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HARBOUR FRONT LIMITED

(Incorporated in the British Virgin Islands with limited liability)



UDL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Joint announcement

Proposed Rights Issue on the basis of one Rights Share for every two existing Shares held by the Qualifying Shareholders of UDL Holdings Limited, possible mandatory offer by Kingsway SW Securities Limited on behalf of Harbour Front for all the Shares (other than those Shares already owned or agreed to be acquired by Harbour Front and parties acting in concert with it after closing of the Rights Issue) and change in broad lot size

Financial Adviser



KINGSWAY CAPITAL LIMITED

Underwriter



KINGSWAY SW SECURITIES LIMITED

PROPOSED RIGHTS ISSUE

The Company proposes to raise about HK\$6.6 million after expenses by issuing 302,767,434 new Shares, representing 50% of the existing issued share capital and approximately 33.33% of the then enlarged issued share capital of the Company after completion of the Rights Issue, by way of rights at a price of HK\$0.025 per Rights Share. The Company will provisionally allot one (1) Rights Share (in nil-paid form) for every two (2) Shares held by the Qualifying Shareholders.

The Underwriter has agreed to underwrite 156,076,260 Rights Shares, representing all the 302,767,434 Rights Shares which will be provisionally allotted under the Rights Issue less (i) 127,616,826 Rights Shares which Harbour Front has irrevocably undertaken to take up and (ii) 19,074,348 excess Rights Shares which Harbour Front has irrevocably undertaken to apply for.

The Rights Issue is conditional on, among others, the conditions set out below under the section headed "Conditions of the Rights Issue" and subject to the Underwriter not terminating the Underwriting Agreement.

The Underwriting Agreement contains detailed events which may cause the Underwriting Agreement to be terminated by the Underwriter. One of the main grounds for termination is the happening of a

“force majeure” event on or before 5:00 p.m. on the third Business Day following the Acceptance Day. In summary, “force majeure” happens if there shall develop, occur, exist or come into effect: (a) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong or any other place in which any member of the Group conducts or carries on business; or (b) any change in, or any event or series of events resulting or likely to result in any change in, local, national or international financial, political, legal, military, industrial, economic, currency or (whether or not sui generis with any of the foregoing) market conditions; or (c) any change in the conditions of local, national or international securities markets (including but without limitation, the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise), which: (1) is or will have a material adverse effect on the Company or the Group or the Rights Issue; or (2) has or will have a material adverse effect on the success of the Rights Issue or the level of Rights Shares to be taken up; or (3) makes it inadvisable or inexpedient for the Company to proceed with the Rights Issue.

Subject to the fulfilment of the conditions of the Rights Issue, the Prospectus, provisional allotment letters and forms of application for excess Rights Shares are expected to be sent to all the Qualifying Shareholders by the Company on or about Friday, 25 October 2002.

Warning of the risks of dealing in the Shares and Rights Shares

The last day of dealings in the Shares on a cum-rights basis is expected to be on Monday, 21 October 2002 and the Shares are expected to be dealt in on an ex-rights basis from Tuesday, 22 October 2002. The Rights Shares will be dealt in their nil-paid form from Tuesday, 29 October 2002 to Thursday, 7 November 2002, both days inclusive.

Any buying or selling of the Shares from now up to the date on which all such conditions are fulfilled, and any buying or selling of nil-paid Rights Shares between Tuesday, 29 October 2002 to Thursday, 7 November 2002 (both days inclusive) is at the investors’ own risks as the Rights Issue may not become unconditional. Investors may need to seek professional advice about this.

LITIGATION AGAINST THE COMPANY IN BERMUDA

As detailed in the Company’s announcement dated 18 June 2002, the Petitioners lodged the Petition with the Supreme Court of Bermuda against the Company primarily in respect of the Subscription. The Company’s Bermuda lawyers have subsequently received the Petitioner’s affidavits which do not add to the case outlined in the Petition. The Company’s Bermuda lawyers have advised that taking into account of the previous adjudication by the Takeovers and Merger Panel, the Company has a good prospect of having the entire Petition summarily dismissed as an abuse of process. The Company’s Bermuda lawyers have further advised that the Company has an even better prospect of having the Petitioners alternative claim for a winding up order being struck out as an abuse of process. On 19 August 2002, the Company issued a summons to strike out the entire Petition and in the alternative to strike out the claim for a winding up order. The hearing date of the summons has not been fixed and the Company’s Bermuda Lawyers has advised that it is expected to be around the end of 2002 or early 2003.

In the event that the Petitioners obtain the primary relief sought in the Petition, the Bermuda Court will not need to consider the alternative relief sought by the Petitioners for winding-up order. For details of the relief sought of the Bermuda Court in the Petition, please refer to the section headed “Litigation against the Company in Bermuda” in the Announcement.

The Company has been advised by its Bermuda lawyers that, regardless of whether the Petitioners are successful in claiming against the Company, the Company is not prohibited from proceeding with the Rights Issue under either Bermuda law, the Company's bye-laws or memorandum of association. The Company has been further advised by Hong Kong lawyers that similarly there is no such prohibition under the regulatory regime in Hong Kong.

The Company has been advised by its Bermuda lawyers advised that the relief sought by the Petitioners, save for the alternative remedy of winding up the Company, is novel.

Before the Bermuda Court considers the granting of relief, it must find that the conduct complained of amounts to unfair prejudice to the Petitioner. If the Bermuda Court finds that there has been unfair prejudice, it will consider ways to bring an end to that states of affairs. The Company has been advised by its Bermuda lawyers that it is unlikely any of the primary relief sought by the Petitioners would be granted. Instead, the Bermuda Court would likely find some other way of satisfying the Petitioners if they were successful in making their claim of unfair prejudice, and the most possible relief would be an order to the Company to buy out the Shares held by the Petitioners. The Petitioners presently hold an aggregate of 26,000 Shares, consider that the closing price per Share prior to the date of this announcement was HK\$0.05, the Company believes that the buy out of the Shares held by the Petitioners should not make any material impact on the Company.

The Company has been further advised by its Bermuda lawyers that one possibility would be an order to the Company to buy back the Subscription Shares and any Rights Issue Shares attaching thereto at the price Harbour Front paid for them. An alternative might be that the Petitioner would seek to have the Subscription Shares and Rights Issue Shares owned by Harbour Front invalidated without compensation.

In the event that the primary relief sought by the Petitioners is granted such that the Subscription is invalid, then subject to Bermuda Court's decision, Harbour Front will have no rights to the Subscription Shares, the Company would have to refund the money received from the Subscription to Harbour Front at the subscription price of HK\$0.04 and the money received from the Rights Shares to be allotted to Harbour Front based on the Shares subscribed by it under the Subscription and at the price of HK\$0.025, which would amount to approximately HK\$4,037,000 and HK\$1,262,000 respectively. If required, the Company might consider engaging in another fund raising activity by way of placing or rights issue in order to settle the refund amounts.

The Company may incur the legal expenses and the costs for Petitioners of an aggregate of approximately HK\$1,200,000 in complying with the Bermuda Court orders.

On 31 July 2002, Charterbase Management Limited, one of the Petitioners, issued the Bermuda Writ against the Company and its directors. The Bermuda Writ recites the basis of the Petitioners' Complaint and alleges that the Company was negligent and its directors were negligent and/or in breach of their fiduciary duty in misdescribing the Scheme Administrator's voting capacity in the circular regarding the Subscription. The Bermuda Writ claims HK\$3,000,000 being Charterbase Management Limited's estimated costs of the Petitioners' Complaint. The Company has been advised by its Bermuda lawyers that it has good grounds to resist the Bermuda Writ. The hearing date of the Bermuda Court has not been fixed and the Company's Bermuda Lawyers has advised that it is expected to be around the end of 2002 or early 2003.

If the Petitioners are successful in claiming against the Company, then as mentioned above the Company may incur further costs for satisfying the claims under the Bermuda Writ, being HK\$3,000,000 together with the respective legal expenses and interest which are estimated to amount an aggregate of approximately HK\$4,200,000.

The Directors consider that it is unlikely that the Petition and/or the Bermuda Writ will be decided unfavourably against the Company and/or its Directors. The Directors also consider that the Rights Issue is in the best interest of the Company and the Shareholders as a whole, and the Company will proceed with its corporate actions despite the current litigation.

Save for the legal expenses which the Company is exposed and will seek recovery from the Petitioners, it is considered that neither the Petition nor the Bermuda Writ has any material impact on the Company, the Shareholders and the Rights Issue.

