

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this document or as to action to be taken, you should consult a stockbroker or other registered dealer in securities, a bank manager, solicitor, professional accountant, or other professional adviser.

If you have sold or transferred all your shares in UDL Holdings Limited, you should at once hand this document and the accompanying form of acceptance and transfer to the purchaser(s) or the transferee(s) or to the bank or stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s). This document should be read in conjunction with the accompanying form of acceptance and transfer, the contents of which form part of the terms of the Offer contained herein.

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**Composite offer document
relating to
mandatory conditional cash offer
by**



Kingsway SW Securities Limited

**on behalf of
Harbour Front Limited**
(incorporated in the British Virgin Islands with limited liability)
for all the issued shares

of



UDL HOLDINGS LIMITED
太元集團有限公司

(Incorporated in Bermuda with limited liability)

**(other than those Shares already owned
or agreed to be acquired by
Harbour Front Limited
and parties acting in concert with it)**

Financial adviser to Harbour Front Limited



Kingsway Capital Limited

**Independent financial adviser to the Independent Board Committee of
UDL Holdings Limited**

CHATERON
CORPORATE FINANCE LIMITED

華夏融資有限公司

A letter from Kingsway SW Securities Limited containing, among other things, the details of the terms of the Offer is set out on pages 15 to 21 of this document.

A letter from the independent board committee of UDL Holdings Limited containing its opinion and advice to the independent shareholders of UDL Holdings Limited in respect of the Offer is set out on pages 22 of this document. A letter from the independent financial adviser, Chateron Corporate Finance Limited, containing its opinion and advice to the independent board committee of UDL Holdings Limited in respect of the Offer is set out on pages 23 to 40 of this document.

The procedures for acceptance and settlement of the Offer are set out on pages 41 to 44 of this document and in the accompanying form of acceptance and transfer. Acceptances of the Offer must be received by Tengis Limited by no later than 4:00 p.m. on Monday, 13 January 2003 or such later date as Harbour Front Limited may determine and announce. Tengis Limited is located at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong. With effect from 13 January 2003, it will be relocated to G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

23 December 2002

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EXPECTED TIMETABLE

2002

Offer opens Monday, 23 December

2003

First Closing Date (*Note 1*) 4:00 p.m. Monday, 13 January

Final closing date of the Offer
(assuming the Offer is declared
unconditional on the First Closing Date)
unless extended (*Note 2*) 4:00 p.m. Monday, 27 January

Latest date for posting of remittances
for the amounts due under the Offer
in respect of valid acceptances received
on or before 27 January 2003
(assuming this to be the final closing date of
the Offer and assuming the Offer becomes
unconditional on the First Closing Date)
to be despatched on or before (*Note 3*) Thursday, 6 February

Latest date by which the Offer can be
declared unconditional (*Note 4*) Friday, 21 February

Notes:

1. Unless the Offer has previously been declared unconditional, revised or extended, the Offer will expire at 4:00 p.m. on 13 January 2003.
2. Pursuant to the Takeovers Code, where the Offer is declared unconditional, it will remain open for acceptance for not less than 14 days thereafter. The Offeror will make an announcement as and when the Offer becomes unconditional.
3. Pursuant to the Takeovers Code, payment will be made as soon as possible but in any event within 10 days of the later of the date on which the Offer becomes, or is declared, unconditional and the date on which the Shares are tendered under the Offer.
4. Pursuant to the Takeovers Code, the Offer shall not be kept open after the expiry of 60 days from the date of the posting of this document unless the Offer has previously become unconditional.

All time reference contained in this document refer to Hong Kong time.

DEFINITIONS

In this document, the following expressions have the meanings respectively set opposite them unless the context otherwise requires:

“1st Announcement”	the joint announcement issued by Harbour Front and the Company dated 4 October 2002 in relation to, inter alia, the Rights Issue and the possible offer by Kingsway Securities on behalf of Harbour Front for all the Shares other than those already owned or agreed to be acquired by Harbour Front and parties acting in concert with it at the completion of the Rights Issue
“acting in concert”	the same meaning ascribed to it in the Takeovers Code
“associate(s)”	the same meaning ascribed to it in the Listing Rules
“Bermuda Writ”	a writ issued in the Bermuda Court by Charterbase Management Limited on 31 July 2002
“Board”	board of the Directors
“CCASS”	the Central Clearing and Settlement System, established and operated by HKSCC
“Company”	UDL Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
“Director(s)”	the director(s) of the Company
“Dockyard”	Universal Dockyard Limited, one of the Scheme Participating Subsidiaries
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“First Closing Date”	13 January 2003, being the first closing date of the Offer, in accordance with Rule 15.1 of the Takeovers Code
“Fonfair”	Fonfair Company Limited, which is owned as to approximately 66.67% by Money Facts and approximately 33.33% by Harbour Front respectively
“Goods and Chattels”	goods and chattels which are located at the Yau Tong Property and owned by Fonfair
“Group”	the Company and its subsidiaries
“Harbour Front” or “Offeror”	Harbour Front Limited, a company incorporated in the British Virgin Islands with limited liability and beneficially owned by Mrs. Leung, Miss Leung and Mr. Leung Chi Hong, Jerry in equal shares

DEFINITIONS

“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IFA” or “Chateron”	Chateron Corporate Finance Limited, an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and the independent financial adviser to the Independent Board Committee in relation to the Offer
“Independent Board Committee”	the independent board committee of the Company comprising Mr. Pao Ping Wing, JP and Professor Yuen Ming Fai, Matthew, being all the independent non-executive Directors, duly appointed by the Board for the purpose of advising the Independent Shareholders in respect of the Offer
“Independent Shareholders”	Shareholders other than Harbour Front and parties acting in concert with it
“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), a fellow subsidiary of Kingsway Securities and the financial adviser to the Offeror in relation to the Offer
“Kingsway Securities”	Kingsway SW Securities Limited, a dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and a fellow subsidiary of Kingsway Capital
“Latest Practicable Date”	18 December 2002, being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information for inclusion in this document
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“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

DEFINITIONS

“Mrs. Leung”	Mrs. Leung Yu Oi Ling, Irene, executive Director and chairman of the Company
“Offer”	the mandatory conditional cash offer made by Kingsway Securities, on behalf of the Offeror, to acquire all the issued Shares not already owned or agreed to be acquired by the Offeror and parties acting in concert with it at the Offer Price on the terms and subject to the conditions contained in this document and the form of acceptance and transfer in respect thereof
“Offer Price”	HK\$0.025 per Offer Share, payable in cash under the Offer
“Offer Share(s)”	all the issued Share(s) other than those Shares already owned or agreed to be acquired by the Offeror and parties acting in concert with it
“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 40,000 Shares and 40,000 Shares (representing approximately 0.00440% and 0.00440% of the issued share capital of the Company) since May 2001 and December 2001 respectively
“Petitioners’ Complaint”	the complaint lodged by the Petitioners with the SFC on 18 May 2001
“Prospectus”	the prospectus issued by the Company dated 11 November 2002 in relation to the Rights Issue
“PRC”	the People’s Republic of China
“Registrar”	Tengis Limited is being the Company’s branch registrar in Hong Kong. Tengis Limited is located at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong. With effect from 13 January 2003, it will be relocated to G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
“Relevant Period”	the period between 5 April 2002, being the date falling six months preceding the date of the 1st Announcement, and the Latest Practicable Date
“Rights Issue”	the 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

DEFINITIONS

“Rights Issue Result Announcement”	the joint announcement issued by Harbour Front and the Company dated 30 November 2002 in relation to, inter alia, the Offer and the results of the Rights Issue
“Rights Share(s)”	302,767,434 new Shares issued under the Rights Issue
“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 being wholly-owned subsidiaries of the Company, and Universal Dockyard Limited, a 98.75% owned subsidiary of the Company
“Scheme Shares”	252,306,195 Shares being held by the Scheme Administrator on trust for the non-preferential creditors of the Company under the Scheme as at the Latest Practicable Date
“SDI Ordinance”	Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
“SFC”	Securities and Futures Commission
“Share(s)”	share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“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 as detailed in the Company’s announcement dated 30 March 2001 and circular dated 23 April 2001

DEFINITIONS

“Subscription Agreement”	the subscription agreement dated 30 March 2001 and entered into between the Company and Harbour Front in relation to the Subscription
“Subscription SGM”	a special general meeting of the Company dated 17 May 2001 in relation to the Subscription
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Underwriting Agreement”	the underwriting agreement dated 4 October 2002 and entered into between the Company and Kingsway Securities in relation to the Rights Issue
“Winding-up Petition”	a petition for the winding-up of Dockyard (HCCW 663 of 2002) filed by Fonfair on 23 June 2002
“Yau Tong Property”	Yau Tong Marine Lots Nos. 2, 3 and 4 which situate at No. 44 Ko Fai Road, Yau Tong Bay, Kowloon
“HK\$”	Hong Kong dollars
“%”	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, JP
Professor 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

23 December 2002

To the Independent Shareholders

Dear Sir or Madam,

**MANDATORY CONDITIONAL CASH OFFER BY
KINGSWAY SW SECURITIES LIMITED
ON BEHALF OF HARBOUR FRONT LIMITED
FOR ALL THE ISSUED SHARES
OF
UDL HOLDINGS LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED
OR AGREED TO BE ACQUIRED BY
HARBOUR FRONT LIMITED
AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

It was announced in the 1st Announcement that a possible mandatory cash offer by Kingsway 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 would be made if they had acquired excess Rights Shares representing more than 2% of the issued share capital of the Company as enlarged by the Rights Issue upon the Rights Issue becoming unconditional.

Since the Rights Issue became unconditional as stated in the Rights Issue Result Announcement and Harbour Front, by applying for and subscribing excess Rights Shares, together with parties acting in concert with it, took up 30,111,520 excess Rights Shares, representing approximately 3.32% of the issued share capital of the Company as enlarged by the Rights Issue. Accordingly, Harbour Front is required under Rule 26.1 of the Takeovers Code to make an offer for all 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 the completion of the Rights Issue.

LETTER FROM THE BOARD

As at the Latest Practicable Date, 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, were interested in 412,967,999 Shares, representing approximately 45.47% of the issued share capital of the Company as enlarged by the Rights Issue.

As at the Latest Practicable Date, Kingsway Securities did not have any shareholding interest in the Company.

As Mrs. Leung and Miss Leung have beneficial interests and/or directorship in the Offeror, they are not considered independent to advise the Independent Shareholders insofar as the Offer is concerned.

An independent board committee comprising the independent non-executive Directors of the Company, namely, Mr. Pao Ping Wing, JP and Professor Yuen Ming Fai, Matthew, has been appointed by the Board for the purpose of advising the Independent Shareholders as to whether the terms of the Offer are fair and reasonable so far as they are concerned. Chateron has been appointed to advise the Independent Board Committee in relation to the Offer.

The purpose of this document is to provide you with, among other things, information relating to the Company and further details of the Offer. The principal terms of the Offer are set out in the letter from Kingsway Securities on pages 15 to 21 of this document and further terms of the Offer and other information required by the Takeovers Code are set out in the appendices to this document and in the accompanying form of acceptance and transfer. The letter from the Independent Board Committee containing its recommendations to the Independent Shareholders in respect of the Offer is set out on pages 22 of this document and the letter from Chateron containing its advice to the Independent Board Committee in respect of the Offer is set out on pages 23 to 40 of this document.

THE OFFER

Pursuant to the Takeovers Code, Kingsway Securities is making the Offer on behalf of the Offeror to acquire, based on and subject to the terms and conditions set out in this document and in the accompanying form of acceptance and transfer, all the issued Shares other than those Shares already owned or agreed to be acquired by the Offeror and parties acting in concert with it, being 495,334,303 Shares and representing approximately 54.53% of the issued share capital of the Company as at the Latest Practicable Date, on the following basis:

For each Offer Share HK\$0.025 in cash

The price of HK\$0.025 for each Offer Share equals the subscription price of each Rights Share under the Rights Issue and represents:

1. a discount of approximately 50.0% to the closing price of HK\$0.050 per Share as quoted on the Stock Exchange on 14 August 2002, being the last trading day before suspension of trading of Shares on the Stock Exchange as from 9:30 a.m. on 15 August 2002 pending the release of the 1st Announcement;
2. a discount of approximately 50.0% to the average closing price of HK\$0.050 per Share as quoted on the Stock Exchange for the 10 consecutive trading days before suspension of trading of Shares on the Stock Exchange as from 9:30 a.m. on 14 August 2002;

LETTER FROM THE BOARD

3. a discount of approximately 43.2% to the closing price of HK\$0.044 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
4. a discount of approximately 24.2% to the average closing price of HK\$0.033 per Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Latest Practicable Date; and
5. a premium of approximately HK\$0.111 to the net liabilities value per Share of approximately HK\$0.086 (based on the Company's audited consolidated net liabilities value of approximately HK\$51.97 million as at 31 July 2002).

As at the Latest Practicable Date, the Company did not have any outstanding options or convertible securities.

Out of the 495,334,303 Shares held by the Independent Shareholders, an aggregate of 252,306,195 Scheme Shares were held by the Scheme Administrator on trust for the non-preferential creditors of the Company pending distribution under the Scheme as at the Latest Practicable Date. In accordance with the Scheme document dated 11 February 2000 and after seeking the legal advice from the Company's Hong Kong lawyer, in the absence of consent of the non-preferential creditors of the Company under the Scheme and/or an order of the Supreme Court of Bermuda, the Scheme Administrator does not have the right or power to sell the Scheme Shares.

On the basis of Offer Price of HK\$0.025 and 495,334,303 Shares held by the independent Shareholders the offer is valued at approximately HK\$12.38 million.

PROCEDURES FOR ACCEPTANCE OF THE OFFER

To accept the Offer, you should complete the accompanying form of acceptance and transfer in accordance with the instructions printed thereon, the contents of which form part of the terms and conditions of the Offer.

The completed form of acceptance and transfer should then be forwarded, together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for not less than the number of Shares in respect of which you intend to accept the Offer, by post or by hand, to the Registrar in an envelope marked "UDL Offer" as soon as possible but in any event not later than 4:00 p.m. on Monday, 13 January 2003 or such later date as the Offeror may determine and announce. No acknowledgement of receipt of any form of acceptance and transfer, Share certificate(s), transfer receipt(s) or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

Your attention is drawn to the further details regarding the procedures for acceptance of the Offer set out in Appendix I to this document and the accompanying form of acceptance and transfer .

FURTHER INFORMATION IN RELATION TO THE OFFER

Your attention is drawn to the letter from Kingsway Securities set out in this document, which contains details of the Offer, information on the Offeror and its intention regarding the future business of the Group.

LETTER FROM THE BOARD

INFORMATION RELATING TO THE GROUP

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 had 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.

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 assets in connection with the Scheme. 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, and 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.

The Company's audited financial information for the 16 months ended 31 July 2000 and the two years ended 31 July 2001 and 2002 are summarised as follows:

	Sixteen months ended 31 July 2000	Year ended 31 July 2001	Year ended 31 July 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit/(loss) after taxation and minority interests	<u>603,699</u>	<u>4,372</u>	<u>(75,973)</u>
Net current liabilities	<u>(43,279)</u>	<u>(79,851)</u>	<u>(128,458)</u>
Net tangible assets/(liabilities)	<u>15,879</u>	<u>23,818</u>	<u>(51,966)</u>

The summary of the audited consolidated profit and loss accounts of the Company for the sixteen months ended 31 July 2000 and the two years ended 31 July 2001 and 2002, and the statement of assets and liabilities of the Group as at 31 July 2000, 2001 and 2002, can be referred to in the section headed "Summary of financial information" in Appendix II to this document.

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. Details of the litigation can be referred to in the announcement of the Company dated 18 June 2002 and 20 November 2002.

The relief sought by the Petitioners 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;

LETTER FROM THE BOARD

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 Petition;
5. an order restraining the Company from recognizing the exercise of any rights attaching to the Subscription Shares, pending the hearing of the 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 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). A brief description of the SFC Panel's decision can be referred to in 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. As stated in the Company's announcement dated 20 November 2002, the hearing date of the summons originally fixed on 18 and 19 November 2002 had been adjourned

LETTER FROM THE BOARD

due to unavailability of the Petitioners' counsel and the hearing date of the summons was rescheduled on 16 and 17 December 2002. However, the hearing date of the summons had been further adjourned due to unavailability of the Petitioners' counsel and the new hearing date of the summons has not been fixed as at the Latest Practicable Date.

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 SGM be declared invalid and that the Subscription SGM be reconvened. The Petitioners have not specified what they seek 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 in connection therewith at the price Harbour Front paid for them. An alternative might be that the Petitioners would seek to have the Subscription Shares and any Rights Issue Shares in connection therewith 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 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 80,000 Shares after the Rights Issue, and on the basis that the closing prices per Share as at the dates of Chaterbase Management Limited and United People Assets Limited became the Shareholders and the Latest Practicable Date were HK\$0.070, HK\$0.065 and HK\$0.044 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 80,000 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 received from the allotment of the Rights Shares to Harbour Front 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.

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

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

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.

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.

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 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.

LETTER FROM THE BOARD

Fonfair is owned as to approximately 66.67% by 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 is the 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 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 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 amounting 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.

MAINTAINING THE LISTING STATUS OF THE COMPANY

The Offeror will not exercise the power of compulsory acquisition but it reserves the right to do so. It intends to maintain the listing of the Shares on the Stock Exchange. The Offeror and the Company have undertaken to the Stock Exchange to take appropriate steps such as placing of Shares to ensure that not less than 25% of the Shares will be held by the public following the close of the Offer.

