

## CHAIRMAN'S STATEMENT

I am pleased to present to Shareholders the interim report and condensed consolidated financial statements of Paul Y. - ITC Construction Holdings Limited (the "Company") and its subsidiaries (together with the Company, the "Group") for the six months ended 30th September, 2004. The consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity of the Group for the six months ended 30th September, 2004 and the consolidated balance sheet of the Group as at 30th September, 2004, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 18 to 31 of this report. This interim report has been reviewed by the Company's audit committee and auditors.

## DIVIDEND

The board of directors of the Company ("Board") has resolved to pay an interim dividend of 1.5 cents per share for the six months ended 30th September, 2004 (2003: 1 cent per share for interim dividend and 29 cents for special dividend) to shareholders whose names appear on the register of members of the Company as at the close of business on 12th January, 2005. The interim dividend is expected to be paid to shareholders by post on or around 3rd February, 2005.

The Board has considered and intends to distribute a material portion of the proceeds from the sale of the shareholding in Downer EDI Limited ("Downer") as a cash dividend to the shareholders. No firm decision has been made to the amount of the dividend or the timing of its declaration. A further announcement will be made when such dividend is declared.

## CLOSE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 10th January, 2005 to 12th January, 2005, both dates inclusive, during which period no share transfer shall be effected. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's share registrars in Hong Kong, Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration by no later than 4:00 p.m. on 7th January, 2005.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial performance and positions

For the six months period under review, the Group's consolidated turnover was approximately HK\$1,679 million similar to that of last corresponding period.

The thin margin construction contracts associated with the residual effect of the financial crisis and property slump in the past years have been completed. The Group's gross profit rose encouragingly by 210% to some HK\$91 million, representing a gross margin of 5.4% of the consolidated turnover. Profit from operations of some HK\$27 million was achieved as compared with a corresponding loss of some HK\$34 million for same period last year. Finance costs was some HK\$3 million, showing a reduction of some HK\$3 million from same period last year. A net investment income of some HK\$12 million has been recorded which represented mainly interest income of HK\$20 million net of realised and unrealised loss in securities trading of about HK\$10 million.

## 主席報告書

本人欣然向股東提呈保華德祥建築集團有限公司(「本公司」)及其附屬公司(連同本公司,統稱「本集團」)截至二零零四年九月三十日止六個月之中期報告及簡明綜合財務報告。本集團截至二零零四年九月三十日止六個月之綜合收益表、綜合現金流動表及綜合股本變動表,以及本集團於二零零四年九月三十日之綜合資產負債表均未經審核及屬簡明性質,並只附載部份說明性之附註,全部載於本報告第十八至第三十一頁。本公司之審核委員會及核數師已審閱本中期報告。

## 股息

本公司董事局(「董事局」)已決議向於二零零五年一月十二日辦公時間結束時名列本公司股東名冊之股東派付截至二零零四年九月三十日止六個月之中期股息每股港幣1.5仙(二零零三年:中期股息每股港幣1仙及特別股息每股港幣29仙)。中期股息預計於二零零五年二月三日左右以郵寄方式向股東派付。

董事局考慮及有意分派Downer EDI Limited(「Downer」)股權之出售所得款項中大部份予股東,作為現金股息。股息額及宣派時間未有定案。宣派有關股息時將另行發表公佈。

## 暫停辦理股東登記手續

本公司將於二零零五年一月十二日至二零零五年一月十二日(包括首尾兩日)暫停辦理股東登記手續,期內將不會登記任何股份之轉讓。如欲獲派中期股息,所有股份過戶文件連同有關股票,最遲須於二零零五年一月七日下午四時前交回本公司之香港股份過戶登記處秘書商業服務有限公司以供登記,地址為香港灣仔告士打道56號東亞銀行港灣中心地下。

## 管理層討論及分析

### 財務表現及狀況

於回顧六個月期內,本集團之綜合營業額約為1,679,000,000港元,與去年同期相若。

過去數年來金融危機與樓市低迷導致建築合約利潤微薄之時終於過去,本集團之毛利躍升210%,達91,000,000港元,成績叫人鼓舞,毛利為綜合營業額之5.4%。經營溢利約為27,000,000港元,而去年同期則錄得約34,000,000港元之經營虧損。融資成本約為3,000,000港元,比起去年同期減少約3,000,000港元。本集團亦錄得約12,000,000港元之淨投資收入,主要是20,000,000港元之利息收入扣除證券買賣之已實現及未實現虧損約10,000,000港元。

