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UDL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

PROPOSED SHARES CONSOLIDATION AND CHANGE IN BOARD LOT SIZE, PROPOSED CREATION AND ISSUANCE OF PREFERENCE SHARES, UPDATE ON LEGAL PROCEEDINGS

CONSOLIDATION OF SHARES AND CHANGE IN BOARD LOT SIZE

The Directors propose that, subject to the fulfillment of the conditions as detailed in this announcement, every ten Shares of HK\$0.01 each be consolidated into one New Share of HK\$0.10, and that upon the Consolidation becomes effective, the board lot size for trading on the Stock Exchange be changed from 40,000 Shares to 10,000 New Shares.

CREATION AND ISSUE OF PREFERENCE SHARES

The Directors also propose to create a new class of non-voting redeemable convertible Preference Shares with an authorised share capital of HK\$176 million divided into 176 million Preference Shares of HK\$1.00 each in the share capital of the Company and increase in authorized share capital. The Preference Shares carry dividend of 10% of the nominal value per annum, which is payable annually and cumulative. The Preference Shares will not be listed on any stock exchange. A special resolution will also be proposed to the Shareholders at the SGM for the issuance of 90 million Preference Shares.

The Directors intend that the gross proceeds from the issuance of the 90 million Preference Shares, which, if granted and 100% issued, will be applied (i) for payment of the expenses for the creation and issue of Preference Shares of approximately HK\$1 million which is arrived at the best estimate of the Directors as at the date of this announcement; (ii) for payment of the legal expenses of US\$90,000 (equivalent to approximately HK\$702,000) as mentioned in this announcement, which represents approximately 0.78% of the gross proceeds; (iii) approximately HK\$83.30 million to provide working capital for the fully vitalized operation of the Group's vessels and regain business momentum with the target of achieving the level of the turnover of the Group comparable to the turnover of the Group before the implementation of the Scheme so as to service the Group's debt servicing obligations and to generate significant amount of consolidated net profit after tax, minority interests and all exceptional and extraordinary items for the proper discharge of the Company's Shortfall Undertaking; and (iv) among the balance of HK\$5 million, approximately HK\$1.8 million will be for placing fee, which will be on a best effort basis, in connection with the issuance of the Preference Shares (around 1% to 2%) and approximately HK\$3.2 million is for contingency use.

LITIGATION AGAINST THE COMPANY IN BERMUDA

Regarding the Petition lodged by the Petitioners on 16 May 2002 under section 111 of the Companies Act with the Supreme Court of Bermuda against the Company as the first respondent and the Scheme Administrator as the second respondent, due to the unavailability of the Petitioners' counsels, there were numerous delays and adjournments of the hearing for the strike out application by the Company.

In the course of agreeing to provide security for costs by the Petitioners, the Joint Petitioners submitted the Amended Petition. The Chief Justice of the Supreme Court of Bermuda ordered that hearing of the security for costs application made by the Company be fixed after parties submissions. Submissions have been made subsequently by the Joint Petitioners and the Company. The exact date for the hearing for the security for costs has not yet been fixed. The Company is applying to have the Amended Petition be considered after the security for costs application. Further announcement will be made by the Company when there is any material development regarding the Bermuda Writ and the Amended Petition.

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

On 9 June 2003, a winding-up order was granted against Dockyard. The Directors consider that save for the litigation costs and expenses amounting to approximately HK\$200,000 incurred, the winding-up order will not have any material adverse impact on the financial, business or operation of the Group and the Shareholders.

GENERAL

The SGM will be convened to approve the Consolidation and the creation and issuance of the Preference Shares. In addition, resolutions will be proposed at the SGM for the granting of general mandates to issue and repurchase New Shares to the Directors. A circular containing the details and the expected timetable of the Consolidation, details of the Preference Shares and a notice of the SGM will be despatched to each of the Shareholders as soon as practicable.

The Directors wish to announce that resolutions will be proposed to the Shareholders at the SGM (i) to consolidate every ten Shares of HK\$0.01 each in the capital of the Company into one New Share of HK\$0.10; (ii) the creation of a new class of shares which consists of 176 million Preference Shares in the capital of the Company and increase in authorized share capital; (iii) to grant an authority to the Board for the issuance of 90 million Preference Shares; and (iv) the granting of general mandates to the Directors for the issuance and repurchase of New Shares. The Preference Shares are unlisted, non-voting, and convertible into New Shares and are redeemable at the option of the Company.

CONSOLIDATION OF SHARES AND CHANGE IN BOARD LOT SIZE

The Directors propose that every ten Shares of HK\$0.01 each be consolidated into one New Share of HK\$0.10 and to change the board lot size for trading on the Stock Exchange from 40,000 Shares of HK\$0.01 each to 10,000 New Shares of HK\$0.10 each upon the Consolidation becomes effective. Based on the closing price of the Share of HK\$0.022 as at the date of this announcement, the value of each existing board lot is HK\$880, the value of each board lot upon completion of the Consolidation and new board lot size will be HK\$2,200.

The Directors are of the view that the Consolidation is in the interests of the Company and its Shareholders as a whole. Based on the current market price of HK\$0.022 per Share, a minimum fluctuation in the share price of HK\$0.001 will result in a change of 4.54% and thus high volatility in the share price. The Consolidation will result in an increase in the nominal value of the Company's shares and theoretically 10 times increase in share price. This may reduce the volatility of the price of the shares of the Company as after the Consolidation, any minimum fluctuation in share price of HK\$0.001 will result in a change of 0.454% only. The Consolidation will not have any impact on financial position or other aspects of the Company.

As at the date of this announcement, the authorised share capital of the Company is HK\$120,000,000 divided into 12,000,000,000 Shares of HK\$0.01 each, of which 917,385,302 Shares are issued. Upon the Consolidation becomes effective and assuming no further Shares will be issued prior to the SGM, the authorised share capital will be HK\$120,000,000 divided into 1,200,000,000 New Shares of HK\$0.10 each, of which 91,738,530 New Shares of HK\$0.10 each will be in issue. The New Shares will rank pari passu in all respects with each other and there will be no change in the relative rights of the Shareholders. Fractional entitlements of New Shares will be aggregated and sold for the benefit of the Company.

The closing price of the Share at the date of this announcement is HK\$0.022, the average closing price of the Shares for the 10 consecutive trading days including and up to the date of this announcement was HK\$0.022 and the average closing price of the Shares for the 20 consecutive trading days including and up to the date of this announcement was HK\$0.0219.

The date on which the Consolidation is expected to take effect is Friday, 15 August 2003 and dealings on the Stock Exchange in the New Shares is expected to commence on the same day. Shareholders of the Company are reminded that for the period up to and including Thursday, 14 August 2003 (the date of the SGM), dealings in Shares will be in board lots of 40,000 Shares. Further announcements will be made by the Company in respect of the results of the SGM on the Consolidation.

