

Ports & Logistics

Vital to Sustainable Growth in China



中國港口物流聯動 促進經濟持續增長

» **Tom Lau** said,
"PYI intends to accelerate the investment program along the Yangtze River, to further strengthen our dry and liquid bulk cargo handling capabilities, to enhance our critical mass and to maximize potential synergies."

» **劉高原**：
「保華集團有意加快在長江流域投資港口項目的步伐，以加強集團處理大宗乾濕散貨之營運能力，從而爭取各港口之間最大的協同效應。」



Dear Shareholders,

It is my pleasure to report that the Group achieved satisfactory financial results for the year ended 31 March 2006, with gross profit reaching HK\$355 million on a turnover similar to that of the preceding year. Net profit was HK\$310 million, with earnings per share reaching HK22.7 cents and a total shareholder return of 37%. About 50% of the earnings were derived from our property investment and that will not be recurring in the next year.

As PYI enters a new phase of corporate development, I am pleased to provide you with more information on our new corporate strategy and reflect on our achievements to date.

Our Foray into China's Ports & Logistics Arena

The rapid economic growth of Mainland China, together with its booming international trade, has resulted in an increasing demand on the country's ports and logistics sector, now the PYI Group's principal business focus. Investments in the ports and logistics sector in China is in line with the National Transport Policy for the building of new capacity to meet growing demands.

各位股東：

本人欣然向閣下呈報，集團於截至二零零六年三月三十一日止年度繼續錄得理想業績，在營業總額與對上年度相若的基礎上錄得毛利淨額3.55億港元，除稅後盈利3.1億港元，每股盈利22.7港仙，股東總收益達37%。保華集團的收入約50%來自物業投資，此等收入來年將不會再次出現。

保華集團昂然步入企業發展的新紀元，本人謹藉此機會向大家分享更多集團之新策略及成就。

涉足中國港口物流業

本集團專注經營中國內地之港口及物流業，該行業現正受惠於迅速增長的國內經濟及蓬勃的中國對外貿易勢頭。集團於國內港口及物流業務的投資充份配合國家交通政策對發展新設施以應付日益增長之需求。

► "Our Yangtze Strategy calls for the acquisition and consolidation of a series of major bulk cargo ports along the Yangtze River and the eventual integration with the spearheading Yangkou Port in the Yellow Sea."

In my 2005 report to shareholders, I outlined PYI's growth strategy for our core business. We have executed this successfully over the past twelve months; the strategy is delivering, and there is plenty of room for additional growth.

To date, PYI has built up a portfolio of quality port assets in Mainland China, having acquired substantial stakes in Yangkou Port and Nantong Port, both located in Nantong, Jiangsu Province. Additionally, we acquired an LPG terminal in Wuhan, Hubei Province.

PYI operates a clear strategy for the ports and logistics businesses. Our Yangtze Strategy calls for the acquisition and consolidation of a series of major bulk cargo ports along the Yangtze River and the eventual integration with the spearheading Yangkou Port in the Yellow Sea. We also aim at strengthening our operational expertise and skill base as well as our business network through such acquisition program.

Review of Operations

Yangkou Port

Yangkou Port has been formally included as part of the China's Eleventh Five-Year Development Plan.

Construction of the 13km Yellow Sea Crossing, which links up the Yangkou Port industrial and logistics park and the man-made island, formally commenced following the groundbreaking ceremony held in September 2005. Site formation works for the reclaimed land progressed well. A collaboration agreement for preliminary engineering works was reached between the Group and PetroChina in May 2006. Such preliminary engineering works, to be jointly carried out by PYI and PetroChina, involve the master planning of Yangkou Port to facilitate smooth operations of the LNG import facility, as well as various technical aspects of detailed design, engineering and construction methodology for the development of the LNG import facility. I remain optimistic in securing this PetroChina LNG import facility as the spearheading project in Yangkou Port.