Downer continues to perform well but the Group's share of its profit decreased as compared with same period last year due to the partial disposal of interests last year. Further offset by the share of loss of China Strategic Holdings Limited ("China Strategic") which became the Group's associate in September 2003, the Group's share of results of associates and jointly controlled entities registered a profit of about HK\$49 million, a drop of 59% as compared with the corresponding amount of HK\$119 million for the same period last year. Taxation of some HK\$32 million represented mainly the overseas tax in respect of dividend received from and share of income tax of Downer. Profit for the period was HK\$38 million and basic earnings per share was 2.8 cents.

When compared with the Group's financial positions as at last year end, total assets increased by 30% to some HK\$6,318 million and net current assets decreased slightly by 4% to some HK\$860 million. Current assets remained at 1.6 times of current liabilities. Net debts to equity ratio remained at 0.1 times. Mainly due to the fluctuation in Australian dollars around the balance sheet date and resulting impact on the Group's interest in Downer, exchange reserve decreased by some HK\$31 million. Coupled with a dividend payable of HK\$20 million and offset by the net profit of HK\$38 million for this period, shareholders' funds decreased slightly by 1% to some HK\$2,758 million.

Net cash inflow from operations was about HK\$66 million and net outflow in respect of investing and financing activities was HK\$72 million, resulting in a net decrease in cash of about HK\$6 million for the period.

## OPERATIONS

### Contracting and construction materials

During the period, the Group secured new contracts with an aggregate value of approximately HK\$2,795 million, of which some HK\$2,263 million of building construction contracts, some HK\$438 million of civil engineering contracts and some HK\$94 million of specialist works contracts.

Value of work remaining grew considerably by 19% to approximately HK\$5,865 million at this period end though contracts on hand decreased by 17% to approximately HK\$9,309 million when compared with last financial year end. Profile of contracts on hand at the end of this period is as follows:

Downer繼續保持理想表現，惟因本集團於去年出售部份Downer權益，故本集團應佔之Downer利潤較去年同期為少。再加上需要抵銷攤佔中策集團有限公司(「中策」)(於二零零三年九月成為本集團之聯營公司)之虧損，本集團攤佔聯營公司及共同控制公司之業績為錄得約49,000,000港元之溢利，較去年同期之119,000,000港元下跌59%。約32,000,000港元之稅項主要因收取Downer派發之股息招致海外稅項及攤佔其所得稅款而產生。期間溢利為38,000,000港元，而每股基本盈利則為港幣2.8仙。

與本集團上年度結束時之財政狀況相比，本集團之總資產增加30%至約6,318,000,000港元，流動資產淨值微跌4%至約860,000,000港元。流動資產保持在相當於流動負債之1.6倍。資產負債淨額比率維持在0.1倍。因本集團於Downer之權益乃以澳元計算，而在結算日左右澳元波動，導致匯兌儲備減少約31,000,000港元，計入本期間20,000,000港元之應付股息並以期內純利38,000,000港元抵銷，股東資金微降1%至大約2,758,000,000港元。

經營業務之現金流入淨額約為66,000,000港元，而投資及融資之現金流出淨額則為72,000,000港元，導致本期間之現金淨額減少約6,000,000港元。

## 業務

### 合約工程及建築材料

期內，本集團取得之新工程合約總值約2,795,000,000港元，其中約2,263,000,000港元為樓宇建築工程合約、約438,000,000港元為土木工程合約，以及約94,000,000港元為專項工程合約。

於本期間結束時，尚餘之工程價值相較上一個財政年度結束時大幅上升19%至約5,865,000,000港元，惟持有工程合約價值則下跌17%至約9,309,000,000港元。於本期間結束時持有之工程合約如下：

		Value of contracts on hand As at 30/9/2004 二 零 零 四 年 九 月 三 十 日 持有工程合約價值 HK\$'million 百 萬 港 元	Value of work remaining As at 30/9/2004 二 零 零 四 年 九 月 三 十 日 餘下工程價值 HK\$'million 百 萬 港 元
Building construction	樓宇建築工程	6,880	4,238
Civil engineering	土木工程	1,474	1,067
Specialist works	專項工程	955	560
		<b>9,309</b>	<b>5,865</b>

The uptrend in the Group's remaining work-on-hand and gross margin continues. The Group also adopts a design and build procurement method on a cost plus basis in order to improve margins for construction contracts and as a result, the Group has successfully secured a hotel design and build contract in Macau during the period. With the ongoing vigorous cost saving measures, performance of all construction business segments of the Group improves satisfactorily.

