Paul Y. Engineering Group Limited
保華建業集團有限公司 *

(Incorporated in Bermuda with limited liability)
(Stock Code: 577)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

Financial Highlights

➢	Turnover		
	The Company and its subsidiaries	HK$2,067 million	–7%
	Share of associates and jointly controlled entities	HK$269 million	+1,062%
		HK$2,336 million	+4%
➢	Gross profit		
	The Company and its subsidiaries	HK$74 million	–21%
	Share of associates and jointly controlled entities	HK$11 million	–
		HK$85 million	–6%
➢	Profit attributable to owners of the Company	HK$15 million	+6%
➢	Basic earnings per share	2.4 HK cents	+4%
➢	NAV per share	HK$1.03	+3%
➢	Net cash	HK$32 million	–79%

RESULTS

The board of directors (the "Board") of Paul Y. Engineering Group Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2011, together with the comparative figures for the corresponding period in 2010. The consolidated income statement, consolidated statement of comprehensive income and consolidated statement of cash flows of the Group for the six months ended 30 September 2011 and the consolidated statement of financial position of the Group as at 30 September 2011, all of which are unaudited and condensed, along with selected explanatory notes, have been reviewed by the Company's Audit Committee and external auditor.

Condensed Consolidated Income Statement

	Notes	Unaudited Six months ended 30 September **2011** ***HK$'000***	 2010 *HK$'000*
Turnover			
The Company and its subsidiaries		**2,067,297**	2,231,654
Share of associates and jointly controlled entities		**268,344**	23,086
		2,335,641	2,254,740
Group turnover	*3*	**2,067,297**	2,231,654
Cost of sales		**(1,993,042)**	(2,137,455)
Gross profit		**74,255**	94,199
Other income		**6,184**	7,863
Administrative expenses		**(66,737)**	(76,884)
Gain on changes in fair value of investments held for trading		**–**	25
Finance costs		**(6,093)**	(5,213)
Share of results of associates		**(230)**	(3,300)
Share of results of jointly controlled entities		**9,235**	(221)
Profit before tax		**16,614**	16,469
Income tax expense	*4*	**(815)**	(291)
Profit for the period	*5*	**15,799**	16,178
Profit for the period attributable to:			
Owners of the Company		**14,663**	13,865
Non-controlling interests		**1,136**	2,313
		15,799	16,178
Earnings per share	*7*	***HK cents***	*HK cents*
Basic		**2.4**	2.3

Condensed Consolidated Statement of Comprehensive Income

	Unaudited Six months ended 30 September	
	2011	2010
	HK$'000	*HK$'000*
Profit for the period	**15,799**	16,178
Other comprehensive income (expense):		
Exchange differences arising from translation of foreign operations	**6,411**	3,364
Increase in fair value of available-for-sale investments	**–**	18
Share of translation reserve of associates	**1,888**	808
Transfer to profit or loss on disposal of available-for-sale investments	**–**	(66)
	8,299	4,124
Total comprehensive income for the period	**24,098**	20,302
Total comprehensive income attributable to:		
Owners of the Company	**22,962**	17,989
Non-controlling interests	**1,136**	2,313
	24,098	20,302

