audit services	1,323	1,030
Loss on disposal of an associated company	–	840
Unrealised loss on short-term investments	–	529
Outgoings in respect of investment properties	3,373	5,029
Crediting:		
Rental income from investment properties	10,934	5,815
Gain on disposal of property, plant and equipment, net	4	34
Write back of provision for impairment of trade debtors	–	319
Unrealised gain on financial assets at fair value through profit or loss	99	–
Realised gain on financial assets at fair value through profit or loss	356	–
Exchange gains, net	652	498

Notes to the Financial Statements

8. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

- (a) The remuneration of the Directors for the year ended 31st March 2006 and 31st March 2005 are set out below:

Name	Fees HK\$'000	Salary HK\$'000	Discretionary bonuses HK\$'000	Employer's contribution to pension scheme HK\$'000	Total HK\$'000
2006					
Mr. Wong Ip Kuen	–	4,641	290	214	5,145
Mr. Wong Tin Cheung	–	1,658	286	77	2,021
Mr. So Yau Chi	–	1,581	180	61	1,822
Mr. Sun Chun Wai	–	702	200	32	934
Dr. Yeung Tsun Man, Eric	250	–	–	–	250
Mr. Wu King Cheong	250	–	–	–	250
Mr. Chan, Bernard Charnwut	250	–	–	–	250
	750	8,582	956	384	10,672
2005					
Mr. Wong Ip Kuen	–	4,641	255	214	5,110
Mr. Wong Tin Cheung	–	1,658	250	77	1,985
Mr. So Yau Chi	–	1,586	165	61	1,812
Mr. Sun Chun Wai	–	702	170	32	904
Dr. Yeung Tsun Man, Eric	250	–	–	–	250
Mr. Wu King Cheong	250	–	–	–	250
Mr. Chan, Bernard Charnwut	250	–	–	–	250
	750	8,587	840	384	10,561

Notes to the Financial Statements

8. 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 (2005: three) Directors whose emoluments are reflected in the analysis above. The emoluments paid to the remaining two (2005: two) highest paid individuals during the year were as follows:

	2006 HK\$'000	2005 HK\$'000
Salaries	1,708	1,708
Bonus	1,155	520
Retirement benefits	79	83
	2,942	2,311

The emoluments fell within the following bands:

Emolument bands	Number of individuals 2006	2005
HK\$1,000,001 – HK\$1,500,000	1	2
HK\$1,500,001 – HK\$2,000,000	1	–

(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.

9. FINANCE COSTS

	2006 HK\$'000	2005 HK\$'000
Interest on overdrafts and short-term bank loans	15,556	6,538
Interest on long-term bank loans repayable within five years	13,890	5,693
Interest element of finance lease contract payments	27	53
Total borrowing costs incurred	29,473	12,284
Less:		
Interest capitalised as cost of construction in progress	(8,038)	(3,565)
Classified under contract cost	–	(18)
	21,435	8,701

The capitalisation rate applied to funds borrowed and used for the construction in progress is between 1.675% to 5.175% (2005: 1.425% to 1.938%) per annum.

Notes to the Financial Statements

10. INCOME TAX EXPENSE

	2006 HK\$'000	2005 HK\$'000
Current income tax		
Hong Kong profits tax	1,801	3,798
Under/(over) provisions in prior years	3	(107)
Deferred income tax relating to the origination and reversal of temporary differences (Note 30)	1,275	8,590
	3,079	12,281

Hong Kong profits tax is calculated at 17.5% (2005: 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.

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

	2006 HK\$'000	2005 HK\$'000
Profit before income tax	5,099	57,982
Calculated at a taxation rate of 17.5% (2005: 17.5%)	892	10,147
Effect of different tax rates in other countries	(303)	(1,307)
Income not subject to taxation	(204)	(8)
Expenses not deductible for taxation purposes	37	1,532
Temporary differences not recognised	(779)	84
Tax losses not recognised	4,501	6,925
Utilisation of previously unrecognised tax losses	(969)	(4,956)
Recognition of previously unrecognised tax losses	(99)	(29)
Under/(over) provisions in prior years	3	(107)
Income tax expense	3,079	12,281

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately HK\$2,559,000 (2005: loss of HK\$1,896,000).

