

## Chairman's Statement

During the year, the Group had focused their efforts in (i) working with the Scheme Administrator for the formulation of the Global Solution; and (ii) resolving the financial difficulties of the Group.

### **OPERATIONS**

The principal business of the Group after the implementation of the Schemes in 2000 is marine engineering. As the local marine construction market was sluggish in the past few years and had resulted in very keen competition, the Group was very cautious in negotiating for new orders and contracts. Although the Group's marine construction engineering operations had reduced this year partly due to the unfavourable market conditions and partly as a measure of the Group to control its operation costs, the Group's fleet of marine construction vessels which are in a ready condition could yield an annual production capacity of 4.5 million cubic metres volume of dredging, reclamation and transportation of marine engineering construction materials.

With the Group's past experience and operations with valuable extensive customers and vendors network in the shipbuilding industry built up since the 90's, which closely relates to the marine construction engineering industry, the Group has already resumed its shipbuilding business and received considerable orders for the supply of various kinds of reconditioned second hand marine engineering vessels. These confirmed orders together with other orders, which are close to be concluded are expected to contribute positively to the Group's revenue.

With recent recovery of the local economy and the development in the adjacent areas, the Group has also gradually resumed other business activities, particularly structural steel engineering projects as well as provision of contracting and engineering services, most of which have since the implementation of the Schemes in 2000 been temporarily suspended.

As regard to the structural steel engineering projects, the Group is now co-operating with major structural steel engineering contractors in the PRC and has recently gained a new contract for the Stonecutters Bridge project and also secured pre-bid commitment from one of the major tenders of the superstructure for Zhu Jiang Huang Bu Bridge. These contracts, if concluded, are expected to make substantial contribution to the Group's revenue in the future.

The Group has also completed contracting and engineering works in the past year and will secure more works in the coming years as discussed further in the Business Prospects.

Marine engineering (comprising marine engineering construction and shipbuilding business) and structural steel engineering have been the main business operations contributing to the turnover of the Group this year and will continue so in the near future.

## Chairman's Statement (Continued)

### DEVELOPMENT WITH THE SCHEMES OF ARRANGEMENT

#### Summary of proposed modifications to the Schemes

The Scheme Administrator has advised the Company that he intends to propose certain modifications to the Schemes and the Trust Deed so as to achieve the following principal purposes:

- to permit a replacement of the Scheme Administrator/Trustee;
- to permit a sale or other disposal by the Scheme Administrator of the Unencumbered Assets and of the benefit of recoveries of Accounts Receivable and/or a release of the Company and the Scheme Participating Subsidiaries (as defined in the Schemes) from their obligations in respect of Unencumbered Assets and Accounts Receivable. Such Unencumbered Assets do not comprise any Shares;
- to permit the Scheme Administrator/Trustee to approve a compromise or settlement of the Shortfall Undertaking;
- to require the Scheme Administrator/Trustee to obtain the sanction of the Committee of Inspection established for the purposes of the Schemes or the approval of the High Court of Hong Kong before exercising a number of important powers to be granted by such modifications; and
- to establish procedures to facilitate an efficient termination of the Schemes, including the setting of a limit on the extent to which arbitration costs are to be paid out of Scheme Funds (as defined in the Schemes).

#### Global Solution

The Company and the Scheme Administrator have had many discussions whether an alternative, more rapid and positive solution could be achieved for the Scheme Creditors (as defined in the Schemes). From this, a proposed solution (the "Global Solution") has emerged, recorded in a non-binding Memorandum of Understanding (the "MOU") dated 12 August 2005 and executed by the Company, Harbour Front Limited ("Harbour Front"), and the Scheme Administrator. The goals under the Global Solution which are targeted to be achieved in 2005 are:

- The disposal of the Unencumbered Assets and the Accounts Receivable to Harbour Front for HK\$20 million in cash.
- The settlement in exchange of the Shortfall Undertaking for HK\$30 million in convertible notes issued by the Company and convertible (into the Company's shares)/redeemable in four tranches of HK\$7.5 million over two years. The initial conversion price (subject to adjustments) is at 9% discount to the average share trading prices in the 20-day period immediately prior to the expiry of the respective periods set for the different tranches.

