Review of financial performance and position

For the year ended 31st March, 2005, the Group recorded a consolidated turnover of approximately HK$3,588 million (2004: HK$3,382 million), representing an increase of approximately 6% when compared with that of last year. The increase was mainly attributable to the increase of the Group's business in treasury investment.

Construction contracts with thin margin resulting from the residual effect of the financial crisis and property slump in Hong Kong during the past years had been completed during the year. The Group's gross profit rose encouragingly by 130% to some HK$225 million (2004: HK$98 million), representing a gross margin of approximately 6% of the consolidated turnover. Profit from operations of some HK$54 million was achieved as compared with operating loss of some HK$77 million last year. The Group's profit from operations comprised: (i) net gain of approximately HK$72 million in construction and other contracting businesses (2004: HK$41 million loss); (ii) net gain of approximately HK$23 million in property investment (2004: HK$15 million); (iii) net gain of approximately HK$8 million in treasury investment (2004: Nil); (iv) interest income of approximately HK$52 million (2004: HK$37 million); and (v) net loss of approximately HK$101 million in corporate business (2004: HK$88 million).

During the year under review, the Group disposed of all its remaining shareholding interest in Downer EDI Limited ("Downer") and recorded a gain of approximately HK$536 million (2004: HK$179 million). The gain was partially offset by the loss on dilution of interest in China Strategic Holdings Limited ("China Strategic") and Downer of approximately HK$16 million (2004: HK$26 million). Share of results of associates and jointly controlled entities registered a profit of approximately HK$81 million (2004: HK$143 million), showing a decrease of about 44% when compared with that of last year, which was mainly due to the further disposal of interest in Downer during the year. In addition, the partial disposal of Paul Y. Engineering Group Limited ("Paul Y Engineering") through a share placement in January 2005 contributed a gain of approximately HK$68 million to the Group. With a remarkable contribution of profits from the disposal of shares in Downer and the share of its results, the Group attained a profit before tax of approximately HK$534 million (2004: HK$209 million). Profit for the year was approximately HK$523 million (2004: HK$164 million) and basic earnings per share was HK38.6 cents (2004: HK14.6 cents).

When compared with the Group's financial position as at last year end, total assets increased by about 46% to some HK$7,111 million (2004: HK$4,862 million) and net current assets increased by about 132% to some HK$2,073 million (2004: HK$895 million). Consequently, current assets improved from 1.6 times to 2.1 times of current liabilities and net debt position in last year changed to net cash position as at the end of year under review. Mainly owing to the disposal of interest in Downer and devaluation of Australian dollars, translation reserve decreased by some HK$84 million. After taking into account the net profit of approximately HK$523 million net of dividends paid of HK$41 million, shareholders' funds increased by 15% to some HK$3,180 million (2004: HK$2,771 million), representing HK$2.3 per share as at year end date (2004: HK$2.1 per share).

Net cash outflow from operations was about HK$82 million (2004: HK$77 million) and net cash inflow in respect of investing and financing activities was about HK$1,096 million (2004: HK$96 million), resulting in a net increase in cash of approximately HK$1,014 million (2004: HK$19 million) for the year under review.

Review of operations

Construction and contracting businesses

Paul Y Engineering

Upon completion of the asset and debt restructuring proposal (the "Skynet Restructuring Proposal") of Skynet (International Group) Holdings Limited ("Skynet"), a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), in January 2005, the Group's entire interests in the construction, engineering and concrete products business were injected into Skynet which has since been renamed Paul Y. Engineering Group Limited. Through Paul Y Engineering and its subsidiaries (the "Paul Y Engineering Group"), the Group continues to engage in the construction and other contracting businesses including building construction, civil engineering and specialist works.

During the year under review, the Paul Y Engineering Group achieved a gross profit of some HK$192 million as compared with a corresponding gross profit of some HK$68 million for last year. Net profit after tax for the year was HK$80 million versus net loss of HK$62 million of last year.

