



# UDL Holdings Limited

(Incorporated in Bermuda with limited liability)

stock code: 620

Interim Report  
2006



**INTERIM RESULTS**

The board of directors (the “Directors”) of UDL Holdings Limited (the “Company”) announces the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 31 January 2006 together with comparative figures as follows:

**CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)**

		<b>Six months ended</b>	
		<b>31 January</b>	
	<i>Note</i>	<b>2006</b>	2005
		<b>HK\$'000</b>	<i>HK\$'000</i>
			(Restated)
<b>Turnover</b>	4	<b>10,057</b>	1,796
Other revenue		<u>3,785</u>	<u>4,928</u>
<b>Total revenue</b>		<b>13,842</b>	6,724
Staff costs		<b>(2,934)</b>	(2,518)
Marine engineering and structural steel engineering costs		<b>(7,169)</b>	(1,938)
Depreciation and amortisation		<b>(9,957)</b>	(9,793)
Other operating expenses		<u><b>(4,654)</b></u>	<u>(3,122)</u>
<b>Loss from operating activities</b>	6	<b>(10,872)</b>	(10,647)
Finance costs		<u><b>(5,675)</b></u>	<u>(4,220)</u>
<b>Loss before taxation</b>		<b>(16,547)</b>	(14,867)
Taxation	7	<u>-</u>	<u>-</u>
<b>Loss attributable to shareholders</b>	8	<u><b>(16,547)</b></u>	<u>(14,867)</u>
<b>Loss per share – Basic (Hong Kong cents)</b>	9	<u><b>(1.68)</b></u>	<u>(1.57)</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) 31 January 2006 HK\$'000	(Audited) 31 July 2005 HK\$'000
	Note		
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	69,253	78,232
Land use right – Prepaid Land Premiums	11	962	988
		<u>70,215</u>	<u>79,220</u>
<b>Current assets</b>			
Trade and other receivables	12	11,933	10,097
Amounts due from related companies	13	10,571	6,914
Cash and bank balances		650	812
		<u>23,154</u>	<u>17,823</u>
<b>Current liabilities</b>			
Bank and other borrowings	14	115,183	16,059
Trade and other payables	15	15,048	17,864
Amounts due to related companies		34,844	17,598
Amounts due to directors		492	649
		<u>165,567</u>	<u>52,170</u>
<b>Net current liabilities</b>		<u>(142,413)</u>	<u>(34,347)</u>
<b>Total assets less current liabilities</b>		(72,198)	44,873
<b>Non-current liabilities</b>			
Bank and other borrowings	14	–	(100,490)
<b>Net liabilities</b>		<u>(72,198)</u>	<u>(55,617)</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	16	9,892	9,717
Reserves		(82,090)	(65,334)
<b>Deficiency of assets</b>		<u>(72,198)</u>	<u>(55,617)</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**

	Share capital	Share premium	Capital redemption reserve	Exchange fluctuation reserve	Option Reserve	Revaluation reserve	Capital reserve	Scheme reserve	Accumulated losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 August 2005	9,717	8,179	1,264	(4,444)	330	52,590	717	1,096,502	(1,220,472)	(55,617)
Issue of shares by exercise of options	175	725	-	-	(330)	-	-	-	-	570
Exchange realignment - subsidiaries	-	-	-	(604)	-	-	-	-	-	(604)
Net loss attributable to shareholders	-	-	-	-	-	-	-	-	(16,547)	(16,547)
<b>At 31 January 2006</b>	<b>9,892</b>	<b>8,904</b>	<b>1,264</b>	<b>(5,048)</b>	<b>-</b>	<b>52,590</b>	<b>717</b>	<b>1,096,502</b>	<b>(1,237,019)</b>	<b>(72,198)</b>
At 1 August 2004	9,356	7,224	1,264	(2,661)	-	35,619	717	1,096,502	(1,192,671)	(44,650)
Issue of shares by exercise of options	361	955	-	-	-	-	-	-	-	1,316
Exchange realignment - subsidiaries	-	-	-	(632)	-	-	-	-	-	(632)
Share Option	-	-	-	-	330	-	-	-	-	330
Net loss attributable to shareholders	-	-	-	-	-	-	-	-	(14,867)	(14,867)
<b>At 31 January 2005</b>	<b>9,717</b>	<b>8,179</b>	<b>1,264</b>	<b>(3,293)</b>	<b>330</b>	<b>35,619</b>	<b>717</b>	<b>1,096,502</b>	<b>(1,207,538)</b>	<b>(58,503)</b>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)**