Condensed Consolidated Statement of Financial Position

	Notes	**Unaudited 30/9/2011 *HK$'000***	Audited 31/3/2011 *HK$'000* (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	*8*	**174,773**	148,956
Prepaid land lease payments		**19,974**	20,261
Goodwill		**61,646**	61,646
Other intangible assets		**7,570**	7,570
Interests in associates		**86,430**	82,178
Interests in jointly controlled entities		**15,350**	4,065
Other debtors – non-current portion		**158,286**	153,211
		524,029	477,887
CURRENT ASSETS			
Prepaid land lease payments		**575**	575
Amounts due from customers for contract works		**260,969**	258,350
Trade and other debtors, deposits and prepayments	*9*	**1,562,553**	1,426,020
Amount due from a related company		**86**	–
Amounts due from associates		**24,703**	43,760
Amounts due from jointly controlled entities		**39,185**	22,956
Amounts due from fellow subsidiaries		**145,741**	126,845
Other loan receivable		**8,148**	8,148
Pledged bank deposits		**89,179**	75,026
Short term bank deposits		**131,490**	177,513
Bank balances and cash		**134,451**	154,568
		2,397,080	2,293,761
CURRENT LIABILITIES			
Amounts due to customers for contract works		**881,485**	947,938
Trade and other creditors and accrued expenses	*10*	**967,667**	848,557
Amounts due to associates		**78,704**	57,557
Amounts due to jointly controlled entities		**38,840**	45,000
Amounts due to non-controlling interests		**61**	61
Taxation payable		**3,177**	14,344
Dividend payable		**6,070**	–
Bank borrowings – due within one year		**311,702**	244,667
		2,287,706	2,158,124
NET CURRENT ASSETS		**109,374**	135,637
TOTAL ASSETS LESS CURRENT LIABILITIES		**633,403**	613,524
NON-CURRENT LIABILITY			
Bank borrowings – due after one year		**11,054**	9,203
		622,349	604,321
CAPITAL AND RESERVES			
Share capital		**303,477**	303,477
Reserves		**318,808**	301,916
Equity attributable to owners of the Company		**622,285**	605,393
Non-controlling interests		**64**	(1,072)
TOTAL EQUITY		**622,349**	604,321

Condensed Consolidated Statement of Cash Flows

	Unaudited Six months ended 30 September	
	2011	2010
	HK$'000	*HK$'000*
		(Restated)
Net cash (used in) from operating activities	**(62,075)**	184,881
Net cash (used in) from investing activities		
Purchase of property, plant and equipment	**(38,201)**	(24,317)
Contribution to jointly controlled entities	**(2,050)**	(4,600)
(Increase) decrease in pledged bank deposits	**(14,153)**	31,569
Acquisition of additional interests in an associate	**(2,594)**	–
Advancement of a loan	**(10,000)**	–
Repayment of loans	**10,000**	69,352
Refundable deposits paid for potential projects	**–**	(50,000)
Refundable deposits refunded for potential projects	**–**	25,000
Proceeds from disposal of available-for-sale investments	**–**	436
Other investing cash flows	**629**	1,728
	(56,369)	49,168
Net cash from (used in) financing activities		
Bank loans raised	**180,929**	38,700
Repayment of bank loans	**(117,336)**	(148,238)
Other financing cash flows	**(12,508)**	(4,827)
	51,085	(114,365)
Net (decrease) increase in cash and cash equivalents	**(67,359)**	119,684
Effect of foreign exchange rate changes	**1,219**	1,437
Cash and cash equivalents brought forward	**332,081**	291,016
Cash and cash equivalents carried forward	**265,941**	412,137
Analysis of the balances of cash and cash equivalents		
Short term bank deposits	**131,490**	259,281
Bank balances and cash	**134,451**	152,856
	265,941	412,137

Notes:

1. **BASIS OF PREPARATION**

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard 34 (HKAS 34) "Interim Financial Reporting".

2. **PRINCIPAL ACCOUNTING POLICIES**

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair values.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2011 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2011.

In the current interim period, the Group has applied, for the first time, the following new or revised standard, amendments and interpretations ("new or revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

The Group has applied HKAS 24 (as revised in 2009) Related Party Disclosures for the first time in the current period. HKAS 24 (as revised in 2009) has changed the definition of a related party.

HKAS 24 (as revised in 2009) requires retrospective application. The related party disclosures as set out in the condensed consolidated financial statements have been changed to reflect the application of HKAS 24 (as revised in 2009). The comparative figures in the condensed consolidated financial statements have also been restated.

The associates of ITC Corporation Limited, which is a substantial shareholder of, and has significant influence over, the Company's ultimate holding company, previously considered to be related parties are no longer considered as related parties under the new definition of a related party in accordance with HKAS 24 (as revised in 2009) and transactions with these companies are not disclosed accordingly.

Amounts due from these companies with the aggregate carrying amount of HK$36,602,000 have been classified as trade and other debtors, deposits and prepayments as at 30 September 2011. In addition, at 30 September 2011, loan to a former related company amounting to approximately HK$8,148,000 has been classified as other loan receivable.

