

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about the Prospectus or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in the Company, you should at once hand the Prospectus to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

A copy of each of the Prospectus Documents and the written consent of Grant Thornton has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance of Hong Kong. A copy of each of the Prospectus Documents has been filed with the Registrar of Companies in Bermuda as required by the Companies Act 1981 of Bermuda. The Registrar of Companies in Hong Kong, the Securities & Futures Commission in Hong Kong and the Registrar of Companies in Bermuda take no responsibility as to the contents of the Prospectus Documents.

Dealings in the securities of the Company may be settled through CCASS and you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser for details of those settlement arrangements and how such arrangements may affect your rights and interests.

Subject to the granting of listings of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Rights Shares in their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement dates of dealings in the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

The Stock Exchange of Hong Kong Limited and HKSCC take no responsibility for the Prospectus, the provisional allotment letter or the form of application for excess Rights Shares, make no representation as to their accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of the Prospectus, the provisional allotment letter or the form of application for excess Rights Shares.



UDL HOLDINGS LIMITED 太元集團有限公司

(Incorporated in Bermuda with limited liability)

PROPOSED RIGHTS ISSUE ON THE BASIS OF ONE RIGHTS SHARE FOR EVERY TWO EXISTING SHARES HELD BY THE QUALIFYING SHAREHOLDERS OF UDL HOLDINGS LIMITED, AND 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)

Financial adviser



KINGSWAY CAPITAL LIMITED

Underwriter



KINGSWAY SW SECURITIES LIMITED

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 Monday, 2 December 2002, being the third Business Day after the latest date for acceptance of the provisional allotment of Rights Shares and payment for the Rights Shares falls 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. Upon the giving of notice of termination, all obligations of the Underwriter under the Underwriting Agreement shall cease and no party shall have any claim against any other parties in respect of any matter or thing arising out of or in connection with the Underwriting Agreement. If the Underwriter exercises such right, the Rights Issue will not proceed.

It should also be noted that the existing Shares was dealt in on an ex-rights basis from Tuesday, 22 October 2002. Dealings in the Rights Shares in their nil-paid form will take place from Wednesday, 13 November 2002 to Friday, 22 November 2002 (both dates inclusive). If the conditions of the Rights Issue are not fulfilled, the Rights Issue will not proceed. Any Shareholders or other persons contemplating selling or purchasing Shares and/or Rights Shares in their nil-paid form during the period from Wednesday, 13 November 2002 to Friday, 22 November 2002 who are in any doubt about their position are recommended to consult their professional advisers. Any Shareholders or other persons dealing in Shares up to the date on which all the conditions to which the Rights Issue is subject are fulfilled (being Monday, 2 December 2002 which is the date on which the Underwriter's right of termination of the Underwriting Agreement ceases) and any persons dealing in the nil-paid Rights Shares during the period from Wednesday, 13 November 2002 to Friday, 22 November 2002 will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed.

The latest time for acceptance of and payment for the Rights Shares is 4:00 p.m. on Wednesday, 27 November 2002. The procedure for acceptance and payment or transfer of the Rights Shares is set out on pages 25 to 27 of the Prospectus.

11 November 2002

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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 Monday, 2 December 2002, being the third Business Day after the latest date for acceptance of the provisional allotment of Rights Shares, and payment for the Rights Shares falls 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

TERMINATION OF THE UNDERWRITING AGREEMENT

- (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.

Upon the giving of notice of termination, all obligations of the Underwriter under the Underwriting Agreement shall cease and no party shall have any claim against any other parties in respect of any matter or thing arising out of or in connection with the Underwriting Agreement. If the Underwriter exercises such right, the Right Issue will not proceed.

SUMMARY OF THE RIGHTS ISSUE

The following information is derived from, and should be read in conjunction with, the full text of the Prospectus.

Number of Rights Shares to be issued	302,767,434 Rights Shares
Number of existing Shares in issue as at the Record Date	605,534,868 Shares
Amount to be raised by the Rights Issue	approximately HK\$7.6 million before expenses approximately HK\$6.6 million after expenses
Basis of the Rights Issue	one Rights Share for every two existing Shares held on the Record Date
Subscription Price and Acceptance Date	HK\$0.025 per Rights Share payable in full on acceptance by 4:00 p.m. on Wednesday, 27 November 2002
Status of the Rights Shares	when allotted and fully paid, the Rights Shares will rank pari passu in all respect with the then existing issued Shares
Application for excess Rights Shares	Qualifying Shareholders shall be entitled to apply for any unsold entitlements of the Overseas Shareholders, any unsold Rights Shares created by adding together fractions of Rights Shares and any Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders

EXPECTED TIMETABLE

2002

Register of members closed	Thursday, 24 October to Friday, 25 October
Record Date	Friday, 25 October
Register of member re-opens	Monday, 28 October
Despatch of Prospectus	Monday, 11 November
First day of dealings in nil-paid Rights Shares	Wednesday, 13 November
Latest time and date for splitting nil-paid Rights Shares	4:00 p.m. on Tuesday, 19 November
Last day of dealings in nil-paid Rights Shares	Friday, 22 November
Latest time for acceptance of, and payment for, Rights Shares and application for excess Rights Shares	4:00 p.m. on Wednesday, 27 November
Rights Issue expected to become unconditional (<i>Note</i>)	5:00 p.m. on Monday, 2 December
Announcement of results of Rights Issue to appear in newspaper on	Tuesday, 3 December
Despatch of refund cheques in respect of unsuccessful or partially unsuccessful excess applications posted on or before	Tuesday, 3 December
Despatch of certificates for fully-paid Rights Shares on or before	Tuesday, 3 December
First day of dealings in the fully-paid Rights Shares	9:30 a.m. on Thursday, 5 December

Note: If the Rights issue has become unconditional and Harbour Front by applying for and subscribing excess Rights Shares, together with Kingsway SW Securities and parties acting in concert with it take up new Shares representing more than 2% of the enlarged 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 owned or agreed to be acquired by it and parties acting in concert with it. Announcement of details of the Possible Offer will be appeared in newspaper on Tuesday, 3 December 2002, and an offer document including the timetable of the Possible Offer is expected to be despatched to the Shareholders on or before Monday, 9 December 2002, which is within 7 days of the Rights Issue becoming unconditional.

DEFINITIONS

In the Prospectus the following expressions have the meanings respectively set opposite them unless the context otherwise requires:

“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 expected to be 4:00 p.m. on Wednesday, 27 November 2002
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Bermuda Court”	Supreme Court of Bermuda
“Bermuda Writ”	a writ issued in the Bermuda Court 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
“CCASS”	the Central Clearing and Settlement System, established and operated by HKSCC
“Company Act”	the Companies Act 1981 of Bermuda (as amended)
“Companies Ordinance”	Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“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 non-executive directors, of the Company
“Dockyard”	Universal Dockyard Limited, one of the Scheme Participating Subsidiaries
“EAF(s)”	form(s) of application for excess Rights Shares
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Fonfair”	Fonfair Company Limited, which is owned as to approximately 66.67% by Money Facts and approximately 33.33% by Harbour Front respectively

DEFINITIONS

“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” or “Offeror”	Harbour Front Limited, a company incorporated in the British Virgin Islands, together with the parties acting in concert with it, namely, Mrs. Leung, Miss Leung and Mr. Leung Chi Hong, Jerry, own 255,233,653 Shares in aggregate, representing approximately 42.15% of the total 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 Miss Leung and Mr. Leung Chi Hong, Jerry
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HKSCC”	Hong Kong Securities Clearing Company Limited
“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 the Shareholders dated 23 April 2001
“Kingsway Capital”	Kingsway Capital Limited, an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and the financial adviser to the Company
“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 Shares prior to the issue of the Company’s announcement dated Friday, 4 October 2002
“Latest Practicable Date”	Monday, 4 November 2002, being the latest practicable date prior to the printing of the Prospectus for the purpose of ascertaining certain information for inclusion in the Prospectus
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“Miss Leung”	Miss Leung Chi Yin, Gillian, who is an executive Director and the daughter of Mrs. Leung
“Money Facts”	Money Facts Limited, a company which is owned as to 50% by Harbour Front and 50% by Mr. Leung Yuet Keung, the brother-in-law of Mrs. Leung respectively. It owns approximately 66.67% of the existing issued share capital of Fonfair
“Mrs. Leung”	Mrs. Leung Yu Oi Ling, Irene, executive Director and chairman of the Company
“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
“PAL(s)”	provisional allotment letter(s) in respect of the Rights Shares
“PRC”	the People’s Republic of China but, for the purpose of the Prospectus, excluding Hong Kong
“Petition”	the petition lodged by the Petitioners on 16 May 2002 under section 111 of the Companies Act 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”	this prospectus dated 11 November 2002 to be issued by the Company in relation to the Rights Issue
“Prospectus Documents”	the Prospectus, the PAL and the EAF
“Prospectus Posting Date”	11 November 2002, being the expected date of posting of this Prospectus, or such later date as mutually agreed between the Company and the Underwriter

DEFINITIONS

“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 is determined which is on Friday, 25 October 2002
“Relevant Period”	the period from the date commencing six months prior to 15 August 2002, being the last trading date prior to suspension of trading in Shares pending the release of the announcement of the Company dated 4 October 2002, up to and including the Latest Practicable Date
“Rights Issue”	the proposed issue of the Rights Shares at a price of HK\$0.025 per Rights Share on the basis of 1 Rights Share for every two existing Shares held by the Qualifying Shareholders
“Rights Share(s)”	302,767,434 new Shares to be issued under the Rights Issue
“SDI Ordinance”	the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
“SFC”	Securities and Futures Commission
“SFC Panel”	Takeovers and Mergers Panel of the SFC
“Scheme”	the scheme of arrangement of the Company and the Scheme Participating Subsidiaries effective on 28 April 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

DEFINITIONS

“Share(s)”	share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of 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 and circular dated 23 April 2001
“Subscription Agreement”	the subscription agreement dated 30 March 2001 and entered into between the Company and Harbour Front in relation to the Subscription
“Subscription Price”	HK\$0.025 per Rights Share payable in full on acceptance under the Rights Issue
“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
“Yau Tong Property”	Yau Tong Marine Lots Nos. 2, 3 and 4 situate at No. 44 Ko Fai Road, Yau Tong Bay, Kowloon
“HK\$” and “cent(s)”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

LETTER FROM THE BOARD



UDL HOLDINGS LIMITED
太元集團有限公司

(Incorporated in Bermuda with limited liability)

Executive Directors:

Leung Yu Oi Ling, Irene (*Chairman*)
Leung Chi Yin, Gillian

Independent non-executive Directors:

Pao Ping Wing
Yuen Ming Fai, Matthew

Registered office:

Cedar House
41 Cedar Avenue
Hamilton HM 12
Bermuda

*Head office and
principal place of business:*

Room 704, 7th Floor,
Aitken Vanson Centre
61 Hoi Yuen Road
Kwun Tong
Hong Kong

11 November 2002

*To the Qualifying Shareholders and, for information
only, the Overseas Shareholders*

Dear Sir or Madam,

**PROPOSED RIGHTS ISSUE ON
THE BASIS OF ONE RIGHTS SHARE FOR EVERY TWO EXISTING SHARES
HELD BY THE QUALIFYING SHAREHOLDERS OF UDL HOLDINGS LIMITED, AND**

**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)**

INTRODUCTION

It was announced on 4 October 2002 that, subject to the satisfaction of the conditions of the Rights Issue as mentioned in the section headed "Conditions of the Rights Issue" below, the Company proposed to raise approximately HK\$7.6 million, before expenses, by way of the Rights Issue of 302,767,434 Rights Shares, on the basis of one Rights Share for every two existing Shares held by the Qualifying Shareholders on the Record Date, at the subscription price of HK\$0.025 per Rights Share payable in full on acceptance by the Qualifying Shareholders.

The purpose of the Prospectus is to provide you with further details of the Rights Issue, including information on dealings and transfer of the Rights Shares in their nil-paid form, the procedure for acceptance of provisional allotment of Rights Shares and application for excess Rights Shares, certain financial and other information of the Group, and the change in board lot size.

LETTER FROM THE BOARD

If the Rights Issue is completed and Harbour Front, by applying for and subscribing excess Rights Shares, together with Kingsway SW Securities when performing its duties as the Underwriter, and parties acting in concert with it 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, 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 and parties acting in concert with it after closing of the Rights Issue.

It should be noted that the Group is currently engaged in a litigation against the Company in Bermuda and a legal proceedings concerning Dockyard. As set out in the sections headed “Litigation against the Company in Bermuda” and “Legal proceedings concerning Dockyard” in “Letter from the Board” and the section headed “Litigations” in Appendix II of this Prospectus. The Company may incur the legal expenses and costs of an aggregate of approximately of HK\$1.2 million for the litigation against the Company in Bermuda and an estimated litigation costs and expenses of approximately HK\$0.2 million for the legal proceedings concerning Dockyard respectively.

THE RIGHTS ISSUE

Issue statistics

Basis of the Rights Issue:	one Rights Share for every two existing Shares held on the Record Date
Number of Shares in issue	605,534,868 Shares as at the Record Date
Number of Rights Shares:	302,767,434 Rights Shares
Subscription Price:	HK\$0.025 per Rights Share

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 as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 40.5% to the theoretical ex-rights price of HK\$0.042 per Share based on the closing price of HK\$0.050 per Share on the Last Trading Day;
- (iii) a discount of approximately 50.0% to the average closing price of HK\$0.05 per Share for the last 10 consecutive trading days up to and including the Last Trading Day;

LETTER FROM THE BOARD

- (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 HK\$0.05 per Share for the 10 consecutive trading days up to and including the Last Trading Day;
- (v) no discount or premium to the closing price of HK\$0.025 per Share on 21 October 2002, being the last day of dealings in Shares on a cum-rights basis;
- (vi) a discount of approximately 26.5% to the theoretical ex-rights price of HK\$0.034 per Share based on the average closing price of HK\$0.038 per Share for the 10 consecutive trading days up to and including the last day of dealings in Shares on a cum-rights basis;
- (vii) a premium of approximately 8.7% to the closing price of HK\$0.023 per Share on 22 October 2002, being the first day of dealings in Shares on an ex-rights basis;
- (viii) a premium of approximately 19.0% to the closing price of HK\$0.021 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

The Subscription Price was determined after arm's length negotiations between the Company and the Underwriter, and 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 its contingent liabilities in respect of the Shortfall Undertaking. The Directors consider the terms of the Rights Issue to be fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

Undertakings from Harbour Front

Harbour Front and parties acting in concert with it are interested in 255,233,653 Shares as at the Record Date, representing approximately 42.15% of the issued share capital of the Company. Harbour Front has not disposed of any of the Shares owned by it since the Subscription.

On 4 October 2002, 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.

Also, on 4 October 2002, 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 share capital of the Company as enlarged by the Rights Issue.

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.

LETTER FROM THE BOARD

Qualifying Shareholders

The Company will send the Prospectus Documents to the Qualifying Shareholders only. To qualify for the Rights Issue, a Shareholder must:

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

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

Rights of Overseas Shareholders

The Prospectus Documents will not be registered or filed, as the case may be, under the applicable securities legislation of any jurisdictions other than Hong Kong and Bermuda. Having reviewed the register of members and the territories in which the Overseas Shareholders are resident, the Directors are of the view that the offer of the Rights Shares to the Overseas Shareholders requires or may require compliance with registration or other special formalities applicable in such territories, the absence of which will render the offer unlawful or impractical. The Company has sent the Prospectus to the Overseas Shareholders for their information only but no provisional allotment of Rights Shares has been made to the Overseas Shareholders and no PAL or EAF has been sent to the Overseas Shareholders.

No action has been taken in any territory other than Hong Kong and Bermuda to permit the offering of the Rights Shares and/or distribution of the Prospectus Documents. No person receiving the Prospectus Documents in any territory outside Hong Kong may treat it as an offer or invitation unless in a territory where such an offer or invitation could lawfully be made without compliance with any registration or other legal and regulatory requirements. It is the responsibility of anyone outside Hong Kong wishing to make an application for the Rights Shares to satisfy himself as to the observance of the laws and regulations of all relevant territories, including the obtaining of any government or other authorities' consents, and to pay any taxes and duties required to be paid in such territories in connection therewith. No application for Rights Shares will be accepted from any person who is an Overseas Shareholder. In particular, the Company reserves the right to refuse to accept any application for Rights Shares where it believes that doing so would violate the applicable securities or other laws or regulations of the territory of residence of the applicant (or of any other relevant territory) or would result in such violation without compliance with registration and/or other legal or regulatory requirements outside Hong Kong and Bermuda.

Arrangements will be made for Rights Shares which would otherwise have been provisionally allotted to Overseas Shareholders to be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence on the Stock Exchange, which is expected to be at 9:30 a.m. on Wednesday, 13 November 2002, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses, of HK\$100 or more will be paid to the Overseas Shareholders pro rata to their respective shareholdings. The Company will retain individual amounts of less than HK\$100 for its own benefit.