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

LETTER FROM THE BOARD

The Stock Exchange has also stated that, if the Company remains a public company listed on the Stock Exchange, any acquisitions or disposals of assets of the Company will be subject to the provisions of the Listing Rules. Pursuant to the Listing Rules, the Stock Exchange has the discretion to require the Company to issue a circular to the Shareholders where an acquisition or disposal by the Company is proposed, irrespective of the size of such acquisition or disposal and in particular where such acquisition or disposal represents a departure from the principal activities of the Company. The Stock Exchange also has the power, pursuant to the Listing Rules, to aggregate a series of acquisitions or disposals by the Company and any such acquisitions or disposals may, in any event, result in the Company being treated as a new applicant for listing and subject to the requirements for new applicants as set out in the Listing Rules.

ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee set out in this document, which contains its recommendation to the Independent Shareholders in relation to the Offer.

Your attention is also drawn to the letter of advice from Chateron, the independent financial adviser to the Independent Board Committee, set out in this document, which contains its advice and recommendation to the Independent Board Committee in relation to the Offer, the letter from Kingsway Securities which contains the principal terms of the Offer and to the additional information which includes details of the terms and conditions of the Offer as set out in the appendices to this document.

Yours faithfully,
For and on behalf of the board of
UDL Holdings Limited
Leung Yu Oi Ling, Irene
Chairman

LETTER FROM KINGSWAY SECURITIES



Kingsway SW Securities Limited

5th Floor, Hutchison House

10 Harcourt Road

Central, Hong Kong

23 December 2002

To the Independent Shareholders

Dear Sir or Madam,

**MANDATORY CONDITIONAL CASH OFFER BY
KINGSWAY SW SECURITIES LIMITED
ON BEHALF OF HARBOUR FRONT LIMITED
FOR ALL THE ISSUED SHARES
OF
UDL HOLDINGS LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED
OR AGREED TO BE ACQUIRED BY
HARBOUR FRONT LIMITED
AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

As at the Latest Practicable Date, Harbour Front and parties acting in concert with it (other than Kingsway Securities), namely Mrs. Leung, Miss Leung and Mr. Leung Chi Hong, Jerry, all are the directors of Harbour Front, were interested in 412,967,999 Shares, representing approximately 45.47% of the issued share capital of the Company as enlarged by the Rights Issue.

As at the Latest Practicable Date, Kingsway Securities did not have any shareholding interest in the Company.

Since the Rights Issue was completed and Harbour Front, by applying for and subscribing excess Rights Shares, together with parties acting in concert with it, took up 30,111,520 excess Rights Shares, representing approximately 3.32% of the issued share capital of the Company as enlarged by the Rights Issue. Accordingly, Harbour Front is required under Rule 26.1 of the Takeovers Code to make an offer for all 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 the completion of the Rights Issue.

This letter sets out the details of the principal terms of the Offer and information on the Offeror. Acceptance of the Offer is also subject to the terms set out in Appendix I to this document and in the form of acceptance and transfer accompanying this document.

THE OFFER

Pursuant to the Takeovers Code, Kingsway Securities is making the Offer on behalf of the Offeror to acquire, based on and subject to the terms and conditions set out in this document and in the accompanying form of acceptance and transfer, all the issued Shares other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it on the following basis:

For each Offer Share HK\$0.025 in cash

LETTER FROM KINGSWAY SECURITIES

The price of HK\$0.025 for each Offer Share equals the subscription price of each Rights Share under the Rights Issue and represents:

1. a discount of approximately 50.0% to the closing price of HK\$0.050 per Share as quoted on the Stock Exchange on 14 August 2002, being the last trading day before suspension of trading of Shares on the Stock Exchange as from 9:30 a.m. on 15 August 2002 pending the release of the 1st Announcement;
2. a discount of approximately 50.0% to the average closing price of HK\$0.050 per Share as quoted on the Stock Exchange for the 10 consecutive trading days before suspension of trading of Shares on the Stock Exchange as from 9:30 a.m. on 14 August 2002;
3. a discount of approximately 43.2% to the closing price of HK\$0.044 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
4. a discount of approximately 24.2% to the average closing price of HK\$0.033 per Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Latest Practicable Date; and
5. a premium of approximately HK\$0.111 to the net liabilities value per Share of approximately HK\$0.086 (based on the Company's audited consolidated net liabilities value of approximately HK\$51.97 million as at 31 July 2002).

As at the Latest Practicable Date, the Company did not have any outstanding options or convertible securities.

Value of the Offer

After the completion of the Rights Issue, Harbour Front and parties acting in concert with it were beneficially interested in 412,967,999 Shares which represent approximately 45.47% of the enlarged issued share capital of the Company of 908,302,302 Shares. In other words, the Independent Shareholders beneficially held an aggregate of 495,334,303 Shares representing approximately 54.53% of the issued share capital of the Company as at the Latest Practicable Date. On the basis of Offer Price of HK\$0.025, the Offer is valued at approximately HK\$12.38 million.

Out of the 495,334,303 Shares held by the Independent Shareholders, an aggregate of 252,306,195 Scheme Shares were held by the Scheme Administrator on trust for the non-preferential creditors of the Company pending distribution under the Scheme as at the Latest Practicable Date. In accordance with the Scheme document dated 11 February 2000 and after seeking the legal advice from the Company's Hong Kong lawyers, in the absence of consent of the non-preferential creditors of the Company under the Scheme and/or an order of the Supreme Court of Bermuda, the Scheme Administrator does not have the right or power to sell the Scheme Shares.

Conditional Offer

Harbour Front and parties acting in concert with it were beneficially interested in an aggregate of 412,967,999 Shares after the completion of the Rights Issue, representing approximately 45.47% of the issued share capital of the Company as at the Latest Practicable Date. Therefore, the Offer is conditional upon Harbour Front having received valid acceptances of the Offer which, together with the voting rights already owned by Harbour Front and its concert parties as at 13 January

LETTER FROM KINGSWAY SECURITIES

2003, being the First Closing Date, will result in Harbour Front and parties acting in concert with it holding more than 50% of the voting rights of the Company. The Offer will not become unconditional and will lapse if the abovementioned acceptance condition is not satisfied on or before the First Closing Date. In this regard, Harbour Front does not intend to extend the Offer beyond the First Closing Date although it reserves the right to do so in accordance with the Takeovers Code.

As referred to in the paragraph headed “Underwriting Arrangement” under the section headed “Letter from the Board” in the Prospectus, Harbour Front is one of the non-preferential creditors under the Scheme through acquisition of approximately HK\$34.21 million of debts from a creditor under the Scheme, who is an independent third party, under an assignment arrangement dated 13 August 2001. According to the correspondence exchange between Harbour Front and the Scheme Administrator dated 9 December 2002 and 19 December 2002 respectively concerning the possible entitlement of Harbour Front to the 252,306,195 Scheme Shares, the Scheme Administrator is under no legal obligation to disclose information to Harbour Front as the Company concerning any entitlement to the distribution of the Shares. However, the Scheme Administrator, in order to be of assistance but without any liability on the part of himself, his agents or advisors and subject to final adjudication confirmed that:

- i) up to 19 December 2002 the claims submitted by Harbour Front has not been admitted or rejected, in whole or in part;
- ii) up to 19 December 2002 the total amount of non-preferential Scheme Creditors’ claims admitted by the Scheme Administrator is approximately HK\$0.8 billion. There are claims totaling approximately HK\$4.2 billion which are pending adjudication by the Scheme Administrator and have not been admitted or rejected, in whole or in part;
- iii) therefore Harbour Front’s entitlement to the Scheme Shares cannot yet be quantified; and
- iv) it is unlikely that there will be any distribution of the Scheme Shares within the next 30 days.

Through various further assignment arrangements all dated 29 November 2002, Harbour Front is interested in approximately HK\$821.87 million of claims for non-preferential Scheme Debts and there was no charge up to the Latest Practicable Date. Accordingly, one of the scenarios for possible entitlement of Harbour Front is that Harbour Front is entitled to 41,472,748 Shares representing 4.57% of the issued share capital of the Company as enlarged by the Rights Issue (the “Possible Entitlement”). The Possible Entitlement will not be counted toward acceptance condition of the Offer unless the distribution of the Scheme Shares takes place before closing the Offer.

As confirmed by Harbour Front, the Scheme Administrator has not given any indication whether they will accept the Offer or not.

Sufficiency of financial resources

The Offer is made by Kingsway Securities on behalf of Harbour Front with the Offer value amounting to approximately HK\$12.38 million, of which approximately HK\$6.08 million was deposited by Harbour Front with Kingsway Securities under its account solely for the purpose of the Offer. Harbour Front confirmed that such deposits are sourced from their internal resources. The remaining of approximately HK\$6.3 million is financed from the facilities specifically arranged

LETTER FROM KINGSWAY SECURITIES

with Kingsway Securities solely for the purpose of the Offer. Such facilities are secured by 395,334,299 Shares owned by Harbour Front, and any Shares to be acquired in the Offer. Kingsway Capital and Kingsway Securities have confirmed that they are satisfied that the Offeror has sufficient financial resources to satisfy full acceptance of the Offer of approximately HK\$12.38 million.

Latest time for acceptances

The Offer will be opened from Monday, 23 December 2002 and remains open until the latest time for acceptances, which is expected to be at 4:00 p.m. on Monday, 13 January 2003. The Offeror does not intend to extend the time for acceptance of the Offer but reserves the right to do so.

Effect of accepting the Offer

By accepting the Offer, the Shareholders will sell their Shares, as the case may be, and all rights attached to them to the Offeror, including their rights to receive all dividends and distributions declared, made or paid on or after the completion of the Offer.

Further terms and conditions of the Offer, including the procedure for acceptance, are contained in Appendix I to this document and the accompanying form of acceptance and transfer.

Stamp duty

Seller's ad valorem stamp duty at the rate of HK\$1.00 for every HK\$1,000 or part thereof of the consideration will be deducted from the consideration payable to the Shareholders who accept the Offer.

The Offeror will pay any stamp duty which the accepting Shareholder will become liable to pay in respect of the Offer under the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).

Dealings and holdings in the Shares

Save as disclosed in the paragraph headed "Disclosure of interest" in Appendix III to this document, neither Harbour Front nor any of the parties acting in concert with it owned any Shares as at the Latest Practicable Date, nor has any of them dealt in the Shares during the period from the date commencing 6 months prior to 4 October 2002, being the date of the 1st Announcement, and up to the Latest Practicable Date.

INFORMATION ABOUT THE OFFEROR

Background

Information on Harbour Front

Harbour Front is an investment holding company incorporated in the British Virgin Islands with limited liability, 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. The principal business of Harbour Front 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, namely Miss Leung, Mr. Leung Chi Hong, Jerry and Mr. Leung Kai Hong.

LETTER FROM KINGSWAY SECURITIES

Save for the subscription of an aggregate of 157,730,346 Rights Shares under the Rights Issue, Harbour Front and parties acting in concert with it (other than Kingsway Securities) have not dealt in the Shares during the Relevant Period. Kingsway Securities has not dealt in the Shares for its own account during the Relevant Period.

INTENTION OF THE OFFEROR REGARDING THE GROUP

Since the Rights Issue became unconditional as stated in the Rights Issue Result Announcement and Harbour Front, by applying for and subscribing excess Rights Shares, together with parties acting in concert with it took up 30,111,520 new Shares, representing approximately 3.32% of the issued share capital of the Company as enlarged by the Rights Issue. Accordingly, Harbour Front is required under Rule 26.1 of the Takeovers Code to make an Offer for all 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 the completion of the Rights Issue.

The Offeror has no intention to make any changes to the composition of the Board, the management of UDL Holdings Limited or the employees of the Group by reason only of the Offer. It is also the intention of the Offeror that upon closing of the Offer, the principal activities of UDL Holdings Limited will remain unchanged in the foreseeable future and the daily operation and the management of the Group will continue to be carried out by the existing management of the Company. Although the Offeror has no intention to change the principal activities of UDL Holdings Limited in the near future, the Offeror considers that the current market conditions provide an appropriate opportunity for it to increase its shareholding in UDL Holdings Limited and hence, increase its control in the Company.

The directors of Harbour Front do not have any specific plans to inject any assets or businesses into the Group, and they have no plan for redeployment or sale of any fixed assets or businesses of the Group nor do they have any intention to change the principal business of the Company.

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 Professor Yuen Ming Fai, Matthew. Harbour Front does not have any intention to change the composition of the Board after the Offer.

MAINTAINING THE LISTING STATUS OF THE COMPANY

The Offeror will not exercise the power of compulsory acquisition but it reserves the right to do so. It intends to maintain the listing of the Shares on the Stock Exchange. **The Offeror and the Company have undertaken to the Stock Exchange to take appropriate steps such as placing of Shares to ensure that not less than 25% of the Shares will be held by the public following the close of the Offer.**

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

LETTER FROM KINGSWAY SECURITIES

The Stock Exchange has also stated that, if the Company remains a public company listed on the Stock Exchange, any acquisitions or disposals of assets of the Company will be subject to the provisions of the Listing Rules. Pursuant to the Listing Rules, the Stock Exchange has the discretion to require the Company to issue a circular to the Shareholders where an acquisition or disposal by the Company is proposed, irrespective of the size of such acquisition or disposal and in particular where such acquisition or disposal represents a departure from the principal activities of the Company. The Stock Exchange also has the power, pursuant to the Listing Rules, to aggregate a series of acquisitions or disposals by the Company and any such acquisitions or disposals may, in any event, result in the Company being treated as a new applicant for listing and subject to the requirements for new applicants as set out in the Listing Rules.

TAXATION

Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting the Offer. It is emphasized that none of Kingsway Capital, Kingsway Securities, the Offeror, the parties acting in concert with the Offeror and the Company or any of their respective directors or any persons involved in the Offer accepts responsibility for any tax effects on, or tax liabilities of, any person or persons as a result of his/her/their acceptance of the Offer.

PROCEDURES FOR ACCEPTANCE OF THE OFFER

To accept the Offer, you should complete the accompanying form of acceptance and transfer in accordance with the instructions printed thereon, the contents of which form part of the terms and conditions of the Offer.

The completed form of acceptance and transfer should then be forwarded, together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for not less than the number of Shares in respect of which you intend to accept the Offer, by post or by hand, to the Registrar, in an envelope marked "UDL Offer" as soon as possible but in any event not later than 4:00 p.m. on Monday, 13 January 2003 or such later date as the Offeror may determine and announce. No acknowledgement of receipt of any form of acceptance and transfer, Share certificate(s), transfer receipt(s) or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

Your attention is drawn to the further details regarding the procedures for acceptance of the Offer set out in Appendix I to this document and the accompanying form of acceptance and transfer. The attention of the Shareholders with registered addresses outside Hong Kong is also drawn to the paragraph headed "General" in Appendix I to this document.

SETTLEMENT

Assuming the Offer becomes unconditional and provided that the relevant form of acceptance and transfer, Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are in good order in all respects and received by the Registrars in respect of the Offer by not later than 4:00 p.m. on the First Closing Date, a cheque for the amount due to you less stamp duty in respect of the Shares tendered by you under the Offer will be despatched to you at your own risk within 10 days of the

LETTER FROM KINGSWAY SECURITIES

First Closing Date. After the Offer becomes unconditional, payment will be made within 10 days of receipt of acceptance following the date on which all the relevant documents are received by the Registrars to render such acceptance complete and valid.

If the Offer does not become unconditional, your relevant form of acceptance and transfer, Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title in respect of Shares (and/or any satisfactory indemnity or indemnities required in respect thereof) will be returned to you, or your designated agent, within 10 days after the expiry or lapse of the Offer. Where you have sent (a) transfer receipt(s) and in the meantime the relevant Share certificate(s) has/have been collected on your behalf, you will be sent such Share certificate(s) in lieu of transfer receipt(s).

GENERAL

In order for beneficial owners of Shares whose investments are registered in nominee names to accept the Offer, it is essential that they provide instructions to their nominee agents of their intentions with regard to the Offer. To ensure equality of treatment of all holders of Shares, those registered holders of Shares who hold the Shares as nominees for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately.

All documents and remittances will be sent by or to the Shareholders through ordinary post at their own risk. Such documents and remittances will be sent to the Shareholders at their respective addresses as they appear in the register of members or, in the case of joint Shareholders, to Shareholders whose names appear first in the said register of members, unless otherwise specified in the form of acceptance and transfer completed and returned by the Shareholders. None of the Company, the Offeror, the parties acting in concert with the Offeror, Kingsway Capital and Kingsway Securities or any of their respective directors or any other person involved in the Offer will be responsible for any loss or delay in transmission or any other liabilities for any loss or delay in transmissions of documents and remittances sent by or to the Shareholders.

Independent Shareholders are strongly advised to refer to the recommendation of the Independent Board Committee and the advice from the IFA, Chateron, before deciding whether or not to accept the Offer.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices which form parts of this document.

Yours faithfully,
For and on behalf of
Kingsway SW Securities Limited
Mary Lam
Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



UDL HOLDINGS LIMITED
太元集團有限公司

(Incorporated in Bermuda with limited liability)

23 December 2002

To the Independent Shareholders

Dear Sir or Madam,

**MANDATORY CONDITIONAL CASH OFFER BY
KINGSWAY SW SECURITIES LIMITED
ON BEHALF OF HARBOUR FRONT LIMITED
FOR ALL THE ISSUED SHARES
OF
UDL HOLDINGS LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED
OR AGREED TO BE ACQUIRED BY
HARBOUR FRONT LIMITED
AND PARTIES ACTING IN CONCERT WITH IT)**

We refer to the composite offer document dated 23 December 2002 issued by the Offeror and the Company (the “Composite Offer Document”), of which this letter forms part. Terms used in the Composite Offer Document shall bear the same meanings when used herein unless otherwise defined.

We have been appointed as members of the Independent Board Committee to advise you as to whether, in our opinion, the terms and conditions of the Offer are fair and reasonable so far as the Independent Shareholders are concerned, and Chateron has been appointed as the independent financial adviser to advise us in respect of the Offer.

We wish to draw your attention to the letter from Chateron as set out on pages 23 to 40 of the Composite Offer Document which contains, inter alia, its advice and recommendations to us regarding the terms and conditions of the Offer together with the principal factors and reasons for its advice and recommendation.

