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If you have sold or transferred all your shares in **UDL HOLDINGS LIMITED**, you should at once hand this circular and the accompanying proxy form to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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,
PROPOSED GENERAL MANDATES TO REPURCHASE AND
ISSUE NEW SHARES**

A notice convening a special general meeting of UDL HOLDINGS LIMITED to be held at Room 315, 3rd Floor, Hong Kong International Trade & Exhibition Centre, No. 1 Trademart Drive, Kowloon Bay, Hong Kong on 22 August 2003 at 2:00 p.m. is set out on pages 71 to 85 of this circular. Whether or not shareholders propose to attend the meeting, they are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the Company's share registrar in Hong Kong, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding of the meeting or any adjournment thereof. Completion and return of the proxy form will not preclude shareholders from attending and voting in person at the meeting or any adjournment thereof should they so wish.

Hong Kong, 1 August 2003

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EXPECTED TIMETABLE

2003

Latest time for lodging of proxies	2:00 p.m. Wed, 20 Aug
SGM	2:00 p.m. Fri, 22 Aug
Effective date for Consolidation	Mon, 25 Aug
Free exchange of share certificate(s) for Shares for new share certificate(s) for New Shares commences	Mon, 25 Aug
Dealings in New Shares commence	9:30 a.m. Mon, 25 Aug
Existing counter for trading in board lots of 40,000 Shares closes	9:30 a.m. Mon, 25 Aug
Temporary counter for trading in New Shares, in board lots of 4,000 New Shares in the form of existing share certificate(s), which is light blue in colour, for Shares opens	9:30 a.m. Mon, 25 Aug
Counter for trading in New Shares, in board lots of 10,000 New Shares in the form of the new share certificate(s), which is light orange in colour, for the New Shares opens	9:30 a.m. Mon, 8 Sep
Parallel trading commences	9:30 a.m. Mon, 8 Sep
Temporary counter for trading in New Shares, in board lots of 4,000 New Shares in the form of existing share certificate(s), which is light blue in colour, for Shares closes	4:00 p.m. Tue, 30 Sep
Parallel trading ends	4:00 p.m. Tue, 30 Sep
Last day for free exchange of share certificate(s) for Shares for new share certificate(s), which is light orange in colour, for New Shares	Wed, 15 Oct

DEFINITIONS

In this circular, the following expressions shall have the following meanings unless the context requires otherwise:

“Amended Petition”	the petition submitted by the Joint Petitioners amending the Petition submitted by the Petitioners
“associate”	has the same 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
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“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
“connected person”	has the same meaning ascribed to it under the Listing Rules
“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 approximately 1% by the administrator of the estate of Mr. Leung Man Kwong, deceased respectively
“General Mandates”	the Share Issue Mandate and the Repurchase Mandate
“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

DEFINITIONS

“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 440,216,999 Shares in aggregate, representing approximately 47.05% 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
“HKSCC”	Hong Kong Securities Clearing Company Limited
“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
“Latest Practicable Date”	29 July 2003, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular.
“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

DEFINITIONS

“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 principles in Hong Kong then applicable. In the case when the Group has audited consolidated deficit from operating activities for 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 Rights Issue
“Petitioners’ Complaint”	the complaint lodged by the Petitioners with the SFC on 18 May 2001
“Preference Share(s)”	non-voting 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 of capital in case of liquidation
“Repurchase Mandate”	a general mandate to the Directors to exercise the powers of the Company to repurchase Shares during the period as set out in ordinary resolution number 4 up to a maximum of 10 per cent of the issued New Shares
“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

DEFINITIONS

“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 becoming 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 (in liquidation), a 98.75% owned subsidiary of the Company before liquidation
“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	a special general meeting of the Company to be held on 22 August 2003 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

DEFINITIONS

“Share Issue Mandate”	a general mandate to the Directors to exercise the powers of the Company to issue during the period as set out in the ordinary resolution number 5 representing up to 20 per cent of the issued New Shares
“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 SGM”	a special general meeting of the Company dated 17 May 2001 in relation to the Subscription
“Subscription Shares”	the 100,922,478 Shares subscribed by Harbour Front Limited pursuant to the Subscription Agreement
“Takeovers Code”	Hong Kong Code on Takeovers and Mergers
“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

LETTER FROM THE BOARD



UDL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

Executive Directors:

Mrs. Leung Yu Oi Ling, Irene (*Chairman*)
Miss. Leung Chi Yin, Gillian (*Deputy Chairman*)

Independent Non-executive Directors/Audit Committee:

Mr. Pao Ping Wing, JP
Prof. 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

1 August 2003

To the Shareholders

Dear Sir or Madam,

**PROPOSED SHARES CONSOLIDATION AND CHANGE
IN BOARD LOT SIZE,
PROPOSED CREATION AND ISSUANCE OF PREFERENCE SHARES,
PROPOSED GENERAL MANDATES TO REPURCHASE AND
ISSUE NEW SHARES**

1. INTRODUCTION

Further to the announcement of the Company dated 30 June 2003, the purpose of this circular is to give you further information regarding, among other things, the convening of the SGM to approve (i) the proposed consolidation of every ten Shares of HK\$0.01 each into one New Share of HK\$0.10 each; (ii) the proposed creation of a new class of non-voting 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 authorised share capital; (iii) the granting of an authority to the Directors for the issuance of 90 million Preference Shares; and (iv) the granting of the General Mandates to the Directors.

LETTER FROM THE BOARD

2. 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 Latest Practicable Date, 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 the financial position or other aspects of the Company.

As at the Latest Practicable Date, 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 935,551,302 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 93,555,130 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 Latest Practicable Date is HK\$0.022, the average closing price of the Shares for the 10 consecutive trading days including and up to the Latest Practicable Date was HK\$0.022 and the average closing price of the Shares for the 20 consecutive trading days including and up to the Latest Practicable Date was HK\$0.022.

The date on which the Consolidation is expected to take effect is Monday, 25 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 Friday, 22 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.

Exchange of 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 25 August 2003 to 15 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.

LETTER FROM THE BOARD

Existing share certificates for the Shares, which are light blue in colour, will only be valid for delivery and settlement in respect of trading for the period up to 30 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). The colour of the new share certificates for the New Shares will be in light orange.

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 has been 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.

Subject to the granting of listing of, and permission to deal in, the New Shares on the Stock Exchange, the New Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the New Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Trading Arrangement

Upon the Consolidation becoming effective, the arrangement proposed for dealings in the New Shares are expected to be as follows:

From 25 August 2003, the existing counter for trading in the existing Shares in board lots of 40,000 shares will be temporarily closed. A temporary counter will be established for trading in the New Shares in board lots of 4,000 New Shares. Existing share certificates for the Shares may only be traded at this temporary counter.

LETTER FROM THE BOARD

With effect from 8 September 2003, the existing counter for trading in the Shares will be reopened for trading in the New Shares in board lots of 10,000 New Shares in the form of new share certificates.

From 8 September 2003 to 30 September 2003, both days inclusive, there will be parallel trading at the above two counters.

The temporary counter for trading in the New Shares in board lots of 4,000 New Shares will be removed after the close of trading on 30 September 2003. Thereafter, trading will be in New Shares in board lots of 10,000 New Shares only and the existing share certificates for Shares will not be acceptable for dealing purposes. However, such share certificates will remain effective as documents of title and may be exchanged for new share certificates for New Shares free of charge until 15 October 2003 after which 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 will be charged.

Facilities for odd lot holders

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 25 August 2003 to 30 September 2003 (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, Hong Kong whose telephone number and fax number are 2298-6215 and 2295-0682 respectively during the aforesaid period. **Shareholders should note that successful matching of sale and purchase of odd lots of New Shares is not guaranteed and will depend on the adequacy of the amount of odd lots of New Shares available in market for such matching. Shareholders holding odd lots resulting from the Consolidation are advised to consult their professional advisers in relation to the underlying odd lot arrangement.**

3. 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 and conditions of issue of the Preference Shares are summarised 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	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.

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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. For the avoidance of doubt, such outstanding undeclared and unpaid dividend shall not be taken as dividend payable for the purpose of calculation of conversion price.

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:

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

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 is set out in resolution number 2 of the notice of the SGM

LETTER FROM THE BOARD

contained in this circular. 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	<p>The conversion ratio of each Preference Shares into New Shares is dependent on the conversion price being:</p> <p>(nominal value of the Preference Share – aggregate amount of dividend declared)/HK\$1.00</p>
Ranking	<p>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).</p> <p>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.</p>
Voting rights	<p>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.</p>
Redemption	<p>There are no redemption rights.</p>
Mandatory conversion	<p>At 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.</p>
Return of capital	<p>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.</p>
Variation of rights	<p>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.</p>
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</p>

LETTER FROM THE BOARD

Preference Shares are issued in full for HK\$90 million, 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.

Subject to the disclosure and approval requirements of the Listing Rules, the Preference Shares may be issued to connected persons of the Company.

Transferability

The Preference Shares are freely transferable by the holders thereof.

