

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or otherwise transferred all your shares in UDL Holdings Limited (the "Company"), you should at once hand this document and the accompanying form of acceptance and transfer to the purchaser(s) or transferee(s) or to the bank, the licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.



UDL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)
(Stock Code: 620)

HARBOUR FRONT LIMITED

*(incorporated in the British Virgin Islands
with limited liability)*

**Composite offer and response document
relating to the
mandatory conditional cash offers by**



on behalf of

Harbour Front Limited

**to acquire all the issued shares and
to cancel all the outstanding options of
UDL Holdings Limited**

**(other than those shares and options already owned by
Harbour Front Limited and parties acting in concert with it)**

Financial Adviser to Harbour Front Limited



AMS Corporate Finance Limited

**Independent Financial Adviser to the
Independent Board Committee of UDL Holdings Limited**

***Hercules*
Hercules Capital Limited**

A letter from the board of directors of the Company is set out on pages 7 to 22 of this document.

A letter from AMS Corporate Finance Limited and Access Capital Limited containing, among other things, the details of the terms and the condition of the mandatory conditional cash offers is set out on pages 23 to 31 of this document.

A letter from Hercules Capital Limited containing its advice to the independent board committee in respect of the Offers (as defined herein) is set out on pages 34 to 52 of this document. A letter from the independent board committee is set out on pages 32 to 33 of this document.

The procedures for acceptance and other information relating to the Offers are set out in Appendix I to this document and in the Forms of Acceptance (as defined herein). Acceptances under the Offers should be received by no later than 4:00 p.m. on Wednesday, 2 November 2005 (or such later time and/or date as Harbour Front Limited may decide and announce in accordance with the requirements of the Takeovers Code (as defined herein)).

12 October 2005

CONTENTS

	<i>PAGE</i>
DEFINITIONS	1
EXPECTED TIMETABLE	6
LETTER FROM THE BOARD	7
LETTER FROM AMS AND ACCESS CAPITAL	23
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	32
LETTER FROM HERCULES	34
APPENDIX I – FURTHER TERMS OF THE OFFERS	53
APPENDIX II – FINANCIAL INFORMATION IN RELATION TO THE GROUP	61
APPENDIX III – GENERAL INFORMATION	105

DEFINITIONS

In this document, the following expressions have the meanings set out below unless the context requires otherwise.

“2004 Annual Report”	the annual report of the Company for the financial year ended 31 July 2004
“2005 Annual Report”	the annual report of the Company for the financial year ended 31 July 2005
“Access Capital”	Access Capital Limited, a corporation licensed to carry on type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO and the agent of Harbour Front to make the Offers
“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“associates”	has the meaning ascribed to it in the Listing Rules
“Announcement”	the announcement dated 7 September 2005 made jointly by the Company and Harbour Front regarding, among other things, the terms and condition of the Offers
“AMS”	AMS Corporate Finance Limited, a corporation licensed to carry on type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO and the financial adviser to Harbour Front
“Board”	the board of directors of the Company
“Business Day”	a day (excluding Saturday and any day on which a tropical cyclone warning no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a “black” rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are generally open for business
“CCASS”	the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited

DEFINITIONS

“Closing Date”	2 November 2005, being the closing date of the Offers unless the Offers are revised or extended in which event, the date of closing of the Offers as extended by Harbour Front in accordance with the Takeovers Code
“Companies Act”	the Companies Act 1981 of Bermuda
“Company”	UDL Holdings Limited, a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange
“Director(s)”	the directors of the Company
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any of his delegates
“Exercise”	the exercise of the Relevant Options on 7 September 2005
“Forms of Acceptance”	the accompanying WHITE form of acceptance and transfer of the Shares in respect of the Share Offer and the accompanying PINK form of acceptance and cancellation of the Outstanding Options in respect of the Option Offer
“Group”	the Company and its subsidiaries
“Harbour Front”	Harbour Front Limited, a company incorporated in the British Virgin Islands, the controlling shareholder of the Company. Harbour Front is the trustee of a unit trust, all units in which are beneficially owned by a discretionary trust, the beneficiaries of which are Mrs. Leung and her children, namely Ms. Leung Chi Yin, Gillian, Mr. Leung Chi Hong, Jerry and Mr. Leung Kai Hong (aged under 18). Each of Mrs. Leung, Ms. Leung Chi Yin, Gillian and, Mr. Leung Chi Hong, Jerry is a party acting in concert with Harbour Front. As at the Latest Practicable Date, Harbour Front was interested in 421,465,499 Shares, representing a total of approximately 42.92% of the issued share capital of the Company as at the Latest Practicable Date
“Harbour Front Concert Group”	Harbour Front and parties acting in concert with it

DEFINITIONS

“Hercules”	Hercules Capital Limited, a corporation licensed to carry on type 6 (advising on corporate finance) regulated activity under the SFO and the independent financial adviser to the Independent Board Committee in respect of the Offers
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent committee of the Board, comprising the three independent non-executive Directors, namely, Mr. Pao Ping Wing, JP, Professor Yuen Ming Fai, Matthew and Ms. Tse Mei Ha, to advise the Independent Shareholders and the Optionholders in relation to the Offers
“Independent Shareholders”	the Shareholders other than members of the Harbour Front Concert Group
“Latest Practicable Date”	7 October 2005, being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information contained in this document
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mrs. Leung”	Mrs. Leung Yu Oi Ling, Irene, a party acting in concert with Harbour Front and an executive Director
“Offer Period”	the period from 7 September 2005, being the date of the Announcement, until 4:00 p.m. on 2 November 2005, being 21 days after the date of the opening of the Offers, or on such later date as Harbour Front may decide in accordance with the requirements of the Takeovers Code
“Offers”	the Share Offer and the Option Offer
“Option(s)”	option(s) granted by the Company to certain selected eligible participants under the Share Option Scheme which entitle the holder(s) thereof to subscribe for the Shares in cash
“Optionholder(s)”	holder(s) of the Outstanding Options

DEFINITIONS

“Option Offer”	the mandatory conditional cash offer for cancellation of all the Outstanding Options at HK\$0.016 each to be made by Access Capital on behalf of Harbour Front in accordance with the Takeovers Code
“Outstanding Option(s)”	the Options which remained outstanding as at the Latest Practicable Date and entitled the holders thereof to subscribe in cash, in aggregate, for up to 9,076,000 new Shares at a subscription price of HK\$0.024 per Share, all of which were owned by persons not being members of the Harbour Front Concert Group
“Registrar”	Tengis Limited, the Hong Kong branch share registrar of the Company which is located at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong
“Relevant Options”	the Options, immediately prior to the Exercise, held by Mrs. Leung and entitled her to subscribe for 10,355,000 Shares in cash (as regards 1,000,000 Shares, at a subscription price of HK\$0.024 per Share and as regards the remaining 9,355,000 Shares, at a subscription price of HK\$0.040 per Share)
“Relevant Period”	the period between 7 March 2005, being the date falling on the six months before the date of the Exercise, and the Latest Practicable Date (both dates inclusive)
“Scheme Administrator”	the Scheme Administrator as defined in the Schemes (currently Mr. Matthew Finbarr O’Driscoll)
“Schemes”	the schemes of arrangement in respect of the Company and 24 of its subsidiaries, the explanatory statement for which was dated 11 February 2000, which were sanctioned by Order of the High Court of Hong Kong on 18 April 2000 and became effective on 28 April 2000
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	share(s) of HK\$0.01 each in the share capital of the Company

DEFINITIONS

“Share Offer”	the mandatory conditional cash offer for all the issued Shares not already owned by the Harbour Front Concert Group to be made by Access Capital on behalf of Harbour Front in accordance with the Takeovers Code
“Share Option Scheme”	the share option scheme of the Company adopted on 31 December 2002
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Trust Deed”	the Trust Deed dated 11 February 2000 between the Company and Mr. Matthew Finbarr O’Driscoll as trustee
“Trustee”	the trustee appointed pursuant to the Trust Deed
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

EXPECTED TIMETABLE

2005

Commencement of the Offers	Wednesday, 12 October
Latest time for acceptance of the Offers, if not revised	4:00 p.m. on Wednesday, 2 November
Closing Date (<i>Note 1</i>)	Wednesday, 2 November
Announcement of results of the Offers to be posted on the Stock Exchange website (<i>Note 1</i>)	7:00 p.m. on Wednesday, 2 November
Announcement of results of the Offers to be published in the newspaper (<i>Note 2</i>)	Thursday, 3 November
Latest date for despatch of remittances for the amounts due in respect of valid acceptances received under the Offers at or before the latest time for acceptances (<i>Note 3</i>)	Saturday, 12 November
Latest time for the Offers to become or be declared unconditional (<i>Note 6</i>)	11:59 p.m. on Monday, 12 December

Notes:

1. The Offers, which are conditional, will close at 4:00 p.m. on Wednesday, 2 November 2005 unless Harbour Front revises or extends the Offers in accordance with the Takeovers Code. Harbour Front reserves the right to extend the period of the Offers until such date as it determines pursuant to the Takeovers Code. Harbour Front will post an announcement on the Stock Exchange website by 7:00 p.m. on Wednesday, 2 November 2005 to state whether the Offers have expired or in relation to any extension of the Offers, to state also either the next closing date or that the Offers will remain open until further notice. Such an announcement will be published in newspaper on the next Business Day thereafter. In the event that Harbour Front decides that the Offers will remain open until further notice, at least 14 days' notice in writing will be given, before the Offers are closed, to those Independent Shareholders and Optionholders who have not accepted the Offers.
2. An announcement on the result of the Offers will be published on Thursday, 3 November 2005 or in the event of an extension of the Offers, on the next Business Day after the closing date of the extended Offers.
3. The consideration payable for Shares tendered under the Share Offer and Options tendered under the Option Offer will be paid as soon as possible but in any event within 10 days of the date of the receipt by the Registrar or, as the case may be, the Company Secretary of the Company of all the valid requisite documents from the accepting Shareholders or, as the case may be, the accepting Optionholders or of the date on which the Offers become, or are declared, unconditional, whichever is later.
4. Acceptances of the Offers shall be irrevocable and not capable of being withdrawn, except as permitted under the Takeovers Code.
5. Pursuant to the Takeovers Code, if the Offers become or are declared unconditional, they will remain open for acceptance for not less than 14 days thereafter. An announcement will be made as and when the Offers become unconditional.
6. Pursuant to the Takeovers Code, except with the consent of the Executive, an offer (whether revised or not) may not become or be declared unconditional as to acceptances after midnight of the 60th day after the initial offer document was posted.

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

LETTER FROM THE BOARD



UDL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 620)

Executive Directors:

Mrs. Leung Yu Oi Ling, Irene

Ms. Leung Chi Yin, Gillian

Mr. Lee Ka Lun, Stephen

Independent non-executive Directors:

Mr. Pao Ping Wing, JP

Professor Yuen Ming Fai, Matthew

Ms. Tse Mei Ha

Registered office:

Crawford House

4th Floor

50 Cedar Avenue

Hamilton HM11

Bermuda

*Head office and principal place
of business in Hong Kong:*

Room 702, 7th Floor

Aitken Vanson Centre

61 Hoi Yuen Road

Kwun Tong

Kowloon

Hong Kong

12 October 2005

To the Independent Shareholders and the Optionholders

Dear Sir or Madam,

**Mandatory conditional cash offers by
Access Capital Limited
on behalf of
Harbour Front Limited
to acquire all the issued shares and
to cancel all the outstanding options of
UDL Holdings Limited
(other than those shares and options already owned by
Harbour Front Limited and parties acting in concert with it)**

INTRODUCTION

Reference is made to the announcement dated 7 September 2005 made jointly by the Company and Harbour Front. As stated in the Announcement, Access Capital would make the Offers on behalf of Harbour Front to the Independent Shareholders and the Optionholders as a result of the Exercise for all the issued Shares and for cancellation of all the Outstanding Options (other than those Shares and Options already owned by the Harbour Front Concert Group).

LETTER FROM THE BOARD

The Independent Board Committee, comprising the three independent non-executive Directors, namely Mr. Pao Ping Wing, JP, Professor Yuen Ming Fai, Matthew and Ms. Tse Mei Ha, has been formed to advise the Independent Shareholders and the Optionholders in respect of the Offers. The executive Directors, Mrs. Leung and Ms. Leung Chi Yin, Gillian, are the beneficiaries of a discretionary trust, the trustee of which is Harbour Front, being the offeror of the Offers, while Mr. Lee Ka Lun, Stephen is a salaried employee of the Company. As such, they are not considered to be sufficiently independent to serve on the Independent Board Committee to advise the Independent Shareholders and the Optionholders. Hercules has been appointed as the independent financial adviser to advise the Independent Board Committee as to whether or not the Offers are fair and reasonable so far as the Independent Shareholders and the Optionholders are concerned and as to the action to be taken by them.

The primary purpose of this document is to provide you with information relating to, among other matters, the Group and the Offers and to set out the reasons for the recommendation of the Independent Board Committee regarding the Offers.

BACKGROUND

Exercise of the Relevant Options

On 7 September 2005, Mrs. Leung, a party acting in concert with Harbour Front, exercised the Relevant Options to subscribe for 10,355,000 new Shares (the exercise prices of the Relevant Options are set out in the sub-paragraph headed "Comparison of value" under the paragraph headed "Mandatory conditional cash Offers" below). Immediately after the Exercise, the Harbour Front Concert Group in aggregate owned 487,179,999 Shares, representing approximately 49.61% of the issued share capital of the Company as enlarged by the Shares issued pursuant to the Exercise.

Acquisitions of voting rights during the immediately preceding 12-month period

During the 12-month period immediately prior to (and including) the Exercise (the "Preceding 12 Months"), the lowest collective percentage holding of voting rights of the Company by the Harbour Front Concert Group was approximately 47.07% (being 440,376,999 Shares out of 935,551,302 Shares in issue as at the close of business on 27 December 2004). During the Preceding 12 Months, the Harbour Front Concert Group had, apart from the 10,355,000 Shares acquired through the Exercise, acquired 36,448,000 Shares, of which 36,148,000 Shares were acquired through the exercise of Options on 28 December 2004 previously granted to them (out of these 36,148,000 Shares, 28,065,000 Shares were subscribed at a subscription price of HK\$0.040 per Share under Options granted on 2 December 2004 while the remaining 8,083,000 Shares were subscribed at a price of HK\$0.024 per Share under Options granted on 27 March 2003). The remaining 300,000 Shares were acquired on 14 June 2005 on the open stock market at the price of HK\$0.036 and HK\$0.040 per Share respectively.

LETTER FROM THE BOARD

The date of grant and the consideration paid for the grant of the Options that were exercised by the Harbour Front Concert Group during the Preceding 12 Months (including the Exercise) are as follows:

Name	Number of underlying Shares	Date of grant (dd/mm/yyyy)	Date of exercise (dd/mm/yyyy)	Consideration paid for the grant HK\$	Price paid per Share upon exercise HK\$
Leung Chi Yin, Gillian	9,355,000	02/12/2004	28/12/2004	1	0.040
Decorling Limited (Note 1)	9,355,000	02/12/2004	28/12/2004	1	0.040
YTL Strategic Corporate Consultancy Limited (Note 2)	9,355,000	02/12/2004	28/12/2004	1	0.040
Mrs. Leung	8,083,000	27/03/2003	28/12/2004	1 (Note 3)	0.024
Mrs. Leung	1,000,000	27/03/2003	07/09/2005	1 (Note 3)	0.024
Mrs. Leung	9,355,000	02/12/2004	07/09/2005	1	0.040

Notes:

1. Decorling Limited is 100% beneficially owned by Mrs. Leung.
2. At the respective dates of grant and exercise of the Options concerned, YTL Strategic Corporate Consultancy Limited was beneficially owned by Harbour Front and Ms. Leung Chi Yin, Gillian as to 90% and 10%, respectively. As at the Latest Practicable Date, YTL Strategic Corporate Consultancy Limited was beneficially owned by Harbour Front, Mrs. Leung, Ms. Leung Chi Yin, Gillian, Mr. Leung Chi Hong, Jerry and Mr. Leung Kai Hong as to 18%, 20%, 22%, 20% and 20% respectively.
3. Options entitling the holder thereof to subscribe for a total of 9,083,000 Shares were granted to Mrs. Leung on 27 March 2003 in one lot and only HK\$1 was paid for such grant.

Save as disclosed above, none of the members of the Harbour Front Concert Group has dealt in any Shares or Options or other securities convertible into Shares during the Relevant Period.

MANDATORY CONDITIONAL CASH OFFERS

As a result of the Exercise and as at the Latest Practicable Date, the Harbour Front Concert Group, in aggregate, owned 487,179,999 Shares, representing approximately 49.61% of the issued share capital of the Company, resulting in an increase by more than 2% from

LETTER FROM THE BOARD

the lowest collective percentage holding by the Harbour Front Concert Group in the Company in the Preceding 12 months (such lowest collective percentage holding being 47.0714%) and accordingly is required under Rule 26.1 and Rule 13 of the Takeovers Code to make mandatory conditional cash offers for all the issued Shares and the Outstanding Options not already owned by the Harbour Front Concert Group.

As at the Latest Practicable Date, the Company had 982,054,302 Shares in issue. The shareholding structure of the Company as at the Latest Practicable Date was as follows:

Shareholders	Number of Shares	Approximate percentage
Harbour Front Concert Group*	487,179,999 Shares	49.61%
Public		
Scheme Administrator	252,306,195 Shares	25.69%
Other public shareholders	242,568,108 Shares	24.70%
Sub-total	494,874,303 Shares	50.39%
Total:	982,054,302 Shares	100.00%

* *For the composition of the shareholding of the Harbour Front Concert Group in the Company, please refer to the paragraph headed "Information on the Harbour Front Concert Group" in the "Letter from AMS and Access Capital" set out in this document.*

Save as disclosed above, none of the members of the Harbour Front Concert Group had any interests in the issued or unissued shares of the Company as at the Latest Practicable Date.

As at the Latest Practicable Date, the Company had Outstanding Options entitling the holders thereof to subscribe for up to 9,076,000 Shares at an exercise price of HK\$0.024 per Share. These Outstanding Options were held by certain employees of the Group not being members of the Harbour Front Concert Group.

Apart from the Outstanding Options, there were no other outstanding warrants, options or securities convertible into Shares as at the Latest Practicable Date.

Principal terms of the Offers

Access Capital, on behalf of Harbour Front, makes the mandatory conditional cash offers for all the issued Shares and for cancellation of all the Outstanding Options (other than those already owned by the Harbour Front Concert Group) on the following basis:

The Share Offer

For each Share HK\$0.040 in cash

The Option Offer

For cancellation of each Outstanding Option HK\$0.016 in cash

LETTER FROM THE BOARD

Harbour Front is required under the Takeovers Code to make a comparable offer for all the Outstanding Options as part of the Offers. **Optionholders are reminded that pursuant to the terms of the Share Option Scheme, the Outstanding Options will lapse automatically following the expiry of one month from the date on which the Offers become or are declared unconditional if the Outstanding Options have not been tendered for acceptance under the Option Offer and remain unexercised upon the expiry of such one month.**

Comparison of value

The offer price under the Share Offer of HK\$0.040 per Share is the same as the highest price that members of the Harbour Front Concert Group have paid for the Shares within the six months prior to the Announcement, taken into account the following transactions which took place in the six-month period immediately prior to (and including) the Exercise:

- (a) 100,000 Shares were acquired by Mrs. Leung on market on 14 June 2005 at a price of HK\$0.036 per Share;
- (b) 200,000 Shares were acquired by Mrs. Leung on market on 14 June 2005 at a price of HK\$0.040 per Share;
- (c) 1,000,000 Shares were acquired by Mrs. Leung through the exercise of Options on 7 September 2005 at a subscription price of HK\$0.024 per Share; and
- (d) 9,355,000 Shares were acquired by Mrs. Leung through the exercise of Options on 7 September 2005 at a subscription price of HK\$0.040 per Share.

The exercise price of the Outstanding Options is HK\$0.024 (subject to adjustments) per Share. Harbour Front is offering the Optionholders the opportunity, in respect of each Outstanding Option, to receive a payment of HK\$0.016 which is equal to the net cash payment the Optionholders will receive if they exercise their Outstanding Options and accept the Share Offer in respect of those Shares they receive as a result of such exercise. The offer price under the Option Offer for each Outstanding Option represents a “see-through” price of HK\$0.016 per Outstanding Option.

The offer price under the Share Offer of HK\$0.04 per Share represents:

- (a) a premium of approximately 73.91% over the closing price of HK\$0.023 per Share as quoted on the Main Board of the Stock Exchange on 7 September 2005, being the trading day on which the Relevant Options were exercised;
- (b) a premium of approximately 73.91% over the average closing price of HK\$0.023 per Share as quoted on the Main Board of the Stock Exchange for the last 10 consecutive complete trading days prior to (and including) 7 September 2005; and

LETTER FROM THE BOARD

- (c) a discount of approximately 11.11% to the closing price of HK\$0.045 per Share as quoted on the Main Board of the Stock Exchange on the Latest Practicable Date.

Total consideration

As at the Latest Practicable Date, the Company had 982,054,302 Shares in issue and 9,076,000 Outstanding Options.

Assuming that there is no change in the issued share capital of the Company prior to the close of the Share Offer and the offer price under the Share Offer is HK\$0.040 per Share, the entire issued share capital of the Company is valued at approximately HK\$39.3 million under the Share Offer. On the basis that 494,874,303 Shares are held by Shareholders not being members of the Harbour Front Concert Group, the consideration payable by Harbour Front upon full acceptance of the Share Offer will be approximately HK\$19.8 million. Based on the offer price of HK\$0.016 under the Option Offer for each Outstanding Option, all the Outstanding Options are valued at HK\$145,216.

Assuming full acceptance of the Share Offer as well as the Option Offer, the total consideration payable by Harbour Front would be approximately HK\$19.94 million. In the event the Optionholders exercise the Outstanding Options in full prior to the close of the Offers and participate in the Share Offer and upon full acceptance of the Share Offer (including the new Shares falling to be issued pursuant to the exercise of the Outstanding Options), the consideration payable by Harbour Front under the Share Offer would be HK\$20.16 million.

The Company has consulted the Scheme Administrator, currently Mr. Matthew Finbarr O'Driscoll, on his intention regarding the 252,306,195 Shares held on trust for the Scheme Creditors (as defined in the Schemes) and has been advised that the Scheme Administrator currently has no power to accept the Share Offer and does not intend to seek such power, but intends to distribute a significant portion of such Shares to non-preferential Scheme Creditors as soon as the proposed modifications to the Schemes and the Trust Deed, referred to below, are adopted and subject to the completion of the Global Solution (as defined below). As the process for the adoption of such modifications involves meetings of the Scheme Creditors and sanction by the Court, it is not possible to predict accurately when the Scheme Administrator would be in a position to make such distribution of Shares, but it is understood that such distribution could not take place earlier than the date on which the Offers will close.

Charming Leader Group Limited, an associate of AMS, has provided Harbour Front with a loan facility to satisfy its payment obligations under the Offers. AMS, as the financial adviser to Harbour Front, and Access Capital, as the agent to make the Offers on behalf of Harbour Front, are satisfied that there are sufficient financial resources available to Harbour Front to meet its obligation in case of full acceptance of the Offers.

LETTER FROM THE BOARD

Effect of accepting the Offers

By accepting the Share Offer, the Shareholders will sell their Shares to Harbour Front or its nominee free from all rights of pre-emption, options, liens, claims, equities, charges, encumbrances and third party rights and with all rights attached to them, including the rights to receive all dividends and distribution declared, made or paid on or after the date on which the Share Offer is made, i.e. the date of posting of this document.

By accepting the Option Offer, the Optionholders will agree to tender their Outstanding Options to the Company for cancellation in accordance with the provisions of the Share Option Scheme.

Stamp duty

Seller's ad valorem duty arising in connection with acceptance of the Share Offer amounting to 0.1% of the amount payable in respect of the relevant acceptance or if higher, the value of the Shares as determined by the Collector of Stamp Revenue under the Stamp Duty Ordinance (Cap. 117, Laws of Hong Kong) will be deducted from the amount payable to the Shareholders who accept the Share Offer. Harbour Front will bear its own portion of buyer's ad valorem stamp duty at the rate of 0.1% of the amount payable in respect of relevant acceptances under the Share Offer and will be responsible to account to the Stamp Office of Hong Kong the stamp duty payable for the sale and purchase of the relevant Shares pursuant to the acceptances of the Share Offer.