	<b>Six months ended</b>	
	<b>31 January</b>	
	<b>2006</b>	2005
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Net cash (outflow) from operating activities	<b>(13,205)</b>	(6,328)
Net cash inflow from investing activities	<b>570</b>	1,316
	<hr/>	<hr/>
Net cash (outflow) before financing activities	<b>(12,635)</b>	(5,012)
Net cash inflow from financing activities	<b>15,241</b>	3,451
Effects of exchange rate changes on cash and cash equivalents	<b>(2,811)</b>	2,466
	<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents	<b>(205)</b>	905
Cash and cash equivalents at beginning of period	<b>238</b>	183
	<hr/>	<hr/>
Cash and cash equivalents at end of period	<b>33</b>	1,088
	<hr/>	<hr/>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	<b>650</b>	1,633
Bank overdrafts	<b>(617)</b>	(545)
	<hr/>	<hr/>
	<b>33</b>	1,088
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## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 1. CORPORATE UPDATE

The Board has put forwarded the following proposals (the “Proposals”) to the shareholders accordance to the circular dated 27 January 2006 (the “Circular”):-

- The rights issue;
- The acquisition of a yard holding company in Singapore (“YHCD”);
- The acquisition of the vessels;
- The disposal; and
- The buy-back

The Proposals have been duly passed at the Special General Meeting on 14 February 2006 and the above proposals have been duly completed as of todate except the buyback proposal.

The audited pro forma financial information of the Group as if the Proposals have been completed on 31 July 2005 is shown in the Circular. It was prepared using accounting policies materially consistent with those of the Group based on the audited consolidated financial statements of the Group for year ended 31 July 2005 and the audited financial information of YHCD as set out in the accountants’ report in the Circular.

As the unaudited pro forma financial information has been prepared for illustrative purpose only and given its nature, it may not provide a true picture of the financial position of the Group as at any future financial dates. Also, it may not provide a true picture of the results of the Group for any future financial dates as if the Proposals have been completed.

The unaudited pro forma consolidated balance sheet of the Company and its subsidiaries immediately after the completion of the Proposals as detailed in Section C of Appendix III to the Circular is summarised as follows:–

<b>ASSETS AND LIABILITIES</b>	<i>HK\$' 000</i>
Non-current assets	
Property, plant and equipment	7,785
Investment Property	23,403
Land use right	988
	<hr/>
	32,176
	<hr/>
<b>Current assets</b>	
Trade and other receivables	10,800
Stock	72,700
Amounts due from related companies	12,848
Cash and bank balances	4,645
	<hr/>
	100,993
	<hr/>
<b>Current liabilities</b>	
Bank and other borrowings	14,375
Trade and other payables	12,029
Amounts due to related companies	18,873
Amounts due to directors	651
Provision for taxation	89
	<hr/>
	46,017
	<hr/>
<b>Net current assets</b>	54,976
	<hr/>
<b>Total assets less current liabilities</b>	87,152
	<hr/>
<b>Non-current liabilities</b>	
Bank and other borrowings	(33,999)
	<hr/>
<b>NET ASSETS</b>	<b>53,153</b>
	<hr/>
<b>CAPITAL AND RESERVES</b>	
Share capital	33,458
Reserves	19,695
	<hr/>
<b>SURPLUS OF ASSETS</b>	<b>53,153</b>
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## 2. BASIS OF PREPARATION

The condensed interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange and with Hong Kong Accounting Standards (“HKASs”) No.34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statement for the year ended 31 July 2005, except for the accounting policy changes that are expected to be reflected in the Group’s financial statements for the year ended 31 July 2005. Details of these changes in accounting policies are set out in Note 3.

