



# UDL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 620)

## FINAL RESULTS FOR THE YEAR ENDED 31 JULY 2006

The board of directors (the “Directors”) of UDL Holdings Limited (the “Company”) announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 July 2006 together with the comparative figures for the previous year as follows:

### CONSOLIDATED INCOME STATEMENT

For the year ended 31 July 2006

	Notes	2006 HK\$'000	2005 HK\$'000
<b>Turnover</b>	3, 7	<b>22,113</b>	11,093
Other revenue and income	4	<b>1,195</b>	6,574
Total revenue and income		<b>23,308</b>	17,667
Staff costs		<b>(4,148)</b>	(5,564)
Marine engineering and structural steel engineering costs and cost of vessels		<b>(13,550)</b>	(3,655)
Depreciation and amortization		<b>(756)</b>	(19,421)
Other operating expenses		<b>(6,702)</b>	(7,778)
<b>Loss from operations</b>		<b>(1,848)</b>	(18,751)
Finance costs	5	<b>(2,584)</b>	(8,999)
Share of losses of associates		<b>(65)</b>	–
Gain on disposal of subsidiaries	6	<b>38,130</b>	–
Restructuring expenses		<b>(4,013)</b>	–
<b>Profit/(loss) before taxation</b>	7, 8	<b>29,620</b>	(27,750)
Taxation	9	<b>98</b>	279
<b>Profit/(loss) attributable to shareholders</b>	7, 10	<b>29,718</b>	(27,471)
<b>Earnings/(loss) per share</b>	11		
– Basic		<b>HK\$0.01</b>	(HK\$0.02)
– Diluted		<b>N/A</b>	Restated N/A

*Notes:*

**1. BASIS OF PREPARATION**

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of floating craft and vessels, financial assets and financial liabilities at fair values.

The presentation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements.

**2. PRINCIPAL ACCOUNTING POLICIES**

There are a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies applied in these financial statements for the years presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

**3. TURNOVER**

The Group’s turnover represents revenue derived from sales of vessels, marine engineering and structural steel engineering operations which comprise engineering works income, the gross other income from its capacity and related services provided as a result thereof. Revenue recognised during the year is as follows:

	<b>2006</b> <i>HK\$’000</i>	2005 <i>HK\$’000</i>
Sales of vessels	<b>9,624</b>	–
Marine engineering income	<b>8,894</b>	7,024
Structural steel engineering income	<b>3,595</b>	4,069
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	<b>22,113</b>	11,093
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#### 4. OTHER REVENUE AND INCOME

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Foreign exchange gain, net	141	2,796
Negative goodwill on acquisition of subsidiaries	684	–
Handling fee income	–	927
Interest income	18	–
Reversal of provision for accrued interest	–	452
Reversal of provision for annual leave	60	95
Reversal of impairment loss on doubtful debts	278	–
Gain on disposal of property, plant and equipment	–	160
Others	14	2,144
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	<b>1,195</b>	<b>6,574</b>
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#### 5. FINANCE COSTS

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Interest charges on:		
Bank and other borrowings wholly repayable within five years	<b>2,584</b>	<b>8,999</b>
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#### 6. GAIN ON DISPOSAL OF SUBSIDIARIES

On 29 December 2005, the Company entered into sale and purchase agreements with the ultimate holding company, Harbour Front Limited to dispose of two of its wholly-owned subsidiaries, namely UDL Marine Assets (HK) Limited and UDL Marine Assets (Singapore) Pte Limited for an aggregate consideration of HK\$2. Gain of HK\$38,130,000, which represent the aggregate net liabilities of these two subsidiaries at the disposal, was derived from the disposal of these subsidiaries.

#### 7. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

In determining the Group's geographical segments, segment revenue is based on the geographical location of the customers. Segment assets and capital expenditure are based on the geographical location of the assets.

(a) **Business segments**

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments.