Notes to the Financial Statements

12. DIVIDENDS

	2006 HK\$'000	2005 HK\$'000
Interim dividend paid of Nil (2005: HK\$0.0035) per share	–	1,544
Final dividend proposed of Nil (2005: HK\$0.0075) per share	–	3,307
	–	4,851

The dividends paid during the year ended 31st March 2006 and 2005 were HK\$3,307,000 (HK\$0.0075 per share) and HK\$5,953,000 (HK\$0.0135 per share) respectively.

13. EARNINGS PER SHARE

The calculation of earnings per share is based on the Group's profit attributable to equity holders of the Company of HK\$1,967,000 (2005: HK\$47,085,000) and on the 440,949,600 (2005: 440,949,600) shares in issue during the year.

Diluted earnings per share for the years ended 31st March 2006 and 2005 are not presented as there are no potential dilutive shares during the years.

14. STAFF COSTS EXCLUDING DIRECTORS' EMOLUMENTS

	2006 HK\$'000	2005 HK\$'000
Salaries, wages and bonus	197,748	176,239
Unutilised annual leave	–	1,576
Long service payments	–	331
Termination benefits	1,771	811
Pension costs – defined contribution scheme	8,198	7,662
	207,717	186,619

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 Financial Statements

15. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress <i>HK\$'000</i>	Buildings <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Motor launch <i>HK\$'000</i>	Total <i>HK\$'000</i>
Group								
At 1st April 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 property	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
Year ended 31st March 2006								
Opening net book amount	199,506	31,695	114	51,269	6,292	3,013	–	291,889
Exchange differences	–	177	–	251	9	3	–	440
Additions	17,321	1,896	399	11,015	3,693	2,449	–	36,773
Transfer	(216,827)	153,323	–	47,674	15,830	–	–	–
Disposals	–	–	–	(1,201)	(186)	(73)	–	(1,460)
Depreciation	–	(2,603)	(215)	(14,585)	(4,798)	(1,898)	–	(24,099)
Closing net book amount	–	184,488	298	94,423	20,840	3,494	–	303,543
At 31st March 2006								
Cost	–	197,136	5,615	202,655	58,643	21,939	–	485,988
Accumulated depreciation	–	(12,648)	(5,317)	(108,232)	(37,803)	(18,445)	–	(182,445)
Net book amount	–	184,488	298	94,423	20,840	3,494	–	303,543

Notes to the Financial Statements

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

	Group	
	2006	2005
	HK\$'000	HK\$'000
Motor vehicles	3,049	2,068

- (b) The net book value of property, plant and equipment pledged as security for the Group's bank loans amounted to HK\$205 million (2005: HK\$204 million) (Notes 29 and 35(e)).

16. INVESTMENT PROPERTIES

	Group	
	2006	2005
	HK\$'000	HK\$'000
Beginning of year	290,000	690,000
Change in fair value	9,000	54,857
Additions	–	143
Transfer to construction in progress	–	(148,600)
Transfer to leasehold land	–	(306,400)
End of year	299,000	290,000

Investment properties are held under long-term leases and situated in Hong Kong. The investment properties were revalued as at 31st March 2006 by Savills Valuation and Professional Services 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 security for the bank loans of the Group (Notes 29 and 35(e)).

Notes to the Financial Statements

17. LEASEHOLD LAND

	Group	
	2006	2005
	HK\$'000	HK\$'000
Opening	342,189	36,857
Transfer from investment property	–	306,400
Additions	12,381	–
Amortisation	(1,249)	(1,068)
	353,321	342,189
In Hong Kong, held on		
Lease of over 50 years	315,823	306,196
Leases of between 10 to 50 years	35,128	35,993
	350,951	342,189
Outside Hong Kong, held on		
Lease of less than 10 years	2,370	–
	353,321	342,189

The Group's interests in leasehold land represented prepaid operating lease payments. Leasehold land with a net book value of approximately HK\$317,988,000 (2005: HK\$308,427,000) was pledged as securities for the Group's bank loans (Notes 29 and 35(e)).

