

CHAIRMAN'S STATEMENT

RESULT OF THE YEAR

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

DIVIDENDS

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

REVIEW OF OPERATION

Construction

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

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

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

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

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

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

Building Components Trading and Manufacturing

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

Property Development

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

Information Technology

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

Building Renovation and Maintenance

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

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

Plumbing Works and Building Material Trading

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

OUTLOOK

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

PURCHASE, SALE OR REDEMPTION OF SHARES

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

CODE OF BEST PRACTICE

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

By order of the Board

Wong Tin Cheung

Vice Chairman

Hong Kong, 16th July 2003