## 3. PRINCIPAL ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”), which terms collectively include HKASs and interpretations that are effective for accounting periods beginning on or after 1 January 2005. The adoption of the new and revised HKFRSs have resulted in changes to the Group accounting policies and the effects of adopting these HKFRSs are set out as below:

### HKAS 17: Lease

In prior period, leasehold land and buildings held for own uses were stated at cost less accumulated depreciation and any impairment loss.

Upon the adoption of HKAS 17, prepaid land premiums for land lease payments under operating lease are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the condensed consolidated income statement and retained earnings.

### HKFRS 2: Share Based Payment

The adoption of HKFRS 2 has resulted in a change in accounting policy for employee share options. Prior to this, the Group did not recognise compensation cost in respect of share options granted to employees or directors of the Group. Following the adoption of HKFRS 2, the fair value of share options at grant date is amortised over the relevant vesting periods to the profit and loss accounts and credited to employee share-based compensation reserve under equity.

In accordance with the transitional provision of HKFRS 2, the new accounting policy for employee share options has been applied to share options that were granted after 7 November 2002 and had not yet vested at 1 January 2005.

Because all outstanding share options granted by the Group have already vested as at 31 January 2006, there was no impact to the respective profit and loss accounts in current period (2005: approximately HK\$300,000).



**4. TURNOVER**

The Group's turnover represents revenue derived from its marine engineering and structural steel engineering operations which comprise engineering works income and the gross income from its capacity and related services provided as a result thereof.

**5. SEGMENT INFORMATION****a. Geographical segments**

Majority of the Group's activities are based in Hong Kong and most of the Group's turnover and loss before taxation are derived from Hong Kong. Accordingly, no geographical segment information is presented.

**b. Business segments**

No separate analysis of financial information by business segments is presented as the Group's revenue, results, assets and liabilities were all derived from its principal line of business of marine engineering and structural steel engineering operations.

**6. LOSS FROM OPERATING ACTIVITIES**

The Group's loss from operating activities is arrived at after crediting/charging:

	<b>Six months ended</b>	
	<b>31 January</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	<b>HK\$'000</b>
<i>Crediting:-</i>		
Foreign exchange gain, net	2,216	3,875
Recovery of bad debts	597	-
<i>Charging:-</i>		
Depreciation:		
Owned fixed assets	9,928	9,944
Staff cost (including directors' remuneration)	2,866	2,426
Contribution to mandatory provident fund	68	92
Operating leases	588	396
Legal and professional fees	1,534	609
Share option expenses (Restated)	-	330
Provision for doubtful debts	-	77
	<b>_____</b>	<b>_____</b>

**7. TAXATION**

No Hong Kong profit tax has been provided in the financial statements for the current period as the Group did not derive any assessable profit for the period (2005: Nil).

**8. LOSS ATTRIBUTABLE TO SHAREHOLDERS**

The loss attributable to shareholders for the year dealt with in the financial statements of the Company is loss of approximately HK\$16,547,000 (2005: HK\$14,867,000).

## 9. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders of HK\$16,547,000 (2005: net loss of HK\$14,867,000) and the adjusted weighted average number of 984,272,717 (2005: 945,230,275) ordinary shares in issue during the period.

Diluted loss per share is not presented as there is no dilution potential ordinary shares during the period.

