

The Directors submit their report together with the audited accounts of Yau Lee Holdings Limited (the “Company”) and its subsidiaries (collectively the “Group”) for the year ended 31st March 2002.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

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

The Group’s turnover and gross profit for the year ended 31st March 2002, which were derived principally from the contracting of building construction, plumbing, maintenance and decoration projects carried out in Hong Kong, are as follows:

	Turnover <i>HK\$’000</i>	Contribution to Group’s results <i>HK\$’000</i>
Contracting of building construction, plumbing, maintenance and decoration projects	744,469	111,075
Others	28,944	6,328
	<u>773,413</u>	<u>117,403</u>

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 27.

The Directors do not recommend the payment of a dividend.

RESERVES

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

DONATIONS

Charitable donations made by the Group during the year amounted to approximately HK\$1,061,000.

FIXED ASSETS

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

SUBSIDIARIES

Particulars of the Group's principal subsidiaries as at 31st March 2002 are set out in Note 15 to the accounts.

ASSOCIATED COMPANIES

Particulars of the Group's principal associated companies as at 31st March 2002 are set out in Note 16 to the accounts.

SHARE CAPITAL AND SHARE PREMIUM

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

PRE-EMPTIVE RIGHTS

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

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 76.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

SHARE OPTION SCHEMES AND DIRECTORS' RIGHTS TO ACQUIRE SHARES

The Company has the following share option schemes (as described in the paragraph below) under which the Company may grant options to Directors and employees of the Group to subscribe for shares in the Company. Details of the share option schemes are set out in Note 24(a) to the accounts.

On 25th August 1997, pursuant to the 1991 Share Option Scheme, the Directors were granted options to subscribe for a total of 28,000,000 shares of HK\$0.05 each in the Company at the subscription price of HK\$0.2219 per share. As a result of the consolidation of shares on 17th October 2000, the number of shares that may be subscribed in respect of the outstanding options under the 1991 Share Option Scheme were adjusted to 7,000,000 shares of HK\$0.2 each at the subscription price of HK\$0.8876 per share. The above Directors have not exercised any of their options during the year and the 1991 Share Option Scheme lapsed on 4th August 2001.

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

On 17th October 2000, the Company adopted a new share option scheme (the "2000 Share Option Scheme") which replaced the 1991 Share Option Scheme mentioned above. Upon the adoption of the 2000 Share Option Scheme, no further options will be granted under the 1991 Share Option Scheme but in all other respects, the provisions of the 1991 Share Option Scheme shall remain in full force and effect in respect of options which have been granted prior to the adoption of the 2000 Share Option Scheme and which shall continue to be exercisable in accordance with their terms of issue. As at 31st March 2002, no share options were granted under the 2000 Share Option Scheme.

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

Summary of details of the 2000 Share Option Scheme:

Participants	:	Full-time employees (including executive Directors of the Company or any of its subsidiaries)
Total number of ordinary shares of the Company available for issue and the percentage of the issued share capital that it represents as at the date of annual report	:	44,094,960 ordinary shares (10% of the issued share capital of the Company)
Maximum entitlement of each participant	:	Shall not exceed 25% of the aggregate number of shares subject to the 2000 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 2000 Share Option Scheme
Minimum period for which an option must be held before it can be exercised	:	Not applicable
Period within which payments/calls/loan must be made/repaid	:	Not applicable
Basis of determining the exercise price	:	80% of the average closing price of the Company's ordinary shares as stated in the daily quotation sheets issued by the Stock Exchange of Hong Kong Limited (the "SEHK") for the five business days immediately preceding the date of offer or the nominal value of the shares, whichever is higher.
The remaining life of the share option scheme	:	The scheme remains in force for a period of 10 years until 16th October 2010.

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

In addition, VHSoft Technologies Company Limited ("VHSoft"), a wholly owned subsidiary of the Group, adopted a share option scheme on 17th October 2000 (the "VHSoft Share Option Scheme"). Under the VHSoft Share Option Scheme, the Board of Directors of the Company may, at their absolute discretion, offer to any director or employee of VHSoft options to subscribe for shares in VHSoft in accordance with the terms of the VHSoft Share Option Scheme. As at 31st March 2002, no share options were granted under the VHSoft Share Option Scheme.