The effect of changes in the definition of a related party described above on the financial position of the Group as at 31 March 2011 is as follows:

	31/3/2011 (originally stated)	**Adjustments**	**31/3/2011 (restated)**
	HK$'000	*HK$'000*	*HK$'000*
Trade and other debtors, deposits and prepayments	1,371,647	54,373	1,426,020
Amounts due from related companies	54,373	(54,373)	–
Loan to a related company	8,148	(8,148)	–
Other loan receivable	–	8,148	8,148
Trade and other creditors and accrued expenses	(848,426)	(131)	(848,557)
Amount due to a related company	(131)	131	–
	585,611	–	585,611

The effect of changes in the definition of a related party described above on the financial position of the Group as at 1 April 2010 is as follows:

	1/4/2010 (originally stated)	**Adjustments**	**1/4/2010 (restated)**
	HK$'000	*HK$'000*	*HK$'000*
Trade and other debtors, deposits and prepayments	1,373,721	47,427	1,421,148
Amounts due from related companies	47,427	(47,427)	–
Loan to a related company	15,000	(15,000)	–
Other loans receivable	62,500	15,000	77,500
Trade and other creditors and accrued expenses	(663,446)	(1,940)	(665,386)
Amount due to a related company	(1,940)	1,940	–
	833,262	–	833,262

The changes in the definition of a related party have had no impact on the reported profit and earnings per share for the current and prior periods.

The application of the other new or revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

The Group has not early applied new or revised standards, amendments and interpretation that have been issued but are not yet effective. The following new or revised standards, amendments and interpretation have been issued after the date the consolidated financial statements for the year ended 31 March 2011 were authorised for issuance and are not yet effective:

HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[1]
HKAS 19 (Revised 2011)	Employee Benefits[2]
HKAS 27 (Revised 2011)	Separate Financial Statements[2]
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures[2]
HK(IFRIC) - Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

[1] Effective for annual periods beginning on or after 1 July 2012

[2] Effective for annual periods beginning on or after 1 January 2013

The new or revised standards on consolidation, joint arrangements and disclosures were issued by the HKICPA in June 2011 and are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these new or revised standards are applied early at the same time. The directors of the Company anticipate that these new or revised standards will be applied in the Group's consolidated financial statements for the financial year ending 31 March 2014 and the potential impact is described below.

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and Separate Financial Statements" that deal with consolidated financial statements. Under HKFRS 10, there is only one basis for consolidation, that is control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios. Overall, the application of HKFRS 10 requires a lot of judgment. The directors are in the process of assessing the impact from the application of HKFR 10 on the results and the financial position of the Group.

HKFRS 11 replaces HKAS 31 "Interests in Joint Ventures". HKFRS 11 that deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, there are two types of joint arrangements: joint ventures and joint operations. The classification in HKFRS 11 is based on parties' rights and obligations under the arrangements. In contrast, under HKAS 31, there are three different types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting. The application of HKFRS 11 might result in changes in the classification of the Group's joint arrangements and their accounting treatments. The directors are in the process of assessing the impact from the application of HKFRS 11 on the results and the financial position of the Group.

Other than disclosed above, the directors of the Company anticipate that the application of the other new or revised standards, amendments and interpretation will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

The Group is organised into the following two reportable segments:

– Management contracting	– building construction and civil engineering
– Property development management	– development management, project management, facilities and asset management

The following is an analysis of the Group's revenue and results by reportable segment for the period under review:

For the six months ended 30 September 2011

	Management contracting *HK$'000*	Property development management *HK$'000*	Segment total *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
SEGMENT REVENUE					
External sales	**2,041,816**	**25,481**	**2,067,297**	**–**	**2,067,297**
Inter-segment sales	**–**	**437**	**437**	**(437)**	**–**
Total	**2,041,816**	**25,918**	**2,067,734**	**(437)**	**2,067,297**
Segment profit	**35,865**	**387**			**36,252**
Corporate income					**6,184**
Central administrative costs					**(28,734)**
Finance costs					**(6,093)**
Share of results of associates					
– associates engaged in property investment					**375**
– others					**(605)**
Share of results of jointly controlled entities					**9,235**
Profit before tax					**16,614**