New contracts with an aggregate attributable value of approximately HK$2,978 million were secured during the year. As at the year end, value of work remaining dropped by 8% to approximately HK$4,521 million when compared with last financial year end. The profile of contracts on hand as at 31st March, 2005 is as follows:

	Value of contracts on hand as at 31/3/2005 HK$'million	Value of work remaining as at 31/3/2005 HK$'million
Building construction	4,788	3,244
Civil engineering	1,557	775
Specialist works	878	502
Total	**7,223**	**4,521**

Subsequent to the year end, the Paul Y Engineering Group secured further contracts with an aggregate attributable value of approximately HK$1,315 million.

The uptrend in the Paul Y Engineering Group's gross margin is forecasted to continue. The Paul Y Engineering Group is moving up the value chain to project management service, having leverage on well established client relationship in providing design and construction solution to its clients. With ongoing vigorous cost saving measures, performance of all business segments of the Paul Y Engineering Group improves satisfactorily.

Port and infrastructure development

Paul Y Infrastructure

Development of the 54%-owned deep-water bulk cargo Yangkou Port in Nantong progressed well during the year. The port will cover 42 km^2 of reclaimed land on the eastern coast of Nantong and is the only natural harbour on Jiangsu Province's eastern coast. Strategically located at the mouth of the Yangtze River, Yangkou Port is ideally situated to become one of China's largest trans-shipment hubs, catering for rapidly growing bulk cargo volumes in strategic commodities such as oil and gas, coal, minerals, agriculture, chemicals, pulp and paper.

Technical feasibility, strategic positioning studies and initial design development of Yangkou Port have been completed. 42 km^2 of marine use rights for the purpose of reclaiming land to develop the port has also been secured, with reclamation of a total area of approximately 21 km^2 substantially completed as an initial stage. So far, approximately US$30 million has already been injected by both Paul Y Infrastructure and the local PRC partner on a 60/40 basis, and initial construction financing in the amount of RMB70 million from China Construction Bank has been granted.

Property investment

Total value of the Group's property portfolio, excluding those self-used properties, amounted to approximately HK$546 million (2004: HK$515 million) as at 31st March, 2005, equivalent to about 8% (2004: 11%) of the total assets of the Group. Included in the property portfolio is mainly Paul Y. Centre, the Group's headquarters in Kwun Tong, Hong Kong. Overall rental rates of Paul Y. Centre increased as compared with that of last year, and occupancy rate was maintained at a satisfactory level of around 97% (2004: 94%) as at 31st March, 2005. During the year under review, HK$23 million (2004: HK$15 million) of the operating profit was contributed from the business of property investment.

Treasury investment

Total value of the Group's investment securities amounted to approximately HK$173 million as at 31st March, 2005, equivalent to about 2% of the total assets of the Group. Portfolio of high-yield loan receivables amounted to approximately HK$668 million (2004: HK$557 million) as at 31st March, 2005, equivalent to about 9% (2004: 11%) of the total assets of the Group. During the year under review, operating profit of HK$8 million (2004: Nil) was contributed from the business of treasury investment and interest income of HK$52 million (2004: HK$37 million) was recorded.

Major associates

Downer

In November 2004, a company controlled by certain executives of Downer purchased from the Group 5.5 million shares in Downer at A$2.2 each pursuant to the incentive option agreement entered into with the Company in April 2003 and the subsequent settlement agreement dated 29 November 2004. As a result of such disposal, the Group realized an amount of approximately HK$73 million and recorded net profit after tax and expenses of approximately HK$5 million.

In December 2004, the Group disposed of its entire remaining interest in Downer of 56.2 million shares at a price of A$4.55 each to independent third parties. As a result of such disposal, the Group further realized an amount of approximately HK$1,504 million and recorded net profit after tax and expenses of approximately HK$531 million.

The Group no longer has any shareholding interest in Downer after these disposals.