Subsequent to the period end, the Group has secured further HK\$168 million in respect of specialist works.

#### Property

The Group's property investment in Paul Y. Centre, the Group's headquarter in Kwun Tong, excluding those self-used portion, amounted to some HK\$455 million as at the period end, equivalent to 7% of the total assets of the Group.

The overall rental rates of Paul Y. Centre remain unchanged as compared with that of last year and occupancy rate was maintained at the satisfactory level of around 91% at the period end.

Subsequent to the period end, the Group has acquired property interests in the PRC for HK\$43 million which are intended to be held for resale and development in the future.

### PAUL Y. ENGINEERING GROUP

In March 2004, the Group entered into agreements relating to a capital reorganisation, asset and debt restructuring proposal (the "Skynet Restructuring Proposal") of Skynet (International Group) Holdings Limited ("Skynet"), a company whose shares are listed on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange"). Pursuant to the Skynet Restructuring Proposal, the entire interest of the Group's construction, engineering and concrete products business will be sold to Skynet in exchange of about 95% equity interest in Skynet. Upon completion of this proposal by late January 2005, Skynet will be rebranded as Paul Y. Engineering Group and the Group will reduce its stake to no more than 75%. Being separately listed, Paul Y. Engineering Group will be able to pursue its growth and expansion strategies in China and overseas independent of the Company.

### PAUL Y. INFRASTRUCTURE

Development of the 54%-owned bulk handling Yangkou Deep Sea Port in Nantong City, China progresses well. Technical feasibility and strategic positioning studies have been completed. Initial design development will commence in early 2005. 42km<sup>2</sup> of marine use rights for the purpose of reclaiming land to develop an industrial park has been secured. 10km<sup>2</sup> of reclaimed land is substantially completed with a further 12km<sup>2</sup> scheduled be completed by February 2005. US\$13 million has been injected by both Paul Y. Infrastructure and the local partner on the basis of 60/40 with a further amount of US\$17 million to be injected before the end of 2004. Initial construction financing in the amount of RMB70 million has been granted by the China Construction Bank.

本集團餘下工程及利潤增加之勢頭持續。本集團現已採納提成基準設計施工統包之方式以提升建築合約之利潤，因此，本集團於期內成功奪得澳門一項酒店設計施工合約。憑藉持續不懈之節省成本措施，本集團各建築業務分部表現皆取得滿意之改善。

期結日後，本集團再取得168,000,000港元之專項工程合約。

#### 物業

於本期間結束時，若撇除自用物業，本集團之投資物業（即位於觀塘之總部保華企業中心物業）之價值約為455,000,000港元，相當於本集團總資產7%。

保華企業中心之整體租金水平保持穩定，與去年相若，在本期間結束時之佔用率則維持在約91%之水平左右，成績不俗。

於本期間結束後，本集團以43,000,000港元收購位於中國之物業權益，有關物業現計劃持作轉售及發展。

### 保華建業集團

於二零零四年三月，本集團訂立多份有關一間於香港聯合交易所有限公司（「香港聯交所」）上市之天網（國際集團）有限公司（「天網」）之股本重組及資產與債務重組之計劃（「天網重組計劃」）。根據天網重組計劃，本集團建造、工程及混凝土產品業務全部權益將售予天網以換取天網約95%股權。此建議於二零零五年一月底完成後，天網將重新定名為保華建業集團，而本集團將減持權益至不多於75%。保華建業集團分拆上市後，其將獨立於本公司而實行中國及海外之增長及擴充策略。

### 保華基建

本集團持有54%權益之中國南通市洋口深水港大宗散貨深水碼頭進展良好。相關技術可行性及策略定位研究亦已完成，初步設計發展將於二零零五年初開始。本集團已取得使用42平方公里填海所得土地發展工業園之海域使用權，其中10平方公里填海所得土地已大致完成，另12平方公里則定於二零零五年二月前完成。保華基建已與當地合作夥伴按六四比例注資13,000,000美元，另將於二零零四年底前注入17,000,000美元。中國建設銀行已批出人民幣70,000,000元之初步建築融資。