For the six months ended 30 September 2010

	Management contracting *HK$'000*	Property development management *HK$'000*	Segment total *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
SEGMENT REVENUE					
External sales	2,226,632	5,022	2,231,654	–	2,231,654
Inter-segment sales	–	679	679	(679)	–
Total	2,226,632	5,701	2,232,333	(679)	2,231,654
Segment profit (loss)	50,377	(4,072)			46,305
Corporate income					7,863
Central administrative costs					(28,990)
Gain on changes in fair value of investments held for trading					25
Finance costs					(5,213)
Share of results of associates					
– associates engaged in property investment					(405)
– others					(2,895)
Share of results of jointly controlled entities					(221)
Profit before tax					16,469

Inter-segment sales are charged at market price or, where no market price was available, at terms determined and agreed by both parties.

Segment profit (loss) represents profit (loss) attributable to each segment without allocation of corporate income, central administrative costs, gain on changes in fair value of investments held for trading, finance costs, share of results of associates and jointly controlled entities. This is the measure reported to the Group's chief operating decision maker for the purposes of resource allocation and performance assessment.

4. INCOME TAX EXPENSE

	Six months ended 30 September	
	2011	2010
	HK$'000	*HK$'000*
The charge comprises:		
Taxation outside Hong Kong	**815**	291

No provision for Hong Kong Profits Tax has been made for both periods as the entities within the Group have available tax losses brought forward which were not recognised as deferred tax assets in prior years to offset the estimated assessable profits arising in Hong Kong.

Taxation outside Hong Kong is calculated at the rates prevailing in the respective jurisdictions.

Taxation arising in other jurisdictions is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year.

5. PROFIT FOR THE PERIOD

	Six months ended 30 September	
	2011	2010
	HK$'000	*HK$'000*
Profit for the period has been arrived at after charging (crediting):		
Consultancy fee *(Note (a) below)*	**1,435**	3,779
Depreciation of property, plant and equipment	**12,473**	8,047
Less: Amount capitalised in respect of contracts in progress	**(1,296)**	(626)
	11,177	7,421
Legal and professional fee *(Note (a) below)*	**4,101**	5,301
Operating lease rental on premises *(Note (a) below)*	**6,111**	7,301
Release of prepaid land lease payments	**287**	287
Share of (profit) loss of jointly controlled entities *(Note (b) below)*	**(9,235)**	221
Gain on changes in fair value of investments held for trading	**–**	(25)
Interest income	**(6,184)**	(7,863)

Notes:

(a) These items are included in administrative expenses.

(b) The Group has established joint ventures to undertake major infrastructure projects in Hong Kong which have made profit contribution to the Group for the six months ended 30 September 2011.

6. DIVIDENDS

	Six months ended 30 September	
	2011	2010
	HK$'000	*HK$'000*
Dividends recognised as distributions to owners of the Company during the current period:		
Final dividend declared in respect of the preceding year – 1.0 HK cent (2010: 1.6 HK cents) per share	**6,070**	9,696

No dividend was determined by the Company for the six months ended 30 September 2011 and 2010.

7. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company for the period is based on the following data:

	Six months ended 30 September	
	2011	2010
	HK$'000	*HK$'000*
Profit for the period attributable to owners of the Company and earnings for the purpose of basic earnings per share	**14,663**	13,865
	Number of shares	Number of shares
Number of ordinary shares for the purpose of basic earnings per share	**606,954,322**	605,999,795

Diluted earnings per share has not been presented as no potential ordinary shares were outstanding during both periods.

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK$38,201,000 (1/4/2010 to 30/9/2010: HK$24,317,000) on property, plant and equipment to expand and upgrade its operating capacity.

9. TRADE AND OTHER DEBTORS, DEPOSITS AND PREPAYMENTS

The Group's credit terms for its management contracting business are negotiated at terms determined and agreed with its trade customers.

The following is an aged analysis of trade debtors, net of allowance for doubtful debt, presented based on the invoice date and retention receivables at the end of the reporting period:

	30/9/2011	31/3/2011
	HK$'000	*HK$'000*
Within 90 days	**580,380**	469,061
More than 90 days and within 180 days	**–**	12,563
More than 180 days	**45,878**	42,764
	626,258	524,388
Retention receivables	**501,949**	503,687
	1,128,207	1,028,075

At 30 September 2011, retentions held by customers for contract works amounting to approximately HK$501,949,000 (31/3/2011: HK$503,687,000) were included in trade and other debtors, of which approximately HK$164,231,000 (31/3/2011: HK$220,954,000) are expected to be recovered or settled after more than twelve months from the end of the reporting period.