LETTER FROM THE BOARD

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 of 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 EAF 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. For details of the application for excess Rights Shares, please refer to the section headed "Application for excess Rights Shares" in this Prospectus.

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.

The Directors are of the view that the above allotment basis is fair to the Qualifying Shareholders who apply for the excess Rights Shares.

LETTER FROM THE BOARD

UNDERWRITING ARRANGEMENT

Underwriting Agreement

Date:	4 October 2002
Underwriter:	Kingsway SW Securities
Number of Shares underwritten:	156,076,260 Rights Shares
Commission:	2.0% of the gross proceeds of the Rights Shares underwritten by the Underwriter

Other than the aggregate of 146,691,174 Rights Shares (including 127,616,826 Rights Shares which will be provisionally allotted to Harbour Front and parties acting in concert with it and 19,074,348 excess Rights Shares to be applied by Harbour Front) irrevocably undertaken by Harbour Front, Kingsway SW Securities has agreed to fully underwrite all of the remaining Rights Shares to be issued under the Rights Issue, amounting to 156,076,260 Rights Shares.

Possible change in shareholding structure of the Company before and after the Rights Issue

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

	Before Rights Issue		After Rights Issue					
	Existing Number of Shares	%	Scenario 1 Number of Shares	%	Scenario 2 Number of Shares	%	Scenario 3 Number of Shares	%
Harbour Front and the parties acting in concert with it and its associates (note 1)	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	–	–
	<u>255,233,653</u>	<u>42.15</u>	<u>382,850,480</u>	<u>42.15</u>	<u>558,001,087</u>	<u>61.43</u>	<u>401,924,827</u>	<u>44.25</u>
Scheme Administrator and Scheme creditors (note 2)	252,306,195	41.67	378,459,292	41.67	252,306,195	27.78	359,384,945	39.57
Public	<u>97,995,020</u>	<u>16.18</u>	<u>146,992,530</u>	<u>16.18</u>	<u>97,995,020</u>	<u>10.79</u>	<u>146,992,530</u>	<u>16.18</u>
Sub-total: Shareholders (excluding Harbour Front and the parties acting in concert with it and its associates)	<u>350,301,215</u>	<u>57.85</u>	<u>525,451,822</u>	<u>57.85</u>	<u>350,301,215</u>	<u>38.57</u>	<u>506,377,475</u>	<u>55.75</u>
Total:	<u><u>605,534,868</u></u>	<u><u>100.00</u></u>	<u><u>908,302,302</u></u>	<u><u>100.00</u></u>	<u><u>908,302,302</u></u>	<u><u>100.00</u></u>	<u><u>908,302,302</u></u>	<u><u>100.00</u></u>

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<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 members of the Company, no such distribution has been made as at the date of this prospectus.

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 “Letter from the Board” and the section headed “Litigations” in Appendix II to this Prospectus, 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 prospectus, 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 deal with the Rights Issue.

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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

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 Monday, 2 December 2002, being the third Business Day after the latest date for acceptance of the provisional allotment of Rights Shares, and payment for the Rights Shares falls 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),**

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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 Right 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 PAL and the EAF to the Qualifying Shareholders on or before the Prospectus Posting Date which is expected to be on or before Monday, 11 November 2002;

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5. the Listing Committee of the Stock Exchange 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 Wednesday, 13 November 2002 and in their fully paid form by not later than Thursday, 5 December 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 Wednesday, 27 November 2002, whichever is earlier, the Underwriting Agreement will lapse.

REVIEW OF OPERATIONS AND PROSPECTS

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 disposed of its owned vessels. In the previous two financial years, the number of vessels owned by the Group was decreased from 143 to about 70 vessels.

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 then 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 respectively 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)

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In addition, as disclosed in the Company's interim results announcement for the six months ended 31 January 2002, (i) due to disputes with one of the Group's major clients and subsequent litigations which has not yet resolved, the Company has made a provision for the receivables related to that client in the sum of HK\$17,645,000, the Group has no further business transactions with this major client; 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, out of which reduction approximately HK\$21,987,000 represented the provision for decline in value. In view of the Group's continuous focus on disposal of about 20 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 months 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. In view of the local marine engineering market has not been encouraging during the year, together with the continuous economic downturn in Hong Kong, the overall financial performance of the Group has been unavoidably affected in this year. The Directors also expect that the overall financial performance of the Group will be unavoidably affected in the near future.

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 Directors will monitor and maintain the level of around 50 vessels owned by the Group, the Group will have to ensure that there still have sufficient vessels to carry on its principal business activities. Any Listing Rules implication of such transaction, if so taken place, will be dealt with pursuant to the relevant requirements accordingly.

LITIGATION AGAINST THE COMPANY IN BERMUDA

On 16 May 2002, the Petitioners lodged a Petition under section 111 of the Company 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 from 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 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 Shares issued to Harbour Front pursuant to the Subscription Agreement (the "Subscription Shares") 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;

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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.

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 its Bermuda lawyers that taking into account 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 been fixed on 18 and 19 November 2002.

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 declaratory in nature. The Petitioners seek declarations that the Subscription Annual General Meeting be declared invalid and that the Subscription SGM be reconvened. The Petitioners have not specified what they seeks in the event that a reconvened Subscription SGM votes against the Subscription. One possibility would be that the Company would have 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 Petitioners would seek to have the Harbour Front shares invalidated without compensation.

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

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sees fit to bring to an end to the matters complained of. 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. In such circumstances appropriate relief might take the form of an order to the Company to buy out the Shares held by the Petitioners. The Petitioners presently hold an aggregate of 26,000 Shares, and on the basis that the closing prices per Share as at the dates of Charterbase Management Limited and United People Assets Limited became the Shareholders and the Latest Practicable Date were HK\$0.070, HK\$0.065 and HK\$0.021 respectively, the Company believes that the buy out of the Shares held by the Petitioners should not have any material impact on the Company. However, the abovementioned prices are only for reference. Should the Bermuda Court has given such order, the amount to be paid by the Company to buy out those 26,000 Shares held by the Petitioners will be subject to the order from the Bermuda Court.

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 receiving from the Rights Shares to be allotted to Harbour Front based on the Shares subscribed by it under the Subscription 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.

The Company has been advised by its Bermuda lawyers that, in the event that the primary relief sought by the Petitioners is obtained or dealt with as appropriate, the Bermuda Court is very unlikely to consider the alternative relief sought by the Petitioners for winding-up order.

The Company has been advised by its Bermuda lawyers that, regardless of whether the Petitioners are successful in claiming against the Company with respect to the primary relief, 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 the Company's Hong Kong lawyers that similarly there is no such prohibition under the regulatory regime in Hong Kong.

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.

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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 Petition.

If the Petitioners are successful in claiming against the Company under the Petition, 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 for the Bermuda Writ which are estimated to amount to an aggregate of approximately HK\$4,200,000.

The Directors consider that it is imminent for the Company 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. Therefore the Directors are of the view that the Rights Issue is 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. Furthermore, 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 to which the Company is exposed and in respect of which it will seek recovery from the Petitioners in accordance with the relevant Bermuda law if the Company has succeeded in defending the cases, the Directors are of the view 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 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, 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 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 Fact 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”).

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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.

Save for the estimated litigation costs and expenses amounts to approximately HK\$200,000, the Directors are of the view that the legal proceeding concerning Dockyard will not have any material impact on the Group and the Shareholders.

WORKING CAPITAL OF THE GROUP

As stated in the auditors' report of the Company for the year ended 31 July 2001, the auditors have formed a disclaimer opinion because of the fundamental uncertainties relating to the going concern basis, the validity of which depends upon the successful outcome of the plant hire discussion and the vessel disposal.

As stated in the interim report of the Company for the six months ended 31 January 2002, the net current liabilities of the Group amounted to approximately HK\$91.4 million. Also, as stated in the section headed "Indebtedness and contingent liabilities" in Appendix I to this Prospectus, as at 31 August 2002, save for contingent liabilities arising from the Scheme, the Group's total indebtedness amounted to approximately HK\$120 million. The Directors are of the opinion that, after taking into account the expected net proceeds of the Rights Issue of approximately HK\$6.6 million, the Group will have sufficient working capital to meet its present requirements for operation, administration and the legal expenses to be incurred for the litigations against the Group and the amounts to be claimed (excluding the debt servicing obligations of approximately HK\$120 million) in the absence of unforeseen circumstances. However, the fundamental uncertainties relating to the going concern is still being unsolved. At present, the Group owns around 70 vessels and the Directors intend to dispose of about 20 vessels to reduce its debt servicing obligations. The Directors would monitor and maintain the level of around 50 vessels to carry on its principal business activities. **The Directors are of the opinion that, even including the expected net proceeds of the Rights Issue of approximately HK\$6.6 million, the Group would not have sufficient working capital to meet its present requirement after taking into account of the debt servicing obligations.**

Should the Rights Issue be unable to become unconditional or unable to proceed, the Directors are of the opinion that the Group would not have adequate funds to enable it to operate as a going concern in the foreseeable future. The Group would seek for an alternative way for fund raising.

For details of the indebtedness and contingent liabilities of the Group as at 31 August 2002, please refer to the section headed "Indebtedness and contingent liabilities" in Appendix I to this Prospectus.

LETTER FROM THE BOARD

For details of the disclaimer opinion for fundamental uncertainties relating to the going concern basis formed by the auditors of the Company, please refer to the auditors' report of the Company for the year ended 31 July 2001 as stated in Appendix I to this Prospectus.

REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS

As mentioned in the section headed "Review of Operations and prospects", the Group is currently in a difficult financial position. 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 Group in order to operate its principal business and not for the repayment of any unsecured loan due to Harbour Front.

It is expected that if the Rights Issue can be successfully completed, the Group's capability in financing its operations to generate profit for fulfilling its contingent liabilities, including liabilities arising from the Shortfall Undertaking can be enhanced. The Company's position to recover doubtful debts through litigation will also be strengthened. For details of the Shortfall Undertaking, please refer to the section headed "Indebtedness and contingent liabilities" in Appendix I to this Prospectus.

Based on the aforesaid, the Directors consider that the Rights Issue is in the interest of the Company and its Shareholders as a whole.

PROCEDURES FOR ACCEPTANCE AND TRANSFER

Qualifying Shareholders will find enclosed with the Prospectus a PAL which entitles Qualifying Shareholders to take up the number of Rights Shares shown therein. If any Qualifying shareholder wishes to exercise his rights to take up all the Rights Shares specified in the PAL, he will need to lodge the PAL in accordance with the instructions printed thereon, together with a remittance for the full amount payable on acceptance, with the branch share registrar of the Company in Hong Kong, Tengis Limited, at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong by not later than 4:00 p.m. on Wednesday, 27 November 2002. All remittances must be made by cheques or banker's cashier orders in Hong Kong dollars. Cheques must be drawn on an account with, and banker's cashier orders must be issued by, a registered bank in Hong Kong and made payable to "UDL HOLDINGS LIMITED – RIGHTS ISSUE ACCOUNT" and crossed "Account Payee Only".

It should be noted that unless the PAL is duly completed, together with the appropriate remittance, and lodged with the branch share registrar of the Company in Hong Kong, Tengis Limited, at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong by not later than 4:00 p.m. on Wednesday, 27 November 2002 whether by the original allottee or any person to whom the rights have been validly transferred, the relevant provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled.

If any Qualifying Shareholder wishes to accept only part of his provisional allotment and/or to transfer a part of his right to subscribe for the Rights Shares provisionally allotted to him thereunder, or to transfer his rights to more than one person, the PAL must be surrendered and lodged for cancellation by not later than 4:00 p.m. on Tuesday, 19 November 2002 with the branch share registrar of the Company in Hong Kong, Tengis Limited, at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong which will cancel the original PAL and issue new PALs in denominations required on or before Friday, 22 November 2002.

LETTER FROM THE BOARD

The PAL contains further information regarding the procedures to be followed for acceptance and/or transfer of the whole or part of your provisional allotment.

All cheques and banker's cashier orders will be presented for payment following receipt and all interest earned on such monies will be retained for the benefit of the Company. Completion and lodgement of a PAL together with a cheque or banker's cashier order in payment for the Rights Shares accepted will constitute a warranty by the subscriber that the cheque or banker's cashier order will be honoured on first presentation. Without prejudice to its rights in respect thereof (but subject to the terms of the Underwriting Agreement), the Company reserves the right to reject any PAL in respect of which the accompanying cheque or banker's cashier order is dishonoured on first presentation and, in any event, the relevant provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled and will be available for application on EAFs.

If the conditions of the Rights Issue as set out in the section headed "Conditions of the Rights Issue" in the Prospectus are not fulfilled, the monies received in respect of applications for Rights Shares will be returned to the Qualifying Shareholders or such other persons to whom the nil-paid Rights Shares shall have been validly transferred without interest by means of cheques despatched in the ordinary post at the risk of such Qualifying Shareholders or such other persons on Tuesday, 3 December 2002.

APPLICATION FOR EXCESS RIGHTS SHARES

Qualifying Shareholders are entitled to apply for any unsold entitlements of the Overseas Shareholders, unsold fractional entitlements of Rights Shares and any Rights Shares provisionally allotted but not accepted or otherwise subscribed for by transferees of nil-paid Rights Shares.

Applications can be made by completing the EAFs and lodging the same with a separate remittance for the excess Rights Shares being applied for. The Directors will allocate the excess Rights Shares at their discretion, but on a fair and reasonable basis, and will give preference to topping-up odd lots to whole board lots.

If any Qualifying Shareholder wishes to apply for any Rights Shares in addition to his provisional allotment under the Rights Issue, he must complete and sign the enclosed EAF as indicated therein and lodge it, together with a separate remittance for the amount payable on application in respect of the excess Rights Shares applied for, with the branch share registrar of the Company in Hong Kong, Tengis Limited, at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong by not later than 4:00 p.m. on Wednesday, 27 November 2002. All remittances must be made by cheques or banker's cashier orders in Hong Kong dollars. Cheques must be drawn on an account with, and banker's cashier orders must be issued by, a registered bank in Hong Kong and made payable to "UDL HOLDINGS LIMITED – EXCESS APPLICATION ACCOUNT" and crossed "Account Payee Only".

If no excess Rights Shares are allotted to such Qualifying Shareholders, it is expected that the amount tendered on such application will be refunded to them in full without interest by means of a cheque despatched in the ordinary post at your own risk on Tuesday, 3 December 2002. If the number of excess Rights Shares allotted to you is less than that applied for, it is expected that the surplus application monies will be refunded to them without interest by means of a cheque despatched in the ordinary post at your own risk on Tuesday, 3 December 2002.

LETTER FROM THE BOARD

All cheques and banker's cashier orders will be presented for payment following receipt and all interest earned on such monies will be retained for the benefit of the Company. Completion and lodgement of an EAF together with a cheque or banker's cashier order in payment for the excess Rights Shares applied for will constitute a warranty by the applicant that the cheque or banker's cashier order will be honoured on first presentation. Without prejudice to its rights in respect thereof (but subject to the terms of the Underwriting Agreement), the Company reserves the right to reject any EAF in respect of which the accompanying cheque or banker's cashier order is dishonoured on first presentation.

An EAF is for use only by the Qualifying Shareholders to whom it is addressed and is not transferable. All documents, including cheques or banker's cashier orders for amount due, will be sent by ordinary post at the risk of the persons entitled thereto to their registered addresses.

If the conditions of the Rights Issue as set out in the section headed "Conditions of the Rights Issue" in the Prospectus are not fulfilled, the monies received in respect of applications for excess Rights Shares will be returned to the applicants in full without interest by means of cheques despatched in the ordinary post at the risk of such applicants on or before Tuesday, 3 December 2002.

LISTING AND DEALINGS

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

None of the Rights Shares will be listed or dealt in on any other stock exchange outside Hong Kong. None of the securities of the Company is listed or dealt in, nor is any listing of or permission to deal in securities of the Company being or proposed to be sought, on any stock exchange other than the Stock Exchange.

Subject to the granting of the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Rights Shares in their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

For the purpose of trading on the Stock Exchange, a board lot for the Rights Shares in both their nil-paid and fully-paid forms will be 40,000 Shares. Dealings in the nil-paid and fully-paid Rights Shares will be subject to payment of stamp duty in Hong Kong.

The first day of dealings in the Rights Shares in their fully-paid form is expected to commence on Thursday, 5 December 2002.

SHARE CERTIFICATES

Certificates for all fully-paid Rights Shares are expected to be posted on Tuesday, 3 December 2002 to the persons who have been allotted the relevant Rights Shares at their own risks.

