

The directors present their annual report and the audited financial statements of the Group and the Company for the year ended 31st March, 2005.

### Principal Activities

The Company is an investment holding company.

The activities of its principal subsidiaries, associates and jointly controlled entities at 31st March, 2005 are set out in note 42 to the financial statements.

### Change of Name

Special resolution was passed by the shareholders of the Company at a special general meeting of the Company held on 22nd December, 2004 to change the Company name from Skynet (International Group) Holdings Limited to Paul Y. Engineering Group Limited and adopt 保華建業集團有限公司 as the Company's Chinese name for identification purpose. The change of name took effect on 18th January, 2005.

### Results and Appropriations

The results of the Group and appropriations of the Company for the year ended 31st March, 2005 are set out in the consolidated income statement on page 25 of the annual report and in the accompanying notes to the financial statements.

### Major Customers and Suppliers

For the year ended 31st March, 2005, the five largest customers and the single largest customer of the Group accounted for approximately 80% and 29% of the turnover of the Group, respectively. The aggregate purchases attributable to the five largest suppliers of the Group during the year were less than 30% of the purchases of the Group.

As far as the directors are aware, none of the directors, their associates, within the meaning of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") (the "Listing Rules"), or those shareholders which to the knowledge of the directors own more than 5% of the Company's share capital have an interest in any of the five largest customers of the Group for the year ended 31st March, 2005.

### Liquidity and Capital Resources

The Group currently maintains a variety of credit facilities to meet its working capital requirements. At 31st March, 2005, the Group's total borrowings amounted to approximately HK\$186,984,000 which is repayable within one year. Cash, bank balances and deposits at 31st March, 2005 amounted to approximately HK\$339,407,000. The Group's current ratio was 1.1 and the Group's total borrowings to equity ratio was 0.6 at 31st March, 2005.

## Property, Plant and Equipment

During the year, the Group spent approximately HK\$3,293,000 on property, plant and equipment to expand and upgrade its operating capacity.

Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

## Share Capital

Details of movements in the issued share capital of the Company during the year are set out in note 32 to the financial statements.

## Share Options

Particulars of share option schemes and details of movements in the share options of the Company and its holding Company during the year are set out in note 33 to the financial statements.

## Directors

The directors of the Company during the year and up to the date of this report were:

### Independent non-executive directors

Ronald James Blake, <i>OBE, JP (Chairman)</i>	(appointed on 17th January, 2005)
Lee Chack Fan, <i>SBS, JP</i>	(appointed on 17th January, 2005)
Iain Ferguson Bruce	(appointed on 17th January, 2005)
Cheung Hon Kit	(resigned on 17th January, 2005)
Ng Wai Hung	(resigned on 17th January, 2005)

### Non-executive directors

Lau Ko Yuen, Tom ( <i>Deputy Chairman</i> )	(appointed on 17th January, 2005)
Lo Chi Ho, William	(resigned on 17th January, 2005)

### Executive directors

Wong Wing Hoo, Billy, <i>JP (Managing Director)</i>	(appointed on 17th January, 2005)
Lee Hon Chiu	(appointed on 17th January, 2005)
Choi Wing Kin	(resigned on 17th January, 2005)
Wu Wing Kin	(resigned on 17th January, 2005)
To Chi	(resigned on 17th January, 2005)

In accordance with bye-law 86(2) of the Company's bye-laws, Mr Ronald James Blake, Mr. Lau Ko Yuen, Tom, Mr Wong Wing Hoo, Billy, Mr. Lee Hon Chiu, Professor Lee Chack Fan and Mr. Iain Ferguson Bruce retire at the forthcoming annual general meeting. All retiring directors, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The term of office of the non-executive director is the period from the date of appointment up to his retirement by rotation at least once every three years and in accordance with the Company's bye-laws. Subject to the Company's bye-laws, the maximum term of engagement of the independent non-executive directors is up until the conclusion of the third annual general meeting of the Company from the date of their appointment.