Included in other debtors, deposits and prepayments in the condensed consolidated statement of financial position is an amount of approximately HK$261,578,000 (31/3/2011: HK$253,211,000) which mainly represents amounts recoverable (together with interest thereon) from an independent third party, property developer, in respect of amounts paid in previous years for a property development project in Beijing, the PRC (the "Project"). The principal amount was approximately HK$183,827,000 (31/3/2011: HK$177,932,000) and recoverable with the interest calculated at floating-rate interest at the benchmark lending interest rate as announced by the People's Bank of China plus 8% per annum. To protect the Group's interest, the Group has entered into presale contracts with the property developer for certain property units in this Project. In the opinion of the directors, the estimated portion of the amount which is expected to be recovered after twelve months from 30 September 2011 amounted to approximately HK$158,286,000 (31/3/2011: HK$153,211,000) and has been classified as non-current asset.

A writ of summons was served on 28 July 2011 upon the Company and two of its subsidiaries claiming for, amongst others, damages in a sum of approximately RMB780 million related to the Project. It is stated in the writ of summons that the Company and two of its subsidiaries were alleged to be in breach of certain terms contained in an alleged oral agreement (which is denied). Taken into consideration of a legal opinion, the Company is of the view that the Company and two of its subsidiaries would put up a respectable defence against the alleged claim and that it is probable that there would not be adverse material impact on the financial position of the Group.

10. TRADE AND OTHER CREDITORS AND ACCRUED EXPENSES

The following is an aged analysis of trade creditors presented based on the invoice date and retention payables at the end of the reporting period:

	30/9/2011	31/3/2011
	HK$'000	*HK$'000*
Within 90 days	**394,748**	268,985
More than 90 days and within 180 days	**1,057**	4,379
More than 180 days	**12,442**	17,404
	408,247	290,768
Retention payables	**356,653**	364,200
	764,900	654,968

At 30 September 2011, retentions held by the Group for contract works amounting to approximately HK$356,653,000 (31/3/2011: HK$364,200,000) were included in trade and other creditors, of which approximately HK$63,881,000 (31/3/2011: HK$90,302,000) are expected to be paid or settled after more than twelve months from the end of the reporting period.

REVIEW OF FINANCIAL PERFORMANCE AND POSITIONS

During the period under review, the construction industry continued to benefit from the increase in capital works expenditure in both Hong Kong and Macau. Private investors and developers also started to put on stream the construction works of their building plans. Nevertheless, competition in the industry was still intense in terms of pricing and human resources.

For the six months ended 30 September 2011, the Group recorded a consolidated turnover of approximately HK$2,067 million (2010: HK$2,232 million), a decrease of approximately 7% from that of the last corresponding period as the Group had dedicated certain resources to the joint ventures with other contractors in major infrastructure projects. Taking into account the share of turnover of associates and jointly controlled entities attributed to the Group, the turnover would be approximately HK$2,336 million, representing an increase of approximately 4%. Gross profit decreased by approximately 21% or approximately 6% (including share of profit (loss) before tax of associates and jointly controlled entities) as a result of the rise in manpower costs and materials price. Profit attributable to owners of the Company for the period was approximately HK$15 million (2010: HK$14 million), up by 6%. Basic earnings per share was 2.4 HK cents.

As at 30 September 2011, total assets of the Group were approximately HK$2,921 million, compared to approximately HK$2,772 million as at 31 March 2011. Current assets were approximately HK$2,397 million, representing approximately 1.05 times the current liabilities. Net cash was approximately HK$32 million and the equity attributable to owners of the Company stood at approximately HK$622 million.

Net cash flow used in operating activities was about HK$62 million and net outflow in respect of investing and financing activities was approximately HK$5 million, resulting in net decrease in cash of about HK$67 million during the period.