18. SUBSIDIARIES

	Company	
	2006	2005
	HK\$'000	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	373,287	383,077
Due to subsidiaries	101,753	110,339

The advance to a subsidiary is unsecured, interest bearing at Hong Kong dollar prime rate less two per cent (2005: 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, interest free, and have no fixed terms of repayment.

Notes to the Financial Statements

18. SUBSIDIARIES (Continued)

The following is a list of the principal subsidiaries at 31st March 2006:

Name	Place of incorporation/ operation	Particulars of registered/ issued share capital	Principal activities	Percentage of registered/issued share capital held by		
				Company	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 and investment	–	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%
Nanjing Nanda VH Software Intelligence Company Limited (Note b)	Mainland China	RMB1,500,000	Development and sale of computer software	–	70%	70%
Right Motive Limited	Hong Kong	HK\$6,000	Property holding	–	100%	100%
Solid Star Company Limited	Hong Kong	HK\$2	Property holding	–	100%	100%

Notes to the Financial Statements

18. 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
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 (Note a)	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%
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%

Notes to the Financial Statements

18. 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
Yau Lee Construction Materials & Technology (B.V.I.) 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 Property Management Limited	Hong Kong	HK\$2	Provision of property management services	–	100%	100%
Yau Lee Technology Limited	The British Virgin Islands/ Hong Kong	US\$1	Investment holding and trading of construction equipment and development of computer control software	–	100%	100%
Yau Lee Wah Concrete Precast Products Company Limited	Hong Kong	HK\$10,000,000	Sale of precast products	–	100%	100%
Yau Lee Wah Concrete Precast Products (Shenzhen) Company Limited (Note a)	Mainland China	RMB39,076,066	Manufacture of precast products	–	100%	100%

Notes to the Financial Statements

18. 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
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%

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

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

19. ASSOCIATED COMPANIES

	2006		2005	
	Group HK\$'000	Company HK\$'000	Group HK\$'000	Company HK\$'000
Share of net assets				
Beginning of year	39	–	7,412	–
Share of loss	–	–	(2,384)	–
Disposal of an associated company	–	–	(7,546)	–
Offset of amount due from an associated company	–	–	2,557	–
End of year	39	–	39	–
Amounts due from associated companies, net	9,730	1,179	15,821	1,030

Notes to the Financial Statements

19. ASSOCIATED COMPANIES (Continued)

(a) The following is the principal associated company at 31st March 2006:

Name	Particulars of issued share capital	Place of incorporation	Assets HK\$'000	Liabilities HK\$'000	Revenues HK\$'000	Loss HK\$'000	Interest Held
2005							
Yau Lee Development Company Limited ("YLDC") (Note b)	100 ordinary shares of \$1 each	Hong Kong	30,130	53,243	598	(11,078)	50%
2006							
Yau Lee Development Company Limited ("YLDC") (Note b)	100 ordinary shares of \$1 each	Hong Kong	29,949	53,402	7,827	(340)	50%

(b) YLDC is engaged in a 50:50 joint venture with a Chinese party in the development of Fuli Building, a residential and commercial property project in Shunde, Mainland China.

