



## Directors' Report

The Directors presented their annual report and the audited financial statements for the year ended 31 July 2006.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 19 to the financial statements, which are mainly marine engineering, structural steel engineering and general contract work.

### MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's five largest suppliers accounted for 73% of the Group's total purchases. The largest supplier accounted for 40% of the Group's total purchases.

During the year, the Group's five largest customers accounted for 67% of the Group's total sales. The largest customer accounted for 29% of the Group's total turnover.

Save as disclosed in note 38 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 APPROPRIATIONS

The results of the Group for the year ended 31 July 2006 are set out in the consolidated income statement on page 23 and the accompanying notes to the financial statements. As at 31 July 2006, 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 2006.

### SEGMENTS INFORMATION

An analysis of the Group's turnover and contribution to results by business segments and geographical are set out in Note 8 to the financial statements.

### FINANCIAL SUMMARY

A financial summary of the published results of the Group and its assets and liabilities for the last five financial years is set out on page 88. 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 27 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 29 and note 28 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 16 to the financial statements.

## 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

(Resigned on 1 October 2006)

Leung Chi Hong, Jerry

(Appointed on 1 October 2006)

### 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. Leung Chi Hong, Jerry 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, Miss. Leung Chi Yin, Gillian will retire and, being eligible, will offer herself 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' Report

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

Save as disclosed in note 38 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 38 to the financial statements, the directors are not aware of any connected transactions not otherwise dealt with in this report.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES

The Company has not granted to any directors of the rights to subscribe for shares in the capital of the Company pursuant to the Company's share option scheme as further detailed in note 34 to the financial statements. 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 | At 1 August 2005 | Number of share options |                           | At 31 July 2006 |
|-------------------------|--------------------|-----------------|------------------|-------------------------|---------------------------|-----------------|
|                         |                    |                 |                  | Granted during the year | Exercised during the year |                 |
| Leung Yu Oi Ling, Irene | HK\$0.024          | Note 1          | 1,000,000        | –                       | 1,000,000                 | –               |
| ("Mrs. Leung")          | 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 3 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 2006, the interests or 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 Division 7 & 8 of Part XV 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 Transaction 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        | Notes      | Number of Shares<br>and nature of interest |               |
|-------------------------|------------|--|---------------|
|                         |            | Personal                                   | Other         |
| Leung Yu Oi Ling, Irene | 1, 2, 3, 4 | 64,503,900                                 | 2,378,290,675 |
| Leung Chi Yin, Gillian  | 1, 2, 4    | 63,199,200                                 | 2,315,601,475 |
| Leung Chi Hong, Jerry   | 1, 2, 4    | 16,506,774                                 | 2,315,601,475 |
| Yuen Ming Fai, Matthew  | 5          | –  | 4,800         |

*Note 1:* 2,252,912,275 shares are held by Harbour Front Limited 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, namely, Miss Leung Chi Yin, Gillian, Mr. Leung Chi Hong, Jerry and Mr. Leung Kai Hong (aged under 18).

*Note 2:* 30,882,200 shares are held by Buggy Development Company Limited ("Buggy"). Miss. Leung Chi Yin, Gillian and Mr. Leung Chi Hong, Jerry hold shares in Buggy on trust for Harbour Front Limited.

*Note 3:* 62,689,200 shares are held by Decorling Limited, which is 100% beneficially owned by Mrs. Leung.

*Note 4:* 31,807,000 shares held by Vital Strategic Consultancy Limited (formerly known as YTL Strategic Corporate Consultancy Limited), which is beneficially owned by Harbour Front Limited, Mrs. Leung, Miss. Leung Chi Yin, Gillian, Mr. Leung Chi Hong, Jerry and Mr. Leung Kai Hong as to 18%, 20%, 22%, 20% and 20% respectively.

*Note 5:* 4,800 shares are held by Mrs. Yuen Chiu Yin, May. Mrs. Yuen is the spouse of Prof. Yuen Ming Fai, Matthew.

Save as disclosed in this paragraph, as at the date of this report, none of the Directors or chief executive 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 Division 7 & 8 of Part XV 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 Transaction by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

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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.

### SUBSTANTIAL SHAREHOLDERS

As at the date of this report, so far as is known to any Director or chief executive 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 | Shareholding Percentage |
|---------------------------------------|------------------|-------------------------|
| Harbour Front Limited (Notes 1, 2, 3) | 2,315,601,475    | 68.8%                   |
| Mr. Yeo Boon Ann (Note 4)             | 252,306,195      | 7.5%                    |

Notes:

- (1) 2,252,912,275 shares are held by Harbour Front Limited or its designated nominees, as the trustee of a unit trust. All the units in the unit trust are beneficially owned by a discretionary trust, 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) 30,882,200 shares are held by Buggy Development Company Limited ("Buggy"). Ms. Leung Chi Yin, Gillian and Mr. Leung Chi Hong, Jerry hold shares in Buggy on trust of Harbour Front Limited;
- (3) 31,807,000 shares held by Vital Strategic Consultancy Limited (formerly known as YTL Strategic Corporate Consultancy Limited), which is beneficially owned by Harbour Front Limited, 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;
- (4) Mr. Yeo Boon Ann 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 and the chief executive 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.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-Laws although there are no restrictions against such rights under the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## CORPORATE GOVERNANCE

During the year, the Company has been taking action to comply with the Code of Corporate Governance Practices (the "Code") as contained in Appendix 14 of the Listing Rules, only with few areas of deviation, namely (1) the chairman is not subject to retirement by rotation; (2) Independent Non-Executive Directors of the Company are not appointed for a specified term, but are subject to retirement by rotation and re-election at the annual general meetings in accordance with the Company's Articles of Association.

The Group's audited financial statement for the year ended 31 July 2006 has been duly reviewed by the Audit Committee. The members of the Audit Committee unanimously recommended for approval by the Board.

## CONNECTED TRANSACTIONS

Details of the related party transactions and connected transactions of the Group are set out in note 38 to the financial statements. During the year, the Group has restructured its assets, liabilities and capital structure in accordance to the circular dated 27 January 2006 with (1) the acquisition of a yard holding company in Singapore for HK\$23 million; (2) acquisition of the fleets of vessels for HK\$40.4 million; and (3) disposal of two subsidiaries for HK\$2.

## POST BALANCE SHEET EVENT

Particulars of the significant event which occurred after the balance sheet date are set out in note 40 to the financial statements.

## PUBLIC FLOAT

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



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### **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.

### **AUDITORS**

CCIF CPA Limited, Certified Public Accountants had been the auditors of the Company in the preceding three years. A resolution will be submitted at the forthcoming annual general meeting to re-appoint CCIF CPA Limited as the auditors of the Company.

On behalf of the Board

**Leung Yu Oi Ling, Irene**

*Chairman*

Hong Kong

24 November 2006