REVIEW OF OPERATIONS

Management Contracting division continued to be the major contributor during the period. Turnover of this division amounted to approximately HK$2,042 million (2010: HK$2,227 million), down by about 8% or approximately HK$2,298 million if the share of turnover of associates and jointly controlled entities was included, an increase of approximately 3%. It reported operating profit of approximately HK$36 million (2010: HK$50 million).

During the period under review, the Management Contracting division secured new contracts of approximately HK$3,412 million, representing an increase of approximately 127% as compared to the amount of HK$1,505 million for the last corresponding period.

As at 30 September 2011, the value of contracts on hand was approximately HK$11,154 million, while the value of work remaining had increased by about 22% to approximately HK$7,217 million as compared to approximately HK$5,908 million as at 31 March 2011. After the end of the period, the division secured further contracts of approximately HK$1,848 million.

The Property Development Management division reported a profit of less than HK$1 million for the period under review. The value of contracts on hand for Property Development Management division at the period end was approximately HK$4 million.

LIQUIDITY AND CAPITAL RESOURCES

The Group adheres to prudent funding and treasury policies in its operations, maintaining a variety of credit facilities with various banks to meet requirements for working capital. At 30 September 2011, the Group had total borrowings of approximately HK$323 million, of which approximately HK$312 million are repayable within one year. Cash, bank balances and deposits at period end totalled approximately HK$355 million, of which approximately HK$284 million, HK$65 million and HK$6 million were denominated in Hong Kong Dollars, Renminbi and Macau Patacas respectively.

Approximately 99.9% of the Group's borrowings as at 30 September 2011 bear interest at floating rates and are denominated either in Hong Kong Dollars or Renminbi. The Renminbi borrowings are directly tied in with the Group's business in the Mainland China. The Group's gearing ratio, based on total borrowings of approximately HK$323 million and equity attributable to owners of the Company of around HK$622 million, is increased to about 0.52.

EMPLOYEES

As at 30 September 2011, the Group had 1,292 full-time employees, including the Directors of the Group. The Group offers competitive remuneration package which is based on overall market rates and employee performance, as well as the performance of the Group. Remuneration package is comprised of salary, a performance-based bonus, and other benefits including training, provident funds and medical coverage. Three share incentive schemes (namely share option scheme, share award scheme and share financing plan) are in place to motivate and reward eligible employees.

PLEDGE OF ASSETS

As at 30 September 2011, the Group pledged bank deposits of approximately HK$89 million, property, plant and equipment of approximately HK$42 million, and charged the Group's benefits over certain construction contracts to secure the general banking facilities granted to the Group.

CONTINGENT LIABILITIES

Apart from the claim described in note 9 to the condensed consolidated financial statements, the Group had contingent liabilities in respect of guarantees of approximately HK$37 million given to banks for banking facilities granted to an associate and jointly controlled entities as at 30 September 2011.

COMMITMENTS

As at 30 September 2011, the Group has expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment of approximately HK$9 million.

EVENT AFTER THE END OF THE INTERIM PERIOD

On 21 August 2011, the Group decided to diversify its business through a series of transactions, including (i) placing to issue a total of 3,100 million new shares at HK$0.65 each, with an option of up to an additional 500 million new shares; (ii) acquisition of a 50% interest in a film joint venture to which the Group will contribute US$220.5 million (approximately HK$1,719.9 million) in cash; (iii) capital reduction and distribution in specie of a 49% interest in the Group's existing businesses with a cash alternative; and (iv) cash dividend of HK$0.25 per share with a scrip alternative (the "Transactions").

Details of the Transactions are set out in the joint announcement of the Company and PYI Corporation Limited and the circular of the Company dated 21 August 2011 and 24 October 2011, respectively.

On 15 November 2011, the Transactions were approved by the shareholders of the Company at a special general meeting. The Transactions are subject to the satisfaction of other certain conditions, and hence the Transactions are not yet completed at the date these condensed consolidated financial statements are authorised for issue.

SECURITIES IN ISSUE

As at 30 September 2011, there were 606,954,322 shares in issue, with no outstanding share options.

During the period under review, no share was issued and no share options were granted.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2011 (2010: Nil).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 September 2011, there were no purchases, sales or redemptions by the Company, or any of its subsidiaries, of the Company's listed securities.