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

20. JOINTLY CONTROLLED ENTITY

	Group 2006 HK\$'000	2005 HK\$'000
Investment in a jointly controlled entity	510	—
Share of loss	(510)	—
Share of net assets	—	—
Amount due to a jointly controlled entity	9,207	—

Notes to the Financial Statements

20. JOINTLY CONTROLLED ENTITY (Continued)

- (a) The Group has a 51% interest in a joint venture, Yau Lee Formglas Limited, incorporated in Hong Kong. The following amounts represented the Group's proportionate share of the turnover, expenses, results, assets and liabilities of its jointly controlled entity, which are prepared based on their unaudited management accounts, after making appropriate adjustments by the directors of the Company to conform to the Group's significant accounting policies:

	2006 HK\$'000
Results for the year:	
Turnover	3,747
Operating expenses	(4,387)
Loss before income tax	(640)
Income tax expense	–
Loss for the year	(640)

- (b)

	2006 HK\$'000
Assets	
Non-current assets	531
Current assets	16,069
	16,600
Liabilities	
Current liabilities	(16,730)
Net liabilities	(130)

There were no contingent liabilities relating to the Group's interests in the jointly controlled entity.

Notes to the Financial Statements

21. OTHER NON-CURRENT ASSETS

	Group 2006 HK\$'000	2005 HK\$'000
Retention receivables (Note 27)	61,887	65,375
Loans to employees (Note 22)	1,259	1,468
Others	22	143
	63,168	66,986
Less: Current portion of retention receivables (Note 25(a))	(33,389)	(29,977)
	29,779	37,009

Prior to 31st March 2005, long-term retention receivables were carried at cost less impairment losses. On 1st April 2005, fair value of long-term retention receivables have been reassessed and subsequently carried at amortised cost using effective interest method required by HKAS 39. In this regard, both long-term retention receivables and retained earnings as at 1st April 2006 have been reduced by HK\$3,370,000 (Note 2(b)(i)).

22. 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 HK\$412,000 (2005: HK\$240,000) are included in prepayments, deposits and other receivables. Carrying value of loans to employees approximate its fair value.

23. DEVELOPMENT COSTS

	Group 2006 HK\$'000	2005 HK\$'000
Cost		
Beginning of year	2,416	2,397
Additions	–	19
End of year	2,416	2,416
Accumulated amortisation and impairment losses		
Beginning of year	2,416	599
Amortisation for the year	–	606
Impairment charge	–	1,211
End of year	2,416	2,416
Net book value		
End of year	–	–
Beginning of year	–	1,798

Notes to the Financial Statements

24. CASH AND BANK BALANCES

	2006		2005	
	Group HK\$'000	Company HK\$'000	Group HK\$'000	Company HK\$'000
Cash and bank balances	86,576	295	30,638	358
Time deposits	3,607	2,049	4,610	2,035
Restricted deposits (Note a)	167,513	10,557	160,065	4,540
	257,696	12,901	195,313	6,933

- (a) Restricted deposits are funds which are pledged to secure the bank overdrafts and short-term bank loans (Notes 29 and 35(a)).
- (b) The Group's cash and bank balances are mainly denominated in Hong Kong dollar.
- (c) Interest rate of time deposits and restricted deposits ranged from 1.4% to 5.5% (2005: 1.0% to 3.1%)

25. TRADE AND OTHER RECEIVABLES

(a) Trade debtors, net

	Group 2006 HK\$'000	2005 HK\$'000
Trade debtors	139,202	152,607
Retention receivables (Note 21)	33,389	29,977
Provision for impairment	(1,356)	(1,356)
	171,235	181,228

The Group's trade debtors are mainly denominated in Hong Kong dollars. 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:

	2006 HK\$'000	2005 HK\$'000
Not yet due	138,003	156,500
Overdue by:		
1-30 days	16,998	13,145
31-90 days	3,788	4,254
91-180 days	3,045	905
over 180 days	9,401	6,424
	171,235	181,228

Notes to the Financial Statements

25. TRADE AND OTHER RECEIVABLES *(Continued)*

(b) Prepayments, deposits and other receivables

	Group 2006 HK\$'000	2005 HK\$'000
Advances to subcontractors	56,493	34,633
Prepayments and deposits paid	6,881	6,263
Other receivables	142	3,252
	63,516	44,148

Included in advances to subcontractors are amounts of HK\$32,220,000 (2005: HK\$14,521,000), which bear interest ranging from 7.25% to 11% (2005: 7% to 7.25%). All other advances to subcontractors are interest free.