LETTER FROM THE BOARD

WARNING OF THE RISKS OF DEALING IN SHARES AND NIL-PAID RIGHTS SHARES

Existing Shares have been dealt in on an ex-rights basis from Tuesday, 22 October 2002. Dealings in the Rights Shares in the nil-paid form will take place from Wednesday, 13 November 2002 to Friday, 22 November 2002 (both dates inclusive). If the conditions of the Rights Issue are not fulfilled, the Rights Issue will not proceed.

Any Shareholders or other persons contemplating selling or purchasing Shares and/or Rights Shares in their nil-paid form during the period from Wednesday, 13 November 2002 to Friday, 22 November 2002 who are in any doubt about their position are recommended to consult their professional advisers. Any Shareholders or other persons dealing in Shares up to the date on which all the conditions to which the Rights Issue is subject are fulfilled (and the date on which the Underwriter's right of termination of the Underwriting Agreement ceases) and any persons dealing in the nil-paid Rights Shares during the period from Wednesday, 13 November 2002 to Friday, 22 November 2002 will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed.

POSSIBLE OFFER

The Possible Offer

At present, Harbour Front and parties acting in concert with it (other than Kingsway SW Securities), 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.

At present, Kingsway SW Securities does not have any shareholding interest in the Company.

If the Rights Issue is completed and Harbour Front, by applying for and subscribing excess Rights Shares, together with Kingsway SW Securities, when performing its duties as the Underwriter and parties acting in concert with it 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. Harbour Front has applied to the Executive for consent to the delay in despatch of the offer document under Note 2 to Rule 8.2 of the Takeovers Code. The offer document including the timetable of the Possible Offer is expected to be despatched to the Shareholders on or before Monday, 9 December 2002, which is within 7 days of the Rights Issue becoming unconditional.

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 in 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

LETTER FROM THE BOARD

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 Relevant Period.

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 Latest Practicable Date, 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 further amount 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 Possible Offer, 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

LETTER FROM THE BOARD

the amount payable to such Shareholders for whom 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, together with Kingsway SW Securities, when performing its duties as the Underwriter, and parties acting in concert with it 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 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 has applied to the Executive for consent to the delay in despatch of the offer document under Note 2 to Rule 8.2 of the Takeovers Code.

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, the beneficiaries of which 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 Relevant Period. Kingsway SW Securities has not dealt in the Shares for its own account during the Relevant Period.

Intention of Harbour Front on the Group

(i) Business

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

(ii) Directors of the Company

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

LETTER FROM THE BOARD

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 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.

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 capital of the Company had been changed from 2,000 Shares to 40,000 Shares effective at 9:30 a.m. on 25 October 2002.

In order to facilitate the trading of odd lots (if any), the Company had appointed Kingsway SW Securities as an agent to arrange for the sale and purchase of odd lots on behalf of the Shareholders and potential investors. During the period from Friday, 25 October 2002 to Tuesday, 24 December 2002 (both dates inclusive), Shareholders who wish to take advantage of this facility either to dispose of their odd lots or to top them up to a full board lot may contact Kingsway SW Securities during the aforesaid period as follows:

Contact person	Address	Telephone number
Mr. Ho Sai Hang, Vitus	5th Floor, Hutchison House 10 Harcourt Road, Central Hong Kong	(852) 2283 7111

LETTER FROM THE BOARD

Shareholders should note that the matching of odd lots is not guaranteed.

No new certificate of Shares has been issued as a result of the change in the board lot size. All existing certificates of Shares 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, new certificates of Shares 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 certificates of Shares will have the same format and colour as the existing certificates of Shares.

FURTHER INFORMATION

Your attention is drawn to the appendices to the Prospectus.

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

A. FINANCIAL SUMMARY

Set out below is a summary of the audited consolidated income statement of the Group for the year ended 31 March 1999, the sixteen months period from 1 April 1999 to 31 July 2000 and the year ended 31 July 2001 as extracted from the Company's audited financial statements for the relevant years.

The financial statements of the Group for the relevant years were prepared in accordance with Hong Kong Statements of Standard Accounting Practice, and there were no changes in accounting policies for the Group. According to the audited accounts, for the year ended 31 March 1999, the 16 months period from 1 April 1999 to 31 July 2000 and the year ended 31 July 2001, all 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.

Consolidated Income Statement

	Year ended 31 July 2001	Period from 1 April 1999 to 31 July 2000	Year ended 31 March 1999
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover			
Continuing operations	100,110	32,870	130,437
Discontinued operations	–	38,455	418,847
	<u>100,110</u>	<u>71,325</u>	<u>549,284</u>
Cost of sales	(43,070)	(58,876)	(562,068)
	<u>57,040</u>	<u>12,449</u>	<u>(12,784)</u>
Gross profit/(loss)			
Other revenue	4,230	796,368	42,964
Administrative expenses	(21,970)	(78,983)	(233,766)
Other operating expenses	(22,089)	(6,325)	(608,075)
	<u>17,211</u>	<u>723,509</u>	<u>(811,661)</u>
Profit/(loss) from operating activities			
Finance costs	(13,574)	(161,145)	(160,350)
	<u>3,637</u>	<u>562,364</u>	<u>(972,011)</u>
Profit/(loss) after finance costs			
Continuing operations	3,637	(40,036)	(377,392)
Discontinued operations	–	602,400	(594,619)
	<u>3,637</u>	<u>562,364</u>	<u>(972,011)</u>
Share of profit of associates	–	368	(2,386)
	<u>3,637</u>	<u>562,732</u>	<u>(974,397)</u>
Profit/(loss) before taxation			
Taxation	717	41,362	3,226
	<u>4,354</u>	<u>604,094</u>	<u>(971,171)</u>
Profit/(loss) before minority interests			
Minority interests	18	(395)	1,228
	<u>4,372</u>	<u>603,699</u>	<u>(969,943)</u>
Profit attributable to shareholders			
Earnings per share – Basic	<u>HK\$0.01</u>	<u>HK\$5.07</u>	<u>HK\$(15.2)</u>

B. AUDITED FINANCIAL STATEMENTS FOR FINANCIAL YEAR ENDED 31 JULY 2001

Set out below are the auditors' report and the audited financial statements of the Group for the year ended 31 July 2001 together with the relevant notes thereto as extracted from the Company's 2001 annual report. Reference to the page numbers are to the page numbers of such auditors' report and the audited financial statements of the Group presented in the Company's 2001 annual report.

To the members

UDL Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 18 to 59 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Fundamental uncertainties relating to the going concern basis

In forming our opinion we have considered the adequacy of the disclosures made in note 3 to the financial statements which explain the circumstances giving rise to the fundamental uncertainties relating to (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 (the "Plant Hire Discussions"); and (ii) the successful disposal of certain of the Group's vessels to reduce its debt servicing obligations (the

“Vessel Disposal”). The financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the Plant Hire Discussions and the Vessel Disposal. The financial statements do not include any adjustments that would result from the failure of the Plant Hire Discussions and the Vessel Disposal. We consider appropriate disclosures have been made, but the fundamental uncertainties relating to whether the going concern basis is appropriate are so extreme that we have disclaimed our opinion.

Disclaimer of opinion

Because of the fundamental uncertainties relating to the going concern basis, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 July 2001 or of the profit of the Group for the year then ended. In our opinion the financial statements give a true and fair view of the cash flows of the Group for the year ended 31 July 2001. In all other respects, in our opinion the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

We were appointed as auditors of the Company on 17 October 2001, and did not report on the financial statements for the previous period ended 31 July 2000. Without further qualifying our opinion above, we draw your attention to the fact that the previous auditors (the “auditors”) disclaimed their opinion on the Company’s and Group’s financial statements for the period ended 31 July 2000 because of the significance of the possible effect of the limitation in evidence available to them as well as disagreement about an accounting treatment as follows:

- i. The auditors were unable to ascertain whether the opening balances of trade payables, retention money payable, other payables, deposits received and accruals, gross amounts due to contract customers and accumulated losses at 1 April 1999 were fairly stated. Any adjustments found to be necessary to any of the above balances at 1 April 1999 would have had a consequential effect on the profit of the Group for the period ended 31 July 2000.
- ii. As further detailed in note 2d(ii) and 2(f), in respect of the previous period’s financial statements, the books and records of certain subsidiaries which were transferred by the Group (the “Scheme Assets Companies”) upon implementation of the schemes of arrangement of the Company and certain subsidiaries, and certain disposed subsidiaries (the “Disposal Companies”), were not retained by the Company. The auditors were unable to obtain sufficient information to satisfy themselves that the income statements of the Scheme Assets Companies and Disposal Companies so consolidated up to dates of their transfer of interest and disposal date respectively, which were included in the Group results under the classification “discontinued operations”, were fairly stated. The auditors were also unable to satisfy themselves that related disclosures, including amounts, in the consolidated income statement and cash flow statement relating to the Scheme Assets Companies and the Disposal Companies were fairly stated.
- iii. The Company and Group accounted for the net liabilities discharged under the schemes of arrangement of the Company and certain of its subsidiaries as scheme reserve and recorded it as part of shareholders’ equity for the period. The auditors disagreed with this treatment and considered that any gain arising

from the net liabilities discharged should be accounted for in the income statement for the period as required by HKSA statement 2.01 “Framework for the preparation and presentation of financial statements” and 2.102 “Net profit or loss for the period, fundamental errors and changes in accounting policies”. Had this accounting treatment been followed, the profit for the period ended 31 July 2000 for the Company and Group would have increased by approximately HK\$324,964,000 and HK\$1,096,502,000 respectively and the accumulated losses reduced by the same amounts respectively. We concur with the auditors’ view on the disagreement about this accounting treatment.

In respect of the limitation on the work of the auditors in the prior period described above, the comparative figures for the consolidated income statement, the consolidated cash flow statement and the notes thereon included in the financial statements, which are derived from the audited financial statements for the period ended 31 July 2000, may not be comparable with the figures for the current year.

Grant Thornton

Certified Public Accountants

Hong Kong

26 November 2001

Consolidated Income Statement for the year ended 31 July 2001

	<i>Notes</i>	Year ended 31 July 2001 HK\$'000	Period from 1 April 1999 to 31 July 2000 HK\$'000
Turnover	5		
Continuing operations		100,110	32,870
Discontinued operations	2(d)	—	38,455
		<u>100,110</u>	<u>71,325</u>
Cost of sales		(43,070)	(58,876)
		<u>57,040</u>	<u>12,449</u>
Gross profit			
Other revenue	6(b)	4,230	796,368
Administrative expenses		(21,970)	(78,983)
Other operating expenses	6(c)	(22,089)	(6,325)
		<u>17,211</u>	<u>723,509</u>
Profit from operating activities			
Finance costs	7	(13,574)	(161,145)
		<u>3,637</u>	<u>562,364</u>
Profit after finance costs			
Continuing operations		3,637	(40,036)
Discontinued operations		—	602,400
		<u>3,637</u>	<u>562,364</u>
Share of profit of associates		—	368
		<u>3,637</u>	<u>562,732</u>
Profit before taxation	6		
Taxation	8	717	41,362
		<u>4,354</u>	<u>604,094</u>
Profit before minority interests			
Minority interests		18	(395)
		<u>4,372</u>	<u>603,699</u>
Profit attributable to shareholders	9, 20		
Earnings per share – Basic	10	<u>HK\$0.01</u>	<u>HK\$5.07</u>

Consolidated Statement of Recognised Gains and Losses for the year ended 31 July 2001

	<i>Notes</i>	Year ended 31 July 2001 HK\$'000	Period from 1 April 1999 to 31 July 2000 HK\$'000
Exchange differences on translation of the financial statements of foreign subsidiaries	20	(488)	(6,089)
Release of reserve arising from the effect of the schemes of arrangement	20	–	(5,230)
Scheme reserve arising from the effect of the schemes of arrangement	20	–	1,096,502
Net (loss)/gain not recognised in the consolidated income statement		(488)	1,085,183
Profit for the year/period attributable to shareholders	20	4,372	603,699
Total recognised gains and losses		3,884	1,688,882
Capital reserve arising from acquisition of subsidiaries	20	–	717
		<u>3,884</u>	<u>1,689,599</u>

Consolidated Balance Sheet as at 31 July 2001

	<i>Notes</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	<i>11</i>	131,906	142,963
Current assets			
Inventories	<i>13</i>	–	1,128
Trade and other receivables	<i>14</i>	28,884	15,571
Amounts due from related companies	<i>25</i>	6,847	12,951
Pledged cash and bank balances		–	814
Cash and bank balances		191	538
		<hr/>	<hr/>
		35,922	31,002
Current liabilities			
Bank and other borrowings	<i>15</i>	81,348	52,356
Obligations under finance leases	<i>16</i>	46	48
Trade and other payables	<i>17</i>	31,264	15,565
Amounts due to related companies	<i>25</i>	3,115	5,510
Amount due to a director		–	802
		<hr/>	<hr/>
		115,773	74,281
Net current liabilities		<hr/> (79,851)	<hr/> (43,279)
Total assets less current liabilities		52,055	99,684
Non-current liabilities			
Bank and other borrowings	<i>15</i>	25,628	80,402
Obligations under finance leases	<i>16</i>	185	226
Provision for deferred tax	<i>18</i>	2,424	3,141
		<hr/>	<hr/>
		28,237	83,769
Minority interests		<hr/> –	<hr/> 18
Net assets		<hr/> 23,818	<hr/> 15,897
CAPITAL AND RESERVES			
Share capital	<i>19</i>	6,055	50,461
Reserves	<i>20</i>	17,763	(34,564)
		<hr/>	<hr/>
Shareholders' funds		<hr/> 23,818	<hr/> 15,897

Consolidated Cash Flow Statement for the year ended 31 July 2001

	<i>Notes</i>	Year ended 31 July 2001 HK\$'000	Period from 1 April 1999 to 31 July 2000 HK\$'000
Net cash inflow/(outflow) from operating activities	26(a)	42,329	(16,449)
Returns on investments and servicing of finance			
Interest received		6	341
Interest paid		(12,440)	(2,549)
Interest element of finance lease rental payments		(19)	(7)
		<u> </u>	<u> </u>
Net cash outflow from returns on investments and servicing of finance		(12,453)	(2,215)
Taxation			
Hong Kong profits tax refunded		86	749
Overseas tax paid		–	(89)
		<u> </u>	<u> </u>
Total tax refunded		86	660
Investing activities			
Payments to acquire property, plant and equipment		(14,750)	(5,965)
Acquisition of subsidiaries		–	(14,297)
Disposal of subsidiaries		–	6,383
Receipts from disposal of property, plant and equipment		1,829	181,818
Decrease in pledged bank balances		814	4,138
		<u> </u>	<u> </u>
Net cash (outflow)/inflow from investing activities		(12,107)	172,077

Consolidated Cash Flow Statement for the year ended 31 July 2001 (continued)

	<i>Notes</i>	Year ended 31 July 2001 HK\$'000	Period from 1 April 1999 to 31 July 2000 HK\$'000
Net cash inflow before financing		17,855	154,073
Financing	<i>26(b)</i>		
Issue of share capital		4,037	21,025
Repayment of bank loans		(14,967)	(117,891)
New other loans		–	3,339
Repayment of other loans		(7,336)	(49,369)
Capital element of finance lease payments		(32)	(60)
New finance lease		–	160
Loan from a related company		8,435	–
Repayment of loans from a related company		(8,435)	–
Net cash outflow from financing		<u>(18,298)</u>	<u>(142,796)</u>
(Decrease)/Increase in cash and cash equivalents		(443)	11,277
Cash and cash equivalents at the beginning of the year/period		538	(85,933)
Effect of foreign exchange rate changes, net		(207)	(7,590)
Discharge of bank overdrafts under the schemes of arrangement		–	82,784
Cash and cash equivalents at the end of the year/period		<u><u>(112)</u></u>	<u><u>538</u></u>
Analysis of balances of cash and cash equivalents			
Cash and bank balances		191	1,352
<i>Less:</i> Pledged bank balances		–	(814)
Bank overdraft		(303)	–
		<u><u>(112)</u></u>	<u><u>538</u></u>

Balance Sheet as at 31 July 2001

	<i>Notes</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Interest in subsidiaries	<i>12</i>	14,631	17,462
Current assets			
Trade and other receivables	<i>14</i>	563	400
Amounts due from related companies	<i>25</i>	58	–
Cash at banks		49	89
		<hr/>	<hr/>
		670	489
Current liabilities			
Bank overdraft		24	–
Trade and other payables	<i>17</i>	2,499	2,384
Amounts due to related companies	<i>25</i>	108	–
		<hr/>	<hr/>
		2,631	2,384
Net current liabilities		<hr/>	<hr/>
		(1,961)	(1,895)
Net assets		<hr/>	<hr/>
		12,670	15,567
CAPITAL AND RESERVES			
Share capital	<i>19</i>	6,055	50,461
Reserves	<i>20</i>	6,615	(34,894)
		<hr/>	<hr/>
Shareholders' funds		<hr/>	<hr/>
		12,670	15,567

Notes to financial statements for the year ended 31 July 2001**1. GENERAL INFORMATION**

The Company was incorporated in Bermuda on 31 May 1991 as an exempted company under the Companies Act 1981 of Bermuda (as amended) and its shares are listed on The Stock Exchange of Hong Kong Limited. The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are in the marine engineering business. The Group discontinued its business segments of contracting, structural steel and electrical and mechanical engineering in the previous period, as detailed in note 2 below.