The following table presents revenue, results and expenditure for the Group's business segments for the two years ended 31 July 2006 and 2005:

	Marine engineering		Structural steel engineering		Sales of vessels		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	8,894	7,024	3,595	4,069	9,624	-	22,113	11,093
Segment results	5,173	5,380	3,368	2,058	22	-	8,563	7,438
Unallocated other income							1,195	6,574
Unallocated expenses							(11,606)	(32,763)
Loss from operations							(1,848)	(18,751)
Finance costs							(2,584)	(8,999)
Share of losses of associates							(65)	-
Gain on disposal of subsidiaries							38,130	-
Restructuring expenses							(4,013)	-
Profit/(loss) before taxation							29,620	(27,750)
Income tax							98	279
Profit/(loss) after taxation							<u>29,718</u>	<u>(27,471)</u>

The following table presents assets, liabilities and expenditure for the Group's business segments for the two years ended 31 July 2006 and 2005:

	Marine engineering		Structural steel engineering		Sales of vessels		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>ASSETS</b>								
Segment assets	45,585	94,727	2,772	1,199	43,326	-	91,683	95,926
Unallocated assets							2,219	1,117
Consolidated total assets							93,902	97,043
<b>LIABILITIES</b>								
Segment liabilities	33,835	134,150	3,748	2,461	830	-	38,413	136,611
Unallocated liabilities							43,478	16,049
Consolidated total liabilities							81,891	152,660
<b>OTHER INFORMATION</b>								
Capital expenditure incurred during the year	20,894	1,982	-	-	5,447	-	26,341	1,982
Revaluation surplus arising from property, plant and equipment	-	-	-	-	357	-	357	-
Depreciation and amortisation	529	19,421	-	-	227	-	756	19,421
Other non-cash expenses:								
Impairment loss on property, plant and equipment	631	932	-	-	-	-	631	932
Impairment loss on doubtful debts	125	1,196	-	-	-	-	125	1,196

**(b) Geographical segments**

The following table presents revenue, result and certain assets and expenditure for the Group's geographical segments for the two years ended 31 July 2006 and 2005:

	Hong Kong		Singapore		PRC		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	17,114	9,434	4,999	1,659	-	-	22,113	11,093
Gain on disposal of subsidiaries	38,130	-	-	-	-	-	38,130	-
Other income	910	3,133	285	3,441	-	-	1,195	6,574
							<u>61,438</u>	<u>17,667</u>
Other segment information								
Segment assets	61,950	35,856	28,098	56,346	3,854	4,841	93,902	97,043
Capital expenditure incurred during the year	<u>5,455</u>	<u>2</u>	<u>20,886</u>	<u>-</u>	<u>-</u>	<u>1,980</u>	<u>26,341</u>	<u>1,982</u>

**8. PROFIT/(LOSS) BEFORE TAXATION**

The Group's profit/(loss) before taxation is arrived at after charging:

	2006	2005
	HK\$'000	HK\$'000
Auditors' remuneration	580	480
Non-audit service fees paid to auditors	350	-
Amortisation of land use rights	58	57
Depreciation	698	19,364
Operating lease charges in respect of:		
Land and buildings	2,236	1,287
Staff costs (including directors and key management)		
- salaries, wages and other benefits	4,002	5,394
- contributions to defined contribution scheme	146	170
Impairment loss on bad and doubtful debts	125	1,196
Impairment loss on property, plant and equipment	<u>631</u>	<u>932</u>

**9. TAXATION**

No Hong Kong profits tax has been provided in the financial statements for the current year as the Group did not derive any assessable profit for the year (2005: nil). The tax credit represents over-provision of Hong Kong profits tax in the previous year.

The amount of taxation credited to the consolidated income statement represents:

	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Current tax		
Hong Kong		
– over-provision in prior years	–	279
Singapore		
– over-provision in prior periods	<b>98</b>	–
	<hr/>	<hr/>
	<b>98</b>	279
Deferred tax	–	–
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Total tax credit for the year	<b>98</b>	279
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**10. PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS**

The profit attributable to shareholders for the year dealt with in the financial statements of the Group amounted to approximately HK\$29,718,000 (2005: loss of approximately HK\$27,471,000).