Payment

Payment in cash in respect of acceptances of the Offers will be made within 10 days of the date on which the relevant documents of title are received by the Registrar or, as the case may be, the Company Secretary of the Company to render each such acceptance complete and valid or of the date on which the Offers become, or are declared, unconditional, whichever is later.

Conditional Offers

The Offers are conditional upon Harbour Front having received acceptances of the Offers which, together with the Shares already owned by the Harbour Front Concert Group before or during the Offer Period, will result in the Harbour Front Concert Group holding more than 50% of the voting rights of the Company. If Harbour Front does not receive acceptances of the Offers which, together with the Shares already owned by the Harbour Front Concert Group before or during the Offer Period, will result in the Harbour Front Concert Group holding more than 50% of the voting rights of the Company, the Offers cannot become unconditional and will lapse.

LETTER FROM THE BOARD

INFORMATION ON THE GROUP

Principal business activities

The Company is incorporated in Bermuda with limited liability and its Shares have been listed on the Stock Exchange since 1991. The principal activity of the Company is investment holding and the principal activities of its principal subsidiaries are marine engineering and provision of miscellaneous engineering and management services.

Financial position

For the year ended 31 July 2005, the Company reported an audited turnover of approximately HK\$11.1 million and audited loss attributable to Shareholders of approximately HK\$27.5 million. As at 31 July 2005, the Company had audited net liabilities of approximately HK\$55.6 million and the Group had in aggregate bank and other borrowings (both secured and unsecured) of approximately HK\$116.5 million and unsecured other current liabilities of approximately HK\$36.1 million. The secured loans were secured by legal charge on the Group's floating craft and vessels with net book value of approximately HK\$71.1 million as at 31 July 2005.

A summary of the audited consolidated financial statements of the Company for the three years ended 31 July 2005 is set out in Appendix II to this document.

The Company has undertaken to the Trustee, being the then Scheme Administrator of the Schemes, 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 (as defined in the Schemes) and the Accounts Receivable (as defined in the Schemes) 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 "**Shortfall Undertaking**").

Brief particulars of the Unencumbered Assets and the Accounts Receivable referred to above are set out in the paragraph headed "The Unencumbered Assets and the Accounts Receivable under the Schemes" in Appendix III to this document.

LETTER FROM THE BOARD

Shares issued in connection with the Schemes

252,306,195 Shares are held by the Scheme Administrator as trustee for the non-preferential Scheme Creditors (as defined in the Schemes) pending their distribution under the Schemes. As stated in the sub-paragraph headed "Total consideration" under the paragraph headed "Mandatory conditional cash Offers" above, it is understood that such distribution could not take place earlier than the date on which the Offers will close.

Summary of proposed modifications to the Schemes

The Scheme Administrator has advised the Company that he intends to propose certain modifications to the Schemes and the Trust Deed so as to achieve the following principal purposes:

- to permit a replacement of the Scheme Administrator/Trustee;
- to permit a sale or other disposal by the Scheme Administrator of the Unencumbered Assets and of the benefit of recoveries of Accounts Receivable and/or a release of the Company and the Scheme Participating Subsidiaries (as defined in the Schemes) from their obligations in respect of the Unencumbered Assets and Accounts Receivable. Such Unencumbered Assets do not comprise any Shares;
- to permit the Scheme Administrator/Trustee to approve a compromise or settlement of the Shortfall Undertaking;
- to require the Scheme Administrator/Trustee to obtain the sanction of the Committee of Inspection established for the purposes of the Schemes or the approval of the High Court of Hong Kong before exercising a number of important powers to be granted by such modifications; and
- to establish procedures to facilitate an efficient termination of the Schemes, including the setting of a limit on the extent to which arbitration costs are to be paid out of Scheme Funds (as defined in the Schemes).

Global Solution

The Company and the Scheme Administrator have had many discussions whether an alternative, more rapid and positive solution could be achieved for the Scheme Creditors (as defined in the Schemes). From this, a proposed solution (the "Global Solution") has emerged, recorded in a non-binding Memorandum of Understanding (the "MOU") dated 12 August 2005 and executed by the Company, Harbour Front, and the Scheme Administrator. The goals under the Global Solution which are targeted to be achieved in 2005 are:

- The disposal of the Unencumbered Assets and the Accounts Receivable to Harbour Front for HK\$20 million in cash.

LETTER FROM THE BOARD

- The settlement of the Shortfall Undertaking for HK\$30 million in convertible notes issued by the Company and convertible (into the Company's shares)/redeemable in four tranches of HK\$7.5 million over two years. The initial conversion price (subject to adjustments) is at 9% discount to the average share trading prices in the 20-day period immediately prior to the expiry of the respective periods set for the different tranches.
- An undertaking by Harbour Front to purchase from the Scheme Administrator/Trustee all or such proportion as the Scheme Administrator/Trustee may determine of such convertible notes at a price equal to 18/30ths of their nominal value, payable in cash, immediately.

The proposed issue of the convertible notes and other related matters (where necessary) under the Global Solution will be subject to the approval by the Shareholders in accordance with the requirements of the Listing Rules. The Company will convene a special general meeting as and when appropriate to approve the issue of the convertible notes.

If the relevant Scheme and Trust Deed modifications are approved by the Scheme Creditors (as defined in the Schemes) and the Scheme Administrator proceeds with the Global Solution, then Harbour Front will, subject to compliance with all applicable legal and regulatory requirements make available the convertible notes so purchased for an open offer to the Shareholders at a price equal to 18/30ths of their nominal value plus the transaction costs.

The estimated value of assets to be realised under the Schemes was stated to be HK\$183.5 million in the original scheme document. The Scheme Administrator has advised the Company that his estimate of the realisation proceeds of the remaining Scheme Assets (as defined in the Schemes) (net of realisations/recoveries already made) in a liquidation scenario is about HK\$20.8 million. The consideration for the disposal of the Unencumbered Assets and the Accounts Receivable of HK\$20 million was determined by negotiation between Harbour Front and the Scheme Administrator. The disposal of the Scheme Assets is for the benefit of the Scheme Creditors in their capacity as creditors. It should be noted that the amount already realised together with the amount expected to be realised by the disposal of such Scheme Assets falls far short of the indicative amount of the Scheme Assets as stated in the original scheme document.

Whether the Global Solution will complete as scheduled or will complete at all will have an effect on the Shareholders' and the Optionholders' assessment of the future prospects of the Company. Shareholders are therefore advised to take into consideration the uncertainties relating to the eventual success of the Global Solution and also to the eventual timing of the success or failure of the Global Solution.

Harbour Front is independent of the Scheme Administrator save that it is one of the Scheme Creditors (as defined in the Schemes). A total of nearly 800 claims have been submitted under the Schemes, totaling approximately HK\$5.15 billion. Admitted scheme debts to which Harbour Front is entitled amount to approximately HK\$230 million,

LETTER FROM THE BOARD

representing less than 13% of the aggregate amount of all admitted scheme debts and held over claims under the Schemes. The Offers by Harbour Front are independent of, and not conditional upon any approval by the Scheme Creditors (as defined in the Schemes). The Offers are also not contingent on whether the proposed modifications to the Schemes as outlined above can or cannot be implemented.

Business review and outlook

Operations

The decrease in revenue of the Group for the year ended 31 July 2005 as mentioned above in the paragraph headed "Financial position" was mainly due to the fact that the management of the Group had diverted their efforts in (i) working with the Scheme Administrator for the formulation of the Global Solution; and (ii) resolving the financial difficulties of the Group as mentioned above during the first half of the financial year. Other circumstantial reasons for the substantial decrease in revenue for the first half of the financial year ended 31 January 2005 are particularly described below.

The principal business of the Group after the implementation of the Schemes is marine engineering. As the local marine construction market was sluggish in the past few years and had resulted in very keen competition, the Group was very cautious in negotiating for new orders and contracts. Although the Group's marine construction engineering operations had reduced in the first half of the financial year ended 31 July 2005 partly due to the unfavourable market conditions and partly as a measure of the Group to control its operation costs, the Group's fleet of marine construction vessels which are in a ready condition could yield an annual production capacity of around 4.5 million cubic metres volume of dredging, reclamation and transportation of marine engineering construction materials. With the new infrastructure developments such as the Southeast Kowloon Development, the Old Kai Tak Airport Redevelopment, the North Lantau Development and the Hong Kong, Zhuhai and Macau Link expected to be implemented in the coming years following the recent recovery of the local economy together with the increase in demand for marine construction engineering services in the adjacent areas like Macau and the Guangdong Province, the Group is actively pursuing marketing and tendering work in order to secure orders and contracts for marine construction works under these large scale developments and projects which will require marine construction plant of large output performance like those possessed by the Group. The Group's marine construction engineering operations are expected to be expanded accordingly and to make positive contribution to the Group's revenue for this current financial year (i.e. financial year ending 31 July 2006) ("FY2006") onwards.

In view of the Group's past experience and operations with extensive customers and vendors network, which was built up in the 90s' in the shipbuilding industry which closely relates to the marine construction engineering industry, the Group has already resumed its shipbuilding business and has received considerable orders for the supply of various kinds of reconditioned second hand marine engineering vessels. These confirmed orders and other orders which are close to be concluded are expected to contribute positively to the Group's revenue for the FY2006 onwards.

LETTER FROM THE BOARD

With the recovery of the local economy and the development in the adjacent areas, in FY2006, the Group has also picked up other business activities, such as structural steel engineering projects and provision of contracting and engineering services, which have since the implementation of the Schemes in 2000 been suspended. As regards the structural steel engineering projects, the Group is now co-operating with major structural steel engineering contractors in the PRC and has recently gained a new contract for the Stonecutters Bridge project and has also secured a pre-bid commitment from one of the few tenders for the main contract of the superstructure for Zhu Jiang Huang Bu Bridge. These contracts, if concluded, are expected to make positive contribution to the Group's revenue in the FY2006. On the provision of contracting and engineering services, the Group is now working on the re-admission to the List of Approved Contractors for Public Works of the Hong Kong Government (the "**List of Approved Contractors**"). Certain members of the Group were approved contractors for over 10 years until 2000 and the Group now targets to gain the re-admission as soon as possible after completion of the Global Solution so that the Group will be qualified to participate in the Hong Kong Government's public works projects. Taking into account the recent announcement made by the Hong Kong Government as regards the various public works projects, including over a hundred municipal facilities and basic infrastructure projects having been postponed after the Asian financial turmoil, the Directors are of the view that the re-admission to the List of Approved Contractors will certainly bring business opportunities to the Group.

During the second half of the financial year ended 31 July 2005, the Group received certain new confirmed orders, the completion dates of some of which fall behind 31 July 2005 and will therefore contribute to the Group's revenue for FY2006 and onwards. As at 31 August 2005, other than the outsourcing vendors but including contract workers, the Group had an aggregate of 65 technical and working staff.

Litigation proceedings as reported in the 2005 Annual Report

There has not been any progress in the legal proceedings commenced by the three petitioners in Bermuda further to the update made in the audited financial statements in the 2005 Annual Report. An amended petition, subsequent to a petition filed on 16 May 2002 (as disclosed in the announcements of the Company dated 18 June 2002, 4 October 2002 and 20 November 2002 and in the circulars of the Company dated 11 November 2002, 23 December 2002 and 1 August 2003) was filed by three parties, namely United People Assets Limited, Hung Ngai Holdings Limited and Value Partners Investment Limited. In addition to the matter 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 in November 2002, in particular the allocation of the rights shares to Harbour Front, and other allegedly prejudicial conduct of the Company.

Among other reliefs sought by the three petitioners, an order that a provisional liquidator be appointed and an order that the Company be wound up were sought. The court later held that the petitioners' prayers to wind up the Company and/or to appoint a liquidator were an abuse of the court's process. In May 2004, the joint petitioners applied to the court for re-amending the petition. An order granting the re-amended petition

LETTER FROM THE BOARD

leaving out the prayer for winding-up at the request of the petitioners' attorney during the court hearing was made and in the re-amended petition, the petitioners no longer seek an order that a provisional liquidator be appointed. As such, the litigation is no longer of a serious nature.

As a result of such litigation, the proposed share consolidation and creation and issuance of preference shares of the Company approved at the Company's special general meeting held on 22 August 2003 have not yet been implemented up to the Latest Practicable Date.

As further reported in the 2005 Annual Report, in September 2005, three plaintiffs issued a statement of claim against altogether 10 defendants which included the Company, two of its subsidiaries and Mrs. Leung in respect of the claim arising from the inability of one of the plaintiffs as landlord of a property to recover from Universal Dockyard Limited (which, at the relevant time, was a subsidiary of the Company and has already been wound up).

Details of the above legal proceedings are set out in note 2(c) to the audited consolidated financial statements of the Group for the year ended 31 July 2005 which is reproduced in Section B of Appendix II to this document.

Sources of funding

Pursuant to the refinancing arrangements among certain then lenders of the Group, certain related parties (the "**Related Parties**") of the Group and certain members of the Group, such lenders had assigned their interests in the loans due from the Group to the Related Parties which included Universal Grade Limited (a company wholly owned by Harbour Front beneficially), Hong Hay Pte Limited (a company in which Mrs. Leung is a director) and Windermere Pte Limited ("**Windermere**") (two directors of which are managers of certain subsidiaries of Harbour Front). As at the Latest Practicable Date, Universal Grade Limited and Hong Hay Pte Limited had no further outstanding obligations under the assignment of loans. The Directors understand that the outstanding payment to be made by Windermere to the lender concerned amounted to approximately US\$6 million as at 31 August 2005 and such outstanding amount shall be paid by Windermere in accordance with the payment schedule agreed between Windermere and the lender concerned and may also be reduced by the proceeds received by the Group in respect of the disposal of the non-core vessels owned by UDL Marine Assets (Singapore) Pte Ltd, a wholly-owned subsidiary of the Company. As at the Latest Practicable Date, payments made by Windermere did not strictly conform to the aforesaid payment schedule. However, the moratorium has been maintained due to on going negotiation between Windermere and the lender concerned on a revised payment schedule. Despite the fact that there is uncertainty as to whether Windermere will agree with the lender concerned on a revised payment schedule, the Directors are confident that Windermere has the financial ability to meet its obligations. Further details of the latest development in respect thereof are set out in note 16 to the audited consolidated financial statements of the Group for the year ended 31 July 2005 which is reproduced in Section B of Appendix II to this document. The Group will also continue to handle any disposal of the non-core vessels as described above.

LETTER FROM THE BOARD

The assigned loans now owing by the Group to the Related Parties will be due for repayment on 1 August 2006. Save as disclosed below, there has not been any substantive negotiation between the Group and each of the Related Parties as regards how such loans shall be repaid or refinanced when they fall due. The previous understanding between the Company and the Related Parties as disclosed in the financial statements in the 2004 Annual Report was that the conversion of the loans into equity of the Company would be an alternative to repayment in cash if the Company was unable to repay the Related Parties in August 2006. Given that these loans will not be due for repayment in around a year's time, no definitive agreements have been reached at this stage regarding the equity conversion of these loans. As disclosed in the 2005 Annual Report, the amount owing by the Group to the three Related Parties amounted to approximately HK\$100.5 million as at 31 July 2005.

Currently, the Group's operations are principally funded by (1) deposits or mobilisation payments under the new orders received; (2) short-term financing by Harbour Front; and (3) normal commercial credit terms granted by suppliers and vendors. The Group is close to conclude the grant of a new loan facility with its banker. The loan, if granted, will be in the form of a 5-year secured loan and the principal amount of which is US\$4.6 million. Such loan is expected to be available after the completion of the Global Solution and will help refinance the existing liabilities of the Group.

In order for the Company to fund its operations in the future, the Company will be required to implement certain fund raising plans, which may include (but not limited to) rights issue or other equity financing methods. Harbour Front considers that the Offers before implementation of the Global Solution will therefore provide an opportunity to the other shareholders of the Company to divest their interests, should they wish to do so, without making further financial commitment to the Company or having their interests being diluted as a result of the possible fund raising exercise which may be implemented by way of equity issue. For the purposes of providing the Company with adequate working capital for financing needs before and after implementation of the Global Solution up till the completion of the possible fund raising exercise, the Group has just secured an interim financing facility from Harbour Front pursuant to an agreement dated 5 October 2005 and made between Harbour Front and the Company. The amount of the financing facility is HK\$20,000,000 and interest on such loan will accrue at 2% over the best lending rate as quoted by The Hongkong and Shanghai Banking Corporation Limited. No security is provided to Harbour Front in respect of the grant of such interim financing facility.

INFORMATION ON HARBOUR FRONT AND ITS INTENTIONS REGARDING THE FUTURE OF THE GROUP

Your attention is drawn to the "Letter from AMS and Access Capital" set out in this document for information on Harbour Front and its intentions regarding the future of the Group.

LETTER FROM THE BOARD

GENERAL

Listing status and public float

Harbour Front has indicated that it intends to maintain the listing of the Shares on the Main Board of the Stock Exchange after the close of the Offers and does not intend to exercise any rights to compulsorily acquire all the Shares.

Each of the Board and Harbour Front has undertaken to the Stock Exchange to take appropriate steps following the close of the Offers to ensure that such number of Shares as may be required by the Stock Exchange are held by the public.

The Stock Exchange has stated that if, at the close of the Offers, less than the minimum prescribed percentage applicable to the Company, being 25%, of the Shares are held by the public, or if the Stock Exchange believes that:

- (i) a false market exists or may exist in trading of the Shares; or
- (ii) there are insufficient Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend dealings in the Shares.

The Stock Exchange will also closely monitor all acquisitions or disposals of assets by the Company. Under the Listing Rules, the Stock Exchange has the power pursuant to the Listing Rules to aggregate a series of transactions and any such transactions that may result in the Company being treated as if it were a new listing applicant and subject to the requirement for new applicants as set out in the Listing Rules.

RECOMMENDATIONS

Your attention is drawn to the "Letter from Hercules" which sets out its recommendation to the Independent Board Committee in relation to the Offers and the principal factors considered by it in arriving at its recommendation.

ADDITIONAL INFORMATION

Your attention is drawn to the "Letter from AMS and Access Capital" as set out on pages 23 to 31 of this document which contains, among other things, the principal terms of the Offers, information on Harbour Front and its intention with respect to the Group.

You are recommended to read this document and the Forms of Acceptance for details of the Offers. Your attention is also drawn to the information set out in the Appendices to this document.

LETTER FROM THE BOARD

In considering what action to take in connection with the Offers, you should consider your own tax positions and, if you are in any doubt, you should consult your professional advisers.

Yours faithfully,
For and on behalf of
UDL Holdings Limited
Lee Ka Lun, Stephen
Director

LETTER FROM AMS AND ACCESS CAPITAL



AMS Corporate Finance Limited



12 October 2005

To the Independent Shareholders and the Optionholders

Dear Sir or Madam,

MANDATORY CONDITIONAL CASH OFFERS

INTRODUCTION

On 7 September 2005, the board of directors of each of Harbour Front and the Company announced, among other things, that Harbour Front, through Access Capital, would make mandatory conditional cash offers to acquire all the issued Shares (other than those already owned by the Harbour Front Concert Group) and to cancel all the Outstanding Options.

The Offers are conditional. The Offers are subject to and conditional upon valid acceptances having been received (and not, where permitted, withdrawn) before or during the Offer Period in respect of the Shares which, together with the Shares owned by the Harbour Front Concert Group, constitute more than 50% of the entire issued share capital of the Company before or during the Offer Period, such shares carrying more than 50% of the voting rights normally exercisable at general meetings of the Company.

Harbour Front is the controlling shareholder (as defined in the Listing Rules) of the Company. At the time of the Announcement and as at the Latest Practicable Date, the Harbour Front Concert Group was interested in 487,179,999 Shares, or approximately 49.61% of the issued share capital of the Company.

AMS has been appointed as the financial adviser to Harbour Front in respect of the Offers. Access Capital has been appointed by Harbour Front as its agent to make the Offers. The responsibility of Access Capital in relation to the Offers comprises solely the making of the Offers on behalf of Harbour Front and, together with AMS, providing confirmation as to the sufficiency of financial resources available to Harbour Front in satisfying full acceptance of the Offers pursuant to the requirements of the Takeovers Code. In particular, Access Capital is not responsible for rendering any financial advice to Harbour Front, which remains as the responsibility of AMS.

This joint letter sets out the details of the Offers, information on Harbour Front and the intentions of Harbour Front regarding the Group. The terms of the Offers are set out below in this letter and the accompanying Forms of Acceptance.

LETTER FROM AMS AND ACCESS CAPITAL

THE OFFERS

The Offers, comprising the Share Offer and the Option Offer, are made in compliance with the Takeovers Code on the following basis:

For each Share HK\$0.040 in cash

For each Outstanding Option HK\$0.016 in cash

Save for the Outstanding Options, there are currently no other options, warrants or other securities issued by the Company that carry a right to subscribe for or which are convertible into Shares.

Harbour Front has no intention, understanding, arrangement or agreement to transfer any Shares acquired pursuant to the Share Offer to any other persons save as security for the loan facility granted by Charming Leader Group Limited to Harbour Front to satisfy its payment obligations under the Offers, and if required, for the purpose of maintaining the public float of the Company.

The Offers are required to be open for acceptance for at least 21 days after the despatch of this document. Your attention is drawn to the expected timetable set out in the section headed "Expected timetable" of this document.

Comparisons of value

The offer price under the Share Offer of HK\$0.040 per Share (the "Share Offer Price") is the same as the highest price that members of the Harbour Front Concert Group have paid for the Shares within the six months prior to the Announcement, taken into account the following transactions which took place in the six-month period immediately prior to (and including) the Exercise:

- (a) 100,000 Shares were acquired by Mrs. Leung on market on 14 June 2005 at a price of HK\$0.036 per Share;
- (b) 200,000 Shares were acquired by Mrs. Leung on market on 14 June 2005 at a price of HK\$0.040 per Share;
- (c) 1,000,000 Shares were acquired by Mrs. Leung through the exercise of Options on 7 September 2005 at a subscription price of HK\$0.024 per Share; and
- (d) 9,355,000 Shares were acquired by Mrs. Leung through the exercise of Options on 7 September 2005 at a subscription price of HK\$0.040 per Share.

The exercise price of the Outstanding Options is HK\$0.024 (subject to adjustments) per Share. Harbour Front is offering the Optionholders the opportunity, in respect of each Outstanding Option, to receive a payment of HK\$0.016 which is equal to the net cash payment the Optionholders will receive if they exercise their Outstanding Options and

LETTER FROM AMS AND ACCESS CAPITAL

accept the Share Offer in respect of those Shares they receive as a result of such exercise. The offer price under the Option Offer for each Outstanding Option represents a “see-through” price of HK\$0.016 per Outstanding Option.

The highest closing and lowest closing prices at which Shares were quoted on the Stock Exchange in the six-month period immediately prior to the date of the Announcement and ending on the Latest Practicable Date, were HK\$0.064 on 9 September 2005 and HK\$0.021 on 26 May 2005, respectively.

The Share Offer Price represents:

- (a) a premium of approximately 73.91% over the closing price of HK\$0.023 per Share as quoted on the Main Board of the Stock Exchange on 7 September 2005, being the trading day on which the Relevant Options were exercised;
- (b) a premium of approximately 73.91% over the average closing price of approximately HK\$0.023 per Share as quoted on the Main Board of the Stock Exchange for the last ten consecutive complete trading days prior to and including 7 September 2005; and
- (c) a discount of about 11.11% to the closing price per Share as quoted on the Main Board of the Stock Exchange of HK\$0.045 as at the Latest Practicable Date;

Pursuant to the Share Option Scheme, which is effective for 10 years expiring on 31 December 2012, an aggregate of 9,076,000 Options were granted and remained unexercised as at the Latest Practicable Date. The exercise in full of the Outstanding Options would result in the issue of an additional 9,076,000 Shares. The Option Offer Price of HK\$0.016 per Outstanding Option is equivalent to the difference in value between the Share Offer Price and the exercise price of HK\$0.024 per Share under the Outstanding Options.