本人曾在二零零五年的報告書內概要地描述保華集團之增長策略。本人現欣然向閣下匯報，集團在過去十二個月已逐步實踐有關策略，而此策略已初見成效，給予本集團核心業務莫大之增長空間。

迄今為止，保華集團已在國內構建了一個優質的港口資產組合，其中包括持有位於江蘇省南通市之洋口港及南通港的重要權益，此外，集團亦收購了位於湖北省武漢市的一座液化石油氣碼頭。

保華集團之中國港口及物流業務建基於一個清晰策略，集團的長江策略旨在綜合長江流域一系列大宗乾濕散貨港口，最終與黃海上之龍頭港口—洋口港整合起來；我們亦通過收購計劃以壯大集團營運上專業及技術優勢。

業務回顧

洋口港

洋口港項目已正式被納入中國「十一五」規劃。

連接洋口港工業物流園與人工島的長達十三公里之黃海大橋，已於二零零五年九月動工儀式後開始興建；圍墾土地之平整工作進展順利。集團與中石油於二零零六年五月簽訂一項工程前期工作合作協訂，在洋口港共同展開若干有關發展液化天然氣進口設施之工程前期工作包括洋口港總設計規劃，確保液化天然氣進口設施運作流暢，以及多方面的技術層面工作，包括詳細設計、工程及建築方法等等。對於取得中石油之液化天然氣進口設施這一龍頭項目落戶洋口港，我抱著樂觀態度。

▶▶ 集團的長江策略旨在綜合長江流域一系列大宗乾濕散貨港口，最終與黃海上的龍頭港口－洋口港整合起來。

During the year, potential clients and business partners have visited Yangkou Port with increasing interests, particularly in the area of berth operations and land sale possibilities. I am encouraged by these business prospects and am confident in turning them to material benefits for PYI in the not too distant future.

Given the satisfactory progress in development of the Yangkou Port project, in February 2006, PYI increased the stake from 54% to 68% through the acquiring of minority stakes at a consideration of US\$4.5 million, and in May 2006, further increased such stake to 75% by the issuance of 68.5 million new PYI shares at HK\$2.45 per share. This has not only enhanced PYI's share of benefits in Yangkou Port but also simplified the financing structure of the project development company. Issue of the consideration shares to the vendor would also align its interests in the future of Yangkou Port with those of PYI.

Nantong Port

It is pleasing to have secured the opportunity to invest in the Nantong Port Group, where PYI is to inject cash of about RMB435 million in return for a 45% interest. Nantong Port Group is principally engaged in providing cargo loading and off-loading, storage, shipping-agency, cargo-agency duties, ship anchoring, ship repairing, port machinery, shipping logistics and ship-piloting services. Initial injection of HK\$150 million was completed in late December 2005 and the balance of the investment is expected to be completed in the first half of this fiscal year.

Tapping into the experience, skill base and business networks of Nantong Port Group, this investment will give PYI the vital dry and liquid bulk cargo handling capabilities to complement our Yangkou operations.

Paul Y. Engineering Group

Paul Y. Engineering Group Limited, a subsidiary of PYI, offers management contracting, project management and facilities management services. The construction of Yangkou Port is being managed by Paul Y. Engineering, which has acquired six decades of experience in the provision of construction and engineering services in Hong Kong, Mainland China and overseas.

去年，越來越多有意投資在洋口港的客戶和生意夥伴們巡視了洋口港，他們尤其關心港口的運作和土地出售的機會。此等業務前景極大地鼓勵了我，我有信心在不久的將來，將這些機會轉化成集團之可觀回報。

鑒於洋口港項目的進展令人滿意，二零零六年二月，集團以450萬美元向洋口港小股東購入股份，將權益由54%增至68%。同年五月，再以每股2.45港元發行之6,850萬股保華新股份為代價，將權益增至75%。這不僅增加了保華在洋口港的股份收益，還簡化了項目開發公司的財務結構。所發行之代價股份日後也會將買方利益與洋口港結合起來，與集團的利益一致。

南通港

我們很高興已成功爭取機會，以現金4.35億人民幣作注資，取得南通港口集團45%的權益，其主要業務為貨物裝卸、堆存、貨運代理、理貨業務、港口船舶服務、船舶航修、港口機械修造、船舶供應服務、引航等。於二零零五年十二月下旬集團首次注資1.5億港元，預計投資餘額將於今個財政年度上半年注入。