OUTLOOK

With the threat of global slowdown and turmoil in the Eurozone looming over the Hong Kong economy, uncertainties in the external environment abounds. Although each of the United States and the European Union has put forth the operation twist and rescue package, respectively, with an attempt to stop the deterioration of their economies, the effects of such measures are still unknown. As an international financial centre, Hong Kong is inevitably facing the risk of an economic downturn in the event of further worsening of global economic conditions.

On the other hand, the prospect of the local construction market remains brilliant. The new housing policy (including the increase in number of public rental housing, the launch of new home ownership scheme and the increase in land supply), the development of East Kowloon as a second core business district and the tender of the second logistics site at Tsing Yi as announced by the Chief Executive in his 2011-12 Policy Address will boost further demand of building and infrastructure works on top of the infrastructure projects already put on stream. However, this will trigger off a further competition of professional engineers, skilled labour, machinery and building materials in our local market. It is expected that profit margin of the industry will be restrained by the increase in costs.

Facing up to these challenges, the Group will concentrate more on risk analysis and forward planning to cope with clients' needs and maintain an optimal balance of risk and return to shareholders. More resources will be put in the Mainland China and Macau to capture the business expansion opportunity in these markets. Equipped with professional expertise and a solid foundation, the Group remains confident in increasing our order book and is well-positioned to take advantage of the thriving construction market. Riding on its core businesses, the Group has continued to seek opportunities to diversify our business for enhancing total shareholders' value.

The recent proposed film joint venture with Legend Pictures, LLC ("Legendary") and Huayi Brothers Media Corporation approved by our shareholders on 15 November 2011 provides the Group an opportunity to enter a new business sector with growth potential. Subject to the fulfillment of certain conditions such as the completion of share placing, it is expected that the transaction will be completed in December 2011. The film joint venture will initially plan to produce one to two films annually. The title of the first film in development is "The Great Wall". In addition, it will co-finance and participate in a 25% equity stake in two films of Legendary, "Paradise Lost" and "The Seventh Son". The films are anticipated to be released in 2013. To attain sustainable returns for our shareholders, the Group will strive to maintain a steady growth in our existing construction business and will endeavour to achieve more significant growth through the filmmaking business to be acquired.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance because it believes that is the best way to enhance shareholders' value. The Company has complied with all code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 September 2011. It also adopted most of the recommended best practices stated herein.

AUDIT COMMITTEE

The principal duties of the audit committee of the Company (the "Audit Committee") include oversight of the Group's financial reporting system and internal control procedures, review of the Group's financial information, and review of the relationship with the external auditor of the Company.

The Audit Committee comprises three independent non-executive directors of the Company, namely:

- Ir James Chiu, *OBE, JP (Chairman of the Audit Committee)*
- Professor Lee Chack Fan, *SBS, JP*
- Mr Iain Ferguson Bruce

The Group's interim results for the six months ended 30 September 2011 has been reviewed by the Audit Committee and the Company's external auditor.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company.

All directors of the Company have confirmed, following specific enquiry by the Company, that they complied with the required standard set out in the Model Code during the six months ended 30 September 2011.

PUBLICATION OF INTERIM RESULTS

This results announcement is published on the Company's website at www.pyengineering.com and the Stock Exchange's website. The Interim Report for the six months ended 30 September 2011 will be despatched to shareholders and will also be published on the websites of both the Stock Exchange and the Company in due course.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank our shareholders, customers, and business partners for their continuous support and contributions. I would also like to express my gratitude to my fellow directors for their guidance, and thank all our staff for their dedication and hard work.

On behalf of the Board
James Chiu, *OBE, JP*
Chairman

Hong Kong, 25 November 2011

As at the date of this announcement, the directors of the Company are:

Ir James Chiu, *OBE, JP*	:	Chairman (Independent Non-Executive Director)
Mr Lau Ko Yuen, Tom	:	Deputy Chairman (Non-Executive Director)
Mr Chan Fut Yan	:	Deputy Chairman (Executive Director)
Ir Dr Wong Kam Cheong, Stanley	:	Executive Director & Chief Executive Officer
Professor Lee Chack Fan, *SBS, JP*	:	Independent Non-Executive Director
Mr Iain Ferguson Bruce	:	Independent Non-Executive Director

* *For identification purpose only*