## Directors' Service Contracts

None of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

## Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

At 31st March, 2005, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") in the Listing Rules were as follows:

### Interests and short positions in the shares, underlying shares and debentures of Paul Y. - ITC Construction Holdings Limited ("Paul Y")

Name of director	Capacity	Long position/ short position	Number of underlying shares (in respect of the share options (unlisted equity derivatives)) of Paul Y held	Approximate percentage of the existing issued share capital of Paul Y
Lau Ko Yuen, Tom	Beneficial owner	Long position	13,000,000	0.95%

Paul Y, the ultimate holding company of the Company, is an associated corporation, within the meaning of Part XV of the SFO, of the Company.

Save as disclosed above, at 31st March, 2005, none of the directors or chief executives of the Company had any interest or short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

## Directors' Rights to Acquire Shares or Debentures

### (a) Share options of the Company

At 31st March, 2005, there were no outstanding share options granted by the Company pursuant to the share option scheme of the Company adopted on 1st April, 1996. No share options were granted, exercised, cancelled or lapsed during the year. Particulars of share option scheme of the Company are set out in note 33 to the financial statements.

## Directors' Rights to Acquire Shares or Debentures – continued

### (b) Share options of Paul Y

Movements in the share options of Paul Y under the share option scheme of Paul Y adopted on 27th August, 2002 to the directors of the Company during the year are as follows:

Name of director	Date of grant	Exercise price per share HK\$	Number of shares of Paul Y to be issued upon exercise of the share options		
			Outstanding at 1.4.2004	Granted during the year	Outstanding at 31.3.2005
Lau Ko Yuen, Tom	28.12.2004	1.94	–	6,500,000	6,500,000
	28.12.2004	2.20	–	6,500,000	6,500,000
				<u>13,000,000</u>	<u>13,000,000</u>

Particulars of share option scheme of Paul Y are set out in note 33 to the financial statements.

Save as disclosed herein, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities including debentures of, the Company or any other body corporate, and none of the directors, chief executives or their spouse or children under the age of 18, had any right to subscribe for securities of the Company, or had exercised any such rights during the year.

## Directors' Interests in Competing Businesses

Interests of directors of the Company in competing businesses as at 31st March, 2005 required to be disclosed pursuant to Rule 8.10 of the Listing Rules were as follows:

Name of director	Name of company	Nature of competing business	Nature of interest
Lau Ko Yuen, Tom	Downer EDI Limited and its subsidiaries	Construction business in Hong Kong	As the deputy chairman of Downer EDI Limited

Having considered the nature, size and scope of the above businesses, the directors of the Company believe that there is unlikely to be any significant competition with the businesses of the Group.

Save as disclosed above, none of the directors of the Company is interested in any business apart from the Group's businesses which competes or is likely to complete, either directly or indirectly, with the businesses of the Group.

## Directors' Interests in Contracts of Significance

Save as disclosed under the section headed "Connected Transactions" below, no contracts of significance to which the Company or any of its holding companies or fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## Connected Transactions

During the year, the Group entered into certain transactions which were “continuing connected transactions” or “connected transactions” as defined in the Listing Rules. Details of such transactions are as follows:

### (1) Continuing connected transactions

During the period from 17th January, 2005 to 31st March, 2005, the Group entered into the following transactions with certain associates of Paul Y:

Name of party	Nature of transactions	Amount HK\$'000
Paul Y. Building Management Limited	Construction works charged by the Group	206
Cycle Company Limited and Gunnell Properties Limited	Rentals and related building management fee charged to the Group	2,371

The above companies are associates, within the meaning of the Listing Rules, of Paul Y, a substantial shareholder of the Company. Mr. Lau Ko Yuen, Tom, a director of the Company, is also a director of Paul Y.

