THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional advisor.

If you have sold or transferred all your shares in **Yau Lee Holdings Limited** (the "Company"), you should at once hand this circular to the purchaser(s) or transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

有利集團有限公司#

Yau Lee Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 00406)

MAJOR TRANSACTION
ACQUISITION

It is important to note that the purpose of distributing this circular is to provide the Shareholders with information on the Acquisition (as defined in this circular).

This circular does not constitute, or form part of, an offer or invitation, or solicitation or inducement of an offer, to subscribe for or purchase any of the Shares (as defined in this circular) or other securities of the Company, nor is this circular circulated to invite offers for any Shares or other securities of the Company.

A letter from the Board is set out on pages 4 to 15 of this circular.

\# *For identification purpose only*

30 May 2008

CONTENTS

In this circular, the following words and phrases have the following meanings:

"Acquisition"	the acquisition of the 100% of the issued share capital in REC from Vendor by the Company
"Agreement"	the agreement dated 25 March 2008 entered into between the Company and the Vendor in respect of the Acquisition
"Beneficiaries"	the beneficiaries (comprising the lenders, the Main Contractors and Project Owners) in whose favour the Parent Company Guarantees were granted
"Board"	the board of directors of the Company
"Business Day"	a day excluding Saturday(s) and general holiday (as defined and referred to in the General Holidays Ordinance (Cap.149))
"Company"	Yau Lee Holdings Limited
"Counter-Indemnity"	the counter indemnity in the agreed form as set out in Schedule 5 of the Agreement to be given by the Company in favour of the Vendor wherein the Company shall indemnify the Vendor against any liability, loss, damages or claims whatsoever suffered by the Vendor arising from or in connection with any such Parent Company Guarantees which have not been discharged as at the date of the Counter-Indemnity
"Enlarged Group"	the Company, its subsidiaries and (after completion of the Acquisition) REC Group
"Eye Lighting"	Eye Lighting (Hong Kong) Limited 岩崎電氣（香港）有限公司
"Facility Letters"	the facility letters entered into between the Lenders and the REC Group (other than Eye Lighting) for the provision of certain banking facilities by the Lenders to the REC Group (other than Eye Lighting)
"GDJV"	Guangdong Yuean Ryoden Mechanical & Electrical Engineering Company Limited 廣東粵安菱電機電工程有限公司
"Group"	the Company and its subsidiaries

"Latest Practicable Date"	27 May 2008, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining information for inclusion in this circular
"Lenders"	the banks granting banking facilities to the REC Group (other than Eye Lighting) under the Facilities Letters and in whose favour the Parent Company Guarantees were granted
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	5:00 p.m. (Hong Kong time) on 31 March 2008, which shall be automatically extended up to 5:00 p.m. (Hong Kong time) on 31 May 2008 if any of the conditions precedent under the Agreement has not been satisfied or waived on or before 31 March 2008, unless the Company and the Vendor agree to further extend it to such other later date and time in writing
"Main Contractors"	the persons to whom the REC Group have provided or are providing services for certain engineering projects and in whose favour the Parent Company Guarantees were granted
"MEHG Group"	the Vendor, the Vendor's subsidiaries (other than the REC Group except Eye Lighting) and the Vendor's holding company or any fellow subsidiary of any such holding company
"Outstanding Company Guarantees"	any of the Parent Company Guarantees which have not been discharged as at completion of the Acquisition
"Parent Company Guarantees"	the guarantees given by the Vendor in favour of (a) the Project Owners or the Main Contractors (as the case may be) to secure the performance of the REC Group under the contracts between such Project Owners or Main Contractors (as the case may be) and the relevant REC Group in relation to the provision of services by the relevant REC Group for certain engineering projects, the particulars of which are set out in Part A of Schedule 3 of the Agreement; and (b) the Lenders to secure the performance of the REC Group (other than Eye Lighting) under the Facility Letters, the particulars of which are set out in Part B of Schedule 3 of the Agreement

"PRC"	the People's Republic of China
"Project Owners"	the persons to whom the REC Group have provided or are providing services for certain engineering projects and in whose favour the Parent Company Guarantees were granted
"RCC"	Ryoden (China) Company Limited 菱電(中國)有限公司
"RCL"	Ryoden Engineering Contracting Company Limited 菱電機電工程有限公司
"RCS"	Ryoden Mechanical & Electrical Engineering (Shanghai) Company Limited 菱電機電工程(上海)有限公司
"REC"	Ryoden Engineering Company Limited 菱電工程有限公司
"REC Group"	REC and the REC Group Companies
"REC Group Companies"	RCC, SEL, RCL, TSC, RCS, GDJV and Eye Lighting
"SEL"	Steerers Engineering Limited 新捷工程有限公司
"Shares"	shares of HK$0.20 each in the capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited 香港聯合交易所有限公司
"TSC"	Tin Sing Chemical Engineers Limited 天成化工有限公司
"Vendor"	Mitsubishi Electric Hong Kong Group Limited 三菱電機香港集團有限公司

有利集團有限公司#

Yau Lee Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 00406)

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:–
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Hamilton HM 11
Bermuda

Principal place of business:
10th Floor, Tower I
Enterprise Square
9 Sheung Yuet Road
Kowloon Bay
Kowloon, Hong Kong

30 May 2008

To the Shareholders

Dear Sirs,

MAJOR TRANSACTION ACQUISITION

1. INTRODUCTION

On 27 March 2008, the Company announced that the Company as purchaser and Mitsubishi Electric Hong Kong Group Limited as vendor has entered into a sale and purchase agreement on 25 March 2008 for the sale and purchase of 50,000,000 shares of HK$1.00 each held by and registered in the name of the Vendor in the issued share capital of Ryoden Engineering Company Limited (菱電工程有限公司), representing 100% of its issued share capital, at a total cash consideration of HK$46,000,000 subject to and conditional upon the terms and conditions contained in the Agreement.

The Acquisition constitutes a major transaction on the part of the Company under Chapter 14 of the Listing Rules and requires the approval of the Shareholders at a general meeting. Since no shareholders of the Company is interested in the Acquisition, none of them is required to abstain from voting if a general meeting of the Company is convened to approve the Acquisition. Pursuant to Rule 14.44 of the Listing Rules, a written approval from the Company's majority shareholder(s) is accepted in lieu of a majority vote at a general meeting of the Company to approve the Acquisition.

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The Board considers that the Acquisition is in the interests of the Company and that the terms of the Acquisition are fair and reasonable and in the interests of the Shareholders as a whole. Accordingly, the Board recommends that the controlling shareholder to approve the Acquisition and the transactions incidental to the Acquisition.

On 20 March 2008, the Company has obtained from Mr. Wong Ip Kuen (黃業強), being the controlling shareholder of the Company who holds 234,033,599 shares representing 53.07% of the issued share capital of the Company, a written approval of the Acquisition and transactions incidental to the Acquisition. Accordingly, there is no need to convene a shareholders' meeting to approve the Acquisition and the transactions contemplated thereunder.

The purpose of this circular is to provide you with further details of the Acquisition and other information as required by the Listing Rules.

2. THE AGREEMENT

Date: 25 March 2008

Parties: (1) the Company (as purchaser); and

(2) Mitsubishi Electric Hong Kong Group Limited (as vendor)

To the best of the Director's knowledge, information and belief having made all reasonable enquiry, the Vendor and its ultimate beneficial owner(s) are not connected persons of the Company and are third parties not connected with any director, chief executive or substantial shareholder of the Company or any of its subsidiaries or their respective associates according to the Listing Rules.

3. ASSETS TO BE ACQUIRED

50,000,000 fully-paid shares of HK$1.00 each, representing 100% shares in the issued share capital of REC. Particulars of such shares, REC Group are set forth respectively in the paragraphs below headed "Information on the assets to be acquired under the Agreement" and "Information on the Vendor and the REC Group".

4. CONSIDERATION

The Consideration for the Acquisition is HK$46,000,000 which is payable to the Vendor in one lump sum in cash upon completion of the Acquisition. The Consideration is fixed without adjustment.

The Consideration was arrived at after arm's length negotiations between the Company and the Vendor having regard to:

(a) the goodwill of the REC Group and its well established and active participation in and has various licences to undertake both governmental and private construction-related projects in Hong Kong, Macau and PRC;

(b) the turnover and profitability of the REC Group for the last 10 years; the price earnings ratio is approximately 3.65 based on the audited consolidated net profits after taxation of REC Group for the financial year ended 31 December 2006;

(c) REC Group's revenue generating capacity in the coming years in view of the escalating demands for construction-related facilities in Macau and PRC;

(d) REC Group's solvent status and its net assets value as shown in its audited consolidated financial statements for the financial years ended 31 December 2006 and 2007; and

(e) the intrinsic value of the various contractor licences, the ISO9001:2000 Certificate, the grade-one and grade-three qualification certificates issued by the China Construction Authority being held by REC Group. As of the date of this circular, REC Group has obtained altogether 33 different licences and/or qualification certificates.

As shown in the accountants' report on the REC Group, the net assets value of the REC Group as at 31 December 2006 is approximately HK$2,489,000; the audited net profits before and after taxation of the REC Group for the financial year ended 31 December 2006 are HK$14,688,000 and HK$12,602,000 respectively.

The net assets value of the REC Group as at 31 December 2007 is approximately of HK$18,679,000; the audited net profits before and after taxation of the REC Group for the financial year ended 31 December 2007 are HK$16,078,000 and HK$13,217,000 respectively.

The accountants' report on the REC Group is included in Appendix II to this circular.

The Directors considered that the Consideration for the Acquisition is fair and reasonable and in the interests of the shareholders of the Company as a whole.

5. CONDITIONS PRECEDENT

Completion of the Acquisition is subject to:

(a) the Vendor having obtained all necessary approvals and consents for entering into the Agreement and carrying out the transactions contemplated thereunder, including without limitation, approval of its board of directors;

(b) the Company having obtained all necessary approvals and consents for entering into the Agreement and performing its obligations thereunder, including without limitation, approval of the Shareholders of the Company if required under the Listing Rules and other government and regulatory approvals;

(c) all the sums due from any companies of the REC Group to the Vendor and/or its related companies have been repaid in full; and

(d) all of the Parent Company Guarantees having been discharged and replaced with similar guarantees or such other security from the Company (or other parties) in a manner acceptable to the Beneficiaries and the Company, or failing that, the Counter Indemnity having been provided by the Company in favour of the Vendor.

As at the Latest Practicable Date, all of the above conditions have been fulfilled.

6. OTHERS

The REC Group may continue to use the company name of "Ryoden Engineering Company Limited" and "菱電工程有限公司" for a period of three years after completion of the Acquisition but such right to use the said company name shall cease if (a) more than 50% shares in REC are transferred to a third party within three years after completion, or (b) there is any material change in the core business of REC Group.

The Company undertakes with the Vendor that in the event that any of the Parent Company Guarantees is not discharged as at completion of the Acquisition, the Company shall, at the request of the Vendor in writing, execute the Counter-Indemnity to indemnify and hold harmless the Vendor against any liability, loss, damage or claims whatsoever suffered by the Vendor arising from or in connection with any such Parent Company Guarantees which have not been discharged as at the date of the Counter-Indemnity. The provision of the Counter-Indemnity will be unnecessary if all the Parent Company Guarantees shall have been discharged on or before the Long Stop Date.

The Directors of the Company are of the view that the terms and conditions of the Acquisition are fair and reasonable and in the interests of the shareholders of the Company as a whole.

7. COMPLETION

Completion of the Acquisition shall take place on the third Business Day after the date when all the conditions precedent set forth in paragraph 5 of this circular have been satisfied or waived on or before the Long Stop Date.

If any of the said conditions precedent has not been satisfied or waived on or before the Long Stop Date, the Agreement shall automatically terminate. Upon termination, all rights and obligations of the Company and the Vendor under the Agreement shall cease (save for Clauses governing "Costs", "Announcement", "Confidentiality", "Choice of Governing Law", "Jurisdiction" and "Service of Legal Process" and all other provisions in the Agreement which, by their nature, should survive the termination of the Agreement) but all rights and liabilities of the Company and the Vendor which have accrued before termination shall continue to exist).

After the Acquisition, REC will become a wholly-owned subsidiary of the Company and the accounts of REC Group will be consolidated into the books of the Company.

The corporate structure of REC Group immediately after the completion of the Acquisition is as follows:

Group
|
The Company
|
REC
|
REC Group Companies

8. INFORMATION ON THE ASSETS TO BE ACQUIRED UNDER THE AGREEMENT

All the 50,000,000 shares held by and registered in the name of the Vendor representing 100% shares in the issued share capital of REC. All the shares are of nominal value of HK$1.00 each and have been fully paid. Shares and/or equity interest held by the Vendor in the REC Group are shown in the paragraph below headed "Information on the Vendor and the REC Group".

9. INFORMATION ON THE VENDOR AND THE REC GROUP

The Vendor is a private limited company incorporated in Hong Kong on 27 January 1966 and its principal activities are mainly investment holding and providing services of general affairs, human resources, training and development, accounting, finance, legal advice, management information systems, auditing or others to advance the interests of its subsidiaries. The shareholders of the Vendor are Mitsubishi Electric Corporation and Mitsubishi Corporation, both are companies incorporated in Japan under the laws of Japan. The Vendor and its ultimate beneficial owners are parties independent of the Company and not connected persons of the Company.

The following companies are subsidiaries and/or associated company of REC:

(a) Wholly-owned subsidiaries directly held by REC

1. RCC, a private limited company incorporated in Hong Kong

2. SEL, a private limited company incorporated in Hong Kong

3. RCL, a private limited company incorporated in Hong Kong

4. TSC, a private limited company incorporated in Hong Kong

5. Macau branch of REC

6. Macau branch of RCC

(b) Wholly-owned subsidiary indirectly held by REC

RCS, a wholly-foreign owned enterprise established in Shanghai, in which REC holds 100% equity interest through RCC.

(c) Non wholly-owned subsidiary indirectly held by REC

GDJV, an equity joint venture company established in Guangdong, in which REC holds 60% equity interest through RCC. The shareholders of the remaining 40% and their ultimate beneficial owners are third parties independent of the Company and not connected persons of the Company.

(d) Associated company of REC

Eye Lighting, a private limited company incorporated in Hong Kong and trading mainly in lighting equipment and accessories, in which REC holds 38% shares. The shareholders of the remaining 62% and their ultimate beneficial owners are third parties independent of the Company and not connected persons of the Company.

REC Group does not own any real property in Hong Kong, Macau or PRC.

REC Group have been providing various services as described in the following sub-paragraphs and REC Group have been participating in numerous government and private projects in Hong Kong and PRC since 1980's, and in Macau since early 2000's.

REC was incorporated in Hong Kong on 17 May 1988. The principal activities of REC are the provision of electrical, mechanical, ventilation and air conditioning, fire, plumbing and environmental engineering services. REC is a registered and/or licenced specialist contractor and/or approved supplier to various departments in the government of Hong Kong Special Administrative Region. REC is the holder of ISO9001-2000 Certificate. REC has a branch office in Macau responsible mainly for the submission of tender documents for large projects in Macau.

RCL was incorporated in Hong Kong on 22 November 1994. The principal activities of RCL are the provision of electrical, mechanical and fire engineering services. RCL is a registered and/or licenced specialist contractor.

RCC was incorporated in Hong Kong on 17 May 1988. The principal activities of RCC are electrical and mechanical engineering services and investment holding. It has a branch office in Macau responsible mainly for the submission of tender documents for small projects in Macau.

TSC was incorporated in Hong Kong on 2 December 1980. The principal activities of TSC are selling of equipment and chemicals and the provision of water treatment services.

SEL was incorporated in Hong Kong on 12 August 1983. The principal activities of SEL are the provision of electrical and mechanical engineering services. SEL is a registered electrical contractor.

GDJV is a sino-foreign equity joint venture. It was incorporated in Guangdong, PRC on 9 April 1994. It has a business licence valid for the period between 9 April 1994 and 8 April 2009. The principal activities of GDJV are the provision of design, installation and maintenance services for industrial and civil engineering and mechanical projects and business ancillary thereto. GDJV has obtained grade three qualification for mechanical & electrical equipment installation, grade three qualification for intelligent building engineering and grade three qualification for design, construction and maintenance of security technique defense system. Relevant qualification certificates are issued by the China Construction Authority. GDJV is awarded with a BG/T19001-2000 idt ISO9001-2000 Certificate issued by Guangdong Zhongjian Certification Co. Ltd..

RCS is a wholly-foreign owned enterprise. It was incorporated in Shanghai, PRC on 14 November 2003 and has a business licence valid for the period between 14 November 2003 and 13 November 2053. The principal activities of RCS are the provision of general contracting services for mechanical and electrical projects, professional contracting services for mechanical and electrical equipment installation, professional contracting services for fire equipment installation, professional contracting services for environmental projects, professional contracting services for intellectual premises, professional contracting services for building decoration and giving consultation services and technical support services. RCS has obtained grade one qualification for general contracting of mechanical and electrical project and grade one qualification for professional contracting of mechanical and electrical equipment installation. Relevant qualification certificates are issued by the China Construction Authority.

Eye Lighting was incorporated in Hong Kong on 5 May 1992. The principal activity of Eye Lighting is the trading in lamps, light fittings and related products.

10. INFORMATION ON THE GROUP

The Company was listed on the Stock Exchange in 1991. Based on a solid foundation of conventional construction experience, its subsidiary, Yau Lee Construction Company Limited, founded in 1958, had progressively developed as one of the leading and most experienced construction companies in Hong Kong. Subsequently, the Group has expanded its business into different areas in line with the market needs. Apart from the major building construction business in Hong Kong, the Group had also started expanding its business to Mainland China in the 90's. The Company's major businesses include, amongst others building construction, maintenance, renovation, plumbing and drainage works, building materials trading, precast products manufacturing and trading, property development, hotel and property investment, IT solution and services.

11. REASONS FOR AND BENEFITS OF THE ACQUISITION

The reasons for the Acquisition are that the Company intends to diversify its business and to expand its market share in Hong Kong, Macau and PRC in light of the booming construction industry in these places.

The benefits of the Acquisition are that the well established network and participation of REC Group in Hong Kong, Macau and PRC markets and the experienced technical and administrative personnel in REC Group will help the Company diversify its business in the coming years in a more efficient and quicker manner. The Company does not have to go through the processes (such as recruitment, training and marketing) which are both time and costs consuming and that will otherwise be required in the case of establishing a new company with similar business nature as the REC Group. Further, REC Group has been awarded numerous government and private projects in Hong Kong, Macau and PRC which are on-going with expected completion date in 2008, 2009 and 2010. The existing experienced technical and administrative personnel in REC Group can monitor and handle such on-going projects.

Accordingly, the Directors consider that the terms of the Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

12. FINANCIAL EFFECTS OF THE ACQUISITION

(a) Financial effects of the Acquisition

The consideration of the Acquisition is financed by the Company's own internal financial resources without any external loan financing.

REC is sold as a going-concern basis. Upon completion of the Acquisition, REC will become a wholly-owned subsidiary of the Group and the results, assets and liabilities of REC Group will be consolidated in the financial statements of the Company.

Earnings

In case goodwill arises as a result of the cost of Acquisition exceeding the fair value of identifiable net assets of REC Group, it will be recognised as an asset and assessed for impairment annually. Any impairment losses arising from the assessment will be charged to the consolidated income statement of the Enlarged Group.

However, Shareholders should note that the amount of intangible assets (including goodwill) of approximately HK$31 million as shown in the unaudited pro forma financial information on the Enlarged Group set out in Appendix IV to this circular are hypothetically calculated based on the cost of the Acquisition and the fair value of identifiable assets and liabilities of REC Group as at 31 December 2007 as shown in the accountants' report on the REC Group. The final amount of intangible assets (including goodwill) to be recognised upon the Completion of the Acquisition may be different.

Given the historical financial information of REC Group which were profitable as shown in Appendix II, the Directors consider that the Acquisition will have positive effect on the revenue and earnings of the Group. In particular, the Company will have a better and direct control over the costs, quality and design of its subcontracting engineering works and other construction-related works thereby substantially raising its tender competitiveness in the construction markets in Hong Kong, Macau, PRC and the Middle East.

Assets and liabilities

As set out in the Appendix IV to this circular, assuming that the total cost of the Acquisition was equivalent to HK$49.5 million and the Acquisition was completed on 30 May 2008, the pro forma total assets of the Enlarged Group would have been increased by approximately HK$299 million from HK$2,457 million to HK$2,756 million while the pro forma total liabilities of the Enlarged Group would have been increased by approximately HK$299 million from

HK$947 million to HK$1,246 million. Assuming the cost of Acquisition and the net settlement of all balances owing to MEHG Group companies were financed by cash approximately of HK$49.5 million and HK$90.5 million respectively, the pro forma cash and bank balances of the Enlarged Group would have been increased from HK$1,328 million to HK$1,366 million. Gearing ratio (expressed as total net borrowings over total equity) for the Enlarged Group would have maintained at 0%.

The Acquisition would result in the deterioration of the current ratio (current assets over current liabilities) of the Group to approximately 2.04 as indicated in the unaudited pro forma financial information.

Save as mentioned above, the Directors do not expect any other immediate significant financial effects arising from the Acquisition. Please refer to Appendix IV of this circular for the details of the unaudited pro forma statement of assets and liabilities of the Enlarged Group.

Shareholders should note that the unaudited pro forma financial information on the Enlarged Group set out in Appendix IV to this circular is for illustration purpose only. As the fair value of the identifiable assets and liabilities of REC Group at the date of closing of the Acquisitions may be different from the amount currently used in the preparation of the unaudited pro forma financial information, the actual financial impact arising from the Acquisition may be different from the estimated amount in the unaudited pro forma financial information.

(b) Unaudited Pro forma financial information

The Directors consider that using the Group's unaudited pro forma statement of net assets after the very substantial disposal as at 30 September 2007, extracted from the Company's circular dated 18 January 2008, and the REC Group's audited consolidated balance sheet as at 31 December 2007 in the preparation of unaudited pro forma financial information on the Enlarged Group will provide sufficient and representative financial information of the Group to the Shareholders.

The Directors consider that the business of the Enlarged Group is not subject to any seasonal fluctuation that may affect the representation or accuracy of the use of the pro forma financial information as the building construction, renovation and maintenance business and other businesses are not subject to any seasonality factor and weather factor.

13. BUSINESS REVIEW AND PROSPECTS OF THE GROUP

(a) Business review of the Group

(i) Building construction, renovation and maintenance

The Group completed two contracts with total contract sum of HK$1,383,000,000 and secured five contracts with total contract sum of approximately HK$2,180,000,000 during the six months period ended 30 September 2007. The total contract sum of the Group's construction contracts in hand is approximately HK$4,141,000,000, excluding a joint venture contract which was secured during the period with contract value of approximately HK$1,654,000,000. The increase in contracts in hand was the result of the upturn of the construction market in Hong Kong. The loss of the Group's building construction, renovation and maintenance business for the six months ended 30 September 2007 was HK$107 million as a result of provision made for the uncertainty of the recoverability for certain cost incurred for the acceleration of progress and variation works for projects undertook during the period. The loss is a combined result of the above mentioned reason, high interest costs, the appreciation of Renminbi and the increase in price level of materials, subcontractors and labours.

(ii) Other Operations

The Group's other business comprises information technology services provision, precast building components manufacturing and trading, plumbing works, building materials trading and the newly set up curtain wall and steel works contracting division. These businesses account for only about 3% of the Group's total external sales and therefore did not have a significant contribution to the Group's results. However they do form integral parts of the Group's operation for the upholding of the quality of the Group's services and products.