Transfer of Preference Shares shall be approved by the Board. The Company has undertaken to the 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).

No pre-emptive Rights

In the event that the Company shall at any time issue to holders of new ordinary shares, shares or securities convertible into ordinary shares, the Company shall not be obliged to offer such shares/securities to the holders of Preference Shareholders for subscription.

Listing

The Preference Shares will not be listed on any stock exchange.

Application has been 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, as advised by the Company's Bermuda legal advisers, whose details are set out in the section headed "Qualification of experts" in appendix III of this circular, the Directors consider 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, return of capital upon winding up of the Company, and certain voting rights as set out in resolution number 2 in the notice of SGM contained in this circular. The shareholding percentage of the Shares held by the ordinary shareholders will be diluted by approximately 65.29% 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 circular.

LETTER FROM THE BOARD

In addition, the Directors, after consulting its Bermuda legal advisers, whose details are set out in the section headed “Qualification of experts” in appendix III of this circular, have decided that the Preference Shares will not have any redemption rights. With this change in the terms of the Preference Shares, an ordinary resolution, rather than a special resolution as stated in the announcement of the Company dated 30 June 2003, 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 Directors for the issuance of 90 million Preference Shares by the Shareholders at the SGM;
- (b) approval of increase in authorised 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 securities up to the authorised share capital of the Company as determined by the Company and the free transferability thereof.

All of the above conditions must be fulfilled before the Company proceeds 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).

LETTER FROM THE BOARD

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 secured lenders for deferring repayment of 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	Year ended 31 July 2002	Six-month ended 31 January 2003
	<i>(note 1)</i>	<i>(note 2)</i>	
	(Audited)	(Audited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<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.

LETTER FROM THE BOARD

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 being put under foreclosure 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 9.62 times of the existing issued share capital of the Company of HK\$9,355,513.02 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 Latest Practicable Date; (ii) for payment of the legal expenses of US\$90,000 (equivalent to approximately HK\$702,000) as mentioned in the sub-paragraph headed "Litigation against the Company in Bermuda" in the section headed "Legal Proceedings" contained in this letter, which represents approximately 0.78% of the gross proceeds; (iii) approximately HK\$83.30 million to provide working capital for the fully vitalised operation of the Group's vessels and to 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\$1.80 million will be for placing fee to be paid to a placing agent, which will be on a best effort basis, in connection with the issuance of the Preference Shares (around 1% to 2%) and approximately HK\$3.20 million is for contingency use. As at the Latest Practicable Date, the appointment of the placing agent has not yet been determined. **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\$10.50 million for wages; (iv) approximately HK\$10.20 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\$13.60 million for recurrent debt servicing and regular repayment. Further announcement will be made by the Company if there is any difference 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 and converted, will represent approximately 46.85% 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.**

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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.**

Reference is made to 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 letter. As the legal proceeding of the Amended Petition has not been progressed pending the security for costs application by the Company, based on the preliminary reviews of the Company, the relief 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:

- (i) after the Consolidation and full conversion of the 90 million Preference Shares (90 million New Shares will be issued at HK\$1.00 upon such conversion), if issued, the New Shares falling to be issued from conversion of such amounts of Preference Shares will represent approximately 96.20% of the then issued share capital and approximately 49.03% of the then enlarged issued share capital of the New Shares respectively;
- (ii) after the Consolidation and further conversion of all the 86 million Preference Shares (86 million New Shares will be issued at HK\$1.00 upon such conversion), the New Shares falling to be issued from conversion of such amounts of Preference Shares will represent approximately 91.92% of the then issued share capital and approximately 31.90% of the then enlarged issued share capital of the New Shares respectively.

Assuming the Company has paid all the dividend in full in the five years:

- (i) after the Consolidation and full conversion of the 90 million Preference Shares (90 million New Shares will be issued at HK\$2.00 upon such conversion), if issued, the New Shares falling to be issued will represent approximately 48.10% of the then issued share capital and approximately 32.48% of the enlarged issued share capital of the New Shares respectively;
- (ii) after the Consolidation and further conversion of the 86 million Preference Share (86 million New Shares will be issued at HK\$2.00 upon such conversion), the New Shares falling to be issued will represent approximately 45.96% of the then issued share capital and approximately 23.68% of the enlarged issued share capital of the New Shares respectively.

LETTER FROM THE BOARD

4. THE GROUP'S INDEBTEDNESS AND CONTINGENT LIABILITIES

Indebtedness

As at 31 May 2003, 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\$3.20 million in aggregate to the Scheme Administrator and such amount of HK\$3.20 million is still outstanding. The Directors would like to remind the Shareholders the possible effects of the Shortfall Undertaking as detailed here below.

Contingent liabilities – 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.

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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 detailed information (including but not limited to the books and records of the Scheme) and thus is unable to assess the exact 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 exact 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 and the updated circumstances, 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 Latest Practicable Date, 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\$6.60 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 letter, which amount to approximately HK\$0.70 million; and
- (c) the balance of approximately HK\$4.90 million was used for payment of director remuneration of approximately HK\$1.10 million, staff salaries and payment to mandatory provident fund of approximately HK\$3.0 million, rental fees of approximately HK\$0.50 million and administrative expenses and operating expenses of the Group of approximately HK\$0.30 million.

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5. SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the shareholding structure of the Company as at the Latest Practicable Date, 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 authorised Preference Shares are fully issued:

Shareholders	As at the Latest Practicable Date		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 parties acting in concert with it and its associates (note 1)	440,216,999	47.05	44,021,699	47.05	44,021,699	23.98	44,021,699	31.77
Scheme Administrator and Scheme Creditors (note 2)	252,306,195	26.97	25,230,619	26.97	25,230,619	13.75	25,230,619	18.21
Public (note 3)								
The Joint Petitioners	67,653,097	7.23	6,765,309	7.23	6,765,309	3.69	6,765,309	4.88
Other public Shareholders	175,375,011	18.75	17,537,503	18.75	17,537,503	9.55	17,537,503	12.66
	243,028,108	25.98	24,302,812	25.98	24,302,812	13.24	24,302,812	17.54
Holder of Preference Shares after conversion	–	–	–	–	90,000,000	49.03	45,000,000	32.48
	<u>935,551,302</u>	<u>100.00</u>	<u>93,555,130</u>	<u>100.00</u>	<u>183,555,130</u>	<u>100.00</u>	<u>138,555,130</u>	<u>100.00</u>

Note 1:	Name	No. of shares
	Harbour Front and its nominees	412,222,499
	Bugsy Development Company Limited, which is 100% beneficially owned by Harbour Front	9,083,000
	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	9,233,000
	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.

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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, its subsidiaries and nominees are holding the aforesaid 421,305,499 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 Latest Practicable Date.

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 and 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\$0.80 billion. There are claims totaling approximately HK\$4.20 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.

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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.

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	0.0043	4,000	0.0043	4,000	0.0022	4,000	0.0029
United People Assets Limited	21 Dec 2001	6,000	-	-	-	-	-	-	-
	29 Nov 2002	40,000	0.0043	4,000	0.0043	4,000	0.0022	4,000	0.0029
Hung Ngai Holdings Limited	23 Oct 2002	3,960,000	-	-	-	-	-	-	-
	29 Nov 2002	6,420,000	0.6862	642,000	0.6862	642,000	0.3498	642,000	0.4634
Value Partners Investment Limited	24 Dec 2002	61,153,097	6.5366	6,115,309	6.5366	6,115,309	3.3316	6,115,309	4.4136
Total as at the Latest Practicable Date		<u>67,653,097</u>	<u>7.2314</u>	<u>6,765,309</u>	<u>7.2314</u>	<u>6,765,309</u>	<u>3.6857</u>	<u>6,765,309</u>	<u>4.8828</u>

Scenario (i): Immediately after the Consolidation

Scenario (ii): After the Consolidation and full conversion of the 90 million Preference Shares assuming no dividend has been paid by the Company

Scenario (iii): 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 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\$9,355,513.02 divided into 935,551,302 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\$99,355,513 divided into 93,555,130 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.

If the 90 million Preference Shares are 100% issued and fully converted, the Company may not be able to meet with Rule 8.08 of the Listing Rules which requires that a minimum of 25% of the New Shares must be held by the public. The Company have undertaken to the Stock Exchange to take appropriate steps to ensure that not less than 25% of the New Shares will be held by the public following the full conversion of the 90 million Preference Shares.

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The Stock Exchange has stated that, if less than 25% of the issued New Shares are in public hands following the full conversion of the 90 million Preference Shares, or the Stock Exchange believes that a false market exists or may exist in the New Shares or that there are insufficient New Shares in public hands to maintain an orderly market, then it will consider exercising its discretion to suspend trading in the New Shares.

6. 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, 4 October 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.