## 10. PROPERTY, PLANT AND EQUIPMENT

	Floating Craft and Vessels <i>HK\$'000</i>	Furniture, Fixtures and Office Equipments <i>HK\$'000</i>	Plant, Machinery And Workshop Equipments <i>HK\$'000</i>	Motor Vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost/valuation					
At 1 August 2005	76,319	10	3,284	94	79,707
Additions	–	–	–	–	–
Disposals	(300)	–	–	–	(300)
Exchange realignments	1,308	–	36	–	1,344
	<u>77,327</u>	<u>10</u>	<u>3,320</u>	<u>94</u>	<u>80,751</u>
At 31 January 2006					
Accumulated Depreciation					
At 1 August 2005	919	8	503	45	1,475
Charge for the year	9,773	–	145	10	9,928
Impairment	–	–	–	–	–
Written back on disposals	–	–	–	–	–
Exchange realignments	77	–	18	–	95
	<u>10,769</u>	<u>8</u>	<u>666</u>	<u>55</u>	<u>11,498</u>
At 31 January 2006					
Net Book Value					
At 31 January 2006	<u>66,558</u>	<u>2</u>	<u>2,654</u>	<u>39</u>	<u>69,253</u>
At 1 August 2005	<u>75,400</u>	<u>2</u>	<u>2,781</u>	<u>49</u>	<u>78,232</u>

The Group's floating craft and vessels, with an aggregate net book value of approximately HK\$61.4 million (31 July 2005: HK\$71.1 million) were pledged to secure loans granted to two of the Company's subsidiaries (note 14(a)).

**11. LAND USE RIGHT–PREPAID LAND PREMIUMS***HK\$'000*

Cost		
At 1 August 2005		1,151
Exchange realignments		4
		<u>          </u>
At 31 January 2006		1,155
		<u>          </u>
Accumulated amortization and impairment		
At 1 August 2005		163
Amortisation for the period		29
Exchange realignments		1
		<u>          </u>
At 31 January 2006		193
		<u>          </u>
Net carrying value		
At 31 January 2006		<u>          </u> <b>962</b>
		<u>          </u>
At 1 August 2005		<u>          </u> <b>988</b>

**12. TRADE AND OTHER RECEIVABLES**

	<b>31 January</b>	31 July
	<b>2006</b>	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	<b>1,754</b>	1,627
Retention money receivable	<b>1,098</b>	1,098
Prepayments, deposits and other receivables	<b>9,081</b>	7,372
	<u>          </u>	<u>          </u>
	<b>11,933</b>	<b>10,097</b>
	<u>          </u>	<u>          </u>

The aged analysis of trade receivable net of provision for doubtful debts was as follows:

	<b>31 January</b>	31 July
	<b>2006</b>	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	<b>308</b>	393
1-3 months	<b>710</b>	707
4-6 months	<b>219</b>	291
7-12 months	<b>145</b>	72
Over 1 year	<b>372</b>	164
	<u>          </u>	<u>          </u>
	<b>1,754</b>	<b>1,627</b>
	<u>          </u>	<u>          </u>

Trading terms with customers are largely on credit, where trade deposits, advances and payment in advance are normally required. Invoices are normally payable within 30 days of issuance, except for certain well-established customers, where the terms are extended beyond 30 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are regularly reviewed by senior management.

**13. AMOUNT DUE FROM RELATED COMPANIES**

	<b>31 January 2006 HK\$'000</b>	31 July 2005 HK\$'000
Amount due from related companies	<b>10,541</b>	6,914
Amount due from associate company (note a)	<b>30</b>	–
	<b>10,571</b>	6,914

*Note a:*

A company formed together with an independent third party. Total contracted, but not yet provided for capital investment is approximately HK\$1.2 million. Details of the associate company as follows:–

<b>Name</b>	<b>Place of Incorporation</b>	<b>Percentage of equity held</b>	
		<b>2006</b>	<b>2005</b>
Press United Logistics Ltd.	Hong Kong	50%	–

## 14. BANK AND OTHER BORROWINGS

	31 January 2006 HK\$'000	31 July 2005 HK\$'000
Bank and other borrowings comprise:		
Bank overdrafts	617	574
Other loans	<b>114,566</b>	115,975
	<b>115,183</b>	116,549
Analysed as:		
Secured – (Note a)	<b>104,339</b>	100,490
Unsecured – loan (Note c)	<b>10,227</b>	15,485
– Bank overdrafts (Note b)	<b>617</b>	574
	<b>115,183</b>	116,549
Bank and other borrowings are repayable as follows:		
Within one year or on demand	<b>115,183</b>	16,059
More than one year, but not exceeding two years	–	100,490
	<b>115,183</b>	116,549
Less: Amount due within one year and shown under current liabilities	<b>(115,183)</b>	(16,059)
Amount due after one year	–	100,490