Summary of details of the VHSoft Share Option Scheme:

Participants	: Directors and full-time employees of VHSoft
Total number of ordinary shares of VHSoft available for issue	: 50,000,000 ordinary shares (10% of the issued share capital of VHSoft)
Maximum entitlement of each participant	: Shall not exceed 25% of the aggregate number of shares subject to the VHSoft Share Option Scheme at the time of the proposed grant of that option
Period within which the securities must be taken up under an option	: No later than five years from the date of adoption of the VHSoft Share Option Scheme
Minimum period for which an option must be held before it can be exercised	: Not applicable
Period within which payments/calls/loan must be made/repaid	: Not applicable
Basis of determining the exercise price	: Not less than the nominal value of the shares of VHSoft
The remaining life of the share option scheme	: The scheme remains in force for a period of five years until 16th October 2005 or expires on the date on which application for the initial public offering of the shares of VHSoft on an international recognised stock exchange is submitted, whichever is earlier.

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

The SEHK has introduced a number of changes to the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules") on share option schemes. These new rules came into effect on 1st September 2001. Any option to be granted under the Share Option Scheme shall be subject to the new rules which include, inter alia, the following:

- (i) The maximum number of shares issuable upon the exercise of the options granted to each eligible participant, except Directors, chief executive, substantial shareholders and their respective associates, within any 12-month period is limited to 1% of the shares in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in advance in a general meeting.
- (ii) The exercise price of the share options is determined by the Directors, but may not be less than the higher of (1) the closing price of the Company's shares as stated in the SEHK's daily quotations sheet on the date of grant; and (2) the average closing price of the Company's shares as stated in the SEHK's daily quotations sheets for the 5 business days immediately preceding the date of grant;
- (iii) The total number of the Company's shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes must not in aggregate exceed 10% of the issued share capital of the Company as at the date of approval of the schemes. Options lapsed in accordance with the terms of the schemes will not be counted for the purpose of calculating the 10% limit. Any further grant of share options in excess of this limit is subject to shareholders' approval in advance in a general meeting; and
- (iv) The total number of the Company's shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes must not exceed 30% of the issued share capital of the Company from time to time. No options may be granted under any schemes of the Company if this will result in the limit being exceeded.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS

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

In accordance with the Company's bye-laws, Mr. Wong Tin Cheung and Mr. Sun Chun Wai retire by rotation and being eligible, offer themselves for re-election.

Independent Non-executive Directors

Dr. Yeung Tsun Man, Eric
Mr. Wu King Cheong
Mr. Chan Bernard Charnwut

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

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS

As at 31st March 2002, the following Director had or was deemed to have interests under the provisions of the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong) (the "SDI Ordinance") in the Company or any of its associated companies thereof (within the meaning of the SDI Ordinance) of which the Company and the SEHK had to be notified pursuant to Section 28 of the SDI Ordinance (including interests which the director is deemed or taken to have under Section 31 or Part I of the Schedule of the SDI Ordinance) and which were required to be entered into the register kept by the Company pursuant to Section 29 of the SDI Ordinance:

Director	Company	Number of shares interested
Mr. Wong Ip Kuen	Yau Lee Holdings Limited	225,233,599

The 225,233,599 shares of the Company referred to above are registered in the name of All Fine Investment Company Limited. Mr. Wong Ip Kuen owns the entire issued share capital of All Fine Holdings Company Limited, which owns the entire issued share capital of All Fine Investment Company Limited, both of which are companies incorporated in the Cook Islands. Mr. Wong Ip Kuen is a director of both All Fine Holdings Company Limited and All Fine Investment Company Limited.

During the year ended 31st March 2002, no right to subscribe for equity of the Company was exercised by any of the Directors or chief executive of the Company or the spouses or children under 18 years of age of such Directors and chief executive.

Save as otherwise disclosed in this report, none of the Directors or chief executive or their associated companies had any other interests (whether beneficial or non-beneficial) in the share capital of the Company or any other associated companies as defined in the SDI Ordinance as at 31st March 2002.

SUBSTANTIAL SHAREHOLDERS

As at 31st March 2002, the register of substantial shareholders maintained under Section 16(1) of the Securities (Disclosure of Interests) Ordinance shows that the Company had not been notified of any substantial shareholders' interests, being 10% or more of the Company's issued share capital, other than the director's interests as disclosed above.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases

– the largest supplier	5.68%
– five largest suppliers	17.05%

Sales

– the largest customer	63.28%
– five largest customers	97.28%

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

COMPLIANCE WITH CODE OF BEST PRACTICE OF THE LISTING RULES

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

AUDITORS

The financial statements in respect of financial years ended 31st March 2000 and 2001 were audited by Arthur Andersen & Co.

Pursuant to the combination of Arthur Andersen & Co with PricewaterhouseCoopers, the financial statements for the year ended 31st March 2002 have been audited by PricewaterhouseCoopers. A resolution to re-appoint PricewaterhouseCoopers as auditors will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Wong Ip Kuen

Chairman

Hong Kong,
16th July 2002