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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;

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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, in relation to the Petition, due to change of counsel by the Joint Petitioners, the hearing of the Company's application has not yet been 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 Bermuda legal representatives, whose details are set out in the section headed "Qualification of experts" in appendix III of this circular, the estimated legal expenses in connection with the Petition 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 Dockyard, one of the Scheme Participating Subsidiaries

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

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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 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 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) Marcon 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) Marcon 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

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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 YT 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) **The exact financial effect of the winding up of Dockyard on 9 June 2003 will need to be reflected in the audited financial statement of the Company for the year ending 31 July 2003.** The Directors and the Group's inhouse accountant, after seeking independent professional advice, confirm that deemed disposal would arise upon the date Dockyard is wound up because from that date Dockyard would cease to exist. Up to that date, the Group would have consolidated the results and net assets/liabilities of Dockyard into its group accounts. From the date of winding up, Dockyard's net liabilities would need to be "deconsolidated" from the Group's balance sheet, resulting in net gain to the Group as the Group would not be required to settle these liabilities. No security nor guarantee has been given by the Company or any member of the Group in support of Dockyard's liabilities due to third parties.

For information purposes only, on the assumption that Dockyard had been wound up as at 31 July 2002, the Group will record a proforma audited net loss, after taking the adjustment of deconsolidation of Dockyard into account, of approximately HK\$68.4 million for the year ended 31 July 2002 (compared with the reported audited loss of the Group as at 31 July 2002 is approximately HK\$76.0 million). On the assumption that Dockyard had been wound up as at 31 January 2003, the Group will record a proforma unaudited net gain, after taking the adjustment of deconsolidation of Dockyard into account, of

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approximately HK\$11 million for the six months ended 31 January 2003 (compared with the unaudited figure as at 31 January 2003 of approximately HK\$3.4 million).

Accordingly, the Company's Hong Kong legal advisers, whose details are set out in the section headed "Qualification of experts" in appendix III of this circular, advise that the winding-up of Dockyard does not have any potential adverse legal and financial impact on the Company and the Group.

7. REVIEW OF THE OPERATIONS AND PROSPECTS OF THE GROUP

The Company is an investment holding company. Its principal subsidiaries are principally engaged in marine engineering in Hong Kong and Singapore, comprising plant hire and trading of dredging, reclamation and transportation vessels, construction of portworks and reclamation projects.

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 foreclosure 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 taken 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 vessels 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.

8. GENERAL MANDATES

In the annual general meeting of the Company held on 31 December 2002, general mandates have been granted to the Directors for the issuance of additional Shares and the repurchase of Shares. In view of the change in share capital of the Company as a result of the Consolidation, the Directors will seek the approval of Shareholders at the SGM for the granting of the Share Issue Mandate to issue further New Shares not exceeding 20% of the Company's ordinary share capital in issue immediately following the Consolidation which will be equivalent to 18,711,026 New Shares assuming no Shares will be issued or repurchased by the Company prior to the SGM.

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The Directors will also seek the approval of Shareholders to grant to the Directors the Repurchase Mandate to repurchase New Shares up to a maximum of 10% of the aggregate nominal amount of the ordinary share capital of the Company in issue immediately following the Consolidation.

A statement explaining the proposed Repurchase Mandate to repurchase New Shares is set out in appendix II to this circular in accordance with the Listing Rules.

The Directors consider that the General Mandates will give the Directors the flexibility of issuing additional New Shares and repurchase New Shares if so desired. The Directors do not have any present intention to issue or repurchase any of its New Shares.

9. SGM

Set out below on pages 71 to 85 of this circular is a notice convening the SGM to be held at 22 August 2003 at 2:00 p.m. at Room 315, 3rd Floor, Hong Kong International Trade & Exhibition Centre, No. 1 Trademart Drive, Kowloon Bay, Hong Kong, at which resolutions will be proposed to consider and, if thought fit, approve (i) the Consolidation; (ii) to create 176 million Preference Shares and increase in authorised share capital; (iii) the granting of an authority to the Directors for the issuance of 90 million Preference Shares; and (iv) the granting of General Mandates to the Directors.

Your will find enclosed a form of proxy for use at the SGM.

Whether or not you intend to attend the SGM, you are requested to complete the accompanying proxy form and return it to the share registrar of the Company in Hong Kong, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the SGM or any adjournment thereof if you so wish.

10. RECOMMENDATION

The Directors believe that the Consolidation, creation of Preference Shares and increase in authorised share capital, the granting of an authority to the Directors for the issuance of 90 million Preference Shares and the granting of General Mandates to the Directors are all in the best interests of the Company and its Shareholders and so recommend you to vote in favour of the related resolutions at the SGM. The Directors will exercise their voting rights in respect of all of their shareholdings (if any) in favour of the resolutions.

Yours faithfully,
For and on behalf of the Board
Leung Yu Oi Ling, Irene
Chairman

A. 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. For details, please refer to the Company's 2000, 2001 and 2002 annual reports.**

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)
Profit/(loss) after finance costs	(78,397)	3,637	562,364
Continuing operations	(78,397)	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 2002.

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

Assets and liabilities

	As at 31 July	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets	76,492	131,906
Current assets	36,458	35,922
	<u>112,950</u>	<u>167,828</u>
Total assets	112,950	167,828
Current liabilities	(164,916)	(115,773)
Non-current liabilities	–	(28,237)
	<u>(164,916)</u>	<u>(144,010)</u>
Total liabilities	(164,916)	(144,010)
Minority interests	–	–
	<u>–</u>	<u>–</u>
	<u>(51,966)</u>	<u>23,818</u>

B. 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
		<u>36,458</u>	<u>35,922</u>
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
		<u>164,916</u>	<u>115,773</u>
Net current liabilities		<u>(128,458)</u>	<u>(79,851)</u>
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
		<u>–</u>	<u>28,237</u>
Minority interest		<u>–</u>	<u>–</u>
Net (liabilities)/assets		<u>(51,966)</u>	<u>23,818</u>
CAPITAL AND RESERVES			
Share capital	<i>19</i>	6,055	6,055
Reserves	<i>20</i>	(58,021)	17,763
(Deficiency of assets)/Shareholders' funds		<u>(51,966)</u>	<u>23,818</u>

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/>	<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/>	<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.

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					<u>112,743</u>	<u>167,637</u>
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 <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Scheme reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
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 <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Scheme reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
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><u>2,688</u></u>	<u><u>3,587</u></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:

	Note	2002 HK\$'000	2001 HK\$'000
Berthing and security expenses paid to Keenrich Company Limited ("Keenrich")	(a)	–	1,144
Plant hire income from Buggy Development Company Limited ("Buggy")*#	(b)	715	–
Berthing and security expenses paid to Buggy*#	(b)	1,088	–
Direct overhead expenses paid to Buggy*#	(b)	635	–
Plant hire cost paid to Buggy*#	(b)	12,057	3,815
Rental charges paid to Capital Hope Investments Limited ("Capital Hope")	(c)	342	–
Rental charges paid to Denlane Shipbuilding Pte Limited ("Denlane")	(d)	131	146
Management service fee income from Denlane	(d)	1,624	–
Rental charged by Fonfair Company Limited ("Fonfair")	(e)	1,800	1,876
Rental charges paid to Giant Lead Enterprises Limited ("Giant Lead")	(f)	87	496
Rental charges paid to Sincere Place Limited ("Sincere")	(g)	–	680
Rental charges paid to UDL Engineering Pte Limited ("UEPL")	(h)	–	437
Repair and maintenance expenses paid to Gitanes Engineering Company Limited ("Gitanes")	(i)	200	–
Rental charges paid to Decorling Limited ("Decorling")	(j)	440	–
Secondment of staff paid to UDL Offshore Pte Limited ("UOPL")	(k)	–	531
Berthing and security income from UOPL	(k)	–	136
Berthing and security income from North Lantau Dredging Company Limited ("North Lantau")	(l)	–	957
Management fee income from North Lantau	(l)	–	10,917
Provision against amount due from North Lantau	(l)	5,082	–
Berthing and security income from UDL Assets Management Pte Limited ("UAMP")	(m)	–	179
Berthing and security income from UDL Salvage Company Limited ("USCL")	(n)	–	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.

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

The following is a summary of the statement of unaudited adjusted pro-forma consolidated net tangible asset value of the Group immediately after completion of issuance of 90 million Preference Shares, based on the unaudited net liabilities of the Group as at 31 January 2003, which has not been reviewed by the Group's auditors.

