Management Discussion and Analysis

FINANCIAL REVIEW

For the year ended 31 July 2003, turnover of the Group amounted to approximately HK$23.8 million, as compared to HK$31.2 million for the corresponding period in 2002. The decrease in turnover was due to the continuous sluggish economy in Hong Kong and in the region and the negative public sentiment towards reclamation projects over environmental issues.

Net loss for the year ended 31 July 2003 for the Group has narrowed to approximately HK$18.3 million as compared to HK$76 million for the corresponding period in 2002. The Group's deficiency of capital and its net current liabilities were reduced to approximately HK$3.9 million and HK$22.4 million respectively as comparing to HK$52 million and HK$128.5 million respectively at 31 July 2002.

The Group continues to operate under a high gearing level. However, the Group's current ratio (current assets to current liabilities) as of 31 July 2003 was 55% as compared to 22% for the corresponding period in 2002. The improvement in liquidity was the result of the financial support of certain related companies which have refinanced the Group's secured loans that were overdue into secured long-term loan during the period under review.

OPERATING REVIEW

For the year ended 31 July 2003, the Group continues to focus on its principal business of marine engineering projects, which contributed mainly to the Group's turnover. Although market condition in Hong Kong and the Southeast Asia Region remains sluggish, the PRC market appears to be very vibrant as the Group has allocated additional resources in pursuing engineering projects in this market.

During the year under review, the Group has participated in other marine engineering related businesses, which has contributed to the Group's turnover. Additionally, certain vessels of the Group were disposed of during the year in which the proceeds were used to service the Group's indebtedness.

In November 2002, the Company had conducted a fund raising exercise by way of Rights Issue, which netted HK$6.6 million for general working capital requirement. In 22 August 2003, the Company Shareholders at the SGM passed a resolution to create and issue preference shares to further raise fund for the Group. The implementation of the resolution however is being withheld until a certain proceeding against the Company is resolved. For details please refer to previous circular and the SGM result announcement on the subject. Despite the temporary setback, the Group is committed and will continue to explore other possible alternatives to reduce its debt level, and to enhance its asset base and earning capacity.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 July 2003, the Group had in aggregate other borrowings of approximately HK$116 million. Details of the Group's indebtness and obligation are set out in note 15 of the financial statements. Several events occurred during the year under review, which has enhanced the Group's liquidity position.

1. The Group's outstanding secured loans of approximately HK$112 million were refinanced through finance support of certain related companies and thus alleviated disposal and foreclosure pressure from such liabilities.

2. The Group was successful in completing a rights issue in November 2002 that has netted the Company HK$6.6 millions that was used as working capital for the Group.

3. Several vessels were disposed of during the year in which the proceeds from the disposal was used to service the Group's indebtedness.

SIGNIFICANT INVESTMENT

During the year under review, UDL Argos Engineering & Heavy Industries Company Limited ("Argos"), a wholly owned subsidiary of the Group, has set up a Wholly Owned Foreign Enterprise in Zhongzhan, People's Republic of China ("PRC") with a registered capital of HK$10 million to establish a shipyard for marine engineering and related steel works business. As at 31 July 2003, Argos has procured certain land use rights in Zhongzhan for HK$1,085,000 for the intended shipyard.

MATERIAL DISPOSAL OF A SUBSIDIARY

Universal Dockyard Limited, a 98.75% owned subsidiary of the Company, was wound-up on 9 June 2003. From the date of winding up, Dockyard's net liabilities was deconsolidated from the Group's balance sheet, resulting in a net gain on deemed disposal of a subsidiary of approximately HK$17.6 million to the Group.

EMPLOYEES

As at 31 July 2003, there are approximately 18 staff members and 95 contract workers employed by the Company and/or its subsidiaries. The directors are actively reviewing staffing levels and remuneration packages with a view to maintain cost-effective management structure.

On 31 December 2002, the date of the last Annual General Meeting, a new share option scheme was approved and adopted by the Shareholders by way of a special resolution. The purpose of the scheme is to recognize and reward those eligible participants that have made considerable contributions to the Group. Please refer to note 22 of the financial statements for details of the scheme.

PROSPECT AND FUTURE PLANS

Given favorable policies to Hong Kong companies by the Central Chinese Government such as the Closer Economic Partnership Arrangement (CEPA) which was signed and concluded in June 2003, the PRC market represents tremendous growth opportunity for the Group. The Group is committed and has planned to allocate more resources in seeking out business opportunity in the PRC on marine engineering and related businesses.

CONTINGENT LIABILITIES

Save for the shortfall undertaking of HK$176 million the Company has committed under the Scheme as disclosed in note 2(b) of the financial statements and a guarantee of payment issued by a subsidiary as disclosed in note 25 of the financial statement, there is no other contingent liabilities that the Group is aware of.