## Notes:

- (a) As at 31 January 2006, the Group had two secured loans from one Singapore and one Hong Kong related parties lender respectively. The loan from the Singapore lender of approximately HK\$74,433,000 (31 July 2005: HK\$71,448,000), was secured by the floating craft and vessels of UDL Marine Assets (Singapore) Pte Limited (“UDLS”) with net book value of approximately HK\$48,500,000 (31 July 2005: HK\$54,500,000), a fixed and floating charges over the assets of UDLS, joint and several guarantee from a director of the Company, Mrs. Leung Yu Oi Ling (“Mrs. Leung”) and the spouse of Mrs. Leung, Mr. Leung Yat Tung (“Mr. Leung”), and an assignment of insurance and income for certain vessels and subordination of loan from Mr. Leung and Mrs. Leung. The loan bears interest at prime rate +2% per annum and is required to be repaid from 1 August 2006.

The loan from the Hong Kong lender of approximately HK\$29,906,000 (31 July 2005: HK\$29,042,000) was secured by the floating craft and vessels of UDL Marine Assets (Hong Kong) Limited (“UDLHK”) with net book value of approximately HK\$12,954,000 (31 July 2005: HK\$16,550,000), a first floating charge on undertaking of all UDLHK’s property, assets and rights and a personal guarantee from Mr. Leung. The loan bears interest at prime rate +2% per annum and is required to be repaid from 1 August 2006.

- (b) As at 31 January 2006, the outstanding bank overdraft was secured by UDLS’s floating crafts and vessels, a fixed and floating charges over the assets of UDLS, joint and several guarantee from a director of the Company, Mrs. Leung and her spouse Mr. Leung, an assignment of insurance and income for certain vessels and subordination of loan from Mrs. Leung and Mr. Leung.
- (c) As at 31 January 2006, unsecured loans of approximately HK\$10,227,000 (31 July 2005: HK\$15,485,000) were borrowed from related parties which are used to finance the Group’s operation. Those loans were unsecured, repayable on demand and bear interest at prime to prime+2% per annum.

**15. TRADE AND OTHER PAYABLES**

	<b>31 January 2006 HK\$'000</b>	31 July 2005 HK\$'000
Trade payables	5,036	5,575
Advances received	529	1,056
Other payables and accruals	9,483	11,233
	<u>15,048</u>	<u>17,864</u>

The aged analysis of trade payables was as follows:

	<b>31 January 2006 HK\$'000</b>	31 July 2005 HK\$'000
Current	2	185
1-3 months	24	21
4-6 months	58	18
7-12 months	15	29
Over 1 year	4,937	5,322
	<u>5,036</u>	<u>5,575</u>

**16. SHARE CAPITAL**

	<i>Note</i>	<b>Number of shares</b>	<b>HK\$'000</b>
<i>Authorised</i>			
Ordinary shares of HK\$0.01 each at 1 August 2005 and 31 January 2006		<u>120,000,000,000</u>	<u>120,000</u>
<i>Issued and fully paid</i>			
Ordinary shares of HK\$0.01 each at 1 August 2005		971,699,302	9,717
Issue of shares by exercise of options	<i>(i)</i>	<u>17,523,000</u>	<u>175</u>
Ordinary shares of HK\$0.01 each at 31 January 2006		<u>989,222,302</u>	<u>9,892</u>

*Note (i):*

During the period, options were exercised to subscribe for 17,523,000 shares in the Company at subscription price of HK\$0.024–HK\$0.04 per share. The consideration was HK\$570,232 of which HK\$175,230 was credited to share capital and the balance of HK\$395,002 was credited to the share premium account.