	<i>HK\$'000</i>	<i>Reference</i>
Audited consolidated net tangible liabilities of the Group as at 31 July 2002	(51,966)	Annual report 2002
Add: Unaudited net proceeds from Rights Issue in November 2002	6,842	Interim report 2003
Add: Unaudited consolidated profit after taxation of the Group for six months ended 31 January 2003	3,426	Interim report 2003
Add: Unaudited exchange differences on translation of financial statements of foreign entities	410	Interim report 2003
Add: Unaudited revaluation surplus arising on revaluation of the Group's floating craft and vessels	20,119	Interim report 2003
	<hr/>	
Unaudited adjusted consolidated net tangible liabilities of the Group as at 31 January 2003	(21,169)	Interim report 2003
Pro-forma unaudited adjusted consolidated net tangible liabilities of the Group before the completion of the issuance of 90 million Preference Shares (Notes 1 & 2)	(21,169)	
Add: Estimated net proceeds from the issuance of Preference Shares	87,200	Announcement dated 30 June 2003
	<hr/>	
Pro-forma unaudited adjusted consolidated net tangible assets of the Group after completion of the issuance of 90 million Preference Shares	66,031	
	<hr/> <hr/>	

HK\$

Pro-forma unaudited adjusted consolidated net tangible asset/(liability) value per Share before the Consolidation:

- before the issuance of 90 million Preference Shares (based on 935,551,302 Shares in issue as at the Latest Practicable Date) (0.0226)
- after the issuance of 90 million Preference Shares (based on 935,551,302 Shares in issue as at the Latest Practicable Date) 0.0706

Pro-forma unaudited adjusted consolidated net tangible asset value per New Share after the Consolidation:

- before the issuance of 90 million Preference Shares (based on 93,555,130 New Shares in issue) (0.2263)
- after the issuance of 90 million Preference Shares (based on 93,555,130 New Shares in issue) 0.7058
- after the Consolidation and full conversion of the 90 million Preference Shares assuming no dividend has been paid by the Company (based on 183,555,130 New Shares in issue) 0.3597
- 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 (based on 138,555,130 New Shares in issue) 0.4766

Notes:

1. Gain on deconsolidation of Universal Dockyard Limited will be reflected in the audited financial statement for the year ending 31 July 2003 as appropriate.
2. Post balance sheet adjustments to the unaudited adjusted consolidated net tangible liabilities of the Group as at 31 January 2003 arising on revaluation of the Group's floating craft and vessels not included.

D. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and following completion of the Consolidation, creation of 176 million Preference Shares and issue of 90 million Preference Shares are as follows:

HK\$

Authorised:

12,000,000,000	Shares as at the Latest Practicable Date	<u>120,000,000.00</u>
1,200,000,000	New Shares immediately after Consolidation	120,000,000.00
176,000,000	Preference Shares to be created	<u>176,000,000.00</u>
		<u>296,000,000.00</u>

Issued and to be issued as fully paid or credited as fully paid:

935,551,302	Shares in issue as at the Latest Practicable Date	<u>9,355,513.02</u>
93,555,130	New Shares immediately after Consolidation	9,355,513.00
90,000,000	Preference Shares to be issued	<u>90,000,000.00</u>
		<u>99,355,513.00</u>

All the Shares in issue rank pari passu in all respects with each other including as regards to dividends, voting and return of capital.

Other than the options granted under the share option scheme adopted on 31 December 2002, the Company has no outstanding options, warrants and conversion rights convertible into Shares and debt securities as at the Latest Practicable Date.

E. INDEBTEDNESS

As at 31 May 2003, save for contingent liabilities arising from the Scheme as detailed in the later part of the Letter from the Board contained in this circular, 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.

F. WORKING CAPITAL STATEMENT

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 (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").

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 section headed "Indebtedness" in this appendix, as at 31 May 2003, save for contingent liabilities arising from the Scheme, the Group's total indebtedness amounted to approximately HK\$128 million. Although the Group has been successful in completing the Rights Issue and negotiating with secured lenders for deferring repayment of secured debts pending possible alternatives to refinance those debts, the Debt Restructuring negotiations are not completed yet, unless the 90 million Preference Shares could be successfully placed, the fundamental uncertainties relating to the going concern will remain unsolved. At present, the Group owns around 70 vessels and the Directors intend to dispose of about 20 vessels as the plan for the Vessel Disposal. 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, as the exact timing and result of the placing of preference shares is not certain, the Group would not have sufficient working capital to meet its present requirement after taking into account of the debt servicing obligations.**

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.

G. MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, save as disclosed in the Company's interim report for the six months ended 31 January 2003, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 July 2002, being the date to which the latest published audited accounts of the Group were made up.

This appendix serves as an explanatory statement, as required by the Share Repurchase Rules, to provide requisite information to you for your consideration of the proposal to permit the repurchase of Shares up to a maximum of 10 per cent of the issued share capital of the Company as at the date of approval for the Repurchase Mandate.

SHARE CAPITAL

As at the Latest Practicable Date, the number of Shares in issue was 935,551,302. On the basis of such figure, assuming that no Shares would be issued or repurchased thereafter and prior to the SGM and based on 93,555,130 New Shares in issue immediately after the Consolidation, the Directors would be authorised to repurchase New Shares up to a limit of 9,355,513 New Shares, which should have been fully-paid or issued as fully-paid.

REASON FOR REPURCHASES

The Directors have no present intention to make any repurchase of the Company's own New Shares but consider that the mandate will provide the Company the flexibility to make such repurchases when appropriate and beneficial to the Company and its shareholders. Such repurchases may enhance the net asset value of the Company and/or earnings per Share. Based on the financial position of the Company as at 31 January 2003 (being the date of its latest published unaudited interim accounts), there could be a material adverse impact on the working capital and on the gearing position of the Company in the event that the proposed repurchases were to be carried out in full during the proposed repurchase period. However, the Directors do not propose to make any repurchases in the circumstances that would have a material adverse impact on the working capital or gearing ratio of the Company.

FUNDING FOR REPURCHASES

Repurchases must be funded out of funds legally available for the purpose in accordance with the laws of Bermuda, the Memorandum of Association and the Bye-Laws of the Company. It is envisaged that the Company will derive the funds for repurchase of its shares in accordance therewith.

The Company is empowered by its Memorandum of Association and Bye-Laws to repurchase its own Shares. Bermuda law provides that the amount of capital repaid in connection with a share repurchase may only be paid out of either the capital paid up on the relevant shares, or out of the funds of the company that would otherwise be available for distribution by way of dividend or the proceeds of a new issue of shares made for such purpose. The amount of premium payable on the repurchases, if any, may only be paid out of either the funds of the Company that would otherwise be available for distribution by way of dividend or out of the share premium of the Company. Further, the Company may not purchase its own New Shares if, on the date on which the purchase is to be effected, there are reasonable grounds for believing that the Company is or, after the purchase would be, unable to pay its liabilities as they become due.

DIRECTORS, THEIR ASSOCIATES AND CONNECTED PERSONS

None of the Directors nor, to the best of the knowledge and belief of the Directors having made all reasonable enquiries, any of their Associates has any present intention, in the event that the Repurchase Mandate is approved by Shareholders, to sell New Shares to the Company.

No connected person (as defined in the Listing Rules) of the Company has notified the Company that he/she has any present intention to sell Shares to the Company nor has he/she undertaken not to sell any of the New Shares held by him/her to the Company in the event that the Company is authorised to make repurchases of its own Shares.

UNDERTAKING OF THE DIRECTORS

The Directors have undertaken to the Stock Exchange to exercise the power of the Company to make repurchases pursuant to the proposed Repurchase Mandate in accordance with the Listing Rules, all applicable laws of Bermuda and the regulations, and the Memorandum of Association and Bye-Laws of the Company.

EFFECT OF TAKEOVERS CODE

As at the Latest Practicable Date, to the best of the knowledge and belief of Directors, Harbour Front and parties acting in concert with it (which include but not limited to Mrs. Leung, the Chairman of the Company) together hold approximately 47.05% of the issued share capital of the Company, while Mr. Matthew O' Driscoll, the Scheme Administrator, holds approximately 26.97% of the issued share capital of the Company on trust for the creditors under the Scheme pending distribution pursuant to the terms of the Scheme. In the event that the Directors should exercise the power to repurchase New Shares which is proposed to be granted pursuant to the relevant resolution and if there is no other change in issued share capital of the Company, the shareholding of Harbour Front and parties acting in concert with it and Mr. Matthew O' Driscoll shall be increased to approximately 52.28% and approximately 29.97% respectively and they shall respectively consult the Executive as to the application of the provisions under Rule 26.1 of the Takeovers Code on her/his and parties acting in concert with them (as defined in the Takeovers Code as appropriate).

The Directors have no present intention to repurchase any New Shares but consider that the Repurchase Mandate will provide the Company the flexibility to make such repurchases if desirable. Should the Directors decide to exercise the power to repurchase New Shares, they will ensure that a minimum of 25% of the issued New Shares will be in public hands.

REPURCHASES AND SHARE PRICES

During each of the six months preceding the date of this circular, the Company has not repurchased any of its Shares. During each of the previous twelve months from 1 July 2002 to 30 June 2003, the highest and lowest traded prices for Shares on the Stock Exchange were as follows:

Month	Shares	
	Highest HK\$	Lowest HK\$
2002		
July	0.060	0.055
August	N/A	N/A ^(Note)
September	N/A	N/A ^(Note)
October	0.047	0.021
November	0.032	0.021
December	0.048	0.027
2003		
January	0.039	0.036
February	0.025	0.023
March	0.020	0.020
April	0.020	0.018
May	N/A	N/A ^(Note)
June	0.022	0.022

Note: The highest and lowest traded prices for Shares on the Stock Exchange in August and September 2002 and May 2003 are not available as trading of Shares was suspended during such period.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(a) Interests of the Directors

As at the Latest Practicable Date, the interests and short positions of the Directors in the Shares or the underlying Shares, if any, of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company or the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Interests in Shares

Name of Director	Number of Shares and nature of interest	
	Personal	Other
Mrs. Leung	445,500	430,388,499 (<i>Notes 1, 2 and 3</i>)
Miss Leung	9,233,000	421,305,499 (<i>Notes 1 and 3</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 (aged under 18).