2. CORPORATE UPDATE**(a) Restructuring agreement**

As explained in the Group's previous annual report, the Group experienced significant financial difficulties during the period ended 31 July 2000. This forced the Group to enter into a restructuring arrangement with its creditors and to discontinue and/or dispose of its contracting, structural steel and electrical and mechanical engineering businesses.

In summary, the principal terms of the reorganisation proposal, which include the proposed schemes of arrangement (the "Reorganisation Proposal"), involved, inter alia, the following:

- (i) schemes of arrangement for the Company and 24 of its subsidiaries (collectively the "Scheme Participating Companies"), excluding KEL Holdings Limited ("KEL") and its subsidiaries (collectively the "KEL Group"), under Section 166 of the Hong Kong Companies Ordinance (individually the "Scheme" and collectively the "Schemes");
- (ii) a reduction and consolidation of the issued share capital of the Company, a reduction of its share-premium account (the "UDL Capital Reorganisation");
- (iii) a rights issue of approximately 210 million rights shares to the then existing shareholders on the basis of five rights shares for every share held by them upon the completion of the UDL Capital Reorganisation ("the Rights Issue");
- (iv) a new issue of approximately 252 million new shares of HK\$0.10 each in the capital of the Company after the UDL Capital Reorganisation to the non-preferential scheme creditors in proportion to their non-preferential scheme debts; and
- (v) the acquisition of UDL Marine Assets (Hong Kong) Limited ("UMAHK") and UDL Marine Assets (Singapore) Pte Limited ("UMASPG") by the Company from the proceeds of the Rights Issue.

Details of the Restructuring Agreement and the Reorganisation Proposal are set out in the Company's announcement dated 16 October 1999 and the Company's circular to shareholders dated 1 March 2000.

The UDL Capital Reorganisation and the Rights Issue were approved at a special general meeting of the Company held on 24 March 2000. The UDL Capital Reorganisation became effective on 28 April 2000 and the Rights Issue became unconditional on 25 May 2000.

(b) The Schemes

The implementation of the Schemes involved, inter alia, the following principal steps:

- (i) the transfer of the unencumbered assets of the Scheme Participating Companies (the "Unencumbered Assets") and the net proceeds from the recovery of their accounts receivable (the "Accounts Receivable"), other than those receivables which are intercompany debts and those charged to financial creditors as security, for no consideration to a company newly incorporated in Hong Kong with limited liability (the "Newco"), the shares of which are held by the administrator of the Schemes (the "Scheme Administrator") on trust for the scheme creditors;
- (ii) the distribution of the proceeds from the sale of the Unencumbered Assets and the recovery of the Accounts Receivable, after settlement of post-scheme costs and the preferential claims of the scheme creditors, to the scheme creditors in proportion to their scheme debts as cash dividends;

- (iii) the issue of 252,306,195 new shares of HK\$0.10 each to the scheme creditors in proportion to their non-preferential scheme debts, representing 50% of the enlarged issued share capital of the Company; and
- (iv) the acceptance by each non-preferential scheme creditor of (i) the payment of cash dividends and (ii) the issue and allotment of new shares of the Company to him, in each case in accordance with the provisions of the Scheme, in full satisfaction and discharge of his non-preferential scheme debt.

The Company has undertaken to the trustee, being the Scheme Administrator for the time being, by a trust deed dated 11 February 2000, made between the Company and the trustee for the benefit of the scheme creditors, that the aggregate disposal proceeds of the Unencumbered Assets and the Accounts Receivable realised under the Schemes shall not be less than HK\$176 million. In the event of a shortfall (the "Shortfall"), the Company is required to make up the Shortfall beginning in the fourth financial year after the financial year in which the Schemes became effective. The amount of payment for the Shortfall by the Company in every financial year is limited to a maximum of 60% of the consolidated net profit of the Company and its subsidiaries for that financial year. There are no payment obligations on the Company in respect of the Shortfall in respect of any financial year in which the Company does not make an audited consolidated net profit. The Company's obligation to make up the Shortfall shall not be discharged unless and until the Company has paid the Shortfall in full.

The Scheme was sanctioned by the Court of First Instance of Hong Kong and became effective on 28 April 2000. On 26 May 2000, the Rights Issue and the acquisition of the shares of UMAHK and UMASPG by the Company under the Restructuring Agreement were completed, the implementation of the Schemes became unconditional and the Company issued approximately 252 million new shares of HK\$0.10 each to the Scheme Administrator pending distribution to the non-preferential scheme creditors upon the implementation of the Schemes.

On 20 July 2000, appeals were made against dismissal of 5 of the winding-up petitions which were presented by ex-employees of certain of the Scheme Participating Companies. Those appeals were heard on 7 and 8 November 2000 and were dismissed pursuant to a judgement dated 7 December 2000. A further appeal was made and the hearing took place at the Court of Final Appeal on 12 and 13 November 2001. While the outcome is unknown, the directors, having consulted their legal advisers, are of the opinion that the likelihood of success of the appeal is remote.

Since the commencement of the Schemes, the Group has assisted the Scheme Administrator where possible, to pursue arbitration and/or legal proceedings to recover and preserve the value of the Unencumbered Assets and the Accounts Receivable. Under the terms of the Schemes, the Group will be reimbursed for such recovery costs upon the successful recovery of these assets. To date the Group has incurred HK\$6,674,000 in recovery action costs. The directors are confident that these costs will be reimbursed, and have accordingly included these amounts in other receivables in the balance sheet at 31 July 2001.

(c) Appeals against the sanctioning of the Schemes

Two appeals to the Hong Kong Court of Appeal were made against the sanctioning of the Scheme of the Company and certain of the Scheme Participating Companies. One appeal was presented by a disputed creditor who was a main contractor of certain construction contracts on which two subsidiaries of the Company were employed. The alleged claim was contingent in nature and was in the order of approximately HK\$342 million. The origins of the alleged claim were due to alleged breaches of contracts and the liabilities assumed under parental guarantees of these two subsidiaries of the Company. The appeal was dismissed on 7 December 2000 and on 14 November 2001, the matter with the disputed creditor was settled by mutual agreement and all parties agreed to withdraw their claims against each other save for the parental guarantee claim by the disputed creditor against the Company due to an ex-subsidiary which will be subject to the provisions of the Schemes.

Another appeal was presented by a group of creditors being a number of ex-employees of certain of the Scheme Participating Companies. These appellants, prior to the hearing of the appeal for the sanctioning of the Schemes, also applied to the Court of First Instance and the Court of Appeal for an order to stay the implementation of the Schemes. They were heard on 13 June 2000 and 10 July 2000, respectively. On both counts, the court refused to grant an order to stay the implementation of the Schemes on the grounds put forward by the appellants. The two appeals were heard on 7 and 8 November 2000 and were dismissed pursuant to the judgement dated 7 December 2000. The Director of Legal Aid appealed further to the Court of Final Appeal which heard the case on 12 and 13 November this year. While the outcome of the appeal is unknown, the directors are of the view that whatever the outcome, it will have a minimal impact in relation to the Scheme of the Company. This is because the Scheme

provides that should any of the Scheme Participating Companies fail to proceed, the Scheme of the Company may still go ahead as all conditions precedent have been fulfilled. The 7 Scheme Participating Companies which Scheme is subject to appeal at the Court of Final Appeal have no assets nor operations of substance to the on-going operations of the Group.

(d) Discontinuance of business segments of contracting, structural steel and electrical and mechanical engineering

- (i) The business segment of electrical and mechanical engineering was terminated due to the foreclosure of the Group's interest in KEL, as detailed in note 2(e) below. Pursuant to the Schemes, the Scheme Participating Companies transferred all of their Unencumbered Assets to the Newco for the purposes of their realisation and distribution to the scheme creditors. As a result, all of the Group's business segments were terminated, apart from its marine engineering operations which have been maintained subsequent to the acquisition of UMAHK and UMASPG. The financial effects of the Group's discontinued business segments on the prior period's consolidated income statement have been separately disclosed as discontinued operations.
- (ii) The transfer of the Unencumbered Assets included, inter alia, shares of 36 subsidiaries and 3 associated companies held, directly or indirectly, by the Scheme Participating Companies (collectively the "Scheme Assets Companies"). As a result, the books and records of the Scheme Assets Companies were also transferred accordingly. The consolidated financial statements of the Group in respect of the period ended 31 July 2000 have been prepared based on the unaudited management accounts of the Scheme Assets Companies for the period from 1 April 1999 to the date of transfer of the interests.

(e) Foreclosure of Group's interest in KEL

On 1 April 1998, UDLE&M (BVI) Limited ("UDLE&M"), a wholly-owned subsidiary of the Company, entered into a loan agreement with Wonderland Development Limited ("Wonderland"), an independent third party, to obtain a loan of HK\$30 million for working capital purposes. The loan was secured by, inter alia, a fixed charge over its entire holding of 300 million shares in KEL. On 15 March 2000, due to the failure of UDLE&M to repay the loan, Wonderland exercised its rights under the loan agreement to foreclose on the 300 million shares in KEL (the "Foreclosure"). Accordingly, the results of the KEL Group were consolidated into the Group's results in the previous period up to 14 March 2000.

(f) Disposal of intermediate holding companies and dormant companies

Pursuant to the Schemes and, further as detailed in the Company's circular to shareholders dated 1 March 2000, the Group entered into a conditional sale and purchase agreement on 17 July 2000 with Y.T. Leung Development Company Limited ("YTL Co"), a company wholly-owned by Mr. Leung Yat Tung ("Mr. Leung"), for the disposal of the entire interest of 42 subsidiaries and 2 associates (collectively the "Disposal Companies"), held directly or indirectly, by the Company, at a nominal consideration of HK\$1 (the "Disposal"). Mr. Leung resigned as the Chairman and as a director of the Company on 1 March 2001. The Disposal Companies were mostly intermediate holding companies and dormant companies engaged in miscellaneous supporting operations of the Group before its restructuring commenced and had significant deficiencies in assets. The Disposal was undertaken for the purposes of rationalising the structure of the Group and avoiding the unnecessary costs relating to the liquidation of the Disposal Companies, which were anticipated to be unrecoverable. The Disposal was approved at a special general meeting of the Company held on 25 August 2000. Subsequent to the special general meeting, the Company received a notification from YTL Co regarding an assignment of its interest in the Disposal Companies to a third party. The Disposal became effective on 17 July 2000 as the consideration was settled immediately and all conditions precedent were subsequently fulfilled. Accordingly the books and records of the Disposal Companies were handed over and are therefore outwith the control of the Company. The consolidated income statement of the Group in respect of the period ended 31 July 2000 have been prepared using the unaudited management accounts of the Disposal Companies for the period from 1 April 1999 to 17 July 2000.

The financial effects of the Disposal on the Group and further details of the Disposal are set out in the Company's announcement dated 17 July 2000 and the Company's circular to shareholders dated 8 August 2000.

(g) Unaudited combined profit and loss account information of the Scheme Assets Companies and the Disposal Companies

The combined profit and loss account information of the Scheme Assets Companies and the Disposal Companies for the period from 1 April 1999 to the date of transfer of the interests and the disposal date, respectively, was as follows:

	<i>HK\$'000</i>
Turnover	12,289
Cost of sales	(10,388)
	<hr/>
	1,901
Other revenue	15,029
Administrative expenses	(26,512)
Other operating expenses	–
	<hr/>
Loss from operating activities	(9,582)
Finance costs	(875)
	<hr/>
Loss before taxation	(10,457)
Taxation	37
	<hr/>
Loss after taxation	<u>(10,420)</u>

(h) Other legal proceedings

On 19 October 2001, a plant hire customer of UMAHK and UMASPG (“the plaintiff”) commenced proceedings against these two subsidiaries alleging claims for alleged breach of contract and damages. However, the plaintiff has so far failed to place any quantification on its alleged claims and has on 21 November 2001 obtained a 21 day extension of time for filing its statement of claim. UMAHK and UMASPG intend to counter claim against the plaintiff for outstanding plant hire charges and damages of approximately HK\$8,700,000 and HK\$15,000,000 respectively. The dispute is still at an early stage but, the directors, having consulted their legal advisors, are confident their intended counter claim will be successful.

3. BASIS OF PREPARATION

The financial statements on pages 18 to 59 are prepared in accordance with and comply with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants. The financial statements are prepared under the historical cost convention.

In preparing the financial statements the directors have given careful consideration to the future liquidity of the Group in light of its current financial position as at 31 July 2001. At that date, the Group had consolidated net current liabilities of approximately HK\$79,851,000 and net assets of approximately HK\$23,818,000.

The Group’s net current liabilities include the current portion of its bank and other loans amounting to approximately HK\$81,045,000, further details of which are set out in note 15. These loans are secured against the Group’s floating craft and vessels (the “vessels”), and repayments are by way of monthly instalment. The Group’s ability to service these debt obligations is dependent on the income and cash flows generated from plant hire agreements and/or the proceeds from the disposal of its vessels.

Whilst the Group’s marine engineering business has a profitable past track record, as at the date of approval of these financial statements a substantial proportion of its fleet of vessels has not been committed to plant hire agreements. As explained in the Chairman’s Statement, due to the downturn in the regional and local economy, the Group has taken a very cautious approach to concluding new plant hire agreements to ensure the commercial and credit risk of such agreements meets the Group’s needs. The Group has nevertheless been actively pursuing discussions with its major customers and various interested and reputable parties for the hiring of a substantial proportion of its vessels. The Group is also actively pursuing the disposal of certain of the Group’s vessels to reduce its debt servicing obligations mentioned above.

In preparing these financial statements, the directors have given careful consideration to the Group's ability to meet its current debt and ongoing obligations. On the basis that the Group will be successful in concluding plant hire agreements and concluding agreements with interested parties for the disposal of the Group's vessels, the directors are satisfied that the Group will be able to meet its financial obligations as and when they fall due in the foreseeable future. Accordingly, these financial statements have been prepared on a going concern basis.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively.

4. PRINCIPAL OF ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 July.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

(b) Goodwill or capital reserve arising on consolidation

Goodwill or capital reserve arising on consolidation of subsidiaries and on the acquisition of associates represents the excess or shortfall of purchase consideration over the fair values ascribed to the separable net assets of the subsidiaries or associates acquired and is eliminated against or credited directly to reserves in the year of acquisition.

On disposal of a subsidiary or an associate, the relevant portion of attributable goodwill or capital reserve previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

(c) Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital, or controls the composition of its board of directors.

Interest in subsidiaries are stated at cost unless in the opinion of the directors, there have been permanent diminutions in value, when they are written down to the values determined by the directors.

(d) Associate

An associate is a company, other than a subsidiary, in which the Group has a long term equity interest and over which the Group is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any provisions for permanent diminutions in values deemed necessary by the directors.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are stated at cost less any provisions for permanent diminutions in values deemed necessary by the directors.

(e) Property, plant and equipment

(i) Depreciation

Depreciation is provided to write off the cost or carrying amount of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Floating craft and vessels	10%
Furniture, fixtures and office equipment	10 – 33 $\frac{1}{3}$ %
Plant, machinery and workshop equipment	10 – 33 $\frac{1}{3}$ %
Motor vehicles	10 – 25%

Floating craft and vessels under construction are not depreciated until the construction work has been completed and the assets put into use.

Assets held under finance leases are depreciated over their estimated useful lives or where shorter the term of the lease using the same method as owned assets in the same category.

(ii) *Measurement bases*

Property, plant and equipment are stated at cost or carrying amount less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Subsequent expenditure relating to property, plant and equipment is added to the carrying amount of the assets if it can be demonstrated that such expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets.

When assets are sold or retired, any gain or loss resulting from their disposal, being the difference between the net disposal proceeds and the carrying amount of the assets, is included in the income statement.

The carrying amounts of property, plant and equipment are reviewed periodically in order to assess whether their recoverable amounts have declined below their carrying amounts. Where, in the opinion of the directors, the recoverable amounts of assets have declined below their carrying amounts, provisions are made to write down the carrying amounts of such assets to their recoverable amounts. The recoverable amount is the amount which the Group expects to recover from the future use of the asset, including its residual value on disposal. Recoverable amounts are not determined using discounted cash flows. Reductions of recoverable amounts are charged to the income statement as incurred.

