

REPORT OF THE DIRECTORS

The directors herein present their report and the audited financial statements of the Company and the Group for the period from 1 April 1999 to 31 July 2000.

MANAGEMENT DISCUSSION AND ANALYSIS

The management has consulted amongst its members and observed that in respect of the auditors' qualifications and disclaimers of opinion, the management maintains that the best endeavour and due diligence was applied given the prevailing circumstances and uncertainties dictated by the turn of events under the uncharted route of the process of corporate restructuring by Court sanctioning.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its principal subsidiaries are set out in note 31 to the financial statements. During the period, the Group's business segments of contracting, structural steel and electrical and mechanical engineering were discontinued as a result of the implementation of the Group's schemes of arrangement, as detailed in note 2(d) to the financial statements, and foreclosure of the Group's interest in KEL Holdings Limited, as detailed in note 2(e) to the financial statements.

CHANGE OF FINANCIAL YEAR AND DATE

Pursuant to a board resolution passed on 17 July 2000, the Company's financial year end date was changed from 31 March 2000 to 31 July 2000 to reflect the post-reorganisation financial status of the Group.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to profit/(loss) from operating activities by principal activity and geographical area of operations for the period ended 31 July 2000 is as follows:

	Turnover <i>HK\$'000</i>	Contribution to profit/(loss) from operating activities <i>HK\$'000</i>
By principal activity:		
Continuing operations:		
Marine engineering	32,870	45,882
Discontinued operations:		
Contracting	3,119	1,081
Structural steel	6,379	(45,758)
Electrical and mechanical engineering	28,957	(13,585)
	<hr/> 38,455	<hr/> (58,262)
Gain on disposal of subsidiaries	–	735,889
	<hr/> <u>71,325</u>	<hr/> <u>723,509</u>

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SEGMENTAL INFORMATION (Continued)

	Turnover HK\$'000	Contribution to profit/ (loss) from operating activities HK\$'000
By geographical area of operations:		
The People's Republic of China:		
Hong Kong, S.A.R.	49,279	748,263
Elsewhere	4,966	(5,884)
Singapore	17,080	(18,955)
Others	—	85
	<u>71,325</u>	<u>723,509</u>

RESULTS

The Group's profit for the period ended 31 July 2000 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 20 to 76.

SUMMARY FINANCIAL INFORMATION

A summary of the published results of the Group and of its assets and liabilities for the last five financial period/years is set out on page 77. The summary is not part of the audited financial statements.

FIXED ASSETS

Details of the movements in the fixed assets of the Group are set out in note 14 to the financial statements.

SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's principal subsidiaries and associates are set out in notes 31 and 17 to the financial statements, respectively.

BORROWINGS

Details of the borrowings of the Company and the Group as at 31 July 2000 are set out in notes 23, 24 and 25 to the financial statements.

INTEREST CAPITALISED

During the period, no interest expense (year ended 31 March 1999: HK\$924,000) was capitalised as part of the costs of contracting work.

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SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the share capital and share options of the Company during the period and the reasons therefor are set out in note 28 to the financial statements.

There are no provisions for pre-emptive rights under the Company's Bye-Laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

RESERVES

Details of the movements in the reserves of the Company and the Group during the period are set out in note 29 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 July 2000, the Company did not have any reserves available for cash distribution and/or distribution in specie, as calculated in accordance with the Companies Act 1981 of Bermuda (as amended).

DIRECTORS

The directors of the Company during the period are as follows:

Executive directors

Leung Yat Tung	
Leung Yuet Keung	(resigned on 18 January 2000)
Leung Yu Oi Ling, Irene	
Chan Kim Leung	(appointed on 18 January 2000)

Independent non-executive directors

Wong Sum Yuen	(resigned on 23 March 2000)
Pao Ping Wing	
Cheung Yan Hong	(appointed on 23 March 2000)

In accordance with clause 102(B) of the Company's Bye-Laws, each of Mr Chan Kim Leung and Mr Cheung Yan Hong holds office only until the forthcoming annual general meeting and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In accordance with clause 99 of the Company's Bye-Laws, all remaining directors will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Except as detailed in notes 2 and 34 to the financial statements, no director had a material beneficial interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the period.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the Company's share option scheme as further detailed in note 28 to the financial statements, the Company has granted to certain directors of the Company rights to subscribe for shares in the capital of the Company. Details of the movements during the period in the share options granted to the directors of the Company were as follows:

Name of director	Subscription price*	Exercise period	Number of share options		
			At 1 April 1999	Adjustment during the period*	At 31 July 2000
Leung Yat Tung	HK\$15.2	<i>Note</i>	17,287,266	(16,422,903)	864,363
Leung Yu Oi Ling, Irene	HK\$15.2	<i>Note</i>	17,287,266	(16,422,903)	864,363

Note: Period from 20 March 1998 to 19 September 2000

* *Adjusted for share consolidation during the period.*

All of the share options, remaining outstanding at 31 July 2000, lapsed unexercised upon the expiry of the exercise period subsequent to the balance sheet date.

In addition, prior to the current period, pursuant to the KEL Holdings Limited's share option scheme, KEL Holdings Limited ("KEL Holdings") granted to each of Leung Yat Tung and Leung Yu Oi Ling, Irene, at the consideration of HK\$1 per grant, rights to subscribe for 10,000,000 shares in the capital of KEL Holdings at a subscription price of HK\$0.80 per share exercisable during the period from 20 March 1998 to 19 September 2000. These share options were not exercised during the period and lapsed subsequent to the balance sheet date, on 19 July 2000, upon the option-holders' resignation as directors of KEL Holdings and/or its subsidiaries.

Save as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse, or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.