(iii) Impact of the disposal of hotel and investment properties on the Group

The Group is mainly engaged in building construction, renovation and maintenance business, the revenue of the Group for the six months period ended 30 September 2007 is approximately of HK$811 million (unaudited) as set out in the Appendix II of the Company's circular dated 18 January 2008. The revenue from property leasing and hotel operation is approximately of HK$49 million for the period, it accounts for 6% of the Group's revenue. After the disposal of hotel and investment properties, the Directors are of the view that the revenue of the Group will not be substantially affected.

Apart from this Acquisition, no member of the Group has acquired or is proposing to acquire a business or an interest in the share capital of a company since the publication of the latest audited account of the Group.

(b) Financial and business prospects of the Enlarged Group

To remain competitive in tendering for public contracts, the Group has been integrating vertically, the expanded scope should result in better control over costs, quality and design hence strengthen tender competitiveness. With the significant increase in cash after the completion of disposal of hotel and investment properties, the Group is considering expanding to overseas market such as Singapore and the Middle East to capture the opportunities in these upcoming construction markets.

The Group will actively look for investment opportunities in the regions with an aim to improve return for shareholders. As at the date of this circular, no concrete new investment projects have been identified.

REC Group believed that with the Government taking the lead in pushing the infrastructure projects, a better business outlook for Hong Kong is expected in the coming years. Since the main parts of major developments in Macau are under construction, REC Group believed that the construction market in Macau has reached its peak. There are still business opportunities in the coming two to three years from the remaining phases of major developments. REC Group expected that the construction market in PRC will continue to grow and REC Group will be able to secure contracts with value of RMB250 million each year.

The Directors of the Company are of the view that there is no material information which may be relevant thereto, including all special trade factors or risks (if any) which are unlikely to be known or anticipated by the general public, and which could materially affect the profits of the Group.

14. ADDITIONAL INFORMATION

Your attention is also drawn to the information set out in the Appendices to this circular.

By Order of the Board
Yau Lee Holdings Limited
Chui Man Lung, Everett
Company Secretary

1. FINANCIAL SUMMARY

The following is a summary of the audited consolidated financial results and financial position of the Group as at the end of and for each of the three years ended 31 March 2007 as extracted from the annual reports of the Company for the respective years. There were no qualified or modified opinions in the auditor's reports for the three years ended 31 March 2005, 2006 and 2007. A summary of the unaudited condensed consolidated income statements of the Group for the six months ended 30 September 2006 and 2007 as well as the unaudited condensed consolidated balance sheet of the Group as at 30 September 2007 as extracted from the interim report of the Company for the six months ended 30 September 2007 are also set out below.

Consolidated Income Statements

	For the six months ended 30 September		For the year ended 31 March		
	2007	2006	2007	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited)			
Revenue	810,804	909,004	2,109,311	1,452,208	1,355,583
Cost of sales	(830,115)	(849,823)	(1,931,644)	(1,326,918)	(1,234,086)
Gross (loss)/profit	(19,311)	59,181	177,667	125,290	121,497
Other income and gains	9,804	5,128	17,478	8,824	3,434
Administrative expenses	(75,972)	(63,609)	(138,901)	(112,154)	(105,674)
Other operating expenses	(1,568)	(452)	(2,829)	(3,916)	(5,047)
Change in fair value of investment properties	47,000	11,000	41,000	9,000	54,857
Operating (loss)/profit	(40,047)	11,248	94,415	27,044	69,067
Finance costs	(28,754)	(20,331)	(40,344)	(21,435)	(8,701)
Share of loss of associates	–	–	–	–	(2,384)
Share of profit/(loss) of jointly controlled entities	709	–	12,595	(510)	–
(Loss)/profit before income tax	(68,092)	(9,083)	66,666	5,099	57,982
Income tax expense	(7,571)	(350)	(17,057)	(3,079)	(12,281)
(Loss for the period)/ profit for the year	(75,663)	(9,433)	49,609	2,020	45,701
Attributable to:					
Equity holders of the Company	(75,663)	(9,448)	49,790	1,967	47,085
Minority interests	–	15	(181)	53	(1,384)
	(75,663)	(9,433)	49,609	2,020	45,701
(Loss)/earnings per share	(17.16 cents)	(2.14 cents)	11.29 cents	0.45 cents	10.68 cents

Consolidated Balance Sheets

	As at 30 September 2007 HK$'000 (unaudited)	As at 31 March 2007 HK$'000	2006 HK$'000	2005 HK$'000
ASSETS				
Non-current assets				
Property, plant and equipment	311,889	294,800	303,543	291,889
Investment properties	360,000	340,000	299,000	290,000
Leasehold land	351,397	352,038	353,321	342,189
Associates	39	39	39	39
Jointly controlled entities	28,303	12,595	–	–
Deferred income tax assets	34	34	30	46
Other non-current assets	51,457	35,364	29,779	37,009
	1,103,119	1,034,870	985,712	961,172
Current assets				
Cash and bank balances	205,811	213,011	257,696	195,313
Trade debtors, net	252,303	252,901	171,235	181,228
Prepayments, deposits and other receivables	99,483	109,428	63,516	44,148
Inventories	24,295	16,282	11,599	10,908
Prepaid income tax	960	871	1,783	402
Due from customers on construction contracts	526,096	406,991	299,423	224,928
Financial assets at fair value through profit or loss	5,298	5,167	4,973	10,335
Due from associates	13,539	13,855	9,730	15,821
Due from jointly controlled entities	4,488	14,408	–	–
Due from related parties	30	30	30	30
	1,132,303	1,032,944	819,985	683,113
Total assets	2,235,422	2,067,814	1,805,697	1,644,285
EQUITY				
Share capital	88,190	88,190	88,190	88,190
Other reserves	419,159	419,199	416,515	415,789
Retained profits				
Proposed final dividend	–	4,409	–	3,307
Others	278,535	354,199	308,818	310,221
Attributable to equity holders	785,884	865,997	813,523	817,507
Minority interests	628	628	809	756
Total equity	786,512	866,625	814,332	818,263

	As at 30 September 2007	As at 31 March 2007	2006	2005
	HK$'000 (unaudited)	*HK$'000*	*HK$'000*	*HK$'000*
LIABILITIES				
Non-current liabilities				
Long-term borrowings	396,705	477,441	427,285	340,291
Deferred income tax liabilities	73,326	66,653	53,102	51,843
	470,031	544,094	480,387	392,134
Current liabilities				
Bank overdrafts – secured	72,225	70,405	1,549	29,715
Short-term bank loans – secured	355,948	292,622	283,954	195,856
Current portion of long-term borrowings	93,563	52,075	21,655	11,179
Derivative financial instruments	5,502	–	–	–
Payables to suppliers and subcontractors	214,340	124,481	102,802	100,161
Accruals, retention payables and other liabilities	155,628	105,146	88,542	79,413
Income tax payable	3,295	2,396	790	1,259
Due to customers on construction contracts	78,378	9,970	2,479	15,776
Due to jointly controlled entities	–	–	9,207	–
Due to related parties	–	–	–	529
	978,879	657,095	510,978	433,888
Total liabilities	1,448,910	1,201,189	991,365	826,022
Total equity and liabilities	2,235,422	2,067,814	1,805,697	1,644,285
Net current assets	153,424	375,849	309,007	249,225
Total assets less current liabilities	1,256,543	1,410,719	1,294,719	1,210,397

2. UNAUDITED INTERIM FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

(Terms defined herein apply to this appendix only.)

The following financial information is a reproduction of the relevant information extracted from the interim report of the Group for the six months 30 September 2007 together with the unaudited comparative figures for the corresponding period in 2006.

Unaudited Condensed Consolidated Income Statement

For the six months ended 30 September 2007

	Note	2007 HK$'000	2006 HK$'000
Revenue	2	810,804	909,004
Cost of sales		(830,115)	(849,823)
Gross (loss)/profit		(19,311)	59,181
Other income and gains		9,804	5,128
Administrative expenses		(75,972)	(63,609)
Other operating expenses		(1,568)	(452)
Fair value gain on investment properties		47,000	11,000
Operating (loss)/profit	3	(40,047)	11,248
Finance costs		(28,754)	(20,331)
Share of profit of jointly controlled entities		709	–
Loss before income tax		(68,092)	(9,083)
Income tax expense	4	(7,571)	(350)
Loss for the period		(75,663)	(9,433)
Attributable to:			
Equity holders of the Company		(75,663)	(9,448)
Minority interests		–	15
		(75,663)	(9,433)
Interim dividend	5	–	–
Loss per share	6	(17.16 cents)	(2.14 cents)

Unaudited Condensed Consolidated Balance Sheet
As at 30 September 2007

	Note	30 September 2007 HK$'000	31 March 2007 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	311,889	294,800
Investment properties	7	360,000	340,000
Leasehold land	7	351,397	352,038
Associates		39	39
Jointly controlled entities		28,303	12,595
Deferred income tax assets		34	34
Other non-current assets		51,457	35,364
		1,103,119	1,034,870
Current assets			
Cash and bank balances		46,470	43,342
Restricted deposits		159,341	169,669
Trade debtors, net	8	252,303	252,901
Inventories		24,295	16,282
Prepayments, deposits and other receivables		99,483	109,428
Prepaid income tax		960	871
Due from customers on construction contracts		526,096	406,991
Financial assets at fair value through profit or loss		5,298	5,167
Due from associates		13,539	13,855
Due from jointly controlled entities		4,488	14,408
Due from related parties		30	30
		1,132,303	1,032,944
Total assets		2,235,422	2,067,814
EQUITY			
Share capital	9	88,190	88,190
Other reserves		419,159	419,199
Retained profits		278,535	358,608
Equity holders		785,884	865,997
Minority interests		628	628
Total equity		786,512	866,625

	Note	30 September 2007 HK$'000	31 March 2007 HK$'000
LIABILITIES			
Non-current liabilities			
Long-term borrowings		396,705	477,441
Deferred income tax liabilities		73,326	66,653
		470,031	544,094
Current liabilities			
Bank overdrafts-secured		72,225	70,405
Short-term bank loans-secured		355,948	292,622
Current portion of long-term borrowings-secured		93,563	52,075
Derivative financial instruments		5,502	–
Payable to suppliers and subcontractors	10	214,340	124,481
Accruals, retention payables and other liabilities		155,628	105,146
Income tax payable		3,295	2,396
Due to customers on construction contracts		78,378	9,970
		978,879	657,095
Total liabilities		1,448,910	1,201,189
Total equity and liabilities		2,235,422	2,067,814
Net current assets		153,424	375,849
Total assets less current liabilities		1,256,543	1,410,719

Unaudited Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2007

	Attributable to equity holders of the Group							
	Share capital	Share premium	Capital redemption reserve	Currency translation reserve	Retained profits	Sub-total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 April 2007	88,190	415,430	359	3,410	358,608	865,997	628	866,625
Loss for the period	–	–	–	–	(75,663)	(75,663)	–	(75,663)
Currency translation differences	–	–	–	(40)	–	(40)	–	(40)
Dividend	–	–	–	–	(4,410)	(4,410)	–	(4,410)
As at 30 September 2007	88,190	415,430	359	3,370	278,535	785,884	628	786,512
As at 1 April 2006	88,190	415,430	359	726	308,818	813,523	809	814,332
Loss for the period	–	–	–	–	(9,448)	(9,448)	15	(9,433)
As at 30 September 2006	88,190	415,430	359	726	299,370	804,075	824	804,899

Unaudited Condensed Consolidated Cash Flow Statement
For the six months ended 30 September 2007

	2007	**2006**
	HK$'000	*HK$'000*
Net cash flows from/(used in) operating activities	1,309	(184,479)
Net cash flows used in investing activities	(7,303)	(2,535)
Net cash flows from financing activities	7,302	5,386
Increase/(decrease) in cash and cash equivalents	1,308	(181,628)
Cash and cash equivalents, beginning of period	(27,063)	88,634
Cash and cash equivalents, end of period	(25,755)	(92,994)
Analysis of cash and cash equivalents		
Cash and bank balances	46,470	30,368
Bank overdrafts – secured	(72,225)	(123,362)
	(25,755)	(92,994)

Notes to the Unaudited Condensed Interim Financial Information

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The interim financial information has not been audited by the auditors of the Group but has been reviewed by the Group's Audit Committee.

This unaudited condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. This unaudited condensed consolidated financial information should be read in conjunction with the 2007 annual financial statements.

The accounting policies and methods of computation used in the preparation of this unaudited condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 March 2007. The HKICPA has issued certain new standards, interpretations and amendments to existing standards (collectively "New Standards") which are effective for accounting periods commencing on or after 1 January 2007. The Group has assessed the impact of these New Standards and concluded that the adoption of these New Standards in the current period did not have any material impact on this interim financial information.

2. REVENUE AND SEGMENT INFORMATION

	2007	**2006**
	HK$'000	*HK$'000*
Turnover		
Construction	739,191	850,384
Building materials trading	18,457	12,168
Property leasing	6,330	5,798
Hotel operation	43,056	36,998
Others	3,770	3,656
	810,804	909,004

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 of website hosting services, which is not of a sufficient size to be reported separately.

The segment information for the six months ended 30 September 2006 has been restated to conform the primary reporting format used in the current interim period. The Directors are of the opinion that the current primary reporting format is more appropriate.

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.

Primary reporting format – business segments

	For the six months ended 30 September 2007						
	Construction	Building materials trading	Property leasing	Hotel operation	Others	Elimination	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
External sales	739,191	18,457	6,330	43,056	3,770	–	810,804
Inter-segment sales	1,667	45,192	–	–	4,964	(51,823)	–
Total sales	740,858	63,649	6,330	43,056	8,734	(51,823)	810,804
Segment results	(107,476)	(2,196)	46,095	21,201	(2,395)	(2,516)	(47,287)
Unallocated income							7,240
Operating loss							(40,047)
Finance costs	(14,256)	(2,017)	(11,923)	–	(558)		(28,754)
Share of profit of jointly controlled entities	465	244	–	–	–		709
Loss before income tax							(68,092)
Income tax expense							(7,571)
Loss for the period							(75,663)
Segment assets	1,087,702	124,576	901,724	9,005	56,283		2,179,290
Interests in associates	–	–	–	–	13,539		13,539
Interests in jointly controlled entities	15,465	12,838	–	–	–		28,303
Unallocated assets							14,290
Total assets							2,235,422
Segment liabilities	(887,204)	(35,061)	(439,863)	(5,697)	(4,064)		(1,371,889)
Unallocated liabilities							(77,021)
Total liabilities							(1,448,910)
Capital expenditure	4,872	213	869	–	97		6,051
Depreciation	5,361	3,677	6,190	153	392		15,773
Amortisation of leasehold land	87	–	180	–	374		641
Fair value gain on investment properties	–	–	(47,000)	–	–		(47,000)

	For the six months ended 30 September 2006 (restated)						
	Construction	**Building materials trading**	**Property leasing**	**Hotel operation**	**Others**	**Elimination**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
External sales	850,384	12,168	5,798	36,998	3,656	–	909,004
Inter-segment sales	392	50,544	–	–	1,346	(52,282)	–
Total sales	850,776	62,712	5,798	36,998	5,002	(52,282)	909,004
Segment results	(14,025)	(173)	9,297	16,571	(4,580)	(433)	6,657
Unallocated income							4,591
Operating profit							11,248
Finance costs	(8,622)	(19)	(11,690)	–	–		(20,331)
Loss before income tax							(9,083)
Income tax expense							(350)
Loss for the period							(9,433)
Segment assets	975,850	107,957	638,507	207,262	55,652		1,985,228
Interests in associates	–	–	–	–	9,771		9,771
Unallocated assets							13,314
Total assets							2,008,313
Segment liabilities	(678,002)	(20,679)	(439,916)	(6,835)	(3,708)		(1,149,140)
Unallocated liabilities							(54,274)
Total liabilities							(1,203,414)
Capital expenditure	3,493	3,655	3,072	451	94		10,765
Depreciation	2,581	1,892	5,829	82	455		10,839
Amortisation of leasehold land	87	–	180	–	374		641
Fair value gain on investment properties	–	–	(11,000)	–	–		(11,000)

3. OPERATING (LOSS)/PROFIT

Operating (loss)/profit is arrived at after charging/(crediting) the following:

	Six months ended 30 September	
	2007	**2006**
	HK$'000	*HK$'000*
Depreciation		
Owned property, plant and equipment	15,171	10,444
Leased property, plant and equipment	602	395
Loss/(gain) on disposal of property, plant and equipment	19	(4)
Amortisation of leasehold land	641	641

4. INCOME TAX EXPENSE

Hong Kong profits tax has been provided for at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits for the period. Overseas taxation has been calculated on the estimated assessable profits for the period at the rates prevailing in the respective jurisdictions.

The amount of income tax charged to the unaudited condensed consolidated income statement represents:

	Six months ended 30 September	
	2007	**2006**
	HK$'000	*HK$'000*
Hong Kong profits tax	7,406	149
Overseas tax	165	201
	7,571	350

5. DIVIDEND

	Six months ended 30 September	
	2007	**2006**
	HK$'000	*HK$'000*
Interim dividend of Nil (2006: Nil) per share	–	–

6. LOSS PER SHARE

Loss per share has been calculated based on the Group's unaudited loss attributable to equity holders of the Company of HK$75,663,000 (2006: HK$9,448,000) and 440,949,600 shares (2006: 440,949,600 shares) in issue during the period.

Diluted earnings per share for the periods ended 30 September 2007 and 2006 are not presented as there are no potential dilutive shares outstanding during the periods.

7. CAPITAL EXPENDITURE

	Property, plant and equipment *HK$'000*	Investment properties *HK$'000*	Leasehold land *HK$'000*
Net book amount as at 1 April 2007	294,800	340,000	352,038
Additions	6,051	–	–
Disposals	(189)	–	–
Transfer from investment properties to property, plant and equipment	27,000	(27,000)	–
Fair value gain	–	47,000	–
Depreciation/amortisation charge *(Note 3)*	(15,773)	–	(641)
Net book amount as at 30 September 2007	311,889	360,000	351,397
Net book amount as at 1 April 2006	303,543	299,000	353,321
Exchange difference	1,947	–	–
Additions	19,550	–	–
Disposals	(358)	–	–
Fair value gain	–	41,000	–
Depreciation/amortisation charge	(29,882)	–	(1,283)
Net book amount as at 31 March 2007	294,800	340,000	352,038

As at 30 September 2007 the net book value of property, plant and equipment, investment properties and leasehold land pledged as security for the bank loan of the Group amounted to approximately HK$938,000,000.

8. TRADE DEBTORS, NET

Trade debts are due after 21 days to one year depending on the nature of services or products.

The aging analysis of trade debtors is as follows:

	30 September 2007 *HK$'000*	31 March 2007 *HK$'000*
Not yet due	238,450	189,497
Overdue by:		
1 – 30 days	2,402	39,898
31 – 90 days	2,831	7,448
91 –180 days	114	783
Over 180 days	8,506	15,275
	252,303	252,901

9. SHARE CAPITAL

There were no movements in the share capital of the Company in the reporting period.

10. PAYABLE TO SUPPLIERS AND SUBCONTRACTORS

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

	30 September 2007 *HK$'000*	**31 March 2007** *HK$'000*
Not yet due	208,844	114,127
Overdue by:		
1 – 30 days	4,582	8,711
31 – 90 days	37	907
91 –180 days	200	190
Over 180 days	677	546
	214,340	124,481

3. AUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 MARCH 2007

(Terms defined herein apply to this appendix only.)

The following financial information is a reproduction of the relevant information extracted from the audited financial statements of the Group for the year ended 31 March 2007 as published in the 2007 annual report of the Company.

Consolidated Income Statement

For the year ended 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
Revenue	5	2,109,311	1,452,208
Cost of sales		(1,931,644)	(1,326,918)
Gross profit		177,667	125,290
Other income and gains	6	17,478	8,824
Administrative expenses		(138,901)	(112,154)
Other operating expenses		(2,829)	(3,916)
Change in fair value of investment properties	16	41,000	9,000
Operating profit	7	94,415	27,044
Finance costs	9	(40,344)	(21,435)
Share of profit/(loss) of jointly controlled entities	20	12,595	(510)
Profit before income tax		66,666	5,099
Income tax expense	10	(17,057)	(3,079)
Profit for the year		49,609	2,020
Attributable to:			
Equity holders of the Company	11	49,790	1,967
Minority interests		(181)	53
		49,609	2,020
Dividends	12	4,409	–
Earnings per share	13	11.29 cents	0.45 cents

Consolidated Balance Sheet
As at 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	294,800	303,543
Investment properties	16	340,000	299,000
Leasehold land	17	352,038	353,321
Associates	19	39	39
Jointly controlled entities	20	12,595	–
Deferred income tax assets	29	34	30
Other non-current assets	21	35,364	29,779
		1,034,870	985,712
Current assets			
Cash and bank balances	23	213,011	257,696
Trade debtors, net	24	252,901	171,235
Prepayments, deposits and other receivables	24	109,428	63,516
Inventories	25	16,282	11,599
Prepaid income tax		871	1,783
Due from customers on construction contracts	26	406,991	299,423
Financial assets at fair value through profit or loss	27	5,167	4,973
Due from associates	19	13,855	9,730
Due from jointly controlled entities	20	14,408	–
Due from related parties	37	30	30
		1,032,944	819,985
Total assets		2,067,814	1,805,697
EQUITY			
Share capital	31	88,190	88,190
Other reserves	32	419,199	416,515
Retained profits			
Proposed final dividend	32	4,409	–
Others	32	354,199	308,818
Attributable to equity holders		865,997	813,523
Minority interests		628	809
Total equity		866,625	814,332

	Note	2007 HK$'000	2006 HK$'000
LIABILITIES			
Non-current liabilities			
Long-term borrowings	28	477,441	427,285
Deferred income tax liabilities	29	66,653	53,102
		544,094	480,387
Current liabilities			
Bank overdrafts – secured	28	70,405	1,549
Short-term bank loans – secured	28	292,622	283,954
Current portion of long-term borrowings	28	52,075	21,655
Payables to suppliers and subcontractors	30	124,481	102,802
Accruals, retention payables and other liabilities		105,146	88,542
Income tax payable		2,396	790
Due to customers on construction contracts	26	9,970	2,479
Due to jointly controlled entities	20	–	9,207
		657,095	510,978
Total liabilities		1,201,189	991,365
Total equity and liabilities		2,067,814	1,805,697
Net current assets		375,849	309,007
Total assets less current liabilities		1,410,719	1,294,719

Consolidated Statement of Changes in Equity
For the year ended 31 March 2007

	Attributable to equity holders of the Group							
	Share capital	Other reserves	Capital redemption reserve	Currency translation reserve	Retained profits	Sub-total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 April 2006	88,190	415,430	359	726	308,818	813,523	809	814,332
Profit/(loss) for the year	–	–	–	–	49,790	49,790	(181)	49,609
Currency translation differences	–	–	–	2,684	–	2,684	–	2,684
As at 31 March 2007	88,190	415,430	359	3,410	358,608	865,997	628	866,625
As at 1 April 2005	88,190	415,430	359	–	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 31 March 2006	88,190	415,430	359	726	308,818	813,523	809	814,332

Consolidated Cash Flow Statement
For the year ended 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
Cash flows from operating activities			
Net cash used in operations	33(a)	(152,330)	(32,584)
Hong Kong profits tax paid		(1,027)	(3,654)
Net cash used in operating activities		(153,357)	(36,238)
Cash flows from investing activities			
Additions of leasehold land		–	(12,381)
Purchase of property, plant and equipment		(16,369)	(26,403)
Proceeds from disposal of financial assets at fair value through profit or loss		–	5,817
Proceeds from disposal of property, plant and equipment		283	1,464
Proceeds from disposal of other non-current assets		–	121
Dividends received		112	110
Interest received		10,071	7,603
Net cash used in investing activities		(5,903)	(23,669)
Cash flows from financing activities	33(b)		
Drawdown of long-term bank loans		80,000	97,000
Increase in short-term bank loans		8,668	88,098
Increase in restricted deposits		(2,156)	(7,448)
Capital element of finance lease payments		(2,605)	(1,862)
Interest paid		(40,322)	(29,446)
Dividends paid		–	(3,307)
Interest element of finance lease payments		(22)	(27)
Net cash from financing activities		43,563	143,008
(Decrease)/increase in cash and cash equivalents		(115,697)	83,101
Cash and cash equivalents at beginning of year		88,634	5,533
Cash and cash equivalents at end of year		(27,063)	88,634
Analysis of cash and cash equivalents	23(b)		
Cash and bank balances		43,342	86,576
Time deposits		–	3,607
Bank overdrafts – secured		(70,405)	(1,549)
		(27,063)	88,634

Notes to the Financial Statements

For the year ended 31 March 2007

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 investment 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 25 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 19 July 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated 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"). The financial statements 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

(i) Amendment and interpretation to published standards effective in 2007 and adopted by the Group

The Group adopted the new amendment and interpretation of HKFRS and Hong Kong Accounting Standards ("HKAS") below which are relevant to its operations.

HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The Group has assessed the impact of the adoption of these amendment and interpretation and considered that there was no significant impact on the Group's results and financial position nor any substantial changes in the Group's accounting policies.

(ii) *Standards, interpretations and amendments to existing standards that are not yet effective*

Certain new standards, amendments and interpretations to existing standards have been published which are relevant to the Group's operations and financial statements and are mandatory for the Group's accounting periods beginning on or after 1 April 2007 or later periods as follows:

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangement

The Group has not early adopted the above standards, amendments and interpretations and is not yet in a position to state whether substantial changes to the Group's accounting policies and presentation of the financial statements will be resulted.

(c) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 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.

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.

In the Company's balance sheet, the interests in subsidiaries are stated at cost less provision for impairment losses (Note 2(l)). 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 consolidated 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) Associates

Associates 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 associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

In the Company's balance sheet the investments in associates are stated at cost less provision for impairment losses (Note 2(l)). The results of associates are accounted for by the Company on the basis of dividend received and receivable.

(f) Jointly controlled entities

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 entities are accounted for by the equity method of accounting. The consolidated income statement includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill (net of any accumulated impairment loss) on acquisition.

In the Company's balance sheet, the investments in jointly controlled entities are stated at cost less provision for impairment losses (Note 2(l)). The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivables.

(g) Investment properties

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

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

After initial recognition, investment property is carried at fair value, representing market value determined by external valuers. The fair value of investment property reflects, among other things, 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.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property, others, including contingent rent payments, are not recognised in the financial statements.

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.

(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. All 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. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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. The carrying amount of the replaced part is derecognised. 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 their costs 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(l)).

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

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the 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 in which a significant portion of the risks and rewards of ownership are retained by the lessors are classified 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.

(j) Financial assets

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(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. These are classified under 'Other non-current assets', 'Trade debtors, net' and 'Prepayments, deposits and other receivables' in the balance sheet.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within other income and gains, in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets in impaired.

(k) Inventories

Inventories comprise building materials and equipment for sale and are stated at the lower of cost and net realisable value.

Cost is determined using 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.

(l) Impairment of assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation 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.

(m) Construction contracts in progress

Contract costs are recognised when incurred. 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.

When the outcome of a construction contract can be estimated reliably, contract revenue and contract cost are recognised over the period of the contract, respectively, as revenue and expenses. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

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. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

The Group presents as an asset the gross amount due from customers on construction contracts for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within trade and other receivables.

The Group presents as a liability the gross amount due to customers on construction contracts for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

(n) 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. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

(o) 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.

(p) 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.

(q) Payables to suppliers and sub-contractors

Payables to suppliers and sub-contractors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(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 consolidated 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 income 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, associates and jointly controlled entities, except where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

(s) Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and 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.

(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 vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. 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.

(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:

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(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) Hotel operation revenue

Revenue from hotel operation is recognised upon provision of services.

(v) Interest income

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

(vi) 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 Hong Kong 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.

(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 partially disposed of or 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 and operating activities, the Group has determined that business segments be presented as the primary reporting format and geographical segments be presented 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, 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 are approved by the Company's shareholders.

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 31 March 2006 and 2007.

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. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. 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.

5. REVENUE AND SEGMENT INFORMATION

Revenue represents turnover from contracting of building construction, plumbing, maintenance and fitting-out projects, building materials trading, property leasing, hotel operation and others.

	2007	**2006**
	HK$'000	*HK$'000*
Turnover		
Contracting of building construction, plumbing, maintenance and fitting-out projects	1,970,496	1,372,317
Building materials trading	32,925	29,588
Property leasing	12,647	10,934
Hotel operation	84,609	30,467
Others	8,634	8,902
	2,109,311	1,452,208

Primary reporting format – business segment

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 segment

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.

Primary reporting format – business segments

	Construction	Building materials trading	Property leasing	Hotel operation	Others	Elimination	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 March 2007							
External sales	1,970,496	32,925	12,647	84,609	8,634	–	2,109,311
Inter-segment sales	4,039	136,015	–	–	9,587	(149,641)	–
Total sales	1,974,535	168,940	12,647	84,609	18,221	(149,641)	2,109,311
Segment results	8,777	1,701	38,526	43,249	(2,173)	(8,079)	82,001
Unallocated income							12,414
Operating profit							94,415
Finance costs	(17,351)	(67)	(22,926)	–	–		(40,344)
Share of profit of jointly controlled entities	–	12,595	–	–	–		12,595
Profit before income tax							66,666
Income tax expense							(17,057)
Profit for the year							49,609
Segment assets	979,861	120,534	664,793	204,775	57,529		2,027,492
Interests in associates	–	–	–	–	13,894		13,894
Interests in jointly controlled entities	–	12,595	–	–	–		12,595
Unallocated assets							13,833
Total assets							2,067,814
Segment liabilities	(674,814)	(18,947)	(430,130)	(5,532)	(3,772)		(1,133,195)
Unallocated liabilities							(67,994)
Total liabilities							(1,201,189)
Capital expenditure	7,809	7,377	3,476	570	318		19,550
Depreciation	10,846	6,060	11,839	260	877		29,882
Amortisation of leasehold land	173	–	361	–	749		1,283
Other non-cash expenses/(income)	27	1,223	(41,000)	–	(208)		(39,958)

	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 31 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 jointly controlled entities	–	(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 associates	–	–	–	–	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)

6. OTHER INCOME AND GAINS

	2007	2006
	HK$'000	*HK$'000*
Other income		
Dividend income from listed investments	112	110
Bank interest income	7,194	5,792
Interest income from subcontractors	2,877	1,811
Sundry income	3,068	4
	13,251	7,717
Other gains		
Write back of provision on an amount due from an associate	4,033	–
Unrealised gain on financial assets through profit and loss	194	99
Realised gain on financial assets through profit and loss	–	356
Exchange gain	–	652
	4,227	1,107
	17,478	8,824

7. OPERATING PROFIT

Operating profit is stated after charging the following:

	2007	2006
	HK$'000	*HK$'000*
Depreciation		
Owned property, plant and equipment	22,154	23,300
Leased property, plant and equipment	7,728	799
	29,882	24,099
Operating lease rentals of		
Land and buildings	3,010	3,372
Other equipment	28,494	24,929
	31,504	28,301
Cost of inventories sold	136,248	61,281
Staff costs (excluding directors' emoluments) *(Note 14)*	227,968	207,717
Amortisation of leasehold land	1,283	1,249
Write-off of doubtful debts	2,711	63
Auditor's remuneration – audit services	1,470	1,323
Outgoings in respect of investment properties	2,921	3,373
Loss on disposal of property, plant and equipment, net	75	–
Exchange losses, net	968	–

8. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) The remuneration of the Directors for the year ended 31 March 2007 is set out below:

Name	Fees	Salary	Discretionary bonuses	Employer's contribution to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2007					
Mr. Wong Ip Kuen	–	4,784	290	221	5,295
Mr. Wong Tin Cheung	–	1,754	286	81	2,121
Mr. So Yau Chi	–	1,628	180	63	1,871
Mr. Sun Chun Wai	–	780	200	36	1,016
Dr. Yeung Tsun Man, Eric	250	–	–	–	250
Mr. Wu King Cheong	250	–	–	–	250
Mr. Chan, Bernard Charnwut	250	–	–	–	250
	750	8,946	956	401	11,053
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

(b) Five highest-paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2006: three) Directors whose emoluments are reflected in the analysis above. The emoluments paid to the remaining two (2006: two) highest paid individuals during the year were as follows:

	2007	2006
	HK$'000	*HK$'000*
Salaries	2,565	1,708
Bonus	100	1,155
Retirement benefits	61	79
	2,726	2,942

The emoluments fell within the following bands:

Emolument bands	Number of individuals 2007	2006
HK$1,000,001 – HK$1,500,000	1	1
HK$1,500,001 – HK$2,000,000	1	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

	2007	**2006**
	HK$'000	*HK$'000*
Interest on overdrafts and short-term bank loans	17,409	15,556
Interest on long-term bank loans repayable within five years	28,597	13,890
Interest element of finance lease contract payments	199	27
Total borrowing costs incurred	46,205	29,473
Less:		
Interest capitalised as cost of construction in progress	–	(8,038)
Classified under contract cost	(5,861)	–
	40,344	21,435

No interest was capitalised as cost of construction during the year. The capitalisation rate applied to funds borrowed and used for the construction in progress was 1.675% and 5.175% per annum for the year ended 31 March 2006.

10. INCOME TAX EXPENSE

	2007	**2006**
	HK$'000	*HK$'000*
Current income tax		
Hong Kong profits tax	3,444	1,801
Under provisions in prior years	66	3
Deferred income tax relating to the origination and reversal of temporary differences *(Note 29)*	13,547	1,275
	17,057	3,079

Hong Kong profits tax is calculated at 17.5% (2006: 17.5%) on the estimated assessable profits for the year. No taxation on overseas profits has been provided for as the tax losses brought forward exceeded the estimated assessable profits for the year in the countries in which the Group operates (2006: Nil).

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:

	2007	2006
	HK$'000	*HK$'000*
Profit before income tax	66,666	5,099
Less: Share of profits less losses of jointly controlled entities	(12,595)	510
	54,071	5,609
Calculated at a taxation rate of 17.5% (2006: 17.5%)	9,463	982
Effect of different tax rates in other countries	(841)	(303)
Income not subject to taxation	(1,330)	(204)
Expenses not deductible for taxation purposes	4,495	37
Temporary differences not recognised	3,659	(869)
Tax losses not recognised	4,629	4,501
Utilisation of previously unrecognised tax losses	(3,084)	(1,068)
Under provisions in prior years	66	3
Income tax expense	17,057	3,079

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$126,000 (2006: HK$2,559,000).

12. DIVIDENDS

The Directors recommend the payment of a final dividend at HK1.0 cent per share (2006: Nil), totalling HK$4,409,000 for the year ended 31 March 2007.

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$49,790,000 (2006: HK$1,967,000) and on the 440,949,600 (2006: 440,949,600) shares in issue during the year.

Diluted earnings per share for the years ended 31 March 2007 and 2006 are not presented as there are no potential dilutive shares during the years.

14. STAFF COSTS EXCLUDING DIRECTORS' EMOLUMENTS

	2007	2006
	HK$'000	*HK$'000*
Salaries, wages and bonus	216,776	197,748
Unutilised annual leave	242	–
Long service payments	(327)	–
Termination benefits	2,812	1,771
Pension costs – defined contribution scheme	8,465	8,198
	227,968	207,717

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.

15. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress	Buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Group							
At 1 April 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 31 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 31 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
Year ended 31 March 2007							
Opening net book amount	–	184,488	298	94,423	20,840	3,494	303,543
Exchange differences	–	731	–	1,154	48	14	1,947
Additions	–	1,854	–	12,293	2,748	2,655	19,550
Disposals	–	–	–	(162)	(165)	(31)	(358)
Depreciation	–	(4,391)	(195)	(16,901)	(6,644)	(1,751)	(29,882)
Closing net book amount	–	182,682	103	90,807	16,827	4,381	294,800
At 31 March 2007							
Cost	–	199,975	5,620	194,452	60,600	24,147	484,794
Accumulated depreciation	–	(17,293)	(5,517)	(103,645)	(43,773)	(19,766)	(189,994)
Net book amount	–	182,682	103	90,807	16,827	4,381	294,800

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

	Group 2007 HK$'000	Group 2006 HK$'000
Plant and equipment	1,115	–
Motor vehicles	3,128	3,049
	4,243	3,049

(b) The net book value of property, plant and equipment pledged as security for the Group's bank loans amounted to HK$206 million (2006: HK$205 million) (Notes 28 and 34(e)).

16. INVESTMENT PROPERTIES

	Group 2007 HK$'000	Group 2006 HK$'000
Beginning of year	299,000	290,000
Change in fair value	41,000	9,000
End of year	340,000	299,000

Investment properties are held under long-term leases and situated in Hong Kong. The investment properties were revalued as at 31 March 2007 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 28 and 34(e)).

17. LEASEHOLD LAND

	Group 2007 HK$'000	Group 2006 HK$'000
Opening	353,321	342,189
Additions	–	12,381
Amortisation	(1,283)	(1,249)
	352,038	353,321
In Hong Kong, held on		
Lease of over 50 years	315,462	315,823
Leases of between 10 to 50 years	34,263	35,128
	349,725	350,951
Outside Hong Kong, held on		
Lease of between 10 to 50 years	2,313	2,370
	352,038	353,321

The Group's interests in leasehold land represented prepaid operating lease payments. Leasehold land with a net book value of approximately HK$345,886,000 (2006: HK$317,988,000) was pledged as securities for the Group's bank loans (Notes 28 and 34(e)).

18. SUBSIDIARIES

	Company 2007	2006
	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	368,741	373,287
Due to subsidiaries	95,527	101,753

The advance to a subsidiary is unsecured, bears interest at Hong Kong dollar prime rate less two per cent (2006: 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, and their carrying amounts are not materially different from their fair values.

The following is a list of the principal subsidiaries at 31 March 2007:

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%
Lever Construction Materials (Shenzhen) Company Limited	Mainland China	HK$3,000,000	Trading of building materials	–	100%	100%
Ming Hop Company Limited	Hong Kong	HK$1,000,000	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%
SPS Company Limited	Hong Kong	HK$2	Manufacturing and trading of office partition	–	100%	100%

Name	Place of incorporation/ operation	Particulars of registered/issued share capital	Principal activities	Percentage of registered/issued share capital held by Company	Subsidiaries	Group
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%
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 Building Materials Trading Company Limited	Hong Kong	HK$2	Trading of building materials	–	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%
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 Curtain Wall and Steel Works Limited	Hong Kong	HK$2	Curtain wall installation	–	100%	100%
Yau Lee Equipment Leasing Limited	Hong Kong	HK$2	Leasing equipments	–	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%

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 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%
Yau Lee Wah Concrete Precast Products (Macau) Company Limited	Macau	MOP200,000	Sale of precast products	–	100%	100%

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

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

19. ASSOCIATES

	2007 Group	2007 Company	2006 Group	2006 Company
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Share of net assets				
Beginning of year	39	–	39	–
End of year	39	–	39	–
Amounts due from associates, net	13,855	1,229	9,730	1,179

(a) The following is a list of the principal associate at 31 March 2007:

Name	Particulars of issued share capital	Place of incorporation	Assets	Liabilities	Revenues	(Loss)/ profit	Interest held
			HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	
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%
2007							
Yau Lee Development Company Limited ("YLDC") *(Note b)*	100 ordinary shares of $1 each	Hong Kong	18,454	35,663	1,067	6,245	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 associates are unsecured, interest free and have no fixed repayment terms.

(d) The Group did not share the profit of the associate for the year ended 31 March 2007 as its share of the profit is still less than the share of losses previously not recognised.

20. JOINTLY CONTROLLED ENTITIES

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Beginning of the year	–	–
Investment in jointly controlled entities	–	510
Share of profit/(loss)	12,595	(510)
End of the year	12,595	–
Amounts due from/(to) jointly controlled entities	14,408	(9,207)

(a) The following is a list of the principal jointly controlled entities at 31 March 2007:

Name	Particulars of issued share capital	Place of incorporation	Assets HK$'000	Liabilities HK$'000	Revenues HK$'000	Profit/ (loss) HK$'000	Effective Interest held
2006							
Yau Lee Formglas Limited ("YLFG") *(Note b)*	HK$1,000,000	Hong Kong	12,857	(4,503)	525	73	51%
Yau Lee Formglas (Shenzhen) Limited ("YLFS") *(Note c)*	HK$4,200,000	Mainland China	4,845	(195)	2,275	(66)	51%
Yau Lee Formglas (Macau) Limited ("YLFM") *(Note d)*	MOP200,000	Macau	18,280	(31,284)	6,931	(1,007)	51%
Total			35,982	(35,982)	9,731	(1,000)	
Share of net assets value			18,351	(18,351)		(510)	
2007							
Yau Lee Formglas Limited ("YLFG") *(Note b)*	HK$1,000,000	Hong Kong	10,932	(17,086)	113	(2,794)	51%
Yau Lee Formglas (Shenzhen) Limited ("YLFS") *(Note c)*	HK$4,200,000	Mainland China	16,684	(10,089)	22,255	2,257	51%
Yau Lee Formglas (Macau) Limited ("YLFM") *(Note d)*	MOP200,000	Macau	49,881	(25,625)	137,027	25,234	51%
Total			77,497	(52,800)	159,395	24,697	
Share of net assets value			39,523	(26,928)		12,595	

(b) YLFG is a joint venture with a Canadian party, engaged in investment holding of YLFM and YLFS, which their principal activities are set out in note (c) and (d).

(c) YLFS is a wholly owned subsidiary of YLFG, which is principally engaged in manufacturing of precast products.

(d) YLFM is a wholly owned subsidiary of YLFG, which is principally engaged in the construction projects in Macau.

(e) The amounts due from jointly controlled entities are unsecured, interest free and have no fixed repayment terms.

21. OTHER NON-CURRENT ASSETS

	Group 2007	Group 2006
	HK$'000	*HK$'000*
Retention receivables *(Note 26)*	67,318	61,887
Loans to employees *(Note 22)*	1,259	1,671
Others	22	22
	68,599	63,580
Less: Current portion of retention receivables *(Note 24(a))*	(33,037)	(33,389)
Less: Current portion of loans to employees *(Note 22)*	(198)	(412)
	35,364	29,779

Long-term retention receivables were carried at amortised cost using effective interest method required by HKAS 39.

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$198,000 (2006: HK$412,000) are included in prepayments, deposits and other receivables. Loans to employees approximate their fair value.

23. CASH AND BANK BALANCES

	2007		2006	
	Group	Company	Group	Company
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	43,342	413	86,576	295
Time deposits	–	–	3,607	2,049
Restricted deposits *(Note a)*	169,669	10,769	167,513	10,557
	213,011	11,182	257,696	12,901

(a) Restricted deposits are funds which are pledged to secure the bank overdrafts and short-term bank loans (Notes 28 and 34(a)).

(b) Cash, cash equivalents and bank overdrafts include the following for the purposes of the cash flow statement:

	2007		2006	
	Group	Company	Group	Company
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and cash equivalents	43,342	413	90,183	2,344
Bank overdrafts *(Note 28)*	(70,405)	–	(1,549)	–
	(27,063)	413	88,634	2,344

(c) The Group's cash and bank balances are mainly denominated in the following currencies:

	2007		2006	
	Group	Company	Group	Company
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong dollar	61,181	11,182	118,804	12,901
US dollar	145,083	–	121,957	–
Renminbi	6,506	–	16,402	–
Other currencies	241	–	533	–
	213,011	11,182	257,696	12,901

(d) Interest rate of time deposits and restricted deposits ranged from 2.8% to 6.0% (2006: 1.4% to 5.5%).

24. TRADE AND OTHER RECEIVABLES

(a) Trade debtors, net

	Group	
	2007	2006
	HK$'000	*HK$'000*
Trade debtors	219,915	139,202
Retention receivables *(Note 21)*	33,037	33,389
Provision for impairment	(51)	(1,356)
	252,901	171,235

The Group's trade debtors are mainly denominated in Hong Kong dollar. 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 (net of provision) is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Not yet due	189,497	138,003
Overdue by:		
1 – 30 days	39,898	16,998
31 – 90 days	7,448	3,788
91 – 180 days	783	3,045
over 180 days	15,275	9,401
	252,901	171,235

(b) Prepayments, deposits and other receivables

	2007		2006	
	Group	**Company**	**Group**	**Company**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Advances to subcontractors	93,318	–	56,493	–
Prepayment and deposits paid	15,006	17	6,881	217
Other receivables	1,104	247	142	114
	109,428	264	63,516	331

Included in advances to subcontractors are amounts of HK$35,560,000 (2006: HK$32,220,000) which bear interest ranging from 10% to 11% (2006: 7.25% to 11%). All other advances to subcontractors are interest free.

25. INVENTORIES

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Raw materials, at cost	11,750	5,997
Finished goods, at cost	4,532	5,602
	16,282	11,599

26. CONSTRUCTION CONTRACTS IN PROGRESS

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Contract costs incurred plus attributable profits less foreseeable losses to date	13,193,736	10,600,031
Progress billings to date	(12,796,715)	(10,303,087)
	397,021	296,944
Included in current assets/(liabilities) under the following captions:		
Due from customers on construction contracts	406,991	299,423
Due to customers on construction contracts	(9,970)	(2,479)
	397,021	296,944

Retention receivables from customers in respective of construction contracts in progress of HK$67,318,000 (2006: HK$61,887,000) are classified under other non-current assets and trade debtors respectively (Note 21).

27. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Equity securities at fair value – listed in Hong Kong	282	303
Money market fund, at fair value – unlisted in Hong Kong	4,885	4,670
	5,167	4,973

28. BORROWINGS

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Non-current		
Obligations under finance lease contracts	641	485
Long-term bank loans – secured	476,800	426,800
	477,441	427,285
Current		
Bank overdrafts – secured	70,405	1,549
Short-term bank loans – secured	292,622	283,954
Current portions of non-current borrowings	52,075	21,655
	415,102	307,158
Total borrowings	892,543	734,443

(a) The maturity of borrowings are as follows:

	Group			
	Bank borrowings and overdrafts		**Obligations under finance lease contracts**	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 year	413,027	305,503	2,075	1,655
Between 1 and 2 years	90,000	20,000	641	485
Between 2 and 5 years	386,800	406,800	–	–
Wholly repayable within 5 years	889,827	732,303	2,716	2,140

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

	Group	
	2007	**2006**
	%	%
Bank overdrafts	8.5	7.3
Short-term bank loans	5.6	5.5
Long-term bank loans	5.3	5.1
Obligation under finance lease contracts	6.8	4.2

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

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

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Hong Kong dollar	892,543	731,558
Renminbi	–	2,885
	892,543	734,443

(e) The bank borrowings are secured by the Group's investment properties, certain property, plant and equipment, leasehold land and restricted deposits (Notes 15, 16, 17 and 23).