LEGAL PROCEEDINGS CONCERNING UNIVERSAL DOCKYARD LIMITED, ONE OF THE SCHEME PARTICIPATING SUBSIDIARIES (“DOCKYARD”)

The Directors wish to inform the public and the shareholders of the Company of the following legal proceedings concerning Dockyard:

1. On 11 December 2001, Fonfair Company Limited (“**Fonfair**”), as the registered owner, obtained a judgement under the High Court Action No.1886 of 2001 against Dockyard, as the tenant and a wholly-owned subsidiary of the Company, for possession of a property known as Yau Tong Marine Lots Nos 2, 3 and 4 situated at No.44 Ko Fai Road, Yau Tong Bay, Kowloon (the “**Yau Tong Property**”) together with arrears of rent claimed by Fonfair, being HK\$3,616,000 plus HK\$226,000 per month from 1 May 2001 to 19 June 2002 and interest. A writ of possession was executed against the Yau Tong Property on 19 June 2002 pursuant to which Fonfair obtained possession of the Yau Tong Property.

Fonfair is owned as to approximately 66.67% by Money Facts Limited (“**Money Facts**”) and the remaining approximately 33.33% is owned by Harbour Front. Money Facts is owned as to 50% by Harbour Front.

2. On 23 June 2002, the Winding-up Petition was filed by Fonfair.
3. A claim for the Goods and Chattels was made by Dockyard and an injunction order was granted under High Court Action No. 3102 of 2002 on 16 August 2002 for the collection of the Goods and Chattels by Dockyard and/or the Company. Dockyard is currently seeking legal advice with a view to oppose the Winding-up Petition. Further announcement will be made when there is any material development. The Directors do not consider that there will be any adverse impact on the Company as a result of the Winding-up Petition, Dockyard has at present no business nor net tangible assets of substance. The estimated litigation costs and expenses amounts to approximately HK\$200,000.

POSSIBLE OFFER

If the Rights Issue is completed and Harbour Front and parties acting in concert with it (currently interested in 255,233,653 existing Shares, representing approximately 42.15% of the total issued

share capital) acquire excess Rights Shares representing more than 2% of the issued share capital of the Company as enlarged by the Rights Issue, Harbour Front will be required under Rule 26.1 of the Takeovers Code to make a general offer, which may or may not be conditional depending on whether Harbour Front and parties acting in concert with it will hold more than 50% of the issued share capital of the Company as enlarged after the Rights Issue. In such case, Kingsway SW Securities will, on behalf of Harbour Front, make a mandatory cash offer pursuant to Rule 26.1 of the Takeovers Code for all the issued Shares other than those already owned or agreed to be acquired by Harbour Front or parties acting in concert with it after closing of the Rights Issue.

Warning: The Possible Offer may or may not be extended. The Possible Offer will only be made if the aforesaid pre-conditions can be fulfilled. Shareholders and potential investors should exercise extreme caution when dealing in the Shares.

CHANGE IN BOARD LOT SIZE

The board lot size for trading in Shares of HK\$0.01 each in the share capital of the Company will be changed from 2,000 Shares to 40,000 Shares which is expected to be effective at 9:30 a.m. on the Prospectus Posting Date.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares was suspended from 9:30 a.m. on Thursday, 15 August 2002 pending the release of this announcement. An application has been made to the Stock Exchange for resumption of trading in the Shares with effect from 9:30 a.m. on 7 October 2002.

PROPOSED RIGHTS ISSUE

Share capital and basis of the Rights Issue

As at the date of this announcement, the Company's authorised share capital is HK\$120,000,000 divided into 12,000,000,000 Shares, of which 605,534,868 Shares have been issued and are fully paid or credited as fully paid.

The Rights Issue will involve the issuance of 302,767,434 Rights Shares which will be provisionally allotted on the basis of one (1) Rights Share for every two (2) Shares held by the Qualifying Shareholders at a price of HK\$0.025 per Rights Share.

The Underwriter has agreed to underwrite, subject to the terms and conditions of the Underwriting Agreement, 156,076,260 Rights Shares, representing all the 302,767,434 Rights Shares which will be provisionally allotted under the Rights Issue after netting off the 127,616,826 Rights Shares irrevocably undertaken to be taken up or procured to be taken up by Harbour Front and 19,074,348 excess Rights Shares irrevocably undertaken to be applied for by Harbour Front.

Undertaking from Harbour Front

Harbour Front and parties acting in concert with it are interested in 255,233,653 Shares, representing approximately 42.15% of the issued share capital of the Company.

Harbour Front has irrevocably undertaken to the Company to take up 127,616,826 Rights Shares, which will be provisionally allotted to Harbour Front and parties acting in concert with it. For the avoidance of doubt, the address of Harbour Front on the register of members of the Company is in Hong Kong.

Harbour Front has also irrevocably undertaken to the Company to apply for 19,074,348 excess Rights Shares, representing 2.1% of the then issued share capital of the Company as enlarged by the Rights Issue.

Basis of provisional allotments

One (1) Rights Share (in nil-paid form) for every two (2) Shares held by the Qualifying Shareholders as at the close of business on the Record Date.

Subscription price

The subscription price is HK\$0.025 per Rights Share, payable in full when a Qualifying Shareholder accepts his/her provisional allotment under the Rights Issue or applies for excess Rights Shares or when a transferee of nil-paid Rights Shares subscribes for the Rights Shares.

The subscription price represents:–

- (i) a discount of approximately 50.0% to the closing price of HK\$0.050 per Share quoted on the Stock Exchange on Wednesday, 14 August 2002 (being the last trading day prior to the date of this announcement);
- (ii) a discount of approximately 40.5% to the theoretical ex-rights price of HK\$0.042 per Share based on that closing price per Share;
- (iii) a discount of approximately 50.0% to the average closing price of HK\$0.05 per Share quoted on the Stock Exchange for the immediate 10 trading days ended on Wednesday, 14 August 2002; and
- (iv) a discount of approximately 40.5% to the theoretical ex-rights price of HK\$0.042 per Share based on the average closing price of the immediate 10 trading days ended on Wednesday, 14 August 2002.

The subscription price for each Rights Share is determined on the basis to encourage the Shareholders to subscribe for the Rights Shares notwithstanding the fundamental uncertainties associated with the operation of the Company as a going concern and the Company's contingent liabilities in respect of the Shortfall Undertaking. For details of the use of net proceeds from the Rights Issue, please refer to the section headed "Reasons for the Rights Issue and the use of net proceeds" in this announcement.

Each Rights Share has the same nominal value as the existing Share of HK\$0.01.

Status of the Rights Shares

When allotted and fully paid, the Rights Shares will rank pari passu in all respects with the then existing issued Shares. Holders of such Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment and issue of the Rights Shares.

Nil-paid Rights Shares are expected to be traded in board lots of 40,000. Dealings in nil-paid and fully-paid Rights Shares will be subject to the payment of stamp duty in Hong Kong.

Share certificates

Certificates for all fully-paid Rights Shares are expected to be posted on or before Wednesday, 20 November 2002 to the persons who have been allotted the relevant Rights Shares at their own risks.

Qualifying Shareholders

The Company will send the Prospectus, the provisional allotment letters and forms of application for excess Rights Shares to the Qualifying Shareholders only.

To qualify for the Rights Issue, a Shareholder must:

- be registered as a Shareholder in the register of members of the Company at the close of business on the Record Date; and
- have an address in Hong Kong as his/her address in the register of members of the Company at the close of business on the Record Date.

In order to be registered as a member of the Company on the Record Date, Shareholders must lodge any transfers of Shares (with the relevant share certificates) with the Company's branch share registrar by 4:00 p.m. on Wednesday, 23 October 2002.

The Company's branch share registrar in Hong Kong is Tengis Limited at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong.

Closing of register of members

The register of members of the Company will be closed on Thursday, 24 October 2002 to Friday, 25 October 2002, both days inclusive. No transfer of Shares will be registered during this period.

Rights of Overseas Shareholders

The Prospectus, the provisional allotment letters and forms of application for excess Rights Shares will not be registered under the securities legislation of any jurisdictions other than Hong Kong and Bermuda. No provisional allotment of Rights Shares will be made to the Overseas Shareholders. The Company will despatch the Prospectus to the Overseas Shareholders for their information only.

If a premium (net of expenses) can be obtained, the Company will sell the provisional allotment of nil-paid Rights Shares which would otherwise have been allotted to the Overseas Shareholders once dealings in the nil-paid Rights Shares commence. The proceeds of each sale of the Overseas Shareholders nil-paid Rights Shares, less expenses, which amount to or more than HK\$100 will be paid to the Overseas Shareholder in Hong Kong dollars. The Company will retain individual amount of less than HK\$100 (after deducting the expenses of sale, if any) for its own benefit.

Fractions of the Rights Issue

Fractional entitlements to the Rights Shares will not be issued but will be aggregated and sold for the benefits of the Company.

Application for excess Rights Shares

Qualifying Shareholders are entitled to apply for any unsold entitlements of the Overseas Shareholders, unsold fractional entitlements Rights Shares and any nil-paid Rights Shares provisionally allotted but not accepted by completing the form of application for excess Rights Shares which will accompany the Prospectus.