Save for the Outstanding Options, the Company did not have other convertible securities, options or warrants in issue as at the date of the Latest Practicable Date.

Total consideration

As at the Latest Practicable Date, the Company had 982,054,302 Shares in issue and 9,076,000 Outstanding Options. Assuming that there is no change in the issued share capital of the Company prior to the close of the Share Offer and the offer price under the Share Offer is HK\$0.040 per Share, the entire issued share capital of the Company is valued at approximately HK\$39.3 million under the Share Offer. On the basis that 494,874,303 Shares are held by Shareholders not being members of the Harbour Front Concert Group, the consideration payable by Harbour Front upon full acceptance of the Share Offer will be approximately HK\$19.8 million. Based on the offer price of HK\$0.016 under the Option Offer for each Outstanding Option, all the Outstanding Options are valued at HK\$145,216.

LETTER FROM AMS AND ACCESS CAPITAL

Assuming full acceptance of the Share Offer as well as the Option Offer, the total consideration payable by Harbour Front would be approximately HK\$19.94 million. In the event that the Optionholders exercise the Outstanding Options in full prior to the close of the Offers and participate in the Share Offer and upon full acceptance of the Share Offer (including the new Shares falling to be issued pursuant to the exercise of the Outstanding Options), the consideration payable by Harbour Front under the Share Offer would be HK\$20.16 million.

AMS, as the financial adviser to Harbour Front, and Access Capital, as the agent to make the Offers on behalf of Harbour Front, are satisfied that there are sufficient financial resources available to Harbour Front to meet its obligation in case of full acceptance of the Offers. Charming Leader Group Limited, an associate of AMS, has provided Harbour Front with a loan facility to satisfy its payment obligations under the Offers. The directors of Harbour Front confirm that no payment of interest on, repayment of or security for any liability (contingent or otherwise) in relation to the amount of funds required for the full acceptance of the Offers will depend to any significant extent on the business of the Company.

Terms of the Offers

Under the terms of the Share Offer, the Shares will be acquired with all rights attached thereto, including the rights to receive all dividends and distribution declared, made or paid on or after the date on which the Share Offer is made, i.e. the date of posting of this document, and free from all rights of pre-emption, options, liens, claims, equities, charges, encumbrances and third party rights.

Under the terms of the Option Offer, the Outstanding Options together with all rights, if any, attaching thereto will be entirely cancelled and renounced when validly accepted.

Payment

Payment in cash in respect of acceptances of the Offers will be made not later than 10 days of the date on which the relevant documents of title are received by the Registrar or, as the case may be, the Company Secretary of the Company to render each such acceptance complete and valid or of the date on which the Offers become, or are declared, unconditional, whichever is the later.

Stamp duty

Seller's ad valorem duty arising in connection with acceptance of the Share Offer amounting to 0.1% of the amount payable in respect of the relevant acceptance or if higher, the value of the Shares as determined by the Collector of Stamp Revenue under the Stamp Duty Ordinance (Cap. 117, Laws of Hong Kong) will be deducted from the amount payable to the Shareholders who accept the Share Offer. Harbour Front will bear its own portion of buyer's ad valorem stamp duty at the rate of 0.1% of the amount

LETTER FROM AMS AND ACCESS CAPITAL

payable in respect of relevant acceptances under the Share Offer and will be responsible to account to the Stamp Office of Hong Kong the stamp duty payable for the sale and purchase of the relevant Shares pursuant to the acceptances of the Share Offer.

CONDITION OF THE OFFERS

The Offers are conditional upon Harbour Front having received acceptances of the Offers which, together with the Shares already owned by the Harbour Front Concert Group before or during the Offer Period, will result in the Harbour Front Concert Group holding more than 50% of the voting rights of the Company. If Harbour Front does not receive acceptances of the Offers which, together with the Shares already owned by the Harbour Front Concert Group before or during the Offer Period, will result in the Harbour Front Concert Group holding more than 50% of the voting rights of the Company, the Offers cannot become unconditional and will lapse. Harbour Front reserves the right to extend the period of the Offers in accordance with the relevant provisions of the Takeovers Code.

COMPULSORY ACQUISITION

Harbour Front does not intend to exercise any right which may be available to it to acquire compulsorily any Shares or Options outstanding after the close of the Offers.

DEALINGS IN THE SHARES BY THE HARBOUR FRONT CONCERT GROUP

The details of the dealings in the Shares and the Options by members of the Harbour Front Concert Group during the Relevant Period are as follows:

- (a) 100,000 Shares were acquired by Mrs. Leung on market on 14 June 2005 at a price of HK\$0.036 per Share;
- (b) 200,000 Shares were acquired by Mrs. Leung on market on 14 June 2005 at a price of HK\$0.040 per Share;
- (c) 1,000,000 Shares were acquired by Mrs. Leung through the exercise of Options on 7 September 2005 at a subscription price of HK\$0.024 per Share; and
- (d) 9,355,000 Shares were acquired by Mrs. Leung through the exercise of Options on 7 September 2005 at a subscription price of HK\$0.040 per Share.

Save as disclosed above, none of the members of the Harbour Front Concert Group has dealt in the Shares or the Options during Relevant Period.

LETTER FROM AMS AND ACCESS CAPITAL

INFORMATION ON THE HARBOUR FRONT CONCERT GROUP

Harbour Front, the controlling shareholder of the Company, is directly interested in 412,382,499 Shares and hold through a wholly owned subsidiary 9,083,000 Shares, representing a total of approximately 42.92% of the issued share capital of the Company as at the Latest Practicable Date. Harbour Front holds, directly and indirectly through its wholly-owned subsidiary, the above 421,465,499 Shares as trustee of a unit trust, all units in which are beneficially owned by a discretionary trust, the beneficiaries of which are Mrs. Leung and her children, namely Ms. Leung Chi Yin, Gillian, Mr. Leung Chi Hong, Jerry and Mr. Leung Kai Hong. Both Mrs. Leung and Ms. Leung Chi Yin, Gillian are executive Directors.

Apart from Harbour Front, other members of the Harbour Front Concert Group were interested in 65,714,500 Shares, representing approximately 6.69% of the issued share capital of the Company as at the Latest Practicable Date. Accordingly, the Harbour Front Concert Group was interested in an aggregate of 487,179,999 Shares, representing approximately 49.61% of the issued share capital of the Company as at the Latest Practicable Date.

The board of directors of Harbour Front comprises Mrs. Leung, Ms. Leung Chi Yin, Gillian and Mr. Leung Chi Hong, Jerry, and the biographical details of each of them are set out below:

Mrs. Leung Yu Oi, Ling

Mrs. Leung joined the Group in June 1991 and is currently the Chairman of the Group and an executive Director. She is at present responsible for the general management, business development and marketing of the Group. Mrs. Leung is a graduate of Leicester Polytechnic in the United Kingdom and has had extensive experience prior to joining the Group in running her own interior design company.

Ms. Leung Chi Yin, Gillian

Ms. Leung Chi Yin, Gillian joined the Group in 2002. Ms. Leung has been appointed as an executive Director since September 2002 and is responsible for financial management and administration of the Group. Ms. Leung graduated in Commerce from Queen's University, Kingston, Ontario, Canada and also completed MSc in Law and Accounting from the London School of Economics and Political Science, London, the United Kingdom.

Mr. Leung Chi Hong, Jerry

Mr. Leung Chi Hong, Jerry is the general manager of a subsidiary of the Group which is engaged in the ship management business. Mr. Leung graduated with a BSc in Physics and Computer Science from McGill University, Montreal, Quebec, Canada.

LETTER FROM AMS AND ACCESS CAPITAL

Mrs. Leung is the mother of Ms. Leung Chi Yin, Gillian and Mr. Leung Chi Hong, Jerry.

REASONS FOR THE OFFERS

As a result of the Exercise, the Harbour Front Concert Group owns in aggregate 487,179,999 Shares, representing approximately 49.61% of the issued share capital of the Company (as enlarged by the Shares allotted and issued pursuant to the Exercise), resulting in an increase by more than 2% from the lowest collective percentage holding by the Harbour Front Concert Group in the Company in the 12-month period ending on the date of the Exercise (such lowest collective percentage holding being 47.0714%) and accordingly is required under Rule 26.1 and Rule 13 of the Takeovers Code to make mandatory conditional cash offers for all the issued Shares and the Outstanding Options not already owned by the Harbour Front Concert Group.

As stated in the "Letter from the Board" contained in this document, in order for the Company to fund its operations in the future, the Company will be required to implement certain fund raising plans, which may include (but not limited to) rights issue or other equity financing methods. Harbour Front considers that the Offers before implementation of the Global Solution will also provide an opportunity to the other shareholders of the Company to divest their interests, should they wish to do so, without making further financial commitment to the Company or having their interests being diluted as a result of the possible fund raising exercise which may be implemented by way of equity issue.

INTENTIONS OF HARBOUR FRONT REGARDING THE GROUP

Business

Harbour Front is aware of the recent developments and the financial position of the Group as described in the "Letter from the Board" contained in this document. Before the outcome of the Global Solution (as defined in the paragraph headed "Global Solution" in the "Letter from the Board" contained in this document) can be determined, Harbour Front does not intend to make any acquisition or disposal of assets or business through the Group, nor does it intend to introduce any material changes to the existing businesses, operations or assets of the Group (including any deployment of the fixed assets of the Group). As stated in the sub-paragraph headed "Total consideration" under the paragraph headed "Mandatory conditional cash Offers" in the "Letter from the Board", it is not possible to predict accurately when the process for the proposed modifications to the Schemes can be adopted so that the Global Solution can proceed, but it is understood that it could not take place earlier than the date on which the Offers will close.

Notwithstanding Harbour Front intends to continue the existing line and development of business of the Group after the Offers, given the prevailing financial difficulties of the Group, Harbour Front will closely monitor the progress of the Global Solution and the existing business operations and development of the Group in order to explore possible solutions in resolving the financial difficulties of the Group.

LETTER FROM AMS AND ACCESS CAPITAL

Directors of the Company and employees of the Group

As at the date of the Announcement and the Latest Practicable Date, the Board comprised three executive Directors namely Mrs. Leung, Ms. Leung Chi Yin, Gillian, Mr. Lee Ka Lun, Stephen and three independent non-executive Directors, namely Mr. Pao Ping Wing, JP, Professor Yuen Ming Fai, Matthew and Ms. Tse Mei Ha. There is no agreement between Harbour Front and the existing Directors with regard to their directorships in the Company. Harbour Front does not have any intention to change the composition of the Board.

Harbour Front does not intend to make any material changes to the continued employment of the employees of the Group.

Listing status and public float

Harbour Front intends that the Company will remain listed on the Main Board of the Stock Exchange after the close of the Offers and does not intend to exercise any rights to compulsorily acquire all the Shares. Each of Harbour Front and the Board has undertaken to the Stock Exchange that appropriate steps will be taken to ensure that not less than 25% of the Shares will be held by the public.

The Stock Exchange has stated that if, at the closing of the Offers, less than 25% of the Shares are held by the public or if the Stock Exchange believes that:

- **a false market exists or may exist in the trading of the Shares; or**
- **there are insufficient Shares in public hands to maintain an orderly market,**

it will consider exercising its discretion to suspend dealings in the Shares.

The Stock Exchange has also stated that, if the Company remains a listed company after the close of the Offers, the Stock Exchange will closely monitor all future acquisitions or disposals of assets by the Company. Any acquisitions or disposals of assets by the Company and its subsidiaries will be subject to the provisions of the Listing Rules. Pursuant to the Listing Rules, the Stock Exchange has the discretion to require the Company to issue a circular to its shareholders where any acquisition or disposal by the Company is proposed, irrespective of the size of any such proposed transactions and in particular where such proposed transactions represent a departure from the principal activities of the Company. The Stock Exchange also has the power pursuant to the Listing Rules to aggregate a series of acquisitions by the Company within 24 months and any such acquisitions may, in any event, result in the Company being treated as if it were a new applicant for listing and subject to the requirements for new applicants as set out in the Listing Rules.

LETTER FROM AMS AND ACCESS CAPITAL

FURTHER TERMS OF THE OFFERS

Further terms of the Offers, including the procedures for acceptance and settlement, and the acceptance period, are set out in Appendix I to this document and in the Forms of Acceptance.

GENERAL

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

The attention of Shareholders not resident in Hong Kong is drawn to paragraph (i) of the section headed "General" in Appendix I to this document.

All documents and remittance sent to Shareholders and/or Optionholders by post will be sent to them by ordinary post at their own risk. Such documents and remittances will be sent to the Shareholders and the Optionholders at their respective addresses as they appear in the register of members of the Company or the register of Optionholders (as the case may be) or, in the case of joint Shareholders, to the Shareholder whose name appears first in the register of members of the Company, as applicable. None of the Company, Harbour Front, AMS, Access Capital, nor any of their respective directors or any persons involved in the Offers will be responsible for any loss or delay in transmission or any other liabilities that may arise as a result thereof.

ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of
AMS Corporate Finance Limited
Jinny Mok
Director

Yours faithfully,
For and on behalf of
Access Capital Limited
Jeanny Leung
Managing Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



UDL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 620)

12 October 2005

To the Independent Shareholders and the Optionholders

Dear Sir or Madam,

**Mandatory conditional cash offers by
Access Capital Limited
on behalf of
Harbour Front Limited
to acquire all the issued shares and
to cancel all the outstanding options of
UDL Holdings Limited
(other than those shares and options already owned by
Harbour Front Limited and parties acting in concert with it)**

We refer to the composite document dated 12 October 2005 jointly issued by the Company and Harbour Front to the Independent Shareholders and the Optionholders (the "**Document**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Document unless the context otherwise requires.

We have considered: (i) whether the terms of the Share Offer are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) whether the terms of the Option Offer are fair and reasonable so far as the Optionholders are concerned. Hercules has been appointed as the independent financial adviser to advise us (the members of the Independent Board Committee) in respect of the above.

Having taken into account the advice of Hercules, we consider that the terms of the Share Offer and the Option Offer are fair and reasonable so far as the Independent Shareholders and the Optionholders, respectively, are concerned. Accordingly, we recommend that Independent Shareholders and Optionholders accept the Share Offer and the Option Offer respectively.

However, if the net proceeds from the sale of the Shares in the open market after deducting all transaction cost would exceed the net amount receivable under the Share Offer, Independent Shareholders should consider selling their Shares in the market and the Optionholders should consider exercising the Outstanding Options and selling the resulting new Shares in the market, rather than accepting the Offers.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The letter from Hercules containing its recommendations to us and the principal factors and reasons taken into account by it in arriving at such recommendations is set out on pages 34 to 52 of this Document.

Yours faithfully,

Independent Board Committee

Mr. Pao Ping Wing, JP

Professor Yuen Ming Fai, Matthew

Ms. Tse Mei Ha

Independent non-executive Directors

LETTER FROM HERCULES

The following is the full text of a letter of advice prepared by Hercules to the Independent Board Committee for the purpose of inclusion in this circular:

Hercules **Hercules Capital Limited**

1503 Ruttonjee House
11 Duddell Street
Central
Hong Kong

12 October 2005

To the Independent Board Committee

Dear Sirs,

**MANDATORY CONDITIONAL CASH OFFERS BY
ACCESS CAPITAL LIMITED
ON BEHALF OF
HARBOUR FRONT LIMITED
TO ACQUIRE ALL THE ISSUED SHARES AND
TO CANCEL ALL THE OUTSTANDING OPTIONS OF
UDL HOLDINGS LIMITED
(OTHER THAN THOSE SHARES AND OPTIONS ALREADY OWNED BY
HARBOUR FRONT LIMITED AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee with respect to the terms of the Offers, details of which are set out in the "Letter from the Board" and the "Letter from AMS and Access Capital" contained in the composite offer and response document dated 12 October 2005 (the "Document") to the Shareholders and the Optionholders, of which this letter forms part. Terms used in this letter have the same meanings as defined elsewhere in the Document.

The Independent Board Committee (comprising Mr. Pao Ping Wing, JP, Professor Yuen Ming Fai, Matthew and Ms. Tse Mei Ha, being all the independent non-executive Directors) has been formed to advise the Independent Shareholders and the Optionholders on the terms of the Offers. The executive Directors, Mrs. Leung and Ms. Leung Chi Yin, Gillian, among others, are the beneficiaries of a discretionary trust, the trustee of which is Harbour Front, being the offeror of the Offers, while Mr. Lee Ka Lun, Stephen is a salaried employee of the Company. As such, they are not considered to be sufficiently independent to serve on the Independent Board Committee to advise the Independent Shareholders and the Optionholders.

LETTER FROM HERCULES

In formulating our recommendations, we have relied on the information and representations supplied, and the opinions expressed, by the Directors and management of the Group and have assumed that all statements and representations made to us by the Directors and management of the Group or made or referred to in the Document are true and accurate at the time they were made and as at the date of the Document. We have been advised by the Directors that, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no material facts the omission of which would make any statements in the Document misleading. We consider that we have reviewed sufficient information to reach an informed view and to justify our reliance on the accuracy of the information contained in the Document in order to provide a reasonable basis for our recommendation. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses, financial conditions or affairs or the future prospects of the Group.

We have not considered the tax consequences on the Independent Shareholders and the Optionholders arising from acceptances or non-acceptances of the Offers since these are particular to their individual circumstances. In particular, the Independent Shareholders and the Optionholders who are residents outside of Hong Kong or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their tax position with regard to the Offers and, if in any doubt, should consult their professional advisers.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion, we have taken into consideration the following principal factors and reasons:

Background to the Offers

The Company is incorporated in Bermuda with limited liability and its Shares have been listed on the Stock Exchange since 1991. The principal activity of the Company is investment holding and the principal activities of its principal subsidiaries are marine engineering and provision of miscellaneous engineering and management services. As at the Latest Practicable Date, the Company had a market capitalisation of approximately HK\$43.7 million.

On 7 September 2005, Mrs. Leung, a party acting in concert with Harbour Front, exercised the Relevant Options to subscribe for 10,355,000 new Shares. Immediately after the Exercise, the Harbour Front Concert Group in aggregate owns 487,179,999 Shares, representing approximately 49.61% of the issued share capital of the Company as enlarged by the Shares issued pursuant to the Exercise. As the aggregate shareholding of the Harbour Front Concert Group increased by more than 2% from the lowest collective percentage holding in the 12-month period ending on the date of the Exercise of approximately 47.07%, the Harbour Front Concert Group is required under Rule 26.1 and Rule 13 of the Takeovers Code to make mandatory conditional cash offers for all the issued Shares and the Outstanding Options not already owned by them.

LETTER FROM HERCULES

A. THE SHARE OFFER

1. Principal Terms of the Share Offer

The Share Offer Price

Access Capital is making the Share Offer on behalf of Harbour Front at a price of HK\$0.040 in cash for each Share. The offer price under the Share Offer of HK\$0.040 per Share represents:

- a premium of approximately 73.91% over the closing price of HK\$0.023 per Share as quoted on the Stock Exchange on 7 September 2005, being the trading day on which the Relevant Options were exercised;
- a premium of approximately 73.91% over the average closing price of HK\$0.023 per Share as quoted on the Stock Exchange for the ten consecutive trading days up to and including 7 September 2005;
- a discount of approximately 11.11% to the closing price of HK\$0.045 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

Independent Shareholders should note that the Offers are conditional upon Harbour Front having received acceptances of the Offers which, together with the Shares already owned by the Harbour Front Concert Group before or during the Offer Period, will result in the Harbour Front Concert Group holding more than 50% of the voting rights of the Company. If Harbour Front does not receive acceptances of the Offers which, together with the Shares already owned by the Harbour Front Concert Group before or during the Offer Period, will result in the Harbour Front Concert Group holding more than 50% of the voting rights of the Company, the Offers cannot become unconditional and will lapse. Harbour Front reserves the right to extend the period of the Offers in accordance with the relevant provisions of the Takeovers Code.

Further terms and condition of the Offer, including the procedures for acceptance, are set out in the "Letter from AMS and Access Capital" and Appendix I to the Document.

LETTER FROM HERCULES

2. Financial Performance of the Group

A summary of the audited consolidated income statements of the Group for the three years ended 31 July 2005 are set out in Table 1 below:

Table 1: Financial performance of the Group

	For the year ended 31 July		
	2005	2004	2003
	(audited) <i>HK\$'000</i>	(audited) <i>HK\$'000</i>	(audited) <i>HK\$'000</i>
Turnover	11,093	19,552	23,801
Other revenue	6,574	21,492	42,156
(Loss) from operating activities	(18,751)	(7,120)	(4,542)
(Loss) before taxation	(27,750)	(16,479)	(18,016)
(Loss) attributable to shareholders	(27,471)	(16,534)	(18,256)
(Loss) per Share (<i>HK\$</i>)	<u>(0.03)</u>	<u>(0.02)</u>	<u>(0.02)</u>
<i>Operating (loss) margin</i>	(169.0%)	(36.4%)	(19.1%)
<i>Net (loss) margin</i>	(247.6%)	(84.6%)	(76.7%)

Source: Company annual report for the three years ended 31 July 2005

The Group's turnover represents revenue deriving from its marine engineering operations which comprise marine engineering works income and the gross rental income from its vessels and related services provided as a result thereof. Turnover of the Group decreased significantly from approximately HK\$23.8 million in 2003 to approximately HK\$19.6 million in 2004 and further to approximately HK\$11.1 million in 2005, representing year-on-year decreases of approximately 17.9% and approximately 43.3% respectively. According to the Company's annual reports, the decrease was mainly due to the continuous sluggish construction market in Hong Kong, the negative public sentiment towards reclamation projects over environmental issues and the effects of environmental protection laws, and the fact that the management of the Group had diverted their efforts in working with the Scheme Administrator for the formulation of the Global Solution and resolving the financial difficulties of the Group.

Operating loss increased from approximately HK\$4.5 million in 2003 to approximately HK\$7.1 million in 2004 and further to approximately HK\$18.8 million in 2005. Loss attributable to shareholders improved from approximately HK\$18.3 million in 2003 to approximately HK\$16.5 million in 2004 but deteriorated to approximately HK\$27.5 million in 2005.

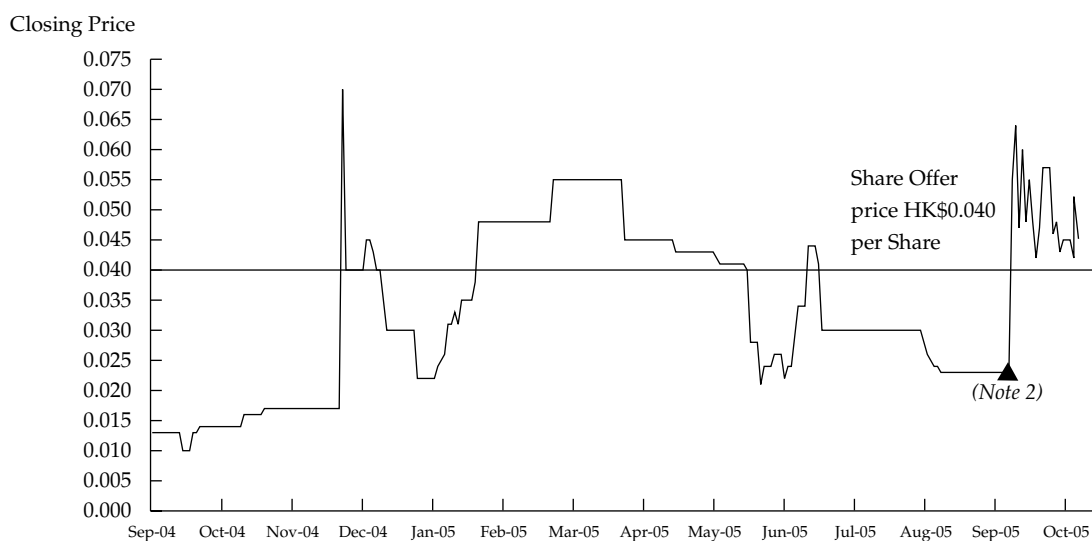
LETTER FROM HERCULES

3. Historical Share Price Performance

(a) Market price of the Shares

A chart of historical closing prices of the Shares for the period from 1 September 2004 (being the first trading day of the twelve full calendar months prior to the date of the Announcement) to the Latest Practicable Date (the “Review Period”) is set out below:

Chart 1: Share price performance



Source: Stock Exchange website

Notes:

1. On market days when the Shares are not traded, the closing price equals to that of the preceding trading day.
2. 7 September 2005, being the date of the Announcement.

