

1. This is the second year after the Scheme of the Company and its 24 subsidiaries (the "Scheme Companies") was sanctioned in the Court of First Instance on 28 April 2000, as reported in last year's annual report. Since then, a contingent creditor and 7 ex-employees of 7 Scheme Companies, through the Director of Legal Aid, appealed against the sanctioning of the Scheme of the Company as well as the 7 Scheme Companies. Both appeals were dismissed by the Court of Appeal in November 2000. The contingent creditor dropped its case since then but the Director of Legal Aid appealed further to the Court of Final Appeal for the 7 Scheme Companies. The case was heard in the Court of Final Appeal on 12 and 13 November 2001.
2. While the judgment of the Court of Final Appeal is pending, the Company is of the view that the decision of the Court of Final Appeal either way should have minimal impact in relation to the implementation of Scheme of the Company. It has been provided in the Scheme of the Company that in the event that any one of the Scheme Subsidiaries failed to obtain a Scheme for itself, the Scheme of the Company shall continue to proceed without them, regardless so long as all the condition precedents contained in the Scheme were satisfied, of which all of them had been satisfied. The 7 Scheme Companies whose scheme is subject to appeal at the Court of Final Appeal have no assets nor operations of substance to the on-going concern and operations of the Group.
3. The terms of the Scheme of the Company shall remain unchanged. The Company's guarantee to pay for the shortfall between the proceeds from realization of Scheme Assets and the guaranteed value shall remain. Therefore, in the event that the Court of Final Appeal rule against the sanctioning of the Scheme of any of the 7 Scheme Companies, the respective creditors of those Scheme Companies shall not be entitled to participate in the distribution of the Scheme Assets and Scheme Shares. That said, the Company is optimistic that the Court of Final Appeal might probably rule in favor of the Scheme Companies, given that no new argument was put forward by the other side in the hearing.
4. Understandably, the pace of implementation of the Scheme was being undermined by such legal uncertainty. The Scheme Administrator has however, been able to proceed steadily pursuant to the terms of the Scheme. Once the legal uncertainty has been removed, the Scheme Administrator shall be able to proceed with the realization work in due course.
5. In the meantime, through the Scheme of Arrangement, the Company and its 2 operational Scheme Subsidiaries in civil engineering and structural steel, namely UDL Contracting Limited and UDL Argos Engineering and Heavy Industries Company Limited has been able to conclude the final accounts of a substantial number of previous jobs with other main contractors, JV partners and the government and obtain an amicable settlement arrangement mutually beneficial to all parties. This is like patching up the infrastructure of the companies pending for future jobs to come. This is important in a way that it represents the acceptance and re-establishment of business connection in the market once again. With a clean position to start over with these strategic partners, the companies is well poised to revitalize their approved status and venture into specialized engineering markets again as and when suitable opportunities arise.

6. The Company and its other 2 newly acquired operational subsidiaries, namely UDL Marine Assets (Hong Kong) Limited and UDL Marine Assets (Singapore) Pte Limited have been able to generate necessary cash flows to meet the Group's operational requirement from time to time. In spite of the foregoing, there were still needs in raising finance during the interim period so as to average out the peaks and troughs of the cycle and to assist the implementation of the Scheme. A subscription of 100,922,000 shares of the Company for HK\$4,036,899 was made to Harbour Front Limited on 18 May 2001. The sum of money was not only used to provide an interim finance to the Scheme but also as the working capital for averaging the cash flow for the Group. The shareholding of Harbour Front was thus increased to 42.7%.
7. The local engineering market has not been encouraging during the past year. It was further troubled by the regional and global economic downturn. This nearly instigates another crunch in the credit and confidence in Hong Kong. The overall effect of this regional and worldwide economic adjustment has yet to be fully felt. The local and regional market shall continue to be sluggish and the credit predicament shall not be resolved in a short period of time. Under these circumstances, the Company has to proceed cautiously. The key issue to sustain in the present environment depends very much on one's ability to assess and manage the commercial and credit risks rather than just technical competence and production efficiency.
8. There are sufficient jobs currently in the market for the Company to maintain meaningful utilization of its fleet. However, the Company is mindful that it should not expose itself to unnecessary risk and to secure jobs aggressively just for want of market share and presence. It should also be cautious in distinguishing jobs that carry disproportionate commercial risks against return on the efforts and even default payment. Likewise, once a job is accepted, the Company has to monitor closely its performance in order not to over extend the Company's credit exposure and be drawn in a dilemma without due regard of its capacity to finance the job.
9. Given the overall dismal economic situation in the local and regional scene, the upcoming challenges faced by the Company are all the more delicate and complex. On the one hand, the Company is keen to re-establish a stronghold in the market and on the other hand the financial position of the Company post-scheme would not allow it to harness the risks for want of potential windfall profit. It is my duty to give assurance to the shareholders that the board shall continue to exercise its utmost astuteness and prudence in conducting business in the years to come.
10. Looking ahead next year, the marine engineering market in the region has shown strong signs of recovery and continued demand. Major projects including the Container Terminal 9 Development, the Theme Park at Penny's Bay and the Lamma Power Station Extension is continuing whereas projects like East Sha Chau Contaminated Mud Pit extension, North Lantau Reclamation and Southeast Kowloon Reclamation are coming on board in late 2001 and early 2002. It is still too early for management to assess the total business potential of these projects. Given the revised corporate structure and a fleet of operational vessels at reduced financial burden, I am therefore confident that the Group would be able to participate in sizeable share of the contract in these projects.

11. The Company also acknowledges the emerging eminence of PRC in the world affairs at the turn of the millennium. The business and investment opportunities that might bring along under PRC admission to the WTO shall be enormous. The Company shall be looking at those possibilities scrupulously and once considered feasible, shall take action to realize its potential especially in the aspect of marine engineering and vessel shipbuilding related business. Likewise, the Company is also looking at the various opportunities in making use of the abundant resources and plausible alternatives that might be available in the motherland to enhance its existing capacity to generate income.
12. Lastly, I would like to take this opportunity to express my sincere thanks to all the employees (past and present), business associates, customers and suppliers for their continuous support to the Group such that we are in a position to survive the difficulties in the past and to resurrect again from the ruins of the financial turmoil.

LEUNG YU Oi Ling

Acting Chairman

Hong Kong
26 November 2001