Replacement of existing share certificates

Subject to the Consolidation becoming effective, the Shareholders may submit their existing share certificates for Shares in exchange for new share certificates for New Shares (on the basis of ten Shares for one New Share) free of charge at the office of the Company's Hong Kong branch share registrar, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre 56 Gloucester Road, Wanchai, Hong Kong during business hours from 15 August, 2003 to 7 October 2003. Thereafter, share certificates for Shares will be accepted for exchange only on payment of a fee of HK\$2.50 or such higher amount as from time to time to be determined for each new share certificate issued.

Existing share certificates for the Shares will only be valid for delivery and settlement in respect of trading for the period up to 22 September 2003 and thereafter will not be acceptable for trading purposes. However, such share certificates will continue to be good evidence of legal title to the New Shares on the basis of ten Shares for one New Share (fractional entitlements to New Shares will be aggregated and sold, the proceeds of the sale will be retained for the benefit of the Company). Details of the colour of the new share certificates for the New Shares will be provided in the circulars to be despatched to the Shareholders.

It is expected that new share certificates for New Shares will be available for collection within a period of approximately 10 Business Days from the date of submission of share certificates of Shares to Tengis Limited for exchange.

Unless otherwise instructed, new share certificates will be issued in board lots of 10,000 New Shares.

Conditions for the Consolidation

The Consolidation is conditional upon:

- (a) the approval of the Consolidation by the Shareholders at the SGM; and
- (b) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the New Shares arising from the Consolidation as approved by the Shareholders at the SGM.

Under the laws of Bermuda, there is no governmental approvals nor filings required in respect of the Consolidation. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the New Shares on the Stock Exchange. Arrangement will be made by the Company for the settlement of New Shares in the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited. Shareholders and potential investors of the Company are advised to consult their own financial advisers or legal advisers if in doubt.

Trading Arrangement

In order to facilitate the trading of odd lots (if any), subject to the Consolidation becoming effective, the Company has appointed Kingston Securities Limited as an agent to arrange for the sale and purchase of odd lots on behalf of the Shareholders and potential investors. During the period from 15 August to 22 September (both dates inclusive), Shareholders who wish to take advantage of this facility either to dispose of their odd lots or to top them up to a full board lot may contact Ms. Rosita Kiu of Kingston Securities Limited located at 28th Floor, One International Finance Centre, 1 Harbour View Street, Central whose telephone number and fax number are 2298-6215 and 2295-0682 respectively during the aforesaid period.

PROPOSED TIMETABLE

2003

Latest time for lodging of proxies	10:00 am Tue, 12 Aug
SGM	10:00 am Thu, 14 Aug
Effective date for Consolidation	Fri, 15 Aug
Free exchange of share certificate(s) for Shares for new share certificate(s) for New Shares commences	Fri, 15 Aug
Dealings in New Shares commence	9:30 am Fri, 15 Aug
Existing counter for trading in board lots of 40,000 Shares closes	9:30 am Fri, 15 Aug
Temporary counter for trading in New Shares, in board lots of 4,000 New Shares in the form of existing share certificate(s) for Shares opens	9:30 am Fri, 15 Aug
Counter for trading in New Shares, in board lots of 10,000 New Shares in the form of the new share certificate(s) for the New Shares opens	9:30 am Fri, 29 Aug
Parallel trading commences	9:30 am Fri, 29 Aug
Temporary counter for trading in New Shares, in board lots of 4,000 New Shares in the form of existing share certificate(s) for Shares closes	4:00 pm Mon, 22 Sep

Parallel trading ends
Last day for free exchange of share certificate(s)
for Shares for new share certificate(s) for New Shares

4:00 pm Mon, 22 Sep

Tue, 7 Oct

CREATION AND ISSUE OF PREFERENCE SHARES

The issue of the Preference Shares will comply with the Company's memorandum of association and bye-laws and the legal procedures both in Hong Kong and Bermuda. The principal terms of the Preference Shares are as follows:

Authorised amount	176 million Preference Shares
Nominal Value	HK\$1.00 per Preference Share
Amount to be authorised to be issued at the SGM	90 million Preference Shares
Form	In registered form
Dividend	<p>10% of the nominal value of the Preference Shares per annum, payable annually and cumulative subject to a restriction that the total amount of dividend to be paid by the Company for the outstanding Preference Shares in a financial year shall not be more than 60% of the Operating Surplus.</p> <p>In case the total amount of dividend to be paid by the Company for the outstanding Preference Shares in a financial year exceeds 60% of the Operating Surplus, the Company will make partial payment of aggregate amount of dividend equal to 60% of the Operating Surplus in that financial year to the holders of the outstanding Preference Shares on a pro-rata basis. The balance of the dividend shall be accumulated and paid in the next financial year of the Company. If the Company shall have no Operating Surplus in a financial year, all the dividend payable will be accumulated to the next financial year subject to the 60% threshold for that financial year alone as stated above. The dividend will continue to accumulate if there is still outstanding unpaid dividend balance in the following financial year.</p>
Conversion right	The Preference Shares are convertible into New Shares at the option of the holders at any time from the 2nd anniversary of the date of issue up to the 5th anniversary.
Conversion notice	A written notice must be deposited at the Hong Kong registered office of the Company 7 Business Day prior to conversion.
Conversion price	The conversion price of the Preference Shares will depend on the aggregate amount of dividend paid or payable at the time of conversion being:

$$\text{HK\$1.00} \left(\frac{\text{Nominal value of the Preference Share}}{\text{(Nominal value of the Preference Share – aggregate amount of dividend paid or payable for the Preference Shares)}} \right)$$

Any dividend payable to the holders of Preference Shares at the time of conversion will remain to be payable to the concerned holders of the Preference Share notwithstanding the conversion.

The conversion price will be subject to adjustment in circumstances such as share consolidation, rights issue, open offer and capitalisation issue so as to maintain the proportion of entitlement to New Shares upon conversion to the total issued share capital of New Shares at the time of the issuance of the concerned Preference Shares notwithstanding the changes in share capital structure due to such circumstances. The exact principles for adjustment will be finalised upon issuance of the circular and announcement will be made as appropriate. Any adjustment to the conversion price will be certified by the auditors or financial adviser of the Company as being fair and reasonable.

Conversion ratio

The conversion ratio of each Preference Shares into New Shares is dependent on the conversion price being:

$$\text{(nominal value of the Preference Share – aggregate amount of dividend declared)/HK\$1.00}$$

Ranking

The Preference Shares shall rank in priority to the New Shares as to return of capital on a winding up (to the extent of paid up amount of the nominal value of the Preference Shares net of any dividend paid).

The New Shares falling to be issued upon exercise of the conversion rights attaching to the Preference Shares will, when issued, rank pari passu in all respects with the New Shares then in issue.

Voting rights

Holders of the Preference Shares shall have the right to receive notice of, but will not be entitled to attend or vote at any general meetings of the Company by reason only of them being holders of the Preference Shares, save in circumstances where a resolution is proposed to vary or abrogate the rights of holders of the Preference Shares or to wind up the Company.

Redemption by holders

Holders of the Preference Shares cannot require the Company to redeem the Preference Shares in any circumstances.