(f) Leased assets

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the rewards and risks and ownership of the asset to the Group. Assets leased under finance leases are capitalised at their fair value at the date of acquisition. The corresponding lease commitments are shown as obligations to the lessor. The finance costs, which represent the difference between the total leasing commitment and the fair value of the assets acquired, are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

(g) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged to the income statement on a straight line basis over the lease terms.

(h) Inventories

Inventories of raw materials and accessories are stated at the lower of cost, on the weighted average basis, and net realisable value after making due allowances for any obsolete or slow-moving items. Net realisable value is based on estimated selling prices less any further completion and the estimated costs necessary to make the sale.

(i) Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract cost incurred comprises direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the lower of the gross billing value of contracting work to date as compared to the total contract sum receivable under the construction contract and the total costs attributable to work performed to date as compared to the estimated total contract costs.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

(j) Deferred tax/Future tax benefit

Deferred tax is provided, using the liability method, on all significant timing differences, other than those which are not expected to crystallise in the foreseeable future.

Future tax benefit is not carried forward as an asset unless the benefit can be regarded as being virtually certain of realisation.

(k) Foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the rates of exchange ruling at that date. Gains and losses arising on exchange are dealt with in the income statement.

The financial statements of subsidiaries and associates denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

(l) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

(m) Retirement benefit costs

The Group operates a defined contribution provident fund scheme which the employees of the Group are entitled to join after fulfilling certain conditions. The amount of the Group's contributions is based on a fixed percentage of the basic salary of each participating employee. Forfeited contributions in respect of the unvested benefits of those employees who leave the scheme are used to reduce the Group's ongoing contributions. Net contributions are charged to the income statement in the period to which they relate.

(n) Recognition of revenue

Revenue from plant hire income is recognised on an accrual basis over the duration for which the vessels are hired.

Revenue from construction contracts is recognised on the percentage of completion method, measured by the reference to the actual costs incurred to date to the total expected costs for each contract.

Rental income is recognised on a time proportion basis over the lease terms.

Interest income is recognised on a time proportion basis.

(o) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and amounts repayable on demand with banks and short-term highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

5. TURNOVER AND PROFIT/(LOSS) BY OPERATING ACTIVITY AND GEOGRAPHICAL SEGMENT

The Group's turnover represents the net invoiced value of services rendered and gross rental income from its vessels. Turnover for the previous period in addition includes an appropriate proportion of the contract revenue of construction contracts during that period, after elimination of all significant intercompany transactions.

An analysis of turnover and profit/(loss) by operating activity and geographical segment is as follows:

	Turnover		Profit/(Loss) from operations	
	Year ended 31 July 2001 HK\$'000	Period from 1 April 1999 to 31 July 2000 HK\$'000	Year ended 31 July 2001 HK\$'000	Period from 1 April 1999 to 31 July 2000 HK\$'000
By principal activities				
Continuing operations:				
Marine engineering	100,110	32,870	17,211	45,882
Discontinued operations:				
Contracting	–	3,119	–	1,081
Structural steel	–	6,379	–	(45,758)
Electrical and mechanical engineering	–	28,957	–	(13,585)
	–	38,455	–	(58,262)
Gain on disposal of subsidiaries	–	–	–	735,889
	<u>100,110</u>	<u>71,325</u>	<u>17,211</u>	<u>723,509</u>
By geographical markets:				
The People's Republic of China:				
Hong Kong, S.A.R.	88,057	49,279	15,139	748,263
Elsewhere	–	4,966	–	(5,884)
Singapore	12,053	17,080	2,072	(18,955)
Others	–	–	–	85
	<u>100,110</u>	<u>71,325</u>	<u>17,211</u>	<u>723,509</u>

6. PROFIT BEFORE TAXATION

a. The Group's profit from operating activities is arrived at after charging:

	Year ended 31 July 2001 HK\$'000	Period from 1 April 1999 to 31 July 2000 HK\$'000
Auditors' remuneration	715	1,494
Depreciation:		
Owned assets	16,512	19,533
Leased assets	93	64
Foreign exchange losses, net	1,815	2,790
Operating lease rentals in respect of:		
Land and buildings	3,958	7,884
Loss on disposal of property, plant and equipment	2,623	–
Staff costs	5,654	23,094
	<u>715</u>	<u>23,094</u>

b. Included in other revenue:

Gain on deemed disposal of interest in an associate	–	348
Gain on disposal of property, plant and equipment	–	48,578
Gain on disposal of subsidiaries	–	735,889
Insurance claim	945	–
Interest income	6	341
Net rental income from the sub-letting of properties	1,298	1,845
	<u>1,298</u>	<u>1,845</u>

c. Included in other operating expenses:

Provision for bad and doubtful debts	16,599*	–
Provision for impairment in value of vessels	590	–
Provision for liquidated damages claimed by main contractors	–	6,118
Provision for repair and maintenance of vessels	4,900	–
Write off of property, plant and equipment	–	206
	<u> </u>	<u> </u>

* *Most of the provision for doubtful debts relates to a project in Malaysia, which has been severely affected by the difficult site conditions, shortfall in certification and the prevailing seasonal monsoon weather. In addition, the Group has experienced difficulties obtaining settlement of long outstanding amounts due from this customer, and, rather than expose the Group to further credit and commercial risk by continuing with the project, the directors demobilised and withdrawn its vessels from the project. The Group is preparing to commence proceedings to recover the amounts due, but owing to uncertainty of the success of such action, the directors consider it appropriate and prudent to provide for the amount due in full.*

7. FINANCE COSTS

	Year ended 31 July 2001 HK\$'000	Period from 1 April 1999 to 31 July 2000 HK\$'000
Interest charges on:		
Bank loans and other borrowings wholly repayable within five years	13,555	161,065
Finance charges on finance leases	19	80
	<u> </u>	<u> </u>
	13,574	161,145
	<u> </u>	<u> </u>

8. TAXATION

	Year ended 31 July 2001 HK\$'000	Period from 1 April 1999 to 31 July 2000 HK\$'000
The charge comprises:		
Company and subsidiaries		
Hong Kong profits tax		
– Over provision in prior years	(86)	(10,996)
Overseas tax		
– Provision for the year/period	–	89
Deferred tax (note 18)	(631)	(30,455)
	<u> </u>	<u> </u>
	(717)	(41,362)
	<u> </u>	<u> </u>

Hong Kong profits tax is provided at the rate of 16% (2000: 16%) on the estimated assessable profit during the year/period.

Overseas tax was provided in accordance with the legislation and tax rates prevailing in the respective overseas countries.

9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders for the year (period) dealt with in the financial statements of the Company is a loss of approximately \$6,934,000 (2000: loss of HK\$14,666,000).

10. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 July 2001 is based on the profit attributable to shareholders of HK\$4,372,000 (2000: HK\$603,699,000) and the adjusted weighted average number of 525,626,385 ordinary shares (2000: 119,078,012 ordinary shares) in issue during the year/period.

A diluted earnings per share for the year ended 31 July 2001 has not been shown as there were no Share options outstanding at the year end date. A diluted earnings per share for the period ended 31 July 2000 has not been shown because the share options outstanding during the period had an anti-dilutive effect on the basic earnings per share for that period.

11. PROPERTY, PLANT AND EQUIPMENT

	Floating craft and vessels <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Plant, machinery and workshop equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost/carrying amount					
At 1 August 2000	157,999	8	252	511	158,770
Additions	14,390	9	351	–	14,750
Disposal	(5,217)	–	–	–	(5,217)
Exchange realignments	(4,593)	–	(10)	(20)	(4,623)
At 31 July 2001	<u>162,579</u>	<u>17</u>	<u>593</u>	<u>491</u>	<u>163,680</u>
Accumulated depreciation					
At 1 August 2000	15,658	3	30	116	15,807
Charge for the year	16,480	4	25	96	16,605
Impairment in value	590	–	–	–	590
Written back on disposal	(765)	–	–	–	(765)
Exchange realignments	(458)	–	(1)	(4)	(463)
At 31 July 2001	<u>31,505</u>	<u>7</u>	<u>54</u>	<u>208</u>	<u>31,774</u>
Net book value					
At 31 July 2001	<u>131,074</u>	<u>10</u>	<u>539</u>	<u>283</u>	<u>131,906</u>
At 31 July 2000	<u>142,341</u>	<u>5</u>	<u>222</u>	<u>395</u>	<u>142,963</u>

The net book value of the Group's property, plant and equipment held under finance leases is as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Motor vehicles	<u>270</u>	<u>378</u>

12. INTERESTS IN SUBSIDIARIES

	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	135,822	135,822
Amounts due from subsidiaries	8,873	4,505
	144,695	140,327
Less: Provisions	(122,007)	(122,007)
	22,688	18,320
Amounts due to subsidiaries	(8,057)	(858)
	<u>14,631</u>	<u>17,462</u>

Particulars of the principal subsidiaries as at 31 July 2001 are as follows:

Name	Place of incorporation/ operation	Particulars of issued/ registered share capital	Percentage of issued/registered capital held by the Group Company		Principal activities
UDL Marine Assets (Hong Kong) Limited	Hong Kong	HK\$4,000,000	100%	100%	Marine engineering
UDL Marine Assets (Singapore) Pte Limited*	Singapore	S\$2,000,000	100%	100%	Marine engineering

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

* *not audited by Grant Thornton, Hong Kong or other Grant Thornton member firms.*

13. INVENTORIES

	2001 HK\$'000	2000 HK\$'000
Accessories, at cost	–	1,128

14. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Trade receivables (<i>note (a)</i>)	11,397	11,726	–	–
Retention money receivable	755	–	–	–
Prepayments, deposits and other receivables	16,732	3,845	563	400
	<u>28,884</u>	<u>15,571</u>	<u>563</u>	<u>400</u>

Note:

- (a) As at 31 July 2001, the aged analysis of trade receivables net of provisions for doubtful debts was as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Current	10,119	3,266
1-3 months	–	5,282
4-6 months	–	1,990
7-12 months	1,128	692
Over 1 year	150	496
	<u>11,397</u>	<u>11,726</u>

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

15. BANK AND OTHER BORROWINGS

	2001 HK\$'000	2000 HK\$'000
Bank and other borrowings comprise:		
Bank loans	74,144	92,893
Bank overdrafts	303	–
Other loans	32,529	39,865
	<u>106,976</u>	<u>132,758</u>
Analysed as:		
Secured – Notes (a) and (b)	106,673	131,378
Unsecured	303	1,380
	<u>106,976</u>	<u>132,758</u>
Bank and other borrowings are repayable as follows:		
Within one year or on demand	81,348	52,356
More than one year, but not exceeding two years	25,628	46,546
More than two years, but not exceeding five years	–	33,856
	106,976	132,758
Less: Amount due within one year and shown under current liabilities	<u>(81,348)</u>	<u>(52,356)</u>
Amount due after one year	<u>25,628</u>	<u>80,402</u>

Notes:

- (a) As at 31 July 2001, the Group's bank loans were secured by a legal charge on the Group's floating craft and vessels with net book value of HK\$86,108,000 (2000: HK\$101,573,000), fixed and floating charges over the assets of the Company's subsidiary, UDL Marine Assets (Singapore) Pte Limited, a joint and several guarantee from Mr. Leung and Mrs. Leung Yu Oi Ling, Irene ("Mrs. Leung"), assignment of insurances and income for certain vessels, and subordination of loan from Mr. Leung and Mrs. Leung.

Mrs. Leung is a director and acting chairman of the Company and is the spouse of Mr. Leung. Mrs. Leung has a significant indirect interest in the Company, as set out in the Directors' Report on page 10.

- (b) As at 31 July 2001, the other loans were secured by certain of the Group's floating craft and vessels with net book value amounting to approximately HK\$40,814,000 (2000: HK\$40,191,000), a first floating charge on all the undertaking, property, assets and rights of the Company's subsidiary, UDL Marine Assets (Hong Kong) Limited, and a personal guarantee from Mr. Leung, and bears interest at 11% per annum.

16. OBLIGATIONS UNDER FINANCE LEASES

The capital amounts due under finance leases at the balance sheet date were as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
The maturity of obligations under finance leases is as follows:		
Within one year or on demand	55	57
More than one year, but not exceeding five years	222	284
	<u>277</u>	<u>341</u>
Future finance charges on finance leases	(46)	(67)
	231	274
<i>Less:</i> Amounts due within one year shown under current liabilities	(46)	(48)
Amount due after one year	<u>185</u>	<u>226</u>

17. TRADE AND OTHER PAYABLES

	Group		Company	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Trade payables (<i>note (a)</i>)	14,763	8,314	–	–
Retention money payable	381	–	–	–
Advances received	1,641	–	–	–
Other payables and accruals	14,479	7,251	2,499	2,384
	<u>31,264</u>	<u>15,565</u>	<u>2,499</u>	<u>2,384</u>

Note:

(a) As at 31 July 2001, the aged analysis of the trade payables was as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Current	1,459	4,964
1-3 months	5,903	1,179
4-6 months	1,709	672
7-12 months	2,750	1,263
Over 1 year	2,942	236
	<u>14,763</u>	<u>8,314</u>

18. DEFERRED TAX

The movements in the deferred tax account are as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Balance at 1 August 2000	3,141	32,352
Transfer to income statement (<i>note 8</i>)	(631)	(30,455)
Exchange realignments	(86)	45
Acquisition of subsidiaries	–	3,141
Discharged under the Schemes	–	(1,942)
	<u>2,424</u>	<u>3,141</u>

At 31 July 2001, the amount of unprovided deferred tax assets is as follows:

	2001 HK\$'000	2000 HK\$'000
Tax effect of timing differences attributable to:		
Accelerated depreciation allowance	(2,929)	485
Other timing differences	4,913	(8)
Tax losses	—	2,822
	<u>1,984</u>	<u>3,299</u>

19. SHARE CAPITAL

	<i>Note</i>	Number of shares	HK\$'000
<i>Authorised:</i>			
Ordinary shares of HK\$0.10 each at 1 August 2000		1,200,000,000	120,000
Sub-division of shares	<i>(ii)</i>	<u>10,800,000,000</u>	<u>—</u>
Ordinary shares of HK\$0.01 each at 31 July 2001		<u>12,000,000,000</u>	<u>120,000</u>
<i>Issued and fully paid:</i>			
Ordinary shares of HK\$0.10 each at 1 August 2000		504,612,390	50,461
Shares cancelled	<i>(i)</i>	—	(45,415)
Issue of shares	<i>(iii)</i>	<u>100,922,478</u>	<u>1,009</u>
Ordinary shares of HK\$0.01 each at 31 July 2001		<u>605,534,868</u>	<u>6,055</u>

Note:

- (i) On 17 May 2001, the issued share capital of the Company was reduced from 504,612,390 ordinary shares of HK\$0.10 each to 504,612,390 ordinary shares of HK\$0.01 each by cancelling the paid-up capital to the extent of HK\$0.09 on each issued share capital. The credit of HK\$45,415,000 arising from cancellation of paid-up capital was charged against accumulated losses account as set out in note 20.
- (ii) On the same date, the authorised share capital of the Company of 1,200,000,000 ordinary shares of HK\$0.10 each was subdivided into 12,000,000,000 ordinary shares of HK\$0.01 each.
- (iii) Pursuant to a conditional subscription agreement dated 30 March 2001 and approved at a special general meeting on 17 May 2001, Harbour Front Limited, a substantial shareholder of the Company, subscribed for 100,922,478 new shares of HK\$0.01 each in the Company at a price of HK\$0.04 per share. These new shares were issued under the general mandate granted to the directors at the same special general meeting of the Company held on 17 May 2001 and rank pari passu with the existing shares in all respects.

(a) Share option scheme

On 6 September 1991, the Company adopted a share option scheme (the "Option Scheme") under which the directors may, at their discretion, grant to directors and employees of the Group the rights, at the consideration of HK\$1 per grant, to subscribe for shares in the capital of the Company. The maximum number of shares in respect of which share options may be granted under the scheme may not exceed 10 per cent of the issued share capital of the Company from time to time. The Option Scheme will remain in force for a period of ten years from the date of its adoption.

Details of the movements of the number of share options during the year are as follows:

Date of grant	Exercisable period	*Subscription price	Unexercised options at 1 August 2000	Options lapsed during the year	Unexercised options at 31 July 2001
22 Aug 1997	20 Mar 1998 to 19 Sep 2000	HK\$15.2	1,728,727	(1,728,727)	-

* Adjusted for share consolidation in May 2000.

(b) Repurchases of shares

No shares were repurchased during the year ended 31 July 2001.