Harbour Front has irrevocably undertaken to the Company to apply for 19,074,348 excess Rights Shares, representing approximately 2.1% of the then issued Shares as enlarged by the Rights Issue.

Application for excess Rights Shares is made by completing the form of application for excess Rights Shares and lodging the same together with a separate remittance for such Rights Shares. Allotment of excess Rights Shares will be made by the Company on a fair and reasonable basis. Preference will be given to applications for less than a board lot of Shares where they appear to the Directors that such applications are made to round up odd-lot holdings to whole-lot holdings.

The remaining excess Rights Shares after the aforesaid preferential allotment will be allotted on the following basis:–

If the Rights Shares are undersubscribed

The Directors will allot the remaining excess Rights Shares according to such amount of excess Rights Shares applied for by the Qualifying Shareholders.

If the Rights Shares are oversubscribed

The Directors will firstly allot the remaining excess Rights Shares in proportion to the amount of nil-paid Rights Shares provisionally allotted to those Qualifying Shareholders who apply for the excess Rights Shares. Any application for such amount of excess Rights Shares which is less than the amount as calculated herein will be satisfied in full.

Any further remaining excess Rights Shares will be allotted to applicants in proportion to the excess Rights Shares applied by them after netting off their respective entitlements as calculated in the previous paragraph.

Application for listing

The Company will apply to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Rights Shares in both nil-paid and fully-paid forms.

UNDERWRITING ARRANGEMENT

Underwriting Agreement

Date: 4 October 2002

Underwriter: Kingsway SW Securities Limited

Since Kingsway SW Securities will act as an agent for the Possible Offer on behalf of Harbour Front if Harbour Front and parties acting in concert with it incur any obligation under Rule 26.1 of the Takeovers Code, Kingsway SW Securities is a party acting in concert with Harbour Front under the Takeovers Code. As such, any acquisition of Shares by Kingsway SW Securities (other than dealings by non-discretionary clients) will be counted as a concert party dealing.

Number of Shares underwritten: 156,076,260 Rights Shares

Commission: 2.0% of the gross proceeds of the Rights Shares underwritten by the Underwriter

The possible change in shareholding structure of the Company before and after the Rights Issue based on two scenarios, one of which the Underwriter is required to exercise its underwriting obligations pursuant to the Underwriting Agreement, are as follows:–

	Existing Number of Shares	Before Rights Issue		Scenario 2		After Rights Issue		
		%	Number of Shares	%	Number of Shares	%	Number of Shares	%
Harbour Front and the parties acting in concert with it and its associates (<i>note 1</i>)	255,233,653	42.15	382,850,480	42.15	401,924,827	44.25	401,924,827	44.25
Underwriter	–	–	–	–	156,076,260	17.18	–	–
	255,233,653	42.15	382,850,480	42.15	558,001,087	61.43	401,924,827	44.25
Scheme Administrator and Scheme creditors (<i>note 2</i>)	252,306,195	41.67	378,459,292	41.67	252,306,195	27.78	359,384,945	39.57
Public	97,995,020	16.18	146,992,530	16.18	97,995,020	10.79	146,992,530	16.18
Sub-total: Shareholders (excluding Harbour Front and the parties acting in concert with it and its associates)	350,301,215	57.85	525,451,822	57.85	350,301,215	38.57	506,377,475	55.75
Total:	605,534,868	100.00	908,302,302	100.00	908,302,302	100.00	908,302,302	100.00

<i>Note 1</i>	Name	No. of shares
	Harbour Front	254,736,653
	Mrs. Leung, a director of Harbour Front	297,000
	Miss Leung, daughter of Mrs. Leung and a director of Harbour Front	100,000
	Mr. Leung Chi Hong, Jerry, son of Mrs. Leung and a director of Harbour Front	100,000

Mrs. Leung, Miss Leung and Mr. Leung Chi Hong, Jerry represent all the directors of Harbour Front.

Harbour Front

Harbour Front was incorporated in the British Virgin Islands and its shareholders are Mrs. Leung, Miss Leung and Mr. Leung Chi Hong, Jerry, and each of them owned one third of the issued share capital of Harbour Front.

Harbour Front is holding the aforesaid 254,736,653 Shares and is the trustee of a unit trust. All units in the trust are beneficially owned by a discretionary trust, the beneficiaries of which are Mrs. Leung and her children, namely Miss Leung and Mr. Leung Chi Hong, Jerry.

Note 2.1: As disclosed in the section headed “Substantial Shareholders” in 2001 annual report of the Company, the Scheme Administrator is a substantial shareholder but such 252,306,195 Shares are being held by the Scheme Administrator on trust for the benefits of the non-preferential Scheme creditors. For the avoidance of doubt, the Shares held by the Scheme Administrator at present and after distribution in the future rank *pari passu* (i.e. equally) in all aspects (including voting rights) with the issued Shares. According to the register of member of the Company, no such distribution has been made as at the date of this announcement.

The non-preferential Scheme creditors cannot exercise the voting rights attached to such 252,306,195 Shares until the distribution of the Shares by the Scheme Administrator.

As stated in the section headed “Litigation against the Company in Bermuda”, in the SFC Panel decision, it was held that such Scheme shares do carry “currently exercisable” voting rights for the reason that: (a) under the general law of trusts, the Scheme Administrator as trustee of the Scheme Shares (as defined in the Scheme), is under a fiduciary duty to protect the interests of the Scheme creditors and; (b) where appropriate, this duty would extend to the exercise of voting rights of the Shares on their behalf. In reality, the Scheme Administrator would not vote the Scheme Shares unless they are required to do so by the Court.

Note 2.2: According to the Scheme document, save for Harbour Front, no non-preferential Scheme creditors together with their respective associates (as defined under the Listing Rules) will be entitled to hold 10% or more of the issued share capital of the Company before or after the Rights Issue.

Note 2.3: Harbour Front is one of the non-preferential Scheme creditors through acquisition of certain amount of debts from a Scheme creditor, who is an independent third party, under an assignment arrangement dated 13 August 2001. According to the Scheme document and the correspondences received by the Company and Harbour Front and subject to final adjudication and distribution by the Scheme Administrator, Harbour Front will be interested in not more

than approximately 2% of the 252,306,195 Shares held by the Scheme Administrator, representing approximately 0.8% of the issued share capital of the Company before the Rights Issue. Save for the undertaking given by Harbour Front in respect of the Rights Issue as set out in the section headed “Undertaking from Harbour Front” of this announcement, Harbour Front has not given any undertaking in respect of its possible entitlement in the 252,306,195 Shares held by the Scheme Administrator.

Save for Harbour Front, all non-preferential Scheme creditors are not connected persons (as defined under the Listing Rules).

Note 2.4: As far as the Company is aware, there is no explicit provision in the Scheme regarding limitation as to how the Scheme Administrator and the Scheme creditors should deal with the Rights Issue. There is no agreement between the Company, the Scheme Administrator and the Scheme creditors nor any limitation or restriction imposed onto the Scheme Administrator and Scheme creditors in the way or manner of how the Scheme Administrator and Scheme creditors deals with the Rights Issue.

Note 2.5: As stated in the SFC’s panel decision from the Takeovers and Mergers Panel dated 28 September 2001, the Scheme Shares were allotted to the Scheme Administrator to hold “on trust for the non-preferential Scheme creditors pending their distribution”. Under the Scheme, the only stated powers given to the Scheme Administrator in relation to the Scheme Shares are to receive, hold and distribute them to the Scheme creditors upon proof of their claims.

Note 2.6: As disclosed in the announcement of the Company dated 16 October 1999, save for Harbour Front, the Scheme Administrator and the non-preferential Scheme creditors are not connected with the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates (as such terms are defined in the Listing Rules).

Also, the Scheme creditors (save for Harbour Front) holds not more than 10% of the issued share capital of the Company and they are not connected with the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates (as such terms are defined under the Listing Rules).

Note 2.7: Based on Note 2.1 to 2.6, the Shares held by the Scheme Administrator on trust for the benefits of the non-preferential Scheme creditors are considered as public.

Scenario 1: Assuming all the Shareholders take up their respectively entitled Rights Shares.

Scenario 2: Assuming that no Qualifying Shareholders, except Harbour Front, takes up the Rights Shares and Harbour Front applies for and takes up 19,074,348 excess Rights Shares only and before completion of the Possible Offer.

Scenario 3: Assuming that Harbour Front and the parties acting in concert with it takes up their entitled Rights Shares of 127,616,827 Rights Shares and 19,074,348 excess Rights Shares, and the Qualifying Shareholders (excluding Harbour Front and the parties acting in concert with it) take up the rest of the 156,076,259 Rights Shares.