LETTER FROM HERCULES

Table 2 below sets out the trading statistics for the twelve-month period from 8 September 2004 to 7 September 2005 (being the date of the Announcement) (the “Pre-Announcement Period”):

Table 2: Trading statistics for the Pre-Announcement Period

	Closing Price (HK\$)	Premium/(discount) of Share Offer price over/(to) closing price
The date of the Announcement (7 September 2005)	0.023	73.9%
Highest (23 November 2004)	0.070	(42.9%)
Lowest (14 to 16 September 2004)	0.010	300.0%
Average during the one-month period prior to the date of the Announcement	0.023	73.9%
Average during the three-month period prior to the date of the Announcement	0.028	42.9%
Average during the six-month period prior to the date of the Announcement	0.035	14.3%
Average during the twelve-month period prior to the date of the Announcement	0.033	21.2%

Source: Stock Exchange website

During the Pre-Announcement Period, the Shares were traded in the range from HK\$0.010 to HK\$0.070. As illustrated in Table 2 above, the Share Offer price represents a significant premium over the average closing price during the one-month, three-month, six-month and twelve-month periods prior to the date of the Announcement.

LETTER FROM HERCULES

Table 3 below sets out the trading statistics for the period from 8 September 2005 (being the trading day immediately after the date of the Announcement) to the Latest Practicable Date (the “Post-Announcement Period”):

Table 3: Trading statistics for the Post-Announcement Period

	Closing Price (HK\$)	Premium/(discount) of Share Offer price over/(to) closing price
8 September 2005, being the trading day immediately after the date of Announcement	0.055	(27.3%)
Latest Practicable Date	0.045	(11.1%)
Highest (9 September 2005)	0.064	(37.5%)
Lowest (20 September 2005 and 5 October 2005)	0.042	(4.8%)
Average	0.050	(20.0%)

Source: the Stock Exchange website

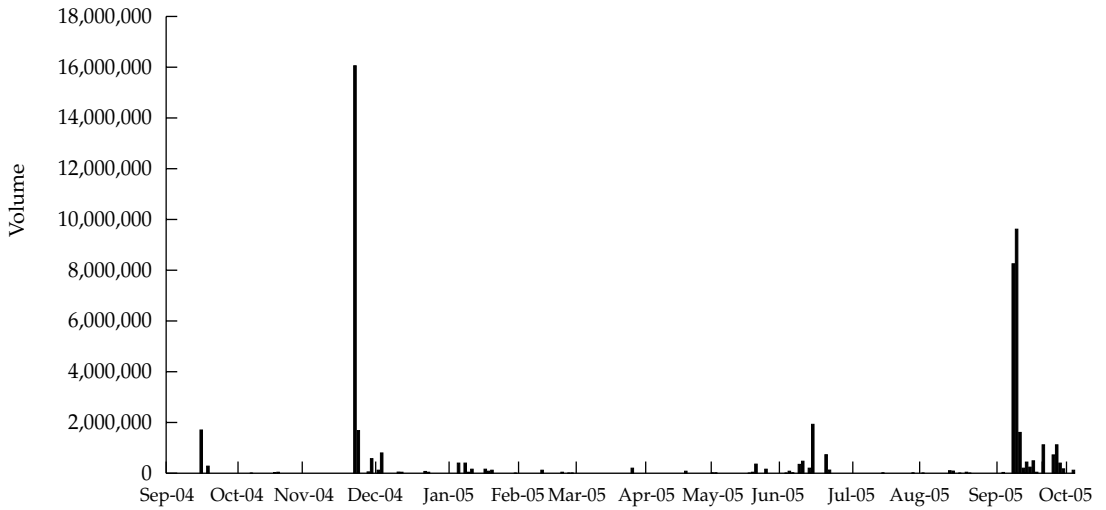
From Chart 1 and Table 3, it can be seen that the Share price increased by 139.1% to HK\$0.055 on 8 September 2005, being the trading day immediately after the date of the Announcement. The Company made clarification announcements on the next few days stating that the Company was not aware of any reasons for the increase in price of the Shares save for the announcement of the Offers. Thereafter, the prices of the Shares traded at above the Share Offer price and closed at HK\$0.045 per Share as at the Latest Practicable Date. Although there is no certainty as to the specific causes for such increase in Share prices, we believe that it could have been prompted by the higher value of the price of the Offers relative to the market prices of the Shares before the Announcement. In the absence of supporting fundamentals of the Group particularly given its continued loss-making performance, we believe such Share price levels might not be sustainable.

LETTER FROM HERCULES

(b) Liquidity of the Shares

Chart 2 and Table 4 below set out the total number and average daily number of Shares traded per month and the respective percentages of monthly trading volume compared to the issued share capital and the Shares held by the public during the Review Period:

Chart 2: Historical daily trading volume of the Shares



Source: Stock Exchange website

LETTER FROM HERCULES

Table 4: Historical trading volume of the Shares

Month	Total trading volume (Shares)	Average daily trading volume (Shares)	Average daily trading volume to total issued Shares (Note 1)	Average daily trading volume to total issued Shares held by the public (Note 2)	Average daily trading volume to total issued Shares held by the public (other than the Scheme Administrator) (Note 3)
2004					
September	1,984,000	94,476	0.010%	0.019%	0.039%
October	66,000	3,474	0.000%	0.001%	0.001%
November	18,364,809	834,764	0.086%	0.169%	0.344%
December	1,116,600	50,755	0.005%	0.010%	0.021%
2005					
January	1,360,500	64,786	0.007%	0.013%	0.027%
February	163,500	9,618	0.001%	0.002%	0.004%
March	200,000	9,524	0.001%	0.002%	0.004%
April	79,975	3,999	0.000%	0.001%	0.002%
May	581,900	29,095	0.003%	0.006%	0.012%
June	3,901,441	177,338	0.018%	0.036%	0.073%
July	20,000	1,000	0.000%	0.000%	0.000%
August	227,940	9,910	0.001%	0.002%	0.004%
September	24,456,840	1,164,611	0.120%	0.235%	0.480%
October (up to the Latest Practicable Date)	280,000	56,000	0.006%	0.011%	0.023%

Source: Stock Exchange website

Notes:

1. Based on 971,699,302 Shares before the Exercise.
2. Based on 494,874,303 Shares held by the public Shareholders (including the Scheme Administrator), calculated as 971,699,302 Shares in issue before the Exercise less 476,824,999 Shares held by the Harbour Front Concert Group before the Exercise.
3. Based on 242,568,108 Shares held by other public Shareholders (excluding the Scheme Administrator), calculated as 971,699,302 Shares in issue before the Exercise less 476,824,999 Shares held by the Harbour Front Concert Group and 252,306,195 Shares held by the Scheme Administrator before the Exercise.

As illustrated in Table 4, the daily trading volume of the issued Shares has been extremely thin at less than 1% of both the total issued Shares before the Exercise and the total Shares held by the public during the whole Review Period, except for

LETTER FROM HERCULES

November 2004 and September 2005. The highest monthly trading volume was recorded in September 2005 at 24,456,840 Shares with an average daily trading volume of approximately 1,164,611 Shares represented 0.235% of the total Shares held by the public. Following the release of the Announcement, the daily total trading volume on 8 September 2005 and 9 September 2005 increased substantially. The Company made clarification announcement on 9 September 2005 stating that the Company was not aware of any reasons for the increase in trading volume of the Shares save for the announcement of the Offers. In October 2005 (up to the Latest Practicable Date), the total trading volume decreased from the previous month with an average daily trading volume of approximately 56,000 Shares representing 0.011% of the total Shares held by the public.

The aggregate amount of Shares owned by the Independent Shareholders as at the Latest Practicable Date represents approximately 2,568 times the average daily trading volume for the Review Period. Out of a total of 274 trading days during the Review Period, there was no trading in the Shares in 205 days (being 74.8% of the total number of trading days).

Given the relative low liquidity in the Shares, a sufficiently active market may not exist in the Shares to enable the Shareholders, who may wish to dispose of their Shares to do so in the short term. Independent Shareholders who believe that because of the size of their shareholdings they will be unable to sell the Shares in the open market at a price higher than the Share Offer price should consider the Share Offer as an alternative exit for their investments.

4. Indicative valuation benchmarks

(a) *Net asset value*

Based on the audited consolidated balance sheet of the Company as at 31 July 2005, the net deficit of the Company amounted to approximately HK\$55.6 million, equivalent to approximately HK\$0.06 per Share based on 971,699,302 Shares in issue as at 31 July 2005. Therefore we consider that the use of net asset value to assess the Share Offer price is not applicable.

(b) *Price/earnings multiples*

Price/earnings multiple is one of the most commonly used benchmarks for valuing a company. However, given that the Company has recorded net losses for the three years ended 31 July 2005, the use of price/earnings multiples as reference to assess the Share Offer price is not applicable.

(c) *Dividend yield*

The Group has not declared any dividend in the past four financial years. Given the Company's dividend payment record, we consider that the use of dividend yield as reference to assess the Share Offer price is not applicable.

LETTER FROM HERCULES

5. Cash offer precedents

In assessing the fairness and reasonableness of the Share Offer price, we have attempted to compare it with the cash offers made within a twelve full month period for companies listed on the Main Board of the Stock Exchange which are engaged in the marine engineering and structural steel engineering business. However, we are unable to identify any cash offers in the aforesaid period by companies engaged in similar business to the Group. As an alternative, we have identified, to the best of our knowledge and based on the information from the website of the Stock Exchange, all cash offers to acquire the entire share capital of the respective offerees (the "Comparable Offers") made for companies that are listed on the Main Board of the Stock Exchange (the "Comparable Companies") within a twelve full month period prior to the Latest Practicable Date. Table 5 is a summary of the Comparable Offers in terms of the share offer price to the respective closing price as at the last trading day prior to the announcement.

Table 5: Comparable Offers

Company (stock code)	Principal activities	Date of announcement	Share offer price HK\$	Closing price as at the last trading day HK\$	Premium/ (discount) of share offer price over/to closing price as at the last trading day %
Elec & Eltek International Holdings Limited (33)	Manufacture and sale of electronic components, including double-sided and multi-layer printed circuit boards, liquid crystal displays and magnetic products	12-Oct-04	1.900	1.740	9.2%
renren Holdings Limited (59)	Provision of Internet, telecommunication services and products, general trading, provision of financial advices and services, securities and property investments	02-Nov-04	0.011	0.010	10.0%
China Strategic Investment Limited (497)	Property investment and securities investment	15-Nov-04	0.480	0.445	7.9%
Enerchina Holdings Limited (622)	Electricity supplies and investment holding	06-Dec-04	0.630	0.590	6.8%
CCT Tech International Limited (261)	Manufacture and sale of telecom products	31-Jan-05	0.023	0.024	(4.2%)

LETTER FROM HERCULES

Company (stock code)	Principal activities	Date of announcement	Share offer price <i>HK\$</i>	Closing price as at the last trading day <i>HK\$</i>	Premium/ (discount) of share offer price over/to closing price as at the last trading day %
SimSen International Corporation Limited (993)	Shipment sales of metals & metal scraps; bullion, securities & futures contracts broking; provision of margin and loan financing; holding of investment properties in Hong Kong and mining operations in China	22-Feb-05	0.088	0.083 <i>(Note 2)</i>	6.0%
Zida Computer Technologies Limited (859)	Design, development, manufacture and sale of PC motherboards under TOMATOBOARD brandname and PC systems; trading of high quality PC components	01-Apr-05	0.420	0.355	18.3%
Magnum International Holdings Limited (305)	Securities dealing and brokerage, money lending and property investment	08-Apr-05	0.047	0.108	(56.2%)
Wealthmark International (Holdings) Limited (39)	Manufacture and sale of handbag products and related accessories; provision of subcontracting services; and trading of raw materials used in the manufacture of handbags and related products	15-Apr-05	0.027	0.560	(95.2%)
Swank International Manufacturing Company Limited (663)	Manufacture and sale of optical products and trading of optical equipment and accessories; property holding	18-Apr-05	0.030	0.063	(52.4%)
China Strategic Holdings Limited (235)	Manufacture and trading of pharmaceutical products, battery products and related accessories, and investment in securities	19-Apr-05	0.193	0.540	(64.3%)
Geely Automobile Holdings Limited (175)	Manufacturing and trading of automobile parts and related automobile components, and investment holding	10-May-05	0.090	0.460	(80.4%)
Goldigit Atom-tech Holdings Limited (2362)	Development and distribution of solvent pesticides and property investment	24-May-05	0.100	0.151	(33.8%)

LETTER FROM HERCULES

Company (stock code)	Principal activities	Date of announcement	Share offer price <i>HK\$</i>	Closing price as at the last trading day <i>HK\$</i>	Premium/ (discount) of share offer price over/to closing price as at the last trading day %
Greater China Holdings Limited (431)	Production and sales of fertilizers, property investment and investment holding	17-Jun-05	0.500	0.430	16.3%
Sunday Communications Limited (866)	Sales of mobile phones and accessories, mobile services, international telecommunications and other services	22-Jun-05	0.650	0.650 <i>(Note 1)</i>	0.0%
The Hong Kong Building and Loan Agency Limited (145)	Investment holding, provision of mortgage finance and other related services and treasury investments	06-Jul-05	1.093	1.020	7.2%
China Investment Fund Company Limited (612)	Invest in listed and unlisted securities in the PRC and Hong Kong	05-Aug-05	0.163	0.149	9.1%
Wanji Pharmaceutical Holdings Limited (835)	Healthcare transaction processing, healthcare service solutions, claims handling and medical equipment distribution	12-Aug-05	0.100	0.140	(28.6%)
New Spring Holdings Limited (690)	Manufacturing and trading of packaging products, paper gifts items and promotional products and investment holding	01-Sep-05	0.497	0.500	(0.6%)
GeoMaxima Energy Holdings Limited (702)	Operation of transportation and storage facilities for crude oil and natural gas distribution networks, development in energy related operation	08-Sep-05	0.036	0.055	(34.2%)
Goldigit Atom-tech Holdings Limited (2362)	Development and distribution of solvent pesticides and property investment	12-Sep-05	0.200	0.120	66.7%
China National Resources Development Holdings Limited (661)	Corporate investment, trading in securities, property investment and management consultancy	14-Sep-05	0.033	0.175	(81.1%)

LETTER FROM HERCULES

Company (stock code)	Principal activities	Date of announcement	Share offer price HK\$	Closing price as at the last trading day HK\$	Premium/ (discount) of share offer price over/to closing price as at the last trading day %
Maximum premium					66.7%
Maximum discount					(95.2%)
The Company	Marine civil engineering, contracting, structural steel, electrical and mechanical engineering	07-Sep-05	0.0400	0.023 <i>(Note 1)</i>	73.9%

Source: Stock Exchange website

Note:

1. Being the closing prices of the share on the date of announcement as the shares had not been suspended for trading prior to the release of the announcement.
2. Being the closing price on 4 February 2005.

As indicated in the table above, the share offer prices of the Comparable Offers to their respective closing prices as at the last trading day ranged from a premium of approximately 66.7% to a discount of approximately 95.2%. The Share Offer price of HK\$0.040 represents a premium of approximately 73.9% over the closing price of the Shares as at the date of the Announcement which is the highest amongst the Comparable Offers.

6. Prospects of the Group

As stated in the "Letter from the Board", there are certain developments in the Group's business which, if successfully concluded, will have positive effects on the Group's financial position. Particularly, the Group's fleet of marine construction vessels is now in a ready condition and could yield an annual production capacity of around 4.5 million cubic metres for dredging, reclamation and transportation of marine engineering construction materials. With the new infrastructure developments such as the Southeast Kowloon Development, the Old Kai Tak Airport Redevelopment, the North Lantau Development and the Hong Kong, Zhuhai and Macau Link which are expected to be implemented in the coming years as well as the increase in demand for marine construction engineering service in the adjacent areas like Macau and the Guangdong Province, the Group is actively pursuing marketing and tendering work in order to secure orders and contracts for marine construction works under these large scale developments and projects which will require marine construction plants of large output performance like those possessed by the Group. The Group's marine construction engineering operations are expected to be expanded accordingly and to provide positive contribution to the Group's revenue.

Furthermore, the Group has already resumed its shipbuilding business and has received considerable orders for the supply of various kinds of reconditioned second hand marine engineering vessels. These confirmed orders and other orders which are

LETTER FROM HERCULES

close to be concluded are expected to contribute positively to the Group's revenue. The Group is also co-operating with major structural steel engineering contractors in the PRC and has recently gained a new contract for the Stonecutters Bridge project and has also secured a pre-bid commitment from one of the few tenders for the main contract of the superstructure for Zhu Jiang Huang Bu Bridge. These contracts, if concluded, are also expected to contribute positively to the Group's revenue in the financial year ending 31 July 2006.

On the provision of contracting and engineering services, the Group is now working on the re-admission to the List of Approved Contractors for Public Works of the Hong Kong Government (the "**List of Approved Contractors**"). Certain members of the Group were approved contractors for over 10 years until 2000 and the Group now targets to gain the re-admission as soon as possible after completion of the Global Solution so that the Group will be qualified to participate in the Hong Kong Government's public works projects. Taking into account the recent announcement made by the Hong Kong Government as regards the various public works projects, including over a hundred municipal facilities and basic infrastructure projects having been postponed after the Asian financial turmoil, the Directors are of the view that the re-admission to the List of Approved Contractors will certainly bring business opportunities to the Group.

Based on the latest developments of the Group's business as discussed above, it appears that prospects of the Group could improve in the near term if the Group is able to secure and complete the contracts and orders being pursued. Nevertheless, in view of the unfavorable financial performances of the Group during recent years and its existing net liabilities position, there is no assurance that the Group will be able to successfully conclude its business pursuits and even if it does, the Group may not have sufficient working capital to carry on those businesses. In addition, given the uncertainty on the implementation of the Global Solution (discussed below), we are of the view that, at present, the future prospects of the Group depend not only on its ability to revive its business but also to a significant extent on the eventual settlement of various issues of the Schemes.

7. Uncertainty on the implementation of the Schemes and possible fund raising exercise in the future

As noted from its annual report for the year ended 31 July 2004, pursuant to a Trust Deed dated 11 February 2000 entered into between the Company and the Scheme Administrator as the Trustee for the benefit of the scheme creditors, the Company has undertaken to the Trustee that the aggregate disposal proceeds of the Unencumbered Assets (as defined in the Schemes) and the Accounts Receivable (as defined in the Schemes) realised under the Schemes shall not be less than HK\$176 million and, in the event of a 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.

LETTER FROM HERCULES

As stated in the “Letter from the Board”, the Scheme Administrator has advised the Company that he intends to propose certain modifications to the Schemes and the Trust Deed. The Company and the Scheme Administrator have had many discussions whether an alternative, more rapid and positive solution could be achieved for the Scheme Creditors (as defined in the Schemes). Finally, the Company, the Scheme Administrator and Harbour Front entered into a non-binding Memorandum of Understanding on 12 August 2005 under which the Global Solution has been proposed aiming to conclude and settle the current issues under the Schemes through the following actions:-

- The disposal of the Unencumbered Assets and Accounts Receivable to Harbour Front for HK\$20 million in cash.
- The settlement of the Shortfall Undertaking for HK\$30 million in convertible notes issued by the Company and convertible (into the Company’s shares)/redeemable in four tranches of HK\$7.5 million over two years. The initial conversion price (subject to adjustments) is at 9% discount to the average share trading prices in the 20-day period immediately prior to the expiry of the respective periods set for the different tranches.
- An undertaking by Harbour Front to purchase from the Scheme Administrator/Trustee all or such proportion as the Scheme Administrator/Trustee may determine of such convertible notes at a price equal to 18/30ths of their nominal value, payable in cash, immediately.

The estimated value of the assets to be realised under the Schemes was stated at HK\$183.5 million in the original scheme document. The Scheme Administrator has advised the Company that his estimate of the realisation proceeds of the remaining Scheme Assets (as defined in the Schemes) (net of realisations/recoveries already made) in a liquidation scenario is approximately HK\$20.8 million.

Independent Shareholders and Optionholders should note that the Offers are independent of, and not conditional upon any approval by the Scheme Creditors (as defined in the Schemes). The Offers are also not contingent on whether the proposed modifications to the Schemes can or cannot be implemented.

The proposed modifications contemplated under the Global Solution will be subject to the approval by the Scheme Creditors (as defined in the Schemes). As at the Latest Practicable Date, it remained uncertain whether the Global Solution will be approved by the Scheme Creditors and completed as scheduled. In the event that the Global Solution is not approved by the Scheme Creditors or cannot be successfully implemented for whatever reasons and there is no alternative solution to be achievable, the Group’s operations would continue to be hindered by the outstanding issues of the Schemes and as a result, the Group will most likely not be able to improve its financial position.

On the other hand, as stated in the “Letter from the Board”, the Company will be required to implement certain fund raising plans, which may include (but not limited to) rights issues or other equity financing methods, for the purposes of funding its operations in the future. Independent Shareholders should therefore note that they may be subject to

LETTER FROM HERCULES

providing additional financial commitments to the Company, or risk their interests in the Company be diluted, as a result of the possible fund raising exercises which may be implemented by way of equity issues.

In view of the uncertainty on the implementation of the Global Solution and the possibility of having further financial commitments to the Company, we consider the Share Offer an opportunity for the Independent Shareholders to divest their investments in the Company.

8. Intention of Harbour Front regarding the future of the Group

As set out in the "Letter from AMS and Access Capital" contained in the Document, it is the intention of Harbour Front to continue the existing business of the Group and closely monitor the progress of the Global Solution and the existing business operations and development of the Group in order to explore possible solutions in resolving the financial difficulties of the Group.

B. THE OPTION OFFER

Pursuant to the terms of the Offers, Access Capital is also offering on behalf of Harbour Front a cash amount of HK\$0.016 for each Outstanding Option to the Optionholders for the cancellation of all the Outstanding Options. The Option Offer price is equal to the net cash payment the Optionholders will receive if they exercise their Outstanding Options and accept the Share Offer in respect of those Shares they receive as a result of such exercise. It has been determined as being the "see-through" price on the basis of the Share Offer price of HK\$0.040 per Share and the exercise price of HK\$0.024 (subject to adjustments) for each Share under the Share Option Scheme.

RECOMMENDATION

Having considered the principal factors discussed above, in summary:

1. the Group has recorded losses consecutively for the three years ended 31 July 2005;
2. the Share Offer Price represents a premium of approximately 17.6% over the average daily closing price of approximately HK\$0.034 during the Review Period;
3. the premium represented by the Share Offer price over the closing price of the Shares on the date of the Announcement is the highest amongst the Comparable Offers;
4. although the trading volume of the Shares became relatively higher after the date of the Announcement, there is no assurance that the trading volume would remain at a high level after the close of the Share Offer. In view of the low liquidity of the Shares in the past, the Independent Shareholders may find it difficult to dispose of their Shares in the open market without adversely affecting the market price of the Shares; and

LETTER FROM HERCULES

5. there is uncertainty as to the future prospects of the Company in view of the uncertainty on the successful implementation of the Global Solution and the possibility of having further financial commitments to the Company,

we are of the view that the Share Offer in general (including the Share Offer price) is fair and reasonable so far as the Independent Shareholders are concerned. Since we are of the view that the Share Offer price is fair and reasonable, it can therefore be inferred that the Option Offer price is also fair and reasonable so far as the Optionholders are concerned because the Option Offer price has been determined as being the “see-through” price on the basis of the Share Offer price of HK\$0.040 per Share and the exercise price of HK\$0.024 (subject to adjustments) for each Share under the Share Option Scheme. We therefore recommend the Independent Board Committee to advise the Independent Shareholders and the Optionholders to accept the Offers.

However, given the fact that the Shares were trading at a slight premium over the Share Offer price during the Post-Announcement Period and the closing price of the Shares as at the Latest Practicable Date represented a premium of approximately 12.5% to the Share Offer price, the Independent Shareholders and the Optionholders who intend to accept the Share Offer or, as the case may be, the Option Offer should be reminded to closely monitor the market price and the liquidity of the Shares during the Offer Period and should dispose of their Shares in the open market instead of accepting the Share Offer or, as the case may be, the Option Offer only if, by doing so, the net realisable amount would be higher than that receivable under the Offers.