26. INVENTORIES

	Group 2006 HK\$'000	2005 HK\$'000
Raw materials, at cost	5,997	6,419
Finished goods, at cost	5,602	4,489
	11,599	10,908

27. CONSTRUCTION CONTRACTS IN PROGRESS

	Group 2006 HK\$'000	2005 HK\$'000
Contract costs incurred plus attributable profits less foreseeable losses to date	10,600,031	7,370,726
Progress billings to date	(10,303,087)	(7,161,574)
	296,944	209,152
Included in current assets/(liabilities) under the following captions:		
Due from customers on construction contracts	299,423	224,928
Due to customers on construction contracts	(2,479)	(15,776)
	296,944	209,152

Notes to the Financial Statements

27. CONSTRUCTION CONTRACTS IN PROGRESS *(Continued)*

Retention receivables from customers in respect of construction contracts in progress of HK\$61,887,000 (2005: HK\$65,375,000) are classified under other non-current assets and trade debtors (Note 21).

28. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/SHORT-TERM INVESTMENTS

	2006		2005	
	Group HK\$'000	Company HK\$'000	Group HK\$'000	Company HK\$'000
Equity securities at fair value				
– listed in Hong Kong	303	–	263	–
Money market fund, at fair value				
– unlisted in Hong Kong	4,670	–	10,072	5,461
	4,973	–	10,335	5,461

29. BORROWINGS

	Group 2006 HK\$'000	2005 HK\$'000
Non-current		
Obligations under finance lease contracts	485	491
Long-term bank loans – secured	426,800	339,800
	427,285	340,291
Current		
Bank overdrafts – secured	1,549	29,715
Short-term bank loans – secured	283,954	195,856
Current portions of non-current borrowings	21,655	11,179
	307,158	236,750
Total borrowings	734,443	577,041

Notes to the Financial Statements

29. BORROWINGS (Continued)

(a) The maturity of borrowings are as follows:

	Group			
	Bank borrowings and overdrafts		Obligations under finance lease contracts	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Within 1 year	305,503	235,571	1,655	1,179
Between 1 and 2 years	20,000	10,000	485	491
Between 2 and 5 years	406,800	329,800	–	–
Wholly repayable within 5 years	732,303	575,371	2,140	1,670

(b) The effective interest rates at the balance sheet date are as follows:

	2006 %	2005 %
Bank overdrafts	7.3	3.9
Short-term bank loans	5.5	3.6
Long-term bank loans	5.1	3.4
Obligation under finance lease contracts	4.2	2.1

(c) The carrying amounts of borrowings approximate their fair values.

(d) The carrying amounts of the borrowings are denominated in the following currencies:

	2006 HK\$'000	2005 HK\$'000
Hong Kong dollar	731,558	574,211
Renminbi	2,885	2,830
	734,443	577,041

(e) The bank borrowings are secured by the Group's investment properties, certain property, plant and equipment and leasehold land (Notes 15, 16 and 17).

Notes to the Financial Statements

29. BORROWINGS (Continued)

(f) The Group's finance lease obligations are as follows:

	Group 2006 HK\$'000	2005 HK\$'000
Within one year	1,739	1,219
In the second year	495	504
Future finance charges on finance leases	2,234 (94)	1,723 (53)
Present value of finance lease obligations	2,140	1,670

30. DEFERRED INCOME TAX

	Group 2006 HK\$'000	2005 HK\$'000
Beginning of year	51,797	43,207
Charged to income statement (Note 10)	1,275	8,590
End of year	53,072	51,797

Notes to the Financial Statements

30. DEFERRED INCOME TAX (Continued)

Deferred income 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\$76.4 million (2005: HK\$79.4 million) to carry forward against future taxable income. These unrecognised tax losses are analysed according to their expiry dates as follows:

	Group	
	2006	2005
	HK\$'000	HK\$'000
With no expiry date	34,995	57,435
Expiring not later than one year	3,937	2,946
Expiring later than one year and not later than five years	37,474	18,998
	76,406	79,379