Note 2: 9,083,000 ordinary shares of the Company are held by Decorling, which is 100% beneficially owned by Mrs. Leung.

Note 3: 9,083,000 ordinary shares of the Company are held by Buggy Development Company Limited ("Buggy"). Mrs. Leung holds one share in Buggy on trust for Harbour Front and all other shares in Buggy are held by Harbour Front. Reference is made to the above note 1 concerning the interest of Mrs. Leung and Miss Leung in Harbour Front.

Interests in Options

Name	Nature of interest	Number of options	Exercise price per Share HK\$	Exercisable Period
Mrs. Leung	Personal	9,083,000 (Note 1)	0.024	16 April 2003 to 30 December 2012

Note:

- (1) Pursuant to the share option scheme adopted on 31 December 2002, Mrs. Leung was granted options by the Company on 27 March 2003 to subscribe for 9,083,000 Shares at the exercise price of HK\$0.024 per Share for the exercise period from 16 April 2003 to 30 December 2012.

Save as disclosed in this paragraph, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had interests in the Shares or the underlying Shares, if any, of the Company or its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company or the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

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.

(b) Interests of substantial Shareholders

As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, the following persons had an interest or short position in the Shares or underlying Shares, if any, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or any options in respect of such capital:

Interests in Shares

Name	Number of Shares	Approximate % of the issued share capital as at the Latest Practicable Date
Harbour Front	421,305,499	45.03%
Mr. Matthew O'Driscoll (Note 1)	252,306,195	26.97%

Note:

- (1) Mr. Matthew O'Driscoll is the Scheme Administrator of the Scheme, and holds 252,306,195 Shares on trust for the creditors of the Scheme 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, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any person who had an interest or short position in the Shares or underlying Shares, if any, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. 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; and
- (b) the underwriting agreement dated 4 October 2002 and entered into between the Company and the underwriter of the Rights Issue in relation to the Rights Issue.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, 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.

6. LITIGATIONS

Save as disclosed in the letter from the Board, 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.

7. QUALIFICATIONS OF EXPERTS

Name	Qualifications	Role
Appleby Spurling & Kempe	Bermuda Barristers & Attorneys	Company's Bermuda legal advisers
Tsang & Lee	Hong Kong Solicitors	Company's Hong Kong legal advisers

Each of Appleby Spurling & Kempe and Tsang & Lee 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 Tsang & Lee 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.

8. GENERAL

- (a) The registered office of the Company is situated at Cedar House, 41 Cedar Avenue Hamilton HM12, Bermuda. The principal place of business of the Company is at Room 704, 7th Floor, Aitken Vanson Centre, 61 Hoi Yuen Road, Kwun Tong, Hong Kong.
- (b) Grant Thornton is the auditors of the Group.
- (c) The English text of this document shall prevail over the Chinese text.

9. 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:

- (a) the memorandum of association and the bye-laws of the Company;
- (b) the audited consolidated accounts of the Company for the years ended 31 July 2001 and 31 July 2002; and
- (c) interim results of the Company for the six months ended 31 January 2003.

NOTICE OF THE SGM



UDL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

NOTICE IS HEREBY GIVEN that the special general meeting of UDL Holdings Limited (the “Company”) will be held at Room 315, 3rd Floor, Hong Kong International Trade & Exhibition Centre, No. 1 Trademart Drive, Kowloon Bay, Hong Kong on 22 August 2003, 2:00 p.m. for the purposes of considering and, if thought fit, pass with or without amendments, the following resolutions as ordinary resolutions of the Company:–

1. “THAT:

- (a) every ten existing ordinary shares of HK\$0.01 each in the capital of the Company be consolidated into one new ordinary share of HK\$0.10 (“New Share”);
- (b) the Directors of the Company be and are hereby authorised to take all necessary steps and to do all other things and execute all documents which may be necessary or desirable for the purpose of giving effect to or carrying into effect the terms and provisions of the share consolidation provided for above.”

2. “THAT subject to the passing of resolution number 1:

the authorised share capital of the Company be increased from HK\$120,000,000.00 divided into 1,200,000,000 shares of HK\$0.10 each to HK\$296,000,000.00 by the creation of 176,000,000 preference shares of HK\$1.00 each on the terms as set out below:

The preference shares will be available in registered form with a nominal value at HK\$1.00 each (the “Preference Shares”) and will not be listed on any stock exchange. The following is the terms and conditions of issue of the Preference Shares.

INCOME

The holders of Preference Shares (“the Preference Shareholders”) shall have the right to be paid a fixed cumulative preferential dividend at the rate of 10 per cent per annum on the nominal value of HK\$1.00 (the “Reference Amount”) attributable to each Preference Share subject to the restriction that the total amount of dividend to be declared and paid by the Company for the outstanding Preference Shares in a financial year shall not be more than 60% of the audited consolidated surplus of the Company and its subsidiaries (the “Group”) 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 principles in Hong Kong then applicable (the “Operating Surplus”). (The Operating Surplus shall be taken as zero in the event of the Group having an audited consolidated deficit from operating activities for the abovementioned items.) For the avoidance of doubt, such outstanding undeclared and unpaid dividend shall not be taken as dividend payable for the purpose of calculation of conversion price.

Such dividend shall be paid, if and so far as, in the opinion of the Directors, the Operating Surplus of the Company justify such payment annually within 3 months after the declaration of the audited Operating Surplus of the Company for the relevant financial year to Preference Shareholders as recorded on the register of members five business days

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(“business day” shall mean a day excluding a Saturday on which banks in Hong Kong are generally open for business and “business days” shall be construed accordingly) before the announcement of the audited results of the Company, in respect of the 12 month period ending on 31 July of each year. For the purposes of determining those entitled to dividends on the Preference Shares, the register of members may be closed for up to five business days before the day of announcement of the audited results of the Company.

If the Operating Surplus is insufficient for the dividend of Preference Shares to be paid in full, the maximum aggregate amount of dividend capable of being declared and paid shall be equal to 60% of the Operating Surplus and shall be paid on a pro rata basis to the holders of the Preference Shares.

To the extent that such dividends are not declared and unpaid on the Preference Shares, they shall accumulate and any such arrears of dividend shall be payable to the Preference Shareholders in the next financial year of the Company, *pari passu* as between themselves, in preference to any other distribution in respect of any other class of shares. If there shall not be any 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 in the following financial year if there remains any outstanding unpaid dividend. For the avoidance of doubt, such outstanding unpaid dividend shall not be taken as being dividends payable for the purpose of calculation of the conversion price of the Preference Shares. The Preference Shares shall not entitle the holders thereof to any further or other right of participation in the profits of the Company.

To the extent that the Company shall have insufficient funds available up to 60% of the Operating Surplus in order to permit it to pay all or any of such additional amounts as aforesaid the amount of any shortfall shall be treated for all purposes as arrears of dividend.

Dividends in respect of any period of less than one year shall be calculated on the basis of a 360 day per year consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed on the basis of a 30 day month.

CAPITAL

On a return of capital on liquidation or otherwise (but not on conversion) the Preference Shares shall rank in priority to the New Shares as regards distribution of assets of the Company available for distribution amongst its members to the extent of the amount equal to the nominal value of the Preference Shares net of any dividend which has already been paid. Such amount shall be calculated down to and inclusive of the date of the return of capital.

The balance of such assets shall belong to and be distributed among the holders of any class of shares in the capital of the Company, in accordance with the respective rights to participate in such surplus assets.

RANKING

The Company shall not (unless such sanction has been given by the Preference Shareholders as would be required for a variation of the special rights attaching to the Preference Shares or unless otherwise provided in the bye-laws of the Company (the “Bye-

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Laws”) create or issue any shares ranking, as regards order in the participation in the Operating Surplus of the Company or in the assets of the Company on a winding-up or otherwise, in priority to the Preference Shares, but the Company may issue, without obtaining the consent of the Preference Shareholders, shares ranking *pari passu* with the Preference Shares as regards order of such participation in Operating Surplus or assets and carrying such rights as to rates of dividend, voting (subject as provided under paragraph (vi) of “Undertakings” below), conversion, exchange or otherwise as the Directors may determine, or as the Company may by ordinary resolution determine.

REDEMPTION

There are no redemption rights.

CONVERSION

(A) Conversion Right

- (i) *Conversion Period:* Subject as hereafter provided, holders have the right to convert their Preference Shares into New Shares (as defined below) at any time during the Conversion Period referred to below.