Termination of the Underwriting Agreement

It should be noted that the Underwriter may terminate the Underwriting Agreement by notice in writing given by the Underwriter to the Company if at any time prior to 5:00 p.m. on the third Business Day after the latest date for acceptance of the provisional allotment of Rights Shares, and payment for the Rights Shares falls, which is expected to be on or about Friday, 15 November 2002 if:–

- (I) there shall develop, occur, exist or come into effect:**
 - (a) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong or any other place in which any member of the Group conducts or carries on business; or**
 - (b) any change in, or any event or series of events resulting or likely to result in any change in, local, national or international financial, political, military, legal industrial, economic, currency or (whether or not sui generis with any of the foregoing) market conditions; or**
 - (c) any change in the conditions of local, national or international securities markets (including but without limitation, the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise),**

which:
 - (1) is or will have a material adverse effect on the Company or the Group or the Rights Issue; or**
 - (2) has or will have a material adverse effect on the success of the Rights Issue or the level of Rights Shares taken up; or**
 - (3) makes it inadvisable or inexpedient for the Company to proceed with the Rights Issue; or**
- (II) any changes occur in the circumstances of the Company or any member of the Group which would materially and adversely affect the prospects of the Group as a whole; or**
- (III) the Company or any of the Controlling Shareholders commits any breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement; or**
- (IV) the Company commits any material breach of any of the representations or warranties set out in the Underwriting Agreement which in the absolute opinion of the Underwriter would represent a material adverse change in the financial or trading position of the Group taken as a whole or is otherwise likely to have a material and adverse effect on the Rights Issue; or**

- (V) the Company shall, after any matter or event which would render untrue, inaccurate or misleading, any statement, whether of fact or opinion, contained in the Prospectus, fail to promptly send out any announcement or circular, in such manner as the Underwriter may request for the purpose of preventing the creation of a false market in the securities of the Company.

CONDITIONS OF THE RIGHTS ISSUE

The Rights Issue is conditional upon the fulfilment of the following conditions:

1. the signing by two directors of the Company on or prior to the Prospectus Posting Date of 8 copies of the required documents;
2. the delivery by the Company one such signed copy of each of the required documents to the Underwriter and the Stock Exchange;
3. the delivery to the Stock Exchange and filing and/or registration of all the relevant documents in relation to the Rights Issue by the Company with the Registrar of the Companies in Hong Kong and the Registrar of Companies in Bermuda on or prior to the Prospectus Posting Date;
4. the posting of the Prospectus, the provisional allotment letter and form of application for excess Rights Shares to the Qualifying Shareholders on or before the Prospectus Posting Date which is expected to be on or about Friday, 25 October 2002 or such later date as mutually agreed between the Company and the Underwriter;
5. the Listing Committee of the Stock Exchange (a) granting or agreeing to grant (subject to allotment) listings of, and permission to deal in, the Rights Shares in their nil-paid form by not later than Tuesday, 29 October 2002 and in their fully paid form by not later than Friday, 15 November 2002 and such listing and permission not having been revoked prior to 4:00 p.m. on the third Business Day following the Acceptance Day or such other date as may be agreed between the Underwriter and the Company; and
6. the obligations of the Underwriter under the Underwriting Agreement becoming unconditional in all respects and the Underwriting Agreement not being terminated in accordance with its terms.

In the event that the above conditions 1 to 3 are not fulfilled or waived in whole or in part by the Underwriter on or before the Prospectus Posting Date (or such later date as may be agreed amongst the parties thereto); or in the event that the above condition 4 is not fulfilled on or before the Prospectus Posting Date; or the above conditions 5 and 6 are not fulfilled on or before the third Business Day following the Acceptance Date or the long-stop date on Friday, 15 November 2002, whichever is earlier, the Underwriting Agreement will lapse.

Warning of the risks of dealing in Shares and Rights Shares

The last day of dealings in the Shares on a cum-rights basis is expected to be on Monday, 21 October 2002 and the Shares are expected to be dealt on an ex-rights basis from Tuesday, 22 October 2002. The Rights Shares will be dealt in their nil-paid form from Tuesday, 29 October 2002 to Thursday, 7 November 2002, both days inclusive. If the Underwriter terminates the Underwriting Agreement, or the conditions of the Rights Issue are not fulfilled, the Rights Issue will not proceed.

Any buying or selling of the Shares from now up to the date on which all such conditions are fulfilled, and any buying or selling of nil-paid Right Shares between Tuesday, 29 October 2002 to Thursday, 7 November 2002 (both days inclusive) is at the investors' own risk.

Investors may need to seek professional advice about this.

REASONS FOR THE RIGHTS ISSUE AND USE OF NET PROCEEDS

The Company is an investment holding company. Its principal subsidiaries are principally engaged in marine engineering in Hong Kong and Singapore, comprising plant hire of dredging, reclamation and transportation vessels, construction of portworks and reclamation projects. In order to reduce its debt servicing obligations, the Company dispose its owned vessels in the previous two financial years.

According to the audited accounts of the Company for the 16 months ended 31 July 2000 and the year ended 31 July 2001, both of the respective auditors of the Company qualified their opinions in respect of the fundamental uncertainties relating to the going concern basis of the Company caused by the following circumstances: (i) the possible outcome of the discussions with potential customers with a view to concluding plant hire agreements for the hiring of a substantial proportion of the Group's vessels; and (ii) the successful disposal of certain of the Group's vessels to reduce its debt servicing obligations. The financial statements do not include any adjustments that would result from the failure of the hiring and disposal of the Group's vessels. The Company's financial information for the 16 months ended 31 July 2000, for the year ended 31 July 2001 and six months ended 31 January 2002 are summarized as follows:—

	Sixteen months ended 31 July 2000 (Audited) HK\$'000	Year ended 31 July 2001 (Audited) HK\$'000	Six months ended 31 January 2002 (Unaudited) HK\$'000
Profit/(loss) after tax and minority interest	603,699	4,372	(44,201)
Net current liabilities	(43,279)	(79,851)	(91,419)
Net tangible assets (liabilities)	15,897	23,818	(22,864)

In addition, as disclosed in the Company's interim results announcement for the six month ended 31 January 2002, (i) due to disputes with one of the Group's major clients and subsequent litigations, the Company has made a provision for the receivables related to that client was made amounted to HK\$17,645,000, the Group has no further business transactions with these major clients while the litigations are not yet resolved and (ii) the carrying amount of the floating craft and vessels of the Group as at 31 January 2002 has been reduced from approximately HK\$131,074,000 to approximately HK\$76,756,000, of the reduction approximately HK\$21,987,000 represented the provision for decline value. In view of the Group's continuous focus on disposal of certain of its vessels to reduce its debts servicing obligations for vessel finance, the recoverable amount was determined by the Directors with reference to the estimated realizable value rather than the discounted future cash flows. The amount of HK\$21,987,000 has been recognized as provision for the decline in the recoverable amount of vessels in the income statement of the Company for the six-month ended 31 January 2002. As a result, the Group has unaudited net liabilities in assets of approximately HK\$22,864,000 as at 31 January 2002.

The Group is actively pursuing disposal of certain of its encumbered vessels to reduce the Group's debt servicing obligations. Such vessels did not form parts of the Scheme assets. At present, there are around

70 vessels under the fleet of the Group. Notwithstanding the intended disposal, the Group will still have sufficient vessels to carry on its principal business. Any Listing Rules implication of such transaction, if so taken place, will be dealt with pursuant to the relevant requirements accordingly, the Directors propose the Rights Issue in order to strengthen the capital base of the Group, provide adequate working capital for the Group's operation and improve the capability of the Company to meet its contingent liabilities, if crystallised, in respect of the Shortfall Undertaking (as detailed in the latter part of this announcement) can be enhanced. The Company's position to recover doubtful debts through litigation will also be strengthened.

The net proceeds of the Rights Issue which, after deducting related expenses of about HK\$1.0 million to be borne by the Company, is estimated to be about HK\$6.6 million and will be used as working capital of the Company and not for the repayment of any unsecured loan due to Harbour Front.

As stated in the section headed "Underwriting Agreement" in this announcement, the shareholdings of the Scheme Administrator and public will be significantly reduced from approximately 41.67% and 16.18% to approximately 27.78% and 10.79% respectively if the Qualifying Shareholders (excluding Harbour Front and the parties acting in concert with it) do not subscribe for any of the Rights Shares provisionally allotted to them. For matters relating to the Takeovers Codes and caused by the proposed Rights Issue, please refer to the section headed "Possible Cash Offer" in this announcement.

As mentioned above, the Group is currently in a difficult financial position, having unaudited net liabilities of approximately HK\$22,864,000 as at 31 January 2002 with the operation as a going concern, the net proceeds of approximately HK\$6.6 million could provide adequate working capital to the Group in order to operate its principal business. Accordingly, the Directors consider that the Rights Issue is in the interest of the Company and its Shareholders as a whole.