For those Independent Shareholders and the Optionholders who wish to retain part or all of their investments in the Shares, they should carefully consider the future intentions of Harbour Front regarding the Group and evaluate the future prospects of the Group, details of which are set out in the “Letter from AMS and Access Capital” contained in the Document.

Optionholders should be reminded that pursuant to the terms of the Share Option Scheme, the Outstanding Options will lapse automatically following the expiry of one month from the date on which the Offers become or are declared unconditional if the Outstanding Options have not been tendered for acceptance under the Option Offer and remain unexercised upon the expiry of such one month. For Optionholders who intend to exercise their Options and dispose of their Shares in the open market instead of accepting the Offers, they should allow for approximately 10 business days for the issue of the share certificates and note that (i) subject to their size of shareholding, a sufficiently active market may or may not exist in the Shares to enable them to dispose of their Shares during the Offer Period; and (ii) the market price of the Shares may or may not represent a premium to the Share Offer price by the time the share certificates are issued.

The Independent Shareholders and the Optionholders should read carefully the procedures for accepting the Offers as detailed in Appendix I to the Document and are strongly advised that the decision to realise or hold their investment in the Shares is subject to individual circumstances and investment objectives.

LETTER FROM HERCULES

The Stock Exchange has stated that if, at the close of the Offers, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public, or if the Stock Exchange believes that 1) a false market exists or may exist in trading of the Shares; or 2) there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend dealing in the Shares.

The Stock Exchange has also stated that, if the Company remains a listed company after the close of the Offers, the Stock Exchange will closely monitor all future acquisitions or disposals of assets by the Company. Any acquisitions or disposals of assets by the Company and its subsidiaries will be subject to the provisions of the Listing Rules. Pursuant to the Listing Rules, the Stock Exchange has the discretion to require the Company to issue a circular to its shareholders where any acquisition or disposal by the Company is proposed, irrespective of the size of any such proposed transactions and in particular where such proposed transactions represent a departure from the principal activities of the Company. The Stock Exchange also has the power pursuant to the Listing Rules to aggregate a series of acquisitions by the Company within 24 months and any such acquisitions may, in any event, result in the Company being treated as if it were a new applicant for listing and subject to the requirements for new applicants as set out in the Listing Rules.

Harbour Front intends that the Company will remain listed on the Main Board of the Stock Exchange after the close of the Offers and does not intend to exercise any rights to compulsorily acquire all the Shares. Each of the Company and Harbour Front has undertaken to the Stock Exchange to take appropriate steps following the close of the Offers to ensure that such number of Shares as may be required by the Stock Exchange are held by the public.

Despite the intention of Harbour Front, in light of the above statements made by the Stock Exchange, the Independent Shareholders and the Optionholders should note that, upon completion of the Offers, there may be insufficient public float for the Shares and therefore, trading in the Shares may be suspended until a sufficient level of public float is attained.

Yours faithfully,
For and on behalf of
Hercules Capital Limited
Louis Koo
Managing Director

1. FURTHER PROCEDURES FOR ACCEPTANCE OF THE OFFERS**A. The Share Offer**

- (a) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the Share Offer in respect of your Shares, you must either:
- (i) lodge your share certificate(s) and/or transfer receipts and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorizing it to accept the Share Offer on your behalf and requesting it to deliver the **WHITE** form of acceptance and transfer of the Shares duly completed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or
 - (ii) arrange for the Shares to be registered in your name by the Company through the Registrar, and send the **WHITE** form of acceptance and transfer of the Shares duly completed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or
 - (iii) if your Shares have been lodged with your broker/custodian bank through CCASS, instruct your broker/custodian bank to authorise HKSCC Nominees Limited to accept the Share Offer on your behalf on or before the deadline set out by HKSCC Nominees Limited, in this case, on Tuesday, 1 November 2005 which is one Business Day before the latest date on which acceptances of the Share Offer must be received by the Registrar. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your broker/custodian bank for the timing on the processing of your instruction, and submit your instruction to your broker/custodian bank as required by them; or
 - (iv) if your Shares have been lodged with your Investor Participant Account with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System not later than one Business Day before the latest date on which acceptance of the Share Offer must be received by the Registrar, which is Tuesday, 1 November 2005 in this case assuming that the Share Offer has not been revised or extended.

- (b) If the share certificate(s) and/or transfer receipts and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are not readily available and/or is/are lost and you wish to accept the Share Offer in respect of your Shares, the **WHITE** form of acceptance and transfer of the Shares should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your share certificate(s) and/or transfer receipts and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) should be forwarded to the Registrar as soon as possible thereafter. If you have lost your share certificate(s), you should also write to the Registrar for a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.
- (c) If you have lodged transfer(s) of any of your Shares for registration in your name and have not yet received your share certificate(s), and you wish to accept the Share Offer in respect of your Shares, you should nevertheless complete the **WHITE** form of acceptance and transfer of the Shares and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be an authority to Access Capital and/or Harbour Front or their respective agent(s) to collect from the Registrar on your behalf the relevant share certificate(s) when issued and to deliver such certificate(s) to the Registrar as if it was/they were delivered to the Registrar with the **WHITE** form of acceptance and transfer of the Shares.
- (d) Acceptance of the Share Offer by the Independent Shareholders will be treated as valid only if the completed **WHITE** form of acceptance and transfer of the Shares is received by the Registrar by not later than 4:00 p.m. on Wednesday, 2 November 2005 or such later time and/or date as Harbour Front may determine and announce with the consent of the Executive, and is:
- (i) accompanied by the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if those share certificate(s) is/are not in your name, such other documents in order to establish your right to become the registered holder of the relevant Shares; or
 - (ii) from a registered Shareholder or his personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to Shares which are not taken into account under the sub-paragraph of this paragraph (d)); or
 - (iii) certified by the Registrar or the Stock Exchange.

If the **WHITE** form of acceptance and transfer of the Shares is executed by a person other than the registered Shareholder, appropriate documentary evidence of authority to the satisfaction of the Registrar must be produced.

- (e) No acknowledgement of receipt of any **WHITE** form(s) of acceptance and transfer of the Shares, share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.
- (f) The address of the Registrar is at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

B. The Option Offer

- (a) If you accept the Option Offer, you should complete the **PINK** form of acceptance and cancellation of the Outstanding Options obtainable from the principal place of business of the Company in Hong Kong at Room 702, 7th Floor, Aitken Vanson Centre, 61 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong in accordance with the instructions printed thereon, which instructions form part of the terms of the Option Offer.
- (b) The completed **PINK** form of acceptance and cancellation of the Outstanding Options should be forwarded, together with the relevant Option certificate(s) (if any) stating the number of Outstanding Options for which you intend to accept the Option Offer, by post or by hand to the Company Secretary of the Company at Room 702, 7th Floor, Aitken Vanson Centre, 61 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong, marked "**Option Offer**" on the envelope, as soon as possible and in any event so as to reach the Company Secretary of the Company at the aforesaid address by no later than 4:00 p.m. on Wednesday, 2 November 2005 or such later time and/or date as Harbour Front may determine and announce with the consent of the Executive.

2. SETTLEMENT OF THE OFFERS

A. The Share Offer

Provided that the form(s) of acceptance and transfer of the Shares and share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are in complete and good order and have been received by the Registrar by not later than the latest time for acceptance, a cheque or a banker's cashier order for the amount due to each of the Shareholders less seller's ad valorem stamp duty in respect of the Shares tendered by them under the Share Offer will be despatched to each of them within 10 days of the date on which all the relevant documents are received by the Registrar mentioned above to render such acceptance complete and valid or of the date on which the Share Offer becomes, or is declared, unconditional, whichever is later. Harbour Front will then pay the stamp duty to the stamp office. If the Share

Offer does not become unconditional and lapses, the share certificate(s) and/or other document(s) of title tendered under the Share Offer will be returned to the Shareholders within 10 days in accordance with the Takeovers Code.

B. The Option Offer

Provided that the form(s) of acceptance and cancellation of the Outstanding Options and Option certificate(s) (if any) or other document(s) evidencing the Optionholders' title to the Outstanding Options are in complete and good order and have been received by the Company Secretary of the Company by not later than the latest time for acceptance, a cheque or a banker's cashier order for the amount due to each of the Optionholders in respect of the Outstanding Options surrendered by the relevant Optionholders under the Option Offer will be despatched to each of them within 10 days of the date on which all the relevant documents are received by the Company Secretary of the Company mentioned above to render such acceptance complete and valid or of the date on which the Option Offer becomes, or is declared, unconditional, whichever is later.

The settlement of the consideration to which any Shareholder(s) or Optionholders is/are entitled under the Offers will be satisfied in full in accordance with the terms of the Offers without regard to any lien, right of set-off, counterclaim or other analogous right to which Harbour Front may otherwise be, or claim to be, entitled against such Shareholder(s) or Optionholders. If the Option Offer does not become unconditional and lapses, the option certificate(s) and/or other document(s) of title tendered under the Option Offer will be returned to the Optionholders within 10 days in accordance with the Takeovers Code.

3. ACCEPTANCE PERIOD AND REVISIONS

Harbour Front reserves the right to extend the period of the Offers in accordance with the relevant provisions of the Takeovers Code. Unless the Offers have previously been extended, all Forms of Acceptance must be received by 4:00 p.m. on Wednesday, 2 November 2005 and the Offers will close at the same time. Pursuant to the Takeovers Code, if the Offers become or are declared unconditional, they will remain open for acceptance for not less than 14 days thereafter. An announcement will be made as and when the Offers become unconditional.

Harbour Front reserves the rights to revise the terms of the Offers in accordance with the provisions of the Takeovers Code. If in the course of the Offers, Harbour Front revises its terms, all the Shareholders and the Optionholders, whether or not they have already accepted the Offers, will be entitled to the revised terms. A revised offer must be kept open for at least 14 days following the date on which the revised offer document is posted and shall not be closed earlier than the first closing date of the Offers.

4. ANNOUNCEMENTS

- (a) By 6:00 p.m. (or such later time and/or date as the Executive agrees) on Wednesday, 2 November 2005 which is the first closing date of the Offers, Harbour Front must inform the Executive and the Stock Exchange of its intention in relation to the revision, extension or expiry of the Offers. Harbour Front must post an announcement on the Stock Exchange website by 7:00 p.m. on the first closing date of the Offers stating the results of the Offers and whether the Offers have been revised, extended or have expired. Such announcement must be republished in accordance with the requirements set out in item (b) below on the next business day.

The announcement must state the following:

- (i) the total number of Shares for which acceptances of the Share Offer have been received;
- (ii) the total number of Shares held, controlled or directed by Harbour Front or parties acting in concert with it before the Offer Period;
- (iii) the total number of Shares acquired or agreed to be acquired during the Offer Period by Harbour Front or parties acting in concert with it;
- (iv) the total number of Outstanding Options for which acceptances of the Option Offer have been received;
- (v) details of any existing holding of voting rights and rights over Shares:–
 - (1) which Harbour Front owns or over which it has control or direction;
 - (2) which is owned or controlled or directed by any person acting in concert with Harbour Front;
 - (3) in respect of which Harbour Front or any person acting in concert with it has received an irrevocable commitment to accept the Offers; and
 - (4) in respect of which Harbour Front or any person acting in concert with it holds convertible securities, warrants or options;

- (vi) details of any outstanding derivative in respect of securities of the Company acquired by Harbour Front or any person acting in concert with it;
- (vii) details of any arrangement (whether by way of option, indemnity or otherwise) in relation to shares of Harbour Front and which might be material to the Offers.

The announcement must also specify the percentages of the issued share capital of the Company and voting rights of the Company represented by these numbers of Shares and Outstanding Options.

- (b) As required under the Takeovers Code and the Listing Rules, any announcement in relation to the Offers, in respect of which the Executive and the Stock Exchange have confirmed that they have no further comments thereon, must be published as a paid announcement in at least one leading English language newspaper and one leading Chinese newspaper, being in each case a newspaper which is published daily and circulating generally in Hong Kong. An announcement on the results of the Offers will be published on Thursday, 3 November 2005.

5. RIGHT OF WITHDRAWAL

- (a) Acceptance of the Offers tendered by the Independent Shareholders and Optionholders, as the case may be, shall be irrevocable and cannot be withdrawn, except in the circumstances set out in (b) below or in compliance with Rule 17 of the Takeovers Code which provides that an acceptor shall be entitled to withdraw his acceptance after 21 days from the first closing date of the Offers, if the Offers have not by then become unconditional as to acceptances.
- (b) If Harbour Front is unable to comply with the requirements set out in the paragraph headed "Announcements" in this Appendix, the Executive may require that the Independent Shareholders and the Optionholders who have tendered acceptances to the Offers be granted a right of withdrawal on terms that are acceptable to the Executive until the requirements set out in that paragraph are met.

6. STAMP DUTY

Seller's ad valorem duty arising in connection with acceptance of the Share Offer amounting to 0.1% of the amount payable in respect of the relevant acceptance or if higher, the value of the Shares as determined by the Collector of Stamp Revenue under the Stamp Duty Ordinance (Cap. 117, Laws of Hong Kong) will be deducted from the amount payable to the Shareholders who accept the Share Offer. Harbour Front will bear its own portion of buyer's ad valorem stamp duty at the rate of 0.1% of the amount payable in respect of relevant acceptances under the Share Offer and

will be responsible to account to the Stamp Office of Hong Kong the stamp duty payable for the sale and purchase of the relevant Shares pursuant to the acceptances of the Share Offer.

7. TAXATION

The Independent Shareholders and the Optionholders are recommended to consult their own professional advisors if they are in any doubt as to the taxation implications of their accepting the Offers. None of the Company, Harbour Front, AMS, Access Capital, nor any of their respective directors nor any persons involved in the Offers accepts responsibility for any taxation effects on, or liabilities of, any person or persons as a result of their acceptance of the Offers.

8. GENERAL

- (a) All communications, notices, Forms of Acceptance, certificates of Shares or Options (if any), transfer receipts, other documents of title or indemnity and remittances to be delivered by or sent to or from the Independent Shareholders and the Optionholders will be delivered by or sent to or from them, or their designated agents, at their own risk, and none of the Company, Harbour Front, AMS, Access Capital, the Registrar nor other parties involved in the Offers or any of their respective agents accepts any liability for any loss in postage or any other liabilities that may arise as a result.
- (b) The provisions set out in the Forms of Acceptance form part of the terms of the Offers.
- (c) The accidental omission to despatch this document and/or Forms of Acceptance or any of them to any person to whom the Offers are made will not invalidate the Offers in any way.
- (d) The Offers and all acceptances will be governed by and construed in accordance with the laws of Hong Kong.
- (e) Due execution of the Forms of Acceptance will constitute an authority to any Director or such person or persons as the Company may direct to complete and execute any document on behalf of the person accepting the Offers and to do any other act that may be necessary or expedient for the purposes of vesting in Harbour Front or such person or persons as it may direct the Shares in respect of which such person has accepted the Offers.
- (f) Acceptance of the Offers by any person or persons will be deemed to constitute a warranty by such person or persons to Harbour Front that the Shares and Outstanding Options acquired under the Offers are sold by any such person or persons free from all rights of pre-emption, options, liens, claims, equities, charges, encumbrances and third party rights and with all rights attached to them, including the rights to receive all dividends and distribution declared,

made or paid on or after the date on which the Share Offer is made, i.e. the date of posting of this document. The Optionholders will surrender to the Company all of their existing rights, if any, in respect of the Outstanding Options, following which such Outstanding Options will be cancelled and extinguished.

- (g) Harbour Front does not intend to exercise any right which may be available to it to acquire compulsorily any Shares or Options not acquired under the Offers after the Offers have closed.
- (h) References to the Offers in this document and in the Forms of Acceptance shall include any revision and/or extension thereof.
- (i) The making of the Offers to persons with a registered address in jurisdiction outside Hong Kong may be affected by the laws of the relevant jurisdictions. Shareholders or Optionholders who are citizens or residents or nationals of jurisdictions outside Hong Kong should inform themselves about and observe any applicable legal requirements. It is the responsibility of any such person who wishes to accept the Offers to satisfy himself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due in respect of such jurisdiction.
- (j) The English text of this document and the Forms of Acceptance shall prevail over the Chinese text in case of inconsistencies.

1. FINANCIAL INFORMATION

A. Summary of financial information for the three years ended 31 July 2005

The following is a summary of the audited financial results of the Group for each of the three years ended 31 July 2005, as extracted from the audited financial statements of the Group for the relevant periods. There are qualifications in the audited financial statements for the year ended 31 July 2004 (“**Audited 2004 Accounts**”) and the audited financial statements for the year ended 31 July 2005 (“**Audited 2005 Accounts**”). There are no qualifications in the audited financial statements of the Company for the year ended 31 July 2003. The Audited 2004 Accounts were qualified because of the limitation in evidence available to the auditors and the fundamental uncertainties relating to the going concern basis while the Audited 2005 Accounts were qualified as to the fundamental uncertainties relating to the going concern basis.

Consolidated Income Statement

	Years ended 31 July		
	2005	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<u>11,093</u>	<u>19,552</u>	<u>23,801</u>
Loss before taxation	(27,750)	(16,479)	(18,016)
Tax	<u>279</u>	<u>(55)</u>	<u>(240)</u>
Loss attributable to Shareholders	<u>(27,471)</u>	<u>(16,534)</u>	<u>(18,256)</u>
Dividends	<u>–</u>	<u>–</u>	<u>–</u>
Loss per Share	<u>HK\$(0.03)</u>	<u>HK\$(0.02)</u>	<u>HK\$(0.02)</u>

Note: For each of the three years ended 31 July 2005, no extraordinary item, exceptional item or minority interest is applicable to be disclosed in the audited financial statements of the Group of the relevant periods.

APPENDIX II	FINANCIAL INFORMATION IN RELATION TO THE GROUP
--------------------	---

Consolidated Assets and Liabilities

	2005	31 July	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets	79,220	80,267	134,429
Current assets	17,823	20,221	27,508
	<u>97,043</u>	<u>100,488</u>	<u>161,937</u>
Total assets	<u>97,043</u>	<u>100,488</u>	<u>161,937</u>
Non-current liabilities	(100,490)	(96,658)	(115,985)
Current liabilities	(52,170)	(48,480)	(49,898)
	<u>(152,660)</u>	<u>(145,138)</u>	<u>(165,883)</u>
Total liabilities	<u>(152,660)</u>	<u>(145,138)</u>	<u>(165,883)</u>
Net liabilities	<u>(55,617)</u>	<u>(44,650)</u>	<u>(3,946)</u>

B. Audited accounts for the year ended 31 July 2005

The following is the full text of the reproduced report of CCIF CPA Limited, the auditors of the Company, for the year ended 31 July 2005 extracted from pages 17 to 63 of the 2005 Annual Report. The page references in this reproduced report are the same as those in the 2005 Annual Report.



CCIF

CCIF CPA LIMITED

37/F Hennessy Centre
500 Hennessy Road
Causeway Bay Hong Kong
General: +852 2894 6888
Facsimile: +852 2895 3752
E-mail: info@ccifcpa.com.hk
www.ccifcpa.com.hk

TO THE MEMBERS OF UDL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 20 to 63 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 financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public 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 believed that our audit provides a reasonable basis for our opinion.

Fundamental uncertainty relating to going concern of the Group

As further explained in note 3, the financial statements, which report net current liabilities of approximately HK\$34,347,000 and a deficiency of assets of approximately HK\$55,617,000 for the Group at 31 July 2005, have been prepared on a going concern basis, the validity of which is dependent upon:

- (i) The continued financial support (the “Financial Support”) of the related companies (the “Related Party Lenders”) which have refinanced the secured borrowings of the Company’s operating subsidiaries that were overdue, into secured long term loans totalling approximately HK\$100,490,000 as at 31 July 2005;
- (ii) The ability of one of the Related Party Lenders which has refinanced approximately HK\$71,448,000 of a subsidiary’s secured borrowings referred to above, to meet the payment schedule agreed with and the revised payment schedule proposed to the original secured lender (the “Assignment Payments”); failing which the original secured lender has recourse to the subsidiary for immediate repayment of the full amount due;
- (iii) The Group’s ability to raise additional funding to overcome any short term financing difficulties and possible negative cash flows arising from the Group’s business; and
- (iv) The Group’s ability to overcome the financing difficulties in respect of the adverse effects on cash flow of any repayments under the Shortfall Undertaking arising from the Scheme of Arrangement entered into by the Company in April 2000 which become due since last year and the feasibility of the new scheme of arrangement “Global Solution” which is an arrangement among the Company, Harbour Front Limited and the Scheme Administrator targeted to settle the Shortfall Undertaking. Further details of which are set out in note 2(b) to the financial statements (“Shortfall Undertaking”).

The financial statements do not include any adjustments that would result from the failure of (a) the Group to obtain the Financial Support and the additional funding; (b) Related Party Lenders’ ability to meet its Assignment Payments; and (c) the Group’s ability to discharge the Shortfall Undertaking and the feasibility and efficiency in implementation of “Global Solution”. Due to the significant net assets’

deficits at 31 July 2005 and the uncertainty as mentioned in the preceding paragraphs, we are not able to determine whether the going concern basis used in preparing these financial statements is appropriate. Accordingly, we have disclaimed our opinion in respect of this issue.

Qualified opinion: disclaimer on view given by financial statements

Because of the significance 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 the affairs of the Company and of the Group as at 31 July 2005 or its loss and cash flows for the year then ended. 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.

CCIF CPA Limited

Certified Public Accountants

Chan Wai Dune, Charles

Practising Certificate Number P00712

Hong Kong, 5 October 2005

APPENDIX II	FINANCIAL INFORMATION IN RELATION TO THE GROUP
--------------------	---

The following financial information is extracted from the audited financial statements of the Group for the year ended 31 July 2005:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 July 2005

		(As restated)	
		2005	2004
	Note	HK\$'000	HK\$'000
Turnover	5	11,093	19,552
Other revenue	7(b)	6,574	21,492
Total revenue		17,667	41,044
Staff costs	7(a)	(5,564)	(5,848)
Marine engineering and structural steel engineering costs		(3,655)	(14,584)
Depreciation and amortisation		(19,421)	(20,332)
Other operating expenses		(7,778)	(7,400)
Loss from operating activities	7(a)	(18,751)	(7,120)
Finance costs	8	(8,999)	(9,359)
Loss before taxation		(27,750)	(16,479)
Taxation	9	279	(55)
Loss attributable to shareholders	10	(27,471)	(16,534)
Loss per share	11		
– Basic		HK\$0.03	HK\$0.02
– Diluted		N/A	N/A

APPENDIX II FINANCIAL INFORMATION IN RELATION TO THE GROUP

CONSOLIDATED BALANCE SHEET

As at 31 July 2005

	<i>Note</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	12	78,232	79,239
Land use right	13	988	1,028
		79,220	80,267
Current assets			
Trade and other receivables	15	10,097	16,083
Amounts due from related companies	27	6,914	3,522
Cash and bank balances		812	616
		17,823	20,221
Current liabilities			
Bank and other borrowings	16	16,059	2,833
Trade and other payables	17	17,864	15,074
Amounts due to related companies	27	17,598	30,294
Amounts due to directors		649	–
Provision for taxation		–	279
		(52,170)	(48,480)
Net current liabilities		(34,347)	(28,259)
Total assets less current liabilities		44,873	52,008
Non-current liabilities			
Bank and other borrowings	16	(100,490)	(96,658)
NET LIABILITIES		<u>(55,617)</u>	<u>(44,650)</u>
CAPITAL AND RESERVES			
Share capital	19	9,717	9,356
Reserves	20	(65,334)	(54,006)
DEFICIENCY OF ASSETS		<u>(55,617)</u>	<u>(44,650)</u>

Approved and authorised for issue by the board of directors on 5 October 2005

Leung Yu Oi Ling, Irene
Director

Leung Chi Yin, Gillian
Director

The notes on pages 26 to 63 form an integral part of these financial statements.

