

# Management Discussion and Analysis

---

Financial year 2001/2002 was a difficult year. Consolidated sales reduced considerably by HK\$68,937,000 to HK\$31,173,000 from the previous financial year 2000/2001 and gross loss of HK\$7,266,000 resulted due to a relatively high operating gearing inherited from the Group's operations.

## **OPERATING REVIEW**

During the year under review, the Group focused on recovery of receivables, disposal of certain of the Group's vessels to reduce its debt servicing obligations, the opposition of the appeals to the Scheme of Arrangement of seven of its subsidiaries in the Court of Final Appeal, and the implementation of the Scheme of Arrangement of the Company and its 24 subsidiaries (the "Scheme").

## **MARINE ENGINEERING**

Recovery of the local and the SE Asia markets was slow. A number of major infrastructure developments were suspended. The Group has struggled to maintain its operations in some minor projects, e.g. the Theme Park at Penny's Bay and the Lamma Power Station Extension. The Government maintenance dredging contracts and bare-boat plant hires became bread and butter to the Group in the year.

## **EMPLOYEES**

As at 31 July 2002, there are approximately 16 staff members and 40 contract workers employed by the Company and/or its subsidiaries. The directors are actively reviewing staffing levels and remuneration package with a view to maintain a cost-effective management structure.

## **FINANCIAL REVIEW**

The Group recorded consolidated loss attributable to shareholders of HK\$75,973,000 for the year ended 31 July 2002 compared to a consolidated profit of HK\$4,372,000 for the previous financial year. Loss per share was HK\$0.13 compared to earnings per share of HK\$0.01 in 2000/2001.

### COMMENTARY ON MAJOR VARIANCES OF THE CONSTITUENT ELEMENTS IN THE GROUP'S CONSOLIDATED INCOME STATEMENT AND BALANCE SHEET

#### Consolidated Income Statement

	2002 HK\$'000	2001 HK\$'000
<b>Turnover</b>		
The participation in Container Terminal 9 Development, which contributes to a substantial proportion of turnover in last year, completed early in this financial year	<b>31,173</b>	100,110
<b>Gross (loss)/profit</b>		
Gross profit percentage reduced sharply as a result of relatively high operating gearing inherited from the high maintenance costs and depreciation charges required for the fleet of vessels	<b>(7,266)</b>	57,040
<b>Other revenue</b>		
Approximately HK\$4.6 million being recovery of professional and legal expenses incurred and expensed in previous years in related to contract claims	<b>7,763</b>	4,230
<b>Provision for impairment in value of vessels</b>		
To reflect the reduced in-use value down to respective net selling price	<b>(25,759)</b>	(590)
<b>Provision for bad and doubtful debts</b>		
All specific provisions in respect of a few long outstanding receivables related to various plant hires agreements and engineering contracts	<b>(21,946)</b>	(16,599)
<b>Finance costs</b>		
Disposal of vessels only managed to cover substantial proportion of interest accumulated. Interest in the same level with previous year	<b>(13,809)</b>	(13,574)
<b>(Loss)/Profit attributable to shareholders</b>		
Despite expense level controlled consciously, poor operating results were coupled with substantial provisions required to reflect the deteriorated business prospects	<b>(75,973)</b>	4,372

### Consolidated Balance Sheet

	2002 HK\$'000	2001 HK\$'000
<b>Property, plant and equipment</b>		
Reduction of HK\$25,759,000 related to the provision of impairment in value of vessels, of HK\$20,228,000 related to the disposal of vessels and of HK\$14,737,000 being depreciation for wear and tear	<b>76,492</b>	131,906
<b>Trade and other receivables</b>		
The decrease was partly a consequence of loss of business and partly due to bad debt provisions	<b>25,475</b>	28,884
<b>Bank and other borrowings (Current and Non-Current)</b>		
Disposal of vessels only managed to cover substantial proportion of interest accumulated	<b>(116,222)</b>	(107,969)
<b>Trade and other payables</b>		
Despite businesses contracted, longer settlement period required due to deficiency in working capital	<b>(30,861)</b>	(30,271)

### SOURCES OF FINANCE AND CURRENT LIQUIDITY

During the year under review, the Group's operations were financed by its operating income as well as credit extended by its creditors. Proceeds from disposal of vessels went to bank creditors and finance lease lessor in servicing debt obligations.

To improve the liquidity position of the Group, the Company proposed a rights issue subsequent to this financial year end which, if successfully completed, would provide a net proceeds of about HK\$6.6 million to the Group for working capital.

### FINANCIAL RISK MANAGEMENT

As at 31 July 2002, 58% of the total bank borrowings are denominated in US dollar and 7% in Singapore dollar with the remaining denominated in local currency. It is the Group's view that the current link between HK dollar and US dollar will be maintained and the mechanism will continue to function in the foreseeable future. Hedging will be arranged when the cost and benefit of which is justified.

All existing bank borrowings of the Group are subject to floating interest rates. Every one per cent in market floating interest rates of currencies in which the Group has borrowings would affect the bottom line by HK\$1.1 million a year and equivalent to 1.4% of the net loss and 3.5% of the turnover for the current financial year.