憑藉南通港口集團的豐富經驗、技術優勢及業務網絡，保華將從是次投資獲得處理大宗乾濕散貨的各種專業營運能力，以配合洋口港未來開展的業務。

保華建業集團

本集團之附屬公司保華建業集團有限公司，從事承建管理、項目管理及設施管理業務。保華建業憑六十年來在香港、中國內地以至多個海外地區提供建設及土木工程之豐富經驗，為洋口港提供項目管理。

▶▶ "Investments in the ports and logistics sector in China is in line with the National Transport Policy for the building of new capacity to meet growing demands."



Paul Y. Engineering performed well with 26% growth and achieved a net profit of HK\$101 million for the year on turnover of HK\$3,110 million.

The management contracting division is the main contributor of profit while the project management and facility management divisions are taking shape.

During the year, new construction contracts amounting to HK\$4,195 million were secured. As at the year end, the value of contracts on hand was HK\$10,058 million while the value of work remaining to be completed increased by 33% to HK\$6,003 million.

Celebrating its 60th anniversary in 2006, Paul Y. Engineering continues to expand its business reach in Hong Kong, Mainland China and overseas, while moving up the value chain to offer value-added design, construction and management solutions to improve the quality and recurring nature of contract margins.

Disposal of Paul Y. Centre

Paul Y. Centre was disposed to a joint venture, in which Paul Y. Engineering holds a 25% interest, at a value of HK\$780 million with a profit of HK\$147 million. PYI has provided a vendor financing in the amount of HK\$117 million to the purchaser for a period of 3 years. Being the major tenant of the building, this investment provides Paul Y. Engineering with a natural hedge against escalation of its own occupancy costs.

Treasury investment

Total value of the Group's investment securities amounted to approximately HK\$162 million (2005: HK\$173 million) as at 31 March 2006, equivalent to about 3% (2005: 2%) of the total assets of the Group. Portfolio of high-yield loan receivables amounted to approximately HK\$616 million (2005: HK\$672 million) as at 31 March 2006, equivalent to about 10% (2005: 9%) of the total assets of the Group. During the year, about HK\$80 million (2005: HK\$8 million) of the Group's operating profit was contributed from the business of treasury investment.

保華建業本年業務表現理想，以營業額31.1億港元計算，增長達26%，純利為1.01億港元。

保華建業之盈利主要來自承建管理部門，而項目管理部門及設施管理部門則漸見成熟。

在本年度，保華建業取得價值41.95億港元之新工程合約。至年底，集團手頭合約共值100.58億港元。而未完成合約價值則增加33%，達60.03億港元。

保華建業今年慶祝六十週年之際，繼續擴展在香港、中國內地，以至海外之業務，並進一步強化其高增值工程服務。透過設計、建設及管理方案，為客戶增值，同時提高工程收入的質素及持續性。

出售保華企業中心

本集團向由保華建業持有25%權益之合營公司出售保華企業中心，價值為7.8億港元，盈利則達1.47億港元。保華向買方提供價值1.17億港元，為期三年的融資。作為此物業之主要租戶，保華建業可通過此項投資與租金開支互相對沖。

庫務投資

於二零零六年三月三十一日，本集團之投資證券總值約達1.62億港元(二零零五年：1.73億港元)，相當於本集團總資產約3%(二零零五年：2%)。於二零零六年三月三十一日，應收高收益貸款組合達約6.16億港元(二零零五年：6.72億港元)，相當於本集團總資產約10%(二零零五年：9%)。年內，約8千萬港元(二零零五年：8百萬港元)經營溢利乃來自庫務投資業務。



▶▶ 投資在中國港口物流業正好配合國家交通政策，擴展新的設施，以滿足與日俱增的需求。

Major Subsequent Event

Divestment in China Strategic

PYI finally completed the disposal of a 15.4% interest in China Strategic Holdings Limited for HK\$26 million of cash. The remaining 62 million consolidated China Strategic shares are now held as short term investment.