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

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Within one year	2,190	1,739
In the second year	654	495
	2,844	2,234
Future finance charges on finance leases	(128)	(94)
Present value of finance lease obligations	2,716	2,140

29. DEFERRED INCOME TAX

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Beginning of year	53,072	51,797
Charged to income statement *(Note 10)*	13,547	1,275
End of year	66,619	53,072

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$74.4 million (2006: HK$76.4 million) to carry forward against future taxable income. These unrecognised tax losses are analysed according to their expiry dates as follows:

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
With no expiry date	51,164	34,995
Expiring not later than one year	6,023	3,937
Expiring later than one year and not later than five years	17,189	37,474
	74,376	76,406

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:

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Beginning of year	10,901	5,902
(Charged)/credited to income statement	(5,438)	4,999
End of year	5,463	10,901

Deferred income tax liabilities:

	Group					
	Change in fair value of investment property		**Accelerated taxation depreciation**		**Total**	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Beginning of year	49,253	47,678	14,720	10,021	63,973	57,699
Charged to income statement	7,175	1,575	934	4,699	8,109	6,274
End of year	56,428	49,253	15,654	14,720	72,082	63,973

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 balance sheet:

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Deferred income tax assets	(34)	(30)
Deferred income tax liabilities	66,653	53,102
	66,619	53,072

30. PAYABLES TO SUPPLIERS AND SUBCONTRACTORS

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

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Not yet due	114,127	102,133
Overdue by:		
1 – 30 days	8,711	313
31 – 90 days	907	24
91 – 180 days	190	3
Over 180 days	546	329
	124,481	102,802

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

31. SHARE CAPITAL

	2007	**2006**
	HK$'000	*HK$'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 17 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 as follows:

(a) granted before 1 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 1 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 31 March 2007, no share options have been granted under the Share Option Scheme.

32. OTHER RESERVES AND RETAINED PROFITS

	Share premium	Capital redemption reserve	Exchange reserve	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Group					
At 1 April 2006	415,430	359	726	308,818	725,333
Currency translation differences	–	–	2,684	–	2,684
Profit attributable to equity holders of the Company	–	–	–	49,790	49,790
At 31 March 2007	415,430	359	3,410	358,608	777,807
Representing:					
2007 final dividend proposed				4,409	
Others				354,199	
At 31 March 2007				358,608	
At 1 April 2005	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 31 March 2006	415,430	359	726	308,818	725,333
Representing:					
2006 final dividend proposed				–	
Others				308,818	
At 31 March 2006				308,818	

	Share premium HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000
Company				
At 1 April 2006	415,430	359	142,893	558,682
Profit attributable to equity holders of the Company	–	–	126	126
At 31 March 2007	415,430	359	143,019	558,808
Representing:				
2007 final dividend proposed			4,409	
Others			138,610	
At 31 March 2007			143,019	
At 1 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 31 March 2006	415,430	359	142,893	558,682
Representing:				
2006 final dividend proposed			–	
Others			142,893	
At 31 March 2006			142,893	

The entire amounts of retained profits of the Company at 31 March 2007 are distributable.

33. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

	2007 *HK$'000*	2006 *HK$'000*
Operating profit	94,415	27,044
Interest income	(10,071)	(7,603)
Dividend income	(112)	(110)
Loss/(gain) on disposal of property, plant and equipment	75	(4)
Change in fair value of investment properties	(41,000)	(9,000)
Amortisation of prepaid operating lease payment	1,283	1,249
Depreciation	29,882	24,099
Write back on provision of amount due from associates	(4,033)	–
Unrealised gain on financial assets at fair value through profit or loss	(194)	(99)
Realised gain on financial assets at fair value through profit or loss	–	(356)
Operating profit before working capital changes	70,245	35,220
(Increase)/decrease in long-term trade debtors	(5,784)	3,530
Decrease in loans to employees	198	209
(Increase)/decrease in trade debtors, net	(80,928)	10,279
Increase in inventories	(4,683)	(691)
Increase in prepayments, deposits and other receivables	(45,912)	(19,368)
Increase in due from customers on construction contracts	(107,568)	(74,495)
(Increase)/decrease in due from associates	(92)	6,091
Movement in due from/to jointly controlled entity	(23,615)	8,697
Increase in payables to suppliers and subcontractors	21,679	2,641
Increase in accruals, retentions payable and other liabilities	16,639	9,129
Increase/(decrease) in due to customers on construction contracts	7,491	(13,297)
Decrease in due to related parties	–	(529)
Net cash used in operations	(152,330)	(32,584)

In the cash flow statement, proceeds from sale of property, plant and equipment comprises:

	2007	2006
Net book amount *(Note 15)*	358	1,460
(Loss)/gain on disposal of property, plant and equipment	(75)	4
Proceeds from disposal of property, plant and equipment	283	1,464

(b) Analysis of changes in financing during the year

	Share capital HK$'000	Share premium HK$'000	Minority interests HK$'000	Finance lease obligations HK$'000	Long-term bank loans HK$'000	Short-term bank loans HK$'000	Restricted deposits HK$'000	Total HK$'000
At 1 April 2006	88,190	415,430	809	2,140	446,800	283,954	(167,513)	1,069,810
Net cash (outflow)/inflow from financing activities	–	–	–	(2,605)	80,000	8,668	(2,156)	83,907
Share of loss by minority shareholders	–	–	(181)	–	–	–	–	(181)
Inception of finance leases obligation *(Note c)*	–	–	–	3,181	–	–	–	3,181
At 31 March 2007	88,190	415,430	628	2,716	526,800	292,622	(169,669)	1,156,717
At 1 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 *(Note c)*	–	–	–	2,332	–	–	–	2,332
At 31 March 2006	88,190	415,430	809	2,140	446,800	283,954	(167,513)	1,069,810

(c) 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$3,181,000 (2006: HK$2,332,000).

34. BANKING FACILITIES

As at 31 March 2007, the Group had total banking facilities in respect of bank overdrafts, bank loans, bank guarantees and trade financing of approximately HK$1,021 million (2006: HK$951 million), of which HK$913 million (2006: HK$747 million) had been utilised. These banking facilities are secured by the following:

(a) Restricted deposits of approximately HK$170 million (2006: HK$167 million) (Note 23).

(b) Guarantees of approximately HK$1,053 million (2006: HK$1,009 million) given by the Company.

(c) Investment in the guaranteed unit trust fund and securities of approximately HK$5 million (2006: HK$5 million).

(d) Trade receivables of certain construction contracts.

(e) Property, plant and equipment of approximately HK$206 million (2006: HK$205 million), investment property of HK$340 million (2006: HK$299 million) and leasehold land of approximately HK$346 million (2006: HK$318 million) (Notes 15, 16 and 17).

35. 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 31 March 2007, 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) In 2006, 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 expenses 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 31 March 2007.

(c) 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 2006, the Group has elevated the case to arbitration. Based on an external consultant's evaluation after the first hearing of arbitration in June 2007, the likely recoverable amount has been included in "Due from customers on construction contracts".

(d) Guarantees in respect of performance bonds that amount to approximately HK$86 million (2006: HK$80 million) in favour of the Group's customers.

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

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Land and buildings		
– Within one year	2,410	2,763
– One year to five years	7,812	7,643
– More than five years	42,532	42,758
	52,754	53,164
Other equipment		
– Within one year	–	9
	52,754	53,173

36. 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	
	2007	**2006**
	HK$'000	*HK$'000*
– Within one year	12,153	11,844
– One year to five years	11,680	6,494
	23,833	18,338

37. RELATED PARTY BALANCES

(i) Key management compensation

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Salaries and other short-term employee benefits	8,946	8,582
Discretionary bonus	956	956
Pension costs – defined contribution scheme	401	384
	10,303	9,922

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

4. INDEBTEDNESS OF THE ENLARGED GROUP

(1) Borrowings

As at the close of business on 31 March 2008, being the latest practicable date for the purpose of this indebtedness statement, the Enlarged Group had outstanding short-term bank loans of approximately HK$158,800,000. All short-term bank borrowings are secured and repayable within one year.

(2) Security

As at the close of business on 31 March 2008, being the latest practicable date for the purpose of this indebtedness statement, the Enlarged Group's borrowings were secured by:

(a) bank deposits of HK$346,215,000;

(b) two investment funds with total fair market value as at 31 March 2008 of approximately HK$14,940,000; and

(c) corporate guarantees provided by the Company.

(3) Contingent liabilities

(a) In the normal course of its business, the Enlarged Group is subject to various claims under its construction contracts. At 31 March 2008, the Enlarged Group had various liquidated damages claims on certain contracts for which the Enlarged 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 Enlarged Group.

(b) In 2006, 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 expenses 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 31 March 2008.

(c) In 2007, the Group received a statement of claims for an aggregate amount of approximately HK$23.9 million for uncertified workdone in connection with contract works from a subcontractor. The Group will defend vigorously against the claim and a counter claim of approximately HK$25 million has been submitted. Based on legal advice, the Directors are of the opinion that the Group has valid defences against the claim and no provision was made as at 31 March 2008.

5. DISCLAIMER

Saved as aforesaid and apart from intra-group liabilities, the Enlarged Group did not, at the close of business on 31 March 2008, have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans, or other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits or any guarantees or other material contingent liabilities.

6. SUBSEQUENT CHANGE OF INDEBTEDNESS

The Directors confirmed that there has been no material change in the indebtedness, commitments and contingent liabilities of the Enlarged Group since 31 March 2008.

7. WORKING CAPITAL

Taking into account the expected completion of the Acquisition on 30 May 2008 and the financial resources available to the Enlarged Group, including the internally generated funds and the available banking facilities, the directors of the Company are of the opinion that the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular.

8. MANAGEMENT DISCUSSION AND ANALYSIS

(1) For the six months period ended 30 September 2007

Results and operation

The turnover for the six months ended 30 September 2007 has decreased by 10.8% to HK$810,804,000 when compared with the turnover of HK$909,004,000 for the same period last year. The Group recorded a gross loss of HK$19,311,000 for the period (30 September 2006: gross profit of HK$59,181,000). The operating loss for the period is HK$40,047,000 (30 September 2006: operating profit of HK$11,248,000) as a result of provision made for the uncertainty of the recoverability for certain cost incurred for the acceleration of progress and variation works for projects undertook during the period. The Group suffered a loss for the period HK$75,663,000 (30 September 2006: HK$9,433,000). The loss is a combined result of the above mentioned reason, high interest costs, the appreciation of Renminbi and the increase in price level of materials, subcontractors and labours. Subsequent to 30 September 2007, the Group accepted an offer to purchase 33 Sharp Street East. Since this is a very substantial disposal, the conclusion of the sale is subject to shareholders approval in the forthcoming Special General Meeting. The sales proceed for the disposal of hotel and investment properties is HK$1,580,000,000 and will result in a net gain of approximately HK$670,000,000 to be realised in the full year accounts of the Group.

The investment properties of the Group has been performing well, all units for lease were fully let as of 30 September 2007 and generated a rental income of approximately HK$6,330,000 during the six months ended 30 September 2007. The six months operation of hotel generated a turnover of approximately HK$43,056,000, represents a growth 16.4% compared to the same period last year.

As at the date of this report the total contract sum of the Group's construction contracts in hand excluding joint venture contract is approximately HK$4,141,000,000. Five contracts with total contract sum of approximately HK$2,180,000,000 were secured during the period including two design and build contracts, one construction contract and two renovation and maintenance contracts with respective contract sum of approximately HK$1,468,000,000, HK$551,000,000 and HK$161,000,000. A joint venture contract of design and construction of the Prince of Wales Hospital-Extension Block at Shatin was awarded during the period with contract value HK$1,654,000,000. Two contracts with total contract sum of HK$1,383,000,000 were completed during the period.

Financial Position

At 30 September 2007, the Group's total cash in hand was HK$206 million (31 March 2007: HK$213 million) while total bank borrowings increased from HK$890 million in 31 March 2007 to HK$915 million. The increase in bank borrowings was due to the additional working capital requirement for construction contracts in hand. If the HK$437 million (31 March 2007: HK$427 million) long-term loan secured by the Group's hotel and investment properties is excluded, the Group has a net debt of HK$272 million (31 March 2007: HK$250 million) representing a net debt to equity ratio of 34.6% (31 March 2007: 28.8%). The current ratio (total current assets: total current liabilities) has decreased from 1.6 to 1.2 as compared to 31 March 2007. Due to the decreased equity as a result of the loss suffered during the period, the Group has breached certain of the loan covenants imposed by banks in respect of certain bank loans outstanding as at 30 September 2007. In accordance with the relevant loan agreements, the banks have the right to withdraw the facilities. However, waiver applications will be submitted to the banks for waivers of the above breaches. Based on the long-term relationship and good track record with the banks, the management is confident that waivers can be obtained and there will not be any adverse effect to the Group's liquidity. Subject to the approval of the shareholders of the Company in the forthcoming Special General Meeting, the disposal of hotel and investment properties will be significantly improved the Group's liquidity and the above breaches will be ratified with a comfortable margin.

The short-term and long-term bank borrowings are secured by the Group's investment properties, investments in unit trust and certain time deposits.

The Group continuously monitors its foreign currency positions and cost of raw materials. As at 30 September 2007, the Group has a forward contract with bank to hedge between Renminbi and US Dollars and an aluminium forward contract for hedging the price of aluminium.

Significant investments and material acquisitions and disposals

As at 30 September 2007, there was no significant investments held by the Group except the property located at 33 Sharp Street East. As at the Latest Practicable Date, the Group did not have any plans for material investments or capital assets for the future financial period. For the period ended 30 September 2007, the Group did not have any material acquisitions and disposals of subsidiaries and associated companies.

On 29 February 2008, the Company made a very substantial disposal of the Group's assets and received the net sale proceeds of approximately HK$1,563,000,000 of which approximately HK$436,800,000 have been used to repay the mortgage loan and the remaining balance have been used as the general working capital of the Group and for future investment and expansion of the Group's business. For details regarding the very substantial disposal, please see the Company's circular dated 18 January 2008.

Save as aforesaid, there is no acquisition, disposal or leasing of assets to the Group's members that took place after the latest published audited accounts.

Contingent Liabilities

There was no material change to the Group's contingent liabilities between 30 September 2007 and 31 March 2008. The details of the Group's contingent liabilities as at 31 March 2008 can be referred to pages 75 to 76 of the circular.

Human Resources

As at 30 September 2007, the Group employed approximately 1,000 employees in Hong Kong and Macau and approximately 800 employees in Mainland China.

Employees in Hong Kong and Macau are either paid on a monthly salary basis or daily wages basis. Salaried employees are entitled to benefits according to seniority and position 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 Mainland China are remunerated according to the prevailing market conditions in the location of their employment.

(2) For the year ended 31 March 2007

Results

For the year ended 31 March 2007, the Group recorded a turnover of HK$2,109,311,000 and a profit attributable to equity holders of HK$49,790,000, as compared with a turnover of HK$1,452,208,000 (2005: HK$1,355,583,000) and a profit attributable to equity holders of HK$1,967,000 (2005: HK$47,085,000) recorded last year.

Financial Position

As at 31 March 2005, 2006 and 2007, the Group's total cash in hand were HK$195,313,000, HK$257,696,000 and HK$213,011,000 respectively. While total bank borrowings were HK$575,371,000, HK$732,303,000 and HK$889,827,000 respectively. For the year ended 31 March 2007, interest on loans was calculated at variable rates ranging from 5.3% to 8.5% per annum.

A long-term loan secured by the Group's hotel and investment properties as at 31 March 2005, 2006 and 2007 were HK$349,800,000, HK$446,800,000, HK$426,800,000 respectively. If the long-term loan is excluded, the net debt of the Group as at 31 March 2005, 2006 and 2007 were HK$30,258,000, HK$27,807,000 and HK$250,016,000 respectively representing the respective net debt to equity ratio of 3.7%, 3.4% and 28.8%. The current ratio (total current assets: total current liabilities) of the Group has maintained at 1.6 for the years ended 31 March 2005, 2006 and 2007.

The total bank facilities granted to the Group at 31 March 2005, 2006 and 2007 were approximately HK$758 million, HK$951 million and HK$1,021 million respectively, of which the respective amount approximately HK$593 million, HK$747 million and HK$913 million had been utilised.

The Group continuously monitors its foreign currency positions and costs of materials. For the year ended 31 March 2007, the Group has not hedged for any foreign currencies and price of raw materials.

Review of Operations

Building construction, renovation and maintenance

During the year, the Group completed four contracts with a total contract value of HK$608 million and secured three contracts with total contract sum of HK$675 million giving the total value of contracts in hand as at 31 March 2007 of HK$3,344 million (2006: HK$3,277 million). Subsequent to the year ended and up to 30 June 2007, the Group has further secured four contracts with total value of HK$2,175 million and a joint venture contract with contract sum HK$1,654 million and completed two contracts with total contract sum of HK$1,383 million. The sum of value contracts in hand excluding joint venture contract has therefore increased to HK$4,136 million as of 30 June 2007 from that of the year ended date. The increase in turnover and contracts in hand was the result of the upturn of the construction market in Hong Kong. The results of the construction segment decreased from HK$12,721,000 in 2006 to HK$8,777,000 in 2007, because of upward revision of the costs estimation for some construction projects. However, the effect of increased costs was partially offset by the reversal of amounts due from customers on construction contracts previously written off.

Property investment

The Group's wholly owned investment property located at 33 Sharp Street East Causeway Bay (also known as Express by Holiday Inn Causeway Bay, Hong Kong) made a substantial contribution to the Group's results. The retail units are fully let during the year and the average occupancy rate of the Hotel is better than the market average in Hong Kong. Due to the improvement in the property market, especially retail properties, the Group recorded a gain in fair value of the retail portion of HK$41,000,000.

Other Operations

The Group's other business comprises information technology services provision, precast building components manufacturing and trading, plumbing works, building materials trading and the newly set up curtain wall and steel works contracting division. These businesses account for only about 2% of the Group's total external sales and therefore did not have a significant contribution to the Group's result. However they do form integral parts of the Group's operation for the upholding of the quality of the Group's services and products.

Major Customers and Suppliers

The percentages of purchases and sales for the year ended 31 March 2007 attributable to the Group's major suppliers and customers are as follows:

Purchases

– the largest supplier	12%
– five largest suppliers	27%

Sales

– the largest customer	41%
– five largest customers	93%

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.

Significant investments and material acquisitions and disposals

As at 31 March 2007, there was no significant investments held by the Group except the property located at 33 Sharp Street East. The Group did not have any plans for material investments or capital assets for the future financial period. For the year ended 31 March 2007, the Group did not have any material acquisitions and disposals of subsidiaries and associated companies.

Contingent Liabilities

The details of the Group's contingent liabilities as at 31 March 2007 can be referred to page 73 of the circular.

Human Resources

At 31 March 2007, the Group employed approximately 1,000 employees in Hong Kong and Macau and approximately 1,000 employees in Mainland China. The staff costs of the Group (excluding Directors' emolument) amounted to approximately HK$228 million.

Employees in Hong Kong and Macau 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 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 2006/2007" organised by the Hong Kong Council of Social Service.

9. OUTLOOK

The period under review is a difficult period for the Group. However, signs of recovery emerged in the third quarter of the year. This is evidenced by the increased value of contract in hand of the Group. Measures have been taken to enhance the Group's operation, budgetary and internal control systems to prevent further cost overruns.

To remain competitive in tendering for public contracts, the Group has been integrating vertically, the expanded scope should result in better control over costs, quality and design hence strengthen tender competitiveness. The Group is considering expanding to overseas market such as Singapore and the Middle East to capture the opportunities in these upcoming construction markets.

With the significant cash in hand after the sale proceed from the sale of 33 Sharp Street East is received, the Group will actively look for investment opportunities in the region with an aim to improve return for shareholders.

10. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, after making all reasonable enquiry and the review of the interim report of the Group for the six months period ended 30 September 2007, the Directors are not aware of any material adverse change in the financial or trading position or operation of the Group since 31 March 2007, the date to which the latest published audited consolidated accounts of the Group were made up.

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the independent reporting accountants of the Company, KPMG, Certified Public Accountants, Hong Kong. As described under "Documents available for inspection" in Appendix V to this circular, a copy of the accountants' report is available for inspection.

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

30 May 2008

The Directors
Yau Lee Holdings Limited

Dear Sirs,

INTRODUCTION

We set out below our audit report on the financial information relating to Ryoden Engineering Company Limited ("REC") and its subsidiaries as indicated below (hereinafter collectively referred to as the "REC Group"), including the consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the REC Group for each of the years ended 31 December 2007, 2006 and 2005 (the "relevant period") and the consolidated balance sheets of the REC Group and balance sheets of REC as at 31 December 2007, 2006 and 2005, and a summary of significant accounting policies and the explanatory notes thereto (the "Financial Information"), for inclusion in the circular of Yau Lee Holdings Limited (the "Company") dated 30 May 2008 (the "Circular") in connection with the proposed acquisition of the 100% equity interest in REC by the Company (the "Acquisition").

REC was incorporated in Hong Kong as a limited liability company under the Hong Kong Companies Ordinance on 17 May 1988. The principal activities of REC are the provision of electrical, mechanical, ventilation and air conditioning, fire, plumbing and environmental engineering services.

As at the date of this report, the particulars of REC's subsidiaries, of which all are private limited liability companies, are as follows:

Name of company	Place and date of incorporation/ establishment and place of operation	Issued and fully paid up/ registered capital	Percentage of equity attributable to REC Direct	Percentage of equity attributable to REC Indirect	Principal activities
Ryoden (China) Company Limited ("RCC")	Hong Kong, 17 May 1988	13,800,000 ordinary shares of $1 each	100%	–	Electrical and mechanical engineering services and investment holding
Ryoden Engineering Contracting Company Limited ("RCL")	Hong Kong, 22 November 1994	2,000,000 ordinary shares of $1 each	100%	–	Electrical and mechanical engineering services
Steerers Engineering Limited ("SEL")	Hong Kong, 12 August 1983	2 ordinary shares of $10 each	100%	–	Engineering services
Tin Sing Chemical Engineers Limited ("TSC")	Hong Kong, 2 December 1980	10,000 ordinary shares of $100 each	100%	–	Water treatment services
Guangdong Yuean Ryoden Mechanical and Electrical Engineering Company Limited ("GDJV") *(note)* ("廣東粵安菱電機電工程有限公司")	The People's Republic of China ("PRC"), 9 April 1994	US$380,000	–	60%	Engineering services
Ryoden Mechanical & Electrical Engineering (Shanghai) Company Limited ("RCS") *(note)* ("菱電機電工程(上海)有限公司")	PRC, 14 November 2003	US$6,200,000	–	100%	Engineering services

Note: GDJV is sino-foreign equity joint venture company established pursuant to the laws of PRC on sino-foreign equity joint ventures.

RCS is a wholly-foreign owned enterprise.

The statutory financial statements of REC, RCC, RCL, TSC and SEL for the relevant period were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs') and were audited by KPMG. The statutory financial statements of GDJV and RCS for the relevant period were prepared in accordance with the relevant accounting rules and regulations applicable in PRC and were audited by KPMG Huazhen.