THE GROUP'S INDEBTEDNESS AND CONTINGENT LIABILITY

As at 31 July 2002, save for contingent liabilities arising from the Scheme as detailed in the later part of this announcement, the Group's total indebtedness amounted to approximately HK\$119 million. Such amount represents the outstanding balance of the secured loan related to vessel financing (which is not related to the Scheme) of approximately HK\$116 million and unsecured loan at normal commercial terms with an interest rate of prime rate plus 2% per annum with no fixed term of repayment due to Harbour Front of approximately HK\$3 million. As mentioned in the section headed "Introduction" of the Company's circular to Shareholders dated 1 March 2000, all the liabilities of the Company and the Scheme Participating Subsidiaries on or before the effective date of the Scheme of 28 April 2000 have been dealt with under the Scheme through the transfer and sale of the unencumbered assets and the recovery of account receivables of the Company and the Scheme Participating Subsidiaries (which were no longer being the Group's assets after the Scheme became effective) for distribution to the Scheme creditors by way of dividends and does not form part of the Group's existing liabilities of HK\$119 million referred to above.

The Company has utilized the proceeds from the Subscription to provide an Interim Finance of about HK\$3.2 million to the Scheme Administrator to expedite the implementation of the Scheme and to ensure smooth running of the Scheme. The Interim Finance is to mitigate the contingent liability in respect of the Company's undertaking to the trustee of the Scheme that the aggregate disposal proceeds of the Scheme assets under the Scheme shall not be less than HK\$176 million (i.e. the Shortfall Undertaking) as detailed in note 24 to the financial statements contained in the Company's annual report for the year of 2001. So far, the Company has provided finance of HK\$3.2 million in aggregate to the Scheme

Administrator and such amount is still outstanding. The Directors would like to remind the Shareholders the possible effects of the Shortfall Undertaking as detailed here below.

If the aggregate proceeds generated by the disposal and/or realization of the Scheme assets in total falls short of the HK\$176,000,000, the Company will indemnify the Scheme creditors against such shortfall. However, the amount of total compensation for the shortfall payable by the Company in any relevant financial year shall not be more than 60% of the Company's audited consolidated net profits after tax, minority interests and all exceptional and extraordinary items in that financial year. For the avoidance of doubt, (i) if the shortfall exceeds 60% of the Company's audited consolidated net profit after tax, minority interests and all exceptional and extraordinary items in that financial year, there will still be partial settlement made by the Company to the Scheme creditors; and (ii) if the Company shall incur an audited consolidated net loss after tax, minority interests and all exceptional and extraordinary items in a financial year, there shall not be any payment obligation in respect of the shortfall in that financial year. However, if the Company makes any profit in subsequent year, the Company's obligation to compensate the Scheme creditors for the shortfall will resume subject to the 60% threshold for that financial year alone as stated above.

The obligation of the Company to pay the shortfall shall arise upon 1 August 2003, being the commencement of the fourth financial year after the financial year in which the Scheme became effective on 28 April 2000 and shall continue until all the shortfall have been eliminated. Further, the Company may make up for such shortfall using any part or all of the funds raised by the Company through any fund raising activities provided such use is not prohibited.

Referring to the Company's announcements dated 3 December 2001 and 1 March 2001 respectively, there were pending appeals to the sanctioning of the Scheme since they became effective on 28 April 2000. Although the appeals had all been dismissed by the courts on 3 December 2001, the Company had been advised by the Scheme Administrator that progress of the disposal and/or realization of the assets of the Scheme were significantly affected. Since the disposal and/or realization work of the assets of the Scheme is being carried out by the Scheme Administrator in accordance with his statutory power, the Company does not have access to the relevant information (including but not limited to the books and records of the Scheme) and thus is unable to assess the possible outcome thereof. Accordingly, the Company cannot ascertain whether there will be any shortfall for the Company to indemnify under the Shortfall Undertaking or the amount of the shortfall, if any. As mentioned in the above paragraph, the obligation of the Company to pay the shortfall shall arise upon 1 August 2003, being the commencement of the fourth financial year after the financial year in which the Scheme became effective on 28 April 2000. The Scheme Administrator shall notify the Company when the obligations of the Company to pay the shortfall arise. The Company has not made any provision for the Shortfall Undertaking in any published interim or annual reports previously.

LITIGATION AGAINST THE COMPANY IN BERMUDA

On 16 May 2002, the Petitioners lodged a Petition under section 111 of the Companies Act 1981 of Bermuda as amended (the "Companies Act") with the Supreme Court of Bermuda against the Company as the first respondent and the Scheme Administrator as the second respondent. For details of the litigation, please refer to the announcement of the Company dated 18 June 2002.

The relief sought of the Bermuda Court in the Petition includes:

1. a declaration that the determination that the Scheme Administrator had no right to vote at the Subscription SGM is unlawful and invalid;
2. a declaration that the Scheme Administrator was entitled to vote at the Subscription SGM, and is entitled to vote at all future general meetings of the Company;
3. a declaration that the Subscription of the Company's shares by Harbour Front which was purportedly approved at the Subscription SGM was invalid;
4. an order restraining the Company from registering any transfer, whether direct or indirect, of the Subscription Shares issued to Harbour Front Limited pursuant to the Subscription Agreement, pending the hearing of the present Petition;
5. an order restraining the Company from recognizing the exercise of any rights attaching to the Subscription Shares, pending the hearing of the present Petition;
6. an order that the Company should hold a special general meeting of the Shareholders, including the Scheme Administrator, as soon as possible to reconsider the Subscription of shares by Harbour Front;
7. alternatively, an Order that the Company make an open offer of new shares to all Shareholders (apart from Harbour Front) who held shares at the date of the Subscription at the same price as that offered to Harbour Front in the Subscription Agreement;
8. an order requiring the Scheme Administrator to take all steps necessary to protect the interests of all shareholders and the interests of the Scheme creditors;

In the alternative the Petitioners seek:

9. an order that a provisional liquidator be appointed pending the effective hearing of the Petition;
10. an order that the Company be wound up.

In the event that all the primary relief sought by the Petitioners are obtained or dealt with as appropriate, the Bermuda Court may not need to consider the alternative relief sought by the Petitioners for winding-up order.

The Petitioners primary grounds of complaint in their Petition concern the matters raised by Charterbase Management Limited in the Petitioners' Complaint, namely the terms of the circular regarding the Subscription dated 23 April 2001 and the conduct of the Subscription SGM. The Petitioners' Complaint was adjudicated by the Takeovers and Mergers Panel on 13 September 2001 and a copy of the SFC Panel's decision can be found on the SFC website (www.hksfc.org). For a brief description of the SFC Panel's decision, please refer to the announcement of the Company dated 5 October 2001.

The Company has been advised by the Company's Bermuda lawyers that due to the lack of clarity in the Petition, it is not possible to express any definite views as to the relief that the Court might grant at the hearing of the Petition. The primary relief sought (clauses 1 to 6 of the prayer for relief in the Petition) is

a declaratory in nature. The Petitioner seeks declaration that the Subscription Annual General Meeting be declared invalid and that the Subscription SGM be reconvened. The Petitioner has not specified what it seeks in the event that the Subscription SGM votes against the Subscription.

The Company has been advised by its Bermuda lawyers that taking into account of the previous adjudication by the Takeovers and Merger Panel, the Company has a good prospect of having the entire Petition summarily dismissed as an abuse of process. The Company's Bermuda lawyers have further advised that the Company has an even better prospect of having the Petitioners alternative claim for a winding up order being struck out as an abuse of process. On 19 August 2002, the Company issued a summons to strike out the entire Petition and in the alternative to strike out the claim for a winding-up order. The hearing date of the summons has not been fixed and the Company's Bermuda Lawyers has advised that it is expected to be around the end of 2002 or early 2003.

Regardless of whether the Petitioners are successful in claiming against the Company, the Company is not prohibited from proceeding with the Rights Issue under either Bermuda law, the Company's bye-laws or memorandum of association. The Company has been further advised by Hong Kong lawyers that similarly there is no such prohibition under the regulatory regime in Hong Kong.

The Company has been advised by its Bermuda lawyers that the relief sought by the Petitioners, save for the alternative remedy of winding up the Company, is novel. The usual remedy in section 111 cases is an ordered buy out of the minority shareholders' interest in the Company. The Bermuda Court is, however, empowered under section 111 to make such order as it sees fit to bring to an end to the matters complained of.

Before the Bermuda Court considers the granting of relief, it must find that the conduct complained of amounts to unfair prejudice to the Petitioner. If the Bermuda Court finds that there has been unfair prejudice, it will consider ways to bring an end to that state of affairs. The Company has been advised by its Bermuda lawyers that it is unlikely any of the primary relief sought by the Petitioners would be granted. Instead, the Bermuda Court would likely find some other way of satisfying the Petitioners if they were successful in making their claim of unfair prejudice, and the most possible relief would be an order to the Company to buy out the Shares held by the Petitioners. The Petitioners presently hold an aggregate of 26,000 Shares, consider that the closing price per Share prior to the date of this announcement was HK\$0.05, the Company believes that the buy out of the Shares held by the Petitioners should not make any material impact on the Company.