China Strategic

In March 2005, the Company entered into a sale and purchase agreement with an independent third party in relation to the disposal of 135 million shares in China Strategic (representing approximately 15.4% of its existing share capital) at HK$0.193 per share, amounting to a total consideration of HK$26.1 million. Upon completion of the disposal, the Group's shareholding interest in China Strategic will decrease from 29.4% to approximately 14%, and China Strategic will cease to be an associated company of the Company.

The disposal is conditional upon, inter alia, the completion of a capital reorganisation (including, inter alia, a consolidation of two existing shares into one consolidated share) and a group reorganisation involving in specie distribution of certain assets to shareholders by China Strategic. Hanny Holdings Limited ("Hanny") has in turn proposed a voluntary general offer (the "Hanny Offer") to acquire the assets distributed under the group reorganisation. Under this offer, the Group will be entitled to receive either one Hanny share plus HK$1.80 for every 5 consolidated shares of China Strategic or a convertible bond issued by Hanny with a face amount of HK$15 for every 5 consolidated shares of China Strategic. For details of the capital reorganisation, group reorganisation and Hanny Offer, shareholders are referred to the joint announcement issued by China Strategic, Hanny and certain others dated 19th April, 2005.

At the current stage, the Company has not yet formed any definite intention as to whether or not it will accept the Hanny Offer or as regards the choice of accepting the options available thereunder if it were to accept the Hanny Offer. Further, the board of directors (the "Board") is considering a possible distribution to shareholders of the value derived from its investment interest in China Strategic.

Material acquisition and disposal

Pursuant to the agreements entered into by the Group in March 2004 relating to the Skynet Restructuring Proposal, the entire interests of the Group's construction, engineering and concrete products business were sold to Skynet in exchange for an equity interest of about 95% in Skynet. Shortly following completion in January 2005, the Group reduced its interest in Skynet by the way of a share placement in order to restore Skynet's public float, and recorded a gain of approximately HK$68 million.

To signify its new identity and business focus, Skynet was since re-branded and renamed as Paul Y. Engineering Group Limited. Being separately listed, Paul Y Engineering will be able to pursue its growth and expansion strategies in China and overseas independent of the Company.

The disposal of the Group's entire interests in Downer and the proposed disposal of interest in China Strategic were discussed above.

Final dividend

The Board has resolved to recommend the payment of a final dividend of 1.5 cents per share for the year ended 31st March, 2005 (2004: 1.5 cents per share) to shareholders whose names appear on the Company's register of members as at the close of business on 16th September, 2005. The final dividend is expected to be paid to shareholders by post on or around 14th October, 2005.

The Board has also proposed that the final dividend should be satisfied by way of a scrip dividend of shares, with an option to elect cash in respect of part or all of such dividend. The market value of the shares to be issued under the scrip dividend proposal will be fixed by reference to the average of the closing prices of the Company's shares for the three consecutive trading days ending 16th September, 2005 less a discount of five per cent. of such average price or to the par value of the shares, whichever is the higher. The proposed scrip dividend is conditional upon the Stock Exchange granting listing of, and permission to deal in, the new shares to be issued and the passing of an ordinary resolution by shareholders at the Company's forthcoming annual general meeting approving the final dividend.

A circular giving full details of the scrip dividend proposal and a form of election will be sent to shareholders.

Together with the interim dividend of 1.5 cents per share for the six months ended 30th September, 2004 and the special cash dividend of 70 cents per share as declared by the Board on 17th June, 2005, total dividends to shareholders during the year amounted to 73 cents per share. In addition, as announced on 17th June, 2005, the Board is considering a further possible distribution to shareholders of the value derived from its investment interest in China Strategic. No decision has however been made as to the structure and timing of the possible distribution at this stage. The making of the distribution, as well as the structure and timing of the distribution, may be subject to a number of conditions and is a possibility only.