RECOMMENDATION

Having taken into account the principal factors and reasons basis upon the terms and conditions of the Offer considered by Chateron and its advice and recommendations, we consider that the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned. We therefore recommend the Independent Shareholders to accept the Offer.

Yours faithfully,

Pao Ping Wing, JP Yuen Ming Fai, Matthew
Independent Board Committee

LETTER FROM CHATERON

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限
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CHATERON
CORPORATE FINANCE LIMITED
SUITE 20B, 20TH FLOOR,
9 QUEEN'S ROAD CENTRAL, HONG KONG
TEL: (852) 2868 2828 FAX: (852) 2868 0390

23 December 2002

The Independent Board Committee
UDL Holdings Limited
7th Floor
Aitken Vanson Centre
61 Hoi Yuen Road
Kwun Tong
Hong Kong

Dear Sirs,

**MANDATORY CONDITIONAL CASH OFFER (THE "OFFER")
BY KINGSWAY SW SECURITIES LIMITED ("KINGSWAY SECURITIES")
ON BEHALF OF
HARBOUR FRONT LIMITED ("HARBOUR FRONT")
TO ACQUIRE ALL THE ISSUED SHARES OF
UDL HOLDINGS LIMITED (THE "COMPANY")
OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED
BY HARBOUR FRONT AND PARTIES ACTING IN CONCERT WITH IT**

INTRODUCTION

We refer to the announcement issued by the Company dated 4 October 2002 regarding, inter alia, the Offer, the background, details and the terms of which are referred to in the letter from Kingsway Securities as set out in the composite document (the "**Document**") issued by the Company dated 23 December 2002, of which this letter forms part. Capitalized terms used in this letter shall have the same meanings ascribed to them in the Document unless otherwise defined or the context herein otherwise requires.

We, Chateron, have been appointed to advise the Independent Board Committee which would then advise the Independent Shareholders in relation to the terms and conditions of the Offer. The Independent Board Committee comprises Mr. Pao Ping Wing, JP and Professor Yuen Ming Fai, Matthew, both being independent non-executive Directors. As at the Latest Practicable Date, the Board comprised altogether four Directors, namely (i) Mrs. Leung, chairman of the Company and an executive Director; (ii) Miss Leung, an executive Director; and (iii) two independent non-executive Directors, being Mr. Pao Ping Wing, JP and Professor Yuen Ming Fai, Matthew. In relation to the above, we noted that apart from their executive functions in the day-to-day management of the Group, Mrs. Leung and Miss Leung are beneficiaries of a discretionary trust which beneficially owns units in a unit trust of which Harbour Front is the trustee. Given that Harbour Front is making the Offer, we therefore consider that both Mrs. Leung and Miss Leung

LETTER FROM CHATERON

are parties acting in concert with Harbour Front and are therefore not eligible to be appointed as members of the Independent Board Committee to advise the Independent Shareholders in relation to the Offer. On the other hand, each of Mr. Pao Ping Wing, JP and Professor Yuen Ming Fai, Matthew, both being independent non-executive Directors, declared that as at the Latest Practicable Date, they did not have any conflict of interest in the context of the Offer and that they did not have any connection or relationship with, or, where applicable, any direct or indirect shareholding and equity-related interest in, the Company, Harbour Front, their respective subsidiaries or any of their respective directors, chief executive or substantial shareholders or any of their respective associates or parties acting in concert with any of them. Therefore, we consider that each of Mr. Pao Ping Wing, JP and Professor Yuen Ming Fai, Matthew, is eligible for appointment as a member of the Independent Board Committee to advise the Independent Shareholders in relation to the terms and conditions of the Offer.

This letter contains our advice to the Independent Board Committee as to (i) whether or not the terms and conditions of the Offer are fair and reasonable insofar as the interests of the Independent Shareholders are concerned; and (ii) whether or not the Independent Board Committee should recommend the Independent Shareholders to accept the Offer. In formulating our opinion and recommendation to the Independent Board Committee in relation to the Offer, we have relied on the accuracy of the information and representations relating to the Group and the Offer which are contained in the Document and which have been provided to us by the Directors and in respect of which the Directors consider to be complete and relevant. We have assumed that all statements, information and representations relating to the Group made or referred to in the Document and for which the Directors are solely responsible, were true and correct in all respects at the time they were made and continued to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion and intention relating to the Group made by the Directors were reasonably made after due and careful enquiry and are based on honestly-held opinions. We have no reason to doubt the truth, accuracy and completeness of the information and representations relating to the Group provided to us by the Directors, and we have been advised by the Directors that no material facts have been omitted from the information and representations relating to the Group which are provided in and referred to in the Document for which the Directors are responsible. We consider that we have received sufficient information to enable us to reach an informed view and to justify our reliance on the accuracy of the information and representations contained in the Document and to provide a reasonable basis for our opinion and recommendation. We have no reason to suspect that any material information has been withheld by any member of the Board, the Group or its senior management. We have not, however, carried out any independent verification of the information provided to us by the Directors nor have we conducted an independent in-depth investigation into the affairs of any member of the Group.

In formulating our opinion and recommendation, we have not considered the tax consequences on any Independent Shareholder as a result of his/her acceptance of the Offer, since these are particular to the individual circumstances of any such Independent Shareholders. It is emphasized that we will not accept responsibility for any tax effects on or liabilities of any person resulting from the acceptance of the Offer. In particular, any Independent Shareholders who is in any doubt about his/her own tax position should consult his/her own professional adviser(s).

LETTER FROM CHATERON

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee in relation to the terms and conditions of the Offer, we have considered the principal factors and reasons set out below:–

1. Reasons for the Offer

As referred to in the letter from Kingsway Securities as set out on pages 15 to 21 of the Document, the Rights Issue became unconditional on 29 November 2002. Under the Rights Issue, Harbour Front subscribed for (i) an aggregate of 127,618,826 Rights Shares provisionally allotted to it and its concert parties which represent their pro-rata entitlement to the Rights Shares in accordance with their aggregate beneficial interests in the Company under the Rights Issue; and (ii) 30,111,520 Rights Shares representing approximately 3.32% of the issued share capital of the Company of 908,302,302 Shares as enlarged by the issue of the Rights Shares, which were allocated to Harbour Front and parties acting in concert with it out of the 175,148,608 excess Rights Shares applied for by Harbour Front and its concert parties under the Rights Issue.

Before the Rights Issue, the Company's issued share capital comprised 605,534,868 Shares. After the Rights Issue, the Company's issued share capital was enlarged to 908,302,302 Shares. The number of excess Rights Shares which were subscribed for by Harbour Front and its concert parties, being 30,111,520 Shares, exceeded 2% of the Company's issued share capital as enlarged by the Rights Issue which is 18,166,046 Shares. Harbour Front and its concert parties were and collectively beneficially interested in approximately 42.15% of the issued share capital of the Company before the Rights Issue. As referred to above, by virtue of the Subscription by Harbour Front and its concert parties of 30,111,520 excess Rights Shares under the Rights Issue which exceeds 2% of the Company's enlarged issued share capital after the Rights Issue, Harbour Front and its concert parties acquired additional voting rights in the Company of more than 2% from its lowest percentage holding during the period of twelve months up to and including the date on which the Rights Issue became unconditional on 29 November 2002. Accordingly, Harbour Front will be required to make the Offer under Rule 26.1 of the Takeovers Code.

As set out in the letter from Kingsway Securities on pages 15 to 21 of the Document, after the completion of the Rights Issue, Harbour Front and parties acting in concert with it were beneficially interested in 412,967,999 Shares which represent approximately 45.47% of the enlarged issued share capital of the Company of 908,302,302 Shares. In other words, the Independent Shareholders beneficially held an aggregate of 495,334,303 Shares representing approximately 54.53% of the issued share capital of the Company as at the Latest Practicable Date. Based on the aggregate of 495,334,303 Shares held by the Independent Shareholders who are practically subject to the Offer and at the Offer Price of HK\$0.025 per Offer Share, the Offer is valued at approximately HK\$12.4 million. Out of the 495,334,303 Shares held by the Independent Shareholders, an aggregate of 252,306,195 Shares were held by the Scheme Administrator on trust for the non-preferential creditors of the Company pending distribution under the Scheme (the "**Scheme Shares**") as at the Latest Practicable Date. In this regard, we were informed by the Directors that Harbour Front was notified in writing by the Scheme Administrator on 27 November 2002 that (i) there is no express provision in the Scheme giving the Scheme Administrator the right or power to sell

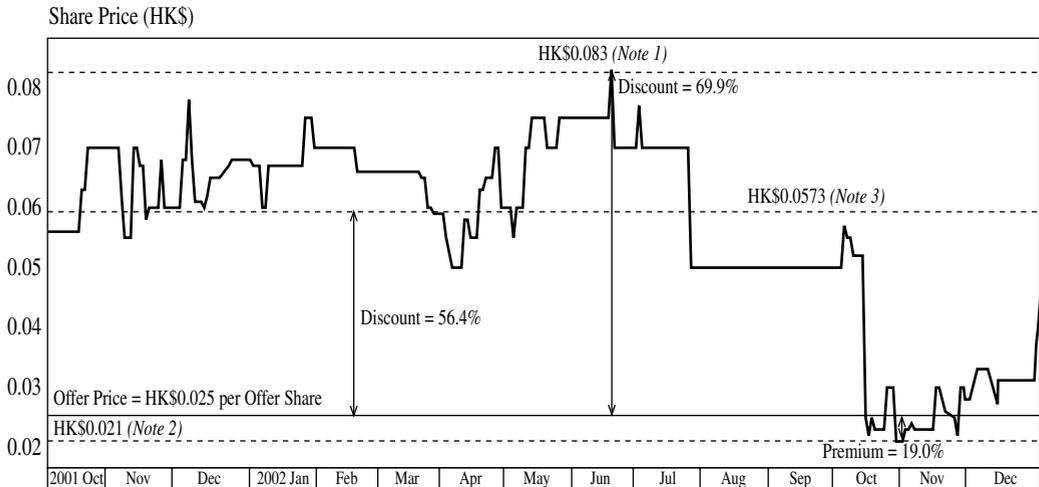
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the Scheme Shares; and (ii) in the absence of consent of the non-preferential creditors of the Company under the Scheme and/or an order of the Supreme Court of Bermuda, the Scheme Administrator does not have the right or power to sell the Scheme Shares. However, we consider that the aforementioned written notification from the Scheme Administrator to Harbour Front does not affect the entitlement of the Scheme Shares to the Offer, and accordingly we consider that the Scheme Shares are also subject to the Offer.

2. The Offer Price

With regard to the historical traded Share price performances during the Period (as defined hereinafter)

We have compared the Offer Price of HK\$0.025 per Offer Share against the historical closing price performances of the Shares during the period from 5 October 2001 (being the date falling on one year prior to the announcement of the Offer) up to and including the Latest Practicable Date (the “**Period**”), as demonstrated in the Share price chart below:–



Notes:–

1. Being the highest closing price of the Shares during the Period which was recorded on 20 June 2002.
2. Being the lowest closing price of the Shares during the Period which was recorded on 31 October 2002.
3. Being the average closing price of the Shares during the Period (calculated as the simple average of the closing Share prices during the Period).

The Offer Price of HK\$0.025 per Offer Share represents:–

- (i) a discount of approximately 50.0% to the closing price of the Shares of HK\$0.050 as quoted on the Stock Exchange on 14 August 2002 (the “**Last Trading Day**”), being the last trading day of the Shares on the Stock Exchange immediately prior to the suspension in the trading of the Shares pending the release of the announcement on 4 October 2002 in relation to, inter alia, the Offer;

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- (ii) a discount of approximately 57.6%, 62.1% and 62.1% to the average closing prices of approximately HK\$0.059, HK\$0.066 and HK\$0.066 per Share as quoted on the Stock Exchange for the period of 30 days, 60 days and 90 days up to and including the Last Trading Day, respectively;
- (iii) a discount of approximately 69.9% to the highest recorded closing price of the Shares of HK\$0.083 during the Period;
- (iv) a premium of approximately 19.0% to the lowest recorded closing price of the Shares of HK\$0.021 during the Period;
- (v) a discount of approximately 56.4% to the average closing price of approximately 0.0573 per Share during the Period (calculated as the simple average of the closing Share prices during the Period); and
- (vi) a discount of approximately 43.2% to the closing price of the Shares of HK\$0.044 as quoted on the Stock Exchange as at the Latest Practicable Date.

We noted from the Share price chart above that during the Period, the Offer Price of HK\$0.025 per Offer Share represents a discount to a major part of the Period except for very short periods of time in October and November 2002. Furthermore, during the Period, the discounts represented by the Offer Price to the historical closing prices of the Shares are of magnitudes which exceeded the premiums which are otherwise represented by the Offer Price to the historical closing prices of the Shares. Therefore, based on the historical closing prices of the Shares recorded during the Period, we consider that the Offer Price was not determined at a level which is sufficiently attractive to the Independent Shareholders.

With regard to the liquidity in the trading volume of Shares on the Stock Exchange during the Period

As referred to in the paragraph headed “Reasons for the Offer” above, we noted that (i) there is no express provision in the Scheme giving the Scheme Administrator the right or power to sell the 252,306,195 Scheme Shares (representing approximately 27.8% of the Company’s issued share capital as at the Latest Practicable Date); and (ii) in the absence of consent of the non-preferential creditors of the Company under the Scheme and/or an order of the Supreme Court of Bermuda, the Scheme Administrator does not have the right or power to sell the Scheme Shares. Therefore, based on an aggregate of 908,302,302 issued Shares as at the Latest Practicable Date, an aggregate of 655,996,107 Shares are capable of being traded in the market. In reviewing the liquidity in the trading volume of the Shares on the Stock Exchange during the Period below, the average number of Shares traded daily

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on the Stock Exchange excludes any of the 252,306,195 Scheme Shares as referred to above. Our findings are as follows:–

Month	Average number of Shares traded daily <i>(million Shares)</i>	As a percentage of the Company's issued share capital as at the Latest Practicable Date <i>(%)</i>	As a percentage of the Company's public float <i>(Note 1)</i> as at the Latest Practicable Date <i>(%)</i>
2001			
From 5 October to 31 October	0.229	0.025	0.094
November	0.451	0.050	0.186
December	0.367	0.040	0.151
2002			
January	0.124	0.014	0.051
February	0.000	0.000	0.000
March	0.066	0.007	0.027
April	0.362	0.040	0.149
May	0.166	0.018	0.068
June	0.300	0.033	0.123
July	0.246	0.027	0.101
August <i>(Note 2)</i>	0.000	0.000	0.000
September <i>(Note 2)</i>	0.000	0.000	0.000
October <i>(Note 2)</i>	0.345	0.038	0.142
November	0.187	0.021	0.077
1 December up to and including the Latest Practicable Date	0.367	0.040	0.151
Average	0.214	0.024	0.088

Note:

1. *Excluding the 252,306,195 Scheme Shares which are not capable of being traded in the market for reasons as discussed above and the 412,967,999 shares beneficially held by Harbour Front and its concert parties as at the Latest Practicable Date.*
2. *Excluding the period from 14 August 2002 to 4 October 2002 (both dates inclusive), being the period during which trading in the Shares was suspended on the Stock Exchange pending the announcement of, inter alia, the Offer.*

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Based on the above statistics, we noted that the Shares have historically been trading under an extremely low level of liquidity on the Stock Exchange during the Period, with an average daily traded volume representing (i) only approximately 0.024% of the Company's issued share capital as at the Latest Practicable Date; and (ii) only approximately 0.088% of the Company's public float (excluding the 252,306,195 Scheme Shares) as at the Latest Practicable Date. In this regard, we noted that the average daily traded volume of Shares on the Stock Exchange during the Period generally represents less than 0.1% of the Company's issued Shares as at the Latest Practicable Date, which is equivalent to approximately 0.9 million shares based on the issued share capital of the Company as enlarged by the Rights Issue as at the Latest Practicable Date. Based on the foregoing statistics, we consider that the Shares had traded on the Stock Exchange under an extremely low level of liquidity during the Period. In this regard, we noted that before the completion of the Rights Issue on 29 November 2002, the Company's then issued share capital comprised an aggregate of 605,534,868 Shares which, having excluded the 255,237,653 Shares which were then beneficially held by Harbour Front and its concert parties (who, as the Company's controlling shareholder, is not expected to sell its holding of Shares in the market under normal circumstances) and the 252,306,195 Scheme Shares which are not capable of being traded in the market, resulted in an aggregate of 97,991,020 Shares in the hands of the public representing only approximately 16.2% of the Company's then issued share capital which are freely tradable in the market. Therefore, we consider that the low liquidity in the trading of the Shares on the Stock Exchange before the end of November 2002 is attributable to the fact that about 84% of the Company's then issued share capital was not freely tradable in the market (including the aggregate beneficial shareholding of Harbour Front and its concert parties in the Company which are not expected to be sold in the market under normal circumstances). On the other hand, after the completion of the Rights Issue on 29 November 2002, we noted that as referred to in the Company's announcement dated 30 November 2002, an aggregate of 243,028,108 Shares were in the hands of the public representing approximately 26.8% of the Company's issued share capital which are freely tradable in the market. We consider the increased public float of the Company after the Rights Issue accounted for the more active trading volume of the Shares on the Stock Exchange during the period from 1 December 2002 up to and including the Latest Practicable Date, when compared with the previous period from 5 October 2001 up to the end of November 2002 during the Period. However, we noted that the liquidity in the trading of the Shares on the Stock Exchange remained to be extremely low after the completion of the Rights Issue, given that about 73% of the Company's issued share capital remains not to be freely tradable in the market (including the aggregate beneficial shareholding of Harbour Front and its concert parties in the Company which are not expected to be sold in the market under normal circumstances).