The right of a holder to convert any Preference Share into New Shares is called the “Conversion Right”. Subject to and upon compliance with the provisions of this condition, the Conversion Right attaching to any Preference Share may be exercised, at the option of the holder thereof, at any time from the 2nd anniversary of the date of issue up to the close of business on the 5th anniversary of the date of issue (or, if such date shall not be a business day at such place, on the immediately preceding business day) (but in no event thereafter) (the “Conversion Period”).

- (ii) *Conversion Ratio*

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

$$\frac{(\textit{nominal value of the Preference Share} - \textit{aggregate amount of dividend declared})}{HK\$1.00}$$

- (iii) *Fractions of New Shares:* Fractions of New Shares will not be issued on conversion and all fractions of New Shares resulting from conversion shall be aggregated and sold in such manner as the Company may direct and the net proceeds of sale shall be paid to the Company and applied for its own benefit.
- (iv) *Conversion Price:* The price at which New Shares will be issued upon conversion (the “Conversion Price”) will depend upon the aggregate amount of dividend paid or payable at the time of conversion being

$$HK\$1.00 \quad X \quad \frac{(\textit{Nominal value of the Preference Share})}{(\textit{Nominal value of the Preference Share} - \textit{aggregate amount of dividend paid or payable for the Preference Shares})}$$

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The Conversion Price will be subject to adjustment in the manner provided in paragraph (C) below.

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 Shares notwithstanding the conversion.

- (v) *Meaning of “New Shares”*: As used herein, the expression “New Shares” means ordinary shares of nominal value HK\$0.10 each of the Company resulting from the proposed share consolidation whereby every 10 ordinary shares of nominal value HK\$0.01 each in the capital of the Company will be consolidated to form one New Share of nominal value HK\$0.10, or shares of any class or classes resulting from any subdivision, consolidation or re-classification of those shares from time to time, which as between themselves have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or dissolution of the Company.

(B) Conversion procedure

- (i) *Conversion Notice*: To exercise the Conversion Right attaching to any Preference Share, the holder thereof must complete, execute and deposit at his own expense during normal business hours at the registered office of the Company notice of conversion (a “Conversion Notice”) contained in the certificate of Preference Shares. If a Conversion Notice is not duly completed or is inaccurate, the Company may reject the same and any conversion shall not be treated as taking place until a duly completed, accurate notice is duly deposited.

The conversion date in respect of a Preference Share (the “Conversion Date”) must fall at a time when the Conversion Right attaching to that Preference Share is expressed in these terms to be exercisable and will be deemed to be the dealing day (“dealing day” shall mean a day when The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) is open for business and “dealing days” shall be construed accordingly) immediately following expiry of 7 business days after the date of the surrender of the certificate in respect of such Preference Share and delivery to the registered office of the Company of such Conversion Notice. A Conversion Notice once delivered shall be irrevocable.

- (ii) *Registration*: As soon as practicable, and in any event not later than 21 days after the Conversion Date, the Company will procure registration of the person or persons designated for the purpose in the Conversion Notice as holder(s) of the relevant number of New Shares in the Company’s share register and will cause its share registrar to mail (at the risk, and, if sent at the request of such person otherwise than by ordinary mail, at the expense, of the person to whom such certificates are sent) such certificate or certificates to the person and at the place specified in the Conversion Notice, together (in either case) with any other securities, property or cash required to be delivered upon conversion and such assignments and other documents (if any) as may be required by law to effect the transfer and/or conversion thereof.

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Preference Shares which are converted will be cancelled by removal of the holder's name from the register of Preference Shareholders on the relevant Registration Date (as defined below). If the Registration Date in relation to any Preference Share shall be on or after a date with effect from which an adjustment to the Conversion Price takes retroactive effect pursuant to any of the provisions referred to in this section headed "Conversion" and the relevant Registration Date falls on a date when the relevant adjustment has not yet been reflected in the then current Conversion Date falls on a date when the relevant adjustment provisions of this sub-paragraph (iii) shall be applied mutatis mutandis to such number of Shares as is equal to the excess of the number of New Shares which would have been required to be issued on conversion of such Preference Share if the relevant retroactive adjustment had been given effect as at the said Registration Date over the number of Shares previously issued (or which the Company was previously bound to issue) pursuant to such conversion, and in such event and in respect of such number of New Shares references to the Conversion Date shall be deemed to refer to the date upon which such retroactive adjustment becomes effective (disregarding the fact that it becomes effective retroactively).

The person or persons specified for that purpose will become the holder of record of the number of New Shares assumable upon conversion with effect from the date he is or they are registered as such in the Company's register of members (the "Registration Date"). The New Shares issued upon conversion of the Preference Shares will in all respects rank *pari passu* with the New Shares in issue on the relevant Registration Date. Save as set out herein, a holder of New Shares issued on conversion of Preference Shares shall not be entitled to any rights the record date for which precedes the relevant Registration Date.

Provided that the Conversion Date is five clear business days before the announcement of audited results of the Company, if the record date for the payment of any dividend or other distribution in respect of the New Shares is on or after the Conversion Date in respect of any Preference Share, but before the Registration Date (disregarding any retroactive adjustment of the Conversion Price referred to in this sub-paragraph (iii) prior to the time such retroactive adjustment shall have become effective), the Company will pay to the converting holder or his designee an amount (the "Equivalent Amount") in Hong Kong dollars equal to any such dividend or other distribution to which he would have been entitled had he on that record date been such a shareholder of record and will make the payment at the same time as it makes payment of the dividend or other distribution, or as soon as practicable thereafter, but, in any event, not later than seven days thereafter. The Equivalent Amount shall be paid by means of a Hong Kong dollar cheque drawn on a licensed bank in Hong Kong and sent to the address specified in the relevant Conversion Notice.

(C) Adjustments to Conversion Price

The Conversion Price will be subject to adjustment in certain events as follows:

- (i) any alteration to the nominal value of the New Shares as a result of consolidation, subdivision or reclassification;

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- (ii) the issue of New Shares by the Company credited as fully paid to holders of New Shares (the “Shareholders”) by way of capitalization of profits or reserves (including any share premium account and/or capital redemption reserve), except in certain circumstances specified in the Bye-Laws, New Shares paid up out of distributable profits or reserves and/or share premium account or capital redemption reserve issued in lieu of the whole or any part of a cash dividend (a “Relevant Cash Dividend”), being a dividend which the Shareholders concerned would or could otherwise have received (but only to the extent that the Current Market Price (as defined below) of such New Shares exceeds 120 per cent. of the amount of such Relevant Cash Dividend or the relevant part thereof) and which would not have constituted a Capital Distribution (as defined below) or the issue of shares, not being New Shares, but constituting equity share capital of the Company, credited as fully paid to Shareholders;
- (iii) the payment or making of any Capital Distribution by the Company to the Shareholders (except where the Conversion Price falls to be adjusted under sub-paragraph (ii) above);
- (iv) the issue of New Shares to all or substantially all Shareholders as a class by the Company by way of rights, or issue or grant to all or substantially all Shareholders as a class, by way of rights, of options, warrants or other rights to subscribe for or purchase any New Shares, in each case at less than 80 per cent. of the Current Market Price per New Share as determined on the last dealing day preceding the date of the announcement of the terms of such issue or grant;
- (v) the issue of any securities (other than New Shares or options, warrants or other rights to subscribe for or purchase New Shares) to all or substantially all shareholders as a class by the Company, by way of rights, or the grant to all or substantially all Shareholders as a class by way of rights of any options, warrants or other rights to subscribe for or purchase any securities (other than New Shares or options, warrants or other rights to subscribe or purchase New Shares and preferential rights to subscribe for or purchase securities of a Subsidiary of the Company (as defined in this condition) granted to all or substantially all Shareholders upon an initial public offering thereof where the rights of the Shareholders are exercisable at a subscription or purchase price, as the case may be, which is less than that at which the securities are offered to the public or any other person);
- (vi) The issue (otherwise than as mentioned in sub-paragraph (iv) above) by the Company wholly for cash of any New Shares (other than New Shares issued on the exercise of Conversion Rights or on the exercise of any other rights of conversion into, or exchange or subscription for, New Shares) or the issue or grant of (otherwise as mentioned in sub-paragraph (iv) above) options, warrants or other rights to subscribe or purchase New Shares in each case at a price per New Share which is less than 80 per cent. of the Current Market Price as determined on the last dealing day preceding the date of announcement of the terms of such issue;