The statutory financial statements of RCC for the year ended 31 December 2007 were qualified in respect of a material uncertainty that cast significant doubt about RCC's ability to continue as a going concern. Nevertheless, the results of RCC have been consolidated in the Financial Information for the relevant period presented in this report in accordance with the basis set out in note 1(b) in Section B. We have satisfied ourselves that there is no material financial impact arising from the above audit qualification on the Financial Information.

The directors of REC (the "Directors") have prepared the consolidated financial statements of REC Group for the relevant period in accordance with HKFRSs ("the Underlying Financial Statements"). We have audited the Underlying Financial Statements for each of the years ended 31 December 2007, 2006 and 2005 in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The Financial Information has been prepared based on the Underlying Financial Statements with no adjustment made thereon.

No financial statements of the REC Group have been prepared subsequent to 31 December 2007.

BASIS OF PREPARATION

The Financial Information has been prepared by the Directors based on the audited financial statements for each of the years ended 31 December 2007, 2006 and 2005, on the basis set out in note 1 (b) in Section B, after making adjustments as are appropriate. Adjustments have been made, for the purpose of this report, to comply with the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The Directors are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with HKFRSs. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

It is our responsibility to express an independent opinion, based on our audit, on the Financial Information.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the Financial Information of the relevant period in accordance with HKSAs and have also carried out such procedures as we considered necessary in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement. In addition, we have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by HKICPA.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the Financial Information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the Financial Information.

We have not audited any financial statements of the companies comprising the REC Group in respect of any period subsequent to 31 December 2007.

OPINION

In our opinion, for the purpose of this report and on the basis of presentation set out in note 1 (b) in Section B below, all adjustments considered necessary have been made and the Financial Information gives a true and fair view of the REC Group's consolidated results, consolidated statements of changes in equity and consolidated cash flows for the relevant period and of the state of affairs of the REC Group and of REC's state of affairs as at 31 December 2007, 2006 and 2005.

A Financial Information

Consolidated income statement

(Expressed in Hong Kong dollars)

		Years ended 31 December		
		2007	**2006**	**2005**
	Note	*HK$*	*HK$*	*HK$*
Turnover	*3*	891,547,965	1,266,870,349	920,911,583
Direct costs		(820,585,549)	(1,202,842,350)	(904,500,951)
Gross profit		70,962,416	64,027,999	16,410,632
Other revenue	*4*	6,790,250	5,266,851	3,925,241
Other net (expenses)/income	*4*	(1,817,569)	(275,104)	335,733
Selling and distribution costs		(384,436)	(462,993)	(341,482)
Administrative expenses		(57,921,656)	(49,106,151)	(61,708,001)
Profit/(loss) from operations		17,629,005	19,450,602	(41,377,877)
Finance costs	*5(a)*	(1,962,700)	(5,642,233)	(5,176,733)
Share of profits less losses of an associate		381,521	817,493	457,669
Share of profits less losses of jointly controlled entities		29,985	62,454	7,538,266
Profit/(loss) before taxation	*5*	16,077,811	14,688,316	(38,558,675)
Income tax	*6(a)*	(2,861,153)	(2,085,995)	(973,775)
Profit/(loss) for the year		13,216,658	12,602,321	(39,532,450)
Attributable to:				
Equity shareholders of REC	*9*	13,588,898	12,709,601	(38,933,048)
Minority interests	*25(a)*	(372,240)	(107,280)	(599,402)
Profit/(loss) for the year	*25(a)*	13,216,658	12,602,321	(39,532,450)

The accompanying notes form part of the Financial Information.

Consolidated balance sheet
(Expressed in Hong Kong dollars)

		As at 31 December		
		2007	**2006**	**2005**
	Note	*HK$*	*HK$*	*HK$*
Non-current assets				
Fixed assets	*11(a)*	2,752,086	2,111,444	2,032,963
Intangible assets	*12*	59,403	–	–
Interest in an associate	*14*	2,218,667	2,597,146	2,159,653
Interest in jointly controlled entities	*15*	547,197	517,212	528,331
Deferred tax assets	*21(b)*	679,523	679,523	679,523
		6,256,876	5,905,325	5,400,470
Current assets				
Inventories	*16*	1,074,761	1,726,362	1,556,798
Loans receivable	*17*	–	784,630	1,274,630
Trade and other receivables	*18*	219,864,702	323,487,568	345,574,604
Net contract work in progress	*19(a)*	37,777,188	54,209,643	110,439,876
Tax refundable	*21(a)*	14,539	37,343	31,789
Cash and cash equivalents	*20*	177,166,020	215,551,072	199,598,377
		435,897,210	595,796,618	658,476,074
Current liabilities				
Trade and other payables	*22*	243,469,326	224,736,069	294,339,024
Contract payments received in advance and receivable	*19(a)*	177,109,405	162,289,901	89,434,702
Current taxation	*21(a)*	2,896,816	3,687,345	3,502,699
		423,475,547	390,713,315	387,276,425
Net current assets		12,421,663	205,083,303	271,199,649
Total assets less current liabilities		18,678,539	210,988,628	276,600,119
Non-current liabilities				
Loans from immediate holding company	*24*	–	208,500,000	288,293,485
Net assets/(liabilities)		18,678,539	2,488,628	(11,693,366)

		As at 31 December		
		2007	**2006**	**2005**
	Note	*HK$*	*HK$*	*HK$*
Capital and reserves	*25(a)*			
Share capital	*25(c)*	50,000,000	50,000,000	50,000,000
Reserves		(31,321,461)	(47,899,517)	(62,174,478)
Total equity/(deficit) attributable to equity shareholders of REC		18,678,539	2,100,483	(12,174,478)
Minority interests	*25(a)*	–	388,145	481,112
Total equity/(shareholders' deficit)		18,678,539	2,488,628	(11,693,366)

The accompanying notes form part of the Financial Information.

Balance sheet
(Expressed in Hong Kong dollars)

	Note	2007 HK$	2006 HK$	2005 HK$
		As at 31 December		
Non-current assets				
Fixed assets	11(b)	2,287,995	1,704,556	1,813,079
Intangible assets	12	59,403	–	–
Investments in subsidiaries	13	6,104,441	6,104,441	6,104,441
Interest in an associate	14	760,000	760,000	760,000
		9,211,839	8,568,997	8,677,520
Current assets				
Inventories	16	630,792	1,335,244	1,097,432
Trade and other receivables	18	182,468,285	267,828,557	226,589,455
Net contract work in progress	19(b)	23,452,695	35,545,188	95,106,656
Amounts due from subsidiaries	13	15,242,470	48,144,458	4,683,087
Tax refundable	21(a)	–	–	31,789
Cash and cash equivalents	20	120,457,331	157,954,246	121,269,854
		342,251,573	510,807,693	448,778,273
Current liabilities				
Trade and other payables	22	96,365,135	155,356,489	203,448,710
Contract payments received in advance and receivable	19(b)	156,617,214	147,664,481	59,801,160
Amount due to a subsidiary	13	1,554,242	3,541,265	242,748
Current taxation	21(a)	2,757,000	3,544,000	353,000
		257,293,591	310,106,235	263,845,618
Net current assets		84,957,982	200,701,458	184,932,655
Total assets less current liabilities		94,169,821	209,270,455	193,610,175
Non-current liabilities				
Loans from immediate holding company	24	–	130,000,000	130,000,000
Net assets		94,169,821	79,270,455	63,610,175
Capital and reserve				
Share capital	25(c)	50,000,000	50,000,000	50,000,000
Retained profits	25(b)	44,169,821	29,270,455	13,610,175
Total equity		94,169,821	79,270,455	63,610,175

The accompanying notes form part of the Financial Information.

Consolidated statement of changes in equity
(Expressed in Hong Kong dollars)

		Years ended 31 December		
		2007	**2006**	**2005**
	Note	*HK$*	*HK$*	*HK$*
Attributable to equity shareholders of REC		2,100,483	(12,174,478)	(3,064,236)
Minority interests		388,145	481,112	1,063,695
Total equity/(shareholders' deficit) at 1 January		2,488,628	(11,693,366)	(2,000,541)
Net income recognised directly in equity				
Exchange difference on translation of overseas subsidiaries	*25(a)*	2,973,253	1,579,673	(160,375)
Net profit/(loss) for the year		13,216,658	12,602,321	(39,532,450)
Total recognised income and expense for the year		16,189,911	14,181,994	(39,692,825)
Attributable to:				
Equity shareholders of REC		16,578,056	14,274,961	(39,110,242)
Minority interests		(388,145)	(92,967)	(582,583)
		16,189,911	14,181,994	(39,692,825)
Movements in equity arising from capital transactions				
Shares issued during the year	*25(c)*	–	–	30,000,000
Total equity/(shareholders' deficit) at 31 December		18,678,539	2,488,628	(11,693,366)
Representing:				
Attributable to equity shareholders of REC		18,678,539	2,100,483	(12,174,478)
Minority interests		–	388,145	481,112
		18,678,539	2,488,628	(11,693,366)

The accompanying notes form part of the Financial Information.

Consolidated cash flow statement
(Expressed in Hong Kong dollars)

		Years ended 31 December		
		2007	**2006**	**2005**
	Note	*HK$*	*HK$*	*HK$*
Operating activities				
Profit/(loss) before taxation		16,077,811	14,688,316	(38,558,675)
Adjustments for:				
– Depreciation	*11(a)*	1,162,219	822,221	877,281
– Finance costs	*5(a)*	1,962,700	5,642,233	5,176,733
– (Gain)/loss on sale of fixed assets	*4*	(39,731)	595	35,791
– Gain on disposal of interest in a jointly controlled entity	*4*	–	–	(2,721)
– Impairment loss on intangible assets	*4*	653,430	–	–
– Interest income	*4*	(5,307,424)	(4,806,224)	(1,474,435)
– Share of profits less losses of an associate		(381,521)	(817,493)	(457,669)
– Share of profits less losses of jointly controlled entities		(29,985)	(62,454)	(7,538,266)
– Foreign exchange loss/(gain)		2,953,078	1,573,931	(163,357)
Operating profit/(loss) before changes in working capital		17,050,577	17,041,125	(42,105,318)
Decrease/(increase) in inventories		651,601	(169,564)	(281,908)
Decrease in loans receivable		784,630	490,000	–
Decrease/(increase) in debtors, deposits and prepayments		44,635,969	62,750,310	(110,947,384)
Decrease in amount due from minority shareholder of a subsidiary		–	169,177	60,167
Decrease in amount due from a related company		–	–	20,600
Decrease/(increase) in amount due from fellow subsidiaries		40,113	(11,048)	344,324
Decrease in net contract work in progress		16,432,455	56,230,233	66,290,921
(Decrease)/increase in trade payables and accruals		(59,348,784)	(68,379,360)	75,494,914
(Decrease)/increase in amounts due to fellow subsidiaries		(537,976)	(5,269,511)	2,893,327
(Decrease)/increase in amount due to ultimate holding company		(34,234)	136,625	63,835
Net change in amount due from/(to) immediate holding company		59,379,652	(37,202,997)	(10,736,575)
Increase in contract payments received in advance and receivable		14,819,504	72,855,199	40,298,950
Cash generated from operations		93,873,507	98,640,189	21,395,853

	Note	2007 HK$	2006 HK$	2005 HK$
		Years ended 31 December		
Interest received		5,307,424	4,806,224	1,327,907
Interest paid		(1,962,700)	(5,642,233)	(5,176,733)
Tax paid				
– Hong Kong profits tax paid		(80,684)	(126,618)	(159,624)
– Overseas tax paid		(3,548,194)	(1,780,285)	(1,357,341)
Net cash generated from operating activities		93,589,353	95,897,277	16,030,062
Investing activities				
Payment for the purchase of fixed assets	*11(a)*	(1,837,573)	(898,840)	(563,271)
Payment for the purchase of intangible assets	*12*	(712,833)	–	–
Proceeds from sale of fixed assets		94,618	3,285	3,801
Proceeds from sale of a jointly controlled entity		–	–	751,736
Net change in balances with jointly controlled entities		(278,617)	(2,600)	506,974
Dividend received from an associate		760,000	380,000	190,000
Dividends received from jointly controlled entities		–	73,573	6,248,201
Net cash (used in)/generated from investing activities		(1,974,405)	(444,582)	7,137,441
Financing activities				
Decrease in net advance due from immediate holding company		–	–	13,000,000
Repayment of loan from immediate holding company		(130,000,000)	(79,500,000)	–
Proceeds from shares issued		–	–	30,000,000
Net cash (used in)/generated from financing activities		(130,000,000)	(79,500,000)	43,000,000
Net (decrease)/increase in cash and cash equivalents		(38,385,052)	15,952,695	66,167,503
Cash and cash equivalents at 1 January		215,551,072	199,598,377	133,430,874
Cash and cash equivalents at 31 December	*20*	177,166,020	215,551,072	199,598,377

The accompanying notes form part of the Financial Information.

B NOTES TO THE FINANCIAL INFORMATION

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. The Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

(b) Basis of preparation and measurement

(i) Basis of preparation

The Financial Information set out in this report comprises REC and its subsidiaries (together referred to as the "REC Group") and the REC Group's interest in an associate and jointly controlled entities.

On 4 July 2003, REC became the holding company of Ryoden (China) Company Limited ("RCC") comprising the group pursuant to a group reorganisation (the "Reorganisation") involving companies under common control. The Financial Information has been prepared using the basis of merger accounting under Accounting Guideline 5 "Merger accounting for common control combinations" issued by the HKICPA. Accordingly, the Financial Information has been prepared as if REC has been the holding company of RCC since RCC became a controlled subsidiary of the ultimate holding company, rather than from the date on which the Reorganisation was completed.

(ii) Basis of measurement

The measurement basis used in the preparation of the Financial Information is the historical cost basis.

The preparation of the Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the Financial Information and estimates with a significant risk of material adjustment in the next year are discussed in note 32.

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the REC Group. Control exists when the REC Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the Financial Information from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by REC, whether directly or indirectly through subsidiaries, and in respect of which the REC Group has not agreed any additional terms with the holders of those interests which would result in the REC Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of REC. Minority interests in the results of the REC Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of REC.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the REC Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the REC Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the REC Group has been recovered.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with note 1(k) depending on the nature of the liability.

In REC's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(g)).

(ii) Business combinations involving entities under common control

The Financial Information incorporates the financial statements of the combining entities or businesses as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling parties.

The net assets of the combining entities or businesses are recognised at the carrying values prior to the common control combination.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when combining entities or businesses first came under the control of the controlling parties, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated balance sheet are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under control of the controlling parties, whichever is shorter.

(d) Associates and jointly controlled entities

An associate is an entity in which the REC Group or REC has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the REC Group or REC and other parties, where the contractual arrangement establishes that the REC Group or REC and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the Financial Information under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the REC Group's share of the associate's or the jointly controlled entity's net assets. The Financial Information includes the REC Group's share of the post-acquisition, post-tax results of the associates and jointly controlled entities for the year.

When the REC Group's share of losses exceeds its interest in the associate or the jointly controlled entity, the REC Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the REC Group has incurred legal or constructive obligations or made payments on behalf of the associate or the jointly controlled entity. For this purpose, the REC Group's interest in the associate or the jointly controlled entity is the carrying amount of the investment under the equity method together with the REC Group's long-term interests that in substance form part of the REC Group's net investment in the associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the REC Group and its associate and jointly controlled entity are eliminated to the extent of the REC Group's interest in the associate or jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the REC's balance sheet, its investments in an associate and a jointly controlled entity are stated at cost less impairment losses (see note 1(g)).

(e) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses (see note 1(g)).

Depreciation is calculated to write off the cost of the fixed assets on a straight line basis at 20% per annum, after taking into account their estimated residual values.

Both the useful life of an asset and its residual value, if any, are reviewed annually.

Major costs incurred in restoring fixed assets to their normal working condition are charged to profit or loss. Improvements are capitalised and depreciated over their expected useful lives.

Gains or losses arising from the retirement or disposal of an item of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(f) Intangible assets

Intangible assets that are acquired by the REC Group or REC are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(g)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

SAP license and rights	5 years

Both the period and method of amortisation are reviewed annually.

(g) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

– fixed assets;

– intangible assets; and

– investments in subsidiaries, associate and jointly controlled entities.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(h) Construction contracts

The accounting policy for contract revenue is set out in note 1(o)(i). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the balance sheet as the "Net contract work in progress" (as an asset) or the "Contract payments received in advance and receivable" (as a liability), as applicable. Progress billings not yet paid by the customer are included in the balance sheet under "Trade and other receivables".

(i) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and 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 the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

Impairment losses for bad and doubtful debts are recognised when there is objective evidence of impairment and are measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the asset's original effective interest rate where the effect of discounting is material. Objective evidence of impairment includes observable data that comes to the attention of the REC Group about events that have an impact on the asset's estimated future cash flows such as significant financial difficulty of the debtor.

Impairment losses for trade debtors included within trade and other receivables whose recovery is considered doubtful but not remote are recorded using an allowance account. When the REC Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(k) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(m) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(n) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

All deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if REC or the REC Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, REC or the REC Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(o) Revenue recognition

Provided it is probable that the economic benefits will flow to the REC Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Contract revenue

When the outcome of a construction contract can be estimated reliably, contract revenue from a fixed price contract, including sales of materials supplied, is recognised over the course of the relevant contract on the basis set out in note 1(h). Stage of completion is determined by the issuance of final accounts or relevant completion certificates by qualified architects and/or engineers.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

(ii) Repair and maintenance fees

Repair fees are recognised as revenue when the services are rendered.

Maintenance fees are recognised as revenue on a time apportioned basis over the terms of the contracts.

(iii) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(v) Service income

Service income is recognised when the services are rendered.

(p) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(q) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to profit or loss on a straight line basis over the lease periods.

(r) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred.

(s) Related parties

For the purposes of the Financial Information, a party is considered to be related to the REC Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the REC Group or exercise significant influence over the REC Group in making financial and operating policy decisions, or has joint control over the REC Group;

(ii) the REC Group and the party are subject to common control;

(iii) the party is an associate of the REC Group or a joint venture in which the REC Group is a venturer;

(iv) the party is a member of key management personnel of the REC Group or the REC Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the REC Group or of any entity that is a related party of the REC Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(t) Segment reporting

A segment is a distinguishable component of the REC Group that is engaged either in providing products (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment information is presented in respect the REC Group's geographical segments. The primary format, business segment, is based on the REC Group's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Unallocated items comprise mainly financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one period.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective during the relevant period. However, only the following changes which were first applicable for the accounting period commencing 1 January 2007 impacted the Financial Information.

As a result of the adoption of HKFRS 7, *Financial instruments: Disclosures* and the amendment to HKAS 1, *Presentation of financial statements: Capital disclosures*, the Financial Information includes certain additional disclosures which are explained as follows.

As a result of the adoption of HKFRS 7, the Financial Information includes expanded disclosure about the significance of the REC Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, *Financial instruments: Disclosure and presentation*. These disclosures are provided throughout the Financial Information, in particular in note 26.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the REC Group's and the REC's objectives, policies and processes for managing capital. These new disclosures are set out in note 25(e).

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the Financial Information.

The REC Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 33).

3 TURNOVER

The principal activities of the REC Group are the provision of electrical, mechanical, ventilation and air conditioning, fire, plumbing and environmental engineering services.

	Years ended 31 December		
	2007	**2006**	**2005**
	HK$	*HK$*	*HK$*
Engineering contracts revenue	857,584,182	1,237,457,485	891,374,101
Repair and maintenance fees	29,675,023	26,840,060	25,880,165
Sale of goods	4,288,760	2,572,804	3,657,317
	891,547,965	1,266,870,349	920,911,583

4 OTHER REVENUE AND NET (EXPENSES)/INCOME

	Years ended 31 December		
	2007	**2006**	**2005**
	HK$	*HK$*	*HK$*
Other revenue			
Interest income from banks	5,307,424	4,806,224	1,474,435
Service fee income	–	–	2,413,484
Sundry income	1,482,826	460,627	37,322
	6,790,250	5,266,851	3,925,241
Other net (expenses)/income			
Gain/(loss) on sale of fixed assets	39,731	(595)	(35,791)
Gain on disposal of interest in a jointly controlled entity	–	–	2,721
Impairment losses on intangible assets	(653,430)	–	–
Net foreign exchange (loss)/gain	(1,215,380)	(290,691)	331,060
Others	11,510	16,182	37,743
	(1,817,569)	(275,104)	335,733

5 PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after charging/(crediting):

	Years ended 31 December 2007 *HK$*	2006 *HK$*	2005 *HK$*
(a) Finance costs:			
Interest on bank advances and other borrowings wholly repayable within five years	26,044	89,151	370,249
Interest on amount due to immediate holding company	1,936,656	5,553,082	4,806,484
	1,962,700	5,642,233	5,176,733
(b) Staff costs:			
Contributions to defined contribution retirement plan	6,492,179	6,530,377	6,202,864
Forfeiture of contributions	(63,551)	(211,006)	(769,676)
Salaries, wages and other benefits	104,766,991	104,280,027	91,264,880
	111,195,619	110,599,398	96,698,068

In accordance with the accounting policy set out in note 1(h), staff costs of $72,991,669, $74,981,251 and $60,128,187 for the years ended 31 December 2007, 2006 and 2005 were allocated to project costs.

	2007 *HK$*	2006 *HK$*	2005 *HK$*
(c) Other items:			
Depreciation	1,162,219	822,221	877,281
Impairment losses/(write-back of impairment losses):			
– trade debtors	1,451,045	272,003	6,838,241
– other receivables	82,507	59,894	1,424,400
– loan receivable from a related company	–	(436,495)	–
– intangible assets	653,430	–	–
Auditors' remuneration			
– provision for current year	1,170,654	1,058,500	917,419
– under-provision in prior years	19,089	13,756	45,209
Operating lease charges: minimum lease payments	2,693,988	2,114,601	1,976,830
Cost of inventories sold *(note 16b))*	3,266,744	2,106,460	2,534,802
Bad debts written-off/(recovery)	208,817	129,780	(371,280)
Share of taxation of an associate	61,705	160,059	105,086
Share of taxation of jointly controlled entities	–	(222)	1,463,442

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	Years ended 31 December		
	2007	**2006**	**2005**
	HK$	*HK$*	*HK$*
Current tax – Hong Kong Profit Tax			
Provision for the year	163,000	120,100	152,000
(Over)/under-provision in respect of prior years	(7,139)	16,219	(188)
	155,861	136,319	151,812
Current tax – Overseas			
Provision for the year	2,757,000	3,562,623	1,432,858
Over-provision in respect of prior years	(51,708)	(1,612,947)	(1,469,438)
	2,705,292	1,949,676	(36,580)
Deferred tax			
Reversal of deferred tax assets recognised in previous years	–	–	858,543
	2,861,153	2,085,995	973,775

The provision for Hong Kong Profits Tax for the relevant period was calculated at 17.5% of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant country.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new CIT Law") which took effect on 1 January 2008. Under the new CIT Law and in accordance with implementation rules and notices issued by the State council and the State Administration of Taxation, the income tax rate of the PRC subsidiaries will be adjusted to the standard rate of 25%. The enactment of the new CIT Law is not expected to have any material financial effect on the amounts accrued in the consolidated balance sheet in respect of current tax payable.

In addition, under the new CIT Law, dividends paid by a foreign-invested enterprise to its foreign investors are subject to withholding tax. Under the grandfathering treatments, the undistributed profits of the PRC subsidiaries as at 31 December 2007 are exempted from withholding tax. The REC Group will be liable to withholding tax at a rate of 5% on dividends distributed from the PRC subsidiaries in respect of its future profits generated after 31 December 2007.