As referred to in the sub-paragraph headed "With regard to the historical traded Share price performances during the Period (as defined hereinafter)" above, we noted that the Offer Price of HK\$0.025 per Offer Share represents a discount of approximately 43.2% to the closing price of the Shares of HK\$0.044 as quoted on the Stock Exchange as at the Latest Practicable Date. Although it would appear to be in the interests of the Independent Shareholders to sell their Shares in the market instead of tendering their acceptances to the Offer, we consider that given the extremely low liquidity in the trading of the Shares on the Stock Exchange during the Period, it is perceived that there would be a significant downward pressure on the prevailing

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market prices of the Shares in the event that all the Independent Shareholders were to elect to sell their Shares in the market instead of tendering their acceptances to the Offer. In such circumstances, we consider that not all the Independent Shareholders would have the opportunity to be able to sell their Shares in the market at a price level equivalent to the Offer Price of HK\$0.025. Furthermore, we consider that even if the Independent Shareholders are prepared to sell their Shares in the market, the current unfavourable stock market sentiment (as demonstrated by the contraction in the average daily traded volume of shares on the Stock Exchange by approximately 22% from approximately 342 million shares in November 2001 to approximately 266 million shares in November 2002) may not be able to generate sufficient buying interests for the Shares to enable Independent Shareholders to dispose of all their holdings of Shares in the market.

Based on the foregoing, we are therefore of the view that the Offer provides an exit mechanism for the Independent Shareholders to be able to realize their investments in the Shares as we consider that the Independent Shareholders will not be selling their Shares at any price differential which would otherwise arise if all the Independent Shareholders were to elect to sell their Shares in the market, due to the perceived significant downward pressure on the Share market prices in view of the extremely low liquidity in the trading of the Shares on the Stock Exchange during the Period. Therefore, we are of the view that the Offer is fair and reasonable and is in the interests of the Independent Shareholders.

3. Evaluation of the Offer Price with regard to the Group's net asset backing

We have referred to the Company's annual report and accounts for the year ended 31 July 2002, being the latest accounts reporting date to which the Company's audited consolidated accounts were prepared and published, from which we noted that the Company's audited consolidated Shareholders' deficit amounted to approximately HK\$51.97 million as at 31 July 2002, which is equivalent to an audited Shareholders' deficit of approximately HK\$0.086 per Share based on 605,534,868 Shares in issue as at 31 July 2002. In this connection, we noted that the aggregate net book value of the Group's floating craft and vessels of approximately HK\$75.9 million accounted for approximately 67% of the Group's total assets of approximately HK\$113 million (before deducting the Group's total liabilities of approximately HK\$165 million as at 31 July 2002) as at 31 July 2002. As referred to in the Company's annual report and accounts for the year ended 31 July 2002, the Group's floating craft and vessels were stated at their recoverable amount which is determined on the basis of the higher of (i) the net selling price of the Group's floating craft and vessels; and (ii) the estimated net present value of the future cashflows generated by the Group's floating craft and vessels (the "Valuation Basis"). We have discussed with and were informed by the Directors that it is the Group's intention to continue its ownership of those floating craft and vessels which are capable of generating cashflow contributions to the Group, and to seek to dispose of those floating craft and vessels which are not capable of generating cashflow contributions to the Group so that the net proceeds from disposal would be used to reduce the Group's debt servicing obligations. Therefore, we consider that the Valuation Basis adopted by the Group in determining the recoverable amount of its floating craft and vessels is consistent with the Group's intentions in dispensing with its fleet of floating craft and vessels as discussed above.

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The Offer Price of HK\$0.025 per Offer Share represents a premium of approximately HK\$0.111 over and above the Company's audited Shareholders' deficit of approximately HK\$0.086 as at 31 July 2002. Furthermore, after the completion of the Rights Issue from which the Company derived net proceeds of approximately HK\$6.6 million, the Company's resultant proforma unaudited adjusted consolidated Shareholders' deficit would be approximately HK\$45.37 million, which is equivalent to a proforma unaudited adjusted consolidated Shareholders' deficit of approximately HK\$0.05 per Share based on 908,302,302 Shares in issue as at the Latest Practicable Date. The Offer Price of HK\$0.025 per Offer Share represents a premium of approximately HK\$0.075 over and above the Company's resultant proforma unaudited adjusted consolidated Shareholders' deficit of approximately HK\$0.05 after the Rights Issue as at the Latest Practicable Date.

In view of the premiums represented by the Offer Price over and above the Company's net asset positions per Share as referred to above, we are of the view that the Offer Price has been determined on a fair and reasonable basis and is in the interests of the Independent Shareholders.

4. Business review and future prospects of the Group

4.1 Business review

Set out below is a summary of the financial results performance of the Group for (i) the sixteen months ended 31 July 2000; (ii) the year ended 31 July 2001; and (iii) the year ended 31 July 2002, as well as a summary of the financial positions of the Group as at 31 July 2000, 31 July 2001 and 31 July 2002, as extracted from the Company's annual report and accounts for the years ended 31 July 2001 and 31 July 2002:-

Financial results performances

	For the year ended 31 July 2002 (Audited) HK\$'000	year ended 31 July 2001 (Audited) HK\$'000	For the sixteen months ended 31 July 2000 (Audited) HK\$'000
Turnover	31,173	100,110	71,325
Net profit/(loss) attributable to Shareholders	(75,973)	4,372	603,699
Dividend	Nil	Nil	Nil

The Company had an accounting year end of 31 March before it changed its accounting year end to 31 July in connection with the Group's restructuring programme in April 2000 as described below. We were informed by the Directors that during the two years ended 31 March 1998 and 1999, the Group reported significant net losses attributable to Shareholders of approximately HK\$1,689 million and HK\$970 million,

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respectively, which were attributable to provisions for contract work in progress, losses relating to contracts terminated, provisions for bad and doubtful debts on accounts receivables from the Group's clients and diminution in the recoverable values of the Group's fleet of floating craft and vessels. Therefore, in April 2000, the Group entered into a restructuring programme by way of the Scheme with its creditors and the Group discontinued and/or disposed of its contracting, structural steel, electrical and mechanical engineering businesses. **As a result, during the sixteen months ended 31 July 2000, the Group recognized an aggregate gain on disposal of its subsidiaries engaged in the electrical and mechanical engineering businesses (which were discontinued as at the Latest Practicable Date) which amounted to approximately HK\$736 million and we were informed by the Directors that such exceptional gain does not relate to any waiver of the Group's indebtedness by its creditors pursuant to the Scheme.** Such an exceptional gain was essentially of a one-off nature which did not recur in subsequent financial years, and which mainly accounted for the Group's net profit attributable to Shareholders of approximately HK\$603.7 million for the sixteen months ended 31 July 2000. During the sixteen months ended 31 July 2000, the Group recorded turnover of approximately HK\$33 million and operating loss of approximately HK\$40 million attributable to the marine engineering business, which is the Group's continuing business as at the Latest Practicable Date.

We noted that the Group's financial results for the year ended 31 July 2001 were wholly attributable to the marine engineering operations in Hong Kong and Singapore comprising plant hire of dredging, reclamation and transportation vessels, construction of portworks and reclamation projects, which are being carried out by the only two actively operating subsidiaries within the Group, namely UDL Marine Assets (Hong Kong) Limited and UDL Marine Assets (Singapore) Pte Limited, respectively. However, we noted that the Group's results during the year then ended were affected by the unfavourable market conditions of the marine engineering industry in Hong Kong and Singapore, which were in turn attributable to the weak economic conditions in Hong Kong and Singapore that prevailed during the year then ended. We noted that, as a result, the Group experienced difficulties in recovering its long outstanding accounts receivables from its clients despite the fact that the Group has taken the necessary legal or other proceedings in seeking recoveries of the long outstanding and material accounts receivables. In this regard, we noted that during the year ended 31 July 2001, the Group made full provisions in respect of an outstanding accounts receivable of approximately HK\$17 million relating to an engineering project in Malaysia. Based on the foregoing, the Group only recorded net profit of approximately HK\$4.4 million for the year then ended.

We further noted that, during the year ended 31 July 2002, the Group recorded a drop in turnover by approximately 69% from approximately HK\$100.1 million for the year ended 31 July 2001 to approximately HK\$31.2 million for the year ended 31 July 2002. We further noted that all of the Group's turnover during the year ended 31 July 2002 were generated from its marine engineering works in Hong Kong, whilst the Group did not record any turnover from its operations in Singapore during the year then ended. We were informed by the Directors that such a significant decrease in the Group's turnover was attributable to the continuing poor economic conditions in Hong Kong and Singapore, being the markets in which the Group operates, and the resultant slow down or suspension in a number of major infrastructural project

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developments which require marine engineering services. In this regard, we noted that the utilisation rate of the Group's fleet of vessels during the year ended 31 July 2002 was 13% which represented a decrease by approximately 78% from the corresponding utilisation rate of approximately 59% during the year ended 31 July 2001. On the other hand, the Group's cost of sales during the year ended 31 July 2002 remained to be comparable with that during the year ended 31 July 2001, due to the fact that a substantial proportion of Group's fixed costs were incurred in relation to vessel maintenance and depreciation. We consider that the Group's reduced turnover and continuing high cost of sales relating to the Group's marine engineering projects have together resulted in a gross loss for the Group of approximately HK\$7.3 million, which compared unfavourably with the Group's gross profit of approximately HK\$57.0 million during the corresponding year ended 31 July 2001. Furthermore, we noted that, the Group made full provisions of (i) approximately HK\$22 million relating to a number of long outstanding accounts receivable from the Group's clients in respect of plant hires and vessel maintenance income, including a provision in respect of a long outstanding accounts receivable from Hyundai Engineering and Construction Company Limited of approximately HK\$18 million; and (ii) approximately HK\$26 million relating to the impairment in value of the Group's floating craft and vessels, from their carrying net book values down to the Directors' estimate of their recoverable values in the market in view of the Group's continuous focus on disposal of certain of its vessels to reduce the Group's debt servicing obligations. We consider that the abovementioned provisions on the Group's accounts receivable and the recoverable value of the Group's floating craft and vessels have together adversely affected the Group's financial results with a net loss of approximately HK\$76.0 million for the year ended 31 July 2002.

Financial position

	As at 31 July 2002 (Audited) HK\$'000	As at 31 July 2001 (Audited) HK\$'000	As at 31 July 2000 (Audited) HK\$'000
Floating craft and vessels, plant and equipment	76,492	131,906	142,963
Net current (liabilities)	(128,458)	(79,851)	(43,279)
Net tangible assets/ (Shareholders' deficit)	(51,966)	23,818	15,897
Aggregate borrowings and obligations under finance leases	111,659	107,207	133,032
Overall gearing (%)	n/a	450%	837%

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Based on the foregoing, we noted that the Group has been operating under an extremely high overall gearing level. As we noted that the Group continued to record net current liabilities of approximately HK\$128.5 million as at 31 July 2002, we consider that the Group may not be able to meet its repayment obligations regarding its short term borrowings as and when they fall due. As at 31 July 2002, the Group's entire borrowings of approximately HK\$111.7 million were in form of short term loans which mainly accounted for the Group's net current liabilities of approximately HK\$128.5 million as at 31 July 2002. We consider that this demonstrates a deterioration in the Group's financial position, when compared with the fact that approximately HK\$81.4 million (representing approximately 76% of the Group's total borrowings of approximately HK\$107.2 million) were in form of short term loans as at 31 July 2001 and that approximately HK\$52.4 million (representing approximately 39% of the Group's total borrowings of approximately HK\$133.0 million) were in form of short term loans as at 31 July 2000. As referred to in Appendix II to the Document, we noted that save as any contingent liabilities arising from the Scheme (including the Company's obligations pursuant to the Undertaking as referred to below), the Group's total indebtedness comprising secured bank loans and overdrafts, secured other loans and an unsecured loan amounted to approximately HK\$123 million as at 30 November 2002 (of which approximately HK\$117 million related to secured loans). According to the annual report and accounts of the Company for the year ended 31 July 2002, all the Group's floating craft and vessels, on which the Group's marine engineering business is highly dependant, were pledged as security in respect of the loans advanced to the Group as at the Latest Practicable Date. We consider that, in view of the Group's extremely high gearing ratio and the net current liabilities as at 31 July 2002 as discussed above, the Group is unable to service its repayment obligations to its secured lenders (unless the Group is able to procure sufficient funding other than the Rights Issue proceeds for such purpose) in which case the Group's secured lenders would foreclose the security relating to the Group's floating craft and vessels which are pledged as security in favour of such lenders in respect of the loans advanced by them to the Group as at the Latest Practicable Date. In such circumstances, we consider that without the Group's ownership of its floating craft and vessels, the Group's business operations in the provision of marine engineering services would be significantly affected.

Furthermore, we noted that the Company's auditors qualified their audit opinion on the Group's financial results for the year ended 31 July 2002 because of the fundamental uncertainties relating to the preparation of the Company's audited consolidated accounts on a going concern basis. In this regard, we noted that the auditors' report in particular refers to (a) the successful outcome of the Rights Issue, which was completed as at the Latest Practicable Date as a result of which the Group raised aggregate net proceeds of approximately HK\$6.6 million; (b) the successful disposal of certain of the Group's vessels to reduce the Group's debt servicing obligations; and (c) the continued support of the Group's secured lenders and the successful outcome of the Group's negotiations and discussions with its secured lenders to restructure the Group's outstanding secured loans, failing which the Group would not be able to meet its financial obligations as they fall due in the foreseeable future. Based on the foregoing, we are therefore of the view that the Group has been operating under an unfavourable financial position as at the Latest Practicable Date.

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Upon the Scheme became effective in April 2000, the Group transferred to the Scheme Administrator the unencumbered assets (the “**Unencumbered Assets**”) and the net proceeds arising from the recovery of the accounts receivables other than inter-company receivables and receivables held by the Group’s creditors as security (the “**Accounts Receivables**”) of its certain subsidiaries (with the Unencumbered Assets and the net proceeds arising from the recovery of the Accounts Receivables being collectively referred to as the “**Scheme Assets**”). In this regard, the Company has undertaken to the Scheme Administrator that the aggregate disposal proceeds of the Scheme Assets shall not be less than HK\$176 million (the “**Undertaking**”). In the event of any shortfall in respect of the Undertaking, the Company is required to make up such shortfall commencing from 1 August 2003, being the fourth year after the financial year in which the Scheme becomes effective on 28 April 2000, for a maximum amount representing 60% of the Group’s consolidated net profit after tax, minority interests and all exceptional and extraordinary items in any financial year until the Company has fully discharged its obligation pursuant to the Undertaking. As referred to in the Scheme documents in January 2000, the net amount of proceeds (after deduction of expenses) arising from the realisation of the Scheme Assets are estimated to be in the region of HK\$183.5 million. However, we were informed by the Directors that the Company (who is a party to the Scheme) has not received, as at the Latest Practicable Date, any statement (whether audited or not) of the Scheme Assets from the Scheme Administrator. Therefore, we are unable to evaluate the aggregate value of the Scheme Assets as at the Latest Practicable Date against the maximum threshold of HK\$176 million pursuant to the Undertaking as referred to above. Nevertheless, we consider that, in view of our evaluation of the Group’s unfavourable financial position as at the Latest Practicable Date as discussed above, the requirement for the Company to honour its obligations pursuant to the Undertaking would generate adverse financial pressure on the Group.

We also refer to the Company’s litigations and legal proceedings, details of which are referred to in the Company’s prospectus dated 11 November 2002 in relation to (inter alia) the Rights Issue and which, as we were informed by the Directors, to be ongoing as at the Latest Practicable Date. We also noted that, as referred to in the Company’s prospectus dated 11 November 2002 in relation to (inter alia) the Rights Issue, the Directors have stated their 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 Group’s debt servicing obligations which, as at 30 November 2002, amounted to approximately HK\$123 million) in the absence of unforeseen circumstances. Therefore, we consider that the Group would operate under severe funding constraints and would not have adequate funding support for its business operations or capital investments for its growth and development. In this regard, we are of the view that unless (i) the Group is able to procure sufficient further funding (other than the net proceeds from the Rights Issue), such as by way of the Group’s successful disposal of certain of its vessels to reduce the Group’s debt servicing obligations; or (ii) the Group is successful in securing a favourable outcome of its negotiations and discussions with its secured lenders in restructuring the Group’s outstanding secured loans, then there will be severe limitations on the Group’s business operations on a going concern basis given the Group’s unfavourable financial position as at the Latest Practicable Date as demonstrated by inter alia, the Group’s limited financial resources, its high level of indebtedness and its obligations to the Scheme Administrator pursuant to the Undertaking as discussed above.

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4.2 *Future prospects*

We consider that the Group's unfavourable financial position as at the Latest Practicable Date (as we have discussed in the sub-paragraph headed "Business review" above) would remain to be a major limiting factor to the Group's business growth and development and in capitalizing on any business opportunities in the marine engineering sector, unless (i) the Group is able to procure sufficient further funding (other than the net proceeds from the Rights Issue) such as by way of the Group's successful disposal of certain of its vessels to reduce the Group's debt servicing obligations; or (ii) the Group is successful in securing a favourable outcome of its negotiations and discussions with its secured lenders in restructuring the Group's outstanding secured loans, so that the Group may be able to continue with its business operations on a going concern basis.