20. RESERVES**Group**

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Reserve funds HK\$'000	Capital reserve HK\$'000	Accumulated losses HK\$'000	Scheme reserve HK\$'000	Total HK\$'000
Company and subsidiaries	484,082	1,264	9,758	-	-	(2,309,630)	-	(1,814,526)
Associates	-	-	(58)	174	-	(1,751)	-	(1,635)
At 1 April 1999	484,082	1,264	9,700	174	-	(2,311,381)	-	(1,816,161)
Capital reduction against share capital	-	-	-	-	-	79,897	-	79,897
Capital reduction against share premium	(484,082)	-	-	-	-	484,082	-	-
Exchange realignments:								
Subsidiaries	-	-	(6,211)	-	-	-	-	(6,211)
Associates	-	-	122	-	-	-	-	122
Acquisition of subsidiaries	-	-	-	-	717	-	-	717
Disposal of subsidiaries	-	-	93	-	-	-	-	93
Profit for the period	-	-	-	-	-	603,699	-	603,699
Goodwill released upon transfer of interest in an associate to the Newco	-	-	-	-	-	12,008	-	12,008
Arising from the effect of the Schemes	-	-	(5,056)	(174)	-	-	1,096,502	1,091,272
At 31 July 2000	-	1,264	(1,352)	-	717	(1,131,695)	1,096,502	(34,564)
Company and subsidiaries	-	1,264	(1,352)	-	717	(1,131,695)	1,096,502	(34,564)
Associates	-	-	-	-	-	-	-	-
At 31 July 2000	-	1,264	(1,352)	-	717	(1,131,695)	1,096,502	(34,564)

APPENDIX I
FINANCIAL INFORMATION RELATING TO THE GROUP

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Capital reserve HK\$'000	Accumulated losses HK\$'000	Scheme reserve HK\$'000	Total HK\$'000
At 1 August 2000	–	1,264	(1,352)	717	(1,131,695)	1,096,502	(34,564)
Issue of shares, net of expenses (note 19(iii))	3,028	–	–	–	–	–	3,028
Capital reduction applied against accumulated losses (note 19(i))	–	–	–	–	45,415	–	45,415
Exchange realignment – Subsidiaries	–	–	(488)	–	–	–	(488)
Profit for the year	–	–	–	–	4,372	–	4,372
At 31 July 2001	<u>3,028</u>	<u>1,264</u>	<u>(1,840)</u>	<u>717</u>	<u>(1,081,908)</u>	<u>1,096,502</u>	<u>17,763</u>

Company

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Scheme reserve HK\$'000	Total HK\$'000
At 1 April 1999	484,082	1,264	21,689	(932,124)	–	(425,089)
Capital reduction against share capital	–	–	–	79,897	–	79,897
Capital reduction against share premium	(484,082)	–	–	484,082	–	–
Loss for the period	–	–	–	(14,666)	–	(14,666)
Arising from the effect of the Scheme	–	–	–	–	324,964	324,964
At 31 July 2000	<u>–</u>	<u>1,264</u>	<u>21,689</u>	<u>(382,811)</u>	<u>324,964</u>	<u>(34,894)</u>
At 1 August 2000	–	1,264	21,689	(382,811)	324,964	(34,894)
Issue of shares, net of expenses (note 19(iii))	3,028	–	–	–	–	3,028
Capital reduction applied against accumulated losses (note 19(i))	–	–	–	45,415	–	45,415
Loss for the year	–	–	–	(6,934)	–	(6,934)
At 31 July 2001	<u>3,028</u>	<u>1,264</u>	<u>21,689</u>	<u>(344,330)</u>	<u>324,964</u>	<u>6,615</u>

The contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued in exchange for the issued share capital of the subsidiaries and the aggregate net asset value of the subsidiaries acquired, pursuant to the Group reorganisation in September 1991, and the nominal value of the Company's shares in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders under certain circumstances which the Company cannot currently meet.

The scheme reserve of the Group and the Company represents the net liabilities of the Scheme Participating Companies and the Company as at the Effective Date, which were discharged pursuant to the Schemes.

21. DIRECTORS' AND MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	Year ended 31 July 2001 <i>HK\$'000</i>	Period from 1 April 1999 to 31 July 2000 <i>HK\$'000</i>
Fees		
Executive directors	–	–
Non-executive director	13	–
Independent non-executive director	70	83
	<u>83</u>	<u>83</u>
Other emoluments		
Executive directors	3,464	4,773
Independent non-executive directors	40	13
	<u>3,504</u>	<u>4,786</u>
	<u>3,587</u>	<u>4,869</u>

The emoluments of the directors were within the following bands:

Emoluments bands	Number of directors	
	Year ended 31 July 2001	Period from 1 April 1999 to 31 July 2000
HK\$Nil – HK\$1,000,000	5	6
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$1,500,001 – HK\$2,000,000	1	–
HK\$2,500,001 – HK\$3,000,000	–	1
	<u>–</u>	<u>1</u>

During the year, no share options were granted to the directors.

During the year, no directors waived remuneration and no emolument of the directors was incurred as inducement to join or upon joining the Group or as compensation for loss of office.

(b) Five highest paid individuals

The five highest paid individuals of the Group for the year included three (2000: four) executive directors, details of whose emoluments are set out above. The emoluments of the remaining two (2000: one) employees were as follows:

	Year ended 31 July 2001 <i>HK\$'000</i>	Period from 1 April 1999 to 31 July 2000 <i>HK\$'000</i>
Salaries and other benefits	<u>1,816</u>	<u>1,668</u>

The emoluments were within the following bands:

Emoluments bands

	Year ended 31 July 2001	Period from 1 April 1999 to 31 July 2000
HK\$Nil – HK\$1,000,000	1	–
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$1,500,001 – HK\$2,000,000	–	1
	<u> </u>	<u> </u>

22. RETIREMENT BENEFITS SCHEME

	Year ended 31 July 2001 <i>HK\$'000</i>	Period from 1 April 1999 to 31 July 2000 <i>HK\$'000</i>
Retirement benefits scheme contributions to the Group's defined contribution scheme	195	331
<i>Less:</i> Forfeited contributions	<u>(64)</u>	<u>(331)</u>
	<u> </u>	<u> </u>
	<u>131</u>	<u>–</u>

Defined contribution scheme

The Group operates a defined contribution retirement benefits scheme for all qualified employees. The assets of the scheme are held separately from those of the Group in funds under the control of an independent trustee.

The retirement benefits scheme contributions represent amounts paid and payable by the Group to the funds at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contributions made by the employer, the contributions payable by the Group are reduced by the amount of forfeited contributions.

At 31 July 2001, there were no forfeited contributions available to offset future contributions payable by the Group (2000: Nil).

From 1 December 2000, the Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme ("the MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, the Group and each of its employees make monthly contributions to the scheme at 5% of the employees earnings as defined under the Mandatory Provident Fund legislation. Both the employer's and the employee's contributions are subject to a cap of HK\$1,000 per month, and thereafter contributions are voluntary.

23. OPERATING LEASE COMMITMENTS

At 31 July 2001, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	2001 <i>HK\$'000</i>	Group 2000 <i>HK\$'000</i>
Land and buildings		
Within one year	581	1,218
In the second to fifth years inclusive	<u>470</u>	<u>1,069</u>
	<u> </u>	<u> </u>
	<u>1,051</u>	<u>2,287</u>

The Company had no significant operating lease commitments at the balance sheet date.

24. CONTINGENT LIABILITIES

At 31 July 2001, the Company and the Group had contingent liabilities in respect of the Company's undertaking to the trustee of the Schemes that the aggregate proceeds of the Unencumbered Assets and the Accounts Receivables realised under the Schemes shall not be less than HK\$176 million (2000: HK\$176 million), further details of which are set out in note 2(b). Due to the pending appeals as detailed in note 2(b) and (c), the recovery and realisation work under the Schemes has not made much progress. However, the directors are confident that once the outcome of the appeals to the Court of Final Appeal is known, the realisation work will progress at a much faster pace.

25. RELATED PARTY TRANSACTIONS

During the year, the Group had the following material transactions with related parties:

	<i>Notes</i>	Year ended 31 July 2001 HK\$'000	Period from 1 April 1999 to 31 July 2000 HK\$'000
Transactions with UMAHK and UMASPG	<i>(a)</i>	–	3,362
Berthing and security expenses paid to Keenrich Company Limited (“Keenrich”)	<i>(b)</i>	1,144	–
Plant hire cost paid to Buggy Development Limited (“Buggy”)*	<i>(c)</i>	3,815	–
Sales of property, Plant and equipment to Buggy	<i>(c)</i>	–	6,176
Rental charges paid to Denlane Shipbuilding Pte Limited (“Denlane”)	<i>(d)</i>	146	–
Rental charges paid to Fonfair Company Limited (“Fonfair”)	<i>(e)</i>	1,876	3,702
Rental charges paid to Giant Lead Enterprises Limited (“Giant Lead”)	<i>(f)</i>	496	–
Rental charges paid to Sincere Place Limited (“Sincere”)	<i>(g)</i>	680	1,392
Rental charges paid to UDL Engineering Pte Limited (“UEPL”)	<i>(h)</i>	437	–
Sales of property, plant and equipment to Gitanes Engineering Company Limited (“Gitanes”)	<i>(i)</i>	–	1,769
Management service fee paid to Goldfit Engineering Limited (“Goldfit”)	<i>(j)</i>	–	1,845
Secondment of staff paid to UDL Offshore Pte Limited (“UOPL”)	<i>(k)</i>	531	–
Berthing and security income from UOPL	<i>(k)</i>	136	–
Berthing and security income from North Lantau Dredging Company Limited (“North Lantau”)	<i>(l)</i>	957	–
Management fee income from North Lantau**	<i>(l)</i>	10,917	–
Plant hire income from North Lantau	<i>(l)</i>	–	6,371
Berthing and security income from UDL Assets Management Pte Limited (“UAMP”)	<i>(m)</i>	179	–
Berthing and security income from UDL Salvage Company Limited (“USCL”)	<i>(n)</i>	168	–

* One of the Group's top five suppliers.

** One of the Group's top five customers.

- (a) Prior to the acquisition of UMAHK and UMASPG by the Group, UMAHK and UMASPG were shipping agents of the Group in Hong Kong and Singapore, respectively, appointed under standard terms of shipping agent agreement. An analysis of the transactions between the Group and UMAHK and UMASPG are as follows:

	Year ended 31 July 2001	Period from 1 April 1999 to 31 July 2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Plant hire income from UMAHK and UMASPG	–	8,982
Sale of property, plant and equipment to UMAHK and UMASPG	–	2,173
Rental income from UMASPG	–	356
Management service fee paid to UMAHK and UMASPG	–	(442)
Sales of spare parts to UMAHK	–	520
Berthing, security, repairs and maintenance charges paid to UMAHK and UMASPG	–	(8,227)
	<u>–</u>	<u>3,362</u>

- (b) Keenrich is a company in which Mr. Leung is a director until 1 March 2001.
- (c) Bugsy is a company in which Mrs. Leung has an indirect beneficial interest. Mrs. Leung and Ms. Leung Chi Yin, Gillian (“Ms. Leung”) are directors of Bugsy.
- (d) Denlane is a company in which Mr. Leung and Mrs. Leung are directors.
- (e) Fonfair is a company in which Mr. Leung is a director until 1 March 2001.
- (f) Giant Lead is a company in which Mr. Leung, Mrs. Leung and Ms. Leung have indirect beneficial interests. Mr. Leung, Mrs. Leung and Ms. Leung are directors of Giant Lead. Mr. Leung continues to serve as a director until 1 March 2001.
- (g) Sincere is a company in which Mr. Leung and Mrs. Leung are directors. Mr. Leung continues to serve as a director until 1 March 2001.
- (h) UEPL is a company in which Mr. Leung, Mrs. Leung and Chan Kim Leung (“Mr. Chan”) are directors.
- (i) Gitanes was a former associate of the Group and had been transferred to the Newco by the Group as at the previous balance sheet date. Mr. Leung continues to serve as a director until 1 March 2001.
- (j) Goldfit is a company, of which Mr. Leung and Mrs. Leung are directors. Mr. Leung continues to serve as a director until 1 March 2001.
- (k) UOPL is a company in which Mr. Leung, Mrs. Leung and Mr. Chan are directors.
- (l) North Lantau is a company in which Mr. Leung has direct beneficial interest. Mr. Leung and Mrs. Leung are directors of North Lantau. Mr. Leung continues to serve as a director until 1 March 2001.
- (m) UAMP is a company in which Mr. Leung, Mrs. Leung and Mr. Chan are directors.
- (n) USCL is a company in which Mrs. Leung is a director.

The balances with the related companies are unsecured, interest-free and repayable on demand.

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash inflow/(outflow) from operating activities

	Year ended 31 July 2001 HK\$'000	Period from 1 April 1999 to 31 July 2000 HK\$'000
Profit before taxation	3,637	562,364
Provision for liquidated damages claimed by main contractors	–	6,118
Write off of property, plant and equipment	–	206
Provision for impairment in value of vessels	590	–
Gain on disposal of subsidiaries	–	(735,889)
Operating lease rentals	1,876	–
Interest income	(6)	(341)
Interest expenses	13,555	161,065
Finance charges on finance leases	19	80
Depreciation	16,605	19,597
Provision for bad and doubtful debts	16,599	–
Provision for repair and maintenance of vessels	4,900	–
Gain on deemed disposal of interest in an associate	–	(348)
Loss/(Gain) on disposal of property, plant and equipment (<i>Note 6</i>)	2,623	(48,578)
(Increase)/Decrease in trade and receivables	(31,468)	7,560
Decrease in inventories	1,128	292
Decrease in amounts due from related companies	6,104	9,109
Increase in trade and other payables	14,946	12,406
Decrease in an amount due to a related company	(7,977)	(10,892)
(Decrease)/Increase in an amount due to a director	(802)	802
Net cash inflow/(outflow) from operating activities	<u>42,329</u>	<u>(16,449)</u>

(b) Analysis of changes in financing during the year/period

	Share capital (including share premium) HK\$'000	Bank loans HK\$'000	Other loans HK\$'000	Finance lease obligations HK\$'000	Minority interests HK\$'000
Balance at 1 April 1999	568,184	1,152,929	155,754	31,140	10,191
Cash inflow/(outflow) from financing, net	21,025	(117,891)	(46,030)	96	–
Capital reduction	(563,979)	–	–	–	–
Effect of the Schemes	25,231	(736,107)	(103,035)	(31,140)	(10,143)
Acquisition of subsidiaries	–	99,083	38,485	289	–
Disposal of subsidiaries	–	(305,106)	(5,309)	(110)	(51)
Share of profit for the period	–	–	–	–	395
Exchange realignments	–	(15)	–	(1)	(374)
Balance at 31 July 2000	<u>50,461</u>	<u>92,893</u>	<u>39,865</u>	<u>274</u>	<u>18</u>
	Share capital (including share premium) HK\$'000	Bank loans HK\$'000	Other loans HK\$'000	Finance lease obligations HK\$'000	Minority interests HK\$'000
Balance at 1 August 2000	50,461	92,893	39,865	274	18
Cash inflow/(outflow) from financing, net	4,037	(14,967)	(7,336)	(32)	–
Capital reduction	(45,415)	–	–	–	–
Share of loss for the year	–	–	–	–	(2)
Exchange realignments	–	(3,782)	–	(11)	(16)
Balance at 31 July 2001	<u>9,083</u>	<u>74,144</u>	<u>32,529</u>	<u>231</u>	<u>–</u>

(c) Major non-cash transactions

- (i) During the year, the contract employers of the Group made direct payments to the trade creditors of the Group in the amount of approximately HK\$3,506,000 (2000: HK\$17,064,000) in lieu of direct settlement of trade receivables otherwise due by them to the Group.
- (ii) During the year, the Company settled office rental charges amounting to HK\$1,876,000 due to a related company by way of set off against amounts due by that company.

(d) Disposals and deemed disposal of subsidiaries

	Year ended 31 July 2001 <i>HK\$'000</i>	Period from 1 April 1999 to 31 July 2000 <i>HK\$'000</i>
Net assets disposed of:		
Property, plant and equipment	–	6,693
Interests in unconsolidated subsidiaries	–	(5,900)
Gross amounts due from contract customers	–	1,897
Trade and other receivables	–	8,552
Cash and bank balances	–	9,409
Trade and other payables	–	(324,776)
Gross amounts due to contract customer	–	(49,452)
Provision for settlement of performance bonds	–	(56,000)
Bank overdrafts	–	(15,792)
Bank loans	–	(305,106)
Finance lease payables	–	(110)
Tax payable	–	(37)
Other loans	–	(5,309)
Minority interests	–	(51)
Exchange fluctuation reserve	–	93
	–	(735,889)
Gain on disposal	–	735,889
	<u>–</u>	<u>–</u>

(e) Disposals and deemed disposal of subsidiaries

Analysis of the net inflow of cash and cash equivalents in respect of the disposals and deemed disposal of subsidiaries:

	Year ended 31 July 2001 <i>HK\$'000</i>	Period from 1 April 1999 to 31 July 2000 <i>HK\$'000</i>
Cash and cash balances disposed of	–	(9,409)
Bank overdrafts disposal of	–	15,792
	<u>–</u>	<u>6,383</u>

27. POST BALANCE SHEET EVENT

Subsequent to the financial year end, a subsidiary has entered into contracts for dispose of several vessels with net book value of about HK\$22,573,000 for a consideration of HK\$21,983,000. These sales contracts are subject to approval by the subsidiary's banker. An impairment loss of HK\$590,000 thereon has been provided for in the financial statements.

28. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements on pages 18 to 59 were approved by the Board of Directors on 26 November 2001.

C. UNAUDITED FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 31 JANUARY 2002

Set out below is the unaudited consolidated income statement and consolidated cash flow statement of the Group for the six months ended 31 January 2002 and the unaudited consolidated balance sheet as at 31 January 2002 together with the relevant notes thereto as extracted from the Company's financial statements set out in the interim report of the Company for the six months ended 31 January 2002:

Consolidated Income Statement

		Six months ended 31 January 2002	Six months ended 31 January 2001
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK'000</i>
TURNOVER			
Continuing operations	<i>1</i>	27,332	32,445
Cost of sales		<u>(16,810)</u>	<u>(13,430)</u>
		10,522	19,015
Other revenue		910	1,310
Administrative expenses		<u>(10,808)</u>	<u>(11,742)</u>
		624	8,583
Provision for the decline in the recoverable amount of vessels		(21,987)	–
Provision for bad and doubtful debts		<u>(18,978)</u>	<u>(816)</u>
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	<i>2</i>	(40,341)	7,767
Finance costs		<u>(5,834)</u>	<u>(5,704)</u>
PROFIT/(LOSS) BEFORE TAXATION		(46,175)	2,063
Taxation	<i>3</i>	<u>1,974</u>	<u>86</u>
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		(44,201)	2,149
Minority interests		<u>–</u>	<u>21</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>(44,201)</u>	<u>2,170</u>
		HK Cents	HK Cents
EARNINGS/(LOSS) PER SHARE			
– Basic	<i>4</i>	<u>(7.3)</u>	<u>0.4</u>

Consolidated Balance Sheet

	<i>Notes</i>	31 January 2002 HK\$'000	31 January 2001 HK'000
NON-CURRENT ASSETS			
Fixed assets	5	77,393	135,848
CURRENT ASSETS			
Cash and bank balances		182	536
Trade receivables	6	7,373	24,797
Inventories		21,481	1,124
Prepayments, deposits and other receivables		17,236	6,615
Amount due from related companies		7,104	3,598
		<u>53,376</u>	<u>36,670</u>
CURRENT LIABILITIES			
Interest-bearing bank and borrowings	8	100,379	75,050
Trade payables	7	10,514	1,063
Other payables, deposits received and accruals		22,550	11,606
Due to related companies		5,131	6,459
Due to shareholders	8	6,221	3,375
Due to directors		–	165
Tax payable		–	1,065
		<u>144,795</u>	<u>98,783</u>
NET CURRENT LIABILITIES		<u>(91,419)</u>	<u>(62,113)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(14,026)</u>	<u>73,735</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	8	6,414	52,396
Finance lease payables		–	253
Deferred tax		2,424	3,122
		<u>8,838</u>	<u>55,771</u>
MINORITY INTERESTS		<u>–</u>	<u>19</u>
NET ASSETS/(LIABILITIES)		<u>(22,864)</u>	<u>17,983</u>
CAPITAL AND RESERVES			
Issued capital		6,055	50,461
Reserves	9	(28,919)	(32,478)
SHAREHOLDERS' FUNDS/(DEFICITS)		<u>(22,864)</u>	<u>17,983</u>

Consolidated Statement of Recognised Gains and Losses

	Six months ended 31 January 2002 HK\$'000	Six months ended 31 January 2001 HK'000
Exchange differences on translation of the financial statements of foreign entities	(2,482)	(84)
Net profit/(loss) for the period attributable to shareholders	<u>(44,201)</u>	<u>2,170</u>
Total recognised gains and losses	<u><u>(46,683)</u></u>	<u><u>2,086</u></u>

Consolidated Cash Flow Statement (Unaudited)

		Six months ended 31 January 2002 HK\$'000	Six months ended 31 January 2001 HK'000
NET CASH FROM/(USED IN)			
OPERATING ACTIVITIES	10	(1,538)	8,966
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(116)	(2,375)
Proceeds of sale of equipment		2,009	180
Movement in pledged bank balances		–	814
Net cash from/(used in) investing activities		1,893	(1,381)
CASH FLOW FROM FINANCING ACTIVITIES			
Repayment of bank loan		(68)	(5,360)
New finance lease		–	27
Payment of finance lease		(231)	–
Net cash used in financing activities		(299)	(5,333)
INCREASE IN CASH AND CASH EQUIVALENTS		56	2,252
Cash and cash equivalents at beginning of period		(111)	538
Effect of foreign exchange rate changes, net		49	(2,254)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		(6)	536
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Net cash and bank balances		(6)	536

Significant Accounting Policies

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong SSAPs, accounting principle generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

The accounting policies adopted are consistent with those followed in the Group's annual financial statements for the year ended 31 July 2001.

Notes to financial Statements

1. *TURNOVER AND SEGMENTAL INFORMATION*

The Group's turnover and contribution to profit/(loss) from operations analysed by principal activities and by geographic locations are as follows:

	Turnover <i>HK\$'000</i>		Contribution to profit/(loss) from operating activities <i>HK\$'000</i>	
	31 January 2002	31 January 2001	31 January 2002	31 January 2001
By principal activity:				
Continuing operations:				
Marine engineering	<u>27,332</u>	<u>32,445</u>	<u>(40,341)</u>	<u>7,767</u>
By geographical area of operation:				
The People's Republic of China				
Hong Kong, S.A.R.	27,332	20,826	(17,910)	4,986
Singapore	<u>–</u>	<u>11,619</u>	<u>(22,431)</u>	<u>2,781</u>
	<u>27,332</u>	<u>32,445</u>	<u>(40,341)</u>	<u>7,767</u>

2. *PROFIT/(LOSS) FROM OPERATING ACTIVITIES*

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

		Six months ended 31 January 2002 <i>HK\$'000</i>	Six months ended 31 January 2001 <i>HK'000</i>
	<i>Note</i>		
Depreciation			
Owned fixed assets		6,666	8,097
Leased fixed assets		–	48
Auditors' remuneration		338	328
Provision for the decline in the recoverable amount of vessels	5	21,987	–
Provision for doubtful receivables	(i)	18,978	816
(Profit)/loss on disposal of fixed assets		(45)	1,215
Interest Income		<u>–</u>	<u>(5)</u>

Note (i)

The provisions include a few long outstanding receivables related to Hyundai Engineering and Construction Company Limited ("HEC") and the outcome of the claims is uncertain. Notwithstanding the recovery via legal proceedings is underway, a provision for the receivables related to HEC was made amounted to HK\$17,644,607 in view of the longer than expected legal process.

3. *TAXATION*

No provision has been provided for Hong Kong profits tax as the Group did not have any assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of taxation prevailing in the countries in which the Group operates. Previous year over provision for taxation has been written back in the period.

4. *EARNINGS/(LOSS) PER SHARE*

The calculation of basic earnings per share for the period ended 31 January 2002 is based on the net loss from ordinary activities attributable to shareholders of HK\$44,201,000 (2001: profit of 2,170,000) and the number of 605,534,868 shares (2001: 504,612,390 shares) in issue during the period.

Diluted loss per share for the period ended 31 January 2002 is not presented as there is no outstanding options exercisable as at the balance sheet date and a diluted profit per share for 31 January 2001 is not shown because there was no outstanding share options exercisable as at the balance sheet date.

5. *FIXED ASSETS*

	Furniture, Fixtures and Office Equipments	Plant, Machinery and Workshop Equipments	Motor Vehicles	Floating Craft and Vessels	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost					
At beginning of period	17	593	491	162,579	163,680
Additions	37	–	78	–	115
Disposals	–	–	(465)	(29,693)	(30,158)
Exchange realignments	–	(16)	(12)	(3,126)	(3,154)
At 31 January 2002	<u>54</u>	<u>577</u>	<u>92</u>	<u>129,760</u>	<u>130,483</u>
Accumulated Depreciation					
At beginning of period	7	54	208	31,505	31,774
Additions	3	12	34	6,616	6,665
Provision for decline value	–	–	–	21,987	21,987
Disposals	–	–	(226)	(6,486)	(6,712)
Exchange realignments	–	(1)	(5)	(618)	(624)
At 31 January 2002	<u>10</u>	<u>65</u>	<u>11</u>	<u>53,004</u>	<u>53,090</u>
Net Book Value:					
At 31 July 2001	<u>10</u>	<u>539</u>	<u>283</u>	<u>131,074</u>	<u>131,906</u>
At 31 January 2002	<u><u>44</u></u>	<u><u>512</u></u>	<u><u>81</u></u>	<u><u>76,756</u></u>	<u><u>77,393</u></u>

The carrying amount of the floating craft and vessels as at 31 January 2002 has been reduced to its estimated recoverable amount of HK\$77,393,000. In view of the Group's continuous focus on disposal of certain of its vessels to reduce its debts servicing obligations (see section headed "Management Discussions and Analysis"), the recoverable amount is determined by the directors with reference to the estimated realisable value rather than the discounted future cash flows. The amount of the reduction of HK\$21,987,000 has been recognised as an expense in the income statement by way of an exceptional item in the current year.

6. TRADE RECEIVABLES

The aged analysis of trade receivables net of provision for doubtful debts is as follows:

	31 January 2002		31 January 2001	
	Balance <i>HK\$'000</i>	Percentage	Balance <i>HK\$'000</i>	Percentage
Current	902	12	3,025	12
1-3 months	10	1	12,642	51
3-6 months	4,879	66	8,886	36
6-12 months	1,582	21	–	–
Over 1 year	–	–	244	1
	<u>7,373</u>	<u>100</u>	<u>24,797</u>	<u>100</u>

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

7. TRADE PAYABLES

The aged analysis of trade payables is as follows:

	31 January 2002		31 January 2001	
	Balance <i>HK\$'000</i>	Percentage	Balance <i>HK\$'000</i>	Percentage
Current	126	1	95	9
1-3 months	263	3	32	3
3-6 months	2,919	28	218	21
6-12 months	4,314	41	438	41
Over 1 year	2,892	27	280	26
	<u>10,514</u>	<u>100</u>	<u>1,063</u>	<u>100</u>

APPENDIX I
FINANCIAL INFORMATION RELATING TO THE GROUP

 8. *INTEREST-BEARING BANK AND OTHER BORROWINGS*

	31 January 2002 HK'000	31 January 2001 HK'000
Bank overdrafts:		
Unsecured	188	194
Secured	–	–
Bank loans:		
Secured	74,076	90,809
Unsecured	–	–
Other loans:		
Secured	32,529	36,386
Unsecured	6,221	3,375
Finance leases:		
Secured	–	57
Unsecured	–	–
	<u>113,014</u>	<u>130,821</u>
Current portion of bank loans and overdrafts	100,379	74,993
Finance lease payable	–	57
Due to shareholders	6,221	3,375
	<u>106,600</u>	<u>78,425</u>
Portion due within one year	106,600	78,425
Long term portion	6,414	52,396
	<u>113,014</u>	<u>130,821</u>

 9. *RESERVES*

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Capital reserve HK\$'000	Accumulated losses HK\$'000	Scheme reserve HK\$'000	Total HK\$'000
At 1 August 2001	3,028	1,264	(1,840)	717	(1,081,907)	1,096,502	17,764
Exchange realignment							
– Subsidiaries	–	–	(2,482)	–	–	–	(2,482)
Loss for the year	–	–	–	–	(44,201)	–	(44,201)
At 31 January 2002	<u>3,028</u>	<u>1,264</u>	<u>(4,322)</u>	<u>717</u>	<u>(1,126,108)</u>	<u>1,096,502</u>	<u>(28,919)</u>

10. NET CASH FROM/(USED IN) OPERATING ACTIVITIES

Reconciliation of loss from operating activities to net cash used in operating activities

	Six months ended 31 January 2002 HK\$'000	Six months ended 31 January 2001 HK'000
Profit/(loss) before tax	(46,175)	2,063
Depreciation	6,666	8,145
Provision for the decline in the receivables amount of vessels	21,987	–
Provision for doubtful debts	18,978	816
(Profit)/loss on disposal of fixed assets	(45)	1,215
Interest income	–	(5)
Interest paid	5,834	5,704
Increase in trade and other receivables	(14,702)	(16,657)
Decrease in inventories	–	4
(Increase)/Decrease in amount due from related companies	(257)	11,229
Increase/(Decrease) in trade and other payables	1,799	(2,896)
Increase in amount due to related parties	8,237	4,961
Interest income	–	5
Interest paid	(5,834)	(5,704)
Taxation	1,974	86
	<u>(1,538)</u>	<u>8,966</u>

Contingent Liabilities

As at 31 January 2002, the Company and the Group had contingent liabilities in respect of the Company's undertaking to the trustee of the Schemes that the aggregate disposal proceeds of the Unencumbered Assets and the Accounts Receivables realised under the Schemes shall not be less than HK\$176 million.

The realisation of the Unencumbered Assets and the recovery of the Accounts Receivable are still in progress as at the date of these financial statements. It is not possible to estimate the final realisation proceeds, on the basis of knowledge to date.

Comparative Figures

Due to the adoption of revised SSAPs and the revised Listing Rules during the year, the presentation of the income statement, the balance sheet and certain supporting notes have been revised accordingly. The comparative figures of the balance sheet is that of figures as at 31 January 2001 and certain other comparative figures have been reclassified to confirm with current period's presentation.

Interim Dividend

The Directors do not recommend the payment of any interim dividend for the six months ended 31 January 2002 (2001: Nil).

Management Discussion and Analysis

Review and operations

During the period under review, the Group focused on recovery of receivables, disposal of certain of the Group's vessels to reduce its debt servicing obligations, the opposition of the appeals to the Scheme of Arrangement of seven of its subsidiaries in the Court of Final Appeal, and the implementation of the Scheme of Arrangement of the Company and its 24 subsidiaries (the "Scheme").

Liquidity and financial resources

As at 31 January 2002, the Company had in aggregate secured bank and other borrowing approximately HK\$106,605,000. The Company's cash, bank balances and pledged bank deposits amounted to approximately HK\$182,000 as at 31 January 2002. As the group has shareholders' deficit, no appropriate gearing ratio as at 31 January 2002 could be calculated.

Employees

As at 31 January 2002, there are approximately 16 staff and 48 contract workers in the Group. The Directors are actively reviewing staffing levels and remuneration package with a view to maintain a cost-effective management structure.

Prospects

The Company would further explore opportunities in vessels hiring and disposing of certain vessels to reduce the Group's debt servicing obligations, re establishing the Group's assets base and expediting implementation of the Scheme.

D. MATERIAL CHANGES

As stated in the section headed "Review of operations and prospect" in this Prospectus, the Group has incurred a net loss of approximately HK\$44.2 million for the first six months ended 31 January 2002. The loss was mainly attributable to certain provisions were made by the Group, including a decline in recoverable amount of vessels of approximately HK\$22.0 million and provision for bad and doubtful debts of approximately HK\$19.0 million. Notwithstanding, the Directors confirm that the loss will not adversely affect the financial position of the Group.

Save as disclosed above and the contingent liabilities of the Group as stated in the section headed "Indebtedness and contingent liabilities" in Appendix I to this Prospectus, the Directors confirm that there is no material adverse change in the financial or trading position of the Group since 31 July 2001, being the date to which the latest published audited accounts of the Group were made up.

E. WORKING CAPITAL STATEMENT

As stated in the auditors' report of the Company for the year ended 31 July 2001, the auditors have formed a disclaimer opinion because of the fundamental uncertainties relating to the going concern basis, the validity of which depends upon the successful outcome of the plant hire discussion and the vessel disposal.

As stated in the interim report of the Company for the six months ended 31 January 2002, the net current liabilities of the Group amounted to approximately HK\$91.4 million. Also, as stated in the section headed “Indebtedness and contingent liabilities” in Appendix I to this Prospectus, as at 31 August 2002, save for contingent liabilities arising from the Scheme, the Group’s total indebtedness amounted to approximately HK\$120 million. The Directors are of the opinion that, after taking into account the expected net proceeds of the Rights Issue of approximately HK\$6.6 million, the Group will have sufficient working capital to meet its present requirements for operation, administration and the legal expenses to be incurred for the litigations against the Group and the amounts to be claimed (excluding the debt servicing obligations of approximately HK\$120 million) in the absence of unforeseen circumstances. However, the fundamental uncertainties relating to the going concern is still being unsolved. At present, the Group owns around 70 vessels and the Directors intend to dispose of about 20 vessels to reduce its debt servicing obligations. The Directors would monitor and maintain the level of around 50 vessels to carry on its principal business activities. **The Directors are of the opinion that, even including the expected net proceeds of the Right Issue of approximately HK\$6.6 million, the Group would not have sufficient working capital to meet its present requirement after taking into account of the debt servicing obligation.**

Should the Rights Issue be unable to become unconditional or unable to proceed, the Directors are of the opinion that the Group would not have adequate funds to enable it to operate as a going concern in the foreseeable future. The Group would seek for an alternative way for fund raising.

