

## Directors' Report

The directors presented their annual report and the audited financial statements for the year ended 31 July 2005.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 14 to the financial statements which are mainly marine engineering, structural steel engineering and general contracting work.

### MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's five largest suppliers accounted for 42% of the Group's total purchases. The largest supplier accounted for 15% of the Group's total purchases.

During the year, the Group's five largest customers accounted for 62% of the Group's total sales. The largest customer accounted for 21% of the Group's total turnover.

Save as disclosed in note 27 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.

### RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 July 2005 are set out in the consolidated income statement on page 20 and the accompanying notes to the financial statements. As at 31 July 2005, 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). Accordingly, the directors do not recommend the payment of a dividend in respect of the year ended 31 July 2005.

### FINANCIAL SUMMARY

A financial summary of the published results of the Group and its assets and liabilities for the last five financial periods is set out on page 64. The summary does not form part of the audited financial statements.

### SHARE CAPITAL

Details of the Company's share capital are set out in note 19 to the financial statements.

### RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in the Consolidated Statement of Changes in Equity on page 25 and note 20 to the financial statements respectively.

### PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 12 to the financial statements.

## Directors' Report (Continued)

### **DIRECTORS AND SERVICE CONTRACTS**

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

#### **Executive directors:**

Leung Yu Oi Ling, Irene

Leung Chi Yin, Gillian

Lee Ka Lun, Stephen

#### **Independent non-executive directors:**

Pao Ping Wing

Yuen Ming Fai, Matthew

Tse Mei Ha

In accordance with clause 102(B) of the Company's Bye-Laws, Mr. Lee Ka Lun, Stephen holds office only until the forthcoming annual general meeting and, being eligible, will offer himself for re-election.

In accordance with clause 99(A) as amended by clause 182 (vi) of the Company's Bye-Laws, Mr. Pao Ping Wing will retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

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

### **DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS**

Save as disclosed in note 27 to the financial statements, no contracts of significance to which the Company or any of its 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.

Save as disclosed in note 27 to the financial statements, the directors are not aware of any connected transactions not otherwise dealt with in this report.

## Directors' Report (Continued)

### DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the Company's share option scheme as further detailed in note 23 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 31 July 2005
			At 1 August 2004	Granted during year	Exercised during year	
Leung Yu Oi Ling, Irene	HK\$0.024	Note 1	9,083,000	–	8,083,000	1,000,000
	HK\$0.040	Note 2	–	9,355,000	–	9,355,000
Leung Chi Yin, Gillian	HK\$0.040	Note 2	–	9,355,000	9,355,000	–

Note 1: Period from 16 April 2003 to 30 December 2012.

Note 2: Period from 03 December 2004 to 30 December 2012.

Save as disclosed above, at no time during the year was the Company or any its subsidiaries a party to any arrangement to enable the 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 corporation.

### DIRECTORS' INTERESTS IN SHARES

As at 31 July 2005, the interests and short positions of the Directors in the Shares or the underlying Shares, if any, of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which are required (a) to be notified to the Company or the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

#### Interests in the Company

Name of Director	Number of Shares and nature of interest	
	Personal	Other
Leung Yu Oi Ling, Irene	8,828,500	449,258,499 (Notes 1, 2, 3 and 4)
Leung Chi Yin, Gillian	18,588,000	430,820,499 (Notes 1, 2 and 4)
Yuen Ming Fai, Matthew	0	4,800 (Note 5)

## Directors' Report (Continued)

### **DIRECTORS' INTERESTS IN SHARES** (Continued)

*Notes:*

1. 412,382,499 Shares are held by 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, the beneficiaries of which are Mrs. Leung Yu Oi Ling, Irene ("Mrs. Leung") and her children, Ms. Leung Chi Yin, Gillian, Mr. Leung Chi Hong, Jerry and Mr. Leung Kai Hong (aged under 18).
2. 9,083,000 Shares are held by Bugsy Development Co Limited ("Bugsy"). Ms. Leung Chi Yin, Gillian holds shares in Bugsy on trust for Harbour Front.
3. 18,438,000 Shares are held by Decorling Limited, which is 100% beneficially owned by Mrs. Leung.
4. 9,355,000 Shares are held by YTL Strategic Corporate Consultancy Limited, which is beneficially owned by Harbour Front, Mrs. Leung, Ms. Leung Chi Yin, Gillian, Mr. Leung Chi Hong, Jerry and Mr. Leung Kai Hong as to 18%, 20%, 22%, 20% and 20% respectively.
5. 4,800 Shares are held by Mrs. Yuen Chiu Yi May, May. Mrs. Yuen is the spouse of Prof. Yuen Ming Fai, Matthew.

The following changes took place after 31 July 2005:

- (a) 1,000,000 Shares were acquired by Mrs. Leung through the exercise of Options on 7 September 2005; and
- (b) 9,355,000 Shares were acquired by Mrs. Leung through the exercise of Options on 7 September 2005.

Save as disclosed in this paragraph, as at the date of this report, none of the Directors of the Company had interests in the Shares or the underlying Shares, if any, of the Company or its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company or the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

There was no contract or arrangement subsisting at the date of this report in which any of the Directors was materially interested and which was significant in relation to the business of the Group taken as a whole.

## Directors' Report (Continued)

### SUBSTANTIAL SHAREHOLDERS

As at the date of this report, so far as is known to any Director of the Company, the following persons had an interest or short position in the Shares or underlying Shares, if any, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or any options in respect of such capital:

### Interests in Shares

Name	Number of Shares
Harbour Front ( <i>Note 1 &amp; 2</i> )	421,465,499
Mr. Matthew O'Driscoll ( <i>Note 3</i> )	252,306,195
Value Partners Investment Limited	61,153,097

#### Notes:

1. 412,382,499 Shares are held by 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, the beneficiaries of which are Mrs. Leung and her children, Ms. Leung Chi Yin, Gillian, Mr. Leung Chi Hong, Jerry and Mr. Leung Kai Hong (aged under 18).
2. 9,083,000 Shares are held by Buggy Development Co Limited ("Buggy"). Ms. Leung Chi Yin, Gillian holds shares in Buggy on trust for Harbour Front.
3. Mr. Matthew O'Driscoll is the Scheme Administrator of the Scheme, and holds 252,306,195 Shares on trust for the creditors of the Scheme pending distribution pursuant to the terms of the Scheme.

Save as disclose above, as at the date of this report, the Directors of the Company were not aware of any person who had an interest or short position in the Shares or underlying Shares, if any, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

### PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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

## Directors' Report (Continued)

### **CORPORATE GOVERNANCE**

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. As at the date of this report, the Audit Committee comprises three independent non-executive directors. The primary duties of the Audit Committee are to monitor, review and/or make recommendation on the published financial information, audit and the financial reporting process.

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.

For compliance with new requirements of the Listing Rules relating to remuneration of directors and senior management, the Company established an Remuneration Committee on 5 October 2005, comprising three independent non-executive directors and the Chief Executive Officer being an executive director. The primary duties of the Remuneration Committee are to review and to evaluate the remuneration packages of the directors and senior management and making recommendations to the Board from time to time.

### **AUDITORS**

The financial statements have been audited by CCIF CPA Limited, who will retire and being eligible, offer themselves for re-appointment, at the forthcoming annual general meeting.

On behalf of the Board

**Leung Yu Oi Ling, Irene**

*Chairman*

Hong Kong

5 October 2005