In our evaluation of the Group's capability to dispose of certain of its vessels as referred to above, we consider that this largely depends on the market demand for the Group's vessels which are mainly used for public works construction projects in Hong Kong that require marine engineering services, and which in turn is reliant on the market sentiment of the public works construction sector in Hong Kong as a whole. In this regard, we noted from the statistics released by the Hong Kong Government in July 2002 regarding the gross monetary value of construction works performed by main contractors in the public sector in Hong Kong, from which we noted that there was a contraction in the public works construction sector in Hong Kong from 2000 to 2002. According to the statistics released by the Hong Kong Government, we noted that the total monetary value of construction works in the public sector amounted to approximately HK\$50,817 million and HK\$41,793 million during the years 2000 and 2001, respectively, which demonstrated a decrease of approximately 18% from 2000 to 2001. For the first three months of 2002, the total monetary value of construction works in the public sector in Hong Kong amounted to approximately HK\$9,016 million, which demonstrated a decrease by approximately 22% when compared with the corresponding figure of approximately HK\$11,619 million during the first three months of 2001 and a decrease by approximately 32% when compared with the corresponding figure of approximately HK\$13,272 million during the first three months of 2000. We were informed by the Directors that the Group's marine engineering services is a component of the construction works in the public sector, such as reclamation projects and a number of new infrastructural projects announced by the Hong Kong Government which often involve marine dredging works to which the Group's floating craft and vessels are employed. Therefore, we consider that the abovementioned statistics relating to the construction works in the public sector in Hong Kong are indicative of the market conditions of the marine engineering sector. We further consider the abovementioned contraction in the total monetary value of construction works in the public sector is attributable to the worsened economic conditions in Hong Kong from 2000 to 2002 with the resultant contraction in public expenditures, which in turn has an adverse impact on the market conditions of the marine engineering sector given that it constitutes a component of the construction works in the public sector. Therefore, given the Group's focus on public works construction projects in Hong Kong which require marine engineering services, we consider there would be a weak market demand for the Group's vessels. Therefore, we are of the view that the Group may not be able to readily dispose of certain of its vessels for the purpose of reducing the Group's debt servicing obligations as stated above.

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On the other hand, if the Group were unable to reach any agreement(s) with its secured lenders in restructuring the outstanding secured loans (which amounted to approximately HK\$117 million, representing approximately 95% of the Group's total outstanding indebtedness of approximately HK\$123 million as at 30 November 2002 save as any contingent liabilities arising from the Scheme including the Company's obligations pursuant to the Undertaking), then we consider the Group would be deprived of the use of its vessels in the event of a possible foreclosure by the Group's lenders on such security which means that there would be an adverse impact on the Group's continuing business operations as a going concern.

Furthermore, we are also of the view that if the Group were to be unsuccessful in disposing of certain of its vessels for the purpose of reducing its debt servicing obligations or in restructuring its outstanding secured loans with the secured lenders, the only alternative for the Group to be able to raise sufficient further funding would be way of an equity fund raising. In this regard, we consider that it may be difficult for the Company to raise funds of a meaningful amount to be able to support the Group's working capital requirements by way of equity fund raising under the prevailing unfavourable stock market sentiment, and that such equity fund raising exercises, if proceeded with, might lead to a possible dilution in the resultant beneficial shareholdings of the Shareholders (including the Independent Shareholders) in the Company which we consider would not be in the interests of the Shareholders (including the Independent Shareholders) as a whole.

Therefore, based on the foregoing reasons, we consider that there exists uncertainties in the Group's business prospects.

5. Condition of the Offer

As referred to in the letter from Kingsway Securities as set out on pages 15 to 21 of the Document, Harbour Front and parties acting in concert with it were beneficially interested in an aggregate of 412,967,999 Shares after the completion of the Rights Issue, representing approximately 45.47% of the issued share capital of the Company as at the Latest Practicable Date. Therefore, the Offer is conditional upon Harbour Front having received valid acceptances of the Offer which, together with the voting rights already owned by Harbour Front and its concert parties as at the first closing date of the Offer, being 13 January 2003 (the "**First Closing Date**"), will result in Harbour Front and its concert parties together holding more than 50% of the voting rights of the Shares. The Offer will not become unconditional and will lapse if the abovementioned acceptance condition is not satisfied on or before the First Closing Date. In this regard, Harbour Front does not intend to extend the Offer beyond the First Closing Date although it reserves the right to do so.

Based on the foregoing, we consider that the Offer will become unconditional if Harbour Front shall receive valid acceptances from the Independent Shareholders which would increase the aggregate beneficial shareholdings of Harbour Front and its concert parties by approximately 4.63%, which is equivalent to approximately 42.05 million Shares, as a result of which Harbour Front and its concert parties would have a resultant aggregate beneficial shareholding of approximately 50.1% in the Company's issued share capital on the First Closing Date. Such 42.05 million Shares represent approximately 8.5% of the 495,334,303 Shares which are practically subject to the Offer as referred to in the paragraph headed "Reasons for the Offer" above.

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6. The intentions of Harbour Front regarding the Group

As referred to in the letter from Kingsway Securities as set out on pages 15 to 21 of the Document, it is the intention of Harbour Front that after the close of the Offer:–

- (i) the principal business activities of the Group, being that of marine engineering services, will continue and that the daily operation and management of the Group will continue to be carried out by the existing management of the Company. Furthermore, the directors of Harbour Front do not have any specific plans to inject any assets or businesses into the Group, and they have no plan of any redeployment or sale of any fixed assets or businesses of the Group nor do they have any intention to change the principal business of the Company;
- (ii) there will not be any changes to the composition of the Board which comprised two executive Directors, namely Mrs. Leung and Miss Leung, and two independent non-executive Directors, namely Mr. Pao Ping Wing, JP, and Professor Yuen Ming Fai, Matthew, as at the Latest Practicable Date or the management of the Company or the employees of the Group by reason only of the offer; and
- (iii) the listing of the Company on the Stock Exchange will be maintained, details of which are further referred to in the paragraph headed “Maintaining the listing status of the Company on the Stock Exchange” below.

Based on the foregoing, we therefore noted that there will not be any changes to the Group by virtue of the Offer. In this regard, we wish to draw the attention of the Independent Shareholders to our evaluation of the Group’s business operations and future prospects as referred to in the paragraph headed “Business review and future prospects of the Group” above. In particular, we consider that the Independent Shareholders should take into account the unfavourable financial position of the Group as at the Latest Practicable Date and the Group’s uncertain business prospects, as well as the possible impacts which the Group’s unfavourable financial position and the Group’s uncertain business prospects would have on their interests as continuing Shareholders if the Independent Shareholders were to elect to remain as Shareholders by not accepting the Offer.

7. Maintaining the listing status of the Company on the Stock Exchange

As referred to in the paragraph headed “The intentions of Harbour Front regarding the Group” above, it is the intention of Harbour Front to maintain the listing of the Company on the Stock Exchange after the close of the Offer. Harbour Front and the Company have undertaken to the Stock Exchange that they will take appropriate steps, if required, to ensure that a sufficient public float of not less than 25% exists for the trading of the Shares on the Stock Exchange. Harbour Front has no intention to exercise the power of compulsory acquisition with respect to the Shares under the law of Bermuda in the event Harbour Front and its concert parties shall have acquired 90% or more of the voting rights of the Company after the close of the Offer, but Harbour Front indicates that it reserves the right to do so.

The Stock Exchange has stated, inter alia, that if less than 25% of the issued Shares are held in public hands following the close of the Offer or if the Stock Exchange believes that a false market exists or may exist in respect of the Shares and that there

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are insufficient Shares in public hands to maintain an orderly market, then it will exercise its discretion to suspend dealings in the Shares.

Therefore, we wish to draw the attention of the Independent Shareholders to Harbour Front's intention to continue to maintain the Company's listing status on the Stock Exchange following the close of the Offer. If any Independent Shareholders elects to accept the Offer, then he/she will receive a cash consideration by way of the Offer Price and will forego his/her investment in the Shares. If any Independent Shareholder elects not to accept the Offer, then he/she will retain his/her investment in the Shares which will remain listed on the Stock Exchange, and in this regard we wish to draw the attention of the Independent Shareholders to the unfavourable financial position of the Group as at the Latest Practicable Date and the Group's uncertain business prospects as referred to in our evaluation in the paragraph headed "Business review and future prospects of the Group" above, as well as the possible impacts which the Group's unfavourable financial position and the Group's uncertain business prospects would have on their interests as continuing Shareholders by not accepting the Offer. Accordingly, we would advise the Independent Shareholders to consider carefully as to whether or not they would wish to maintain their investments in the Shares when evaluating whether or not they should accept the Offer.

RECOMMENDATION

Having taken into account the principal factors and reasons considered by us above, we noted that:–

- the Offer was made by Harbour Front in accordance with Rule 26.1 as a result of the Rights Issue;
- although the Offer Price of HK\$0.025 per Offer Share represents a discount of approximately 43.2% to the closing price of the Shares of HK\$0.044 as quoted on the Stock Exchange as at the Latest Practicable Date, the Offer provides an exit mechanism for the Independent Shareholders to be able to realize their investments in the Shares for reason that the Independent Shareholders will not be selling their Shares at any price differential which would otherwise arise if all the Independent Shareholders were to elect to sell their Shares in the market, due to the perceived significant downward pressure on the Share market prices in view of the extremely low liquidity in the trading of the Shares on the Stock Exchange during the Period;
- the Offer Price of HK\$0.025 per Offer Share represents a premium of approximately HK\$0.075 over and above the Company's resultant proforma unaudited adjusted consolidated Shareholders' deficit per Share of approximately HK\$0.05 (based on the Company's unaudited consolidated Shareholders' deficit per Share as at 31 July 2002 as adjusted for the completion of the Rights Issue);
- the Group recorded an audited net loss of approximately HK\$76.0 million for the year ended 31 July 2002, which compared unfavorably with the Group's audited net profit of approximately HK\$4.4 million for the year ended 31 July 2001;
- the Group recorded an extremely high overall gearing ratio as well as net current liabilities of approximately HK\$128.5 million as at 31 July 2002, which means that the Group would not be able to meet its repayment obligations regarding its short

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term borrowings as and when they fall due. Furthermore, the requirement for the Company to honour its obligations pursuant to the Undertaking would generate adverse financial pressure on the Group;

- unless (i) the Group is able to procure sufficient further funding (other than the net proceeds from the Rights Issue) such as by way of the Group's successful disposal of certain of its vessels to reduce the Group's debt servicing obligations; or (ii) the Group is successful in securing a favourable outcome of its negotiations and discussions with its secured lenders in restructuring the Group's outstanding secured loans, we consider that the Group would operate under severe funding constraints and would not have adequate funding support for its business operations or capital investments for its growth and development. Furthermore, there will be severe limitations on the Group's business operations on a going concern basis given the Group's unfavourable financial position as at the Latest Practicable Date;
- the Offer will become unconditional if Harbour Front shall receive valid acceptances from the Independent Shareholders for an amount of approximately 42.05 million Shares on the First Closing Date, representing approximately 8.5% of the 495,334,303 Shares which are practically subject to the Offer; and
- there will not be any changes to the Group by virtue only of the Offer.

Based on the foregoing, we are of the overall view that the terms and conditions of the Offer are fair and reasonable insofar as the interests of the Independent Shareholders are concerned. Therefore, we would advise the Independent Board Committee to recommend the Independent Shareholders to accept the Offer.

Yours faithfully,
For and on behalf of
Chateron Corporate Finance Limited
Christopher Wong
Director

1. FURTHER PROCEDURES FOR ACCEPTANCE

(a) If the certificate(s) and/or transfer receipt(s) and/or any other document(s) of title in respect of your Shares is/are in the name of a nominee company or some name other than your own, and you wish to accept the Offer in respect of your Shares, you must either:

- (i) lodge your Share certificate(s) and/or transfer receipts and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorizing it to accept the Offer on your behalf and requesting it to deliver the form of acceptance and transfer duly completed together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or
- (ii) arrange for the Shares to be registered in your name by the Company through the Registrar, and send the form of acceptance and transfer duly completed together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or
- (iii) if your Shares have been lodged with your broker/custodian bank through CCASS, instruct your broker/custodian bank to authorise HKSCC Nominees Limited to accept the Offer on your behalf on or before the deadline set out by HKSCC Nominees Limited, in this case, on 10 January 2003 which is one business day before the latest date on which acceptances of the Offer must be received by the Registrar. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your broker/custodian bank for the timing on processing of your instruction, and submit your instruction to your broker/custodian bank as required by them; or

if your Shares have been lodged with your Investor Participant Account with CCASS, authorise your instruction via the CCASS Phone System of CCASS Internet System not later than one business day before the latest date on which acceptances of the Offer must be received by the Registrar, which is 10 January 2003 in this case.

(b) If the certificate(s) and/or transfer receipts and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are not readily available and/or is/are lost and you wish to accept the Offer in respect of your Shares, the form of acceptance and transfer should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your Share certificate(s) and/or transfer receipts and/or other document(s) of title (and or any satisfactory indemnity or indemnities required in respect thereof) or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) should be forwarded to the Registrar as soon as possible thereafter. If you have lost your Share certificate(s), you should also write to the Registrar for a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.

- (c) If you have lodged transfer(s) of any of your Shares for registration in your name and have not yet received your certificate(s), and you wish to accept the Offer in respect of your Shares, you should nevertheless complete the form of acceptance and transfer and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be an authority to Kingsway Securities and/or the Offeror or their respective agent(s) to collect from the Company for the Registrar on your behalf the relevant Share certificate(s) when issued and to deliver such certificate(s) to the Registrar as if it was/they were delivered to the Registrar with the form of acceptance and transfer.
- (d) Acceptance of the Offer will be treated as valid only if accompanied by the relevant Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) has/have been received by the Registrars.
- (e) No acknowledgement of receipt of any forms of acceptance, Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.
- (f) The address of the Registrar is 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong. With effect from 13 January 2003, it will be relocated to G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

2. ACCEPTANCE PERIOD AND REVISIONS

The Offeror does not intend to extend the Offer but it reserves the right to do so in accordance with the relevant provisions of the Takeovers Code. Unless the Offer has previously been extended, all acceptances must be received by at 4:00 p.m. on Monday, 13 January 2003 and the Offer will close on Monday, 13 January 2003.

The Offeror does not intend to revise the terms of the Offer. If in the course of the Offer, the Offeror revises its terms, all the Independent Shareholders, whether or not they have already accepted the Offer, will be entitled to the revised terms. A revised offer must be kept open for at least 14 days following the date on which the revised offer document is posted.

3. ANNOUNCEMENTS

- (a) By 6:00 p.m. (or such later time and/or date as the Executive agrees) on Monday, 13 January 2003 which is the closing day of the Offer, the Offeror must inform the Executive and the Stock Exchange of its intention in relation to the revision, extension or expiry of the Offer. The Offeror must publish a teletext announcement through the Stock Exchange by 7:00 p.m. on the closing date stating whether the Offer has been revised, extended or has expired. Such announcement must be republished in accordance with the requirements set out in item (c) below on the next business day. The announcement must state (i) the total number of Shares for which acceptances of the Offer have been received, (ii) the total number of Shares held, controlled or directed by the Offeror or parties acting in concert with it before the offer period, and

- (iii) the number of Shares acquired or agreed to be acquired during the offer period by the Offeror or parties acting in concert with it. The announcement must also specify the percentages of the issued share capital of the Company and voting rights of the Company represented by these numbers of Shares.
- (b) In computing the number of Offer Shares represented by acceptances, there may be included or excluded for announcement purposes acceptances which are not in all respects in order or that are subject to verification.
- (c) As required under the Takeovers Code and the Listing Rules, any announcement in relation to the Offer, in respect of which the Executive and the Stock Exchange have confirmed that they have no further comments thereon, must be published as a paid announcement in at least one leading English language newspaper and one leading Chinese language newspaper being in each case a newspaper which is published daily and circulated generally in Hong Kong. Copies of the announcement will be delivered to the Stock Exchange in electronic form, in accordance with its requirements from time to time, for publication on its website.

4. RIGHT OF WITHDRAWAL

If the Offer has not become unconditional by 6:00 p.m. on Monday, 13 January 2003, an acceptor of the Offer shall be entitled to withdraw his/her acceptance by notice in writing signed by the acceptor or his/her agent duly appointed in writing and evidence of whose appointment is produced with the notice to the Registrars and/or to the principal office of the Company but such entitlement to withdraw shall be exercisable only until such time as the Offer become unconditional. Save as aforesaid and except in the circumstances set out in Rule 19.2 of the Code which is to the effect that if the Offeror is unable to comply with any of the requirements of making announcements relating to the Offer as described under the section headed “Announcements” above, the Executive may require that acceptors be granted a right of withdrawal, on terms acceptable to the Executive, until such requirements can be met, acceptances shall be irrevocable.

5. GENERAL

- (a) All communications, notices, forms of acceptance, certificates of Shares, transfer receipts, other documents of title and remittances to be delivered by or sent to or from the Shareholders will be delivered by or sent to or from them, or their designated agents, at their own risk, and none of the Company, the Offeror, or any of its agents accepts any liability for any loss in postage or any other liabilities that may arise as a result.
- (b) The provisions set out in the accompanying form of acceptance and transfer form part of the terms of the Offer.
- (c) The accidental omission to despatch this document and/or form of acceptance and transfer or any of them to any person to whom the Offer are made will not invalidate the Offer in any way.
- (d) The Offer and all acceptances will be governed by and construed in accordance with the laws of Hong Kong.

- (e) Due execution of the form of acceptance and transfer will constitute an authority to any director of the Company or such person or persons as the Company may direct to complete and execute any document on behalf of the person accepting the Offer and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror or such person or persons as it may direct the Shares in respect of which such person has accepted the Offer.
- (f) Acceptance of the Offer by any person or persons will be deemed to constitute a warranty by such person or persons to the Offeror that the Shares acquired under the Offer are sold by any such person or persons free from all third party rights, liens, claims, charges, equities and encumbrances and together with all rights attaching thereto including the rights to receive all future dividends or other distributions declared, paid or made on the Shares on after 4 October 2002, the date of closing of the Rights Issue.
- (g) Seller's ad valorem stamp duty, presently at the rate of HK\$1.00 for every HK\$1,000 or part thereof of the consideration arising in connection with the acceptance of Offer, is payable by accepting Shareholders and will be deducted from the cash amount due to such persons under the Offer.
- (h) The Offeror does not intend to exercise any right which may be available to it under the provisions of Section 102 or 103 of the Companies Act 1981 of Bermuda (as amended) to acquire compulsorily any Shares not acquired under the Offer after the Offer has closed but reserves the right to do so.
- (i) References to the Offer in this document and in the form of acceptance and transfer shall include any revision and/or extension thereof.
- (j) The making of the Offer to persons with a registered address in jurisdictions outside Hong Kong may be affected by the laws of the relevant jurisdictions. Shareholders who are citizens or residents or nationals of jurisdictions outside Hong Kong should inform themselves about and observe any applicable legal requirements. It is the responsibility of any such person who wishes to accept the Offer to satisfy himself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due in respect of such jurisdiction.

1. SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the audited consolidated profit and loss accounts of the Group for the sixteen months period from 1 April 1999 to 31 July 2000 and the two years ended 31 July 2002 as extracted from the relevant annual reports of the Company for the years ended 31 July 2001 and 2002.

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 16 months period from 1 April 1999 to 31 July 2000 and the two years ended 31 July 2001 and 2002, 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.**

Results

	Year ended 31 July 2002 <i>HK\$'000</i>	Year ended 31 July 2001 <i>HK\$'000</i>	Period from 1 April 1999 to 31 July 2000 <i>HK\$'000</i>
Turnover			
Continuing operations	31,173	100,110	32,870
Discontinued operations	–	–	38,455
	<u>31,173</u>	<u>100,110</u>	<u>71,325</u>
Cost of sales	(38,439)	(43,070)	(58,876)
Gross (loss)/profit	(7,266)	57,040	12,449
Other revenue	7,763	4,230	796,368
Administrative expenses	(22,337)	(21,970)	(78,983)
Other operating expenses	(42,748)	(22,089)	(6,325)
(Loss)/profit from operating activities	(64,588)	17,211	723,509
Finance costs	(13,809)	(13,574)	(161,145)
	<u>(78,397)</u>	<u>3,637</u>	<u>562,364</u>
Profit/(loss) after finance costs			
Continuing operations	–	3,637	(40,036)
Discontinued operations	–	–	602,400
	<u>(78,397)</u>	<u>3,637</u>	<u>562,364</u>
Share of profit of associates	–	–	368
(Loss)/profit before taxation	(78,397)	3,637	562,732
Taxation	2,424	717	41,362
(Loss)/profit before minority interests	(75,973)	4,354	604,094
Minority interests	–	18	(395)
(Loss)/profit attributable to shareholders	<u>(75,973)</u>	<u>4,372</u>	<u>603,699</u>
(Loss)/Earnings per share – Basic	<u>(HK\$0.13)</u>	<u>HK\$0.01</u>	<u>HK\$5.07</u>

Note: No dividends have been declared and paid for the 16 months period from 1 April 1999 to 31 July 2000 and the two years ended 31 July 2000 and 2001.

The following is a summary of the audited statement of assets and liabilities of the Group as at 31 July 2000, 2001 and 2002 as extracted from the Company's published audited accounts for the respective years.

Assets and liabilities

	2002	As at 31 July	
	<i>HK\$'000</i>	2001	2000
		<i>HK\$'000</i>	<i>HK\$'000</i>
Fixed assets	76,492	131,906	142,963
Current assets	36,458	35,922	31,002
	<u>112,950</u>	<u>167,828</u>	<u>173,965</u>
Total assets			
Current liabilities	(164,916)	(115,773)	(74,281)
Non-current liabilities	–	(28,237)	(83,769)
	<u>(164,916)</u>	<u>(144,010)</u>	<u>(158,050)</u>
Total liabilities			
Minority interests	–	–	(18)
	<u>–</u>	<u>–</u>	<u>(18)</u>
	<u>(51,966)</u>	<u>23,818</u>	<u>15,897</u>

2. AUDITED ACCOUNTS FOR THE YEAR ENDED 31 JULY 2002

Set out below are the Group's auditors' report and the audited financial statements for the year ended 31 July 2002 together with the relevant notes as extracted from the Company's 2002 annual report. Reference to the page numbers are to the page numbers of the auditors' report and the audited financial statements of the Group in the Company's annual report.

Certified Public Accountants
Hong Kong Member of
Grant Thornton International

Grant Thornton 
均富會計師行

To the members of UDL Holdings Limited
(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 17 to 55 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 in the financial statements made by the directors concerning the basis of their preparation. As further explained in note 3, the financial statements, which report net current liabilities of HK\$128,458,000 and a deficiency of assets of HK\$51,966,000 for the Group at 31 July 2002, have been prepared on a going concern basis, the validity of which is dependent upon (i) the successful completion of the Company's rights issue to raise net proceeds of approximately HK\$6,600,000 proposed in November

2002 (the “Rights Issue”); (ii) the successful disposal of certain of the Group’s vessels to reduce its debt servicing obligations (the “Vessel Disposal”); and (iii) the continued support of the Group’s secured lenders and the successful outcome of the Group’s negotiations and discussions with the secured lenders to restructure the outstanding secured loans (“Debt Restructuring Negotiations”). The financial statements do not include any adjustments that would result from the failure to complete the Rights Issue and the Vessel Disposal and to secure a favourable outcome to the Debt Restructuring Negotiations. We consider that appropriate disclosures have been made, but the fundamental uncertainties relating to the appropriateness of using the going concern basis to prepare the financial statements 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 2002 or of the loss 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 2002. 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.

Grant Thornton*Certified Public Accountants*

Hong Kong

29 November 2002

Consolidated Income Statement*For the year ended 31 July 2002*

	<i>Notes</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Turnover	5	31,173	100,110
Cost of sales		<u>(38,439)</u>	<u>(43,070)</u>
Gross (loss)/profit		(7,266)	57,040
Other revenue	7(b)	7,763	4,230
Administrative expenses		(22,337)	(21,970)
Other operating expenses	7(c)	<u>(42,748)</u>	<u>(22,089)</u>
(Loss)/Profit from operating activities		(64,588)	17,211
Finance costs	8	<u>(13,809)</u>	<u>(13,574)</u>
(Loss)/Profit before taxation	7	(78,397)	3,637
Taxation	9	<u>2,424</u>	<u>717</u>
(Loss)/Profit before minority interests		(75,973)	4,354
Minority interests		<u>–</u>	<u>18</u>
(Loss)/Profit attributable to shareholders	10, 20	<u><u>(75,973)</u></u>	<u><u>4,372</u></u>
(Loss)/Earnings per share – Basic	11	<u><u>(HK\$0.13)</u></u>	<u><u>HK\$0.01</u></u>

Consolidated Statement of Recognised Gains and Losses*For the year ended 31 July 2002*

	<i>Notes</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Exchange differences on translation of the financial statements of foreign subsidiaries	20	189	(488)
Net gain/(loss) not recognised in the income statement		189	(488)
(Loss)/Profit for the year attributable to shareholders	20	(75,973)	4,372
Total recognised (losses)/gains		(75,784)	3,884

Consolidated Balance Sheet*As at 31 July 2002*

	<i>Notes</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	<i>12</i>	76,492	131,906
Current assets			
Trade and other receivables	<i>14</i>	25,475	28,884
Amounts due from related companies	<i>25</i>	7,150	6,847
Cash and bank balances		3,833	191
		<hr/>	<hr/>
		36,458	35,922
Current liabilities			
Bank and other borrowings	<i>15</i>	116,222	82,341
Obligations under finance leases	<i>16</i>	–	46
Trade and other payables	<i>17</i>	30,861	30,271
Amounts due to related companies	<i>25</i>	17,833	3,115
		<hr/>	<hr/>
		164,916	115,773
Net current liabilities		<hr/> (128,458)	<hr/> (79,851)
Total assets less current liabilities		(51,966)	52,055
Non-current liabilities			
Bank and other borrowings	<i>15</i>	–	25,628
Obligations under finance leases	<i>16</i>	–	185
Provision for deferred tax	<i>18</i>	–	2,424
		<hr/>	<hr/>
		–	28,237
Minority interest		<hr/> –	<hr/> –
Net (liabilities)/assets		<hr/> (51,966)	<hr/> 23,818
CAPITAL AND RESERVES			
Share capital	<i>19</i>	6,055	6,055
Reserves	<i>20</i>	(58,021)	17,763
		<hr/>	<hr/>
(Deficiency of assets)/Shareholders' funds		<hr/> (51,966)	<hr/> 23,818

Balance Sheet*As at 31 July 2002*

	<i>Notes</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Interest in subsidiaries	<i>13</i>	(8,557)	14,631
Current assets			
Trade and other receivables	<i>14</i>	7,684	563
Amounts due from related companies	<i>25</i>	90	58
Cash and bank balances		106	49
		<hr/>	<hr/>
		7,880	670
Current liabilities			
Bank overdraft		–	24
Bank and other borrowings (secured)	<i>15</i>	3,000	–
Trade and other payables	<i>17</i>	1,613	2,499
Amounts due to related companies	<i>25</i>	2,740	108
		<hr/>	<hr/>
		7,353	2,631
Net current assets/(liabilities)		<hr/>	<hr/>
		527	(1,961)
Net (liabilities)/assets		<hr/>	<hr/>
		(8,030)	12,670
CAPITAL AND RESERVES			
Share capital	<i>19</i>	6,055	6,055
Reserves	<i>20</i>	(14,085)	6,615
		<hr/>	<hr/>
(Deficiency of assets)/Shareholders' funds		<hr/>	<hr/>
		(8,030)	12,670

Consolidated Cash Flow Statement*For the year ended 31 July 2002*

	<i>Notes</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Net cash inflow from operating activities	26(a)	1,360	42,329
Returns on investments and servicing of finance			
Interest received		1	6
Interest paid		(3,280)	(12,440)
Interest element of finance lease rental payments		(3)	(19)
Net cash outflow from returns on investments and servicing of finance		(3,282)	(12,453)
Taxation			
Hong Kong profits tax refunded		–	86
Investing activities			
Payments to acquire property, plant and equipment		(115)	(14,750)
Receipts from disposal of property, plant and equipment		8,988	1,829
Decrease in pledged bank balances		–	814
Net cash inflow/(outflow) from investing activities		8,873	(12,107)
Net cash inflow before financing		6,951	17,855
Financing	26(b)		
Issue of share capital		–	4,037
Repayment of bank loans		–	(14,967)
Other loans raised		3,000	–
Repayment of other loans		(3,800)	(7,336)
Capital element of finance lease payments		(234)	(32)
Net cash outflow from financing		(1,034)	(18,298)
Increase/(Decrease) in cash and cash equivalents		5,917	(443)
Cash and cash equivalents at the beginning of the year		(112)	538
Effect of foreign exchange rate changes, net		(2,179)	(207)
Cash and cash equivalents at the end of the year		<u>3,626</u>	<u>(112)</u>
Analysis of balances of cash and cash equivalents			
Cash and bank balances		3,833	191
Bank overdraft		(207)	(303)
		<u>3,626</u>	<u>(112)</u>

Notes to the Financial Statements

For the year ended 31 July 2002

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.

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 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 and its subsidiaries, 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 2000 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 2000 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 2000 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 2000 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 then Scheme Administrator, 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. On 3 December 2001, the Court of Final Appeal handed down its judgment dismissing all the appeals against the sanction of the Scheme with costs awarded in favour of the subsidiaries. The Court also dismissed appeals against the petition dismissal. 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 approximately HK\$7,399,000 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 2002.

(c) Legal proceedings

(i) Legal proceedings commenced by a plant hire customer

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.

UMAHK and UMASPG also submitted counter claims 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 outstanding. Notwithstanding that appropriate provisions have been made to reflect the aging of the receivables and the uncertain outcome of the counter claims, the directors, having consulted their legal advisers, are confident their counter claims are valid and necessary steps are being made to pursue the counter claims.

(ii) Litigation against the Company in Bermuda

On 16 May 2002, Charterbase Management Limited and United People Assets Limited, which are minority shareholders of the Company ("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 Special General Meeting (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 Limited (“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 Company.

(iii) *Legal proceedings concerning a subsidiary, Universal Dockyard Limited (“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, 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 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 Yu Oi Ling, Irene (“Mrs. Leung”), is at present controlling the management and daily affairs of Fonfair. For avoidance of doubt, the disputes between shareholders of Fonfair had become sufficiently serious that Harbour Front has petitioned for the “just and equitable” winding-up of Fonfair in High Court Companies (Winding-Up) No. 246 of 2002 (“HCCW 246 of 2002”) and for the “just and equitable” winding-up of Money Facts Limited in High Court Companies (Winding-Up) No. 880 of 2001 (“HCCW 880 of 2001”).

2. On 23 June 2002, a Winding-up Petition was filed by Fonfair against Dockyard.
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 was estimated by the bailiff at approximately 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 or Group 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 amounting 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.

3. BASIS OF PREPARATION

The financial statements on pages 17 to 55 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 liquidity of the Group and its ability to meet its ongoing obligations in light of its adverse financial position as at 31 July 2002. At that date, the Group had consolidated net current liabilities of HK\$128,458,000 and a deficiency of assets of HK\$51,966,000.

The Group's net current liabilities include bank and other loans borrowed by two of the Company's main operating subsidiaries amounting to HK\$107,285,000, 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. During the year the two subsidiaries were unable to meet their loan repayment obligations, and under the terms of the various loan agreements this constituted a default, which entitled the various financial institutions (the "secured lenders") to demand immediate repayment of the balances outstanding. These debt obligations have accordingly been reclassified as current liabilities. The Company has not provided any cross or corporate guarantees to the secured lenders in respect of these loans.

As explained in the Chairman's Statement, the Group's marine engineering business performed poorly owing to the slow recovery in the local and South East Asian markets, and made an operating loss of HK\$64,588,000 for the year. As at the date of approval of these financial statements, a substantial proportion of the Group's fleet of vessels had not been committed to plant hire agreements, and the marine engineering business is not expected to contribute significantly to the Group's cash flows for the coming year.

In order to address the Group's working capital needs and to meet its debt servicing obligations, the directors have taken and/or intend to take the following actions:-

- (i) The Company initiated a rights issue (the "Rights Issue") in November 2002, and the directors are confident this exercise will raise net proceeds of approximately HK\$6,600,000. The directors believe that these funds will be sufficient to meet the Group's requirements for operation, administration and legal expenses to be incurred for litigations against the Group and amounts to be claimed (but excluding its debt servicing obligations).
- (ii) The Group presently owns around 70 vessels and the directors intend to dispose of about 20 vessels to reduce its debt servicing obligations (the "Vessel Disposal"). The remaining 50 vessels will be used to carry on the Group's principal business of marine engineering.
- (iii) The directors are in active negotiations with the secured lenders to seek their continued ongoing support and to restructure the outstanding secured loans (the "Debt Restructuring Negotiations"). Should the Debt Restructuring Negotiations not succeed, the directors are of the view that the proceeds from the Rights Issue and the Vessel Disposal would not be sufficient to fund the Group's working capital requirements after taking into account its debt servicing obligations.

In preparing these financial statements, the directors have given careful consideration to the Group's ability to fund its working capital requirements and meet its debt servicing obligations. On the basis that the Group will be successful in completing the Rights Issue and the Vessel Disposal and in securing a favourable outcome to the Debt Restructuring Negotiations, the directors are satisfied that the Group will then 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 as current assets.

4. PRINCIPAL ACCOUNTING POLICIES

(a) Adoption of new and revised Statements of Standard Accounting Practice

The Group adopted the following Statements of Standard Accounting Practice ("SSAPs") and related Interpretations issued by the Hong Kong Society of Accountants for the first time in the preparation of financial statements for the current year.

•	SSAP 9 (Revised)	"Events after the balance sheet date"
•	SSAP 14 (Revised)	"Leases"
•	SSAP 18 (Revised)	"Revenue"
•	SSAP 26	"Segment reporting"
•	SSAP 28	"Provisions, contingent liabilities and contingent assets"
•	SSAP 30	"Business combinations"
•	SSAP 31	"Impairment of assets"
•	SSAP 32	"Consolidated financial statements and accounting for investments in subsidiaries"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements arising from those SSAPs which have had significant effects on these financial statements are summarised as follows:

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements and accordingly no prior year adjustment was required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for finance leases and operating leases, which are further detailed in note 16 and note 23 to the financial statements, respectively. Comparative amounts have been restated where necessary to achieve a consistent presentation.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 6 to the financial statements.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. The adoption of this SSAP and the required additional disclosures have no significant effect on the financial statements.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill in the non-current assets section of the balance sheet. It requires that goodwill to be amortised to the income statement over its estimated useful life. The adoption of SSAP 30 has not resulted in a prior year adjustment, for the reasons detailed in note 4(c) to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairment of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year's financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no impact on the preparation of these financial statements.

(b) 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.

(c) Goodwill or capital reserve arising on consolidation

Goodwill arising on an acquisition of subsidiaries, associates or jointly-controlled entities represents the excess of the cost of the acquisition over the fair value of the identifiable assets and liabilities acquired. Goodwill is stated at cost less any accumulated amortisation and impairment.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

Negative goodwill

Negative goodwill arising on an acquisition of subsidiaries, associates or jointly-controlled entities represents the excess of the fair value of the identifiable assets and liabilities acquired over the cost of acquisition.

To the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair value of the non-monetary assets acquired, is recognised as income on a systematic basis over the remaining weighted average useful life of those acquired depreciable/amortisable assets. Negative goodwill in excess of the fair value of the non-monetary assets acquired is recognised immediately in the income statement.

In prior years, negative goodwill arising on acquisitions was credited to capital reserve in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits negative goodwill on acquisitions which occurred prior to 1 August 2001, to remain credited to this reserve. Negative goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated income statement and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to reserves at the time of acquisition is written back and included in the calculation of gain or loss on disposal.

(d) Subsidiaries

Subsidiaries are those enterprises controlled by the company.

Control exists when the company has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

Subsidiaries are carried at cost less impairment loss.

(e) Property, plant and equipment*(i) Depreciation*

Depreciation is provided to write off the cost 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 less accumulated depreciation and impairment losses. 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.

(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) 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.

(i) 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 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.

(j) 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.