Redemption at the option of the Company

The Company, at the absolute discretion of the Board, shall at any time after the 3rd anniversary of the issue of the Preference Shares be entitled to redeem the Preference Shares, whether in whole or in part, at a redemption price to be calculated from the following formula:

Issue price of the Preference Shares – aggregate amount of
dividend paid

All the unpaid cumulative dividend shall be automatically waived at redemption.

Mandatory conversion	After the expiration of 5 years from the date of issue, all the outstanding Preference Shares in issue will be automatically converted into New Shares based on the conversion price and the conversion ratio as stated above.
Return of capital	On winding up of the Company, the Preference Shares shall rank in priority to the New Shares as to an amount equal to the nominal value of the Preference Shares net of any dividend paid.
Variation of rights	The rights attached to the Preference Shares shall not be altered without the prior approval of the holders of the ordinary shares of the Company and/or the prior approval of the holders of the outstanding Preference Shares for the time being.
Issue price	<p>Issue price of the Preference Shares shall be equal to or more than the nominal value of HK\$1.00 in accordance with market condition. If an authorisation is granted to the Directors to issue 90 million Preference Shares and such Preference Shares are issued in full, depending on the actual expenses to be incurred, the Directors at present expect that the net proceeds of the issue will be not less than HK\$89 million.</p> <p>Subject to the disclosure and approval requirements of the Listing Rules, the Preference Shares may be issued to connected persons of the Company.</p>
Transferability	<p>The Preference Shares are freely transferable by the holders thereof.</p> <p>Subject to the consent of Bermuda Monetary Authority, the Preference Shares shall be transferable if such transfer is approved by the Board.</p> <p>The Company will undertake to Stock Exchange to immediately notify the Stock Exchange upon becoming aware of any dealings in the Preference Shares by any connected person of the Company (as defined in the Listing Rules).</p>
No pre-emptive Rights	In the event that the Company shall at any time issue to holders of new ordinary shares or securities convertible into ordinary shares, the Company shall not be obliged to offer such shares/securities to the Preference Shareholders for subscription.
Listing	The Preference Shares will not be listed on any stock exchange.

Application will be made for the listing of, and permission to deal in, the Shares which may fall to be issued upon the exercise of conversion rights attached to the Preference Shares on the Stock Exchange.

In view of the aforesaid terms of the Preference Shares, the Directors consider, and the Company has been advised by its Bermuda lawyers, that the Preference Shares are a separate class of shares distinguished from the Shares/New Shares. Subject to the following paragraph, the issuance of the Preference Shares will not affect the rights of the existing ordinary shareholders (i.e. the Shareholders), which include but not limited to the holders of the Scheme Shares and the holders of the Subscription Shares, save and except for the preferential right to dividend, winding up of the Company, and certain voting rights as set out in this announcement. The shareholding percentage of the Shares held by the ordinary shareholders will be diluted by approximately 65.7% on conversion of the 176 million Preference Shares into New Shares assuming no dividend has been paid by the Company. For the avoidance of doubt, upon conversion of the Preference Shares, New Shares falling to be issued will rank *pari passu* (i.e. equally) to the New Shares. The possible effects on the shareholding structure of the Company are illustrated in the section headed “Shareholding structure of the Company” of this announcement.

In addition, a special resolution will be proposed at the SGM granting an authorisation to the Directors to issue 90 million Preference Shares.

Conditions for the creation and issuance of the Preference Shares

The creation and issuance of the Preference Shares is conditional upon:

- (a) the approval of the creation of the Preference Shares and the granting of an authorisation to the Board for the issuance of 90 million Preference Shares by the Shareholders at the SGM; and
- (b) approval of increase in authorized share capital of HK\$176,000,000 by the Shareholders at the SGM;
- (c) the approval of the Consolidation by the Shareholders at the SGM;
- (d) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the New Shares arising from the Consolidation as approved by the Shareholders at the SGM and the New Shares which may fall to be issued upon the exercise of the conversion rights attached to the Preference Shares; and
- (e) The approval by the Bermuda Monetary Authority for the issuance of the Preference Shares.

All of the above conditions must be fulfilled before the Company proceed to the creation and issuance of the Preference Shares.

Reasons for the creation and issuance of Preference Shares

The financial situation of the Group has been summarised in (i) the section headed “Fundamental uncertainties relating to the going concern of basis” in the Auditors’ Report of the Company’s annual report for the year ended 31 July 2002; (ii) the paragraphs headed “Working capital” and “Indebtedness” in the section headed “Financial information of the Group” of the Company’s circular dated 23 December 2002; and (iii) in the section headed “Financial review” of the Company’s interim report for the six months ended 31 January 2003.

In short, notwithstanding the successful completion of the Rights Issue in December 2002, the Company is still in need of significant financial resources 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 assets of the Scheme under the Scheme shall not be less than HK\$176 million (i.e. the Shortfall Undertaking).

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 part 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. Such disposal, if materialized, will be subject to the requirements under the Listing Rules, as appropriate.

Although the Group has been successful in negotiating with certain secured lenders for deferring repayment of certain secured debts pending possible alternatives to refinance those debts, the Group has to restructure and/or refinance the overall debt portfolio, reduce its debt leverage, enhance its asset base so as to revitalise its earning capacity.

In addition to the creation of Preference Shares, the Directors have considered other sources of funding including bank borrowing and placements of new Shares. After considering (i) the prevailing bank loan interest rates, (ii) the immediate dilutive effect of placements of new Shares (iii) and the low liquidity of Preference Shares as it will not be listed on any stock exchange, the Directors consider that the creation of Preference Shares will allow the Company to obtain an additional source of finance which is less costly than bank borrowings with the benefit of strengthening asset base of the Group while the dilutive effect to the Shareholders will be deferred until the Preference Shares are converted into New Shares.

The Company's financial information for the two year ended 31 July 2002 and six months ended 31 January 2003 are summarised as follows:–

	Year ended 31 July 2001 <i>(note 1)</i> (Audited) <i>HK\$'000</i>	Year ended 31 July 2002 <i>(note 2)</i> (Audited) <i>HK\$'000</i>	Six-month ended 31 January 2003 (Unaudited) <i>HK\$'000</i>
Profit/(loss) after tax and minority interest	4,372	(75,973)	3,426
Net current liabilities	(79,851)	(128,458)	(82,476)
Net tangible assets (liabilities)	23,818	(51,966)	(21,169)

Notes:

1. The auditors of the Company qualified their opinion in the audited financial statements of the Company for the year ended 31 July 2001 in respect of the fundamental uncertainties relating to the going concern basis of the Company caused by the following circumstances: (i) the possible outcome of the discussions with potential customers with a view to concluding plant hire agreements for the hiring of a substantial proportion of the Group's vessels; and (ii) the successful disposal of certain of the Group's vessels to reduce its debt servicing obligations. The audited financial statements did not include any adjustments that would result from the failure of the hiring and disposal of the Group's vessels.