(b) Reconciliation between tax expense and accounting profit/(loss) at applicable tax rates:

	Years ended 31 December		
	2007	**2006**	**2005**
	HK$	*HK$*	*HK$*
Profit/(loss) before taxation	16,077,811	14,688,316	(38,558,675)
Notional tax on profit/(loss) before taxation, calculated at 17.5%	2,813,617	2,570,455	(6,747,768)
Tax effect of non-deductible expenses	293,623	55,590	43,045
Tax effect of non-taxable income	(824,342)	(989,155)	(1,575,721)
Tax effect of unused tax losses and other temporary differences not recognised	1,701,764	4,403,408	9,346,540
Tax effect of utilisation of tax losses not recognised in prior years	–	–	(35,288)
Over-provision in respect of prior years	(58,847)	(1,596,728)	(1,469,626)
Effect of different tax rates in other locations	(1,069,980)	(2,364,171)	1,410,006
Others	5,318	6,596	2,587
Actual tax expense	2,861,153	2,085,995	973,775

7 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

Year ended 31 December 2007

	Directors' fees	Basic salaries, allowances and other benefits in kind	Contributions to retirement benefit scheme	Bonuses	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Name of director					
Mr Takahiro Nishikawa	–	–	–	–	–
Mr Chikao Usami	–	–	–	–	–
Mr Howard Tat-hong Lok (appointed on 16 March 2007)	–	1,052,460	91,746	55,308	1,199,514
Mr Wai-ming Yeung (appointed on 16 March 2007)	–	863,730	72,873	43,995	980,598
Mr Hiroshi Ishii (appointed on 1 April 2007)	–	–	–	–	–
Mr Yoshifumi Beppu (appointed on 1 May 2007)	–	–	–	–	–
Mr Izumi Matsumoto (appointed on 16 June 2007)	–	–	–	–	–
Mr David Hsu (resigned on 1 April 2007)	–	–	–	–	–
Mr Chiu-kwan Tsang (resigned on 1 April 2007)	–	983,337	35,628	150,000	1,168,965
Mr Tsunetaka Shingai (resigned on 1 May 2007)	–	–	–	–	–
Mr Hideto Baba (resigned on 16 June 2007)	–	–	–	–	–
Ms Maria Wai-chu Tam (resigned on 1 September 2007)	–	–	–	–	–
Total	–	2,899,527	200,247	249,303	3,349,077

Year ended 31 December 2006

	Directors' fees *HK$*	Basic salaries, allowances and other benefits in kind *HK$*	Contributions to retirement benefit scheme *HK$*	Bonuses *HK$*	Total *HK$*
Name of director					
Mr Chiu-kwan Tsang	–	1,913,520	142,512	150,000	2,206,032
Mr Hideto Baba	–	–	–	–	–
Mr David Hsu	–	–	–	–	–
Ms Maria Wai-chu Tam	–	–	–	–	–
Mr Takahiro Nishikawa (appointed on 1 April 2006)	–	–	–	–	–
Mr Chikao Usami (appointed on 1 April 2006)	–	–	–	–	–
Mr Tsunetaka Shingai (appointed on 1 November 2006)	–	–	–	–	–
Mr Yasuhiko Kase (resigned on 1 April 2006)	–	–	–	–	–
Total	–	1,913,520	142,512	150,000	2,206,032

Year ended 31 December 2005

	Directors' fees *HK$*	Basic salaries, allowances and other benefits in kind *HK$*	Contributions to retirement benefit scheme *HK$*	Bonuses *HK$*	Total *HK$*
Name of director					
Mr Yasuhiko Kase	–	–	–	–	–
Mr Chiu-kwan Tsang	–	1,913,520	142,512	150,000	2,206,032
Mr David Hsu	–	–	–	–	–
Mr Hideto Baba	–	–	–	–	–
Ms Maria Wai-chu Tam	–	–	–	–	–
Total	–	1,913,520	142,512	150,000	2,206,032

During the relevant period, no amount was paid or payable by the REC Group to the directors or any of the five highest paid individuals set out in note 8 below as an inducement to join or upon joining the REC Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the relevant period.

8 **INDIVIDUALS WITH HIGHEST EMOLUMENTS**

Three, one and one of the five individuals with highest emoluments are also directors of REC for the years ended 31 December 2007, 2006 and 2005 respectively, whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other individuals are as follows:

	Years ended 31 December		
	2007	**2006**	**2005**
	HK$	*HK$*	*HK$*
Salaries and other emoluments	1,788,628	4,122,646	3,984,120
Discretionary bonuses	204,724	277,700	265,315
Retirement scheme contributions	151,605	353,482	339,972
	2,144,957	4,753,828	4,589,407

The emoluments of the other individuals with the highest emoluments are within the following bands:

	Years ended 31 December		
	2007	**2006**	**2005**
	Number of individuals	Number of Individuals	Number of Individuals
$Nil – $1,000,000	–	3	2
$1,000,001 – $1,500,000	2	1	2
	2	4	4

9 **PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF REC**

The consolidated profit/(loss) attributable to equity shareholders of REC for the years ended 31 December 2007, 2006 and 2005 includes profit/(loss) of $14,139,366, $14,407,527 and $(11,227,914), which have been dealt with in the financial statements of REC.

Reconciliation of the above amount to REC's results:

	Years ended 31 December		
	2007	**2006**	**2005**
	HK$	*HK$*	*HK$*
Amount of consolidated profit/(loss) attributable to equity shareholders dealt with in REC's financial statements	14,139,366	14,407,527	(11,227,914)
Final dividends from subsidiaries, associate and a jointly controlled entity attributable to the profits of the previous financial year, approved and paid during the year	760,000	1,252,753	4,991,877
REC's profit/(loss) for the year *(note 25(b))*	14,899,366	15,660,280	(6,236,037)

10 SEGMENT REPORTING

Business segment

During the relevant period, the REC Group operated in a single business segment: the provision of engineering services. Accordingly, no business segmental analysis is presented.

Geographical segments

In presenting information on the basis of geographical segment, segment revenue is based on geographical location of the customers. Segment assets and capital expenditure are based on the geographical location of the assets.

	Years ended 31 December		
	2007	**2006**	**2005**
	HK$	*HK$*	*HK$*
Turnover from external customers			
– Hong Kong	456,424,917	559,113,087	719,551,881
– Macau	372,941,857	686,974,801	154,488,738
– Other parts of the PRC (excluding Hong Kong and Macau)	62,181,191	20,782,461	46,870,964
	891,547,965	1,266,870,349	920,911,583

	As at 31 December		
	2007	**2006**	**2005**
	HK$	*HK$*	*HK$*
Segment assets			
– Hong Kong	169,488,445	306,510,142	416,212,535
– Macau	208,768,731	221,429,499	100,336,890
– Other parts of the PRC (excluding Hong Kong and Macau)	63,202,848	73,045,436	146,615,807

	Years ended 31 December		
	2007	**2006**	**2005**
	HK$	*HK$*	*HK$*
Capital expenditure incurred			
– Hong Kong	2,425,369	614,749	503,579
– Macau	7,167	80,045	–
– Other parts of the PRC (excluding Hong Kong and Macau)	117,870	204,046	59,692
	2,550,406	898,840	563,271

11 FIXED ASSETS

(a) REC Group

	Motor vehicles	Office equipment	Machinery, equipment and tools	Furniture and fixtures	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Cost:					
At 1 January 2005	2,268,007	8,813,503	1,275,072	8,308,934	20,665,516
Additions	40,214	450,997	48,260	23,800	563,271
Disposal	(65,838)	(407,027)	(83,253)	(364,689)	(920,807)
Exchange difference	11,508	8,525	–	829	20,862
At 31 December 2005	2,253,891	8,865,998	1,240,079	7,968,874	20,328,842
At 1 January 2006	2,253,891	8,865,998	1,240,079	7,968,874	20,328,842
Additions	–	620,109	177,886	100,845	898,840
Disposal	(178,354)	(296,474)	(33,446)	(8,533)	(516,807)
Exchange difference	18,618	15,542	–	1,373	35,533
At 31 December 2006	2,094,155	9,205,175	1,384,519	8,062,559	20,746,408
At 1 January 2007	2,094,155	9,205,175	1,384,519	8,062,559	20,746,408
Additions	484,352	1,189,660	114,473	49,088	1,837,573
Disposal	(323,561)	(441,801)	(109,061)	(252,760)	(1,127,183)
Exchange difference	31,804	47,402	–	1,926	81,132
At 31 December 2007	2,286,750	10,000,436	1,389,931	7,860,813	21,537,930
Accumulated depreciation:					
At 1 January 2005	1,727,920	7,310,155	1,086,897	8,156,961	18,281,933
Charge for the year	197,239	552,567	81,188	46,287	877,281
Written back on disposal	(63,246)	(390,159)	(81,922)	(345,888)	(881,215)
Exchange difference	10,358	7,146	–	376	17,880
At 31 December 2005	1,872,271	7,479,709	1,086,163	7,857,736	18,295,879
At 1 January 2006	1,872,271	7,479,709	1,086,163	7,857,736	18,295,879
Charge for the year	107,395	562,388	93,569	58,869	822,221
Written back on disposal	(178,354)	(293,155)	(32,885)	(8,533)	(512,927)
Exchange difference	16,756	12,343	–	692	29,791
At 31 December 2006	1,818,068	7,761,285	1,146,847	7,908,764	18,634,964
At 1 January 2007	1,818,068	7,761,285	1,146,847	7,908,764	18,634,964
Charge for the year	204,265	785,954	109,833	62,167	1,162,219
Written back on disposal	(306,635)	(413,103)	(107,904)	(244,654)	(1,072,296)
Exchange difference	28,623	30,594	–	1,740	60,957
At 31 December 2007	1,744,321	8,164,730	1,148,776	7,728,017	18,785,844
Net book value:					
At 31 December 2005	381,620	1,386,289	153,916	111,138	2,032,963
At 31 December 2006	276,087	1,443,890	237,672	153,795	2,111,444
At 31 December 2007	542,429	1,835,706	241,155	132,796	2,752,086

(b) REC

	Motor vehicles *HK$*	Office equipment *HK$*	Machinery, equipment and tools *HK$*	Furniture and fixtures *HK$*	Total *HK$*
Cost:					
At 1 January 2005	1,739,670	7,911,680	1,003,765	7,812,653	18,467,768
Additions	40,214	391,305	48,260	14,000	493,779
Disposal	(39,914)	(366,456)	(83,253)	(262,860)	(752,483)
At 31 December 2005	1,739,970	7,936,529	968,772	7,563,793	18,209,064
At 1 January 2006	1,739,970	7,936,529	968,772	7,563,793	18,209,064
Additions	–	416,496	165,544	41,372	623,412
Disposal	(178,354)	(254,580)	(18,491)	–	(451,425)
At 31 December 2006	1,561,616	8,098,445	1,115,825	7,605,165	18,381,051
At 1 January 2007	1,561,616	8,098,445	1,115,825	7,605,165	18,381,051
Additions	484,352	1,064,771	66,600	20,724	1,636,447
Disposal	(154,304)	(322,942)	(95,021)	(122,745)	(695,012)
At 31 December 2007	1,891,664	8,840,274	1,087,404	7,503,144	19,322,486
Accumulated depreciation:					
At 1 January 2005	1,252,417	6,529,556	854,095	7,700,870	16,336,938
Charge for the year	197,239	514,536	64,522	30,986	807,283
Written back on disposal	(39,914)	(363,539)	(81,923)	(262,860)	(748,236)
At 31 December 2005	1,409,742	6,680,553	836,694	7,468,996	16,395,985
At 1 January 2006	1,409,742	6,680,553	836,694	7,468,996	16,395,985
Charge for the year	107,395	503,131	82,139	38,940	731,605
Written back on disposal	(178,354)	(254,580)	(18,161)	–	(451,095)
At 31 December 2006	1,338,783	6,929,104	900,672	7,507,936	16,676,495
At 1 January 2007	1,338,783	6,929,104	900,672	7,507,936	16,676,495
Charge for the year	204,265	711,250	87,590	43,490	1,046,595
Written back on disposal	(154,304)	(317,686)	(93,864)	(122,745)	(688,599)
At 31 December 2007	1,388,744	7,322,668	894,398	7,428,681	17,034,491
Net book value:					
At 31 December 2005	330,228	1,255,976	132,078	94,797	1,813,079
At 31 December 2006	222,833	1,169,341	215,153	97,229	1,704,556
At 31 December 2007	502,920	1,517,606	193,006	74,463	2,287,995

12 INTANGIBLE ASSETS

	REC Group and REC
	SAP license and rights
	HK$
Cost:	
At 1 January 2005, 31 December 2005, 1 January 2006, 31 December 2006 and 1 January 2007	–
Additions	712,833
At 31 December 2007	712,833
Accumulated impairment losses:	
At 1 January 2005, 31 December 2005, 1 January 2006, 31 December 2006 and 1 January 2007	–
Impairment loss	653,430
At 31 December 2007	653,430
Net book value:	
At 31 December 2007	59,403
At 31 December 2006	–
At 31 December 2005	–

13 INVESTMENTS IN SUBSIDIARIES

	REC As at 31 December		
	2007	**2006**	**2005**
	HK$	*HK$*	*HK$*
Unlisted shares, at cost	8,411,396	8,411,396	8,411,396
Less: Impairment loss	(2,306,955)	(2,306,955)	(2,306,955)
	6,104,441	6,104,441	6,104,441

The particulars of subsidiaries are set out under the section headed "Introduction" in this report. Except for an advance to a subsidiary of $13,000,000, $23,000,000 and $Nil as at 31 December 2007, 2006 and 2005, which are unsecured, interest bearing at Hong Kong Inter-bank Offer Rate ("HIBOR") plus 0.5% per annum and have no fixed terms of repayment, other balances due from/to subsidiaries are unsecured, interest free and have no fixed terms of repayment.

14 INTEREST IN AN ASSOCIATE

	REC Group As at 31 December			REC As at 31 December		
	2007	2006	2005	2007	2006	2005
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Unlisted shares, at cost	–	–	–	760,000	760,000	760,000
Share of net assets	2,218,667	2,597,146	2,159,653	–	–	–
	2,218,667	2,597,146	2,159,653	760,000	760,000	760,000

Details of the associate are as follows:

Name of associate	Place of incorporation and operation	Particulars of issued and paid up capital	REC Group's effective interest	Held by REC	Principal activities
EYE Lighting (Hong Kong) Limited	Hong Kong	2,000,000 ordinary shares of $1 each	38%	38%	Trading of lamps and related products

Summary financial information of the associate is as follows:

	Assets	Liabilities	Equity	Revenue	Profit
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
31 December 2007					
100 per cent	7,294,128	1,455,531	5,838,597	10,518,573	1,004,001
REC Group's effective interest	2,771,769	553,102	2,218,667	3,997,058	381,521

	Assets	Liabilities	Equity	Revenue	Profit
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
31 December 2006					
100 per cent	12,660,280	5,825,684	6,834,596	14,731,058	2,151,299
REC Group's effective interest	4,810,906	2,213,760	2,597,146	5,597,802	817,493

	Assets	Liabilities	Equity	Revenue	Profit
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
31 December 2005					
100 per cent	9,891,985	4,208,688	5,683,297	12,276,265	1,204,391
REC Group's effective interest	3,758,954	1,599,301	2,159,653	4,664,981	457,669

15 INTEREST IN JOINTLY CONTROLLED ENTITIES

	REC Group As at 31 December 2007 HK$	2006 HK$	2005 HK$
Share of net assets	547,197	517,212	528,331

Details of the REC Group's interest in the jointly controlled entities are as follows:

Name of joint venture	Place of establishment/ incorporation and operation	Principal activities	Registered capital		Proportion of ownership interest: REC Group's effective interest – Ownership/ profit sharing	REC Group's effective interest – Voting power	Held by REC – Ownership/ profit sharing	Held by REC – Voting power
Ryoden-Penta-Ocean Joint Venture *(note (a))*	Hong Kong	Engineering services	–	2007:	N/A	N/A	N/A	N/A
				2006:	N/A	N/A	N/A	N/A
				2005:	85%	50%	85%	50%
Ryoden-Spie Enertrans Joint Venture *(note (b))*	Hong Kong	Engineering services	–		50%	50%	50%	50%

Notes:

(a) Ryoden-Penta-Ocean Joint Venture ("RPOJV") is a jointly controlled and unincorporated entity, which was established, pursuant to the joint venture agreement dated 4 August 1999 entered into between REC and Penta-Ocean Construction Company Limited, for the purpose of performing work under a contract with The Kowloon-Canton Railway Corporation for the Tsuen Wan Station and Approach Tunnels. RPOJV was de-registered on 31 October 2006.

(b) Ryoden-Spie Enertrans Joint Venture ("RSJV") is a jointly controlled and unincorporated entity, which was established, pursuant to the joint venture agreement dated 16 February 2000 entered into between REC and Spie Enertrans S.A., for the purpose of performing work under a contract with MTR Corporation Limited for the Environmental Control Systems Modifications for Phase I Stations with Platform Screen Doors.

Summary of financial information of the jointly controlled entities – REC Group's effective interest:

	As at 31 December 2007 HK$	2006 HK$	2005 HK$
Current assets	818,507	799,225	2,311,484
Current liabilities	(271,310)	(282,013)	(1,783,153)
Net assets	547,197	517,212	528,331

	Years ended 31 December		
	2007	2006	2005
	HK$	*HK$*	*HK$*
Income	29,985	62,454	9,602,557
Expenses	–	–	(2,064,291)
Profit for the year	29,985	62,454	7,538,266

The amount due from/to jointly controlled entities is disclosed in notes 18 and 22.

16 INVENTORIES

(a) Inventories in the balance sheets comprise:

	REC Group As at 31 December			REC As at 31 December		
	2007	2006	2005	2007	2006	2005
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Components and parts	1,074,761	1,726,362	1,556,798	630,792	1,335,244	1,097,432

(b) The analysis of the amount of inventories recognised as an expense is as follows:

	REC Group Years ended 31 December		
	2007	2006	2005
	HK$	*HK$*	*HK$*
Carrying amount of inventories sold	3,312,744	2,088,460	2,614,802
Write down of inventories	–	18,000	–
Reversal of write-down of inventories	(46,000)	–	(80,000)
Cost of inventories sold *(note 5(c))*	3,266,744	2,106,460	2,534,802

17 LOANS RECEIVABLE

The loans receivable bore interest at 2% per annum and were fully repaid during the year ended 31 December 2007.

18 TRADE AND OTHER RECEIVABLES

	REC Group As at 31 December 2007 HK$	2006 HK$	2005 HK$
Trade debtors	143,786,352	160,907,536	234,973,951
Less: Allowance for doubtful debts *(note 18(a))*	(12,088,807)	(12,680,952)	(17,300,434)
	131,697,545	148,226,584	217,673,517
Other debtors *(note 19)*	61,448,751	88,551,200	84,882,701
Less: Allowance for doubtful debts *(note 18(a))*	(747,399)	(1,760,034)	(1,760,034)
	60,701,352	86,791,166	83,122,667
Deposits and prepayments	2,233,119	4,250,235	1,222,111
Amounts due from fellow subsidiaries *(note 23)*	321,135	361,248	350,200
Amount due from immediate holding company *(note 23)*	24,649,140	83,858,335	43,036,932
Amount due from a jointly controlled entity *(note 23)*	262,411	–	–
Amount due from minority shareholder of a subsidiary	–	–	169,177
	27,465,805	88,469,818	44,778,420
	219,864,702	323,487,568	345,574,604

	REC As at 31 December 2007 HK$	2006 HK$	2005 HK$
Trade debtors	114,040,274	120,731,448	139,556,159
Less: Allowance for doubtful debts *(note 18(a))*	(3,988,840)	(6,893,849)	(6,463,849)
	110,051,434	113,837,599	133,092,310
Other debtors *(note 19)*	46,980,842	69,293,414	51,016,697
Less: Allowance for doubtful debts *(note 18(a))*	(747,399)	(1,760,034)	(1,760,034)
	46,233,443	67,533,380	49,256,663
Deposits and prepayments	974,365	2,327,165	919,730
Amounts due from fellow subsidiaries *(note 23)*	298,837	281,363	285,446
Amount due from immediate holding company *(note 23)*	24,647,795	83,849,050	43,035,306
Amount due from a jointly controlled entity *(note 23)*	262,411	–	–
	26,183,408	86,457,578	44,240,482
	182,468,285	267,828,557	226,589,455

All of the trade and other receivables (including amounts due from fellow subsidiaries, immediate holding company and a jointly controlled entity), apart from those mentioned in note 19, are expected to be recovered within one year.

As at 31 December 2007, 2006 and 2006, the amount due from immediate holding company included unsecured advance of $30,000,000, $89,000,000 and $49,000,000 respectively. The advance is repayable on demand and interest free as at 31 December 2007 (bore interest at HIBOR plus 0.5% per annum as at 31 December 2006 and 2005).

(a) Impairment of trade debtors

Impairment losses in respect of trade and other debtors are recorded using an allowance account unless the REC Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other debtors directly (see note 1(j)).

The movement in the allowance for doubtful debts during the relevant period is as follows:

	REC Group		
	Years ended 31 December		
	2007	**2006**	**2005**
	HK$	*HK$*	*HK$*
At 1 January	14,440,986	19,060,468	12,190,727
Impairment loss recognised	1,451,045	272,003	6,838,241
Uncollectible amounts written off	(3,214,825)	(4,943,685)	–
Exchange difference	159,000	52,200	31,500
At 31 December	12,836,206	14,440,986	19,060,468

	REC		
	Years ended 31 December		
	2007	**2006**	**2005**
	HK$	*HK$*	*HK$*
At 1 January	8,653,883	8,223,883	2,234,586
Impairment loss recognised/ (reversed)	(705,915)	430,000	5,989,297
Uncollectible amounts written off	(3,211,729)	–	–
At 31 December	4,736,239	8,653,883	8,223,883

(b) Trade debtors that are not impaired

Trade debtors are due within 90 days from the date of billing.

Further details on the REC Group's credit policy are set out in note 26(a).

The ageing analysis of trade debtors that are neither individually nor collectively considered to be impaired are as follows:

	REC Group		
	As at 31 December		
	2007	**2006**	**2005**
	HK$	*HK$*	*HK$*
Neither past due nor impaired	88,489,848	119,611,074	174,681,415
Less than 6 months past due	36,808,542	15,752,148	30,349,195
Over 6 months past due	6,399,155	12,863,362	12,642,907
	43,207,697	28,615,510	42,992,102
	131,697,545	148,226,584	217,673,517

	REC		
	As at 31 December		
	2007	**2006**	**2005**
	HK$	*HK$*	*HK$*
Neither past due nor impaired	75,858,750	97,781,212	121,731,351
Less than 6 months past due	29,547,611	7,204,614	10,159,758
Over 6 months past due	4,645,073	8,851,773	1,201,201
	34,192,684	16,056,387	11,360,959
	110,051,434	113,837,599	133,092,310

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the REC Group. Based on past experience, management of REC believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The REC Group does not hold any collateral over these balances.

19 CONSTRUCTION CONTRACTS

(a) REC Group

The aggregate amount of costs incurred plus recognised profits less recognised losses to date, included in the net contract work in progress/contract payments received in advance and receivable are $3,021,975,905, $3,413,099,018 and $2,878,285,320 as at 31 December 2007, 2006 and 2005 respectively.