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- (vii) save in the case of an issue of securities arising from a conversion or exchange of other securities in accordance with the terms of such securities themselves falling within the provisions of this sub-paragraph (vii), the issue wholly for cash by the Company (otherwise than as mentioned in sub-paragraph (iv), (v) or (vi) above) or (at the direction or request of pursuant to any arrangements with the Company) any other person of any securities which by their terms of issue carry rights of conversion into, or exchange or subscription for, New Shares (or grant any such rights in respect of any existing securities so issued) or securities which by their terms might be redesignated as New Shares to be issued by the Company upon conversion, exchange or subscription at a consideration per New Share which is less than 80 per cent of the Current Market Price per New Share as determined on the last dealing day preceding the date of announcement of the terms of issue of such securities;
- (viii) any modification of the rights of conversion, exchange or subscription attaching to any such securities as are mentioned in sub-paragraph (vii) above (other than in accordance with the terms applicable to such securities) so that the consideration per New Share (for the number of New Shares available on conversion, exchange or subscription following the modification) is less than 80 per cent of the Current Market Price per New Share as determined on the last dealing day preceding the date of announcement of the proposals for such modification;
- (ix) if the Company determines that an adjustment should be made to the Conversion Price as a result of one or more events or circumstances not referred to in this paragraph (C), the Company shall at its own expense request the auditors of the Company (the “Auditors”) or financial adviser of the Company (the “Financial Adviser”) to advise as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof, if the adjustment would result in a reduction in the Conversion Price, and the date on which such adjustment should take effect and upon such determination such adjustment (if any) shall be made and shall take effect in accordance with such determination;

provided that where the circumstances giving rise to any adjustment pursuant to this paragraph (C) have already resulted or will result in an adjustment to the Conversion Price or where any other circumstances giving rise to any adjustment arise by virtue of circumstances which have already given rise or will give rise to an adjustment to the Conversion Price, such modification (if any) shall be made to the operation of the provisions of this paragraph (C) as may be advised by the Auditors or the Financial Adviser to be in their opinion appropriate to give the intended result.

For the purposes of this condition:

- (i) “Capital Distribution” means any dividend or distribution in cash or any distribution of assets in specie (whether on a reduction of capital or otherwise) charged or provided for in the accounts of the Company for any financial

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period (whenever paid or made and however described) or any reduction of any uncalled liability in respect of capital unless:

- (a) (and to the extent that) it does not, when taken together with any other such dividend or distribution previously made or paid in respect of all periods after 31 July 2001, exceed the aggregate of the consolidated cumulative profits (less the aggregate of any consolidated net losses) attributable to Shareholders after deducting minority interests and preference dividends (if any) but (i) deducting any amounts in respect of any asset previously credited to the Company's reserves (in respect of any period or date up to and including 31 July 2001 pursuant to any revaluation of such asset, where amounts arising on the disposal of such asset have contributed to such profits and (ii) deducting any extraordinary items (and for the avoidance of doubt after excluding any amount arising as a result of any reduction in share capital, share premium account or capital redemption reserve) for all periods after 31 July 2001, in each case as calculated by reference to the audited consolidated profit and loss accounts for such periods of the Company and its Subsidiaries; or
- (b) (in so far as (a) above does not apply) and to the extent that the rate of that dividend or distribution, together with all other dividends or distributions on the class of capital in question charged or provided for in the accounts of the Company for that period, does not exceed the aggregate rate of dividend or distribution on such class of capital charged or provided for in the accounts of the Company for the immediately preceding financial period. In computing such rates the value of distributions in specie shall be taken into account and such adjustments as are in the opinion of the Auditors or the Financial Adviser appropriate to the circumstances shall be made (including adjustments in the event that the lengths of such financial periods differ); or
- (c) it comprises a purchase or redemption of share capital of the Company provided, in the case of purchase of New Shares by the Company that the average price (before expenses) on any one day in respect of such purchases does not exceed by more than 20 per cent of the Current Market Price of the New Shares either (i) on that day, or (ii) where an announcement has been made of the intention to purchase New Shares at some future date at a specified price, on the dealing day immediately preceding the date of such announcement.

provided in relation to sub-paragraph (a)(i) above, to the extent that a distribution is made out of a contribution to profits which arises in similar or like circumstances to those described in sub-paragraph (a)(i) but which does not fall to be taken into account pursuant to that sub-paragraph, the Company, acting upon the advice of an independent financial adviser, may require the adjustment of the Conversion Price by requiring an amount to be deducted as aforesaid.

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- (ii) “Current Market Price” means in respect of a New Share at a particular date the average of the closing prices published in the Stock Exchange’s Daily Quotations Sheet for one New Share (assuming a transaction in a board lot) for the five consecutive dealing days ending on the dealing day immediately preceding such date; provided that if at any time during the said five dealing days the New Share shall have been quoted ex-dividend and during some other part of that period the New Share shall have been quoted cum-dividend then:
- (a) if the New Shares to be issued or purchased do not rank for the dividend in question, the quotations on the dates on which the New Shares shall have been quoted cum-dividend shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend per New Share; and
 - (b) if the New Shares to be issued or purchased rank for the dividend in question, the quotations on the dates on which the New Shares shall have been quoted ex-dividend shall for the purpose of this definition be deemed to be the amount thereof increased by an amount equal to the amount of that dividend per New Share;

On any adjustment, the relevant Conversion Price shall be rounded down to the nearest Hong Kong cent. No adjustment shall be made to the Conversion Price where such adjustment (rounded down if applicable) would be less than one per cent of the Conversion Price then in effect. Any adjustment not required to be made, any amount by which the Conversion Price has not been rounded down, shall be carried forward and taken into account in any subsequent adjustment. Notice of any adjustment shall be given to holders in accordance with the terms and conditions hereof as soon as practicable after the determination thereof.

The Conversion Price will not be reduced so that, on conversion, New Shares would fall to be issued at a discount to their nominal value.

Where more than one event which gives or may give rise to an adjustment to the Conversion Price occurs within such a short period of time that in the opinion of the Auditors or the Financial Adviser the foregoing provisions would need to be operated subject to some modification in order to give the intended result, such modification shall be made to the operation of the foregoing provisions as may be advised by the Auditors or the Financial Adviser to be in their opinion appropriate in order to give such intended result.

No adjustment will be made to the Conversion Price when New Shares or other securities (including rights or options) are issued, offered or granted to officers and/or employees of the Company or any Subsidiary of the Company pursuant to any option scheme or similar arrangement for the time being adopted by the Company whereby officers and/or employees of the Company or any subsidiary of the Company are granted the New Shares or the right to acquire New Shares in the capital of the Company.

No adjustment involving an increase in the Conversion Price will be made, except in the case of a consolidation of New Shares.

The Company may appoint an agent or agents to discharge on its behalf its obligations under the Bye-Laws.

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UNDERTAKINGS

So long as any Preference Share remains capable of being converted into New Shares:–

- (i) the Company will use all reasonable endeavours (a) to maintain a listing for all the issued New Shares on the Stock Exchange and, (b) to apply for, obtain and maintain a listing on the Stock Exchange for the New Shares which will arise on the exercise of the Conversion Rights;
- (ii) if an offer is made to the holders of New Shares (or all such shareholders other than the offeror and/or any company controlled by the offeror and/or any persons acting in concert with the offeror) to acquire the whole or any part of the issued ordinary share capital of the Company and the Company becomes aware that the right to cast more than 50 per cent of the votes which may ordinarily be cast on a poll at a general meeting of the Company has or will become vested in the offeror and/or such companies or persons aforesaid, the Company shall give notice to all Preference Shareholders of such vesting or future vesting within 7 days of its becoming so aware;
- (iii) the Company will send to each Preference Shareholder to the address recorded on the share registrar, by way of information, one copy of every circular, notice or other document sent to any other shareholders in the Company in their capacity as shareholders, at the same time as it is sent to such other shareholders;
- (iv) the Company shall procure that there shall be sufficient authorised but unissued share capital available for the purposes of satisfying the requirements of any Conversion Notice as may be given and the terms of any other securities for the time being in issue which are convertible into or have the right to subscribe shares in the Company;
- (v) the Company shall not without the consent of the Preference Shareholders as a class, obtained in the manner provided in the Bye-Laws, or unless otherwise permitted pursuant to the Bye-Laws modify, vary, alter or abrogate the rights attaching to the New Shares as a class (other than any or all of the balance of 176 million Preference Shares in the capital of the Company created pursuant to the SGM of the Company held on 22 August 2003 or at any adjournment thereof);
- (vi) if the Company shall issue any further Preference Shares or any shares ranking pari passu with the Preference Shares as regards income or return of capital which shares carry a right to vote at any general meeting of the Company which is more favourable than that attaching to the Preference Shares then, unless the Preference Shareholders as a class shall have first approved (in the manner provided in the Bye-Laws) such issue, there shall automatically be conferred on the Preference Shareholders the right to receive notice of, and to attend and vote at, all general meetings of the Company thereafter as set out below under “Meetings and Voting”;
- (vii) the Company shall pay all fees, capital and stamp duties payable in Hong Kong, if any, in respect of the issue of New Shares upon conversion of any Preference Shares;

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MEETING AND VOTING

Subject as aforesaid, the Preference Shares shall not confer on the holders thereof the right to receive notice of, or to attend and vote at, a general meeting of the Company, unless a resolution is to be proposed at a general meeting for winding-up the Company or a resolution is to be proposed which if passed would (subject to any consents required for such purpose being obtained) vary or abrogate the rights or privileges of the Preference Shareholders, in which event the Preference Shares shall confer on the holders thereof the right to receive notice of, and to attend and vote at, that general meeting, save that such holders may not vote upon any business dealt with at such general meeting except the election of a Chairman, any motion for adjournment and the resolution for winding-up or the resolution which if passed would (subject to any consents required for such purpose being obtained) so vary or abrogate the rights and privileges of the Preference Shareholders.