The independent non-executive directors of the Company, have reviewed and confirmed that the continuing connected transactions as set out above have been entered into:

- (i) in the ordinary and usual course of the business of the Group;
- (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and
- (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

### (2) Connected transactions

On 29th March, 2004, the Company and Paul Y entered into the following two conditional sale and purchase agreements, each supplemented by three supplemental agreements entered into between the same parties dated 25th June, 2004, 30th August, 2004 and 20th October, 2004 in respect of:

- (i) the acquisition by the Company from Paul Y the entire equity interest in, and shareholder's loan to, Paul Y. - ITC Construction Holdings (B.V.I.) Limited (now renamed as Paul Y. Engineering Holdings (B.V.I.) Limited) (the “Acquisition”), the aggregate of which shall be no less than HK\$250,000,000 as warranted by Paul Y, to be satisfied by the issuance and allotment of 400,000,000 ordinary shares of HK\$0.5 each in the Company to Paul Y, credited as fully paid, at an issue price of HK\$1.0 per share (the “Acquisition Agreement”); and
- (ii) the acquisition by the Company from Paul Y the entire equity interest in, and shareholder's loan to, Hidden Advantage Investments Limited (the “Hidden Acquisition”), to be satisfied by the issuance and allotment of 113,600,000 ordinary shares of HK\$0.5 each in the Company to Paul Y, credited as fully paid, at an issue price of HK\$1.0 per share (the “Hidden Agreement”).

The Acquisition Agreement and the Hidden Agreement constitute connected transactions of the Company as Paul Y would be the controlling shareholder of the Company upon completion of the Acquisition Agreement. The Acquisition and the Hidden Acquisition were completed in January 2005.

## Interests and Short Positions of Substantial Shareholders/Other Persons recorded in the Register kept under Section 336 of the SFO

At 31st March, 2005, so far as is known to the directors and the chief executives of the Company, the interests and short positions of the substantial shareholders/other persons in the shares and underlying shares of the Company as recorded in the register of the Company required to be kept under Section 336 of the SFO were as follows:

### (1) Interests and short positions of substantial shareholders in the shares and underlying shares of the Company

Name of shareholder	Capacity	Long position/ short position	Number of shares of the Company held	Number of underlying shares (in respect of the convertible note(s) (unlisted equity derivatives)) of the Company held	Approximate percentage of the existing issued share capital of the Company
Chan Kwok Keung, Charles	Interest of controlled corporation (Note a)	Long position	375,826,317	–	65.17%
Chan Kwok Keung, Charles	Interest of controlled corporation (Note b)	Long position	–	100,000,000	17.34%
Ng Yuen Lan, Macy	Interest of spouse (Note a)	Long position	375,826,317	–	65.17%
Ng Yuen Lan, Macy	Interest of spouse (Note b)	Long position	–	100,000,000	17.34%
Chinaview International Limited ("Chinaview")	Interest of controlled corporation (Note a)	Long position	375,826,317	–	65.17%
Chinaview	Interest of controlled corporation (Note b)	Long position	–	100,000,000	17.34%
Galaxyway Investments Limited ("Galaxyway")	Interest of controlled corporation (Note a)	Long position	375,826,317	–	65.17%
Galaxyway	Interest of controlled corporation (Note b)	Long position	–	100,000,000	17.34%
ITC Corporation Limited ("ITC")	Interest of controlled corporation (Note a)	Long position	375,826,317	–	65.17%
ITC	Interest of controlled corporation (Note b)	Long position	–	100,000,000	17.34%

## Interests and Short Positions of Substantial Shareholders/Other Persons recorded in the Register kept under Section 336 of the SFO – continued

### (1) Interests and short positions of substantial shareholders in the shares and underlying shares of the Company – continued