**11. EARNINGS/(LOSS) PER SHARE**

The calculation of basic earnings per share is based on the profit attributable to shareholders of approximately HK\$29,718,000 (2005: Loss of approximately HK\$27,471,000) and the adjusted weighted average number of 2,193,367,830 ordinary shares (2005: 1,162,002,208 ordinary shares as adjusted) in issue during the year as adjusted to reflect the right issue completed during the year.

Diluted earnings per share has not been disclosed as there is no dilutive potential ordinary shares as at 31 July 2006. Diluted loss per share as at 31 July 2005 was not disclosed as the effect on the outstanding share options was anti-dilutive.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **OPERATING REVIEW**

Efforts were spent during the year in developing our marine engineering business including shipbuilding and repair as well as structural steel engineering. Through various successful major corporate transactions, including the reacquisition of ownership of the Singapore yard and completion of the Global Solution with the Scheme Administrator, the Group has prepared itself to further expand and take up many opportunities offered in the offshore engineering sector which is poised to benefit from the surging global oil and gas exploration and production spending.

For the Financial Year ended 31 July 2006, the Group reported a turnover of HK\$22.1 million (2005: HK\$11.1 million), gross profit of HK\$8.6 million (2005: HK\$7.4 million) and profit attributable to shareholders of HK\$29.7 million (2005: loss of HK\$27.5 million).

Increase in turnover attributed to the sale of reconditioned marine engineering vessels which amounted to HK\$9.6 million, 43% of the total turnover.

Loss from operating activities has been reduced significantly to HK\$1.8 million this year (2005: loss of HK\$18.8 million) due to reduction in depreciation expense as a result of the disposal of the two subsidiaries with substantial non-core fixed assets during the period.

#### **Marine Engineering**

Turnover of the marine engineering business has increased to HK\$8.9 million this year (2005: HK\$7.0 million). A significant portion was contributed by the new income base from the yard holding company in Singapore. Given the booming market in offshore engineering and related shipbuilding activities, together with the Singapore and China building facilities which provide the Group a competitive edge, continuous growth in this segment is foreseeable.

#### **Structural Steel Engineering**

The structural steel engineering division has experienced a lower turnover of HK\$3.6 million this year (2005: HK\$4.0 million) as the new structural steel projects have yet to take place after completion of a major project earlier this year. After completing the deck assembly work for the Shenzhen Western Corridor, the Group concentrated on the deck assembly work for the stonecutters bridge and has also participated in several China highways related structural steel projects in Guangdong through co-operation with active contractors in China. The Group is actively pursuing business for structural steel in the region in collaboration with its business partners.

#### **Vessel Sales**

The regional market is in great demand of the type of vessels the Group has to offer. The acquisition of the fleet of vessels this year allows the Group to meet such demand. The Group has reported a turnover of HK\$9.6 million this year (2005: nil) in vessel sales. The Group is handling a considerable volume of enquiries and potential orders for the supply of reconditioned engineering vessels which are expected to contribute positively to the Group's revenue.

## **CORPORATE DEVELOPMENT**

During this period, the Group has restructured its income base and capital structure in accordance to the circular (the “Circular”) dated 27 January 2006 through the following transactions (the “Corporate Restructuring”):

- The rights issues of HK\$71.2 million;
- The acquisition of a yard holding company in Singapore for HK\$23 million;
- Acquisition of a fleet of vessels for HK\$40.4 million; and
- Disposal of two subsidiaries for HK\$2.

A total of 2,374,133,524 of rights shares were allotted for the subscription price of HK\$0.03 per rights share, which increased the Company’s issued shares capital to 3,363,355,826 shares (2005: 971,699,302 shares) and raised HK\$71.2 million.

The disposal of the two subsidiaries has removed the borrowings substantially and resulted in a gain on disposal of HK\$38.1 million during the year under review.