**17. CONTINGENT LIABILITIES**

- a. At 31 January 2006, the Company and the Group had contingent liabilities in respect of the Company's undertaking to the trustee of the Schemes that the aggregate proceeds of the Unencumbered Assets and the Accounts Receivables realised under the Schemes shall not be less than HK\$176 million (31 July 2005: not less than HK\$176 million).
- b. There was the amount of SGD358,982 (equivalent to HK\$1,680,233) relating to interest payable on banking facilities of a subsidiary. The directors of the subsidiary are disputing this amount and no provision has been made in the financial statements.
- c. During this period, the Company and the Group had pending litigation in respect of the Statement of Claim for HCA 624 of 2005 dated 28 September 2005, the Group's solicitor is of the view that there are three claims which duplicate partly with each other. Fonfair Ltd. ("Fonfair") claims against the defendants for the amount of HK\$19,568,644.66 together with interest and costs, Money Facts Ltd. ("Money Facts") claims the amount of HK\$13,334,211.42 (HK\$12,874,121.48 of which is pleaded by Money Facts as part of its loss and damage suffered by virtue of its 7,900/12,008th interest held in Fonfair) together with interest and costs, and Leung Yuet Keung claims the amount of HK\$15,190,409.54 (HK\$6,667,105.71 of which is pleaded by Leung Yuet Keung as part of his loss and damage suffered by virtue of his 3,950/7,900th interest held in Money Facts) together with interest and costs. As pleaded by the plaintiffs, (a) Harbour Front Limited, which is the majority shareholder of the Company, holds 3,958 out of the 12,008 issued ordinary shares of Fonfair and 3,950 out of the 7,900 issued ordinary shares of Money Facts; (b) Money Facts hold 7,900 out of the 12,008 issued ordinary shares of Fonfair; and (c) Leung Yuet Keung holds 3,950 out of the 7,900 issued ordinary shares of Money Facts.

**18. POST BALANCE SHEET EVENT**

- (a) According to a conditional agreement dated 29 December 2005 entered into between the Company as vendor and Harbour Front Ltd. as purchaser, the details of which were included in an announcement of the Company dated 29 December 2005 and also in the Letter from the Board, the Group will dispose of its entire interest in two of its subsidiaries, namely UDLHK and UDLS, which set out in Appendix I of the Company's circular dated 27 January 2006.
- (b) As explained in Note 1 – Corporate Update, the Company has recently put forward the following proposals to its shareholders:–
  1. Settlement agreement and issue of promissory notes;
  2. Right issue;
  3. Acquisition of a yard holding company in Singapore;
  4. Purchase of a total of thirty three marine engineering vessels;
  5. Disposal of the Group's entire interest in UDLHK and UDLS; and
  6. Buy back of nine vessels of UDLS.

The proposals have been duly passed at the Special General Meeting on 14 February 2006.

## INTERIM DIVIDEND

The Directors do not recommend the payment of any dividend for the six months ended 31 January 2006 (2005: nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

For the six months ended 31 January 2006, turnover of the Group amounted to approximately HK\$10.0 million (Jan 2005: HK\$1.8 million).

For the period under review, net loss attributable to shareholder amounted to HK\$16.5 million (Jan 2005: 14.9 million).

As at 31 January 2006, the Group has a current ratio (current assets to current liabilities) of 14% (July 2005: 34%).

### Business Review and Prospects

With the recovery of the local economy and the development in the adjacent areas, in financial year 2006 ("FY 2006"), the Group has picked up other business activities, such as structural steel engineering projects and provision of contracting and engineering services, which has since the implementation of the Scheme in 2000 been suspended. As regards to the structural steel engineering projects, the Group continues to co-operate with major structural steel engineering contractors in the PRC on various confirmed and potential contracts. These potential contracts, if concluded, are expected to make positive contribution to the Group's revenue in the FY 2006.

In view of the Group's past experience and operations with extensive customers and vendors network established since the 90's in the shipbuilding industry 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 and other orders which are close to be concluded are expected to contribute positively to the Group's revenue for the FY 2006 onward.