Name of shareholder	Capacity	Long position/ short position	Number of shares of the Company held	Number of underlying shares (in respect of the convertible note(s) (unlisted equity derivatives)) of the Company held	Approximate percentage of the existing issued share capital of the Company
ITC Investment Holdings Limited ("ITC Investment")	Interest of controlled corporation (Note a)	Long position	375,826,317	–	65.17%
ITC Investment	Interest of controlled corporation (Note b)	Long position	–	100,000,000	17.34%
Hollyfield Group Limited ("Hollyfield")	Interest of controlled corporation (Note a)	Long position	375,826,317	–	65.17%
Hollyfield	Interest of controlled corporation (Note b)	Long position	–	100,000,000	17.34%
Paul Y	Interest of controlled corporation (Note a)	Long position	375,826,317	–	65.17%
Paul Y	Beneficial owner (Note b)	Long position	–	100,000,000	17.34%
Paul Y. – ITC Investments Group Limited ("PYITCIG")	Interest of controlled corporation (Note a)	Long position	375,826,317	–	65.17%
Growing Success Limited ("Growing Success")	Interest of controlled corporation (Note a)	Long position	375,826,317	–	65.17%
Paul Y. Investments Limited ("PYI")	Beneficial owner (Note a)	Long position	375,826,317	–	65.17%

#### Notes:

- a. PYI was a wholly-owned subsidiary of Growing Success which was in turn a wholly-owned subsidiary of PYITCIG. PYITCIG is a wholly-owned subsidiary of Paul Y. Hollyfield, a wholly-owned subsidiary of ITC Investment which was in turn a wholly-owned subsidiary of ITC, owned approximately 49.58% of the issued share capital of Paul Y. Galaxyway, a wholly-owned subsidiary of Chinaview, owned approximately 33.55% of the issued ordinary share capital of ITC. Dr. Chan Kwok Keung, Charles owned the entire issued share capital of Chinaview. Growing Success, PYITCIG, Paul Y, Hollyfield, ITC Investment, ITC, Galaxyway, Chinaview and Dr. Chan Kwok Keung, Charles were deemed to be interested in the shares in the Company held by PYI. Ms. Ng Yuen Lan, Macy (being the spouse of Dr. Chan Kwok Keung, Charles) was also deemed to be interested in the said 375,826,317 shares in the Company held by PYI.

## Interests and Short Positions of Substantial Shareholders/Other Persons recorded in the Register kept under Section 336 of the SFO – continued

### (1) Interests and short positions of substantial shareholders in the shares and underlying shares of the Company – continued

- b. Paul Y and the Company entered into an agreement for the provision of an unsecured loan facility of a principal amount of up to HK\$100,000,000 to be made available by Paul Y to the Company pursuant to which convertible note(s) will be issued by the Company to Paul Y upon draw down of the facility in the principal amount of the facility drawn. Such convertible note(s) are convertible into shares of the Company at an initial conversion price of HK\$1.00 per share, up to a maximum aggregate principal amount of HK\$100,000,000. Dr. Chan Kwok Keung, Charles and Ms. Ng Yuen Lan, Macy were deemed to be interested in the underlying shares (in respect of the said convertible note(s) that may be issued by the Company (unlisted equity derivatives)) held by Paul Y.

### (2) Interests and short positions of other persons in the shares and underlying shares of the Company

Name of person	Capacity	Long position/ short position	Number of shares of the Company held	Approximate percentage of the existing issued share capital of the Company
Morgan Stanley	Corporate interest (Note a)	Long position	35,168,000	6.10%
Morgan Stanley Capital Management, L.L.C. ("MS Capital Management")	Corporate interest (Note a)	Long position	32,368,000	5.61%
Morgan Stanley Domestic Capital, Inc. ("MS Domestic Capital")	Corporate interest (Note a)	Long position	32,368,000	5.61%
Morgan Stanley International Incorporated ("MS International Incorp")	Corporate interest (Note a)	Long position	32,368,000	5.61%
Morgan Stanley International Limited ("MS International Ltd")	Corporate interest (Note a)	Long position	32,368,000	5.61%
Morgan Stanley Group (Europe) ("MS Group Europe")	Corporate interest (Note a)	Long position	32,368,000	5.61%
Morgan Stanley UK Group ("MS UK Group")	Corporate interest (Note a)	Long position	32,368,000	5.61%
Morgan Stanley & Co International Limited ("MS & Co International")	Beneficial owner (Note a)	Long position	32,368,000	5.61%
OZ Management, L.L.C. ("OZ Management")	Investment manager (Note b)	Long position	30,000,000	5.20%
OZ Master Fund, Ltd. ("OZ Master")	Beneficial owner (Note b)	Long position	29,185,000	5.06%



