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 31st 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.

Management Discussion and Analysis

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. The effects of such settlement is disclosed in the consolidated balance sheet on pages 24-25 and note 24 to the financial statements.

Management Discussion and Analysis

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.

CONTINGENT LIABILITIES

Save for the contingent liabilities as disclosed in note 37 to the financial statements, there are no other contingent liabilities that the Group aware of.

Management Discussion and Analysis

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.