APPENDIX II FINANCIAL INFORMATION IN RELATION TO THE GROUP

BALANCE SHEET

As at 31 July 2005

	<i>Note</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	12	2	–
Interests in subsidiaries	14	(3,054)	(6,455)
		<u>(3,052)</u>	<u>(6,455)</u>
Current assets			
Trade and other receivables	15	1,048	9,774
Amounts due from related companies	27	52	–
Cash and bank balances		15	34
		1,115	9,808
Current liabilities			
Bank and other borrowings	16	12,522	2,400
Trade and other payables	17	2,387	3,300
Amounts due to related companies	27	10,824	19,518
Amounts due to directors		398	–
		<u>(26,131)</u>	<u>(25,218)</u>
Net current liabilities		<u>(25,016)</u>	<u>(15,410)</u>
NET LIABILITIES		<u>(28,068)</u>	<u>(21,865)</u>
CAPITAL AND RESERVES			
Share capital	19	9,717	9,356
Reserves	20	(37,785)	(31,221)
DEFICIENCY OF ASSETS		<u>(28,068)</u>	<u>(21,865)</u>

Approved and authorised for issue by the board of directors on 5 October 2005

Leung Yu Oi Ling, Irene
Director

Leung Chi Yin, Gillian
Director

The notes on pages 26 to 63 form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 July 2005

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash flows from operating activities		
Loss before taxation	(27,750)	(16,479)
Adjustments for:		
Depreciation and amortisation	19,421	20,332
Interest expenses	8,999	9,359
Gain on disposal of property, plant and equipment	(160)	(16,978)
Provision for bad and doubtful debts	1,196	536
Provision for impairment loss on property, plant and equipment	932	–
Reversal of provision for annual leave	(95)	–
Provision for doubtful debts written back	–	(75)
Reversal of provision for accrued interest	(452)	–
	2,091	(3,305)
Operating profit/(loss) before working capital changes		
Decrease in trade and other receivables	5,986	7,539
Increase in amounts due from related companies	(3,392)	(880)
Increase/(decrease) in trade and other payables	2,790	(10,735)
(Decrease)/increase in amounts due to related companies	(12,696)	6,659
Increase in amounts due to directors	649	–
	(4,572)	(722)
Cash used in operations		
Interest paid	(405)	–
	(4,977)	(722)
Net cash used in operating activities		
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,982)	(138)
Proceeds from sale of property, plant and equipment	650	28,936
	(1,332)	28,798
Net cash (used in)/generated from investing activities		

APPENDIX II	FINANCIAL INFORMATION IN RELATION TO THE GROUP
--------------------	---

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash flows from financing activities		
Proceeds from issuance of share capital	1,316	–
Other loans repaid	(4,660)	(26,286)
Other loans raised	12,983	–
	9,639	(26,286)
Net cash generated from/(used in) financing activities		
	3,330	1,790
Net increase in cash and cash equivalents	183	550
Cash and cash equivalents at 1 August	(3,275)	(2,157)
Effect of foreign exchange rate change, net	238	183
Cash and cash equivalents at 31 July	238	183
Analysis of balances of cash and cash equivalents		
Cash and bank balances	812	616
Bank overdrafts	(574)	(433)
	238	183
	238	183

The notes on pages 26 to 63 form an integral part of these financial statements.

APPENDIX II FINANCIAL INFORMATION IN RELATION TO THE GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 July 2005

	Share capital <i>HK\$'000</i>	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>	Revaluation reserve <i>HK\$'000</i>	Scheme reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 August 2003	9,356	7,224	1,264	(1,489)	717	(1,176,137)	58,617	1,096,502	(3,946)
Revaluation surplus transferred to the income statement on disposal of floating craft and vessels	-	-	-	-	-	-	(22,998)	-	(22,998)
Exchange realignment - subsidiaries	-	-	-	(1,172)	-	-	-	-	(1,172)
Loss for the year	-	-	-	-	-	(16,534)	-	-	(16,534)
At 31 July 2004	<u>9,356</u>	<u>7,224</u>	<u>1,264</u>	<u>(2,661)</u>	<u>717</u>	<u>(1,192,671)</u>	<u>35,619</u>	<u>1,096,502</u>	<u>(44,650)</u>
At 1 August 2004	9,356	7,224	1,264	(2,661)	717	(1,192,671)	35,619	1,096,502	(44,650)
Issue of shares by exercise of options	361	955	-	-	-	-	-	-	1,316
Surplus on revaluation of floating craft and vessels	-	-	-	-	-	-	17,270	-	17,270
Revaluation surplus transferred to the income statement on disposal of floating craft and vessels	-	-	-	-	-	-	(299)	-	(299)
Exchange realignment - subsidiaries	-	-	-	(1,783)	-	-	-	-	(1,783)
Loss for the year	-	-	-	-	-	(27,471)	-	-	(27,471)
At 31 July 2005	<u>9,717</u>	<u>8,179</u>	<u>1,264</u>	<u>(4,444)</u>	<u>717</u>	<u>(1,220,142)</u>	<u>52,590</u>	<u>1,096,502</u>	<u>(55,617)</u>

The notes on pages 26 to 63 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

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 and structural steel 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 followings:

- (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 and 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 “Shortfall Undertaking”).

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 Scheme, 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 Scheme, the Group will be reimbursed for such recovery costs upon the successful recovery of these assets. To date the Group has incurred approximately HK\$4.9 million 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 2005.

By a letter dated 14 August 2003, the Scheme Administrator has informed the Company that the Disposal Proceeds as at 31 July 2003 are HK\$5,971,000 and that as a consequence, the Shortfall is HK\$170,029,000. Despite the Scheme Administrator setting out his view that the Shortfall has been liquidated, the Company notes that the Scheme Administrator has apparently failed to deal with the realisation of the Scheme Assets in accordance with the provision of Clause 17 of the Scheme. For this reason, the Company has on 18 August 2003 notified the Scheme Administrator that the Company disagrees with the Scheme Administrator's quantification of the Disposal Proceeds and the Shortfall. After consulting with the Company's legal advisors, the directors are of the view that the contingent liability under the Shortfall Undertaking has not crystallised because a substantial proportion of the Scheme Assets have not been dealt with or realised by the Scheme Administrator in accordance with the provisions of the Scheme. Accordingly the Company has not recognised a liability in respect of the Shortfall Undertaking as calculated by the Scheme Administrator (refer above) in its balance sheet at 31 July 2005.

In an effort to resolve the dispute with the Scheme Administrator concerning his quantification of the Disposal Proceeds and the Shortfall, the Company and the Scheme Administrator have had many discussions whether an alternative, more rapid and positive solution could be achieved for the Scheme Creditors (as defined in the Schemes). From this, a proposed solution (the "Global Solution") has emerged, recorded in a non-binding Memorandum of Understanding (the "MOU") dated 12 August 2005 and entered into by the Company, Harbour Front Limited ("Harbour Front"), and the Scheme Administrator. The goals under the "Global Solution" which are targeted to be achieved at the end of year 2005 are:

- The sale to Harbour Front of the Unencumbered Assets and Accounts Receivable for HK\$20 million in cash;
- The settlement of the Shortfall Undertaking for HK\$30 million in convertible notes issued by the Company and convertible (into the Company's shares)/redeemable in four tranches of HK\$7.5 million over two years; and
- An undertaking by Harbour Front to purchase from the Scheme Administrator all or such proportion as the Scheme Administrator may determine of such convertible notes at a price equal to 18/30ths of their nominal value, payable in cash, immediately.

The Scheme Administrator has also advised the Company that he intends to propose certain modifications to the Schemes and the Trust Deed so as to achieve the following principal purposes:

- To permit a replacement of the Scheme Administrator/Trustee;
- To permit a sale or other disposal by the Scheme Administrator of Unencumbered Assets and of the benefit of recoveries of Accounts Receivables and/or a release of the Company and the Scheme Participating Subsidiaries (as defined in the Schemes) from their obligations in respect of Unencumbered Assets and Accounts Receivable. Such Unencumbered Assets do not comprise any Shares;
- To permit the Scheme Administrator/Trustee to approve a compromise or settlement of the Shortfall Undertaking;
- To require the Scheme Administrator/Trustee to obtain the sanction of the Committee of Inspection established for the purposes of the Schemes or the approval of the High Court of Hong Kong before exercising a number of important powers to be granted by such modifications; and

- To establish procedures to facilitate an efficient termination of the Schemes, including the setting of a limit on the extent to which arbitration costs are to be paid out of Scheme Funds (as defined in the Schemes).

If the above relevant Scheme and Trust Deed modifications are approved by the Scheme Creditors and the Scheme Administrator proceeds with the Global Solution, the result will be that the disputes concerning the quantification of the Disposal Proceeds and the Shortfall will be settled, leading to there being no further recourse against the Company in respect of the same by the Scheme Administrator/Trustee or the Scheme Creditors.

In the event of non-completion of the Global Solution, then the disputes concerning the Disposal Proceeds and the Shortfall previously raised by the Company in 2003 with the Scheme Administrator/Trustee will continue and may upon the failure of any settlement proposals, fall to the determined by the Courts. At the present time, it is not known whether or not the Global Solution will be completed.

(c) Legal proceedings

(i) Litigation against the Company in Bermuda

As disclosed in the Company's circular dated 1 August 2003, 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 announcements of the Company dated 18 June 2002, 4 October 2002 and 20 November 2002 and in the 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"). The Amended Petition was duly filed on 3 April 2003.

Three new parties were joined as Petitioners, namely United People Assets Limited, Hung Ngai Holdings Limited and Value Partners Investment Limited.

In addition to the matters pleaded in the original Petition, the Amended Petition complained about the Company's non-acceptance of a conditional credit facility from Hung Ngai Holdings Limited and about the Rights Issue of November 2002 (the "2002 rights issue"), in particular the allocation of 2002 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 2002 Rights Issue; and
 - (iii) the 30,111,520 Subscription Rights Shares taken up by Harbour Front pursuant to its application for excess 2002 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 2002 Rights Shares in the prospectus issued by the Company on 11 November 2002 is advantageous to Harbour Front and unfairly prejudicial to other shareholders;
7. an order that the 181,495,237 Shares being the sum of the Harbour Front shares be offered to all Shareholders apart from Harbour Front and its associates for unlimited subscription on fair and equitable terms;
8. an order that the Company should hold a special general meeting of the Shareholders as soon as possible to appoint new Directors who should be authorised to organise and implement the offer of 181,495,237 Shares in the manner and terms prescribed in the preceding paragraph;
9. an order that the Company should accept the Hung Ngai Offer;
10. an order restraining the Company from doing anything that would in any way increase the shareholding of Harbour Front and its associates; and
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 Amended Petition. A court hearing was held on 28 August 2003 and the Court reserved its judgement. Subsequently, in the judgement dated 14 April 2004, the Court holds that the Joint Petitioners' prayers to wind up the Company and/or to appoint a liquidator are an abuse of the Court's process. The Court therefore considers it unreasonable to permit the Petitioners to pursue such prayers which should not be entertained. In May 2004, the joint petitioners applied to the Court for reamending the petition (the "Re-amended Petition"). In the event, the Bermuda Court made an order granting the Re-amended Petition leaving out the prayer for winding-up at the request of the petitioners' attorney during the court hearing. Moreover, in the Re-amended Petition, the petitioners no longer seek an order that a provisional liquidator be appointed pending the effective hearing of the Re-amended Petition. Given the above, the concerned Bermuda litigation is no longer of serious nature at present.

There has been no ruling yet on the application for security for costs. The court did stay Company's obligation to respond to the Amended Petition until after judgment of the security for costs application.

The resolutions for the proposed share consolidation and creation and issuance of Preference Shares (the "Proposal") have been passed in the Company's Special General Meeting held on 22 August 2003. The implementation of the Proposal is however delayed by the litigation.

(ii) *Other litigation against the Group*

On 11 April 2005, 3 plaintiffs – Fonfair Company Limited ("Fonfair"), Money Facts Limited ("Money Facts") and Leung Yuet Keung issued the Writ of Summons against 10 defendants including the Company and its two subsidiaries, UDL Management Limited, UDL Ship Management Limited and Leung Yu Oi Ling Irene in respect of claim damages arising from the inability of Fonfair as landlord of "Yau Tong Property" to recover from the former tenant, Universal Dockyard Limited (which was a subsidiary of UDL Holdings Limited) rent and mesne profits for occupation of Yau Tong Property owing to the winding up of Universal Dockyard Limited through Fonfair's petition.

A Statement of Claim had thereafter been issued on 28 September 2005 and that the 3 plaintiffs made a claim as further particularized in note 26(c) to the financial statements against 10 defendants including the Company, UDL Management Limited, UDL Ship Management Limited and Leung Yu Oi Ling Irene.

In the opinions of the Group's solicitors, there is no need to join so many parties as co-defendants and this action might subject to further legal consideration show that Leung Yuet Keung's and his associates claim in this action against many of the parties concerned are oppressive and unmeritorious. Further, much of the contents of the Statement of Claim dated 28 September 2005 are vague and convoluted. The Statement of Claim does not contain full particulars concerning the alleged conspiracy and much is in essence, repetitive of the previous actions instituted by Leung Yuet Keung or Fonfair against UDL Group. To a certain extent, the action itself appears to be an escalation of what was initially a family dispute. The Plaintiffs' claims against the Company, UDL Management Limited and UDL Ship Management Limited for damages for conspiracy to defraud or conspiracy with the predominant intention to injure the plaintiffs are somewhat far-fetched. Subject to further advice from counsel, there may be a case for the Company, UDL Management Limited and UDL Ship Management Limited to apply for striking out of some or all claims made against them by the plaintiffs with a view to saving the costs of mounting a defence to a protracted action.

(d) Secured borrowings

As explained in the Company's previous annual report, the Company's two main operating subsidiaries, UMAHK and UMASPG had outstanding bank and other loans amounting to approximately HK\$107,285,000 at 31 July 2002, which were secured against the Group's floating craft and vessels (the "vessels"). As at that date, 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.

Under a refinancing arrangement, the secured lenders assigned their interests in these loans to three related companies of the Group (the "Related Party Lenders"). Subsequent to the assignment of these loans, the Related Party Lenders entered into loan agreements (the "Loan Agreements") with the two operating subsidiaries, under which repayment of the loans, together with the interest thereon, will not be required until 1 August 2006. Further details of the terms of the loans under the Loan Agreements are set out in note 16 to the financial statements.

One of the secured lenders is a bank based in Singapore (the "Singapore secured lender"), and under the terms of the assignment with the Related Party Lender who took over this loan, the Singapore secured lender retains its security over certain vessels and has recourse to UMASPG should the Related Party Lender default on the payment schedule agreed with the Singapore secured lender. Should such an event arise, UMASPG would be required to make a full and immediate repayment of that loan, which at 31 July 2005 amounted to approximately HK\$82,273,000. Further details of this arrangement are set out in note 16 to the financial statements.

As at the date on which these financial statements were approved, the Related Party Lender who took over the interest of this loan did not strictly conform to the payment schedule under the agreement. However, the moratorium has been maintained due to on-going negotiation between the Related Party Lender and the Singapore secured lender on a revised payment schedule. There is uncertainty as to whether the Related Party Lender will arrive at agreement with the Singapore secured lender on the revised payment schedule. The directors are confident that the Related Party Lender has the financial ability to meet its obligations and this loan has accordingly been shown as a non-current liability. The other secured lenders have no recourse to the Group or the operating subsidiaries arising from the assignment of their loans to the Related Party Lenders.

In addition to the terms of the loans under the Loan Agreements set out above and in note 16, the Related Party Lenders have indicated that should the operating subsidiaries be unable to repay the loans plus accrued interest thereon on 1 August 2006, they would consider converting the amounts due into equity in the Company at a conversion rate to be determined and mutually agreed between them and the Company.

3. BASIS OF PREPARATION

The financial statements on pages 20 to 63 are prepared in accordance with and comply with all applicable Statements of Standard Accounting Practice ("SSAPs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The financial statements are prepared under the historical cost convention except for the Group's floating craft and vessels which are shown at valuation, further details of which are set out in note 4(d) below.

Change in presentation of analysis of expenses

The presentation of analysis of expenses on the face of the consolidated income statement has been changed to the nature of the expenses method during the year. Previously, expenses were classified and presented on the face of the consolidated income statement based on the function of expenses method, whereby expenses are classified according to their function as cost of sales or operating expenses. In the opinion of the directors, the nature of expenses method can provide a more relevant and appropriate analysis of expenses in the consolidated income statement to the financial statements users than the function of expenses method. Prior year expenses analysis is restated for comparative purposes.

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 2005. At that date, the Group had consolidated net current liabilities of approximately HK\$34,347,000 and a deficiency of assets of approximately HK\$55,617,000.

As explained in note 2(d) above, there was significant financial pressure of disposal and foreclosure against the Company's two main operating subsidiaries, UMAHK and UMASPG, arising from a default in their loan obligations. This pressure was significantly relieved as a result of a refinancing arrangement under which the loan obligations were assigned by the secured lenders to the Related Party Lenders. Under the Loan Agreements with the Related Party Lenders, repayment of these loans (together with accrued interest thereon) will not be required until 1 August 2006. The Related Party Lenders have indicated that should the operating subsidiaries be unable to repay the loans plus accrued interest thereon on 1 August 2006, they would consider converting their loans into equity in the Company at a conversion rate to be determined and mutually agreed between them and the Company. The continued support of the Related Party Lenders (the "Financial Support") is critical to the Group's ability to continue in business as a going concern.

Note 2(d) also explains that the Singapore secured lender has recourse to UMASPG should the Related Party Lender who took over the assignment of this loan default on the loan payment schedule agreed with the Singapore secured lender. Should such an event arise, UMASPG would be required to make full and immediate repayment of that loan, which at 31 July 2005 amounted to approximately HK\$82,273,000. As at the date on which these financial statements were approved, the Related Party lender who took over the interest of this loan did not strictly conform to the payment schedule under the agreement. However, the moratorium has been maintained due to on-going negotiation between the Related Party Lender and the Singapore secured lender on a revised payment schedule. There is uncertainty as to whether the Related Party Lender will arrive at agreement with the Singapore secured lender on the revised payment schedule. The directors are confident the Related Party Lender has the financial ability to meet its obligations (the "Assignment Payments").

As explained in note 2(b), the Group has a potential contingent liability arising from the Shortfall Undertaking. The Company's obligation to pay the Shortfall became due on 1 August 2004, however at the date on which these financial statements were approved, the Company and the Scheme Administrator were unable to agree on the amount of the Shortfall and no liabilities have been recognised in respect of this in its balance sheet at 31 July 2005. The directors are hopeful that the Shortfall undertaking will be discharged under the proposed new scheme of arrangement.

The Group's operating results for the year continue to show a loss, and the Group had net operating cash outflows for the year of approximately HK\$4,572,000 before finance charges.

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 and Shortfall Undertaking. The Group has recently obtained a financing facility from a bank with conditions precedent including the completion of the Global Solution. This facility is to be used for the purchase of a fleet of vessels such that the Group can resume and enhance its marine engineering business. There is uncertainty however as to whether the conditions precedent will be met. On the basis that the Group will obtain the Financial Support and the additional funding and the Related Party Lender is able to meet its Assignment Payments and the feasibility to implement the new scheme of arrangement in discharging the Shortfall Undertaking and the fulfillment of the conditions precedent to the new financing facility, 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 and non-current liabilities as current assets and current liabilities respectively.

4. PRINCIPAL ACCOUNTING POLICIES

HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 July 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(a) Basis of consolidation

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

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

(b) Goodwill

Goodwill arising on the 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 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.

Prior to 1 August 2001, 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 acquisitions after this date is treated according to the accounting policy mentioned 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.

(c) 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.

(d) Property, plant and equipment

(i) Depreciation

Depreciation is provided to write off the cost or valuation 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 ¹ / ₃ %
Plant, machinery and workshop equipment	10 – 33 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.

(ii) Measurement bases

Property, plant and equipment, other than floating craft and vessels, 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.

Floating craft and vessels are stated at their revalued amount, being their open market value at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed by qualified valuers with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair value at the balance sheet date.

Changes arising on the revaluation of floating craft and vessels are generally dealt with in reserves. The only exceptions are as follows:-

- when a deficit arises on revaluation, it will be charged to the income statement, if and to the extent that it exceeds the amount held in the reserve in respect of the same asset, immediately prior to the revaluation; and
- when a surplus arises on revaluation, it will be credited to the income statement, if and to the extent that a deficit on revaluation in respect of the same asset, had previously been charged to the income statement.

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.

(e) Land use right

Land use right is stated at cost less accumulated amortisation and impairment losses. Cost represents consideration paid for the right to use the land on which various warehouse and office premises are situated. Amortisation of land use right is calculated on a straight-line basis over the period of the land use right of 20 years.

(f) 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.

(g) Income tax

- (i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purpose and the tax bases respectively. Deferred tax assets also arise from unused tax losses and unused tax credits.

Generally all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The amount of deferred tax recognised is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

- (iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are normally not offset. The principle of offsetting usually applies to income taxes levied by the same tax authority on the same taxable entity.

(h) 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 balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date and the income statements are translated at an average rate for the year. The resulting translation differences are included in the exchange fluctuation reserve.

(i) Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

(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) Employee benefits

(i) Employee entitlements

Employee entitlements to annual leave and long service payments are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service payments as a result of services rendered by employees up to the balance sheet date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group operates a defined contribution retirement benefits scheme (the Mandatory Provident Fund (“MPF”)) 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.

(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.

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

Management fee and handling fee income is recognised as revenue when the agreed services have been provided.

Interest income is recognised on a time proportion basis.

(o) Cash and cash equivalents

Cash comprises cash on hand and demand deposits repayable on demand with any bank or other financial institution. Cash includes deposits denominated in foreign currencies.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

APPENDIX II FINANCIAL INFORMATION IN RELATION TO THE GROUP

5. TURNOVER

The Group's turnover represents revenue derived from its marine engineering and structural steel engineering operations which comprise engineering works income and the gross other income from its capacity and related services provided as a result thereof. Revenue recognised during the year are as follows:

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Marine engineering income	7,024	19,052
Structural steel engineering income	4,069	500
	<u>11,093</u>	<u>19,552</u>

6. SEGMENT INFORMATION

(a) Geographical segments

All of the activities of the Group are based in Hong Kong and all of the Group's turnover and loss before taxation are derived from Hong Kong. Accordingly, no geographical segment information is presented.

(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 and structural steel engineering operations.

7. LOSS FROM OPERATING ACTIVITIES

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

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Auditors' remuneration	480	555
Amortisation of land use right	57	57
Depreciation	19,364	20,275
Operating lease rentals in respect of:		
Land and buildings	1,287	1,130
Staff costs (including directors' emoluments)		
– salaries, wages and other benefits	5,394	5,663
– contributions to defined contribution scheme	170	185

(b) Included in other revenue:

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Foreign exchange gain, net	2,796	1,990
Handling fee income	927	23
Reversal of provision for accrued interest	452	–
Reversal of provision for annual leave	95	–
Project management income	–	2,019
Provision for doubtful debts written back – related companies	–	75
Gain on disposal of property, plant and equipment	160	16,978
Others	<u>2,144</u>	<u>407</u>

APPENDIX II FINANCIAL INFORMATION IN RELATION TO THE GROUP

(c) Included in other operating expenses:

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Provision for bad and doubtful debts	1,196	536
Provision for impairment loss on property, plant and equipment	<u>932</u>	<u>–</u>

8. FINANCE COSTS

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest charges on: Bank and other borrowings wholly repayable within five years	<u>8,999</u>	<u>9,359</u>

9. TAXATION

No Hong Kong profits tax has been provided in the financial statements for the current year as the Group did not derive any assessable profit for the year (2004: Nil). The tax (credit)/charge represents (over)/under-provision of Hong Kong profits tax in the previous year.

The amount of taxation (credited)/charged to the consolidated income statement represents:

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong profits tax		
– (over)/under-provision in prior years	(279)	55
Deferred tax (note 18)	<u>–</u>	<u>–</u>
	<u>(279)</u>	<u>55</u>

The (credit)/charge for the year is reconciled to the loss before taxation per income statement as follows:

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss before taxation	<u>(27,750)</u>	<u>(16,479)</u>
Notional tax on loss before taxation	(4,856)	(2,884)
Effect of different tax rates in other countries	(612)	(212)
Tax effect of expense/(income) that are not deductible/(taxable) in determining taxable profit	4,061	1,397
Utilisation of unrecognised tax losses	(411)	(139)
Tax effect of unrecognised tax losses	1,818	6,203
Realisation of deferred tax assets previously not recognised (Over)/Under-provision in prior years	<u>(279)</u>	<u>55</u>
Taxation (credit)/charge	<u>(279)</u>	<u>55</u>

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\$7,519,000 (2004: approximately HK\$7,911,000).

