

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited accounts of Yau Lee Holdings Limited (the “Company”) and its subsidiaries (collectively the “Group”) for the year ended 31st March 2003.

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 fitting-out 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 2003, which were derived principally from the contracting of building construction, plumbing, maintenance and fitting-out projects carried out in Hong Kong, are as follows:

	Turnover <i>HK\$’000</i>	Operating profit/(loss) contributed to the Group’s results <i>HK\$’000</i>
Contracting of building construction, plumbing, maintenance and fitting-out projects	913,198	31,062
Others	20,794	(18,168)
	<u>933,992</u>	<u>12,894</u>

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 25.

The Directors 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.

FIXED ASSETS

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

PRINCIPAL PROPERTY

Details of the principal property held for development purposes are set out on page 70.

DISTRIBUTABLE RESERVES

At 31st March 2003, the reserves of the Company available for distribution amount to approximately HK\$151,429,000 (2002: HK\$151,661,000).

SHARE CAPITAL AND SHARE PREMIUM

Details of the 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 laws of Bermuda.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 69.

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 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 also set out in Note 24(a) to the accounts.

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.

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

Summary of details of the 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 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 Share Option Scheme at the time of the proposed grant of that option
Period within which the securities must be taken up under an option	:	One year after the date of grant and no later than ten years from the date of adoption of the Share Option Scheme
Minimum period for which an option must be held before it can be exercised	:	Not applicable
Period within which payments/calls/loan must be made/repaid	:	Not applicable
Basis of determining the exercise price	:	80% of the average closing price of the Company's 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.

At 31st March 2003, no share options were granted under the Share Option Scheme.

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. At 31st March 2003, 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	:	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.

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

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.

In accordance with the Company's bye-laws, Mr. Wong Ip Kuen and Mr. So Yau Chi retire by rotation and being eligible, offer themselves for re-election.

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' 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 IN EQUITY OR DEBT SECURITIES

At 31st March 2003, 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	230,679,599

The 230,679,599 shares of the Company referred to above are registered in the name of All Fine Investment Company Limited. Mr. Wong Ip Kuen owns the entire issued share capital of All Fine Holdings Company Limited, which owns the entire issued share capital of All Fine Investment Company Limited, both of which are companies incorporated in the Cook Islands. Mr. Wong Ip Kuen is a director of both All Fine Holdings Company Limited and All Fine Investment Company Limited.

During the year ended 31st March 2003, 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 at 31st March 2003.

SUBSTANTIAL SHAREHOLDERS

At 31st March 2003, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the Company had not been notified of any substantial shareholders' interests, being 5% 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 | 4.85% |
| – five largest suppliers | 18.34% |

Sales

- | | |
|--------------------------|--------|
| – the largest customer | 78.88% |
| – five largest customers | 98.80% |

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.

CONNECTED TRANSACTIONS

Significant related party transactions entered into by the Group during the year ended 31st March 2003, which did not constitute connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") are disclosed in Note 28 to the accounts.

COMPLIANCE WITH THE 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.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the group audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The Committee comprises three independent Non-Executive Directors, namely Dr. Yeung Tsun Man, Eric, Mr. Wu King Cheong and Mr. Chan, Bernard Charnwut. Two meetings were held during the current financial year.

AUDITORS

Arthur Andersen & Co. were auditors of the Company for the year ended 31st March 2001.

The accounts have been audited by PricewaterhouseCoopers for the years ended 31st March 2002 and 2003 who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Wong Tin Cheung
Vice Chairman

Hong Kong,
16th July 2003