The acquisition of the yard holding company ("YHCD") in Singapore enables the Group to further expand its shipbuilding and repairing as well as its structural steel engineering business including offshore engineering related services by utilising the assets of the YHCD. In addition, given the up-surge of requirements in Singapore for fabricating and building capacity of shipbuilding and structural steel engineering nature from the oil, gas and offshore engineering industries and together with the high profile emphasis placed on such development by the Singapore government, the growth of the related manufacturing product industry for offshore exploration and production facilities has been steadily increased for some seven years. It is expected that the Group could expand its business into (i) the modules fabrication of topside installation for oil/gas production platforms; (ii) fabrication of offshore rig components as outsource segment of work from the major proprietary product builders; and (iii) minor components such as pipework and ancillary installations.



## **LIQUIDITY AND FINANCIAL RESOURCES**

Upon completion of the rights issue, acquisition, disposal and buy back corporate exercise as set out in the circular dated 27 January 2006, the rights issue, acquisition and disposal will (i) strengthen the capital base of the Company and remove the substantial net deficiency of assets of the Group and give it a considerable net assets value; (ii) remove all uncertainties regarding the financial support from the related party lenders to the Group; (iii) remove all uncertainties regarding the ability of the related party lenders to meet their respective payment obligations under the assigned loans; and (iv) allow the Group to expand its business for the supply of various kinds of reconditioned second hand marine engineering vessels; (v) remove the uncertainties regarding the ability of the Group to raise additional equity funding; (vi) provide resources to normalise and expand the Group's business, including the resumption and expansion of the shipbuilding business and structural steel engineering; and (vii) provide additional capital for the Group' operation in the future.

## **FINANCIAL RISK MANAGEMENT**

As at 31 January 2006, 64.6% of the total secured borrowings are denominated in US dollar and the remaining 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.

## **EMPLOYEES AND REMUNERATION POLICY**

As at 31 January 2006, including the contract workers the Group had a total number of 60 technical and working staff.

The Directors are actively reviewing staffing levels and remuneration package of the Group's employees with a view to maintain a cost-effective organisational structure. The remuneration policy and package of the Group's employees are structured by reference to market terms and statutory requirements as appropriate. In addition, the Group also provide other staff benefit such as mandatory provident fund and a share option scheme to its employees.

## DIRECTORS' INTERESTS IN SHARES

As at 31 January 2006, the interests and short positions of the Directors in the Shares or the underlying Shares, if any, of the Company and its associated corporation (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 (including interest or short positions which he/she is taken or deemed to have under such provisions 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 transactions by director of listed companies to be notified to the Company and the Stock Exchange were as follows:

### Interest in the Company

Name of Director	Number of Shares and nature of Interest		
	Personal	Other	(notes)
Leung Yu Oi Ling ("Mrs. Leung")	19,183,500	537,520,787	(i, ii, iii and iv)
Leung Chi Yin, Gillian ("Ms. Leung")	18,588,000	519,082,787	(i, iii and iv)

*note i.* 500,644,787 ordinary shares of the Company are held by Harbour Front Ltd. ("Harbour Front") 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 Ms Leung, Mr. Leung Chi Hong, Jerry and Mr. Leung Kai Hong.

*note ii.* 18,438,000 ordinary shares of the Company are held by Decorling Ltd. ("Decorling"), which is 100% beneficially owned by Mrs. Leung.

*note iii.* 9,083,000 ordinary shares of the Company are held by Buggy Development Company Limited ("Buggy"), which is a wholly owned subsidiary of Harbour Front. Reference is made to the above note 1 concerning the interest of Mrs. Leung and Ms Leung in Harbour Front.

*note iv.* 9,355,000 ordinary shares of the Company held by YTL Strategic Corporate Consultancy Limited ("YTL Strategic"), which is beneficially owned by Harbour Front, Ms. Leung, Mr. Leung Chi Hong, Jerry, Mr. Leung Kai Hong and Mrs. Leung, as to 18%, 22%, 20%, 20% and 20% respectively.

