Review of Financial Performance and Positions

For the year ended 31st March, 2005, the Group's consolidated turnover was approximately HK$3,248 million, similar to that of last corresponding year.

Gross profit of HK$192 million was achieved as compared with a corresponding gross profit of 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. Basic earnings per share were 18.4 cents.

When compared with the Group's financial positions as at last year end, total assets remained at similar level of some HK$1,677 million. Current assets were at HK$1,454 million, representing 1.1 times of current liabilities. Net cash was at HK$152 million and shareholders' funds stood at HK$316 million.

Net cash inflow from operating activities was about HK$144 million and outflow of HK$19 million in respect of investing and financing activities, resulting in a net increase in cash of about HK$125 million for the year.

Operations

During the year, the Group secured new contracts with an aggregate value of approximately HK$2,978 million. At this year end, value of work remaining dropped by 8% to approximately HK$4,521 million when compared with last financial year end. Profile of contracts on hand at the end of this year is as follows:

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

Subsequent to the year end, the Group has secured further contracts of HK$1,315 million.

The uptrend in the Group's gross margin is forecasted to continue. The 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 the ongoing vigorous cost saving measures, performance of all business segments of the Group improves satisfactorily.

The Group comprises five divisions, and is well positioned to focus on selected opportunities in building construction, civil engineering, foundation and specialist works, construction materials and geographically cover Mainland China and Macau.

The Building Construction division's turnover is HK$2,239 million with operating profit of HK$45 million, reflecting the solid performance of building construction works in Hong Kong. Subsequent to year end, this division has secured the residential development project at Tiu Keng Leng MTR Station (Site B) of HK$969 million and a residential development project at Yau Tong of HK$138 million.

The Civil Engineering division's turnover is HK$684 million with operating profit of HK$15 million. Subsequent to year end, this division has secured the maintenance works to DSD Plants (2005-2007) of HK$60 million.

Operations – *continued*

The Foundation and Specialist Works division's turnover is HK$471 million with operating profit of HK$10 million. Subsequent to year end, the division has secured a site formation contract at Cyberport of HK$63 million.

The Construction Materials division's turnover is HK$63 million with operating profit of HK$2 million. This division mainly supplies materials and provides sub-contracting works to the Building Construction division and its turnover has been eliminated on consolidation while its results for the year has been included in the Building Construction division.

During the year, the Mainland China division has established Paul Y. Construction (China) Limited under the CEPA and has 31% interest in CSCEC–Paul Y. Construction Company Limited, a joint venture company with a stated-owned enterprise. Contracts secured during the year include the project management contract at Rudong Yangkou port project. Subsequent to year end, this division has secured a project management project of a residential development in Beijing and through a 20% joint venture with CITIC International Contracting Inc, a PRC contractor, secured the contract for the construction of Siemens Centre in Beijing.

Liquidity and Capital Resources

The Group adopts a prudent funding and treasury policy with regard to its overall business operations. A variety of credit facilities is maintained to meet its working capital requirements. As at 31st March, 2005, the Group's total borrowings amounted to HK$187 million which are repayable within one year. Cash balances at 31st March, 2005 amounted to HK$339 million.

As at the year end, all of the Group's borrowings bear interest at floating rates and are denominated in Hong Kong dollars. The Group's gearing ratio was 0.6 which is calculated based on the Group's total borrowings of HK$187 million and the Group's shareholders' funds of HK$316 million.

Number of Employees, Remuneration Policies and Share Option Scheme

Including the directors of the Group, as at 31st March, 2005, the Group employed a total of about 1,030 full time employees. Remuneration packages comprised of salary and performance based bonus. In appreciation of our employees' support and contribution in our cost-cutting regime throughout the past few years, a bonus payment to employees was paid during the year. No share options were granted or exercised during the year.

Pledge of Assets

As at the year end, the Group did not pledge any of its assets.

Contingent Liabilities

As at the year end, the Group has contingent liabilities in respect of outstanding performance bonds on construction contracts of HK$311 million.

In addition, a subsidiary of the Company is a defendant in a lawsuit brought during 2002 claiming approximately HK$1.73 million relating to the outstanding sum of the contract works done by a sub-contractor, Swee Kheng & Aster Marble Company Limited ("Swee Kheng"). The subsidiary filed a defence and counterclaim claiming payment for Swee Kheng of a sum of approximately HK$0.16 million. The subsidiary has contested the claim vigorously and no provision has been made in the financial statements.

Capital Reorganisation

Pursuant to special resolutions passed on 22nd December, 2004, the Company underwent a capital reorganisation as follows:

1. the cancellation of HK$0.018 of the paid-up capital from the issued shares of the Company and reduction in nominal value of each issued share from HK$0.02 to HK$0.002;
2. the cancellation of the entire amount standing to the credit of the share premium account of the Company;
3. the subdivision of each authorised but unissued share into 10 reduced shares of HK$0.002 each;
4. the consolidation of every 250 reduced shares of HK$0.002 each into one consolidated share of HK$0.5 (the "Consolidated Share"); and
5. the increase in the authorised share capital of the Company from HK$140,000,000 to HK$500,000,000 by the creation of an additional 720,000,000 Consolidated Shares of HK$0.5 each.

Securities in Issue

During the year, there was consolidation of every 250 shares into one share, issue of 45,070,995 shares pursuant to an open offer, issue of 400,000,000 shares for the acquisition of Paul Y. – ITC Construction Holdings (B.V.I.) Limited (now renamed as Paul Y. Engineering Holdings (B.V.I.) Limited) and issue of 113,600,000 shares for the acquisition of Hidden Advantage Investments Limited, details of which were set out in the Company's circular dated 30th November, 2004.

As at the year end, there were 576,699,394 shares in issue. Save as disclosed above, there was no movement in the issued share capital during the year.

Final Dividend

The board of directors of the Company ("Board") has resolved to recommend the payment of a final dividend of 6 cents per share for the year ended 31st March, 2005 (2004: Nil) to shareholders whose names appear on the Company's register of members as at the close of business on 5th October, 2005. The final dividend is expected to be paid to shareholders by post on or around 28th 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 on 5th October, 2005 less a discount of five percent of such average price or the par value of shares, whichever is the higher. The proposed scrip dividend is conditional upon The Stock Exchange of Hong Kong Limited granting listing of, and permission to deal in, the new shares to be issued and the passing at the forthcoming annual general meeting of the Company of an ordinary resolution to approve the final dividend. A circular giving full details of the scrip dividend proposal and a form of election will be sent to shareholders.

Close of Register of Members

The Company's register of members will be closed from 3rd October, 2005 to 5th October, 2005, both dates inclusive, during which period no share transfers shall be effected. In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's share registrars in Hong Kong, Standard Registrars Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration no later than 4:00 p.m. on 30th September, 2005.

Outlook

The recovery in the local economy sustains and advances in a faster pace. GDP, consumer price index, external trade and employment rates all witness a more prosperous economy.

The Group will continue its business in management contracting to maintain critical mass and at the same time move up the value chain. The Group will explore and further develop the facilities management business to balance the work portfolio and stabilise recurring income.

Having a balance sheet in a net cash position, in addition to the existing businesses and networks, the Group will actively exploit business opportunities in different geographical markets, with primary focus on the PRC market. Joint ventures have been formed to pursue both the Shenzhen and the Beijing metro lines related projects, which is expected to generate stable earnings growth.

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