2. The auditors of the Company qualified their opinion in the audited financial statements of the Company for the year ended 31 July 2002 in respect of the fundamental uncertainties relating to the going concern basis of the Company as it would depend upon (i) the successful completion of the Rights Issue; (ii) the successful disposal of certain of the Group's vessels to reduce its debt servicing obligations; and (iii) the continued support of the Group's secured lenders and the secured loans.

As mentioned above, compromise with the secured lenders to extend the repayment terms of certain of the Group's debts has released the Group's vessels from the pressure. The Group's efforts to restructure and/or refinance the overall debt portfolio will be continued.

Proposed use of proceeds from the issuance of Preference Shares

The Directors propose for the creation of a new class of Preference Shares and the granting of an authorisation of 90 million Preference Shares, which, if granted and 100% issued, will represent approximately 9.8 times of the existing issued share capital of the Company of HK\$9,173,850.2 and will raise up to HK\$90 million, (i) for payment of the expenses for the creation and issue of Preference Shares of approximately HK\$1 million which is arrived at the best estimate of the Directors as at the date of this announcement; (ii) for payment of the legal expenses of US\$90,000 (equivalent to approximately HK\$702,000) as mentioned in this announcement, which represents approximately 0.78% of the gross proceeds; (iii) approximately HK\$83.30 million to provide working capital for the fully vitalized operation of the Group's vessels and regain business momentum with the target of achieving the level of the turnover of the Group comparable to the turnover of the Group before the implementation of the Scheme so as to service the Group's debt servicing obligations and to generate significant amount of consolidated net profit after tax, minority interests and all exceptional and extraordinary items for the proper discharge of the Company's Shortfall Undertaking; and (iv) among the balance of HK\$5 million, approximately HK\$1.8 million will be for placing fee, which will be on a best effort basis, in connection with the issuance of the Preference Shares (around 1% to 2%) and approximately HK\$3.2 million is for contingency use. Further announcement will be made by the Company when final offer size is determined and investors of the Preference Shares are confirmed. The placing agent of the Preference Shares will ensure possible interested investors including but not limited to the Joint Petitioners are given the opportunities to acquire the Preference Shares on a fair and reasonable basis.

Due to time difference between costs payout and income receipt for normal marine engineering business, the HK\$83.30 million fund to be raised as working capital will be used for the following purposes (i) approximately HK\$19 million as initial repair and relicensing costs for the Group's vessels; (ii) approximately HK\$15 million for purchase of spare parts and complementary equipment for use in conjunction with the Group's vessels; (iii) approximately HK\$10.5 million for wages; (iv) approximately HK\$10.2 million for regular maintenance and consumables including fuel; (v) approximately HK\$15 million for initial payment for restructuring the overall debt portfolio; and (vi) approximately HK\$13.6 million for recurrent debt servicing and regular repayment. Further announcement will be made by the Company if there is any different between the actual use and the intended use of the proceeds.

The Company will consider to issue the balance of the 86 million Preference Shares, which, if 100% issued, will represent approximately 47.32% of the issued share capital of the Company as enlarged by the issuance of 90 million Preference Shares assuming no dividend has been paid by the Company, to meet the requirements of the Group's future development which may include but not limited to expanding the Group's business operations or for any specific purpose, when necessary. Further issuance of the balance of the Preference Shares will be subject to separate Shareholders' approval.

The Preference Shares could cater for the needs of different investors. Investors putting emphasis on dividend return may find the Preference Shares more attractive than the Shares. Save that the dividends pay out is not guaranteed and subject to limit of Operating Surplus as mentioned in the terms of the Preference Shares above. The Directors recognise this niche as a means of raising additional funds for the Company, although at this moment they have not had any discussion with any potential investors. **However, the Company may or may not be able to find investors who are interested in investing in the Company through the Preference Shares. Subject to the relevant provisions of the Listing Rules, the Company will notify the Shareholders by publishing announcement when the Preference Shares are issued. Separate approval from the independent Shareholders will be sought if the subscriber is a connected person as defined under the Listing Rules.**

Regarding the relief sought by the Petitioners as detailed in the circular of the Company dated 23 December 2002 and the Joint Petitioners as detailed in the latter part of this announcement, the Directors consider that except for the appointment of provisional liquidator and winding-up of the Company, all of them do not affect the issuance of the Preference Shares. In the case of winding-up of the Company, holders of Preference Shares will have first call to capital as detailed in the above principal terms of the Preference Shares.

Assuming no dividend has been paid by the Company, after the Consolidation and full conversion of the 90 million Preference Shares, if issued, and further conversion of 86 million Preference Shares, the New Shares falling to be issued from conversion of such amounts of Preference Shares will represent (i) approximately 98.10% and 93.74% of the existing issued share capital respectively and (ii) approximately 49.52% and 32.15% of the then enlarged issued share capital of the New Shares respectively.

Assuming the Company have paid all the dividend in full in the five years, after the Consolidation and full conversion of the 90 million Preference Shares, if issued, and further conversion of the 86 million Preference Share, the New Shares falling to be issued will represent (i) approximately 49.05% and 46.87% of the existing issued share capital respectively and (ii) approximately 32.91% and 23.92% of the enlarged issued share capital of the New Shares respectively.

THE GROUP'S INDEBTEDNESS AND CONTINGENT LIABILITY

As at 31 May 2003, save for contingent liabilities arising from the Scheme as detailed in the later part of this announcement, the Group's total indebtedness amounted to approximately HK\$128 million. Such amount represents (i) the outstanding balance of the secured loans related to vessel financing (which is not related to the Scheme) of approximately HK\$113 million (audited figure as at 31 July 2002 is approximately HK\$115 million); (ii) unsecured loan at normal commercial terms with an interest rate of prime rate plus 2% per annum with no fixed term of repayment due to Harbour Front of approximately HK\$12 million; and (iii) unsecured and interest free advance being deposit for purchase of vessels from an independent third party of the Group of approximately HK\$3 million.

As mentioned in the section headed "Introduction" of the Company's circular to Shareholders dated 1 March 2000, all the liabilities of the Company and the Scheme Participating Subsidiaries on or before the effective date of the Scheme of 28 April 2000 have been dealt with under the Scheme through the transfer and sale of the unencumbered assets and the recovery of account receivables of the Company and the Scheme Participating Subsidiaries (which were no longer being the Group's assets after the Scheme became effective) for distribution to the Scheme creditors by way of dividends and does not form part of the Group's existing liabilities of HK\$119 million referred to above. The Company has utilised 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 of HK\$3.2 million is still outstanding. The Directors would like to remind the Shareholders the possible effects of the Shortfall Undertaking as detailed here below.

Possible effects of the Shortfall Undertaking to the Shareholders

If the aggregate proceeds generated by the disposal and/or realisation of the Scheme Assets in total fall 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 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 realisation of the assets of the Scheme were significantly affected. Since the disposal and/or realisation 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. Judging from the audited results of the Company for the past few financial years, the Company will have to take an indefinite period to fulfill its Shortfall Undertaking and thus, the issuance of Preference Shares is intended to provide additional working capital to the Group for improving its profit earning capacity or expanding its business so that the Company can improve its future profitability for expeditious fulfillment of the Shortfall Undertaking.