The following changes took place after 31 January 2006 under the rights issues:–

- a.) 1,752,267,488 shares were acquired by Harbour Front;
- b.) 45,320,400 shares were acquired by Mrs. Leung;
- c.) 44,611,200 shares were acquired by Ms. Leung;
- d.) 44,251,200 shares were acquired by Decorling;
- e.) 22,452,000 shares were acquired by YTL Strategic;
- f.) 21,799,200 shares were acquired by Buggy.

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.

**DIRECTORS' RIGHT TO ACQUIRE SHARES**

Pursuant to the Company's share option scheme which was adopted on December 2002, the Company has granted to certain directors of the Company rights to subscribe for shares in the capital of the Company in prior years. No option has been granted under the Company's share option scheme during the period. Details of the movements during the period in the share options granted to the directors of the Company were as follows:–

Name of director	Subscription Price	Exercise Period	Number of share options			At 31 January 2006
			At 1 August 2005	Granted during the period	Exercised during the period	
Leung Yu Oi Ling	HK\$0.024	Note a	1,000,000	–	1,000,000	–
Leung Yu Oi Ling	HK\$0.040	Note b	9,355,000	–	9,355,000	–

*Note a:* Period from 16 April 2003 to 30 December 2012.

*Note b:* Period from 2 December 2004 to 30 December 2012.

Save as above and the disclosure of the circular dated 27 January 2006, at no time during the period under review were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouse or children under 18 year of age, or were any such rights exercised by them, or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

**PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 January 2006.

## 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 person had an interest or short position in the shares or underlying shares, if any, which would fall to be disclosed to the Company under provision of Division 2 and 3 of Part XV of the SFO, or who is directly or indirectly, interest 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:

Interest in Shares Name	Note	Number of Shares
Harbour Front	(i)	2,283,794,475
Mr. Matthew O'Driscoll	(ii)	252,306,195

*Note (i):* Harbour Front held 2,252,912,275 ordinary shares in the Company and is deemed to be interested in a further 30,882,200 ordinary shares by virtue of it's 100% shareholding in Bugsy.

*Note (ii):* Mr. Matthew O'Driscoll 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 provision of Division 2 and 3 of Part XV of the SFO.

## CORPORATE GOVERNANCE

On 1st January 2005, the Code of Best Practices was replaced by the Code of Corporate Governance Practices (the "Code") as contained in Appendix 14 of the Listing Rules.

During the period, the Company has been taking action to comply with the code provision set out in the Code, such as Remuneration Committee has been established to monitor the Group's development in this area, only with major areas of deviation detailed below, 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 annual general meetings in accordance with the Company's Articles of Association.

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry to all directors regarding any non-compliance with the Model Code during the period under review and they all confirmed that they have fully complied with the standard set out in the Model Code.

## REMUNERATION COMMITTEE

A remuneration committee was established by the Company in October 2005 with specific written terms of reference in accordance with the requirement of the Code. The remuneration committee comprises three independent non-executive directors and one executive director.

## AUDIT COMMITTEE

The Audit Committee was established for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls systems, and compliance with the relevant rules and regulations. The audit committee comprises three independent non-executive directors of the Company. The unaudited financial statement for six months ended 31 January 2006 has been reviewed by the Audit Committee.

## PUBLICATION OF RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

Information required by paragraphs 46(1) – 46(6), Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange on or before 30 April 2006.

By order of the Board  
**UDL Holdings Limited**  
**Leung Yu Oi Ling Irene**  
*Chairman*

Hong Kong, 18 April 2006

### *Executive Directors*

Mrs. Leung Yu Oi Ling, Irene (*Chairman*)  
Mr. Lee Ka Lun, Stephen  
Ms. Leung Chi Yin, Gillian

### *Independent Non-Executive Directors*

Mr. Pao Ping Wing, JP  
Prof. Yuen Ming Fai, Matthew  
Ms. Tse Mei Ha