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

Deferred income tax assets:

	Tax losses		Provisions		Total	
	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Beginning of year	5,902	5,848	–	56	5,902	5,904
Credited/(charged) to income statement	4,999	54	–	(56)	4,999	(2)
End of year	10,901	5,902	–	–	10,901	5,902

Deferred income tax liabilities:

	Change in fair value of investment property		Accelerated taxation depreciation		Total	
	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Beginning of year	47,678	38,078	10,021	11,033	57,699	49,111
Charged/(credited) to income statement	1,575	9,600	4,699	(1,012)	6,274	8,588
End of year	49,253	47,678	14,720	10,021	63,973	57,699

Notes to the Financial Statements

30. DEFERRED INCOME TAX (Continued)

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

	2006 HK\$'000	2005 HK\$'000
Deferred income tax assets	(30)	(46)
Deferred income tax liabilities	53,102	51,843
	53,072	51,797

31. PAYABLES TO SUPPLIERS AND SUBCONTRACTORS

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

	Group 2006 HK\$'000	2005 HK\$'000
Not yet due	102,133	98,359
Overdue by:		
1-30 days	313	1,623
31-90 days	24	–
91-180 days	3	–
Over 180 days	329	179
	102,802	100,161

The amounts payable to suppliers and subcontractors are mainly denominated in Hong Kong dollar.

Notes to the Financial Statements

32. SHARE CAPITAL

	2006 HK\$'000	2005 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

Share option scheme

Since 17th October 2000, the Company has operated a share option scheme (the "Share Option Scheme") under which the Board of Directors (the "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 per share payable on the exercise of an option is as follows:

- (a) granted before 1st September 2001 was determined by the Directors as being in no event less than the higher of:
 - (i) the nominal value of the shares; and
 - (ii) 80% of the average of the closing price of the shares as stated in the SEHK's daily quotation sheets for the 5 business days immediately preceding the date of offer of an option.
- (b) granted on or after 1st September 2001 is determined by the Directors, in compliance with the requirements of Chapter 17 of the Listing Rules, as being at least the higher of:
 - (i) the closing price of the shares as stated in the SEHK's daily quotations sheet on the date of grant, which must be a business day; and
 - (ii) the average closing price of the shares as stated in the SEHK's daily quotations sheets for the 5 business days immediately preceding the date of grant.

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 2006, no share options have been granted under the Share Option Scheme.

In addition, VHSOFT Technologies Company Limited ("VHSOFT"), a wholly-owned subsidiary of the Group, adopted a share option scheme on 17th October 2000 (the "VHSOFT Share Option Scheme"). Under the VHSOFT Share Option Scheme, the Board of Directors of the VHSOFT may, at their absolute discretion, offer to any Director or employee of VHSOFT options to subscribe for shares in VHSOFT in accordance with the terms of the VHSOFT Share Option Scheme. 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. No share options have been granted under the VHSOFT Share Option Scheme, which expired on 16th October 2005.

Notes to the Financial Statements

33. OTHER RESERVES AND RETAINED PROFITS

	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Group					
At 1st April 2005, as previously reported	415,430	359	–	313,528	729,317
Opening adjustment for HKAS 39 (<i>Note 2(b)(i)</i>)	–	–	–	(3,370)	(3,370)
At 1st April 2005, as restated	415,430	359	–	310,158	725,947
Currency translation differences	–	–	726	–	726
Dividends paid	–	–	–	(3,307)	(3,307)
Profit attributable to equity holders of the Company	–	–	–	1,967	1,967
At 31st March 2006	415,430	359	726	308,818	725,333
Representing:					
2006 final dividend proposed				–	
Others				308,818	
At 31st March 2006				308,818	
At 1st April 2004	415,430	359	–	272,396	688,185
Dividends paid	–	–	–	(5,953)	(5,953)
Profit attributable to equity holders of the Company	–	–	–	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	