Closure of the register of members of the Company

The register of members of the Company will be closed from 14th September, 2005 to 16th September, 2005, both dates inclusive, during which period no transfer of share(s) of the Company will be effected. In order to qualify for the final dividend, all transfer of share(s), accompanied by the relevant share certificate(s) with the completed transfer form(s) with overleaf or separately, 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 not later than 4:00 p.m. on 13th September, 2005.

Liquidity, financial resources, capital structure and gearing ratio

The Group adopts a prudent funding and treasury policy with regard to its overall business operations. A variety of credit facilities are maintained to meet its working capital requirements. During the year under review, the Group obtained new bank loans in the amount of RMB70 million. The proceeds were used for general working capital of the Group's PRC subsidiaries engaged in port development. In addition, a loan of HK$241 million, which is repayable after one year, was obtained from a minority shareholder to finance the acquisition of interests in subsidiaries. The loans of the Group bear interest at market rates and are with terms of repayment ranging from one year to three years. As at 31st March, 2005, the Group's total borrowings amounted to approximately HK$831 million (2004: HK$561 million) with HK$290 million (2004: HK$44 million) repayable within one year and HK$541 million (2004: HK$517 million) repayable after one year. Cash balances as at 31st March, 2005 amounted to approximately HK$1,255 million (2004: HK$250 million).

Liquidity, financial resources, capital structure and gearing ratio *(Cont'd)*

As at 31st March, 2005, HK$765 million (2004: HK$561 million) of the Group's borrowings bore interest at floating rates and were denominated in Hong Kong dollars and HK$66 million (2004: Nil) of the Group's borrowings bore interest at a fixed rate and were denominated in Reminbi. The Group's gearing ratio was 0.26 (2004: 0.20) which is calculated based on the total borrowings of HK$831 million (2004: HK$561 million) and the Group's shareholders' funds of HK$3,180 million (2004: HK$2,771 million).

Contingent liabilities

As at 31st March, 2005, the Group had contingent liabilities in respect of outstanding performance bonds on construction contracts of approximately HK$310 million (2004: HK$623 million).

Pledge of assets

As at 31st March, 2005, certain of the Group's properties and investment securities with an aggregate value of approximately HK$753 million (2004: HK$669 million) and the issued share capital of certain subsidiaries of the Company, as well as the benefits under certain construction contracts, were pledged to banks and financial institutions to secure general credit facilities granted to the Group.

Commitments

As at 31st March, 2005, the Group had expenditure contracted but not provided for in the financial statements in respect of acquisition of certain equity investments amounting to approximately of HK$48 million (2004: HK$451 million) and certain property, plant and equipment amounting to approximately HK$91 million (2004: Nil).

Employees and remuneration policies

Including the directors of the Group, as at 31st March, 2005, the Group employed a total of approximately 1,163 (2004: 1,230) full time employees. Remuneration packages comprised salary and year-end bonuses based on individual merits. In appreciation of employees' continuing support and contribution, a bonus payment was made by the Group during the year.

Outlook

Following the Group's divestment from Downer, its engineering and construction service businesses will be conducted solely through Paul Y Engineering which is poised to pursue growth strategy in different geographical markets, with primary focus in the Mainland market.

The ports and infrastructure sector in China is experiencing rapid growth and development. Capitalising on this upswing, Paul Y Infrastructure will continue the development of the Yangkou Port and finalise its strategy on the targeted commodities. Master planning of the industrial park on the 42 km^2 reclaimed land is scheduled to be completed during 2005 and will be followed by initial marketing for sale of the land bank. It is the Group's intention to acquire mature bulk handling river ports in order to build up a complete trans-shipment network on the Yangtze River complementing the deep-sea Yangkou Port. It is anticipated that substantial amount of the Group's resources will be deployed to support this new core focus of the Group.

Barring unforeseeable circumstances, the Group is poised to meet the challenges ahead.

Lau Ko Yuen, Tom
Deputy Chairman and Managing Director

Hong Kong, 22nd July, 2005