APPENDIX II FINANCIAL INFORMATION IN RELATION TO THE GROUP

11. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31 July 2005 is based on the loss attributable to shareholders of approximately HK\$27,471,000 (2004: approximately HK\$16,534,000) and the weighted average number of 956,637,635 ordinary shares (2004: 935,551,302 ordinary shares) in issue during the year.

Diluted earnings per share for the years ended 31 July 2005 and 2004 have not been shown as there were no dilutive potential ordinary shares during those periods.

12. PROPERTY, PLANT AND EQUIPMENT

The Group

	Floating craft and vessels <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Plant, machinery and workshop equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation					
At 1 August 2004	97,315	8	1,273	92	98,688
Additions	–	2	1,980	–	1,982
Revaluation (<i>note 4(d)</i>)	(21,454)	–	–	–	(21,454)
Disposals	(1,443)	–	–	–	(1,443)
Exchange realignments	1,901	–	31	2	1,934
	76,319	10	3,284	94	79,707
Accumulated depreciation and impairment					
At 1 August 2004	19,208	8	207	26	19,449
Charge for the year	19,057	–	288	19	19,364
Impairment loss	932	–	–	–	932
Written back on disposals	(953)	–	–	–	(953)
Revaluation (<i>note 4(d)</i>)	(37,142)	–	–	–	(37,142)
Exchange realignments	(183)	–	8	–	(175)
	919	8	503	45	1,475
Net book value					
At 31 July 2005	75,400	2	2,781	49	78,232
At 31 July 2004	78,107	–	1,066	66	79,239
The analysis of cost or valuation of the above assets is as follows:					
At cost	–	10	3,284	94	3,388
At professional valuation 2005	76,319	–	–	–	76,319
	76,319	10	3,284	94	79,707

APPENDIX II FINANCIAL INFORMATION IN RELATION TO THE GROUP

The Company

	Office equipment <i>HK\$'000</i>
Cost	
Addition and at 31 July 2005	2
Accumulated depreciation and impairment	
Charge for the year and at 31 July 2005	—
Net book value	
At 31 July 2005	<u>2</u>
At 31 July 2004	<u>—</u>

The Group's floating craft and vessels were revalued individually on 31 July 2005 by Win Well Engineering & Surveyors Limited, an independent professional valuer in Hong Kong, at their open market value. The revaluation surplus of approximately HK\$17,270,000 has been transferred to the revaluation reserve of the Group.

The Group's floating craft and vessels, with an aggregate net book value of approximately HK\$71,050,000 (2004: approximately HK\$72,725,000) were pledged to secure certain loans granted to two of the Company's subsidiaries (notes 16(a) and 16(b)).

Had the floating craft and vessels been carried at cost less accumulated depreciation, their carrying amount would have been approximately HK\$40,016,000 (2004: approximately HK\$49,745,000).

13. LAND USE RIGHT

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Cost		
At 1 August	1,132	1,132
Exchange realignments	<u>19</u>	<u>—</u>
At 31 July	<u>1,151</u>	<u>1,132</u>
Accumulated amortisation and impairment		
At 1 August	104	47
Amortisation for the year	57	57
Exchange realignments	<u>2</u>	<u>—</u>
At 31 July	<u>163</u>	<u>104</u>
Net carrying value	<u>988</u>	<u>1,028</u>

APPENDIX II FINANCIAL INFORMATION IN RELATION TO THE GROUP

14. INTERESTS IN SUBSIDIARIES

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	89,535	89,535
Amounts due from subsidiaries	35,524	28,982
	<hr/>	<hr/>
<i>Less: Provisions</i>	125,059	118,517
	(112,359)	(105,817)
	<hr/>	<hr/>
Amounts due to subsidiaries	12,700	12,700
	(15,754)	(19,155)
	<hr/>	<hr/>
	(3,054)	(6,455)
	<hr/> <hr/>	<hr/> <hr/>

Particulars of the principal subsidiaries as at 31 July 2005 are as follows:

Name	Place of incorporation/ operation	Particulars of issued/registered share capital	Percentage of issued/registered capital held by the Group Company		Principal activities
UDL Marine Assets (Hong Kong) Limited	Hong Kong	HK\$4,000,000	100%	100%	Marine engineering
* UDL Marine Assets (Singapore) Pte Limited	Singapore	S\$2,000,000	100%	100%	Marine engineering
S.K. Luk Construction Company Limited	Hong Kong	HK\$500,000	100%	100%	Marine engineering
UDL Dredging Limited	Hong Kong	HK\$2	100%	100%	Marine engineering
UDL Ship Management Limited	Hong Kong	HK\$2	100%	100%	Marine engineering and ship management services
UDL Argos Engineering & Heavy Industries Company Limited	Hong Kong	HK\$124,000,000	100%	100%	Investment holding, structural steel engineering works and management services
中山太元重工業有限公司	PRC	HK\$10,000,000	100%	–	Not yet commenced business
UDL Contracting Limited	Hong Kong	HK\$50,700,000	100%	100%	Engineering and contracting
UDL Employment Services Limited	Hong Kong	HK\$2	100%	100%	Provision of human resources management services

* *not audited by CCIF CPA Limited.*

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 financial position of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

APPENDIX II FINANCIAL INFORMATION IN RELATION TO THE GROUP

15. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2005	2004	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables (<i>note (a)</i>)	1,627	2,038	–	192
Retention money receivable	1,098	1,098	–	–
Prepayments, deposits and other receivables	7,372	12,947	1,048	9,582
	<u>10,097</u>	<u>16,083</u>	<u>1,048</u>	<u>9,774</u>

(a) As at 31 July 2005, the Group's aged analysis of trade receivables net of provisions for doubtful debts was as follows:

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	393	301
1 – 3 months	707	383
4 – 6 months	291	58
7 – 12 months	72	894
Over 1 year	164	402
	<u>1,627</u>	<u>2,038</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.

APPENDIX II	FINANCIAL INFORMATION IN RELATION TO THE GROUP
--------------------	---

16. BANK AND OTHER BORROWINGS

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Group		
Bank and other borrowings comprise:		
Bank overdrafts	574	433
Other loans	115,975	99,058
	<u>116,549</u>	<u>99,491</u>
	<u>116,549</u>	<u>99,491</u>
Analysed as:		
Secured – notes (a) and (b)	100,490	94,201
Unsecured – loan	15,485	4,857
– bank overdrafts	574	433
	<u>116,549</u>	<u>99,491</u>
	<u>116,549</u>	<u>99,491</u>
Bank and other borrowings are repayable as follows:		
Within one year or on demand	16,059	2,833
More than one year, but not exceeding two years	100,490	2,457
More than two years, but not exceeding five years	–	94,201
	<u>116,549</u>	<u>99,491</u>
<i>Less: Amount due within one year and shown under current liabilities</i>	<u>(16,059)</u>	<u>(2,833)</u>
Amount due after one year	<u>100,490</u>	<u>96,658</u>
Company		
Other loan – unsecured – note (c)	<u>12,522</u>	<u>2,400</u>
Other loan is repayable as follows:		
Within one year or on demand and shown under current liabilities	<u>12,522</u>	<u>2,400</u>

APPENDIX II FINANCIAL INFORMATION IN RELATION TO THE GROUP

Notes:

- (a) As at 31 July 2005, the Group's other loans of approximately HK\$71,448,000, assigned from a Singapore secured lender to a Related Party Lender were secured by a legal charge on the Group's floating craft and vessels with net book value of approximately HK\$54,500,000, fixed and floating charges over the assets of UMASPG, 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. The loans bear interest at prime rate+2% per annum. The loans, together with the interest thereon, will not be required to be repaid until 1 August 2006.

As at the date on which these financial statements were approved, the Related Party Lender who took over the interest of this loan did not strictly conform to the payment schedule under the agreement. However, the moratorium has been maintained due to on-going negotiation between the Related Party Lender and the Singapore secured lender on a revised payment schedule. There is uncertainty as to whether the Related Party Lender will arrive at agreement with the Singapore secured lender on the revised payment schedule. The directors are confident that the Related Party Lender has the financial ability to meet its obligations and this loan has accordingly been shown as a non-current liability.

Under the terms of the assignment with the Related Party Lender who took over this loan, the Singapore secured lender retains its security over certain vessels and has recourse to UMASPG should this Related Party Lender default on the payment schedule agreed with the Singapore secured lender. Should such an event arise, UMASPG would be required to make a full and immediate repayment of that loan, which at 31 July 2005 amounted to approximately HK\$82,273,000.

- (b) As at 31 July 2005, the Group's other loans of approximately HK\$29,042,000 which was assigned from a Hong Kong secured lender to a Related Party Lender were secured by the Group's floating craft and vessels with net book value of approximately HK\$16,550,000, a first floating charge on all the undertaking, property, assets and rights of UMAHK and a personal guarantee from Mr. Leung. The loan bears interest at prime rate+2% per annum. The loan, together with the interest thereon, will not be required to be repaid until 1 August 2006.
- (c) As at 31 July 2005, the Group's other loan of approximately HK\$12,522,000 was borrowed from third parties which was used to finance the Group's operations. The loan is unsecured, repayable on demand and bears interest at prime rate to prime rate+2% per annum.

17. TRADE AND OTHER PAYABLES

	Group		Company	
	2005	2004	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables (<i>note (a)</i>)	5,575	5,570	–	–
Advances received	1,056	1,437	–	–
Other payables and accruals	11,233	8,067	2,387	3,300
	<u>17,864</u>	<u>15,074</u>	<u>2,387</u>	<u>3,300</u>

APPENDIX II FINANCIAL INFORMATION IN RELATION TO THE GROUP

(a) As at 31 July 2005, the aged analysis of trade payables was as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Current	185	80
1 – 3 months	21	34
4 – 6 months	18	15
7 – 12 months	29	526
Over 1 year	5,322	4,915
	5,575	5,570
	5,575	5,570

18. DEFERRED TAX

The following are the movements of major deferred tax assets and liabilities recognised by the Group during the current and prior years:

	Accelerated depreciation allowance <i>HK\$'000</i>	Revaluation reserve <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
Deferred tax arising from:				
At 31 July 2003				
– As previously reported	–	–	–	–
– Effect of adoption of SSAP 12 (revised)	1,038	2,298	(3,336)	–
	1,038	2,298	(3,336)	–
– As restated	1,038	2,298	(3,336)	–
(Credited)/charged to income statement (<i>note 9</i>)	(322)	(1,014)	1,336	–
	(322)	(1,014)	1,336	–
At 31 July 2004	716	1,284	(2,000)	–
At 1 August 2004	716	1,284	(2,000)	–
(Credited)/charged to income statement (<i>note 9</i>)	2,941	545	(3,486)	–
	2,941	545	(3,486)	–
At 31 July 2005	3,657	1,829	(5,486)	–

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset in accordance with the conditions set out in SSAP 12. The following is the analysis of the deferred tax balances for financial reporting purposes:

	Group		Company	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Deferred tax liabilities	5,486	2,000	–	–
Deferred tax assets	(5,486)	(2,000)	–	–
	–	–	–	–
	–	–	–	–

APPENDIX II FINANCIAL INFORMATION IN RELATION TO THE GROUP

At 31 July 2005, the Group has unused tax losses of HK\$267,957,743 (2004: HK\$183,895,019) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$31,353,138 (2004: HK\$11,430,776) of such losses. No deferred tax assets in respect of the remaining HK\$236,604,605 (2004: HK\$172,464,243) due to the unpredictability of future taxable profits streams. This amount of unused tax losses could be carried forward indefinitely.

19. SHARE CAPITAL

	Number of shares	<i>HK\$'000</i>
Authorised:		
Ordinary shares of HK\$0.01 each at 1 August 2004 and 31 July 2005	<u>12,000,000,000</u>	<u>120,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.01 each at 1 August 2004	935,551,302	9,356
Issue of shares by exercise of options	<u>36,148,000</u>	<u>361</u>
Ordinary shares of HK\$0.01 each at 31 July 2005	<u>971,699,302</u>	<u>9,717</u>

Note: During the year, options were exercised to subscribe for 36,148,000 shares in the Company at subscription price of HK\$0.024 – HK\$0.04 per share. The consideration was HK\$1,316,592 of which HK\$361,480 was credited to share capital and the balance of HK\$955,112 was credited to the share premium account.

20. RESERVES

Group

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share premium	8,179	7,224
Capital redemption reserve	1,264	1,264
Exchange fluctuation reserve	(4,444)	(2,661)
Capital reserve	717	717
Accumulated losses	(1,220,142)	(1,192,671)
Revaluation reserve	52,590	35,619
Scheme reserve	<u>1,096,502</u>	<u>1,096,502</u>
	<u>(65,334)</u>	<u>(54,006)</u>

Details of the movements in the above reserves during the year are set out in the consolidated statement of changes in equity.

APPENDIX II FINANCIAL INFORMATION IN RELATION TO THE GROUP

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 2003	7,224	1,264	21,689	(378,451)	324,964	(23,310)
Loss for the year	-	-	-	(7,911)	-	(7,911)
At 31 July 2004	<u>7,224</u>	<u>1,264</u>	<u>21,689</u>	<u>(386,362)</u>	<u>324,964</u>	<u>(31,221)</u>
At 1 August 2004	7,224	1,264	21,689	(386,362)	324,964	(31,221)
Issue of shares by exercise of options	955	-	-	-	-	955
Loss for the year	-	-	-	(7,519)	-	(7,519)
At 31 July 2005	<u>8,179</u>	<u>1,264</u>	<u>21,689</u>	<u>(393,881)</u>	<u>324,964</u>	<u>(37,785)</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. 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 Scheme.

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:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Fees		
Executive directors	32	40
Independent non-executive directors	<u>115</u>	<u>80</u>
	147	120
Other emoluments		
Executive directors	2,545	2,160
Independent non-executive directors	<u>120</u>	<u>160</u>
	<u>2,665</u>	<u>2,320</u>
	<u>2,812</u>	<u>2,440</u>

APPENDIX II FINANCIAL INFORMATION IN RELATION TO THE GROUP

The emoluments of the directors were within the following bands:

Emoluments bands	Number of directors	
	2005	2004
Nil – HK\$1,000,000	5	3
HK\$1,000,001 – HK\$1,500,000	–	–
HK\$1,500,001 – HK\$2,000,000	1	–
HK\$2,000,001 – HK\$2,500,000	–	1
	<u> </u>	<u> </u>

During the year, the Company granted 18,710,000 share options to the directors. Details of share options granted to the directors are set out in the directors' report.

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

(b) Five highest paid individuals

The five highest paid individuals of the Group for the year included three (2004: one) executive directors, details of whose emoluments are set out above. The emoluments of the remaining two (2004: four) employees were as follows:

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other benefits	<u>1,444</u>	<u>2,240</u>

The emoluments were within the following bands:

Emoluments bands	Number of individuals	
	2005	2004
Nil – HK\$1,000,000	2	3
HK\$1,000,001 – HK\$1,500,000	–	1
	<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.

APPENDIX II FINANCIAL INFORMATION IN RELATION TO THE GROUP

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 2005, the Group made contributions of approximately HK\$170,000 (2004: approximately HK\$185,000) towards the MPF Scheme and CPF.

23. EQUITY COMPENSATION BENEFITS

The Company has a share option scheme which was adopted on 31 December 2002 whereby the directors of the Company are authorised, at their discretion, to invite eligible participants as described in definitions of the circular dated 6 December 2002 issued by the Company, including employees and directors of the Group, to take up options to subscribe for shares of the Company (the “Shares”). The exercise price of the options was determined by the Board and will not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealings in securities; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Share. Under the share option scheme, the total number of shares in respect of which options may be granted shall be 90,830,230 shares, representing 10% of the total issued share capital of the Company as at 31 December 2002.

Options under the share option scheme are exercisable during such period as determined by the Directors provided that such period shall not be more than 10 years from the date of grant of the option. Each option gives the holder the right to subscribe for one share.

(a) Movement in share options

	2005 <i>Number</i> <i>(‘000)</i>	2004 <i>Number</i> <i>(‘000)</i>
Outstanding as at 1 August	18,159	18,159
Granted during the year	37,420	–
Exercised during the year	(36,148)	–
	19,431	18,159
Outstanding as at 31 July	19,431	18,159
Options vested at 31 July	19,431	18,159

(b) Terms of unexpired and unexercised share options at balance sheet date

Date granted	Exercise period	Exercise price	2005 <i>Number</i> <i>(‘000)</i>	2004 <i>Number</i> <i>(‘000)</i>
15 April 2003	16 April 2003 – 30 December 2012	HK\$0.024	10,076	18,159
2 December 2004	3 December 2004 – 30 December 2012	HK\$0.04	9,355	–
			19,431	18,159

APPENDIX II FINANCIAL INFORMATION IN RELATION TO THE GROUP

(c) Details of share options granted during the year, all of which were granted at a consideration of HK\$1 per grant

Date granted	Exercise period	Exercise price	2005 Number (‘000)	2004 Number (‘000)
2 December 2004	3 December 2004 – 30 December 2012	HK\$0.04	37,420	–

(d) Details of share options exercised during the year

Exercise date	Exercise price HK\$	Market value per share at exercise date HK\$	Proceeds received HK\$‘000	Number of shares (‘000)
28 December 2004	0.024	0.022	194	8,083
28 December 2004	0.040	0.022	1,122	28,065
			<u>1,316</u>	<u>36,148</u>

24. OPERATING LEASE COMMITMENTS

(a) As lessee

At 31 July 2005, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	Group		Company	
	2005 HK\$‘000	2004 HK\$‘000	2005 HK\$‘000	2004 HK\$‘000
Land and buildings				
Within one year	348	1,022	107	384
In the second to fifth years inclusive	1,231	1,279	–	64
More than five years	4,748	4,853	–	–
	<u>6,327</u>	<u>7,154</u>	<u>107</u>	<u>448</u>

(b) As lessor

At 31 July 2005, the total future minimum lease receipts under non-cancellable operating leases were receivable as follows:

	Group	
	2005 HK\$‘000	2004 HK\$‘000
Plant and factory		
Within one year	2,550	876
In the second to fifth years inclusive	3,613	–
	<u>6,163</u>	<u>876</u>

The Company has no significant operating lease receipts commitment at the balance sheet date.

APPENDIX II	FINANCIAL INFORMATION IN RELATION TO THE GROUP
--------------------	---

25. OTHER COMMITMENTS

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted but not provided for in respect of acquisition of vessels	1,244	–
Commitments in respect of capital contribution to a subsidiary in the People's Republic of China	4,810	6,820
	6,054	6,820

The Company has no significant other commitment at the balance sheet date.

26. CONTINGENT LIABILITIES

- (a) At 31 July 2005, 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 (2004: HK\$176 million), further details of which are set out in note 2(b).
- (b) An amount of SGD358,982 (equivalent to HK\$1,680,233) (2004: HK\$1,609,699) relating to interest payable on banking facilities of a subsidiary. The directors of the subsidiary are disputing this amount and no provision has been made in the financial statements.
- (c) The Company and the Group had pending litigation in respect of the Statement of Claim for HCA 624 of 2005 dated 28 September 2005, the Group's solicitor is of the view that there are three claims which duplicate partly with each others. Fonfair claims against the defendants for the amount of HK\$19,568,644.66 together with interest and costs, Money Facts claims the amount of HK\$13,334,211.42 (HK\$12,874,121.48 of which is pleaded by Money Facts as part of its loss and damage suffered by virtue of its 7,900/12,008th interest held in Fonfair) together with interest and costs, and Leung Yuet Keung claims the amount of HK\$15,190,409.54 (HK\$6,667,105.71 of which is pleaded by Leung Yuet Keung as part of his loss and damage suffered by virtue of his 3,950/7,900th interest held in Money Facts) together with interest and costs. As pleaded by the plaintiffs, (a) Harbour Front Limited, which is the majority shareholder of the Company, holds 3,958 out of the 12,008 issued ordinary shares of Fonfair and 3,950 out of the 7,900 issued ordinary shares of Money Facts; (b) Money Facts holds 7,900 out of the 12,008 issued ordinary shares of Fonfair; and (c) Leung Yuet Keung holds 3,950 out of the 7,900 issued ordinary shares of Money Facts, further details of which are set out in note 2(c)(ii).

APPENDIX II FINANCIAL INFORMATION IN RELATION TO THE GROUP

27. RELATED PARTY TRANSACTIONS

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

	<i>Note</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Handling fee income from Bugsy Development Company Limited ("Bugsy") #	<i>(a)</i>	203	–
Agency fee income from Bugsy #	<i>(a)</i>	282	–
Ship management fee income from Bugsy #	<i>(a)</i>	693	986
Plant hire cost paid to Bugsy #	<i>(a)</i>	–	1,618
Handling charges paid to Bugsy #	<i>(a)</i>	–	18
Management fee paid to Bugsy #	<i>(a)</i>	–	726
Rental charges paid to Capital Hope Investments Limited ("Capital Hope")	<i>(b)</i>	384	351
Sales of vessel to Capital Hope	<i>(b)</i>	–	1,300
Rental charges paid to Denlane Shipbuilding Pte Limited ("Denlane") #	<i>(c)</i>	83	81
Management service fee income from Denlane #	<i>(c)</i>	1,659	1,614
Subcontracting fee paid to United Colours Development Limited ("United Colours")	<i>(d)</i>	65	–
Ship management income from Giant Lead Enterprises Limited ("Giant Lead")	<i>(e)</i>	7	–
Plant hire cost paid to Gitanes Engineering Company Limited ("Gitanes")	<i>(f)</i>	–	24
Ship management fee income from Gitanes	<i>(f)</i>	132	66
Handling fee income from Gitanes	<i>(f)</i>	9	–
Rental charges paid to Decorling Limited ("Decorling")	<i>(g)</i>	1,017	892
Interest charged by Universal Grade Limited ("Universal Grade")	<i>(h)</i>	1,680	2,432
Agency fee income from Universal Grade	<i>(h)</i>	114	92
Ship management fee income from Universal Grade	<i>(h)</i>	422	175
Handling fee income from Universal Grade	<i>(h)</i>	199	–
Interest charged by Hong Hay Pte Limited ("Hong Hay")	<i>(i)</i>	–	474
Agency fee income from Hong Hay	<i>(i)</i>	–	47
Ship management fee income from Hong Hay	<i>(i)</i>	178	103
Handling fee income from Hong Hay	<i>(i)</i>	17	–
Interest charged by Windermere Pte Limited ("Windermere")	<i>(j)</i>	5,512	4,695
Interest charged by Harbour Front Limited ("Harbour Front")	<i>(k)</i>	886	1,115
Consultancy fee income from Tonic Engineering & Construction Company Limited ("Tonic")	<i>(l)</i>	500	–
Provision for doubtful debts from Tonic	<i>(l)</i>	–	80
Ship management fee income from Exact Nice Limited ("Exact Nice")	<i>(m)</i>	35	17
Shipbuilding and repair income from Exact Nice	<i>(m)</i>	120	131
Ship management fee income from Jelanter Limited ("Jelanter")	<i>(n)</i>	46	23
Shipbuilding and repair income from Jelanter	<i>(n)</i>	124	140
Ship management fee income from Link Full International Limited ("Link Full") #	<i>(o)</i>	375	187
Shipbuilding and repair income from Link Full #	<i>(o)</i>	492	558
Handling fee income from Link Full #	<i>(o)</i>	174	–
Ship management fee income from Possider Company Limited ("Possider")	<i>(p)</i>	46	23

APPENDIX II FINANCIAL INFORMATION IN RELATION TO THE GROUP

	<i>Note</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Shipbuilding and repair income from Possider	<i>(p)</i>	244	270
Ship management fee income from Top Union Investments Limited ("Top Union")	<i>(q)</i>	143	73
Agency fee income from Top Union	<i>(q)</i>	13	–
Handling fee income from Top union	<i>(q)</i>	55	–
Ship management fee income from UDL Offshore Pte Limited ("UDL Offshore")	<i>(r)</i>	68	34
Handling fee income from UDL Offshore	<i>(r)</i>	8	–
Plant hire cost paid to Dongguan Chun Wah Engineering & Heavy Industries Company Limited ("DG Chun Wah") *	<i>(s)</i>	283	118
Consultant service fee paid to YTL Strategic Corporate Consultancy Ltd. ("YTL")	<i>(t)</i>	671	330
Provision for doubtful debts written back from Chui Hing Construction Limited ("Chui Hing")	<i>(u)</i>	–	75
Rental charges paid to Chui Hing	<i>(u)</i>	33	–
		<u> </u>	<u> </u>

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

One of the Group's top five customers.