Special Dividend

On 8 May 2006, the Board declared a special dividend to PYI shareholders by way of distribution of the value derived from the reorganisation of China Strategic. Based on the election of the PYI shareholders, HK\$8.9 million in cash plus 4.98 million Hanny shares and HK\$276.7 million Hanny bonds were distributed to the PYI shareholders. Such special dividend amounted to a fair value of HK\$325 million. The Group still holds undistributed Hanny bonds with a face value of about HK\$36.8 million as an investment.

Hubei Minsheng LPG

To further pursue liquid bulk terminal opportunities and enhance its capabilities in this business sector, on 12 May 2006 the Group entered into an asset acquisition agreement to acquire assets related to a liquid bulk logistics business in Wuhan, PRC, including LPG storage facilities, terminal and jetty, filling stations and equipment. The consideration to be paid by the Group for the acquisition was RMB470 million, comprising RMB350 million in cash and RMB120 million in convertible note issued by PYI at a conversion price of HK\$4.25 per share.

The LPG terminal in Wuhan not only provides PYI with a new operating skill base, but also an initial foothold in Central China.

Material Acquisition and Disposal

Details of the Group's acquisition of a 45% equity interest in Nantong Port Group and disposal of Paul Y. Centre were set out in the paragraphs under the section of "Review of Operations" above.

主要結算日後事項

出售中策權益

保華最終以2,600萬港元現金完成出售於中策集團有限公司之15.4%權益，而餘下之6,200萬股合併中策股份現持作短期投資。

特別股息

二零零六年五月八日，董事局以分派中策重組所帶來的價值，向保華股東宣派特別股息。保華最終派發(1)合共498萬股錦興股份加890萬港元現金；及(2) 2.767億港元之錦興債券，相等於總公平值3.25億港元。派付特別股息後，本集團仍持有面值3,680萬港元之不用分派錦興債券，將保留為投資。

湖北民生石油液化氣

為進一步把握大宗濕貨碼頭之商機，增強於此行業之能力，本集團於二零零六年五月十二日訂立資產收購協議，以收購於中國武漢與大宗濕貨物流業務有關之資產，包括液化石油氣儲配設施、碼頭及棧橋、加氣站及設備。收購代價為4.7億人民幣，其中3.5億人民幣以現金支付，而1.2億人民幣則由保華按每股4.25港元之換股價發行可換股票據予賣方。

武漢液化石油氣碼頭不但為保華注入新的專門營運能力，並且將集團的版圖拓展至華中地區。

重大收購及出售

本集團收購南通港口集團45%股本權益及出售保華企業中心之詳情載於上文「業務回顧」一節之段落內。

▶▶ "Our terminals in Nantong and Wuhan not only provide PYI with a new operating skill base, but also a strong foothold in the Yangtze Delta and Central China."



Outlook

China's GDP grew 10.3% year-on-year in the first 3 months of 2006, as the economies of most developed countries also achieved solid growth rates for the same period.

Although crude-oil prices rose substantially during the past twelve months, the world's major economies, including China, appeared to have absorbed this shock reasonably well, with inflation remaining under control.

In the latest edition of its biannual World Economic Outlook, published this April, the International Monetary Fund (IMF) revised its growth estimates for 2006 to 4.9% from the 4.3% forecast in September 2005. Its global growth estimate for 2007 is 4.7%, up from the earlier forecast of 4.4%. The IMF expects China's GDP to grow by 9.5% in 2006, following the previous year's 9.9% achieved expansion rate.

While global economic conditions are likely to remain steady for the foreseeable future, the IMF cautioned that a high and volatile crude-oil price might affect global expansion more strongly in the months ahead than has been the case in recent years.

Nonetheless, we believe that the rapid and continuing growth of China's economy will continue to create a favourable environment for our ports and logistics business on the Mainland.

China's Eleventh Five-Year Plan targets an average GDP annual growth rate of 7.5% for the national economy from 2006 to 2010. This latest Five-Year Plan also prioritizes accelerated development of the country's eastern region to stimulate overall expansion of the national economy.

In addition, it encourages further development of inland ports along the Yangtze River for the handling of coal, crude oil, mineral ore and containerized cargo, as well as calling for comprehensive and coordinated development of seaports along the country's coastal regions.