Notes to the Financial Statements

33. OTHER RESERVES AND RETAINED PROFITS (Continued)

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Company				
At 1st April 2005	415,430	359	143,641	559,430
Dividends paid	–	–	(3,307)	(3,307)
Profit attributable to equity holders of the Company	–	–	2,559	2,559
At 31st March 2006	415,430	359	142,893	558,682
Representing:				
2006 final dividend proposed			–	
Others			142,893	
At 31st March 2006			142,893	
At 1st April 2004	415,430	359	151,490	567,279
Dividends paid	–	–	(5,953)	(5,953)
Loss attributable to equity holders of the Company	–	–	(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	

The entire amounts of retained profits of the Company at 31st March 2006 are distributable.

Notes to the Financial Statements

34. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

	Note	2006 HK\$'000	2005 HK\$'000
Operating profit		27,044	69,067
Interest income		(7,603)	(2,635)
Dividend income		(110)	(4)
Gain on disposal of property, plant and equipment, net		(4)	(34)
Loss on disposal of an associated company		–	840
Change in fair value of investment properties		(9,000)	(54,857)
Interest element of finance lease payments		–	18
Amortisation of development costs		–	606
Amortisation of prepaid operating lease payment		1,249	1,068
Depreciation		24,099	21,306
Loss on liquidation of subsidiaries	34(b)	–	264
Unrealised (gain)/loss on financial assets at fair value through profit or loss		(99)	529
Realised gain on financial assets at fair value through profit or loss		(356)	–
Impairment for development costs		–	1,211
Operating profit before working capital changes		35,220	37,379
Decrease in long-term trade debtors		3,530	7,293
Decrease in loans to employees		209	917
Decrease/(increase) in trade debtors, net		10,279	(21,540)
(Increase)/decrease in inventories		(691)	1,190
Increase in prepayments, deposits and other receivables		(19,368)	(23,974)
(Increase)/decrease in due from customers on construction contracts		(74,495)	91,291
Decrease/(increase) in due from associated companies		6,091	(121)
Increase in due to jointly controlled entity		8,697	–
Increase/(decrease) in payables to suppliers and subcontractors		2,641	(1,495)
Increase in accruals, retention payables and other liabilities		9,129	8,190
(Decrease)/Increase in due to customers on construction contracts		(13,297)	3,791
Decrease in due to related parties		(529)	(575)
Net cash (used in)/generated from operations		(32,584)	102,346
(b) Liquidation of subsidiaries			
Disposal of accruals and other liabilities		–	47
Minority interests		–	(311)
		–	(264)
Loss on liquidation of subsidiaries	34(a)	–	(264)

Notes to the Financial Statements

34. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(c) Analysis of changes in financing during the year

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	Finance lease obligations <i>HK\$'000</i>	Long-term bank loans <i>HK\$'000</i>	Short-term bank loans <i>HK\$'000</i>	Restricted deposits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April 2005	88,190	415,430	756	1,670	349,800	195,856	(160,065)	891,637
Net cash (outflow)/inflow from financing activities	–	–	–	(1,862)	97,000	88,098	(7,448)	175,788
Share of profit by minority shareholders	–	–	53	–	–	–	–	53
Inception of finance leases obligations <i>(Note d)</i>	–	–	–	2,332	–	–	–	2,332
At 31st March 2006	88,190	415,430	809	2,140	446,800	283,954	(167,513)	1,069,810
At 1st April 2004	88,190	415,430	2,140	999	307,800	229,370	(164,514)	879,415
Net cash (outflow)/inflow from financing activities	–	–	–	(939)	42,000	(33,514)	4,449	11,996
Share of loss by minority shareholders	–	–	(1,384)	–	–	–	–	(1,384)
Inception of finance leases obligations <i>(Note d)</i>	–	–	–	1,610	–	–	–	1,610
At 31st March 2005	88,190	415,430	756	1,670	349,800	195,856	(160,065)	891,637

(d) Major non-cash transactions

During the year, the Group entered into finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the lease of approximately HK\$2,332,000 (2005: HK\$1,610,000).

