

# REPORT

## OF THE DIRECTORS

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 July 2001.

### MANAGEMENT DISCUSSION AND ANALYSIS

#### GENERAL

The management has consulted amongst its members and observed that despite of the auditors' disclaimer of opinion, management will continue to maintain the best endeavour and due diligence given the prevailing circumstances and uncertainties dictated by both the turn of events under the uncharted route of the process of corporate restructuring by Court sanctioning and the subsequent appeals and prevailing difficult economical and market condition in the HKSAR and the region.

#### REVIEW AND OPERATIONS

During the year under review, the Group is engaged in hiring of substantial proportion of the Group's vessels and the disposal of certain of the Group's vessels to reduce its debt servicing obligations.

#### LIQUIDITY AND FINANCIAL RESOURCES

As at 31 July 2001, the Group had in aggregate secured bank and other borrowings approximately HK\$106,976,000 (2000:132,758,000)

The gearing ratio as at 31 July 2001 was 604.6% (2000: 994.2%) the calculation was based on the total indebtedness in proportion to the total equity of the Group as at 31 July 2001.

#### EMPLOYEES

As at 31 July 2001, there are approximately 20 staff and 60 contract workers in the Group. The Directors are actively reviewing staffing levels and remuneration package with a view to maintaining a cost-effective management structure. A new share option scheme will be proposed for approval at the coming annual general meeting.

#### PROSPECTS

The Group would further explore opportunities in vessels hiring and disposing of certain vessels to reduce the Group's debt servicing obligations.

#### 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 12 to the financial statements.

**SEGMENTAL INFORMATION**

An analysis of the Group's turnover and contribution to profit from operating activities by principal activity and geographical area of operations for the year ended 31 July 2001 are as follows:

	<b>Turnover</b> <i>HK\$'000</i>	<b>Contribution to profit from operating activities</b> <i>HK\$'000</i>
<b>By principal activity:</b>		
Continuing operations:		
Marine engineering	<u>100,110</u>	<u>17,211</u>
<b>By geographical area of operations:</b>		
The People's Republic of China:		
Hong Kong, S.A.R.	88,057	15,139
Singapore	<u>12,053</u>	<u>2,072</u>
	<u>100,110</u>	<u>17,211</u>

**RESULTS**

The Group's profit for the year ended 31 July 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 18 to 59.

**SUMMARY FINANCIAL INFORMATION**

A summary of the published results of the Group and of its assets and liabilities for the last five financial periods is set out on page 60. The summary is not part of the audited financial statements.

**PROPERTY, PLANT AND EQUIPMENT**

Details of the movements in the property, plant and equipment of the Group are set out in note 11 to the financial statements.

**SUBSIDIARIES**

Particulars of the Company's principal subsidiaries are set out in notes 12 to the financial statements.

**BORROWINGS**

Details of the borrowings of the Company and the Group as at 31 July 2001 are set out in notes 15 and 16 to the financial statements.

## SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the share capital including the capital reduction and subscription undertaken in May 2001 and share options of the Company during the year and the reasons thereof are set out in note 19 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 year are set out in note 20 to the financial statements.

## DISTRIBUTABLE RESERVES

As at 31 July 2001, 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 year are as follows:

### Executive directors

Leung Yat Tung	(resigned on 1 March 2001*)
Leung Yu Oi Ling, Irene	
Chan Kim Leung	

### Non-executive directors

Leung Chi Yin, Gillian	(appointed on 29 March 2001)
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### Independent non-executive directors

Pao Ping Wing	
Cheung Yan Hong	(resigned on 29 March 2001)
Wong Pui Fai	(appointed on 29 March 2001)

\* *Leung Yat Tung bankrupted on 1 March 2001*

In accordance with clause 102(B) of the Company's Bye-Laws, each of Ms. Leung Chi Yin, Gillian and Mr. Pao Ping Wing 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.

**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(f) and 25 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 year.

**DIRECTORS' RIGHTS TO ACQUIRE SHARES**

Pursuant to the Company's share option scheme as further detailed in note 19(a) 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 year 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 August 2000	Lapsed during the period	At 31 July 2001
Leung Yat Tung	HK\$15.2	**	864,363	864,363	-
Leung Yu Oi Ling, Irene	HK\$15.2	**	864,363	864,363	-

\* Adjusted for share consolidation in May 2000.

\*\* Period from 20 March 1998 to 19 September 2000

As reported in the 2000 annual report, all of the share options remaining outstanding at 1 August 2000, lapsed unexercised upon the expiry of the exercise period on 19 September 2000.

Save as disclosed above, at no time during the year 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.

**DIRECTORS' INTERESTS IN SHARES**

As at 31 July 2001, the interests of the Company's directors and their respective associates in the issued share capital of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

**(a) Interests in the Company**

Name of director	Number of shares and nature of interests		
	Personal	Family	Other
Leung Yu Oi Ling, Irene	297,000	–	254,836,653 <i>Notes (1)&amp;(2)</i>
Leung Chi Yin, Gillian	100,000	–	255,033,653 <i>Notes (1)&amp;(2)</i>

*Notes:*

- (1) 254,736,653 ordinary shares of the Company are held by Harbour Front Limited ("Harbour Front") or its designated nominees, as the trustee of a unit trust. All of the units in the unit trust are beneficially owned by a discretionary trust.
- (2) 297,000 and 100,000 ordinary shares of the Company are held by Leung Yu Oi Ling, Irene and Leung Chi Yin, Gillian respectively and both of them are directors of Harbour Front.