Fund raising exercises in the past 12 months

For the past 12 months up to the date of this announcement, the Company had conducted a fund raising exercise in form of Rights Issue in November 2002. Net proceeds of the Rights Issues of approximately HK\$6.6 million had been fully utilised according to the circular of the Company dated 11 November 2002 as follows:–

- (a) audit fee, expenses relating to preparation of the annual report of the Company for the year ended 31 July 2002 and interim report of the Company for the six months ended 31 January 2003 and holding of 2002 annual general meeting, which amount to approximately HK\$1.0 million in aggregate;
- (b) legal expenses for the litigations of Dockyard and the Company as detailed in the latter part of this announcements, which amount to approximately HK\$0.7 million; and
- (c) the balance of approximately HK\$4.9 million was used for payment of director remuneration of approximately HK\$1.1 million, staff salaries and payment to mandatory provident fund of approximately HK\$3 million, rental fees of approximately HK\$0.5 million and administrative expenses and operating expenses of the Group of approximately HK\$0.3 million.

SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the shareholding structure of the Company as at the date of this announcement, immediately after the Consolidation and after the Consolidation and full conversion of 90 million Preference Shares if an authorisation is granted to the Directors to issue 90 million Preference Shares and such authorized Preference Shares are fully issued:

Shareholders	As at the date of this announcement		Immediately after the Consolidation		After the Consolidation and full conversion of the 90 million Preference Shares assuming no dividend has been paid by the Company (Note 4)		After the Consolidation and full conversion of the 90 million Preference Shares at the 5th anniversary assuming the Company have paid all the dividend in full in the five years (Note 4)	
	No. of Shares	%	No. of New Shares	%	No. of New Shares	%	No. of New Shares	%
Harbour Front and its associates (note 1)	422,050,999	46.01	42,205,099	46.01	42,205,099	23.22	42,205,099	30.87
Scheme Administrator and Scheme Creditors (note 2)	252,306,195	27.50	25,230,619	27.50	25,230,619	13.88	25,230,619	18.45
Public (note 3)								
The Joint Petitioners	67,653,097	7.37	6,765,309	7.37	6,765,309	3.72	6,765,309	4.95
Other public Shareholders	175,375,011	19.12	17,537,503	19.12	17,537,503	9.66	17,537,503	12.82

	243,028,108	26.49	24,302,812	26.49	24,302,812	13.38	24,302,812	17.77
Holders of Preference Shares after conversion	-	-	-	-	90,000,000	49.52	45,000,000	32.91
	<u>917,385,302</u>	<u>100.00</u>	<u>91,738,530</u>	<u>100.00</u>	<u>181,738,530</u>	<u>100.00</u>	<u>136,738,530</u>	<u>100.00</u>

<i>Note 1</i>	Name	No. of shares
	Harbour Front and its nominees	412,222,499
	Mrs. Leung, a director of Harbour Front	445,500
	Decorling Limited, which is 100% beneficially owned by Mrs. Leung	9,083,000
	Miss Leung, daughter of Mrs. Leung and a director of Harbour Front	150,000
	Mr. Leung Chi Hong, Jerry, son of Mrs. Leung and a director of Harbour Front	150,000

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

Harbour Front

Harbour Front was incorporated in the British Virgin Islands and its shareholders are Mrs. Leung, Miss Leung and Mr. Leung Chi Hong, Jerry, and each of them own one third of the issued share capital of Harbour Front. Harbour Front is holding the aforesaid 412,222,499 Shares and is the trustee of a unit trust. All units in the trust are beneficially owned by a discretionary trust, the beneficiaries of which are Mrs. Leung and her children, namely Miss Leung and Mr. Leung Chi Hong, Jerry.

Note 2.1: As disclosed in the section headed “Substantial Shareholders” in 2002 annual report of the Company, the Scheme Administrator is a substantial shareholder but such 252,306,195 Shares are being held by the Scheme Administrator on trust for the benefits of the non-preferential Scheme creditors. For the avoidance of doubt, the Shares held by the Scheme Administrator at present and the New Shares held by the Scheme Administrator after the Consolidation rank pari passu (i.e. equally) in all aspects (including voting rights) with the issued Shares. According to the register of member of the Company, the shareholding of the Scheme Administrator remains unchanged as at the date of this announcement.

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

As stated in the section headed “Litigation against the Company in Bermuda”, in the SFC Panel decision, it was held that such Scheme shares do carry “currently exercisable” voting rights for the reason that: (a) under the general law of trusts, the Scheme Administrator as trustee of the Scheme Shares (as defined in the Scheme), is under a fiduciary duty to protect the interests of the Scheme creditors and; (b) where appropriate, this duty would extend to the exercise of voting rights of the Shares on their behalf.

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

Note 2.3: As referred to in the paragraph headed “Underwriting Arrangement” under the section headed “Letter from the Board” in the prospectus issued by the Company on 11 November 2002, 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 change 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 before any conversion of the Preference Shares.

Note 2.4: As stated in the SFC’s panel decision from the Takeovers and Mergers Panel dated 28 September 2001, the Scheme Shares were allotted to the Scheme Administrator to hold “on trust for the non-preferential Scheme creditors pending their distribution”. Under the Scheme, the only stated powers given to the Scheme Administrator in relation to the Scheme Shares are to receive, hold and distribute them to the Scheme creditors upon proof of their claims.

Note 2.5: As disclosed in the announcement of the Company dated 16 October 1999, save for Harbour Front, the Scheme Administrator and the non-preferential Scheme creditors are not connected with the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates (as such terms are defined in the Listing Rules). Also, the Scheme creditors (save for Harbour Front) holds not more than 10% of the issued share capital of the Company and they are not connected with the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates (as such terms are defined under the Listing Rules).

Note 2.6: Based on Note 2.1 to 2.5, the Shares held by the Scheme Administrator on trust for the benefits of the non-preferential Scheme creditors are considered as public.

Note 3: The shareholding of the Joint Petitioners as at the date of the affidavits made by them respectively was as follows:

Name	Date of the relevant affidavit	Number of Shares	Percentage	Scenario (i)		Scenario (ii)		Scenario (iii)	
				Number of Shares	Percentage	Number of Shares	Percentage	Number of Shares	Percentage
Charterbase Management Limited	10 May 2001	20,000	-	-	-	-	-	-	-
	29 Nov 2002	40,000	0.0044	4,000	0.0044	4,000	0.0022	4,000	0.0029
United People Assets Limited	21 Dec 2001	6,000	-	-	-	-	-	-	-
	29 Nov 2002	40,000	0.0044	4,000	0.0044	4,000	0.0022	4,000	0.0029
Hung Ngai Holdings Limited	23 Oct 2002	3,960,000	-	-	-	-	-	-	-
	29 Nov 2002	6,420,000	0.6998	642,000	0.6998	642,000	0.3533	642,000	0.4695
Value Partners Investment Limited	24 Dec 2002	61,153,097	6.6660	6,115,309	6.6660	6,115,309	3.3649	6,115,309	4.4723
Total as at the date of this announcement		<u>67,653,097</u>	<u>7.3746</u>	<u>6,765,309</u>	<u>7.3746</u>	<u>6,765,309</u>	<u>3.7226</u>	<u>6,765,309</u>	<u>4.9476</u>

Scenario (i): Immediately after the Consolidation

Scenario (ii): After the Consolidation and full conversion of the Preference Shares assuming no dividend has been paid by the Company

Scenario (iii): After the Consolidation and full conversion of the Preference Shares at the 5th anniversary assuming the Company have paid all the dividend in full in the five year

Note 4: The other possible scenarios for the change in shareholding are not set out herein for the sake of simplicity.