For details of the indebtedness and contingent liabilities of the Group as at 31 August 2002, please refer to the section headed “Indebtedness and contingent liabilities” in Appendix I to this Prospectus.

For details of the disclaimer opinion for fundamental uncertainties relating to the going concern basis formed by the auditors of the Company, please refer to the auditors’ report of the Company for the year ended 31 July 2001 as stated in Appendix I to this Prospectus.

F. INDEBTEDNESS AND CONTINGENT LIABILITIES

As at 31 August 2002, save for contingent liabilities arising from the Scheme as detailed in the later part of the Prospectus, the Group’s total indebtedness amounted to approximately HK\$120 million. Such amount represents the outstanding balances of the secured bank loans and overdrafts of approximately HK\$76 million and secured other loans of approximately HK\$43 million related to vessel financing (which is not related to the Scheme) and unsecured loan at normal commercial terms with an interest rate of prime rate plus 2% per annum with no fixed term of repayment of an amount due to Harbour Front of approximately HK\$1 million. As mentioned in the section headed “Introduction” of the Company’s circular to the 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\$120 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 in the Prospectus 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.

As stated in the sections headed "Litigation against the Company in Bermuda" and "Legal proceedings concerning Dockyard" in "Letter from the Board" and the section headed "Litigations" in Appendix II to this Prospectus and the Company's announcement dated 4 October 2002, the Group is currently engaged in a litigation against the Company in Bermuda and a legal proceedings concerning Dockyard. The Group may incur the legal expenses and costs of an aggregate of

approximately HK\$1.2 million for the litigation against the Company in Bermuda and an estimated litigation costs and expenses of approximately HK\$0.2 million for the legal proceedings concerning Dockyard respectively.

Save as aforesaid and apart from intra-group liabilities, the Group did not have any mortgage charges, debentures or other loan capital, bank overdrafts, loan or other similar indebtedness, finance lease commitments, guarantees or other material contingent liabilities as at the close of business on 31 August 2002.

G. STATEMENT OF UNAUDITED ADJUSTED PRO-FORMA CONSOLIDATED NET TANGIBLE ASSET VALUE OF THE GROUP

The following is a statement of the unaudited adjusted pro-forma consolidated net tangible asset value of the Group, which is based on the audited net tangible asset value of the Group as at 31 July 2001 and as adjusted to take into account of the Rights Issue.

	<i>HK\$'000</i>
Audited consolidated net tangible assets of the Group as at 31 July 2001	23,818
<i>Less:</i> Unaudited consolidated loss after taxation and minority interest of the Group for the six months ended 31 January 2002	(44,201)
<i>Less:</i> Exchange differences on translation of the financial statements of foreign entities	<u>(2,481)</u>
Pro-forma unaudited adjusted consolidated net tangible liabilities of the Group before completion of the Rights Issue	(22,864)
<i>Add:</i> Estimated net proceeds from the Rights Issue	<u>6,600</u>
Pro forma unaudited adjusted consolidated net tangible liabilities of the Group after completion of the Rights Issue	<u><u>(16,264)</u></u>
Pro forma unaudited adjusted consolidated net tangible liabilities value per Share:	
– before completion of the Rights Issue (based on 605,534,868 Shares in issue as at the Latest Practicable Date)	<u><u>(HK\$0.0378)</u></u>
– after completion of the Rights Issue (based on 908,302,302 Shares in issue)	<u><u>(HK\$0.0179)</u></u>

1. RESPONSIBILITY STATEMENT

The Prospectus includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in the Prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained in the Prospectus, the omission of which would make any statement herein misleading.

The Prospectus includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Group. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Prospectus (other than those relating to Harbour Front and parties acting in concert with it) have been arrived at after due and careful consideration and there are no other facts (other than those relating to Harbour Front and parties acting in concert with it) not contained in the Prospectus, the omission of which would make any statement herein misleading.

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

2. SHARE CAPITAL

The authorised and issued share capital of the Company following completion of the Rights Issue (assuming the Rights Issue becoming unconditional) will be as follows:

<i>Authorised:</i>		<i>HK\$</i>
<u>12,000,000,000</u>	Shares as at the Latest Practicable Date	<u>120,000,000</u>
<i>Shares issued and to be issued as fully-paid or credited as fully-paid:</i>		
605,534,868	Shares as at the Latest Practicable Date	6,055,348.68
<u>302,767,434</u>	Shares to be issued under the Rights Issue	<u>3,027,674.34</u>
<u>908,302,302</u>	Shares in issue immediately following the completion of the Rights Issue	<u>9,083,023.02</u>

All the existing issued Shares rank *pari passu* in all respects including all rights as to dividends, voting and interests in capital.

The Rights Shares will, when allotted, issued and fully-paid, rank *pari passu* in all respects with the then existing Shares in issue including the right to receive future dividends and other distributions which may be declared, made or paid after the date of the issue of the Rights Shares (in fully-paid form).

No part of the share capital or debt securities of the Company are listed on or dealt in any stock exchange other than the Stock Exchange and no application is being made or is currently proposed to be sought for the Shares or debt securities of the Company to be listed or dealt in on any other stock exchange.

As at the Latest Practicable Date, no capital of any member of the Group is under option or agreed conditionally or unconditionally to be put under option.

3. PARTICULARS OF DIRECTORS

Name	Address
Executive Directors	
Leung Yu Oi Ling, Irene	2nd Floor, Block 2, Rise Park Villas No. 38 Razor Hill Road Sai Kung New Territories Hong Kong
Leung Chi Yin, Gillian	2nd Floor, Block 2, Rise Park Villas No. 38 Razor Hill Road Sai Kung New Territories Hong Kong
Independent Non-executive Directors	
Pao Ping Wing	15F3, King Wing Building Whampao Estate Hung Hom Kowloon Hong Kong
Yuen Ming Fai, Matthew	Flat 4A, Tower 18 Senior Staff Quarters, HKUST Clearwater Bay New Territories Hong Kong

The qualifications and experience of the Directors are set out below:

Executive Directors

Mrs. Leung Yu Oi Ling, Irene, aged 49, joined the Group in June 1991 and is currently the Chairman of the Group. Mrs. Leung is at present responsible for the general management, business development and marketing of the Group. Mrs. Leung is a graduate of Leicester Polytechnic in UK, and has had extensive experience prior to joining the Group in running her own interior design company.

Ms. Leung Chi Yin, Gillian, aged 22, daughter of Mrs. Leung Yu Oi Ling, Irene, was appointed to the Board in March 2001 as Non-Executive Director and was appointed in September 2002 as Executive Director. Ms. Leung graduated in Commerce from the Queen's University, Kingston, Ontario, Canada.

Independent Non-executive Directors

Mr. Pao Ping Wing, JP, aged 54, was appointed to the Board in August 1997, obtained a master degree in human settlements planning and development. In the past 19 years, he has been actively serving on government policy and executive bodies, especially those of town planning, urban renewal, public housing and environment matters. He is also a director of Oriental Press Group Limited which is listed on the Stock Exchange. He was elected as one of the Ten Outstanding Young Persons of Hong Kong in 1982 and one of the Ten Outstanding Young persons of the World in 1983. Mr. Pao has been appointed as a Justice of the Peace for Hong Kong since 1987.

Prof. Yuen Ming Fai, Matthew, aged 51, was appointed to the Board in April 2002. Prof. Yuen spent 4 years in United Kingdom's Industry before taking up a lecturing position at Hong Kong University in 1979. He is currently the Director of Technology Transfer Centre at The Hong Kong University of Science and Technology and Professor in Mechanical Engineering. Prof. Yuen is a graduate of the University of Hong Kong and the University of Bristol. He is a Member of The Hong Kong Institution of Engineers and a Fellow of Institution of Mechanical Engineers, United Kingdom. Prof. Yuen has extensive research experience in design and manufacturing.

4. CORPORATE INFORMATION AND PARTIES INVOLVED IN THE RIGHTS ISSUE**Registered office**

Cedar House
41 Cedar Avenue
Hamilton HM 12
Bermuda

Head office and principal place of business

Room 704, 7th Floor
Aitken Vanson Centre
61 Hoi Yuen Road
Kwun Tong
Hong Kong

Auditors

Grant Thornton
Certified Public Accountants
13th Floor
Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

Financial adviser to the Company and manager of the Rights Issue

Kingsway Capital Limited
5th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

Underwriter

Kingsway SW Securities Limited
5th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

Hong Kong legal adviser to the Company	Joseph C.T. Lee & Co. 9th Floor, Wing On Life Building 22 Des Voeux Road Central Hong Kong
Bermuda legal adviser and Bermuda lawyers of the Company	Appleby Spurling & Kempe 55th Floor, The Center 99 Queen's Road Central Hong Kong Cedar House 41 Cedar Avenue Hamilton HM 12 Bermuda
Hong Kong legal adviser to Kingsway Capital	Dibb Lupton Alsop 41st Floor Bank of China Tower 1 Garden Road Central Hong Kong
Principal bankers	Industrial and Commercial Bank of China (Asia) Limited ICBC Tower 122-126 Queen's Road Central Hong Kong HSBC Capital (Asia) Pte Limited 21 Collyer Quay #08-02 HSBC Building Singapore 049320 Oversea-Chinese Banking Corporation Limited 65 Chulia Street Centre OCBC Singapore 049513
Hong Kong branch share registrar and transfer office	Tengis Limited 4th Floor, Hutchison House 10 Harcourt Road Central Hong Kong
Authorised representatives to the Stock Exchange	Mrs. Leung Yu Oi Ling, Irene Ms. Leung Chi Yin, Gillian
Company secretary	Mr. Yeung Wai Yim, Wallace FCCA, AHKSA

5. DISCLOSURE OF DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests of the Directors and their associates in the share capital of the Company and its associated corporations (within the meaning of the SDI Ordinance) which were recorded in the register kept by the Company pursuant to section 29 of the SDI Ordinance were as follows:

Name	Number of Shares and nature of interest	
	Personal	Other
Leung Yu Oi Ling, Irene	297,000	254,736,653 (<i>Note 1</i>)
Leung Chi Yin, Gillian	100,000	254,736,653 (<i>Note 1</i>)

Note 1: 254,736,653 ordinary shares of the Company are held by Harbour Front or its designated nominees, as the trustee of a unit trust. All of the units in the unit trust are beneficially owned by a discretionary trust.

Save as disclosed above, none of the Directors or their associates had any personal interests, family interests, corporate interests or other interests in the securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including the interests which they were deemed or taken to have under section 31 or Part I of the Schedule to the SDI Ordinance) or which were required pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to have been notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been acquired, disposed of by or leased to any member of the Group since 31 July 2001 (the date to which the latest published audited consolidated accounts of the Group were made up), or are proposed to be acquired, disposed of by or leased to any member of the Group.

There was no contract or arrangement subsisting at the Latest Practicable Date in which any of the Directors was materially interested and which was significant in relation to the business of the Group taken as a whole.

6. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the following interests of 10% or more in the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of Shares	Approximate % of the issued share capital as at the Latest Practicable Date
Harbour Front	254,736,653	42.15%
Mr. Matthew O'Driscoll (<i>Note (1)</i>)	252,306,195	41.67%

Note:

- (1) Mr. Matthew O'Driscoll is the Scheme Administrator of the Scheme of Arrangement of the Company and the Scheme Participating Subsidiaries (the "Scheme"), and holds 252,306,195 Shares on trust for the Scheme Creditors pending distribution pursuant to the terms of the Scheme.

Save as disclosed above, no person, other than Leung Yu Oi Ling, Irene and Leung Chi Yin, Gillian whose interests are set out under section headed "Disclosure of Directors' interests" in Appendix II to this Prospectus, had registered an interest in the issued share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

7. MATERIAL CONTRACTS

In the two years immediately preceding the date of the Prospectus, the following contracts, not being contracts entered into in the ordinary course of business and restructuring, were entered into by the Company or its subsidiaries and are or may be material:

- (a) the Subscription Agreement;
- (b) the Underwriting Agreement.

8. LITIGATIONS

Litigation against the Company in Bermuda

On 16 May 2002, the Petitioners lodged a Petition under section 111 of the Company 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 from 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 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 Shares issued to Harbour Front pursuant to the Subscription Agreement (the "Subscription Shares") 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.

The Directors are of the view that neither the Petition nor the Bermuda Writ will have any material impact on the Group and the Shareholders.

Legal proceedings concerning Dockyard

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

1. On 11 December 2001, **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 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 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, the 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. Save for the estimated litigation costs and expenses amounts to approximately HK\$200,000, the Directors are of the view that the legal proceeding concerning Dockyard will not have any material impact on the Group and the Shareholders.

Save as disclosed above, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

9. SERVICE CONTRACTS

There are no existing or proposed directors' service contracts with any member of the Group, other than contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

10. LEGAL EFFECT

The Prospectus and the enclosed PAL and EAF and all acceptances of any offer or application contained in such documents are governed by and shall be construed in accordance with the laws of Hong Kong. Where an application is made in pursuance of any such documents, the relevant document(s) shall have the effect of rendering all persons concerned bound by the provisions, other than the penal provisions, of Sections 44A and 44B of the Companies Ordinance, insofar as it is applicable.

11. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

A copy of the Prospectus, the PAL and the EAF and the written consent of Grant Thornton have been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance and have been filed with the Registrar of Companies in Bermuda pursuant to the Companies Act 1981 of Bermuda.

12. EXPENSES

The expenses in connection with the Rights Issue, including the financial advisory fee, underwriting commission, printing, registration, translation, legal and accounting charges, are estimated to amount to approximately HK\$1.0 million and will be payable by the Company.

13. MISCELLANEOUS

1. The registered office of the Company is at Cedar House, 41 Cedar Avenue, Hamilton HM 12, Bermuda.
2. The head office and principal place of business of the Company in Hong Kong is at Room 704, 7th Floor, Aitken Vanson Centre, 61 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong.

3. The company secretary of the Company is Yeung Wai Yim, Wallace, FCCA, AHKSA
4. The branch share registrar of the Company in Hong Kong is Tengis Limited, at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong.
5. Appleby Spurling & Kempe, the Company's Bermuda lawyers has given its written consent to the issue of the Prospectus with the inclusion therein as to the legal advice as to Bermuda Law contained in the Prospectus regarding the litigation against the Company in Bermuda and only as to the paragraphs contained in its letter dated 1 November 2002 (as referred to in the section headed "Documents available for inspection" in Appendix II to this Prospectus) and references to its name in the form and context which they respectively appear. Any person wishing to obtain advice on the Petition and Bermuda writ is recommended to seek independent legal advice.
6. Joseph C.T. Lee & Co., the Company's Hong Kong legal adviser has given its written consent to the issue of the Prospectus with the inclusion therein as to the legal advice contained in the section headed "Litigation against the Company in Bermuda" to this Prospectus and reference to its name in the form and context which they respectively appear.
7. The English text of the Prospectus, the PAL and the EAF shall prevail over the Chinese text in the case of inconsistency.

14. QUALIFICATIONS OF EXPERTS

Name	Qualifications
Appleby Spurling & Kempe	Bermuda Barristers & Attorneys
Joseph C.T. Lee & Co.	Hong Kong Solicitors

Each of Appleby Spurling & Kempe and Joseph C.T. Lee & Co. confirms that it does not have any shareholding in the Company or any of its subsidiaries or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of Appleby Spurling & Kempe and Joseph C.T. Lee & Co also confirms that it does not have any interest, direct or indirect, in any assets which have been, since 31 July 2001 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

15. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company, at Room 704, 7th Floor, Aitken Vanson Centre, 61 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong during normal business hours on any weekday (public holidays excepted) up to and including 22 November 2002:

- (i) the material contracts referred to in this appendix;
- (ii) the annual reports of the Company for the sixteen months ended 31 July 2000 and for the year end of 31 July 2001;
- (iii) the interim report of the Company for the six months ended 31 January 2002;
- (iv) the written consent including their legal advice contained in the Prospectus regarding the litigation against the Company in Bermuda dated 11 November 2002 from Appleby Spurling & Kempe as referred in the section headed "Miscellaneous" in Appendix II to this Prospectus;
- (v) the written consent including their legal advice contained in the section headed "Litigation against the Company in Bermuda" to this Prospectus dated 11 November 2002 from Joseph C.T. Lee & Co. as referred in the section headed "Miscellaneous" in Appendix II to this Prospectus;
- (vi) the memorandum of association and bye-laws of the Company; and
- (vii) this Prospectus.