

# Chairman's Statement

## RESULTS OF THE YEAR

The consolidated turnover of Yau Lee Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31st March 2006 has increased by 7% to HK\$1,452,208,000 (2005: HK\$1,355,583,000) while the gross profit increased by 3% to HK\$125,290,000 (2005: HK\$121,497,000). The gross profit margin remains stable at approximately 9% for this year and the previous year. The operating profit has, however, decreased by 61% to HK\$27,044,000 (2005: HK\$69,067,000) due to the HK\$46 million decrease in the fair value gain of the Group's investment properties. If the fair value gain on properties are excluded, the Group's operating profit recorded a 27% growth to HK\$18,044,000 compare with HK\$14,210,000 of 2005. This increase was mainly contributed by the profit generated by the hotel owned by the Group which began its operations in November 2005. However the Group's results was affected by the increases in finance costs due to the increase in interest rates during the year. The profit attributable to shareholders as a result was only HK\$1,967,000 (2005: HK\$47,085,000). The net assets value of the Group as at 31st March 2006 was HK\$814,332,000 (2005: HK\$818,263,000) equivalent to HK\$1.85 (2005: HK\$1.86) per share based on the 440,949,600 (2005: 440,949,600) ordinary shares in issue.

## DIVIDENDS

No interim dividend (2005: HK\$0.0035) was declared during the year. The Board of Directors of the Company (the "Directors") does not recommend the payment of a final dividend for the year ended 31st March 2006 (2005: HK\$0.0075).

## REVIEW OF OPERATION

### Building Construction, Renovation and Maintenance

During the year, the Group completed eight contracts with a total contract value of HK\$2,783 million and secured six new contracts with total contract sum of HK\$2,319 million. As a result the total value of contracts in hand has decreased to HK\$3,277 million (2005: HK\$3,741 million). Subsequent to the year end, the Group has further secured the Completion Contract for the Construction of Fanling Area 36 Phase 1 with a contract value of HK\$552 million.

The Group has always placed significant effort in safety, quality and environmental protection. The effort is well recognized by our clients and the Group's subsidiary, Yau Lee Construction Company Limited ("Yau Lee Construction") was awarded 25 awards during the year. A few of the major awards are:

1. the "Gold Award for Outstanding Contractor (Building Category)" for the **2005 Quality Public Housing Construction & Maintenance Award**
2. the "Gold Award for Outstanding Contractor (District Term Contract Category)" for the **2005 Quality Public Housing Construction & Maintenance Award**
3. the "Gold Award in the Category of Green Construction Contractor" for the **2005 Hong Kong Eco-Business Award**
4. the "Gold Award for Building Sites (Public Sector)" for **Safety Award Scheme for the Construction Industry**
5. 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 Manufacturing and Trading

The Group recorded a decline in the turnover of building material and components trading during the year due to the slowdown of both public and private housing development in Hong Kong.

The Group has continuously expanded its product range as a strategy to increase revenue source. During the year, the Group formed a joint venture company, Yau Lee Formglas Limited (the "JV") with a Canadian company to engage in the supply and install of decorative products for both local and overseas markets. The JV successfully secured a fitting-out contract in Macau with a contract sum of approximately HK\$168 million.

### Property Development

The Group's property development project, 33 Sharp Street East, in Causeway Bay comprises of 6 floors of commercial units and a 269 rooms hotel. All the commercial units were fully let since last year. The hotel is branded "Express by Holiday Inn" and managed by the InterContinental Hotels Group under a management contract. The hotel began operation in November 2005 and average occupancy rate was higher than the market average.

### Other Operations

The Group's plumbing division continues to provide reliable design and installation services to construction projects undertaken by Yau Lee Construction.

The information technology division has not reached its sales target and remained a cost centre for the Group. Efforts to reduce costs by shifting the work into Mainland China and to increase income by stronger marketing activities have achieved some result. The division will continue its efforts to increase sales and control costs.

## OUTLOOK

The Hong Kong Economy has recorded healthy growth since 2004. However, signs of recovery in construction sector are less obvious than those of other sectors of the economy. The competitiveness of the market also resulted in consolidation within the industry. The contracts available in the market demand greater technical and financial strength, especially with a number of major Government design and build contracts to be tender in the near future. The Group, foreseeing such trend, has been strengthening its technical ability to be well prepared to face the market challenge. And at the same time planning to form joint ventures with fellow construction companies to bid for those contracts. The management is of the view that the industry will become more lively and the Group will actively participate in tendering to capture the opportunities from the improved market conditions.

The tremendous building and infrastructure activities in the Macau SAR have created opportunities for construction companies in Hong Kong. The Group has been trying to capture the opportunities there since last year, and successfully obtained a contract there. The management shall continue to look for opportunities in both the public and private sectors in Macau in the coming year.

The tourism industry has maintained its growth momentum during the year and the trend is expected to continue in the years to come. Tourists from Mainland China will continue to increase with the approval of more cities to allow individual travelers to visit Hong Kong. The expansion of trade exhibition facilities in Hong Kong will also bring in more visitors to Hong Kong. Therefore the management is confident that the Group's hotel, with its convenient location for both business and leisure travelers, will continue to do well and will contribute a stable stream of income in the years to come.

By order of the Board

**Wong Ip Kuen**

*Chairman*

Hong Kong, 17th July 2006