As at the date hereof, the issued share capital of the Company is HK\$9,173,853.02 divided into 917,385,302 Shares. Immediately following the completion of the Consolidation and the issue of 90 million Preference Shares:-

- (i) the authorised share capital of the Company will be HK\$296,000,000 comprising 1,200,000,000 Shares of HK\$0.10 each and 176,000,000 Preference Shares of HK\$1.00 each;
- (ii) the issued share capital of the Company will be HK\$99,173,853 divided into 91,738,530 New Shares of a nominal value of HK\$0.10 each and 90,000,000 Preference Shares of a nominal value of HK\$1.00 each.

LEGAL PROCEEDINGS

Litigation against the Company in Bermuda

On 16 May 2002, the Petitioners lodged a Petition under section 111 of the Companies 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 found in the earlier announcements of the Company dated 18 June 2002 and 20 November 2002 and in the previous circulars of the Company dated 11 November 2002 and 23 December 2002.

On 31 July 2002, Charterbase Management Limited, one of the Petitioners, issued the Bermuda Writ against the Company and against Mrs. Leung, Mr. Chan Kim Leung, Miss Leung, Mr. Pao Ping Wing JP and Mr. Wong Pui Fai who were 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 misdescribed 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. On 15 August 2002 the Company entered an appearance to the Bermuda Writ, and the Company filed its defence on 12 September 2002. The Company has been advised by its Bermuda lawyers that it has good grounds to resist the Bermuda Writ. Charterbase Management Limited has taken no further steps in the proceedings since the defence was filed.

With regard to the Petition, in 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 and circulars dated 11 November 2002 and 23 December 2002, the hearing date of the summons, originally fixed for 18 and 19 November 2002, was adjourned due to the unavailability of the Petitioners' counsel and the hearing was rescheduled for 16 and 17 December 2002. The Company's strike out application was then adjourned, on the basis of the Petitioners' indication that they intended to file an amended Petition. The Amended Petition was duly filed on 3 April 2003.

Two new parties were joined as Petitioners, namely Hung Ngai Holdings Limited and Value Partners Investment Limited.

In addition to the matters pleaded in the original Petition, the Amended Petition complained about the Company's non-acceptance of a conditional credit facility from Hung Ngai Holdings Limited and about the Rights Issue of November 2002, in particular the allocation of Rights Shares to Harbour Front, and other allegedly prejudicial conduct of the Company.

The relief sought by the Petitioners in the Amended Petition includes:

1. a declaration that the determination that the Scheme Administrator had zero voting rights and Harbour Front and all other Shareholders had double voting rights at the Subscription SGM held on 17 May 2001 is unlawful and invalid;

2. a declaration that all Shareholders including Harbour Front, the Scheme Administrator and Charterbase Management Limited should have the same percentage of voting rights as represented by the number of shares each owned at the Subscription SGM, and are entitled to vote in the same manner at all future general meetings of the Company;
3. declarations that the following were void and/or invalid:
 - (i) the Subscription of the 100,922,478 Subscription Shares by Harbour Front which was purportedly approved at the Subscription SGM;
 - (ii) the 50,641,239 Subscription Rights Shares taken up by Harbour Front pursuant to the Rights Issue;
 - (iii) the 30,111,520 Harbour Front Shares taken up by Harbour Front pursuant to its application for excess Rights Shares.
4. Orders restraining the Company from registering the above shares or any transfer of them;
5. Orders restraining the Company from recognising the exercise of any rights attaching to any of the above shares;
6. an order that the method of allotment of excess Rights Shares in the prospectus issued by the Company on 11 November 2002 is advantageous to Harbour Front and unfairly prejudicial to other shareholders;
7. an order that the 181,495,237 Shares being the sum of the Harbour Front shares be offered to all Shareholders apart from Harbour Front and its associates for unlimited subscription on fair and equitable terms;
8. an order that the Company should hold a special general meeting of the Shareholders as soon as possible to appoint new Directors who should be authorised to organise and implement the offer of 181,495,237 Shares in the manner and terms prescribed in the preceding paragraph;
9. an order that the Company should accept the Hung Ngai Offer;
10. an order restraining the Company from doing anything that would in any way increase the shareholding of Harbour Front and its associates;
11. an order restraining the Company from doing anything that would result in the dilution of the Shares held by any one or more of Shareholders without the approval granted by the general meeting of Shareholders in which Harbour Front and its associates should be excluded from voting.

In the alternative, the Joint Petitioners seek an order that a provisional liquidator be appointed pending the effective hearing of the Amended Petition and an order that the Company be wound up.

The Company has applied for security for costs, both in relation to the Petition, and in relation to the Bermuda Writ. The hearing of the Company's application is being fixed.

According to the Amended Petition and the register of members of the Company, Hung Ngai Holdings Limited and Value Partners Investment Limited were incorporated in the British Virgin Islands and Bermuda respectively. They are minority shareholders of the Company with identical addresses in Hong Kong. According to an affidavit dated 7 May 2002, Lam Chi Wing is the authorised representative of these Petitioners.

The Company is applying to have the Amended Petition be considered after the security for costs application. Further announcement will be made by the Company when there is any material development regarding the Bermuda Writ and the Amended Petition.

According to the Company's legal representatives, the estimated legal expenses in connection with these proceedings will be approximately US\$90,000 (equivalent to approximately HK\$702,000). The Directors intend that part of the net proceeds from the issue of Preference Shares will be for payment of the legal expenses notwithstanding the security for costs application and costs award, if any. The legal expenses will be paid in parts in line with the progress of the proceedings and therefore, the Company will be in a better position to oppose the Amended Petition if sufficient funds could be raised through the issuance of the Preference Shares. The legal expenses will need to be paid for regardless of the outcomes of the proceedings notwithstanding that should the Company be successful in opposing the Amended Petition costs to the Company may be ordered by the Supreme Court of Bermuda against the Joint Petitioners.