(k) Retirement benefit costs

The Group operates a defined contribution Mandatory Provident Fund (“MPF”) retirement benefits scheme under the MPF Schemes Ordinance, for those employees of the Group who are eligible to participate in the MPF scheme. The amount of the Group’s contributions is based on a fixed percentage of the basic salary of each participating employee. Net contributions are charged to the income statement in the period to which they relate. The assets of the scheme are held separately from those of the Group in an independently administered fund.

Prior to the MPF scheme becoming effective, the Group operated a defined contribution retirement benefits scheme (the “ORSO scheme”) for those employees eligible to participate. The ORSO scheme operated in a similar way to the MPF scheme.

(l) Impairment

The carrying amounts of the Group’s assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset’s recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(m) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(n) Recognition of revenue

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

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.

(p) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen geographical segment information based on the location of assets as the primary reporting format.

(p) Segment reporting (Continued)

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include trade receivables and fixed assets. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses.

5. TURNOVER

The Group's turnover represents the gross rental income from its vessels and income from related services provided as a result thereof.

6. SEGMENT INFORMATION

(a) Geographical segments

The following tables presents revenue, profit/(loss) and certain assets, liabilities and capital expenditure information for the Group's geographical segments by location of assets for the year ended 31 July 2002:

	Hong Kong		Singapore		Consolidated	
	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers	<u>31,173</u>	<u>88,057</u>	<u>–</u>	<u>12,053</u>	<u>31,173</u>	<u>100,110</u>
Segment results	<u>(42,251)</u>	<u>34,464</u>	<u>–</u>	<u>4,717</u>	<u>(42,251)</u>	<u>39,181</u>
Unallocated expenses					(22,337)	(21,970)
Finance costs					<u>(13,809)</u>	<u>(13,574)</u>
(Loss)/Profit before taxation					(78,397)	3,637
Taxation					<u>2,424</u>	<u>717</u>
(Loss)/Profit before minority interests					(75,973)	4,354
Minority interests					<u>–</u>	<u>18</u>
(Loss)/Profit attributable to shareholders					<u>(75,973)</u>	<u>4,372</u>
Segment assets	<u>105,593</u>	<u>135,945</u>	<u>–</u>	<u>24,845</u>	105,593	160,790
Unallocated corporate assets					<u>7,150</u>	<u>6,847</u>
Total assets					112,743	167,637
Segment liabilities	<u>30,861</u>	<u>17,045</u>	<u>–</u>	<u>13,183</u>	30,861	30,228
Unallocated corporate liabilities					<u>133,848</u>	<u>113,591</u>
Total liabilities					<u>164,709</u>	<u>143,819</u>
Other information:						
Depreciation for the year	14,737	4,913	–	11,692	14,737	16,605
Impairment of assets for the year	25,759	–	–	590	25,759	590
Significant non-cash expenses (other than depreciation and amortisation)	<u>21,946</u>	<u>989</u>	<u>–</u>	<u>15,610</u>	<u>21,946</u>	<u>16,599</u>
Capital expenditure incurred during the year	<u>115</u>	<u>5,512</u>	<u>–</u>	<u>9,238</u>	<u>115</u>	<u>14,750</u>

(b) Business segments

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

7. (LOSS)/PROFIT FROM OPERATING ACTIVITIES**a. The Group's (loss)/profit from operating activities is arrived at after charging:**

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Auditors' remuneration	732	715
Depreciation:		
Owned assets	14,706	16,512
Leased assets	31	93
Foreign exchange losses, net	–	1,815
Operating lease rentals in respect of:		
Land and buildings	2,475	3,958
Loss on disposal of property, plant and equipment	7,104	2,623
Staff costs (excluding directors' emoluments)	4,770	5,654
	<u> </u>	<u> </u>

b. Included in other revenue:

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Foreign exchange gain, net	1,977	–
Insurance claim	575	945
Interest income	1	6
Recovery of legal costs	4,560	–
Net rental income from the sub-letting of properties	–	1,298
	<u> </u>	<u> </u>

c. Included in other operating expenses:

Provision for bad and doubtful debts	21,946*	16,599
Provision for impairment in value of vessels	25,759	590
(Reversal)/Provision for claim for repair and maintenance of vessels	(4,900)	4,900
	<u> </u>	<u> </u>

* Includes a provision of HK\$11,000,000 in respect of one customer involved in the Theme Park at Penny's Bay, the Lamma Power Station Extension project and certain government maintenance dredging work.

8. FINANCE COSTS

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest charges on:		
Bank loans and other borrowings wholly repayable within five years	13,806	13,555
Finance charges on finance leases	3	19
	<u> </u>	<u> </u>
	<u>13,809</u>	<u>13,574</u>

9. TAXATION

	2002 HK\$'000	2001 HK\$'000
The charge comprises:		
Hong Kong profits tax		
– over provision in prior years	–	(86)
Overseas tax	–	–
Deferred tax (<i>note 18</i>)	2,424	(631)
	<u>2,424</u>	<u>(631)</u>
	<u>2,424</u>	<u>(717)</u>

No Hong Kong profits tax has been provided in the financial statements as the Group did not derive any assessable profit for the year (2001: Nil).

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

10. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders for the year dealt with in the financial statements of the Company is a loss of approximately HK\$20,700,000 (2001: loss of HK\$6,934,000).

11. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share for the year ended 31 July 2002 is based on the loss attributable to shareholders of HK\$75,973,000 (2001: profit of HK\$4,372,000) and the adjusted weighted average number of 605,534,868 ordinary shares (2001: 525,626,385 ordinary shares) in issue during the year.

Diluted earnings per share for the year ended 31 July 2002 and 31 July 2001 has not been shown as there were no share options outstanding at those dates.

12. PROPERTY, PLANT AND EQUIPMENT

	Floating craft and vessels HK\$'000	Furniture, fixtures and office equipment HK\$'000	Plant, machinery and workshop equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost/carrying amount					
At 1 August 2001	162,579	17	593	491	163,680
Additions	–	37	–	78	115
Disposal	(20,228)	–	–	(483)	(20,711)
Exchange realignments	1,307	–	7	5	1,319
	<u>143,658</u>	<u>54</u>	<u>600</u>	<u>91</u>	<u>144,403</u>
Accumulated depreciation					
At 1 August 2001	31,505	7	54	208	31,774
Charge for the year	14,658	8	24	47	14,737
Impairment (<i>note 7c</i>)	25,759	–	–	–	25,759
Written back on disposal	(4,384)	–	–	(235)	(4,619)
Exchange realignments	258	–	–	2	260
	<u>67,796</u>	<u>15</u>	<u>78</u>	<u>22</u>	<u>67,911</u>
Net book value					
At 31 July 2002	<u>75,862</u>	<u>39</u>	<u>522</u>	<u>69</u>	<u>76,492</u>
At 31 July 2001	<u>131,074</u>	<u>10</u>	<u>539</u>	<u>283</u>	<u>131,906</u>

The Group's floating craft and vessels, with an aggregate net book value of HK\$75,862,000 (2001: HK\$131,074,000) were pledged to secure certain loans granted to two of the Company's subsidiaries (note 15(a) and 15(b)).

At 31 July 2002, the Group had no property, plant and equipment under finance lease (2001: motor vehicles with net book value of HK\$270,000).

13. INTERESTS IN SUBSIDIARIES

	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	135,822	135,822
Amounts due from subsidiaries	15,801	8,873
	151,623	144,695
Less: Provisions	(151,518)	(122,007)
	105	22,688
Amounts due to subsidiaries	(8,662)	(8,057)
	<u>(8,557)</u>	<u>14,631</u>

Particulars of the principal subsidiaries as at 31 July 2002 are as follows:

Name	Place of incorporation/ operation	Particulars of issued/registered share capital	Percentage of issued/registered capital held by the		Principal activities
			Group	Company	
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
Universal Dockyard Limited	Hong Kong	Ordinary HK\$120 Non-voting deferred HK\$12,008,000	98.75%	98.75%	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.

14. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Trade receivables (note (a))	12,126	11,397	–	–
Retention money receivable	902	755	–	–
Prepayments, deposits and other receivables	12,447	16,732	7,684	563
	<u>25,475</u>	<u>28,884</u>	<u>7,684</u>	<u>563</u>

- (a) As at 31 July 2002, the aged analysis of trade receivables net of provisions for doubtful debts was as follows:

	2002 HK\$'000	2001 HK\$'000
Current	2,341	10,119
1 – 3 months	1,811	–
4 – 6 months	4,715	–
7 – 12 months	1,565	1,128
Over 1 year	1,694	150
	<u>12,126</u>	<u>11,397</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

	2002 HK\$'000	2001 HK\$'000
Group		
Bank and other borrowings comprise:		
Bank loans	77,446	74,144
Bank overdrafts	207	303
Other loans	38,569	33,522
	<u>116,222</u>	<u>107,969</u>
Analysed as:		
Secured – Notes (a), (b) and (c)	114,848	107,666
Unsecured – loan	1,167	–
– bank overdraft	207	303
	<u>116,222</u>	<u>107,969</u>
Bank and other borrowings are repayable as follows:		
Within one year or on demand	116,222	82,341
More than one year, but not exceeding two years	–	25,628
	<u>116,222</u>	<u>107,969</u>
Less: Amount due within one year and shown under current liabilities	(116,222)	(82,341)
Amount due after one year	<u>–</u>	<u>25,628</u>
Company		
Other loans (secured) – note (c)	<u>3,000</u>	<u>–</u>

Notes:

- (a) As at 31 July 2002, the Group's bank loans of HK\$77,446,000 were secured by a legal charge on the Group's floating craft and vessels with net book value of HK\$56,049,000 (2001: HK\$86,108,000), fixed and floating charges over the assets of the Company's subsidiary, UDL Marine Assets (Singapore) Pte Limited, a joint and several guarantee from Mrs. Leung and the spouse of Mrs. Leung, Mr. Leung Yat Tung ("Mr. Leung"), assignment of insurance and income for certain vessels, and subordination of loan from Mr. Leung and Mrs. Leung.

Mrs. Leung is a director and chairman of the Company. Mrs. Leung has a significant indirect interest in the Company, as set out in the Directors' Report on pages 8 and 13.

- (b) As at 31 July 2002, other loans of approximately HK\$34,402,000 were secured by certain of the Group's floating craft and vessels with net book value amounting to approximately HK\$19,813,000 (2001: HK\$40,814,000), a first floating charge on all the undertaking, property, assets and rights of the Company's subsidiary, UDL Marine Assets (Hong Kong) Limited, a personal guarantee from Mr. Leung, and bear interest at 11% per annum.
- (c) As at 31 July 2002, other loan of HK\$3,000,000 was borrowed from a third party to put down as a deposit towards the purchase of new vessels. The loan is secured against the deposits for the new vessels, repayable on demand and bears interest at prime rate plus 2% per annum.

16. OBLIGATIONS UNDER FINANCE LEASES

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

	2002 HK\$'000	2001 HK\$'000
The maturity of obligations under finance leases is as follows:		
Within one year or on demand	–	55
More than one year, but not exceeding five years	–	222
	–	277
Future finance charges on finance leases	–	(46)
	–	231
Less: Amounts due within one year shown under current liabilities	–	(46)
	–	185
	<u>–</u>	<u>185</u>

17. TRADE AND OTHER PAYABLES

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Trade payables (<i>note (a)</i>)	12,090	14,763	–	–
Retention money payables	449	381	–	–
Advances received	5,653	1,641	–	–
Other payables and accruals	12,669	13,486	1,613	2,499
	<u>30,861</u>	<u>30,271</u>	<u>1,613</u>	<u>2,499</u>

- (a) As at 31 July 2002, the aged analysis of trade payables was as follows:

	2002 HK\$'000	2001 HK\$'000
Current	276	1,459
1 – 3 months	1,535	5,903
4 – 6 months	37	1,709
7 – 12 months	2,064	2,750
Over 1 year	8,178	2,942
	<u>12,090</u>	<u>14,763</u>

18. DEFERRED TAX

The movements in the deferred tax account are as follows:

	2002 HK\$'000	2001 HK\$'000
Balance at 1 August 2001	2,424	3,141
Transfer to income statement (<i>note 9</i>)	(2,424)	(631)
Exchange realignments	–	(86)
	<u>–</u>	<u>–</u>
Balance at 31 July 2002	<u>–</u>	<u>2,424</u>

At 31 July 2002, the amount of unprovided deferred tax assets is as follows:

	2002 HK\$'000	2001 HK\$'000
Tax effect of timing differences attributable to:		
Accelerated depreciation allowances	7,666	(2,929)
Tax losses and other	9,365	4,913
	<u>17,031</u>	<u>1,984</u>

19. SHARE CAPITAL

	<i>Note</i>	Number of shares	HK\$'000
Authorised:			
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>
Ordinary shares of HK\$0.01 each at 1 August 2001 and 31 July 2002		<u>12,000,000,000</u>	<u>120,000</u>
Issued and fully paid:			
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>
Ordinary shares of HK\$0.01 each at 1 August 2001 and 31 July 2002		<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.

20. RESERVES

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	3,028	-	-	-	-	-	3,028
Capital reduction applied against accumulated losses	-	-	-	-	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>
At 1 August 2001	3,028	1,264	(1,840)	717	(1,081,908)	1,096,502	17,763
Exchange realignment - Subsidiaries	-	-	189	-	-	-	189
Loss for the year	-	-	-	-	(75,973)	-	(75,973)
At 31 July 2002	<u>3,028</u>	<u>1,264</u>	<u>(1,651)</u>	<u>717</u>	<u>(1,157,881)</u>	<u>1,096,502</u>	<u>(58,021)</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 August 2000	-	1,264	21,689	(382,811)	324,964	(34,894)
Issue of shares, net of expenses	3,028	-	-	-	-	3,028
Capital reduction applied against accumulated losses	-	-	-	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>
At 1 August 2001	3,028	1,264	21,689	(344,330)	324,964	6,615
Loss for the year	-	-	-	(20,700)	-	(20,700)
At 31 July 2002	<u>3,028</u>	<u>1,264</u>	<u>21,689</u>	<u>(365,030)</u>	<u>324,964</u>	<u>(14,085)</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 28 April 2000, 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:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Fees		
Executive directors	–	–
Non-executive director	40	13
Independent non-executive directors	80	70
	<u>120</u>	<u>83</u>
Other emoluments		
Executive directors	2,558	3,464
Independent non-executive directors	10	40
	<u>2,568</u>	<u>3,504</u>
	<u>2,688</u>	<u>3,587</u>

The emoluments of the directors were within the following bands:

Emoluments bands	Number of directors	
	2002	2001
Nil – HK\$1,000,000	5	5
HK\$1,000,001 – HK\$1,500,000	–	1
HK\$1,500,001 – HK\$2,000,000	1	1
	<u>1</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 two (2001: three) executive directors, details of whose emoluments are set out above. The emoluments of the remaining three (2001: two) employees were as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Salaries and other benefits	<u>1,828</u>	<u>1,816</u>

The emoluments were within the following bands:

Emoluments bands	Number of individuals	
	2002	2001
Nil – HK\$1,000,000	2	1
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$2,000,000	–	–
	<u>–</u>	<u>–</u>

22. RETIREMENT BENEFITS SCHEME**Defined contribution scheme**

Up till 30 November 2000, the Group operated 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.

From 1 December 2000, the Group arranged for all 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.

For employees based in Singapore, the Group contributes to the Central Provident Fund ("CPF"), a defined contribution plan regulated and managed by the Government of Singapore.

For the year ended 31 July 2002, the Group made contributions of HK\$251,000 towards the MPF Scheme and CPF (2001: HK\$131,000).

23. OPERATING LEASE COMMITMENTS

At 31 July 2002, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Land and buildings		
Within one year	535	581
In the second to fifth years inclusive	119	470
	<u>654</u>	<u>1,051</u>

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

24. CONTINGENT LIABILITIES

At 31 July 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 proceeds of the Unencumbered Assets and the Accounts Receivables realised under the Schemes shall not be less than HK\$176 million (2001: HK\$176 million), further details of which are set out in note 2(b).

25. RELATED PARTY TRANSACTIONS

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

	<i>Note</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Berthing and security expenses paid to Keenrich Company Limited ("Keenrich")	<i>(a)</i>	–	1,144
Plant hire income from Buggy Development Company Limited ("Buggy")*#	<i>(b)</i>	715	–
Berthing and security expenses paid to Buggy*#	<i>(b)</i>	1,088	–
Direct overhead expenses paid to Buggy*#	<i>(b)</i>	635	–
Plant hire cost paid to Buggy*#	<i>(b)</i>	12,057	3,815
Rental charges paid to Capital Hope Investments Limited ("Capital Hope")	<i>(c)</i>	342	–
Rental charges paid to Denlane Shipbuilding Pte Limited ("Denlane")	<i>(d)</i>	131	146
Management service fee income from Denlane	<i>(d)</i>	1,624	–
Rental charged by Fonfair Company Limited ("Fonfair")	<i>(e)</i>	1,800	1,876
Rental charges paid to Giant Lead Enterprises Limited ("Giant Lead")	<i>(f)</i>	87	496
Rental charges paid to Sincere Place Limited ("Sincere")	<i>(g)</i>	–	680
Rental charges paid to UDL Engineering Pte Limited ("UEPL")	<i>(h)</i>	–	437
Repair and maintenance expenses paid to Gitanes Engineering Company Limited ("Gitanes")	<i>(i)</i>	200	–
Rental charges paid to Decorling Limited ("Decorling")	<i>(j)</i>	440	–
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
Provision against amount due from North Lantau	<i>(l)</i>	5,082	–
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
		<u> </u>	<u> </u>

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

One of the Group's top five customers.

