

Chairman's Statement

Results of the Year

The consolidated turnover of Yau Lee Holdings Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31st March 2005 was HK\$1,355,583,000 compared to HK\$1,069,158,000 in 2004. The gross profit has increased moderately to HK\$121,497,000 (2004: HK\$105,845,000). The operating profit has, however, decreased to HK\$69,067,000 (2004: HK\$227,107,000, as restated) due to the significant decrease in fair value gain on the Group's investment properties from HK\$217,591,000 in 2004 to HK\$54,857,000 in 2005. Excluding the fair value gain, the operating profit has increased by 49% despite the difficult market condition in the construction sector owing to relentless efforts in cost control.

Dividends

An interim dividend of HK\$0.0035 (2004: Nil) per share was declared and paid during the year. The Board of Directors recommends the payment of a final dividend of HK\$0.0075 (2004: HK\$0.01) for the year ended 31st March 2005. Together with the interim dividend paid, the total dividend declared for the year is HK\$4,851,000.

Review of Operation

Building Construction, Building Renovation and Maintenance

During the year under review, the Group's wholly owned subsidiary, Yau Lee Construction Company Limited ("Yau Lee Construction") has completed one contract with contract sum of HK\$180 million. Contracts newly secured during the year amounted to HK\$415 million; namely District Term Contract for the Maintenance and Vacant Flat Refurbishment for Chuk Yuen, Choi Wan and Tsui Ping Estates, Redevelopment of Kwai Chung Flatted Factory Site and No.8 Essex Crescent. The total value of contracts in hand as at 31st March 2005 was HK\$3,741 million (2004: HK\$3,506 million). Subsequent to the year end, Yau Lee Construction has further secured three contracts with total value of HK\$1,399 million (including Science Park Phase 2 Area B, Term contract for fitting out works at Kowloon and New Territories West and No. 6 Essex Crescent).

Although the Hong Kong economy has improved since 2004, the construction industry is yet to be benefited. In order to remain competitive, the Group continues to enhance productivity through application of innovative building techniques and information technologies, practice stringent quality control and effective safety and environmental management. The Group firmly believes that the aforementioned will give us a competitive edge and this was reflected in the successful bidding of the Redevelopment of Kwai Chung Flatted Factory Site and Science Park Phase 2 Area B projects.

The Group's effort in quality, safety and environmental protection are well recognised by clients and resulted in over 16 awards received by Yau Lee Construction, its employees and subcontractors during the year. The major awards received are:

1. the "Gold Award in the Category of Green Construction Contractor" for the **2004 Hong Kong Eco-Business Award**
2. the "Gold Award for Building Sites (Public Sector)" for **Safety Award Scheme for the Construction Industry**
3. the "Gold Award for Building Sites (Sub-contractor Category)" for **Safety Award Scheme for the Construction Industry**

Chairman's Statement

Review of Operation *(Continued)*

Building Components Trading and Manufacturing

Despite the fact that the construction market has not yet recovered, the Group's prefabricated building components business recorded an increased turnover of approximately HK\$94 million during the year. The Group's wholly owned subsidiary, Yau Lee Wah Concrete Precast Products Company Limited ("Yau Lee Wah") has successfully completed contracts with an estimated total value of HK\$91.4 million, including projects from the Government as well as private property developers. Going forward, Mainland China, Macau and Hong Kong will continue to be the major markets of Yau Lee Wah. Yau Lee Wah will continue to explore new markets and new product lines such as decorative products in addition to the existing building products base. Subsequent to the year end, Yau Lee Wah has entered into a joint venture with a Canadian company to develop the market of gypsum based decorative products in the region.

Property Development

The Group development project at Sharp Street East and Yiu Wa Street in Causeway Bay, a 27-storey building named as "33 Sharp Street East", has obtained Government approvals to change the use of certain floors of the building to hotel. Conversion work for the hotel has been completed. The Group is finalising the lease modification requirements with the Government before the hotel licence can be issued. It is expected that the hotel will commence its business in the third quarter of 2005. The Group has also contracted the InterContinental Hotels Group (the "IHG") as the manager of the hotel. The IHG is one of the largest hotel chains in the world which operates reputable brands such as InterContinental, Holiday Inn and Express by Holiday Inn etc. The management believes IHG's experience and marketing network in the field will add value to the hotel. The commercial floors of the building are fully let to a variety of retailers and food and beverage outlets. The leases have started to generate a constant stream of rental income to the Group.

Plumbing Works and Building Material Trading

Ming Hop Company Limited ("Ming Hop"), a wholly owned subsidiary of the Group, specializes in plumbing works and building materials trading and provides reliable installation and design service to Yau Lee Construction's projects. To take advantage of the CEPA, Ming Hop has formed a trading subsidiary in the Mainland China to engage in the import/export of building materials subsequent to year end.

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Outlook

Despite signs of recovery continue to emerge and the Hong Kong economy and confidence are bound to improve as a whole, recovery in the Hong Kong construction market is not so obvious. In fact there are signs of further decline in construction output in the first half of 2005 when compare with last year. With a team of highly professional and committed staff, the management believes that the Group will be able to keep abreast of the highly competitive environment and will be one of the first to capture the opportunities when the industry rebounds.

The diversification of the Group's business into property investments and hotel operation will bring an extra source of income to the Group in the years to come. With the continuing increase of both business and leisure visitors to Hong Kong, the management expects the Group's investments in hotel and retail properties to contribute a stable and reasonable return.

Apart from thriving to excel in its existing business, the Group will continue its pursuit for opportunities in different areas related to the property and construction sector. The management shall adopt a prudent approach while evaluating opportunities to diversify the Group's business to avoid exposing the Group to unnecessary risks.

By order of the Board

Wong Ip Kuen

Chairman

Hong Kong, 21st July 2005