The Company has been further advised by its Bermuda lawyers that one possibility would be an order to the Company to buy back the Subscription Shares and any Rights Issue Shares attaching thereto at the price Harbour Front paid for them. An alternative might be that the Petitioner would seek to have the Subscription Shares and Rights Issue Shares owned by Harbour Front's Share invalidated without compensation.

In the event that the primary relief sought by the Petitioners is granted such that the Subscription is invalid, then subject to Bermuda Court's decision, Harbour Front will have no rights to the Subscription Shares, the Company would have to refund the money received from the Subscription to Harbour Front at the subscription price of HK\$0.04 and the money received from the Rights Shares to be allotted to Harbour Front based on the Shares subscribed by it under the Subscription and at the price of HK\$0.025, which would amount to approximately HK\$4,037,000 and HK\$1,262,000 respectively. The Company might consider engaging in another fund raising activity by way of placing or rights issue in order to settle the refund amounts.

On 31 July 2002, Charterbase Management Limited, one of the Petitioners, issued the Bermuda Writ against the Company and its directors, namely Mrs. Leung Yu Oi Ling Irene, Mr. Chan Kim Leung, Miss Leung Chi Yin Gillian, Mr. Pao Ping Wing, and Mr. Wong Pui Fai who were the directors of the Company in April 2001 at the time of the Subscription SGM. Mr. Wong Pui Fai and Mr. Chan Kim Leung resigned as the director of the Company on 28 April 2002 and on 27 September 2002 respectively. The Bermuda Writ recites the basis of the Petitioners' Complaint with respect of Charterbase Management Limited, namely, that the circular regarding the Subscription misdescribes the Scheme Administrator's voting capacity in respect of the Scheme Shares. The Bermuda Writ alleges that the Company was negligent and its directors were negligent and/or in breach of their fiduciary duty in misdescribing the Scheme Administrator's voting capacity in the circular regarding the Subscription. The Bermuda Writ claims HK\$3,000,000 being Charterbase Management Limited's estimated costs of the Petitioners' Complaint. The Company has been advised by its Bermuda lawyers that it has good grounds to resist the Bermuda Writ. The hearing date of the Bermuda Court has not been fixed and the Company's Bermuda Lawyers has advised that it is expected to be around the end of 2002 or early 2003.

The Company may incur the legal expenses and the costs for Petitioners of an aggregate of approximately HK\$1,200,000 in complying with the Bermuda Court orders.

If the Petitioners are successful in claiming against the Company, then as mentioned above the Company may incur further costs for satisfying the claims under the Bermuda Writ, being HK\$3,000,000 together with the respective legal expenses and interest which are estimated to amount to an aggregate of approximately HK\$4,200,000. The Directors consider that it is imminent to secure adequate working capital to maintain its going concern and the present difficult financial position of the Company has been further affected by the substantial costs and expenses relating to the Petition and the Bermuda Writ. The Rights Issue is therefore required as soon as possible. It is not appropriate for the Company to jeopardize its interests and interests of the Shareholders as a whole by postponing the Rights Issue. The Petitioners hold less than 0.0043% of the issued share capital of the Company and should not be in a position to dictate matters, which have been adjudicated by the Takeovers and Mergers Panel as mentioned above.

However, based on the above reasons, the Directors consider that it is unlikely that the Petition and/or the Bermuda Writ will be decided unfavourably against the Company and/or its Directors.. Also, the Directors consider that the Rights Issue is in the best interest of the Company and the Shareholders as a whole, and the Company will proceed with its corporate actions despite the current litigation.

Save for the legal costs and expenses which the Company is exposed and will seek recovery from the Petitioners in accordance with the relevant Bermuda law, it is considered that neither the Petition nor the Bermuda Writ will have any material impact on the Company, the Shareholders and the Rights Issue.

LEGAL PROCEEDINGS CONCERNING UNIVERSAL DOCKYARD LIMITED, ONE OF THE SCHEME PARTICIPATING SUBSIDIARIES ("DOCKYARD")

The Directors wish to inform the public and the shareholders of the Company of the following legal proceedings concerning Dockyard:

1. On 11 December 2001, Fonfair Company Limited ("**Fonfair**"), as the registered owner, obtained a judgement under the High Court Action No. 1886 of 2001 against Dockyard, as the tenant and a wholly-owned subsidiary of the Company, for possession of a property known as Yau Tong Marine Lots Nos. 2, 3 and 4 situate at No.44 Ko Fai Road, Yau Tong Bay, Kowloon (the "**Yau Tong Property**") together with arrears of rent claimed by Fonfair, being HK\$3,616,000 plus

HK\$226,000.00 per month from 1 May 2001 to 19 June 2002 and interest. A writ of possession was executed against the Yau Tong Property on 19 June 2002 pursuant to which Fonfair obtained possession of the Yau Tong Property.

Fonfair is owned as to approximately 66.67% by Money Facts Limited (“Money Facts”) and the remaining approximately 33.33% is owned by Harbour Front. Money Facts is owned as to 50% by Harbour Front. Mr. Leung Yuet Keung, a former director of the Company who resigned on 18 January 2000 and brother-in-law of Mrs. Leung, is at present controlling the management and daily affairs of Fonfair. For avoidance of doubt, the disputes between shareholders of Fonfair had become sufficiently serious that Harbour Front has petitioned for the “just and equitable” winding-up of Fonfair in High Court Companies (Winding-UP) No.246 of 2002 (“HCCW 246 of 2002”) and for the “just and equitable” winding-up of Money Facts Limited in High Court Companies (Winding-Up) No. 880 of 2001 (“HCCW 880 of 2001”).

2. On 23 June 2002, a Winding-up Petition was filed by Fonfair.
3. A claim for the recovery of the Goods and Chattels was made by Dockyard against Fonfair and an injunction order was granted under High Court Action No.3102 of 2002 on 16 August 2002 for the collection of the Goods and Chattels by Dockyard and/or the Company. The value of the Goods and Chattels of the Group estimated by bailiff amounted to HK\$250,000.

Dockyard is currently seeking legal advice with a view to oppose the Winding-up Petition. Further announcement will be made when there is any material development. The Directors do not consider that there will be any adverse impact on the Company as a result of the Winding-up Petition, as Dockyard has at present no business nor net tangible assets of substance. The estimated litigation costs and expenses amounts to approximately HK\$200,000.

POSSIBLE CASH OFFER

The Possible Offer

At present, Harbour Front and parties acting in concert with it, namely Mrs. Leung, Miss Leung and Mr. Leung Chi Hong, Jerry, are interested in 255,233,653 Shares, representing approximately 42.15% interest in the Company.

If the Rights Issue is completed and Harbour Front, by applying for and subscribing excess Rights Shares, and Kingsway SW Securities, when performing its duties as the Underwriter, together take up new Shares representing more than 2% of the issued share capital of the Company as enlarged by the Rights Issue, Harbour Front will be required under Rule 26.1 of the Takeovers Code to make a general offer for the Shares of the Company other than those already owned or agreed to be acquired by it and parties acting in concert with it after closing of the Rights Issue.

If Harbour Front and parties acting in concert with it hold more than 50% of the voting rights of the Company upon completion of the Rights Issue, the Possible Offer will become an unconditional offer.

Alternatively, if Harbour Front and parties acting concert with it acquire more than 2% of the issued share capital of the Company as enlarged by the Rights Issue but are holding less than 50% of the voting rights of the Company upon completion of the Rights Issue, the Possible Offer will be conditional upon the Offeror having received valid acceptances of the Possible Offer in which, together with voting rights

already owned by the Offeror and parties acting in concert with it before or during the period of the Possible Offer, will result in the Offeror and parties acting in concert with it holding more than 50 per cent. of the voting rights of the Shares. If the aforesaid condition is not satisfied by the first closing date of period of the Possible Offer, the Possible Offer will not become unconditional and will lapse. Although the Offeror does not intend to extend the period of the Possible Offer if the acceptance condition is not fulfilled on or before the aforesaid first closing date, it reserves the right to do so in accordance with the Takeovers Code.

Neither Harbour Front nor parties acting in concert with it had dealt in the Shares during the six-month period prior to the date of this announcement.

Terms of the Possible Offer

If Harbour Front and parties acting in concert with it are required under Rule 26.1 of the Takeover Code to make a general offer as aforesaid, Kingsway SW Securities will, on behalf of Harbour Front, make a cash offer, which may or may not be conditional, for all the Shares in issue other than those already owned or agreed to be acquired by Harbour Front or parties acting in concert with it after closing of the Rights Issue on the following basis:

For each Share: HK\$0.025 in cash.