**(b) Interest in Universal Dockyard Limited (a 98.75% owned subsidiary of the Company)**

Name of director	Nature of interest	Number of shares
Leung Yat Tung (Resigned on 1 March 2001)	Personal	11,858 non-voting deferred shares

The rights and restrictions attached to the non-voting deferred shares in Universal Dockyard Limited are as follows:

- (1) the non-voting deferred shares entitle the holders thereof to a fixed non-cumulative dividend at the rate of 5% per annum for any financial year of the company in respect of which the net profit of the company available for dividends exceed HK\$1,000,000,000;
- (2) on a winding-up, the holders of the non-voting deferred shares are entitled to a return of the capital paid up on the non-voting deferred shares, out of the surplus assets of the company after a total sum of HK\$100,000,000,000 has been distributed in such a winding-up in respect of each of the ordinary shares of the company;
- (3) save as described above, the holders of the non-voting deferred shares are not entitled to any participation in the profit or assets of the company; and
- (4) the non-voting deferred shares do not entitle the holders thereof to receive notice of or to attend or vote at any general meeting of the company by virtue or in respect of their holdings of such non-voting deferred shares.

In addition to the above, certain directors had non-beneficial personal equity interests in certain subsidiaries held for the benefit of the respective holding company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above and under the heading "Directors' rights to acquire shares", none of the directors or their associates had any personal, family, corporate or other interest in the issued share capital of the Company or any of its associated corporations as defined in the SDI Ordinance.

### SUBSTANTIAL SHAREHOLDERS

As at 31 July 2001, according to the register maintained by the Company pursuant to Section 16(1) of the SDI Ordinance, the following persons were, directly or indirectly, beneficially interested in 10% or more of the issued share capital of the Company:

Name of shareholder	Number of shares held
Harbour Front	254,736,653
Mr. Matthew O'Driscoll ( <i>Note (1)</i> )	252,306,195

Save as disclosed above, no person, other than Leung Yu Oi Ling, Irene and Leung Chi Yin, Gillian whose interests are set out under "Directors' interests in shares" above, had registered an interest in the issued share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

*Note:*

- (1) Mr. Matthew O'Driscoll is the Scheme Administrator of the Scheme of Arrangement of the Company and the Scheme Participating Subsidiaries (the "Scheme"), and hold 252,306,195 Shares on trust for the Scheme Creditors pending distribution pursuant to the terms of the Scheme.

### DIRECTORS' REMUNERATION

The remuneration of the directors for the year fell within the following bands:

	Number of directors	
	Year ended 31 July 2001	Period ended 31 July 2000
Nil – HK\$1,000,000	5	6
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$1,500,001 – HK\$2,000,000	1	–
HK\$2,500,001 – HK\$3,000,000	–	1
	<u>7</u>	<u>7</u>

There were no arrangements under which any director waived or agreed to waive any remuneration during the year. Further details of the remuneration of the directors are set out in note 21 to the financial statements.

**FIVE HIGHEST PAID EMPLOYEES**

The five highest paid employees during the year included three (period ended 31 July 2000: four) executive directors, details of whose remuneration are set out in note 21(a) to the financial statements. The details of the remuneration of the remaining two (period ended 31 July 2000: one) non-directors, highest paid employees are set out below:

	<b>Year ended 31 July 2001 HK\$'000</b>	Period ended 31 July 2000 HK\$'000
Salaries and other emoluments	<u>1,816</u>	<u>1,668</u>

The remuneration of the non-directors, highest paid employees for the year fell within the range of HK\$1,000,001 – HK\$1,500,000 (period ended 31 July 2000: range of HK\$1,500,001 – HK\$2,000,000).

**MAJOR CUSTOMERS AND SUPPLIERS**

In the year under review, sales to the Group's five largest customers accounted for approximately 78% of the total sales of the Group for the year, and sales to the largest customer included therein amounted to approximately 41%.

In the year under review, purchases from the Group's five largest suppliers accounted for approximately 51% of the total purchases for the year, and purchases from the largest supplier therein amounted to approximately 17%.

Save as disclosed in note 25 to the financial statements, neither the directors, their associates nor those shareholders which to the knowledge of the directors own more than 5% of the Company's share capital, held any interest in the Group's five largest customers or suppliers.

**CONNECTED TRANSACTIONS**

Save as disclosed in notes 25 to the financial statements, the directors are not aware of any connected transactions not otherwise dealt with in this report.

**POST BALANCE SHEET EVENT**

Particulars of the significant event which occurred after the balance sheet date are set out in note 27 to the financial statements.

**PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES**

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

## **AUDIT COMMITTEE**

In compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Company established an Audit Committee on 2 January 1999, comprising two independent non-executive directors. The primary duties of the Audit Committee are to review and advise on the problems on the audit and the financial reporting process.

## **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by this Annual Report, except that the independent non-executive directors of the Company are not employed for specific term, but are subject to retirement and re-election at the annual general meeting of the Company in accordance with the Company's Bye-Laws.

## **AUDITORS**

During the year, Ernst & Young resigned as auditors of the Company and Grant Thornton were appointed as auditors of the Company. Grant Thornton retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Leung Yu Oi Ling, Irene**  
*Acting Chairman*

Hong Kong  
26 November 2001