The net contract work in progress that are expected to be recovered after more than one year are $Nil, $560,377 and $246,000 at 31 December 2007, 2006 and 2005 respectively. The contract payments received in advance and receivable that are expected to be settled after more than one year amount to $99,743, $Nil and $3,117,248 as at 31 December 2007, 2006 and 2005 respectively.

In respect of construction contracts in progress, the amount of retentions receivable from customers recorded within "Trade and other receivables" are $60,903,324, $81,963,372 and $83,086,169 as at 31 December 2007, 2006 and 2005 respectively. The amount of those retentions expected to be recovered after more than one year are $34,558,814, $45,232,109 and $33,465,283 as at 31 December 2007, 2006 and 2005 respectively.

In respect of construction contracts in progress, the amount of retentions payable to suppliers recorded within "Trade and other payables" are $50,931,560, $45,356,057 and $70,243,519 as at 31 December 2007, 2006 and 2005 respectively. The amount of those retentions expected to be settled after more than one year are $22,713,704, $18,757,076 and $41,974,261 as at 31 December 2007, 2006 and 2005 respectively.

(b) REC

The aggregate amount of costs incurred plus recognised profits less recognised losses to date, included in the net contract work in progress/contract payments received in advance and receivable are $2,451,006,422, $2,702,650,808 and $1,988,454,641 as at 31 December 2007, 2006 and 2005 respectively.

The net contract work in progress that are expected to be recovered after more than one year is $Nil, $307,978 and $246,000 as at 31 December 2007, 2006 and 2005 respectively. All of the contract payments received in advance and receivable are expected to be settled within one year.

In respect of construction contracts in progress, the amount of retentions receivable from customers, recorded within "Trade and other receivables" are $46,980,842, $69,293,414 and $49,256,663 as at 31 December 2007, 2006 and 2005 respectively. The amount of those retentions expected to be recovered after more than one year are $28,234,883, $40,875,244 and $24,558,000 as at 31 December 2007, 2006 and 2005 respectively.

In respect of construction contracts in progress, the amount of retentions payable to suppliers, recorded within "Trade and other payables" are $40,699,484, $35,223,450 and $52,933,366 as at 31 December 2007, 2006 and 2005 respectively. The amount of those retentions expected to be settled after more than one year are $19,248,582, $16,143,003 and $38,204,000 as at 31 December 2007, 2006 and 2005 respectively.

20 CASH AND CASH EQUIVALENTS

	REC Group As at 31 December			REC As at 31 December		
	2007	2006	2005	2007	2006	2005
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Deposits with banks	51,000,000	98,531,700	92,500,000	51,000,000	75,990,000	86,500,000
Cash at bank and in hand	126,166,020	117,019,372	107,098,377	69,457,331	81,964,246	34,769,854
Cash and cash equivalents in the balance sheets and consolidated cash flow statements	177,166,020	215,551,072	199,598,377	120,457,331	157,954,246	121,269,854

21 INCOME TAX IN THE BALANCE SHEETS

(a) Current taxation in the balance sheets represents:

	REC Group As at 31 December		
	2007	2006	2005
	HK$	*HK$*	*HK$*
Provision for Hong Kong Profits Tax for the year	163,000	120,100	152,000
Provisional Hong Kong Profits Tax paid	(37,723)	(70,000)	(79,812)
	125,277	50,100	72,188
Balance of Hong Kong Profits Tax provision relating to prior years	–	–	(31,789)
Tax payable for Overseas Profits Tax	2,757,000	3,599,902	3,430,511
	2,882,277	3,650,002	3,470,910
Represents:			
Tax refundable	(14,539)	(37,343)	(31,789)
Current taxation	2,896,816	3,687,345	3,502,699
	2,882,277	3,650,002	3,470,910

	REC As at 31 December		
	2007	2006	2005
	HK$	*HK$*	*HK$*
Balance of Hong Kong Profits Tax provision relating to prior years	–	–	(31,789)
Tax payable for Overseas Profits Tax	2,757,000	3,544,000	353,000
	2,757,000	3,544,000	321,211
Represents:			
Tax refundable	–	–	(31,789)
Current taxation	2,757,000	3,544,000	353,000
	2,757,000	3,544,000	321,211

(b) **Deferred tax assets recognised:**

The components of deferred tax assets recognised in the balance sheet are as follows:

REC Group

	Tax losses	Depreciation allowances in excess of the related depreciation	Others	Total
	HK$	*HK$*	*HK$*	*HK$*
Deferred tax arising from:				
At 1 January 2005	828,737	269,904	439,425	1,538,066
Charged to profit or loss	(471,914)	(269,904)	(116,725)	(858,543)
At 31 December 2005, 31 December 2006 and 31 December 2007	356,823	–	322,700	679,523

(c) **Deferred tax assets not recognised**

(i) REC Group

As at 31 December 2007, 2006 and 2005, the REC group has not recognised deferred tax assets in respect of accounting depreciation in excess of depreciation allowances of $1,332,000, $1,539,000 and $1,571,000, impairment loss on bad and doubtful debts of $3,251,000, $3,922,000 and $8,835,000 and cumulative tax losses of $120,851,331, $112,040,485 and $86,571,000 respectively.

As at 31 December 2007, tax losses of $42,171,919 will expire in 2008 to 2012. The other tax losses have no expiry date under current tax legislation.

(ii) REC

As at 31 December 2007, 2006 and 2005, REC has not recognised deferred tax assets in respect of accounting depreciation in excess of depreciation allowances of $1,332,000, $2,047,000 and $1,571,000, impairment loss on bad and doubtful debts of $308,000, $2,009,000 and $1,579,000 and cumulative tax losses of $57,492,000, $51,825,000 and $37,514,000. The tax losses have no expiry date under current tax legislation.

22 TRADE AND OTHER PAYABLES

	REC Group As at 31 December		
	2007	**2006**	**2005**
	HK$	*HK$*	*HK$*
Trade payables and accruals	128,008,495	187,357,279	255,736,639
Amounts due to fellow subsidiaries *(note 23)*	6,728,359	7,266,335	12,535,846
Amount due to a jointly controlled entity *(note 23)*	–	16,206	18,806
Amount due to immediate holding company *(notes 23 and 24)*	108,566,246	29,895,789	25,983,898
Amount due to ultimate holding company *(note 23)*	166,226	200,460	63,835
	243,469,326	224,736,069	294,339,024

	REC As at 31 December 2007 HK$	2006 HK$	2005 HK$
Trade payables and accruals	90,061,247	148,965,534	191,629,678
Amounts due to fellow subsidiaries *(note 23)*	6,137,662	6,174,289	11,736,391
Amount due to a jointly controlled entity *(note 23)*	–	16,206	18,806
Amount due to ultimate holding company *(note 23)*	166,226	200,460	63,835
	96,365,135	155,356,489	203,448,710

All of the trade and other payables (including amounts due to fellow subsidiaries, a jointly controlled entity, immediate holding company and ultimate holding company), apart from those mentioned in note 19, are expected to be settled within one year.

As at 31 December 2007, 2006 and 2005, the amount due to immediate holding company included loan from immediate holding company of $108,500,000, $30,000,000 and $26,000,000 respectively, of which terms are disclosed in note 24.

Included in trade payables and accruals are trade creditors within the following ageing analysis:

	REC Group As at 31 December 2007 HK$	2006 HK$	2005 HK$	REC As at 31 December 2007 HK$	2006 HK$	2005 HK$
Due within 6 months	67,113,734	131,546,085	154,669,154	43,365,810	107,046,767	134,266,640
Due after 6 months but within 2 years	189,176	251,217	133,353	88,821	73,017	83,714
	67,302,910	131,797,302	154,802,507	43,454,631	107,119,784	134,350,354

23 AMOUNTS DUE FROM/TO GROUP AND RELATED COMPANIES

Except for advance to immediate holding company as stated in note 18, loan from immediate holding company as stated in note 24 and advance to subsidiaries as stated in note 13, all other balances with group and related companies are unsecured, interest free and payable on demand.

24 LOANS FROM IMMEDIATE HOLDING COMPANY

The loans from immediate holding company are unsecured and have no fixed terms of repayment. As at 31 December 2007, 2006 and 2005, loans of $17,500,000, $147,500,000 and $227,000,000 (REC: $Nil, $110,000,000, $110,000,000) respectively bear interest at HIBOR plus 0.5% per annum, while the remaining balance is interest free.

As at 31 December 2006 and 2005, the immediate holding company has confirmed its intention that it will not request repayment of the amount of $208,500,000 and $288,293,485 (REC: $130,000,000 and $130,000,000) respectively due to it until such time as the REC Group and REC are in a position to repay. Accordingly, these balances are classified as non-current liabilities as at 31 December 2006 and 2005.

25 CAPITAL AND RESERVES

(a) REC Group

	Share capital HK$	Exchange reserve HK$	Other reserve HK$ (Note 25(d))	Accumulated losses HK$	Total HK$	Minority interests HK$	Total equity HK$
At 1 January 2005	20,000,000	(181,475)	13,799,999	(36,682,760)	(3,064,236)	1,063,695	(2,000,541)
Exchange difference on translation of overseas subsidiaries	–	(177,194)	–	–	(177,194)	16,819	(160,375)
Loss for the year	–	–	–	(38,933,048)	(38,933,048)	(599,402)	(39,532,450)
Shares issued	30,000,000	–	–	–	30,000,000	–	30,000,000
At 31 December 2005	50,000,000	(358,669)	13,799,999	(75,615,808)	(12,174,478)	481,112	(11,693,366)
At 1 January 2006	50,000,000	(358,669)	13,799,999	(75,615,808)	(12,174,478)	481,112	(11,693,366)
Exchange difference on translation of overseas subsidiaries	–	1,565,360	–	–	1,565,360	14,313	1,579,673
Profit/(loss) for the year	–	–	–	12,709,601	12,709,601	(107,280)	12,602,321
At 31 December 2006	50,000,000	1,206,691	13,799,999	(62,906,207)	2,100,483	388,145	2,488,628
At 1 January 2007	50,000,000	1,206,691	13,799,999	(62,906,207)	2,100,483	388,145	2,488,628
Exchange difference on translation of overseas subsidiaries	–	2,989,158	–	–	2,989,158	(15,905)	2,973,253
Profit/(loss) for the year	–	–	–	13,588,898	13,588,898	(372,240)	13,216,658
At 31 December 2007	50,000,000	4,195,849	13,799,999	(49,317,309)	18,678,539	–	18,678,539

(b) REC

	Note	Share capital HK$	Retained profits HK$	Total HK$
At 1 January 2005		20,000,000	19,846,212	39,846,212
Loss for the year		–	(6,236,037)	(6,236,037)
Shares issued	*25(c)*	30,000,000	–	30,000,000
At 31 December 2005		50,000,000	13,610,175	63,610,175
At 1 January 2006		50,000,000	13,610,175	63,610,175
Profit for the year		–	15,660,280	15,660,280
At 31 December 2006		50,000,000	29,270,455	79,270,455
At 1 January 2007		50,000,000	29,270,455	79,270,455
Profit for the year		–	14,899,366	14,899,366
At 31 December 2007		50,000,000	44,169,821	94,169,821

The capital and reserves of REC are higher than those of the REC Group primarily as a result of the losses of a subsidiary which have been consolidated into the group accounts. The losses of this subsidiary have been largely funded by the immediate holding company via inter-group loans. REC has fully impaired its exposure to this subsidiary (both investment cost and receivables).

(c) Share capital

	As at 31 December					
	2007		2006		2005	
	No. of shares	*Amount*	*No. of shares*	*Amount*	*No. of shares*	*Amount*
Authorised:						
Ordinary shares of $1 each	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000
Issued and fully paid:						
At 1 January	50,000,000	50,000,000	50,000,000	50,000,000	20,000,000	20,000,000
Share issued	–	–	–	–	30,000,000	30,000,000
At 31 December	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000

By an ordinary resolution passed at the shareholders' meeting held on 14 November 2005, REC's authorised share capital was increased to $50,000,000 by the creation of and additional 30,000,000 ordinary shares of $1 each, ranking pari passu with the existing shares of REC in all aspects. The additional 30,000,000 ordinary shares were issued and fully paid on 15 November 2005.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of REC. All ordinary shares rank equally with regard to REC's residual assets.

(d) Other reserve

Other reserve represents the difference between the nominal value of share capital of the subsidiary acquired, over the consideration of acquisition of $1, as set out in note 1(b).

Under the Companies Ordinance, the reserve is not available for distribution to shareholders.

(e) Capital management

The REC Group's primary objectives when managing capital are to safeguard the REC Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost. As REC is part of a larger group, REC's sources of additional capital and policies for distribution of excess capital may also be affected by the larger group's management objectives.

The REC Group defines "capital" as all components of equity plus any other loans from companies in the larger group with no fixed terms of repayment, less unaccrued proposed dividends. Trading balances that arise as a result of trading transactions with companies in the larger group are not regarded by the REC Group as capital. On this basis, the amount of capital employed at 31 December 2007, 2006 and 2005 was $18,678,339, $210,988,628 and $276,600,119 respectively.

The REC Group's capital structure is regularly reviewed and managed with due regard to the capital management practices of the larger group to which REC belongs. Adjustments are made to the capital structure in light of changes in economic conditions affecting the REC Group, to the extent that these do not conflict with the Directors' fiduciary duties towards REC Group or the requirements of the Hong Kong Companies Ordinance.

There were no changes in the REC Group's approach to capital management during the relevant period, which was to maintain capital in order to cover any net debt position. The REC Group is not subject to externally imposed capital requirements.

26 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, currency and interest rate risks arises in the normal course of the REC Group's business. These risks are limited by the REC Group's financial management policies and practices described below.

(a) Credit risk

The REC Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and may take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 90 days from the date of billing. Normally, the REC Group does not obtain collateral from customers.

The REC Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent.

At the balance sheet date, the REC Group does not have a concentration of credit risk as the trade receivables are spread among a number of major customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, in the balance sheets.

Further quantitative disclosures in respect of REC Group's exposure to credit risk arising from trade and other receivables are set out in note 18.

(b) Liquidity risk

The REC Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the REC Group's and REC's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet dates) and the earliest date the REC Group and REC can be required to pay.

REC Group

	As at 31 December 2007		
	Carrying amount	**Total contractual undiscounted cash flow**	**Within 1 year or on demand**
	HK$	*HK$*	*HK$*
Trade payables and accruals	128,008,495	(128,008,495)	(128,008,495)
Amounts due to fellow subsidiaries	6,728,359	(6,728,359)	(6,728,359)
Amount due to immediate holding company	108,566,246	(109,343,246)	(109,343,246)
Amount due to ultimate holding company	166,226	(166,226)	(166,226)
	243,469,326	(244,246,326)	(244,246,326)

	As at 31 December 2006			
	Carrying amount	**Total contractual undiscounted cash flow**	**Within 1 year or on demand**	**No fixed terms of repayment**
	HK$	*HK$*	*HK$*	*HK$*
Trade payables and accruals	187,357,279	(187,357,279)	(187,357,279)	–
Amounts due to fellow subsidiaries	7,266,335	(7,266,335)	(7,266,335)	–
Amount due to a jointly controlled entity	16,206	(16,206)	(16,206)	–
Amount due to immediate holding company	29,895,789	(29,895,789)	(29,895,789)	–
Amount due to ultimate holding company	200,460	(200,460)	(200,460)	–
Loans from immediate holding company	208,500,000	(215,506,250)	–	(215,506,250)
	433,236,069	(440,242,319)	(224,736,069)	(215,506,250)

	As at 31 December 2005			
	Carrying amount	**Total contractual undiscounted cash flow**	**Within 1 year or on demand**	**No fixed terms of repayment**
	HK$	*HK$*	*HK$*	*HK$*
Trade payables and accruals	255,736,639	(255,736,639)	(255,736,639)	–
Amounts due to fellow subsidiaries	12,535,846	(12,535,846)	(12,535,846)	–
Amount due to a jointly controlled entity	18,806	(18,806)	(18,806)	–
Amount due to immediate holding company	25,983,898	(25,983,898)	(25,983,898)	–
Amount due to ultimate holding company	63,835	(63,835)	(63,835)	–
Loans from immediate holding company	288,293,485	(298,735,485)	–	(298,735,485)
	582,632,509	(593,074,509)	(294,339,024)	(298,735,485)

REC

	As at 31 December 2007		
	Carrying amount *HK$*	**Total contractual undiscounted cash flow** *HK$*	**Within 1 year or on demand** *HK$*
Trade payables and accruals	90,061,247	(90,061,247)	(90,061,247)
Amounts due to fellow subsidiaries	6,137,662	(6,137,662)	(6,137,662)
Amount due to ultimate holding company	166,226	(166,226)	(166,226)
Amount due to a subsidiary	1,554,242	(1,554,242)	(1,554,242)
	97,919,377	(97,919,377)	(97,919,377)

	As at 31 December 2006			
	Carrying amount *HK$*	**Total contractual undiscounted cash flow** *HK$*	**Within 1 year or on demand** *HK$*	**No fixed terms of repayment** *HK$*
Trade payables and accruals	148,965,534	(148,965,534)	(148,965,534)	–
Amounts due to fellow subsidiaries	6,174,289	(6,174,289)	(6,174,289)	–
Amount due to a jointly controlled entity	16,206	(16,206)	(16,206)	–
Amount due to ultimate holding company	200,460	(200,460)	(200,460)	–
Amount due to a subsidiary	3,541,265	(3,541,265)	(3,541,265)	–
Loans from immediate holding company	130,000,000	(135,225,000)	–	(135,225,000)
	288,897,754	(294,122,754)	(158,897,754)	(135,225,000)

	As at 31 December 2005			
	Carrying amount *HK$*	**Total contractual undiscounted cash flow** *HK$*	**Within 1 year or on demand** *HK$*	**No fixed terms of repayment** *HK$*
Trade payables and accruals	191,629,678	(191,629,678)	(191,629,678)	–
Amounts due to fellow subsidiaries	11,736,391	(11,736,391)	(11,736,391)	–
Amount due to a jointly controlled entity	18,806	(18,806)	(18,806)	–
Amount due to ultimate holding company	63,835	(63,835)	(63,835)	–
Amount due to a subsidiary	242,748	(242,748)	(242,748)	–
Loans from immediate holding company	130,000,000	(135,060,000)	–	(135,060,000)
	333,691,458	(338,751,458)	(203,691,458)	(135,060,000)

(c) Currency risk

The REC Group is exposed to currency risk through certain sales and purchases that are denominated in United States dollars ("USD"), Renminbi ("RMB"), Macau Patacas ("MOP"), Great Britain Pounds ("GBP") and Japanese Yen ("JPY"). As Hong Kong Dollars ("HKD") is pegged to USD, the REC Group does not expect any significant movement in the HKD/USD exchange rate. For sales and purchases denominated in GBP and JPY, the REC Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

(i) Exposure to currency risk

The following table details the REC Group's and REC's exposure at the balance sheet dates to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

REC Group

	As at 31 December										
	2007		2006					2005			
	United States Dollars	*Macau Patacas*	*Japanese Yen*	*Great Britain Pound*	*United States Dollars*	*Renminbi*	*Macau Patacas*	*Japanese Yen*	*United States Dollars*	*Renminbi*	*Macau Patacas*
Trade and other receivables	–	93,214,190	–	–	173,928	537,138	101,194,200	17,457,734	6,485,515	19,833,149	75,587,864
Cash and cash equivalents	2,147,529	67,421,698	–	–	6,149,617	74,124	98,869,560	–	6,323,893	15,207,717	26,646,041
Trade and other payables	(21,910)	(29,829,342)	(600,500)	(330,735)	(52,535)	(2,077,579)	(48,565,510)	(956,250)	(43,469)	(14,962,487)	(38,634,665)
Net exposure to currency risk	2,125,619	130,806,546	(600,500)	(330,735)	6,271,010	(1,466,317)	151,498,250	16,501,484	12,765,939	20,078,379	63,599,240

REC

	As at 31 December						
	2007	2006			2005		
	Macau Patacas	*Japanese Yen*	*Great Britain Pound*	*Macau Patacas*	*Japanese Yen*	*United States Dollars*	*Macau Patacas*
Trade and other receivables	93,214,190	–	–	101,194,200	–	–	67,961,000
Cash and cash equivalents	67,417,882	–	–	98,850,144	–	–	26,416,750
Trade and other payables	(29,829,342)	(600,500)	(330,735)	(48,550,010)	(956,250)	(7,504)	(35,321,904)
Net exposure to currency risk	130,802,730	(600,500)	(330,735)	151,494,334	(956,250)	(7,504)	59,055,846

(ii) Sensitivity analysis

The following table indicates the approximate change in the REC Group's profit or loss and equity in response to reasonably possible changes in the foreign exchange rates to which REC Group has significant exposure at the balance sheet dates.

	Years ended 31 December					
	2007		2006		2005	
	Increase/ (decrease) in foreign exchange rates	Effect on profit or loss and equity	Increase/ (decrease) in foreign exchange rates	Effect on profit or loss and equity	Increase/ (decrease) in foreign exchange rates	Effect on profit or loss and equity
		HK$		*HK$*		*HK$*
Macau Patacas	1%	1,047,000	1%	1,212,000	1%	509,000
	(1)%	(1,047,000)	(1)%	(1,212,000)	(1)%	(509,000)
Renminbi	–	–	5%	60,000	5%	796,000
	–	–	(5)%	(60,000)	(5)%	(796,000)
Great Britain Pound	–	–	5%	(208,000)	–	–
	–	–	(5)%	208,000	–	–

The sensitivity analysis above has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet dates and had been applied to the REC Group's exposure to currency risk for financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant. The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the relevant period until the next annual balance sheet date. In this respect, it is assumed that the pegged rate between HKD and USD would by materially unaffected by any changes in movement in value of USD against other currencies. The analysis is performed on the same basis for each year presented above.

(d) Interest rate risk

The interest rates and terms of repayment of loans of the REC Group and REC are disclosed in notes 23 and 24. The REC Group's policy is to manage its interest rate risk to ensure there is no undue exposure to significant interest rate movements. The REC Group does not use derivative financial instruments to hedge its debt obligations.

Interest rate profile

The following table details the interest rate profile of the REC Group's and REC's variable rate borrowings at the balance sheet dates.

REC Group

	As at 31 December					
	2007		2006		2005	
	Effective interest rate		Effective interest rate		Effective interest rate	
Loans from immediate holding company	4.44%	HK$17,500,000	4.75%	HK$147,500,000	4.60%	HK$227,000,000

REC

	As at 31 December					
	2007		2006		2005	
	Effective interest rate		Effective interest rate		Effective interest rate	
Loans from immediate holding company	–	HK$–	4.75%	HK$110,000,000	4.60%	HK$110,000,000

(e) Fair values

As stated in note 24, certain loans from immediate holding company as at 31 December 2006 and 2005 are interest free and have no fixed terms of repayment. Given these terms it is not meaningful to disclose fair value.

All other significant financial instruments are carried at amounts not materially different from their fair values as at 31 December 2007, 2006 and 2005.

27 COMMITMENTS

Commitments under operating leases

At the balance sheet dates, the total future minimum lease payments under non-cancellable operating leases for properties are payable as follows:

	REC Group		
	As at 31 December		
	2007	**2006**	**2005**
	HK$	*HK$*	*HK$*
Within 1 year	2,343,402	2,075,434	2,046,071
After 1 year but within 5 years	1,103,262	1,999,059	972,907
After 5 years	11,981	–	–
	3,458,645	4,074,493	3,018,978

	REC		
	As at 31 December		
	2007	**2006**	**2005**
	HK$	*HK$*	*HK$*
Within 1 year	1,592,616	554,361	1,502,208
After 1 year but within 5 years	583,421	–	612,861
	2,176,037	554,361	2,115,069

28 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Key management personnel are all directors and remuneration details are disclosed in note 7.