Notes to the Financial Statements

35. BANKING FACILITIES

As at 31st March 2006, the Group had total banking facilities in respect of bank overdrafts, bank loans, bank guarantees and trade financing of approximately HK\$951 million (2005: HK\$758 million), of which HK\$747 million (2005: HK\$593 million) had been utilised. These banking facilities are secured by the following:

- (a) Time deposits of approximately HK\$167 million (2005: HK\$160 million).
- (b) Guarantees of approximately HK\$1,009 million (2005: HK\$764 million) given by the Company.
- (c) Investment in the guaranteed unit trust fund and securities of approximately HK\$5 million (2005: HK\$10 million).
- (d) Trade debtors of certain construction contracts.
- (e) Property, plant and equipment of approximately HK\$205 million (2005: HK\$204 million), investment properties of HK\$299 million (2005: HK\$290 million) and leasehold land of approximately HK\$318 million (2005: HK\$308 million) (Notes 15, 16 and 17).

36. 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 2006, 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) During the year ended 31st March 2005, the Group received a writ of summon claiming for an aggregate amount of approximately HK\$15.0 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 has been submitted. Based on legal advice, the Directors are of the opinion that the Group has valid defences against the claims.
- (c) During the year, the Group received a statement of claims for an aggregate amount of approximately HK\$4.2 million for alleged breach of contract and uncertified workdone in connection with a design work contract. Financial exposures arising from the claims have been assessed by the Directors with reference to legal advice. Based on this advice, the Directors do not consider that any significant adverse financial impact will crystallise in respect of the claims and accordingly, no provision was made as at 31st March 2006.
- (d) In 2004, the Group initiated 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. In current year, the Group has elevated the case to arbitration. Based on an external consultant's evaluation, the likely recoverable amount has been included in "Due from customers on construction contracts".
- (e) Guarantees in respect of performance bonds that amount to approximately HK\$80 million (2005: HK\$15 million) in favour of the Group's customers.

Notes to the Financial Statements

36. COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

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

	Group	
	2006	2005
	HK\$'000	HK\$'000
Land and buildings		
– Within one year	2,763	2,884
– One year to five years	7,643	8,197
– More than five years	42,758	44,012
	53,164	55,093
Other equipment		
– Within one year	9	18
– One year to five years	–	10
	9	28
	53,173	55,121

37. 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	
	2006	2005
	HK\$'000	HK\$'000
– Within one year	11,844	9,278
– One year to five years	6,494	12,623
	18,338	21,901

Notes to the Financial Statements

38. RELATED PARTY BALANCES

(i) Key management compensation

	Group	
	2006	2005
	HK\$'000	HK\$'000
Salaries and other short-term employee benefits	8,582	8,587
Discretionary bonus	956	840
Pension costs – defined contribution scheme	384	384
	9,922	9,811

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

Five Year Financial Summary

Consolidated results

Year ended 31st March

	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000
Turnover	773,413	933,992	1,069,158	1,355,583	1,452,208
Profit/(loss) before income tax	10,413	(13,045)	218,370	57,982	5,099
Income tax expense	(3,379)	(4,541)	(38,945)	(12,281)	(3,079)
Minority interests	(503)	(260)	779	1,384	(53)
Profit/(loss) attributable to shareholders	6,531	(17,846)	180,204	47,085	1,967

Consolidated assets and liabilities

As at 31st March

Total assets	1,110,186	1,240,557	1,600,138	1,644,285	1,805,697
Total liabilities	(495,281)	(644,386)	(823,763)	(826,022)	(991,365)
Shareholders' equity	614,905	596,171	776,375	818,263	814,332

The above financial summary as of and for the years ended 31st March 2005 and 2006 have been extracted from the audited financial statements of the Group as set out on pages 23 to 25 of the annual report.

Properties Held for Investment Purposes

As at 31st March 2006

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	155,650