The Company and the Scheme Administrator/Trustee entered into a settlement agreement on 1 September 2006 and the promissory notes, in the principal amount of HK\$30 million, were issued to the Scheme Administrator/Trustee on the same date as part of the settlement arrangement. The principal terms of the settlement agreement and the promissory notes are consistent with those as set out in the paragraph headed “Proposed Settlement Agreement and issue of Promissory Notes” in the “Letter from the Board” in the Circular.

## **FINANCIAL REVIEW**

Financial performance has improved this year as resulted from the Corporate Restructuring. The Group reported a total net assets of HK\$12.0 million (2005: deficiency of assets of HK\$55.6 million). Liabilities have lowered significantly and thus reduced finance cost.

## **LIQUIDITY AND FINANCIAL RESOURCES**

Bank and other borrowings of the Group as at the year ended 31st July 2006 have been reduced to a total of HK\$5.6 million (2005: HK\$116.5 million). The Group’s gearing ratio (total liabilities over total assets) was 87.2% (2005: 157.3%). The lower the ratio, the lower the degree of financial leverage and financial risk. The gearing ratio has been improved as a result of the disposal of the two subsidiaries with high gearing.

Currently, the Group’s operations are principally funded by (1) normal commercial credit terms granted by suppliers and vendors; and (2) short-term financing by the substantial shareholder.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 31 July 2006, other than the outsourcing vendors but including contract workers, the Group has an aggregate of 48 technical and working staff and recorded staff costs of HK\$4.1 million (2005: HK\$5.6 million). Total staff costs has decreased as compared to previous financial year as the Group has streamlined its marine engineering operation.

There was no change on the staff policy during the year under review. The Group encourages high productivity and remunerates its employees based on their qualification, work experiences, prevailing market prices and contribution to the Group. The incentive schemes such as share option scheme for employees will be proposed in due course.

## **FUTURE PROSPECT**

The Group continues to expand its marine engineering business. Through the integration of operation of the building facilities in Singapore and China, the Group is positioned with a competitive edge to benefit from opportunities flooded in the offshore engineering sector, which is now in high demand of shipbuilding capacity.

Building on the Group's track record in structural steel engineering and shipbuilding with valuable extensive customers and vendors network in the industry established over the past several decades, the Group envisage to move into the offshore sector by offering higher value-added offshore engineering and construction and offshore support vessel services. Given the industry dynamics, contract flows are to be remained strong underpinned by high oil prices, energy demand, and the rising asset replacement cycle.

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **CORPORATE GOVERNANCE**

During the year, the Company has been taking action to comply with the Code of Corporate Governance Practices as contained in Appendix 14 of the Listing Rules, only with few areas of deviation, 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 the annual general meetings in accordance with the Company's Articles of Association.

The Group's audited financial statement for the year ended 31 July 2006 has been duly reviewed by the Audit Committee. The members of the Audit Committee unanimously recommended for approval by the Board.

## **FINAL DIVIDEND**

The Board does not recommend the payment of any final dividend in respect of the year ended 31 July 2006 (2005: nil).

## **GENERAL INFORMATION**

The unqualified auditors' report will be included in the annual report to shareholders.

## **PUBLICATION OF ANNUAL REPORT ON STOCK EXCHANGE WEBSITE**

The detailed results containing all the information required by paragraph 45 of Appendix 16 to the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited in due course.

## **ANNUAL GENERAL MEETING**

The forthcoming annual general meeting of the Company will be held on 29 December 2006. Notice of annual general meeting together with the Company's annual report for the year ended 31 July 2006 will be despatched to the members on or before 30 November 2006.

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

Hong Kong, 24 November 2006

*As at the date of this announcement, the Board comprises three Executive Directors namely Mrs. Leung Yu Oi Ling, Irene, Ms. Leung Chi Yin, Gillian, Mr. Leung Chi Hong, Jerry and three independent non-executive Directors, namely Mr. Pao Ping Wing, JP, Professor Yuen Ming Fai, Matthew and Ms. Tse Mei Ha.*

Please also refer to the published version of this announcement in The Standard.