Save where the provisions then in force of the Companies Act 1981 of Bermuda as amended and the Bye-Laws otherwise provide in relation to consents and approvals required from the Preference Shareholders, where Preference Shareholders are entitled to vote on any resolution then, at the relevant general meeting or class meeting as appropriate, on a show of hands every Preference Shareholder who is present in person or (being a corporation) by a representative shall have one vote and on a poll every Preference Shareholder who is present in person or by proxy or attorney or (being a corporation) by a representative shall have one vote for each New Share into which each Preference Share held by him would be converted if the Conversion Date for such Preference Share were the date 48 hours preceding the date of such general meeting or class meeting.

MANDATORY CONVERSION

Each Preference Share will at the expiration of 5 years from the date of issue of the Preference Shares automatically and without any further act required by the Preference Shareholder or the Company be converted into New Shares based on the Conversion Price and the Conversion Ratio. Where the total number of New Shares to be allotted to the relevant Preference Shareholder in respect of the Preference Shares to be converted automatically includes a fraction, that fraction shall be disregarded.

TAXATION

All payments in respect of the Reference Amount, premium (if any) and fixed preferential dividend in respect of Preference Shares shall be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Hong Kong or any authority therein or thereof unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, subject to the Company having sufficient funds available up to 60% of the Operating Surplus, the Company shall pay such additional amounts as may be necessary in order that the net amounts received by the Preference Shareholders after such withholding or deduction shall equal the respective amounts of Reference Amount, nominal amount, premium (if any) and fixed preferential dividend which would have been receivable in respect of the Preference Shares in the absence of such withholding or deduction, except that no such additional amounts shall be payable with respect to any Preference Shareholder:–

- (a) who is liable to such taxes, duties, assessment or governmental charges in respect of such Preference Shares by reason of his having some connection with Hong Kong other than by virtue of his being a Preference Shareholder; or

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- (b) receiving such payment in Hong Kong and who would be able to avoid such withholding or deduction by satisfying any statutory requirements or by making a declaration of non-residence or other similar claims for exemption to the Hong Kong tax authority but fails to do so.

PAYMENTS

All payments in respect of the Preference Shares (including payments due on redemption) shall be made by the Company posting a cheque shall paid in Hong Kong dollars by cheque drawn on a licensed bank in Hong Kong and shall be sent by prepaid ordinary post (or prepaid airmail if the Preference Shareholder is situate outside Hong Kong or Macau) at the risk of the Preference Shareholder concerned to the registered address of such Preference Shareholder as at the relevant record date, unless another manner of payment is agreed between the Company and such Preference Shareholder.

REPORTS AND NOTICES

The Company will make available to Preference Shareholders the annual report and accounts of the Company and the interim report of the results of the Company for the first six months of each financial period together with any other circulars, notices or other documents made available to Shareholders.

Notices to Preference Shareholders will be given in accordance with the Bye-Laws.

ISSUE PRICE

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.

TRANSFER

The Preference Shares are freely transferable by the holders thereof. Transfer of Preference Shares shall be approved by the board of Directors.

Transfers of the Preference Shares shall be effected on the register of the Preference Shares of the Company by transfer in writing in any usual or common form or in any other form acceptable to the Directors and transfers need not be under seal nor signed by or on behalf of the transferee. For an instrument of transfer to be registered it must be left at the registered office of the Company's Hong Kong branch share registrar, Tengis Limited, accompanied by the relevant share certificate(s) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer and, if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do.

PRE-EMPTION

Save as referred to above, the Preference Shares shall not confer on the holders thereof any pre-emptive subscription rights in relation to issues of further shares in the Company. In the event that the Company shall at any time issue new ordinary shares or securities convertible into ordinary shares, the Company shall not be obliged to offer the same to the Preference Shareholders for subscription.

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PRESCRIPTION

Any Preference Shareholder who has failed to claim distributions or other property or rights within six years of their having been made available to him will not thereafter be able to claim such distributions or other property or rights, which shall be forfeited and shall revert to the Company. The Company shall retain such distributions or other property or rights but shall not at any time be a trustee in respect of any such distributions or other property or rights not accountable for any income or other benefits derived therefrom.

REPLACEMENT

If a certificate in respect of any Preference Shares shall be damaged or defaced or alleged to have been lost, stolen or destroyed, a new certificate representing the same Preference Share may be issued to the holder upon request, subject to delivery up of the old certificate or, if alleged to have been lost, stolen or destroyed, to compliance with such conditions as to evidence and indemnity and the payment of out-of-pocket expenses of the Company in connection with the request as the Directors may think fit.

3. “**THAT** subject to the passing of resolutions number 1 and 2, the exercise by the Directors to issue 90 million Preference Shares of HK\$1.00 each in the capital of the Company be and is hereby generally and unconditionally approved.”
4. “**THAT**
 - (a) subject to the passing of resolution number 1 and paragraphs (b) and (c) of this resolution, the general mandate of the kind referred to in paragraphs (b) and (c) of this resolution which had previously been granted to the Directors shall, to the extent not exercised by the Directors, be and is hereby revoked;
 - (b) subject to the passing of resolution number 1 and paragraph (c) of this resolution, the exercise by the Directors during the Relevant Period of all the powers of the Company to purchase shares of HK\$0.10 each (“New Shares”) in the capital of the Company be and is hereby generally and unconditionally approved;
 - (c) the total nominal amount of the New Shares to be purchased pursuant to the approval in paragraph (b) above shall not exceed 10% of the total nominal amount of the share capital of the Company in issue immediately upon the consolidation as described in resolution number 1 becoming effective and the said approval shall be limited accordingly; and
 - (d) for the purpose of this resolution, “Relevant Period” means the period from the passing of this resolution until whichever is the earlier of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the revocation or variation of the authority given under this resolution by ordinary resolution of the shareholders in general meeting; and
 - (iii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable laws to be held.”

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5. **“THAT**

- (a) subject to the passing of resolution number 1 and paragraphs (b) and (c) of this resolution, the general mandate of the kind referred to in paragraphs (b) and (c) of this resolution which had previously been granted to the Directors shall, to the extent not exercised by the Directors, be and is hereby revoked;
- (b) subject to paragraph (d) of this resolution, the exercise by the Directors during the Relevant Period of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which may require the exercise of such power be and is hereby generally and unconditionally approved;
- (c) the approval in paragraph (b) shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;
- (d) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted by the Directors of the Company pursuant to the approval in paragraph (b), otherwise than pursuant to (i) a rights issue; (ii) the exercise of rights of subscription or conversion under the terms of any warrants issued by the Company or any securities which are convertible into shares of the Company; or (iii) any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; or (iv) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the bye-laws of the Company, shall not exceed 20% of the total nominal amount of the share capital of the Company in issue immediately upon the consolidation as described in resolution number 1 becoming effective and the said approval shall be limited accordingly; and
- (e) for the purpose of this resolution, “Relevant Period” means the period from the passing of this resolution until whichever is the earlier of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the revocation or variation of the authority given under this resolution by ordinary resolution of the shareholders in general meeting; and
 - (iii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable laws to be held; and

“rights issue” means an offer of shares open for a period fixed by the Directors of the Company to holders of shares on the register on a fixed record date in proportion to their holdings of such shares, subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdiction, or of the requirements of any recognised regulatory body or any stock exchange.”

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6. “**THAT** conditional upon resolutions number 4 and 5 set out in the notice convening this meeting above being duly passed, the general mandate granted to the Directors of the Company to exercise the powers of the Company to issue, allot and dispose of shares pursuant to resolution 5 above be and is hereby extended by the addition to the total nominal amount of share capital and any shares which may be issued, allotted or agreed conditionally or unconditionally to be allotted by the Directors of the Company pursuant to such general mandate an amount representing the total nominal amount of shares in the capital of the Company which has been purchased by the Company since the granting of such general mandate pursuant to resolution 4 above, provided that such amount shall not exceed 10% of the total nominal amount of the share capital of the Company in issue immediately upon the consolidation as described in resolution number 1 becoming effective.”

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

Hong Kong, 1 August 2003

Notes:

1. A shareholder of the Company entitled to attend and vote at the special general meeting of the Company is entitled to appoint one or more proxies to attend and, in the event of poll, vote on his behalf. A proxy needs not to be a shareholder of the Company.
2. In order to be valid, the form of proxy must be deposited at the Company's share registrar in Hong Kong, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong together with a power of attorney or other attorney, if any, under which it is signed or a notarially certified copy of that power of attorney, not less than 48 hours before the time for holding the special general meeting.