- (a) Keenrich is a company in which Mr. Leung is a director until 1 March 2001.
- (b) Buggy is a company in which Mrs. Leung and Ms. Leung have indirect beneficial interests. Mrs. Leung and Ms. Leung Chi Yin, Gillian ("Ms. Leung") are directors of Buggy.
- (c) Capital Hope is a company in which Ms. Leung has a direct equity interest. Ms. Leung is a director of Capital Hope.
- (d) Denlane is a company in which Mrs. Leung is a director.
- (e) Fonfair is a company in which Mr. Leung is a director until 1 March 2001. Mrs. Leung and Ms. Leung have indirect beneficial interests.
- (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 served as a director until 1 March 2001.
- (g) Sincere is a company in which Mr. Leung and Mrs. Leung are directors. Mr. Leung served 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) Mr. Leung and Mrs. Leung are directors of Gitanes. Mr. Leung served as a director until 1 March 2001.
- (j) Decorling is a company in which Mrs. Leung and Ms. Leung have indirect beneficial interests. Mrs. Leung and Ms. Leung are directors of Decorling.
- (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 a direct beneficial interest. Mr. Leung and Mrs. Leung are directors of North Lantau. Mr. Leung served 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 (loss)/profit before taxation to net cash inflow from operating activities

	2002 HK\$'000	2001 HK\$'000
(Loss)/profit before taxation	(78,397)	3,637
Provision for impairment in value of vessels	25,759	590
Operating lease rentals	–	1,876
Interest income	(1)	(6)
Interest expenses	13,806	13,555
Finance charges on finance leases	3	19
Depreciation	14,737	16,605
Provision for bad and doubtful debts	21,946	16,599
(Reversal)/Provision for claim for repair and maintenance of vessels	(4,900)	4,900
Loss on disposal of property, plant and equipment	7,104	2,623
Increase in trade and other receivables	(13,165)	(31,468)
Decrease in inventories	–	1,128
(Increase)/Decrease in amounts due from related companies	(5,675)	6,104
(Decrease)/Increase in trade and other payables	5,490	14,946
Increase/(Decrease) in amounts due to related companies	14,653	(7,977)
Decrease in an amount due to a director	–	(802)
	<u>1,360</u>	<u>42,329</u>
Net cash inflow from operating activities	<u>1,360</u>	<u>42,329</u>

(b) Analysis of changes in financing during the year

	Share capital (including share premium) HK\$'000	Bank loans HK\$'000	Other loans HK\$'000	Finance lease obligation 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)	–	–	–	–
Interest	–	–	993	–	–
Share of loss for the year	–	–	–	–	(2)
Exchange realignments	–	(3,782)	–	(11)	(16)
	<u>9,083</u>	<u>74,144</u>	<u>33,522</u>	<u>231</u>	<u>–</u>
Balance at 31 July 2001	<u>9,083</u>	<u>74,144</u>	<u>33,522</u>	<u>231</u>	<u>–</u>

	Share capital (including share premium) HK\$'000	Bank loans HK\$'000	Other loans HK\$'000	Finance lease obligation HK\$'000	Minority interests HK\$'000
Balance at 1 August 2001	9,083	74,144	33,522	231	-
New other loans raised	-	-	3,000	-	-
Repayment of loans	-	-	(3,800)	-	-
Repayment of finance lease obligations	-	-	-	(234)	-
Interest charges	-	7,874	5,847	3	-
Interest paid	-	(3,260)	-	(3)	-
Exchange realignments	-	(1,312)	-	3	-
Balance at 31 July 2002	<u>9,083</u>	<u>77,446</u>	<u>38,569</u>	<u>-</u>	<u>-</u>

27. POST BALANCE SHEET EVENT

On 11 November 2002, the Company issued a prospectus for a proposed rights issue to raise approximately HK\$6.6 million, after expenses, by way of the issue of 302,767,434 rights shares, on the basis of one rights share for every two existing shares held by the qualifying shareholders at the subscription price of HK\$0.025 per rights share payable in full on acceptance by the qualifying shareholders (the "Rights Issue"). Net proceeds arising from the Rights Issue will be used as working capital of the Group in order to operate its principal business.

28. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements on pages 17 to 55 were approved by the Board of Directors on 29 November 2002.

3. AUDITED CONSOLIDATED NET TANGIBLE ASSET VALUE

As at 31 July 2002, being the date to which the latest audited consolidated financial statements of the Group were made up, the audited consolidated net tangible liabilities of the Group was approximately HK\$51.97 million, and the audited consolidated net tangible liabilities per Share was approximately HK\$0.086.

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 2002 and as adjusted after taking into account of the Rights Issue.

	<i>HK\$'000</i>
Audited consolidated net tangible liabilities of the Group as at 31 July 2002	(51,966)
<i>Add:</i> 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>(45,366)</u></u>
Pro forma unaudited adjusted consolidated net tangible liabilities value per Share after completion of the Rights Issue (based on 908,302,302 Shares in issue)	<u><u>(HK\$0.0499)</u></u>

4. WORKING CAPITAL

As stated in the auditors' report of the Company for the year ended 31 July 2002, 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 annual report of the Company for the year ended 31 July 2002, the net current liabilities of the Group amounted to approximately HK\$128.5 million. Also, as stated in the paragraph headed "Indebtedness and contingent liabilities" in Appendix II to this document, as at 30 November 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 net proceeds of the Rights Issue of approximately HK\$6.6 million, the Group 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 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.**

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 2002 as stated in Appendix II to this document.

5. INDEBTEDNESS

Borrowings

At the close of business on 30 November 2002 (being the latest date for the purpose of this indebtedness statement prior to the printing of this document), save for contingent liabilities arising from the Scheme as detailed in the later of this document, the Group had outstanding borrowings of approximately HK\$123 million comprising secured bank loans and overdrafts of approximately HK\$78 million, secured other loans of approximately HK\$39 million and unsecured bank loan of approximately HK\$6 million.

Securities and guarantees

As at 30 November 2002, the secured borrowings as shown above were secured by the Group's owned vessels of approximately HK\$74 million at net book value.

Contingent liabilities

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\$123 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 2002. 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 sub-paragraphs headed "Litigation against the Company in Bermuda" and "Legal proceedings concerning Dockyard" in "Letter from the Board" and the paragraph headed "Litigations" in Appendix III to this document 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. If the Petitioners are successful in claiming against the Company under the Petition, the company may incur further costs for satisfying the claims under the Bermuda Writ, amounting to HK\$3.0 million.

Disclaimer

Save as aforesaid and apart from intra-group liabilities, the Group did not have, at the close of business on 30 November 2002, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, obligations under hire purchases of finance leases, guarantees or other material contingent liabilities.

Foreign currency amounts have been translated into Hong Kong dollars at the approximate exchange rates prevailing at the close of business on 30 November 2002.

The directors of the Company have confirmed that there has been no material change in the indebtedness and contingent liabilities of the Group since 30 November 2002.

6. MATERIAL CHANGES

The directors of the Company are not aware of any material change in the financial or trading position or prospects of the Group since 31 July 2002, the date to which the latest audited consolidated financial statements of the Group were made up.

1. RESPONSIBILITY STATEMENT

The issue of this document has been approved by the directors of the Company and includes particulars given in compliance with the Takeovers Code. The information contained herein (other than information relating to the Offeror and the future intentions of the Offeror in respect of the Group) has been supplied by the directors of the Company, who jointly and severally accept full responsibility for the accuracy of the information contained in this document (other than those relating to the Offeror and the future intentions of the Offeror in respect of the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document (other than those expressed by the Offeror and Kingsway Securities) have been arrived at after due and careful consideration and there are no other facts not contained in this document the omission of which would make any statement contained herein misleading.

The issue of this document has been approved by the directors of the Offeror and includes particulars given in compliance with the Takeovers Code. The information contained herein (other than information relating to the Company) has been supplied by the directors of the Offeror, who jointly and severally accept full responsibility for the accuracy of the information contained in this document (other than information relating to the Company) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document (other than those expressed by the Company and Chateron) have been arrived at after due and careful consideration and there are no other facts not contained in this document the omission of which would make any statement contained herein misleading.

2. SHARE CAPITAL AND CORPORATE INFORMATION OF THE COMPANY

<i>Authorised share capital:</i>		<i>HK\$</i>
<u>12,000,000,000</u>	Shares	<u>120,000,000</u>
<i>Issued, fully paid or credited as fully paid as at the 31 July 2002:</i>		
<u>605,534,868</u>	Shares	<u>6,055,348.68</u>
<i>Issued, fully paid or credited as fully paid as at the Latest Practicable Date:</i>		
<u>908,302,302</u>	Shares	<u>9,083,023.02</u>

All the Shares rank *pari passu* in all aspects, including all rights as to dividend, voting and interests in the capital.

302,767,434 Shares have been issued under the Rights Issue since 31 July 2002 (being the date to which the latest published accounts of the Group were made up) and up to the Latest Practicable Date.

As at the Latest Practicable Date, the Company did not have any outstanding options or convertible securities.

The Company was incorporated in Bermuda under the Companies Act 1981 of Bermuda (as amended) on 31 May 1992. Its registered office is at Cedar House, 41 Cedar Avenue, Hamilton HM 12, Bermuda and principal place of business is at Room 704, 7th Floor, Aitken Vanson Centre, 61 Hoi Yuen Road, Kwun Tong, Hong Kong.

3. MARKET PRICES

The table below shows the closing prices of the Shares quoted on the Stock Exchange on (i) the last trading day for each of the six calendar months immediately preceding the date of the 1st Announcement, (ii) 14 August 2002, being the last trading day immediately preceding the 1st Announcement and (iii) the Latest Practicable Date:

Date	Closing price per Share
2002	HK\$
30 April	0.048
31 May	suspended (<i>Note 1</i>)
28 June	0.055
31 July	0.042
14 August	0.050
30 August	suspended (<i>Note 2</i>)
30 September	suspended (<i>Note 2</i>)
31 October	0.021
29 November	0.028
Latest Practicable Date	0.044

The highest and lowest closing price per Share recorded on the Stock Exchange during the Relevant Period were HK\$0.064 on 20 June 2002 and HK\$0.021 during the period from 31 October 2002 to 4 November 2002 respectively.

Note 1: The trading in the Shares was suspended during the period from 30 May 2002 to 18 June 2002, pending the release of a postponement of a rights issue as stated in the Company's announcement dated 24 December 2001.

Note 2: The trading in the Shares was suspended during the period from 15 August 2002 to 4 October 2002, pending the release of the 1st Announcement.

4. DISCLOSURE OF INTERESTS

Interests of the directors of the Company

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
Mrs. Leung	445,500	412,222,499 (<i>Note 1</i>)
Miss Leung	150,000	412,222,499 (<i>Note 1</i>)

Note 1: 412,222,499 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, the beneficiaries of which are Mrs. Leung and her children, namely, Miss Leung, Mr. Leung Chi Hong, Jerry and Mr. Leung Kai Hong (under aged 18).

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 of the Listing Rules, to have been notified to the Company and the Stock Exchange.

Up to 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 2002 (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.

Dealings in the securities of the Company

As at the Latest Practicable Date and during the Relevant Period:

- (i) save for the subscription of an aggregate of 157,730,346 Rights Shares (of which 30,111,520 excess Rights Shares were allotted to Harbour Front) under the Rights Issue, none of Harbour Front, its directors and any of the parties acting in concert with it dealt in any securities of the Company;
- (ii) no subsidiaries of the Company, or a pension fund of the Company or its subsidiaries, or an adviser to the Company as specified in class (2) of the definition of “associate” in the Takeovers Code, owned or controlled any shares in the Offeror and had not dealt for value in any shares of the Offeror;
- (iii) none of Chateron and other advisers to the Company (including the auditors of the Company) held or had dealt for value in any securities of the Company; and
- (iv) no fund manager, who was connected with the Company and managed the securities of the Company on a discretionary basis, had dealt for value in any securities of the Company.

Interests in the Offeror

Save as disclosed in the paragraph headed “Information about the Offeror” in “Letter from Kingsway Securities” to this document, as at the Latest Practicable Date and during the Relevant Period:

- (i) neither the Company nor any director of the Company owned or controlled any securities in the Offeror; and
- (ii) none of Chateron or any other advisers of the Company owned or controlled any securities of the Offeror.

5. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as the Directors are aware, 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	412,222,499	45.38%
Mr. Matthew O'Driscoll (<i>Note (1)</i>)	252,306,195	27.78%

Note:

- (1) Mr. Matthew O'Driscoll is the Scheme Administrator of the Scheme, and holds 252,306,195 Shares on trust for the Scheme creditors pending distribution pursuant to the terms of the Scheme.
- (2) After the completion of the Rights Issue, the Company is checking with CCASS and other means to confirm if there are any substantial shareholders other than Harbour Front and Mr. Matthew O'Driscoll.

Save as disclosed above, no person, other than Mrs. Leung and Miss Leung whose interests are set out under subsection headed "Interests of the Directors of the Company" in the section headed "Disclosure of Interests" in this appendix, 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.

6. MATERIAL CONTRACTS

In the two years immediately preceding the date of this document, 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.

7. DIRECTORS' SERVICE CONTRACTS

None of the Directors has entered into any service contract with any company in the Group or any of its associated companies which does not expire or is not determinable by the Group or the respective associated companies within one year and no service contract between any company in the Group or any of its associated companies and any of the Directors has been entered into or amended within six months prior to 4 October 2002, the date of the 1st Announcement.

8. ARRANGEMENTS AFFECTING DIRECTORS OR IN CONNECTION WITH THE OFFER

There is no benefit (other than statutory compensation) to be given to any directors of the Company as compensation for loss of office or otherwise in connection with the Offer.

There is no agreement, arrangement or understanding between the Offeror or any person acting in concert with it and any directors, recent directors, shareholders or recent shareholders of the Company having any connection with or dependence upon the outcome of the Offer.

There is no agreement or arrangement between any director of the Company and any other person which is conditional on or dependent upon the outcome of the Offer or otherwise connected with the Offer.

There is no material contract entered into by the Offeror in which any director of the Company has a material personal interest.

9. 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. Details of the litigation can be referred to in the announcements of the Company dated 18 June 2002 and 20 November 2002.

The relief sought by the Petitioners 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 Petition;
5. an order restraining the Company from recognizing the exercise of any rights attaching to the Subscription Shares, pending the hearing of the 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.

On 31 July 2002, Charterbase Management Limited, one of the Petitioners, issued the Bermuda Writ against the Company and its directors, namely Mrs. Leung, Mr. Chan Kim Leung, Miss Leung, Mr. Pao Ping Wing JP and Mr. Wong Pui Fai who were the then 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 directors of the Company on 28 April 2002 and on 27 September 2002 respectively. The Bermuda Writ recited 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 Shares held by the Scheme Administrator under the Scheme. The Bermuda Writ alleged 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 claimed 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.

With regard to the Petition, 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. As stated in the Company's announcement dated 20 November 2002, the hearing date of the summons originally fixed on 18 and 19 November 2002 had been adjourned due to unavailability of the Petitioners' counsel and the hearing date of the summons was rescheduled on 16 and 17 December 2002. However, the hearing date of the summons had been further adjourned due to unavailability of the Petitioners' counsel and the new hearing date of the summons has not been fixed as at the Latest Practicable Date.

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 the 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 the 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 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 amounting 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.

10. CONSENT

Each of Kingsway Securities and Chateron has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of its letter and references to its name, in the form and context in which they appear herein.

11. 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 2002 (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.

12. GENERAL

- (a) As at the Latest Practicable Date, no arrangements of the kind referred to in Note 8 of Rule 22 of the Takeovers Code existed between the Offeror, or any person acting in concert with the Offeror, and any other person.
- (b) As at the Latest Practicable Date, no arrangements of the kind referred to in Note 8 of Rule 22 of the Takeovers Code existed between any person and the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate in the Takeovers Code.
- (c) Kingsway Capital does not have any beneficial interest in the Shares and has not dealt in any Shares as principal during the Relevant Period.
- (d) As at the Latest Practicable Date, there was no agreement, arrangement or understanding between the Offeror and any other persons for the transfer of the beneficial interests in Shares acquired by the Offeror under the Offer.
- (e) As at the Latest Practicable Date, Kingsway Securities and Chateron did not have any beneficial interest in the Shares.
- (f) The registered office of the Offeror is situated at Ansbacher (BVI) Limited, P.O. Box 659, International Trust Building, Road Town, Tortola, British Virgin Islands. The principal place of business of the Offeror is at 7th Floor, Aitken Vanson Centre, 61 Hoi Yuen Road, Kwun Tong, Hong Kong.
- (g) The directors of the Offeror are Mrs. Leung, Miss Leung and Mr. Leung Chi Hong, Jerry.
- (h) As at the Latest Practicable Date, the Offeror and Kingsway Securities were not aware of any persons who have irrecoverably committed themselves to accept or reject the Offer.
- (i) The address of Kingsway Capital and Kingsway Securities, the financial adviser to the Offeror and the agent making the Offer on behalf of the Offeror respectively, is at 5th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong.
- (j) The English text of this document and of the form of acceptance and transfer shall prevail over the Chinese text.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the head office and principal place of business of the Company in Hong Kong, Room 704, 7th Floor, Aitken Vanson Centre, 61 Hoi Yuen Road, Kwun Tong, Hong Kong while the Offer remains open for acceptance:

- (a) the memorandum of association and the bye-laws of the Company;
- (b) the memorandum and articles of association of the Offeror;
- (c) the audited consolidated accounts of the Company for the years ended 31 July 2001 and 31 July 2002;
- (d) the letter from Kingsway Securities the text of which is set out on pages 15 to 21 of this document;
- (e) the letter from the Independent Board Committee the text of which is set out on page 22 of this document;
- (f) the letter of advice from Chateron the text of which is set out on pages 23 to 40 of this document;
- (g) the document relating to the financing resources of Harbour Front from Kingsway Securities for the Offer referred to in the paragraph headed "Sufficiency of financial resources" in the letter from Kingsway Securities contained in this document;
- (h) the material contracts referred to in the paragraph headed "Material contracts" in this appendix; and
- (i) the written consents referred to in the paragraph headed "Consent" in this appendix.