## Interests and Short Positions of Substantial Shareholders/Other Persons recorded in the Register kept under Section 336 of the SFO – continued

### (2) Interests and short positions of other persons in the shares and underlying shares of the Company – continued

Notes:

- a. MS & Co International, a wholly-owned subsidiary of MS UK Group, which was in turn a wholly-owned subsidiary of MS Group Europe, owned 32,368,000 shares in the Company. MS International Ltd, a wholly-owned subsidiary of MS International Incorp, owned 98.3% of the issued share capital of MS Group Europe. MS Domestic Capital, a wholly-owned subsidiary of MS Capital Management, owned 90% of the issued share capital of MS International Incorp. MS Capital Management is a wholly-owned subsidiary of Morgan Stanley. MS Capital Management, MS Domestic Capital, MS International Incorp, MS International Ltd, MS Group Europe, MS UK Group were all deemed to be interested in the said 32,368,000 shares in the Company. Morgan Stanley was deemed to be interested in the said 32,368,000 shares in the Company held by MS & Co International and 2,800,000 shares in the Company held by its direct wholly-owned subsidiary.
- b. OZ Master, a wholly-owned subsidiary of OZ Management, owned 29,185,000 shares in the Company. OZ Management was deemed to be interested in the said 29,185,000 shares in the Company held by OZ Master and 815,000 shares in the Company held by its two direct wholly-owned subsidiaries.

Save as disclosed above, at 31st March, 2005, the Company has not been notified of any interests or short positions in the shares and underlying shares of the Company as recorded in the register of the Company required to be kept under Section 336 of the SFO.

### Retirement Benefit Schemes

Information on the Group's retirement benefit schemes is set out in notes 7(b) and 37 to the financial statements.

### Pre-emptive Rights

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.

### Code of Best Practice

In the opinion of the directors, the Company has complied throughout the year ended 31st March, 2005 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules (in force prior to 1st January, 2005) except that during the year the non-executive director of the Company was not appointed for a specific term as he was subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws.

### Model Code

The Company has adopted 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 year ended 31st March, 2005.

## Independent Non-Executive Directors

The Company has received from each of the independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

## Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, as at the date of this report, the Company has maintained sufficient public float as required under the Listing Rules.

## Purchase, Sale or Redemption of the Company's Listed Securities

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

## Donations

During the year, the Group made charitable and other donations of approximately HK\$4,422,000.

## Disclosure pursuant to Rule 13.20 of the Listing Rules

Pursuant to Rule 13.20 of the Listing Rules, the details of the trading balances including retention monies ("Trade Receivable") due from three trade customers, their subsidiaries and their affiliated companies as at 31st March, 2005, which individually exceed 8% of one or more of the relevant percentage ratios as set out in Rule 14.07 of the Listing Rules, are as follows:

	<b>Amount of Trade Receivable</b>
	HK\$'000
Cheung Kong (Holdings) Limited, its subsidiaries and its affiliated companies ( <i>Note</i> )	297,661
Hutchison Whampoa Limited, its subsidiaries and its affiliated companies ( <i>Note</i> )	171,288
Pacific Century CyberWorks Limited, its subsidiaries and its affiliated companies	136,232

*Note:* The amounts of Trade Receivable from (1) Cheung Kong (Holdings) Limited, its subsidiaries and its affiliated companies; and (2) Hutchison Whampoa Limited, its subsidiaries and its affiliated companies set out in the table above both include the Trade Receivable from Hutchison Whampoa Limited and its subsidiaries in the sum of approximately HK\$63,773,000.

The Trade Receivable, which is unsecured, interest free and with payment terms ranging from 30 days to 90 days, is mainly arisen from construction services rendered by the Group to the relevant customer.

## Auditors

Messrs. Deloitte Touche Tohmatsu have acted as auditors of the Company for the past three years. A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

**Ir Ronald James Blake, OBE, JP**  
*Chairman*

Hong Kong, 22nd July, 2005