Result of the legal proceedings concerning Universal Dockyard Limited, one of the Scheme Participating Subsidiaries (“Dockyard”)

As mentioned in the announcements of the Company dated 4 October 2002 and 11 November 2002 and the circulars of the Company dated 11 November 2002 and 23 December 2002, the legal proceedings concerning Dockyard are as follow:–

- (i) On 11 December 2001, Fonfair, as the registered owner, obtained a judgement under the High Court Action No. 1886 of 2001 against Dockyard, as the tenant and a wholly-owned subsidiary of the Company, for possession of Yau Tong Property together with arrears of rent claimed by Fonfair, being HK\$3,616,000 plus HK\$226,000 per month from 1 May 2001 to 19 June 2002 and interest. A writ of possession was executed against the Yau Tong Property on 19 June 2002 pursuant to which Fonfair obtained possession of the Yau Tong Property.

Fonfair is owned as to approximately 66% by Money Facts and another approximately 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 the 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”).

- (ii) On 23 June 2002, the Winding-up Petition was filed by Fonfair.

- (iii) A claim for the recovery of the Goods and Chattels was made by Dockyard (HCA3102/2002) against Fonfair and two injunction orders were granted under High Court Action No. 3102 of 2002 on 16 August 2002 and 6 September 2002 respectively 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.
- (iv) On 5 February 2003, a writ of summons was issued by Dockyard against Fonfair (HCA 485/2003) for recovering a debt of HK\$6,350,695.14 assigned to Dockyard in August 2000 in consideration of a promissory note issued by Dockyard at the same time for an amount of HK\$6,350,695.14 (the “Promissory Note”). The concerned debt was originally intended for setting off against rental payment from Dockyard to Fonfair (note) for the continued use of the Yau Tong Property for the Group’s core marine engineering business under an agreed arrangement made in August 2000 but such an arrangement was subsequently refused to be recognised by the present management of Fonfair after 1 March 2001. The writ was issued nearly two years later because other legal proceedings relating to the same matter were in progress during the same period. It was considered by Dockyard that the pursuit of claim for the assigned debt via legal proceedings was not appropriate until early 2003.

Note: In August 2000, Fonfair had four directors, namely (i) Leung Yat Tung, the former chairman of the Company who resigned on 1 March 2000; (ii) Leung Yuet Keung; (iii) Fire Full Investment Limited, a corporate director related to Harbour Front; and (iv) Macron Investment Limited, a corporate director related to Leung Yuet Keung. Presently, Fonfair has three directors, namely (i) Leung Yuet Keung; (ii) Fire Full Investment Limited; and (iii) Macron Investment Limited

Under the said agreed arrangement, a new tenancy agreement was entered into between Fonfair and Dockyard on 31 August 2000 (the “New Tenancy Agreement”) for a term of two years commencing from 1 September 2000 at a reduced rental of HK\$150,000 per month (rental under previous tenancy agreement: HK\$226,000 per month). The rent due under the New Tenancy Agreement was to be paid in full by way of set off against the abovementioned debt of HK\$6,350,695.14 owed by Fonfair to YL Leung Trading Company Limited, which had assigned the debt to Dockyard in August 2000 in exchange of the Promissory Note.

Dockyard, due to the uncertainty of recovery of the debt after further review in early March 2003, issued a notice of discontinuance on 11 March 2003 and through a deed of reassignment dated 21 March 2003, reassigned the full amount of the aforesaid debt of HK\$6,350,695.14 for the recovery of the Promissory Note. The rental payable for use of the Yau Tong Property, the assigned debt and the Promissory Note together form an integral arrangement. The agreed arrangement made in writing on 31 August 2000 between Dockyard and Fonfair has no effects onto the financial condition of the Group save for the net effect of the rental payable which has been properly allowed for in the relevant financial statements as operating lease rental and has been reported in the Company’s annual reports of 2001 and 2002 accordingly.

- (v) On 9 June 2003, a winding-up order was granted against Dockyard. The Directors consider that save for the litigation costs and expenses amounting to approximately HK\$200,000 incurred, the winding-up order will not have any material impact on the financial, business or operation of the Group and the Shareholders as before the winding-up, Dockyard has no business nor net tangible assets of substance and it had incurred substantial loss in the financial year ended 31 July 2002.

Dockyard's business was originally hiring of marine vessels and contracting of marine engineering work. After the filing of the Winding-up Petition by Fonfair as mentioned in point (ii) above, Dockyard ran down its business and it has no active business thereafter.

- (vi) According to the Group's accountant, assuming Dockyard is ceased to be a subsidiary of the Company, the Group will record an unaudited net gain after adjustment for deconsolidation of Dockyard of approximately HK\$11 million for the six months ended 31 January 2003 (unaudited figure as at 31 January 2003 is HK\$3.426 million). As Dockyard has ceased to be a subsidiary of the Group, its debt owing to third parties would not be consolidated to the Group. The exact effect will be reflected in the audited financial statement for the year ending 31 July 2003 as appropriate.

REVIEW OF THE OPERATIONS AND PROSPECTS OF THE GROUP

During the period ended 31 January 2003, the Group's financial results were continuously affected by unfavourable market conditions of the marine engineering industry in Hong Kong and Singapore. The Group is continuing its core business in dredging and vessel hiring. As disclosed above, the Group's vessels have been released from being put under foreclose pressure. Certainty in the continued use of such vessels could be offered and assured to the Group's clients which has greatly enhanced the Group's competitiveness in securing award of contracts. Therefore, the Group has taking up more contracts whether hiring of vessels or constructions of marine works which could generate surplus income notwithstanding encumbrance under security arrangement.

Out of the around 70 vessels under the fleet of the Group, there are around 50 core engineering comprising grab dredgers, barges and tugs and another 20 supporting vessels comprising transport boats and work boats. It is the Group's intention to keep the Company's 50 core engineering vessels and to dispose of the 20 supporting vessels. With a fleet comprises various engineering vessels, such as grab dredgers, barges and tugs in its fleet of 50 core engineering vessels, the Group is exploring for all opportunities in the region and especially in mainland China to improve its core business and at the same time to seek for possible diversification. Taking advantage of its strong base in marine engineering, the Group is also actively pursuing new business opportunities in general engineering work for example infrastructure development involving reclamation and general civil engineering.

During the period, notwithstanding the Group's continued effort to reduce its debt servicing obligations by disposing of the Group's vessels, the Directors were in active negotiations with the secured lenders for restructuring and/or refinancing the Group's outstanding secured debts. The Group has obtained consent from all the secured lenders for extension on scheduled repayment of certain loan principal and interest pending possible proposal from the Company.

GENERAL

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries are marine engineering and trading of vessels.

The Company will make an application to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the New Shares arising from the Consolidation as approved by the Shareholders at the SGM and New Shares falling to be issued upon exercise of the conversion rights of the Preference Shares.

Subject to the Consolidation becoming effective, share options granted by the Company will be adjusted accordingly so that holders of such share options will have the same proportion of equity capital as that to which they were previously entitled. The alternation will be certified by the auditors or financial adviser of the Company as being fair and reasonable.