## Chairman's Statement (Continued)

### **DEVELOPMENT WITH THE SCHEMES OF ARRANGEMENT** (Continued)

#### **Global Solution** (Continued)

- An undertaking by Harbour Front Limited to purchase from the Scheme Administrator/Trustee all or such proportion as the Scheme Administrator/Trustee may determine of such convertible notes at a price equal to 18/30ths of their nominal value, payable in cash, immediately.

The proposed issue of the convertible notes and other related matters (where necessary) under the Global Solution will be subject to the approval by the Shareholders in accordance with the requirements of the Listing Rules.

If the relevant Scheme and Trust Deed modifications are approved by the Scheme Creditors (as defined in the Schemes) and the Scheme Administrator proceeds with the Global Solution, then Harbour Front Limited will, subject to compliance with all applicable legal and regulatory requirements make available the convertible notes so purchased to all Shareholders at a price equal to 18/30ths of their nominal value plus the transaction costs.

Whether the Global Solution will complete as scheduled or will complete at all are however uncertain at present.

### **RESULTS OF THE YEAR**

As the local and regional markets have not yet been fully recovered, operation results were inevitably affected. For the year ended 31 July 2005, the Group generated a total revenue of HK\$11.1 million, including HK\$7 million and HK\$4.1 million from marine engineering and structural steel engineering respectively.

The Group recorded a net loss of HK\$27.5 million and an operating loss of HK\$18.8 million. The loss was principally due to reduced marine construction engineering operations as mentioned above and mainly attributed by a total of HK\$19.1 million of depreciation costs of vessels owned by two subsidiaries, UDL Marine Assets (HK) Limited and UDL Marine Assets (Singapore) Pte Limited. Measures to mitigate such losses are highlighted in the sections headed "Business Prospects" below and "Liquidity and Financial Resources" in Management Discussion and Analysis.

### **FINANCIAL RESOURCES**

The Group is close to conclude the grant of a new loan facility with its banker. The loan, if granted, will be in the form of a 5-year secured loan and the principal amount of which is US\$4.6 million. Such loan is expected to be available after the completion of the Global Solution and will help refinance the existing liabilities of the Group.

In order for the Company to fund its operations in the future, the Company will be required to implement certain fund raising plans, which may include (but not limited to) rights issue or other equity financing methods.

## Chairman's Statement (Continued)

### **BUSINESS PROSPECTS**

With the new infrastructure developments such as the Southeast Kowloon Development, the Old Kai Tak Airport Redevelopment, the North Lantau Development and the Hong Kong, Zhuhai and Macau Link expected to be implemented in the coming years following the recent recovery of the local economy together with the increase in demand for marine construction engineering services in the adjacent areas like Macau and the Guangdong Province, the Group is actively pursuing marketing and tendering work in order to secure orders and contracts for marine construction works under these large scale developments and projects which will require marine construction plant of large output performance like those possessed by the Group. The Group's marine construction engineering operations are expected to be expanded accordingly and to make positive contribution to the Group's revenue.

On the provision of contracting and engineering services, the Group is now working on the re-admission to the List of Approved Contractors for Public Works of the Hong Kong Government (the "List of Approved Contractors"). Certain members of the Group were approved contractors for over 10 years until 2000 and the Group now targets to gain the re-admission as soon as possible after completion of the Global Solution so that the Group will be qualified to participate in the Hong Kong Government's public works projects. Taking into account the recent announcement made by the Hong Kong Government as regard the various public works projects, including over a hundred municipal facilities and basic infrastructure projects having been postponed after the Asian financial turmoil, the Directors are of the view that the re-admission in the List of Approved Contractors will certainly bring business opportunities to the Group.

**Leung Yu Oi Ling, Irene**

*Chairman*

Hong Kong

5 October 2005