The price of HK\$0.025 per Share is the same as the subscription price of each Rights Share.

As at the date of this announcement, the Company does not have any outstanding options or convertible securities.

Total consideration payable under the Possible Offer

There are 605,534,868 Shares currently in issue and 302,767,434 new Shares to be issued upon the completion of the Rights Issue. Based on the offer price of HK\$0.025 per Share, the Possible Offer values of the Company is approximately HK\$12.66 million.

Under scenario 3 of the shareholding structure under the section headed “Underwriting Arrangement” above, where Harbour Front and parties acting in concert with it will acquire the smallest number of Rights Shares that will just trigger the general offer obligation for the largest number of outstanding Shares not held by them, the aggregate amount payable by Harbour Front and parties acting in concert with it under the Rights Issue would be approximately HK\$3.67 million and in the event that the Possible Offer was accepted in full, the aggregate amount further payable by Harbour Front would be approximately HK\$12.66 million, therefore, the aggregate amount payable by Harbour Front for the Possible Offer and Rights Issue would be approximately HK\$16.33 million. Kingsway SW Securities is satisfied that sufficient resources are available to Harbour Front to satisfy the subscription of the Rights Shares and the acceptance of the Possible Offer in full.

Effect of accepting the Possible Offer

By accepting the Possible Offer, Shareholders will sell their Shares and all rights attached to them, including the right to receive all dividends and distributions declared, made or paid on or after closing of the Rights Issue, if any.

Stamp duty

Seller's ad valorem stamp duty at a rate of HK\$1 for every HK\$1,000 or part thereof payable by the accepting Shareholders in respect of the relevant acceptances will be deducted from the amount payable to such Shareholders who Kingsway SW Securities, on behalf of the Offeror, will arrange for payment of such stamp duty which the accepting Shareholders will become liable to pay in respect of the relevant acceptances.

Appointment of independent board committee, independent financial adviser and despatch of composite document

If the Rights Issue is completed and Harbour Front, by applying for and subscribing excess Rights Shares, and Kingsway SW Securities, when performing its duties as the Underwriter, together take up new Shares representing more than 2% of the issued share capital of the Company as enlarged by the Rights Issue, Harbour Front will be required under Rule 26.1 of the Takeovers Code to make a general offer for the Shares other than those already owned or agreed to be acquired by it and parties acting in concert with it after closing of the Rights Issue. In this situation, an independent board committee will be appointed to consider the Possible Offer and an independent financial adviser will be appointed to advise the independent board committee in respect of the Possible Offer. An announcement with respect to the Possible Offer will be made as soon as the independent financial adviser is appointed. A composite document containing, among other things, information on the Company and the Possible Offer, the recommendation of the independent board committee and its independent financial adviser in respect of the Possible Offer and acceptance and transfer forms, will be sent to the Shareholders within seven (7) days of the fulfilment of the conditions for the Rights Issue as stated in the section headed "Conditions of the Rights Issue". Harbour Front will also apply to the Executive for consent to the delay in the despatch of the composite document in respect of the Possible Offer under note 2 to Rule 8.2 of the Takeovers Code.

INFORMATION ON THE GROUP

The Company is incorporated in Bermuda with limited liability and its Shares are listed on the Stock Exchange since 1991. The principal activity of the Company is investment holding and the principal activity of its principal subsidiaries is marine engineering. Although the Group may dispose of not more than 20 of its currently owned vessels of around 70 vessels for meeting its debt serving obligations under vessel finance, the Directors do not have any present intention to change the principal activities of the Group. The Directors will monitor and maintain the level of around 50 vessels owned by it to ensure that the Group will have sufficient fleet to continue its principal business activities.

INFORMATION ON HARBOUR FRONT

Harbour Front is an investment holding company incorporated in the British Virgin Islands with limited liability, and its principal business is investment in land properties and the Company. Harbour Front is holding its interest in the Shares as a trustee of a unit trust. All units in the unit trust are beneficially owned by a discretionary trust, whose beneficiaries include Mrs. Leung and her children.

Harbour Front and parties acting in concert with it (other than Kingsway SW Securities) have not dealt in the Shares during the six-month period prior to the date of this announcement. Kingsway SW Securities has not dealt in the Shares for its own account during the six-month period prior to the date of this announcement.

INTENTION OF HARBOUR FRONT ON THE GROUP

Business

Harbour Front intends to continue the existing line of business of the Group after the Possible Offer.

Directors of the Company

At present, the Board of the Company has two executive directors, namely Mrs. Leung and Miss Leung and two independent non-executive directors, namely Mr. Pao Ping Wing and Dr. Yuen Ming Fai Matthew. Harbour Front does not have any intention to change the composition of the Board after the Possible Offer.

MAINTAINING THE LISTING OF THE COMPANY

It is the intention of Harbour Front to maintain the listing of the Company on the Stock Exchange after the closing of the Possible Offer. Harbour Front will undertake to the Stock Exchange that appropriate steps, if required, will be taken to ensure that sufficient public float exists for the trading of the Shares. Harbour Front has no intention to exercise the power of compulsory acquisition with respect to the Shares of the Company under the law of Bermuda but it reserves the right to do so. As far as the Company is aware, there is no explicit provision in the Scheme regarding limitation as to how the Scheme Administrator and the Scheme creditors should deal with the Possible Offer. There is no agreement between the Company and the Scheme Administrator and Scheme creditors nor any limitation or restriction imposed onto the Scheme Administrator and Scheme creditors in the way or manner of how the Scheme Administrator and Scheme creditors deals with the Possible Offer.

The Stock Exchange has stated/indicated that, if less than 25% of the issued Shares are in public hands following the Rights Issue, or if the Stock Exchange believes that a false market exists or may exist in the trading of the Shares or that there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend dealings in the Shares.

The Stock Exchange will also closely monitor all acquisitions or disposals of assets by the Company. The Stock Exchange has the discretion to require the Company to issue a circular to its Shareholders irrespective of the size of the proposed transaction, particularly when such proposed transaction represents a departure from the principal activities of the Company. The Stock Exchange also has the discretion to aggregate a series of transactions and any such transaction may result in the Company being treated as if it were a new listing applicant. Save for the disposal of certain of its vessels as mentioned above, the Directors currently do not have any intention to dispose of its assets. The Company will ensure to comply with such requirements under the Listing Rules.

EXPECTED TIMETABLE

The following is the expected timetable for the Rights Issue:–

2002

Last day of dealings in Shares on a cum-rights basis	Monday, 21 October
Commencement of dealings in Shares on an ex-rights basis	Tuesday, 22 October
Latest time for lodging transfers of Shares in order to qualify for the Rights Issue	4:00 p.m., Wednesday, 23 October
Register of members closed	Thursday, 24 October to Friday, 25 October (both days inclusive)
Record Date	Friday, 25 October
Prospectus Posting Date	Friday, 25 October
Effective day of change in board lot size	9:30 a.m. Friday, 25 October
Designated broker starts to stand in the market to provide matching service	Friday, 25 October
First day of dealings in nil-paid Rights Shares	Tuesday, 29 October
Latest time and date for splitting nil-paid Rights Shares	4:00 p.m. Monday, 4 November
Last day of dealings in nil-paid Rights Shares	Thursday, 7 November
Latest time for acceptance of, and payment for, Rights Shares and application for excess Rights Shares	4:00 p.m., Tuesday, 12 November
Underwriting Agreement becomes unconditional	5:00 p.m., Friday, 15 November
Publication of announcement of the basis of allotment	Monday, 18 November
Despatch of refund cheques for unsuccessful or partially unsuccessful applications	Monday, 18 November
Certificates for fully-paid Rights Shares expected to be despatched	Monday, 18 November
Dealings in fully-paid Rights Shares	9:30 a.m., Wednesday, 20 November
Designated broker ceases to stand in the market to provide matching service	Tuesday, 24 December

Should there be any change in the abovementioned expected timetable, Shareholders will be informed by the Company by way of a separate announcement as soon as practicable.

CHANGE IN BOARD LOT SIZE

In order to be in line with current market trend and reduce the trading costs for the Shareholders and investors, the board lot size for trading in Shares of HK\$0.01 each in the share capital of the Company will be changed from 2,000 Shares to 40,000 Shares effective at 9:30 a.m. of the Prospectus Posting Date.

In order to facilitate trading of odd lots of Shares arising from the change in board lot size of Shares and Rights Shares whether in their nil-paid or fully-paid forms, the Company has agreed to procure an agent to stand in the market to those Shareholders who wish to top-up or sell their holding of odd lots of Shares and Right Shares whether in their nil-paid or fully-paid forms during the period from Friday, 25 October 2002 to Tuesday, 24 December 2002 (both dates inclusive) or such later period to be separately announced as appropriate. Further details of the odd lots arrangement will be contained in the Prospectus to be despatched to the Shareholders.