前景

中國之國內生產總值於二零零六年首三個月增長10.3%，而大部分發展國家之經濟亦錄得強勁增長。

儘管原油價格在過去十二個月大幅上升，全球各主要經濟體系，包括中國，似未受太大影響，其通脹率依然處於相對過往之低水平。

二零零六年四月，國際貨幣基金會發布一年刊登兩次的《全球經濟展望》報告，預計二零零六年全球經濟增長率為4.9%，高於去年九月時預測的4.3%。國際基金會預測二零零七年全球經濟增長率為4.7%，亦高於較早前預測的4.4%，並預測零六年在中國經濟可錄得9.5%增幅，略低於零六年實現的9.9%。

儘管全球經濟在可見的將來或可保持穩定，但國際貨幣基金會警告，高企及反覆的油價在未來數月對全球經濟之影響或較以往數年更為明顯。

然而，我們相信中國經濟持續擴張，可為本集團之港口及物流業務締造良好營商環境。

最近中國政府制訂的「十一五」規劃為二零零六年至二零一零年期間訂下每年經濟增長7.5%之目標。「十一五」規劃亦強調加速發展中國東部，從而促進全國經濟之發展。

此外，「十一五」規劃鼓勵進一步發展長江流域內河港口，處理如煤、原油、礦石及集裝箱貨物等等。另外，「十一五」規劃亦強調沿海港口協調發展之重要性。

▶▶ 保華於南通及武漢的碼頭業務不單為集團帶來新的營運能力，更讓其版圖拓展至長江三角洲及華中一帶。

With investment in and development, operation and management of bulk cargo ports along the Yangtze being the main thrust of the Group's business and strategic focus, our Yangtze Strategy is in line with that the national development plan.

We are currently developing an integrated trans-shipment network along the Yangtze River to serve that vast hinterland stretching from Eastern to Central China and well beyond, conforming to the central government's Eleventh Five-Year Plan. We believe that the clear policy statement made by the PRC government in relation to the development of inland ports along the Yangtze will present us with significant opportunities for implementation of our Yangtze Strategy.

PYI intends to accelerate our port investment along this great river, which flows a total distance of 6,300 kilometres and is China's paramount inland waterway. It constitutes a vital passage for logistics movements into and out of the country's interior region. It is also our strategy to further strengthen our dry and liquid bulk cargo handling capabilities, to enhance our critical mass and to maximize potential synergies.

Barring any unforeseen circumstances, I am confident that PYI is poised to face the challenges ahead and deliver the results of our Yangtze Strategy as planned. Lastly, I would like to take this opportunity to thank our Chairman for his great leadership, our board members for their precious guidance, our business partners and shareholders for their kind support and my colleagues in Hong Kong and the Mainland for their dedication and contributions to the success of PYI.

Yours faithfully,

Tom Lau

Deputy Chairman & Managing Director

Hong Kong, 7 July 2006

保華集團主要從事投資、發展營運及管理位於長江流域之碼頭及物流業務，我們的長江策略完全配合中央政府之發展計畫。

我們在長江流域正組建一個綜合中轉網絡，由中國東部一直伸延至華中以外，這策略與「十一五」規劃有關長江港口發展之政策是一致的。我們相信中央政府有關發展長江內河港之明確政策聲明，為本集團的未來發展帶來大量機會。

我們有意加速投資位元於長江流域之碼頭項目，因為全長六千三百公里的長江，是運載貨物進出中國內陸之最主要航道。此外，強化集團處理大宗乾濕散貨的能力以提升發展的潛力亦是我們的策略。

如無非可預見的情況下，我相信集團定能面對種種挑戰，並按其長江策略帶來理想回報。最後，我希望藉此機會感謝主席帶領集團邁步向前，以及為集團提供寶貴意見的董事局成員。我亦對於業務夥伴及股東的支持；以及在本港與內地的同事之投入與熱誠，為集團的成功作出努力，表示衷心的謝意。

副主席兼董事總經理

劉高原

謹啟

香港，二零零六年七月七日