(b) Transactions with other related parties

The following is a summary of principal related parties of the REC Group during the relevant period.

Name of related party	Relationship
Mitsubishi Electric Corporation	Ultimate holding company
Mitsubishi Electric Group Hong Kong Limited	Immediate holding company
Great Perfect Investment Limited	Fellow subsidiary
Mitsubishi Electric Ryoden Air-conditioning & Visual Information Systems (Hong Kong) Limited	Fellow subsidiary
Mitsubishi Electric Tianwei Power Transmission Equipment Company Limited	Fellow subsidiary
Wise Super Investment Limited	Fellow subsidiary

In addition to the transactions and balances disclosed elsewhere in the Financial Information, the REC Group entered into the following material related party transactions:

	Years ended 31 December		
	2007	**2006**	**2005**
	HK$	*HK$*	*HK$*
Engineering contracts revenue, repair and maintenance fee received from and sales of goods to group companies and related companies *(note (i))*	12,766,524	8,765,899	1,115,163
Purchases from group companies and related companies (including ultimate holding company) *(note (ii))*	2,869,106	17,690,601	24,083,751
Management fee paid to immediate holding company *(note (iii))*	5,412,000	6,500,000	5,500,000
Interest paid to immediate holding company *(note (iv))*	1,936,656	5,553,082	4,806,484
Property rental and management fee paid to immediate holding company	343,728	343,728	1,497,743
Property rental paid to fellow subsidiaries	2,088,876	2,298,569	1,551,055
Secondment fee recharged from immediate holding company *(note (v))*	345,000	3,504,811	268,140
Secondment fee recharged from ultimate holding company *(note (v))*	833,311	–	–
Service income from jointly controlled entities *(note (vi))*	–	–	1,243,484

Notes:

(i) Sales to group companies and related companies are made on similar terms as the REC Group trades with other customers.

(ii) Purchases from group companies and related companies are made on similar terms as other suppliers.

(iii) The management fee paid to immediate holding company relates to administrative services provided. The service fee is based on a fixed fee charged on a monthly basis.

(iv) The advances provided by the immediate holding company bear interest at HIBOR plus 0.5% per annum.

(v) The secondment fee relates to staff cost recharged from immediate and ultimate holding company.

(vi) Service income from jointly controlled entities relates to administrative services provided. The service fee is charged based on the estimated time and effort spent on the jointly controlled entities.

29 CONTINGENT LIABILITIES

A subsidiary of the REC Group has guaranteed the performance and observation of related contract terms on behalf of its subcontractors for mechanical and electrical contracts in respect of certain projects during the years ended 31 December 2007 and 2006.

30 PARENT AND ULTIMATE CONTROLLING PARTY

At 31 December 2007, 2006 and 2005, the Directors consider the immediate parent company of the REC Group to be Mitsubishi Electric Hong Kong Group Limited, a company incorporated in Hong Kong, and the ultimate controlling party to be Mitsubishi Electric Corporation, a company incorporated in Japan.

31 NON-ADJUSTING POST BALANCE SHEET EVENTS

(a) Reduction in Hong Kong Profits Tax Rate

On 27 February 2008, the Financial Secretary of the Hong Kong SAR Government announced his annual Budget which proposes a cut in the profits tax rate from 17.5% to 16.5% with effect from the fiscal year 2008-09 and a one-off reduction of 75% of the tax payable for the 2007-08 assessment subject to a ceiling of $25,000. In accordance with the REC Group's accounting policy set out in note 1(n), no adjustments have been made to the Financial Information as a result of this announcement.

The Directors estimate that these proposed changes will not have any significant impact on the Financial Information.

(b) Declaration of 2008 interim dividend

After 31 December 2007, the Directors proposed an interim dividend for 2008 totalling $15,300,000.

(c) Conditional sale of REC

On 25 March 2008, Mitsubishi Electric Hong Kong Group Limited, the immediate holding company of REC, entered into a conditional sales and purchase agreement to sell its entire shares in REC at a consideration of $46,000,000 to Yau Lee Holdings Limited. The sale is expected to be completed by 30 May 2008.

32 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Certain critical accounting judgements in applying the REC Group's accounting policies are described below.

Construction contracts

As explained in policy notes 1(h) and (o)(i), revenue and profit recognition on an uncompleted project is dependent on estimating the total outcome of the construction contract, as well as the work done to date. Based on the REC Group's recent experience and the nature of the construction activity undertaken by the REC Group, the REC Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. As a result, until this point is reached the net contract work in progress as disclosed in note 19 will not include profit which the REC Group may eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the balance sheet date, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2007

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2007 and which have not been adopted in the Financial Information.

The REC Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the REC Group's results of operations and financial position.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong

I REVIEW OF OPERATING RESULTS

1. For the financial years ended 31 December 2007 and 31 December 2006

Turnover decreased by 29.6% to HK$891.5 million in 2007 (2006: HK$1,266.9 million). This was primarily due to the delays in site progress of the job Galaxy Cotai Building C and some other major maintenance jobs. Gross profit margin improved to 7.96% (2006: 5.05%) was mainly contributed by costs saving in some projects and improved gross profit percentage due to additional variation orders secured from some major jobs. Other revenue increased by 29% to HK$6.8 million (2006: HK$5.3 million) was mainly due to higher interest income and sundry income. On the other hand, other net expenses showed an increase of HK$1.54 million (2006: HK$0.3 million) due to net foreign exchange loss in Renminbi ("RMB") and impairment loss on accounting software. Administrative expenses increased by 18% to HK$57.9 million (2006: HK$49.1 million) due to additional costs spent on decentralization of management information system and other provisions. Finance costs decreased by 65.2% to HK$1.9 million (2006: HK$5.6 million) due to savings in interest expenses paid to immediate holding company. As a result of the above, profit for the year was HK$13.2 million (2006: HK$12.6 million) and profit margin improved to 1.5% (2006: 1%).

2. For the financial years ended 31 December 2006 and 31 December 2005

Turnover increased by 37.6% to HK$1,266.9 million in 2006 (2005: HK$920.9 million). This was mainly due to the turnover recognised from some major projects, such as Venetian Hotel Parcels 1 and 2, and the Galaxy Star World Hotel. Gross profit margin improved to 5.05% (2005: 1.78%) as the overall jobs performance in year 2005 was considered bad, and a material amount was provided in year 2005 as loss provision. Other revenue increased by 34% to HK$5.3 million (2005: HK$3.9 million) was mainly due to higher interest income generated from bank deposits. Other net expenses increased by HK$0.6 million which was created by net foreign exchange loss due to RMB fluctuation. Administrative expenses decreased by 20% to HK$49.1 million (2005: HK$61.7 million) due to reduction in specific provision for bad and doubtful debts of a main contractor made in year 2005. Finance costs in year 2006 was HK$5.6M which maintained at more or less the same level as year 2005 (2005: HK$5.2 million). As a result of the above, profit for the year was HK$12.6 million (2005: loss of HK$39.5 million) and profit margin improved to 1% (2005: -ve 4.3%).

II CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

For the three financial years ended 31 December 2005, 2006 and 2007 under review, REC Group managed to finance its liquidity requirements through a combination of cash flow as generated from operations and borrowings from immediate holding company.

As at 31 December 2007, net amounts due to immediate holdings company were HK$83.9 million (31 December 2006: HK$154.5 million) whereas cash and bank balances were HK$177.2 million (31 December 2006: HK$215.6 million). As REC Group has no bank borrowing, gearing ratio (expressed as total net borrowings over total equity) of REC Group for years 2005, 2006 and 2007 is zero.

During 2005, new shares, total 30 million, par value of HK$1 each were authorized, issued and fully paid by the respective equity shareholders. With the proceeds of the shares, REC Group managed to have share capital injection to its subsidiary in Mainland China. As at 31 December 2005, the cash and bank balances of the REC Group amounted to HK$199.6 million.

III CHARGES ON ASSETS

As of 31 December 2005, 2006 and 2007, the assets of REC Group were free from charges.

IV CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

As of 31 December 2005, 2006 and 2007, REC Group had no capital commitment in respect of purchases of property, plant and equipments and other fixed assets.

A subsidiary has guaranteed the performance and observation of related contract terms on behalf of its subcontractors for mechanical and electrical contracts in respect of the Shanghai City Centre project and Guangzhou Huangsi Station project. Other than this, the REC Group had no material contingent liabilities at 31 December 2005, 2006 and 2007.

V STAFF AND REMUNERATION POLICY

As at 31 December 2007, REC Group had a total of 435 employees (31 December 2006: 411). Staff costs for the year ended 31 December 2007 was HK$111.2 million, representing an increase of 0.5% as compared to year 2006 of HK$110.6 million. The increase in headcount was mainly due to the better business intake in Mainland China and Macau in year 2007.

As at 31 December 2006 and 2005, REC Group had a total of 411 and 408 employees respectively. Staff costs for the year ended 31 December 2006 was HK$110.6 million representing an increase of 14% as compared to year 2005 of HK$96.7 million.

REC Group remunerates its employees based on their performance, work experience and the prevailing market compensation packages. Salaries of employees are maintained at competitive levels while discretionary bonuses are granted by reference to the performance of REC Group and individual employees.

The aggregate of the remuneration payable to and benefits in kind receivable by the directors of REC Group will not be varied in consequence of the acquisition.

VI FOREIGN EXCHANGE FLUCTUATION EXPOSURES AND HEDGES

REC Group operates principally in Hong Kong, Macau and the People's Republic of China ("PRC"), and is exposed to foreign currency risk through certain sales and purchases that are denominated in United States dollars ("USD"), Renminbi ("RMB"), Macau Patacas ("MOP"), Sterling Pounds ("GBP") and Japanese Yen ("JPY"). As USD is pegged to Hong Kong dollars, the REC Group does not expect any significant movements in the USD/HKD exchange rate. For sales and purchases denominated in GBP and JPY, the REC Group ensures that the net exposure is kept to an acceptable level, by using forward exchange contracts.

VII MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARY AND ASSOCIATED COMPANY

REC Group had no material acquisition and disposal of subsidiary and associated company during the financial years ended 31 December 2005, 2006 and 2007.

VIII SEGMENTAL INFORMATION

The principal activities of the REC Group are the provision of electrical, mechanical, ventilation and air conditioning, fire, plumbing and environmental engineering services in the territories of Hong Kong, Macau and PRC. REC Group's turnover and contribution to gross profit for the years ended 31 December 2005, 2006 and 2007 were summarized below:

	2007	**2006**	**2005**
	HK$ Million	*HK$ Million*	*HK$ Million*
REC Group			
Turnover by segment			
Hong Kong	456.4	559.1	719.6
PRC	62.2	20.8	46.8
Macau	372.9	687.0	154.5
	891.5	1,266.9	920.9

	2007	**2006**	**2005**
	HK$ Million	*HK$ Million*	*HK$ Million*
REC Group			
Gross Profit by segment			
Hong Kong	36.1	21.6	26.2
PRC	4.1	6.3	9.7
Macau	30.7	36.1	(19.5)
	70.9	64.0	16.4

IX SIGNIFICANT INVESTMENTS

During the three years ended 31 December 2005, 2006 and 2007, REC Group did not hold any significant investments.

X FUTURE PLANS

The Chief Executive of the HKSAR has announced in his 2007-2008 Policy Address that he will push 10 large scale infrastructure projects within his terms of office. Out of these 10 projects the following ones will provide business opportunities for the engineering industry; a) The South Island Line b) The Shatin to Central Link, c) West Kowloon Culture District, d) Kai Tak Development and e) New Development Areas. With the Government taking the lead in pushing the infrastructure projects, it is expected that the private property developers will be actively involved in those projects. The abovementioned developments will provide a better business outlook for Hong Kong in the coming years.

For the Macau market, the six gaming concessionaires have started their gaming and entertaining development in the last couple of years and some of the casinos and hotels are operating already. We believe that the construction market in Macau has reached its peak since the main part of all these developments have been awarded and are under construction. However, there are still business opportunities in the coming two to three years from the remaining phases of these developments.

For the market in PRC, the REC Group's priority target will remain to be those major developments invested by prominent Hong Kong developers. We expect that the construction market in PRC will continue to grow and the REC Group will be able to secure contracts with value of RMB250 million each year.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP

The following is an illustrative and unaudited pro forma statement of assets and liabilities of the Enlarged Group which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the proposed acquisition of 100% interest in REC, as if it had taken place on 30 September 2007.

This unaudited pro forma statement of assets and liabilities of the Enlarged Group as at 30 September 2007 has been prepared using the accounting policies consistent with that of the Group and based on the unaudited pro forma statement of net assets as extracted from the Company's circular dated 18 January 2008 in connection with the very substantial disposal, after making certain pro forma adjustments as set out in the notes below.

This unaudited pro forma statement of assets and liabilities of the Enlarged Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Acquisition been completed as at 30 September 2007 or at any future date.

		Pro forma adjustments				
	The Group	The REC Group	Other pro forma adjustment			The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	
ASSETS						
Non-current assets						
Property, plant and equipment	86,273	2,752				89,025
Leasehold land	36,116	–				36,116
Associates	39	2,219				2,258
Intangible assets	–	59	30,821			30,880
Jointly controlled entities	28,303	547				28,850
Deferred income tax assets	34	680				714
Other non-current assets	51,457	–				51,457
	202,222	6,257				239,300

	The Group	The REC Group	Pro forma adjustments: Other pro forma adjustment			The Enlarged Group
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
	Note 1	Note 2	Note 3	Note 4	Note 5	
Current assets						
Cash and bank balances	1,328,428	177,166	(49,500)	(90,490)		1,365,604
Trade debtors, net	252,303	192,400			(9,297)	435,406
Prepayment, deposits and other receivables	99,284	2,233				101,517
Inventories	24,295	1,075				25,370
Prepaid income tax	960	14				974
Due from customers on construction contracts	526,096	37,777				563,873
Due from an immediate holding company	–	24,649		(24,649)		–
Due from a fellow subsidiary	–	321		(321)		–
Due from associates	13,539	–				13,539
Due from a jointly controlled entity	4,488	262				4,750
Due from related parties	30	–				30
Financial assets at fair value through profit or loss	5,298	–				5,298
	2,254,721	435,897				2,516,361
LIABILITIES						
Current liabilities						
Bank overdraft – secured	72,225	–				72,225
Short term bank loan – secured	335,948	–				335,948
Current portion of long-term bank loans – secured	72,563	–				72,563
Payables to suppliers and subcontractors	214,340	128,009			(2,131)	340,218
Accruals, retention payables and other liabilities	151,846	–			(7,166)	144,680
Due to customers on construction contracts	78,378	177,109				255,487
Derivative financial instruments	5,502	–				5,502
Income tax payables	3,295	2,897				6,192
Due to fellow subsidiaries	–	6,728		(6,728)		–
Due to ultimate holding company	–	166		(166)		–
Due to immediate holding company	–	108,566		(108,566)		–
	934,097	423,475				1,232,815

	The Group	The REC Group	Pro forma adjustments: Other pro forma adjustment			The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	
Net current assets	1,320,624	12,422				1,283,546
Total assets less current liabilities	1,522,846	18,679				1,522,846
Non current liabilities						
Long-term borrowings	905	–				905
Deferred income tax liabilities	12,296	–				12,296
	13,201	–				13,201
Net assets	1,509,645	18,679				1,509,645

NOTES TO THE UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES:

1 The figures are extracted from the unaudited pro forma statement of net assets as included in the circular issued by the Company in connection with its very substantial disposal dated 18 January 2008 as set out in Appendix III to that circular.

2 The figures are extracted from the accountants' report on the REC Group as set out in Appendix II to this circular.

3 The adjustments represent the acquisition by the Group of the entire equity interest in REC Group for a cash consideration of HK$46,000,000 and expenses relating to the acquisition of approximately HK$3,500,000. For the purpose of the unaudited pro forma financial information, the available bank balances were partially utilised in the settlement of the acquisition consideration.

Intangible assets (including goodwill) of approximately HK$30,821,000 from the acquisition represents the difference between the consideration and the REC Group's net assets as at 31 December 2007. Since the fair value of the net identifiable assets of REC Group at the date of completion of the acquisition may be substantially different from the fair value used in the preparation of this unaudited pro forma statement of assets and liabilities of the Enlarged Group, the final amount of intangible assets (including goodwill) to be recognised in connection with the acquisition will be different from the estimated intangible assets (including goodwill) stated herein.

4 The adjustment reflects the net settlement of all balances owing to MEHG Group companies by the REC Group, amounting to HK$90,490,000, in accordance with the terms of the agreement.

5 The adjustments reflect the elimination of trading balances between the Group and REC Group on 30 September 2007.

6 No adjustment has been made to reflect any trading results or other transactions of the Group and REC Group entered into subsequent to 30 September 2007 and 31 December 2007 respectively. In particular, (i) REC declared and paid an interim dividend totally HK$15,300,000 to its shareholders on 19 March 2008; (ii) on 29 January 2008, an arbitration decision was reached denying certain claims made by the Company against one of its customers for works done. The Group has continued in negotiations with the customer to settle the remaining outstanding claims made by the Company against the customer upon such terms and conditions as shall be mutually agreed by the parties. As a result of the arbitration decision and in light of the ongoing negotiations, the Group expects to write down receivables of approximately HK$68 million that were carried in the amounts "Due from customers of construction contracts" as at 30 September 2007.

B. REPORT ON THE UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE GROUP

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF YAU LEE HOLDINGS LIMITED

We report on the unaudited pro forma financial information set out on pages 139 to 141 under the heading of "Unaudited Pro Forma Financial Information on the Enlarged Group" (the "Unaudited Pro Forma Financial Information") in Appendix IV of the circular dated 30 May 2008 (the "Circular") of Yau Lee Holdings Limited (the "Company"), in connection with the proposed acquisition of Ryoden Engineering Company Limited (the "Transaction") by the Company. The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Transaction might have affected the relevant financial information of the Company and its subsidiaries (hereinafter collectively referred to as the "Group"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages 139 to 141 of the Circular.

Respective Responsibilities of Directors of the Company and the Reporting Accountant

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by rule 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unaudited statement of assets and liabilities of the Group as at 30 September 2007 with the unaudited pro forma statement of net assets of the Group as set out in the circular issued by the Company in connection with its very substantial disposal dated 18 January 2008, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 30 September 2007 or any future date.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 May 2008

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular, and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

DISCLOSURE OF INTERESTS

(i) Interests of Directors

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company and their associates in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered into the register required to be kept under section 352 of the SFO; and the interests and short positions of the Directors in the Shares and the underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, are as follows:

Shares of HK$0.2 each in the Company

	Number of shares held (long position)	
Director	**Corporate interest**	**Approximate % shareholding**
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 Investment Company Limited and Billion Goal Holdings Limited. All Fine Investment Company Limited and Billion Goal Holdings Limited are incorporated in the Cook Islands and the British Virgin Islands respectively. Mr. Wong Ip Kuen is a director of both All Fine Investment Company Limited and Billion Goal Holdings Limited.

As at the Latest Practicable Date, none of the Directors and chief executive (including their spouses and children under 18 years of age) had any interests 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).

As at the Latest Practicable Date, neither was the Company, its subsidiaries, its associates or its jointly controlled entities a party to any arrangement to enable the Directors and chief executive 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.

Saved as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors and chief executive of the Company, none of the Directors or chief executive of the Company and their associates had any interests and short positions in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered into the register required to be kept under section 352 of the SFO; and none of the Directors is a director or employee of company which had an interest or short position in the Shares and the underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(ii) Interests of substantial Shareholders

As at the Latest Practicable Date, so far as is known to the Directors and the chief executive of the Company, none of the persons (other than a Director or chief executive of the Company) had an interest or short position in the Shares and underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or recorded in the register kept by the Company pursuant to Section 336 of the SFO, or who were, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group.

MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Enlarged Group within the two years immediately preceding the Latest Practicable Date and are, or may be, material:

(a) An indirectly wholly-owned subsidiary of the Company, Century Score Limited as the vendor, had accepted a tender on 21 November 2007 submitted by Smart Easy Enterprises Limited to purchase the property at No. 33 Sharp Street East and No. 11 Yiu Wa Street, Causeway Bay, Hong Kong, named the Express by Holiday Inn Causeway Bay Hong Kong at a total cash consideration of HK$1,580,000,000.

(b) the Agreement.

Save as disclosed above, none of the members of the Enlarged Group has entered into any contracts (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this circular that are or may be material.

OTHER INTERESTS OF DIRECTORS

(i) Interests in service contracts

As at the Latest Practicable Date, none of the Directors had entered into any service contracts with any member of the Group which were not expiring or determinable by the employer within one year without payment of compensation other than statutory compensation.

(ii) Interests in assets of the Group

Since 31 March 2007, the date to which the latest published audited accounts of the Company have been made up, none of the Directors has, or has had, any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to, any member of the Group.

(iii) Interests in contracts or arrangement

None of the Directors is materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Group.

(iv) Interests in competing business

As at the Latest Practicable Date, none of the Directors and his/her respective associates was considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group other than those businesses to which the Directors and his/her associates were appointed to represent the interests of the Company and/or of the Group.

EXPERTS AND CONSENTS

The following is the qualifications of the experts who have given opinions or advice which are contained in this circular:

Name	Qualification
PricewaterhouseCoopers	Certified public accountants
KPMG	Certified public accountants

Both PricewaterhouseCoopers and KPMG have given and have not withdrawn their respective written consents to the issue of this circular with the inclusion herein of their respective reports (as the case may be) and references to their respective names, in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of PricewaterhouseCoopers or KPMG was beneficially interested in the share capital of any member of the Group, nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did they have any interest, either direct or indirect, in any assets which had been since 31 March 2007 (being the date to which the latest published audited accounts of the Company were made up) acquired or disposed of by or leased to any member of the Group or which were proposed to be acquired or disposed of by or leased to any member of the Group.

LITIGATION

The Company considers that there is no litigation or claims of the material importance pending or threatened against any member of the Enlarged Group other than those minor claims set forth in page 75 and 76.

MISCELLANEOUS

(i) The secretary and qualified accountant of the Company is Mr. Chui Man Lung, Everett. Mr. Chui is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

(ii) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Ltd. situated at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(iii) The registered office of the Company is Clarendon House, Church Street, Hamilton HM 11, Bermuda.

(iv) The English text of this circular shall prevail over its Chinese text.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the principal place of business of the Company in Hong Kong from the date of this circular up to and including 30 June 2008.

(i) this circular;

(ii) the Company's circular for very substantial disposal dated 18 January 2008;

(iii) the memorandum of association and Bye-laws of the Company;

(iv) the audited financial statements of the Company for each of the two financial years ended 31 March 2006 and 2007;

(v) the respective consent letters from PricewaterhouseCoopers and KPMG referred to in the section headed "Experts and Consents" in this Appendix;

(vi) the report from PricewaterhouseCoopers on the unaudited pro forma financial information on the Enlarged Group, the text of which is set out in Appendix IV to this circular;

(vii) the accountants' report from KPMG on the financial information of REC Group, the text of which is set out in Appendix II to this circular; and

(viii) the material contracts referred to in the section headed "Material Contracts" in this Appendix.