No new share certificate will be issued as a result of the change in the board lot size. All existing share certificates in board lots of 2,000 Shares will continue to be evidence of entitlement to such Shares and be valid for delivery, transfer and settlement purpose, and there will be no arrangement for free exchange of existing share certificates in board lots of 2,000 Shares for new share certificates in board lots of 40,000 Shares. As from Friday, 25 October 2002, any new share certificates will be issued in board lot size of 40,000 Shares (except for odd lots or where the Company's share registrars are otherwise instructed). Save and except for the change in the number of Shares for each board lot, new share certificates will have the same format and colour as the existing share certificates.

OTHER INFORMATION

As referred to the announcement of the Company dated 18 June 2002, the Company has been reviewing and adjusting a plan for the provision of funds to the Scheme for expeditious implementation and early distribution of dividend to the Scheme creditors for compatibility with the provisions of the Scheme. The Directors would like to advise that at present, the formulation of the aforesaid plan has not yet been concluded. For details of the aforesaid plan, please refer to the announcement of the Company dated 18 June 2002.

Further announcement in relation to the aforesaid plan will be made if and when appropriate.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares was suspended from 9:30 a.m. on 15 August 2002 pending the release of this announcement. An application has been made to the Stock Exchange for resumption of trading in the securities of the Company with effect from 9:30 a.m. on 7 October 2002.

DEFINITIONS USED

“Acceptance Date”	the last day for acceptance of provisionally allotted Rights Shares and application for excess Rights Shares, and payment of the subscription monies due in respect of, provisionally allotted Rights Shares and excess Rights Shares under the Rights Issue, which is expected to be 4:00 p.m. on Tuesday, 12 November 2002
“associates”	has the meaning ascribed thereto in the Listing Rules
“Bermuda Court”	Supreme Court of Bermuda
“Bermuda Writ”	a writ issued in the Supreme Court of Bermuda by Charterbase Management Limited on 31 July 2002
“Board”	the board of Directors
“Business Day”	a day (excluding a Saturday) on which banks in Hong Kong are generally open for business
“Company”	UDL Holdings Limited, the shares of which are listed on the Stock Exchange
“Controlling Shareholders”	means Harbour Front, Mrs. Leung, Miss Leung and Mr. Leung Chi Hong, Jerry
“Director(s)”	director(s), including the executive director(s) and independent non-executive director(s) of the Company
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Goods and Chattels”	Goods and chattels located at Yau Tong Marine Lots Nos. 2, 3 and 4 situated at No.44 Ko Fai Road, Yau Tong Bay, Kowloon owned by Fonfair
“Group”	the Company and its subsidiaries
“Harbour Front”	Harbour Front Limited, a company incorporated in the British Virgin Islands, together with the parties acting in concert with it, Mrs. Leung, Miss Leung and Mr. Leung Chi Hong, Jerry, own 255,233,653 Shares in aggregate, representing approximately 42.15% of the issued share capital of the Company. Harbour Front Limited is holding the aforesaid Shares (save for those Shares owned by Mrs. Leung, Miss Leung and Mr. Leung Chi Hong, Jerry) as trustee of a unit trust. All units in the trust are beneficially owned by a discretionary trust, the beneficiaries of which are Mrs. Leung and her children

“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Interim Finance”	The interim finance of about HK\$3.2 million provided by the Company to the Scheme Administrator to expedite the implementation of the Scheme and to ensure smooth running of the Scheme as disclosed in the Company’s circular to shareholders dated 23 April 2001
“Kingsway SW Securities” or “Underwriter”	Kingsway SW Securities Limited, a dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
“Last Trading Day”	Wednesday, 14 August 2002, being the last trading day of the Share prior to the issue of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Miss Leung”	Miss Leung Chi Yin, Gillian, an executive Director and the daughter of Mrs. Leung
“Mrs. Leung”	Mrs. Leung Yu Oi Ling, Irene, an executive Director and the chairman of the Company
“Offeror”	Harbour Front Limited
“Overseas Shareholder(s)”	the Shareholder(s) whose name(s) appear(s) on the register of members of the Company at the close of business on the Record Date and whose address(es) as shown thereon on that date is/are in (a) place(s) outside Hong Kong
“Petition”	the petition lodged by the Petitioners on 16 May 2002 under section 111 of the Companies Act claiming unfair prejudice with the Bermuda Court against the Company as the first respondent and the Scheme Administrator as the second respondent
“Petitioners”	Charterbase Management Limited and United People Assets Limited, which are minority shareholders of the Company holding 20,000 Shares and 6,000 Shares (representing approximately 0.00330% and 0.00099% of the issued share capital of the Company) since May 2001 and December 2001 respectively
“Petitioners’ Complaint”	complaint lodged by the Petitioners with the SFC on 18 May 2001
“Possible Offer”	the possible cash offer by Kingsway SW Securities on behalf of Harbour Front for all the Shares other than those already held or agreed to be acquired by Harbour Front and parties acting in concert with it then in issue at the completion of the Rights Issue
“Prospectus”	the prospectus to be issued by the Company in relation to the Rights Issue

“Prospectus Posting Date”	The date of posting of the Prospectus which is expected to be on Friday, 25 October 2002
“Qualifying Shareholder(s)”	The Shareholder(s), other than the Overseas Shareholder(s), whose name (s) appear(s) on the register of members of the Company on the Record Date
“Record Date”	The date by reference to which entitlements under the Rights Issue will be determined which is expected to be on Friday, 25 October 2002
“Rights Issue”	the proposed issue of the Rights Shares at a price of HK\$0.025 per Rights Share on the basis of one (1) Rights Share for every two (2) existing Shares held by the Qualifying Shareholders
“Rights Shares”	302,767,434 new Shares to be issued under the Rights Issue
“Scheme”	the Scheme of arrangement of the Company and the Scheme Participating Subsidiaries effective on 28 April 2000. For details, please refer to the circular of the Company dated 1 March 2000
“Scheme Administrator”	Matthew O’Driscoll or, failing him, such other person as the President of the Hong Kong Society of Accountants shall nominate pursuant to the Scheme
“Scheme Participating Subsidiaries”	namely, Econo Plant Hire Company Limited, UDL Argos Engineering & Heavy Industries Company Limited, UDL Civil Contractors Limited, UDL Contracting Limited, UDL Marine Operation Limited, UDL Marine Pte Limited, UDL Ship Management Limited, East Coast Towing Limited, Everpoint Company Limited, Exact Profit Limited, Fairking Transportation Limited, Faith On International Limited, Full Keen Investment Limited, Graceful Ease Investment Limited, Keen Yield Investment Limited, S.K. Luk Construction Company Limited, UDL Dredging Limited, UDL E&M (BVI) Limited, UDL Investment Limited, UDL Management Limited, UDL Steel Fabricators & Shipbuilders Company Limited, UDL Employment Services Limited, Wellful Time Limited, all are wholly-owned subsidiary of the Company, and Universal Dockyard Limited, a 98.75% owned subsidiary of the Company
“SFC”	Securities and Futures Commission of Hong Kong
“SFC Panel”	Takeovers and Mergers Panel of the SFC
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Shortfall Undertaking”	the Company’s undertaking to the trustee of the Scheme that the aggregate disposal proceeds of the Scheme assets under the Scheme shall not be less than HK\$176 million

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of 100,922,478 new Shares by Harbour Front pursuant to the subscription agreement dated 30 March 2001 as detailed in the Company’s announcement dated 30 March 2001, the circular dated 23 April 2001 and the completion of the subscription of 100,922,478 new Shares on 19 May 2001
“Subscription SGM”	a special general meeting of the Company dated 17 May 2001 in relation to the Subscription
“Takeovers Code”	the Code on Takeovers and Mergers
“Underwriting Agreement”	the underwriting agreement dated 4 October 2002 and entered into between the Company and the Underwriter in relation to the Rights Issue
“Winding-up Petition”	a petition for the winding-up of Dockyard (HCCW 663 of 2002) was filed by Fonfair on 23 June 2002
“HK\$” and “cent(s)”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong

By Order of the Board
HARBOUR FRONT LIMITED
Leung Yu Oi Ling, Irene
Director

By Order of the Board
UDL HOLDINGS LIMITED
Leung Yu Oi Ling, Irene
Chairman

Hong Kong, 4 October 2002

The directors of the Company jointly and severally accept full responsibility for the accuracy of the information contained in this announcement (other than that relating to Harbour Front) and confirm, having made all reasonable inquiries, that to the best their knowledge, opinions expressed in this announcement (other than that relating to Harbour Front) have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement in this announcement misleading.

The directors of Harbour Front jointly and severally accept full responsibility for the accuracy of the information contained in this announcement (other than that relating to the Company) and confirm, having made all reasonable inquiries, that to the best their knowledge, opinions expressed in this announcement (other than that relating to the Company) have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement in this announcement misleading.

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