The SGM will be convened to approve the Consolidation, increase in authorised share capital and the creation and issuance of the Preference Shares. In addition, resolutions will be proposed at the SGM for the granting of general mandates to the Directors for the issue and repurchase of New Shares. A circular containing the details and the expected timetable of the Consolidation, the details of the Preference Shares and a notice of the SGM will be despatched to each of the Shareholders as soon as practicable.

TERMS USED IN THIS ANNOUNCEMENT

“Amended Petition”	the petition submitted by the Joint Petitioners amending the Petition submitted by the Petitioners
“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Bermuda Writ”	a writ issued in the Supreme Court of Bermuda by Charterbase Management Limited on 31 July 2002
“Business Day”	a day (excluding a Saturday) on which banks in Hong Kong are generally open for business
“Companies Act”	the Companies Act 1981 of Bermuda (as amended)
“Company”	UDL Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
“Consolidation”	the proposed consolidation of every ten Shares of HK\$0.01 each into one New Share of HK\$0.10
“Director(s)”	director(s), including the non-executive directors, of the Company
“Dockyard”	Universal Dockyard Limited, one of the Scheme Participating Subsidiaries
“Fonfair”	Fonfair Company Limited, which is owned as to approximately 66% by Money Facts, approximately 33% by Harbour Front and 1% by the Administrator of the estate of Mr. Leung Man Kwong, deceased respectively
“Goods and Chattels”	goods and chattels located at Yau Tong Marine Lots Nos. 2, 3 and 4 situated at No.44 Ko Fai Road, Yau Tong Bay, Kowloon owned by Fonfair

“Group”	the Company and its subsidiaries
“Harbour Front”	Harbour Front Limited, a company incorporated in the British Virgin Islands, together with the parties acting in concert with it, namely, Mrs. Leung, Miss Leung and Mr. Leung Chi Hong, Jerry, own 422,050,999 Shares in aggregate, representing approximately 46.01% of the total issued share capital of the Company. Harbour Front Limited is holding the aforesaid Shares (save for those Shares owned by Mrs. Leung, Miss Leung and Mr. Leung Chi Hong, Jerry) as trustee of a unit trust. All units in the trust are beneficially owned by a discretionary trust, the beneficiaries of which are Mrs. Leung and Miss Leung and Mr. Leung Chi Hong, Jerry
“Harbour Front Excess Rights Shares”	the 30,111,520 Shares taken up by Harbour Front pursuant to its application of the excess Rights Shares
“Hung Ngai Offer”	the conditional offer of a credit facility to the Company from Hung Ngai Holdings Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Interim Finance”	the interim finance of about HK\$3.2 million provided by the Company to the Scheme Administrator to expedite the implementation of the Scheme and to ensure smooth running of the Scheme as disclosed in the Company’s circular to the Shareholders dated 23 April 2001
“Joint Petitioners”	Charterbase Management Limited, United People Assets Limited, Hung Ngai Holdings Limited and Value Partners Investment Limited
“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% of the existing issued share capital of Fonfair
“Mrs. Leung”	Mrs. Leung Yu Oi Ling, Irene, executive Director and chairman of the Company
“New Shares”	ordinary share(s) of HK\$0.10 each in the capital of the Company after the Consolidation

“Operating Surplus”	the Group’s audited consolidated surplus from operating activities before finance costs, taxation and minority interest and exceptional and extraordinary items in a financial year as determined in accordance with the generally accepted accounting principals in Hong Kong then applicable. In the case when the Group has audited consolidated deficit from operating activities before the abovementioned items, the Operating Surplus shall be taken as zero
“Petition”	the petition lodged by the Petitioners on 16 May 2002 under section 111 of the Companies Act with the Supreme Court of Bermuda against the Company as the first respondent and the Scheme Administrator as the second respondent
“Petitioners”	Charterbase Management Limited and United People Assets Limited, which are minority shareholders of the Company holding 20,000 Shares and 6,000 Shares (representing approximately 0.00330% and 0.00099% of the issued share capital of the Company) since May 2001 and December 2001 respectively. On 29 November 2002, their respective shareholding were both increased to 40,000 Shares as a result of the right issue.
“Petitioners’ Complaint”	the complaint lodged by the Petitioners with the Securities and Futures Commission on 18 May 2001
“Preference Share(s)”	non-voting redeemable convertible preference share(s) of HK\$1.00 each carrying the rights to convert into New Shares which is preference to the New Shares on return to capital in case of liquidation
“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 as detailed in the circular of the Company dated 11 November 2002
“Rights Share(s)”	the 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 Assets”	the unencumbered assets transferred by the Group to the Scheme Administrator upon the Scheme became effective in April 2000, 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 of its certain subsidiaries

“Scheme Participating Subsidiaries”	namely, Econo Plant Hire Company Limited, UDL Argos Engineering & Heavy Industries Company Limited, UDL Civil Contractors Limited, UDL Contracting Limited, UDL Marine Operation Limited, UDL Marine Pte Limited, UDL Ship Management Limited, East Coast Towing Limited, Everpoint Company Limited, Exact Profit Limited, Fairking Transportation Limited, Faith On International Limited, Full Keen Investment Limited, Graceful Ease Investment Limited, Keen Yield Investment Limited, S.K. Luk Construction Company Limited, UDL Dredging Limited, UDL E&M (BVI) Limited, UDL Investment Limited, UDL Management Limited, UDL Steel Fabricators & Shipbuilders Company Limited, UDL Employment Services Limited, Wellful Time Limited, all are wholly-owned subsidiary of the Company, and Universal Dockyard Limited, a 98.75% owned subsidiary of the Company
“SGM”	a special general meeting of the Company to be convened and held to consider and approve, without limitation, the Consolidation, the increase in authorised share capital, the creation of the Preference Shares, the issuance of 90 million Preference Shares and the granting of general mandates to the Directors for the issuance and repurchase of New Shares.
“Share(s)”	existing ordinary share(s) of HK\$0.01 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Shortfall Undertaking”	the Company’s undertaking to the trustee of the Scheme that the aggregate disposal proceeds of the scheme assets under the Scheme shall not be less than HK\$176 million
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of 100,922,478 Shares by Harbour Front Limited pursuant to the Subscription Agreement as detailed in the Company’s announcement dated 30 March 2001 and circular dated 23 April 2001
“Subscription Agreement”	the subscription agreement dated 30 March 2001 and entered into between the Company and Harbour Front in relation to the Subscription
“Subscription Rights Shares”	50,461,239 Shares, being the Shares taken up by Harbour Front pursuant to the 1 in 2 Rights Issue through the rights attached to the 100,922,478 Subscription Shares
“Subscription Shares”	the 100,922,478 Shares subscribed by Harbour Front Limited pursuant to the Subscription Agreement
“Subscription SGM”	a special general meeting of the Company dated 17 May 2001 in relation to the Subscription
“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 situate at No. 44 Ko Fai Road,
Yau Tong Bay, Kowloon

“HK\$” and “cent(s)” Hong Kong dollars, the lawful currency of Hong Kong

“%” per cent.

By order of the board
UDL Holdings Limited
Leung Yu Oi Ling, Irene
Chairman

Hong Kong, 30 June 2003

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