- (a) Bugsy is a company in which Ms. Leung Chi Yin, Gillian ("Ms. Leung") is a director and shareholder.
- (b) Capital Hope is a company in which Ms. Leung is a director and shareholder.
- (c) Denlane is a company in which Mrs. Leung and Ms. Leung are directors.
- (d) United Colours is a company in which Mrs. Leung is a director and shareholder.
- (e) Giant Lead is a company in which Mrs. Leung and Ms. Leung are directors.
- (f) Gitanes is a company in which Mrs. Leung is a director and Ms. Leung is a shareholder.
- (g) Decorling is a company in which Mrs. Leung is a shareholder. Mrs. Leung and Ms. Leung are directors of Decorling.
- (h) Universal Grade is a company in which Harbour Front Limited, a major shareholder of the Company, has the ability to exercise significant influence in making its financial and operating decisions.**
- (i) Hong Hay is a company in which Harbour Front Limited, a major shareholder of the Company, has the ability to exercise significant influence in making its financial and operating decisions.**
- (j) Windermere is a company in which Harbour Front Limited, a major shareholder of the Company, has the ability to exercise significant influence in making financial and operating decisions.**
- (k) Harbour Front is a major shareholder of the Company. Mrs. Leung and Ms. Leung are directors and shareholders of Harbour Front. ##
- (l) Tonic is a company in which Mrs. Leung is a director and Ms. Leung is a shareholder.
- (m) Exact Nice is a company in which Mrs. Leung is a director.

- (n) Jelanter is a company in which Mrs. Leung is a director.
- (o) Link Full is a company in which Mrs. Leung is a director.
- (p) Possider is a company in which Mrs. Leung is a director.
- (q) Top Union is a company in which Mrs. Leung is a director.
- (r) UDL Offshore is a company in which Mrs. Leung and Ms. Leung are directors.
- (s) DG Chun Wah is a company in which Mrs. Leung is a director.
- (t) YTL is a company in which Ms. Leung is a director and shareholder and Mrs. Leung and Harbour Front are shareholders.
- (u) Chui Hing is a company in which Mrs. Leung is a director.

****** *The amounts due to Universal Grade, Hong Hay and Windermere are secured by floating craft and vessels, bearing interest at prime rate+2% p.a. and will be repayable on 1 August 2006. Details about the terms of the amounts due to these three companies are set out in note 16 to the financial statements.*

*The amount due to Harbour Front is unsecured, repayable on demand and bearing interest at prime rate+2% p.a.*

The amount due from/to related companies except Universal Grade, Hong Hay, Windermere and Harbour Front, are unsecured, interest free and repayable on demand.

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transaction

During the year, the Group disposed its vessels at a consideration of HK\$650,000, in which HK\$615,500 was settled directly to the Related Party Lenders (Note 2(d)) and HK\$34,500 was settled by debiting a related company's current account.

29. POST BALANCE SHEET EVENTS

- (a) Subsequent to the balance sheet date, the Group disposed two vessels to a third party at its net book value for a consideration of HK\$300,000.
- (b) A non-binding Memorandum of Understanding dated 12 August 2005 in relation to a proposed solution, the Global Solution, was entered into by the Company, Harbour Front Limited and the Scheme Administrator. Further details of which are set out in note 2(b) to the financial statements.
- (c) The Company and the Group had pending litigation in respect of the Statement of Claim dated 28 September 2005 for HCA 624 of 2005, further details of which are set out in notes 2(c)(ii) and 26(c) to the financial statements.

30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements on pages 20 to 63 were approved by the Board of Directors on 5 October 2005.

2. INDEBTEDNESS

Borrowings

As at the close of business on 31 July 2005, being the latest practicable date for this indebtedness statement, the Group had the following borrowings:

	Repayable within one year <i>HK\$'000</i>	Repayable after one year <i>HK\$'000</i>	Total <i>HK\$'000</i>
Secured other loans	–	100,490	100,490
Unsecured bank loans	574	–	574
Unsecured other loans	15,485	–	15,485
	<u>16,059</u>	<u>100,490</u>	<u>116,549</u>

Security and guarantees

As at 31 July 2005, the Group's secured borrowings as shown above were secured by the Group's own vessels having a net book value of approximately HK\$71.1 million.

Contingent liabilities

Save as disclosed in the sub-paragraph headed "Financial position" under the paragraph headed "Information on the Group" in the "Letter from the Board" of this document and in the Audited 2005 Accounts (a copy of which is set out in Section B in this Appendix above), as at 31 July 2005, the Group had no significant contingent liabilities.

Disclaimers

Save as aforesaid or otherwise disclosed herein and apart from intra-group liabilities, the Group did not have outstanding indebtedness at the close of business on 31 July 2005 or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees or other contingent liabilities.

3. MATERIAL CHANGE

Save as disclosed in the paragraph headed "Information on the Group" in the "Letter from the Board" contained in this document and in the Audited 2005 Accounts (a copy of which is set out in Section B in this Appendix above) as subsequent events, the Directors are not aware of any material changes in the financial or trading position or prospects of the Group since 31 July 2005, being the date the latest audited consolidated financial statements of the Group to which was made up.

1. RESPONSIBILITY STATEMENT

The information in this document relating to the Group has been supplied by the Directors, who jointly and severally accept full responsibility for the accuracy of the information contained in this document in relation to the Group and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document in relation to the Group have been arrived at after due and careful consideration and there are no other facts not contained in this document the omission of which would make any statement in relation to the Group contained herein misleading.

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

2. SHARE CAPITAL OF THE COMPANY

The authorised and issued share capitals of the Company as at the Latest Practicable Date were as follows:

<i>Authorised:</i>	<i>HK\$</i>
<u>12,000,000,000 Shares</u>	<u>120,000,000.00</u>
<i>Issued:</i>	
<u>982,054,302 Shares</u>	<u>9,820,543.02</u>

All the existing issued Shares are fully paid up and rank pari passu in all respects including all rights as to dividends, voting rights and capital.

Since 31 July 2005, the date to which the latest audited financial statement of the Company was made up, and up to the Latest Practicable Date, an aggregate of 10,355,000 Shares have been issued by the Company upon the exercise of Options. Save as disclosed above, no Shares have been issued by the Company since 31 July 2005 and up to the Latest Practicable Date.

As at the Latest Practicable Date, the Company had Outstanding Options entitling the Optionholders to subscribe for up to 9,076,000 Shares at an exercise price of HK\$0.024 per Share. These Outstanding Options were held by certain employees of the Group not being members of the Harbour Front Concert Group.

Save for the Outstanding Options disclosed above, there were no outstanding warrants, options or securities convertible into Shares as at the Latest Practicable Date.

3. MARKET PRICES

The table below shows the closing price of the Shares on the Stock Exchange on (i) the last day on which trading took place in each of the six calendar months immediately preceding 7 September 2005, the date of the Announcement; (ii) 7 September 2005, being the date of the Announcement; and (iii) the Latest Practicable Date:

Date	Closing price per Share (HK\$)
31 March 2005	0.045
29 April 2005	0.043
31 May 2005	0.024
30 June 2005	0.030
29 July 2005	0.030
31 August 2005	0.023
7 September 2005	0.023
Latest Practicable Date	0.045

The highest and lowest closing prices per Share recorded on the Stock Exchange during the Relevant Period were HK\$0.064 on 9 September 2005 and HK\$0.021 on 26 May 2005 respectively.

4. DISCLOSURE OF INTERESTS

(A) Interest of Harbour Front, its directors and parties acting in concert with it in the Company

The interests directly owned by Harbour Front, its directors, whose particulars are set out in the paragraph headed "General" below in this Appendix, and parties acting in concert with it in the share capital of the Company as at the Latest Practicable Date are set out as follows:

Name	Capacity	Number of Shares	Approximate percentage of the Company's issued share capital
Harbour Front	Beneficial owner	412,382,499 (Note 1)	41.99%
Bugsy Development Company Limited	Beneficial owner	9,083,000 (Note 2)	0.92%

Name	Capacity	Number of Shares	Approximate percentage of the Company's issued share capital
YTL Strategic Corporate Consultancy Limited	Beneficial owner	9,355,000 (Note 3)	0.95%
Mrs. Leung	Beneficial owner	19,183,500	1.95%
Decorling Limited	Beneficial owner	18,438,000 (Note 4)	1.88%
Leung Chi Yin, Gillian	Beneficial owner	18,588,000	1.89%
Leung Chi Hong, Jerry	Beneficial owner	150,000	0.02%
Total		<u>487,179,999</u>	<u>49.61%</u>

Notes:

- As at the Latest Practicable Date, 412,382,499 Shares were directly 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, Ms. Leung Chi Yin, Gillian, Mr. Leung Chi Hong, Jerry and Mr. Leung Kai Hong (aged under 18). Each of Mrs. Leung and Ms. Leung Chi Yin, Gillian, each being an executive Director, and Mr. Leung Chi Hong, Jerry holds one-third of the issued share capital of Harbour Front.
- As at the Latest Practicable Date, 9,083,000 Shares were directly held by Bugsy Development Company Limited ("Bugsy"). Ms. Leung Chi Yin, Gillian holds shares in Bugsy on trust for Harbour Front. Bugsy is a wholly owned subsidiary of Harbour Front. The directors of Bugsy are Ms. Leung Chi Yin, Gillian, Mr. Leung Chi Hong, Jerry and Sincere Place Limited.
- As at the Latest Practicable Date, 9,355,000 Shares were directly held by YTL Strategic Corporate Consultancy Limited, which is beneficially owned by Harbour Front, Mrs. Leung, Ms. Leung Chi Yin, Gillian, Mr. Leung Chi Hong, Jerry and Mr. Leung Kai Hong as to 18%, 20%, 22%, 20% and 20% respectively. The directors of YTL Strategic Corporate Consultancy Limited are Ms. Leung Chi Yin, Gillian, Mr. Leung Chi Hong, Jerry and Capital Hope Investments Limited.
- 18,438,000 Shares are held by Decorling Limited which is 100% beneficially owned by Mrs. Leung. The directors of Decorling Limited are Mrs. Leung, Ms. Leung Chi Yin, Gillian, Che Keen Development Limited and Bugsy.

(B) Interests of Directors in the Company and its associated corporations

Save as disclosed below, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest and short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Companies, or which

were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or were required:

Name	The Company/ name of associated corporation	Capacity	Number of shares	Approximate percentage of interest
Mrs. Leung	The Company	Beneficial owner	19,183,500	1.95%
		Through controlled corporations	449,258,499 (Notes 1, 2, 3 and 4)	45.75%
Leung Chi Yin, Gillian	The Company	Beneficial owner	18,588,000	1.89%
		Through controlled corporations	430,820,499 (Notes 1, 2 and 4)	43.87%
Yuen Ming Fai, Matthew	The Company	Interest of spouse	4,800	Negligible

Notes:

- 412,382,499 Shares 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, Ms. Leung Chi Yin, Gillian, Mr. Leung Chi Hong, Jerry and Mr. Leung Kai Hong (aged under 18). Each of Mrs. Leung, Ms. Leung Chi Yin, Gillian and Mr. Leung Chi Hong, Jerry holds one-third of the issued share capital of Harbour Front.
- 9,083,000 Shares are held by Bugsy. Ms. Leung Chi Yin, Gillian holds shares in Bugsy on trust for Harbour Front.
- 18,438,000 Shares are held by Decorling Limited, which is 100% beneficially owned by Mrs. Leung.
- 9,355,000 Shares are held by YTL Strategic Corporate Consultancy Limited, which is beneficially owned by Harbour Front, Mrs. Leung, Ms. Leung Chi Yin, Gillian, Mr. Leung Chi Hong, Jerry and Mr. Leung Kai Hong as to 18%, 20%, 22%, 20% and 20% respectively.

(C) Interest of substantial shareholders in the Company

As at the Latest Practicable Date, so far as is known to the Directors, save as disclosed in sub-paragraphs (A) and (B) above, the following persons had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were 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 the Company:

Name	Capacity	Number of Shares	Approximate percentage of the Company's issued share capital
Mr. Matthew Finbarr O'Driscoll	Scheme Administrator	252,306,195 (Note 1)	25.69%
Value Partners Investment Limited	Beneficial owner	61,153,097 (Note 2)	6.23%
Wang Xianping	Through controlled corporation	61,153,097 (Note 2)	6.23%

Notes:

1. Mr. Matthew Finbarr O'Driscoll is the Scheme Administrator of the Schemes, and holds 252,306,195 Shares on trust for the creditors of the Schemes pending distribution pursuant to the terms of the Schemes.
2. 61,153,097 Shares are held by Value Partners Investment Limited which is 100% beneficially owned by Mr. Wang Xianping.

(D) Interest in Harbour Front

- (1) As at the Latest Practicable Date, the Group did not have any beneficial interest in the share capital of Harbour Front.
- (2) As at the Latest Practicable Date, each of Mrs. Leung and Ms. Leung Chi Yin, Gillian, both being the executive Directors, held 33.33% of the shareholding of Harbour Front. Save as disclosed above, none of the Directors had any shareholding interest in Harbour Front as at the Latest Practicable Date.

(E) Dealings in securities of the Company and Harbour Front*(a) Dealings in securities of the Company by the Harbour Front Concert Group*

As at the Latest Practicable Date, the Harbour Front Concert Group owned an aggregate of 487,179,999 Shares, representing approximately 49.61% of the issued share capital of the Company. The particular dealings during the Relevant Period were as follows:

Name	Date (dd/mm/yyyy)	Type of transaction	Number of Shares	Price paid per Share HK\$
Mrs. Leung	14/06/2005	Purchase of Shares	100,000	0.036
Mrs. Leung	14/06/2005	Purchase of Shares	200,000	0.040
Mrs. Leung	07/09/2005	Exercise of Options	1,000,000	0.024
Mrs. Leung	07/09/2005	Exercise of Options	9,355,000	0.040

Save as disclosed above, none of Harbour Front, its beneficial owners and directors and parties acting in concert with any of them has dealt in any Shares or any securities convertible into Shares during the Relevant Period.

(b) Dealings in securities of the Company by the Directors

Dealings in securities of the Company by the Directors during the Relevant Period were as follows:

Name	Date (dd/mm/yyyy)	Type of transaction	Number of Shares	Price paid per Share HK\$
Mrs. Leung	14/06/2005	Purchase of Shares	100,000	0.036
Mrs. Leung	14/06/2005	Purchase of Shares	200,000	0.040
Mrs. Leung	07/09/2005	Exercise of Options	1,000,000	0.024
Mrs. Leung	07/09/2005	Exercise of Options	9,355,000	0.040

Save as disclosed above, none of the Directors has dealt in any Shares or securities convertible into Shares (including Options) during the Relevant Period.

(c) *Dealings in securities of the Company by others*

None of the subsidiaries of the Company, any pension fund of the Company and of its subsidiaries, any adviser to the Company as specified in class (2) of the definition of associate in the Takeovers Code has dealt in any securities of the Company during the Relevant Period.

(d) *Dealings in securities of Harbour Front by the Group and the Directors*

During the Relevant Period, the Group and the Directors did not have any dealings in the securities of Harbour Front or its associates.

(F) Service contracts

There is no existing or proposed service contract, excluding contract expiring or terminable within 12 months, and no service contract, between any company comprising the Group or any associated companies of the Company and any of the Directors, has been entered into or amended within the Relevant Period.

(G) Miscellaneous

- (a) As at the Latest Practicable Date, (i) there were no agreements, arrangements or understanding (including any compensation arrangement) between any member of the Harbour Front Concert Group and any of the Directors, recent Directors, Shareholders or recent Shareholders or any other person which are conditional upon the outcome of the Offers or otherwise connected with or depend upon the Offers; and (ii) there was no agreement or arrangement between any of the Directors and any other person which is conditional on or dependent upon the outcome of the Offers or otherwise connected with the Offers.
- (b) As at the Latest Practicable Date, no benefit has been given or will be given to any Directors as compensation for loss of office or otherwise in connection with the Offers.
- (c) As at the Latest Practicable Date, there were no shareholdings in the Company owned or controlled by any persons who, prior to the posting of this document, have irrevocably committed themselves to accept or reject the Offers and there was no person who had irrevocably committed to accepting or rejecting the Offers.
- (d) As at the Latest Practicable Date, there was no shareholdings in the Company owned or controlled by a person with whom the Harbour Front Concert Group has an arrangement or indemnity of the kind as described in note 8 to Rule 22 of the Takeovers Code. As at the Latest Practicable Date, neither was there any arrangement or indemnity between any person and any member of the Harbour Front Concert Group.

- (e) No shareholding in the Company was owned or controlled by a subsidiary of the Company or by a pension fund of any member of the Group, or by any advisers to the Company as specified in class (2) of the definition of associate in the Takeovers Code as at the Latest Practicable Date.
- (f) None of the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code has any arrangement or indemnity of the kind as described in note 8 to Rule 22 of the Takeovers Code.
- (g) No shareholding in the Company was managed on a discretionary basis by fund managers connected with the Company as at the Latest Practicable Date.
- (h) Mrs. Leung and Ms. Leung Chi Yin, Gillian are members of the Harbour Front Concert Group, whose interests in the share capital of the Company are set out in this paragraph 4 above. Professor Yuen Ming Fai, Matthew is interested in 4,800 Shares through interest of his spouse. Professor Yuen Ming Fai, Matthew has confirmed that it is the intention of his wife not to accept the Share Offer. Save for Mrs. Leung, Ms. Leung Chi Yin, Gillian and Professor Yuen Ming Fai, Matthew, none of the Directors was interested in any Shares or Outstanding Options as at the Latest Practicable Date and none of them is expected to participate in the Offers.
- (i) No material contracts have been entered into by Harbour Front in which any Director has a material personal interest.

5. LITIGATION

As at the Latest Practicable Date, save as disclosed in the sub-paragraph headed "Litigation proceedings as reported in the 2005 Annual Report" under the paragraph headed "Information on the Group" in the "Letter from the Board", no member of the Group was engaged in any litigation or claim of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any members of the Group.

6. MATERIAL CONTRACTS

Save for the interim finance agreement dated 5 October 2005 and made between Harbour Front as the lender and the Company as the borrower in relation to an interim financing facility of HK\$20,000,000 as referred to in the sub-paragraph headed "sources of funding" under the paragraph headed "Information on the Group" in the "Letter from the Board", there are no material contracts, not being contracts entered into the ordinary course of business, which were entered into by the Group on or after 7 September 2003, being two years immediately proceeding 7 September 2005, the date of the Announcement and up to the Latest Practicable Date.

7. GENERAL

- (a) The registered office of Harbour Front is P.O. Box 659, Road Town, Tortola, British Virgin Islands and its correspondence address in Hong Kong is at 7th Floor, Aitken Vanson Centre, 61 Hoi Yuen Road, Kwun Tong, Hong Kong. Mrs. Leung, Ms. Leung Chi Yin, Gillian and Mr. Leung Chi Hong, Jerry are the only directors of Harbour Front and each of them holds one-third of the issued share capital of Harbour Front. The business address of each of Mrs. Leung, Ms. Leung Chi Yin, Gillian and Mr. Leung Chi Hong, Jerry is at 7th Floor, Aitken Vanson Centre, 61 Hoi Yuen Road, Kwun Tong, Hong Kong.
- (b) The registered office of AMS is at 20th Floor, Hong Kong Diamond Exchange Building, 8-10 Duddell Street, Central, Hong Kong.
- (c) The registered office of Access Capital is at Suite 606, 6th Floor, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong.
- (d) The registered office of Hercules is at 1503 Ruttonjee House, 11 Duddell Street, Central, Hong Kong.
- (e) The address of the head office and principal place of business in Hong Kong of the Company is at Room 702, 7th Floor, Aitken Vanson Centre, 61 Hoi Yuen Road, Kwun Tong, Hong Kong. As at the Latest Practicable Date, the three executive Directors were Mrs. Leung Yu Oi Ling, Irene, Ms. Leung Chi Yin, Gillian, Mr. Lee Ka Lun, Stephen and the three independent non-executive Directors were Mr. Pao Ping Wing, JP, Professor Yuen Ming Fai, Matthew and Ms. Tse Mei Ha.
- (f) The English text of this document and of the Forms of Acceptance shall prevail over the Chinese text for the purpose of interpretations.

8. CONSENTS AND QUALIFICATIONS

The following are the qualifications of the experts whose opinions are contained or referred to in this document:

Name	Qualification
AMS	A corporation licensed to carry on type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO and the financial adviser to Harbour Front
Access Capital	A corporation licensed to carry on type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO and the agent of Harbour Front to make the Offers

Hercules A corporation licensed to carry on type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee

AMS, Access Capital and Hercules have given and have not withdrawn their written consents to the issue of this document with the inclusion herein of their letters, advice, reports (as the case may be) and the reference to their names, in the form and context in which they respectively appear.

9. THE UNENCUMBERED ASSETS AND THE ACCOUNTS RECEIVABLE UNDER THE SCHEMES

The following table sets out the comparison between the estimated values of the Scheme Assets in the original scheme document and the Scheme Administrator's estimate of the value of the Scheme Assets in a liquidation scenario:

Item	Estimated values in the original scheme document (HK\$,000)	Estimated values in a liquidation scenario (Note 1) (HK\$,000)
FIXED ASSETS		
Motor vehicles	96	0
Plant & machinery	8,398	0
Floating crafts and vessels		
– Scheme Companies (as defined in the Schemes)	9,410	23
Floating crafts and vessels – scheme asset companies	8,950	0
Floating crafts and vessels – Other	2,200	0
OTHER ASSETS		
Erzhou Quarry, Zhuhai, PRC	30,000	0
Shatain, Dongguan, PRC	30,000	20,747 (Note 2)
Agreed credit of royalty from Zhuhai Government	10,000	0
Interests in associated companies	15,613	0
CURRENT ASSETS		
Inventories	10,224	0
Recovery from income of projects subject to litigation	49,100 (Note 3)	0
Accounts Receivable	7,126	0
Other receivables	2,384	0
Total	<u>183,501</u>	<u>20,770</u>

Notes:

1. Realisation and associated costs are excluded and no defective title issue is assumed. As limited information has been provided by the Scheme Companies (as defined in the Schemes) in respect of various Scheme Assets, it is not possible to make an accurate estimate of their current value. In addition, the scheme asset companies are all in a negative net asset position making it very unlikely that there will be realisation proceeds available for distribution after the liabilities of the scheme asset companies have been met.
2. Based on recent independent valuations, substantial costs, and title and administrative issues could affect the disposal of this asset.
3. Of this estimated sum, HK\$23.90 million has already been realised and applied against litigation costs incurred including the relevant legal fee of the Scheme Companies (as defined in the Schemes). The net contribution to the Scheme Funds (as defined in the Schemes) was approximately HK\$4.9 million.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours from 9:30 a.m. to 5:00 p.m. at the principal place of business of the Company at Room 702, 7th Floor, Aitken Vanson Centre, 61 Hoi Yuen Road, Kwun Tong, Hong Kong while the Offers remain open for acceptance:

- (a) the memorandum of association and the bye-laws of the Company and the memorandum and articles of association of Harbour Front;
- (b) the 2004 Annual Report and the 2005 Annual Report;
- (c) a copy of the "Letter from AMS and Access Capital" containing details of the Offers as set out on pages 23 to 31 of this document;
- (d) a copy of the "Letter from the Independent Board Committee" containing the recommendations of the Independent Board Committee to the Independent Shareholders and the Optionholders regarding the Offers as set out on pages 32 to 33 of this document;
- (e) a copy of the "Letter from Hercules" to the Independent Board Committee as set out on pages 34 to 52 of this document; and
- (f) copies of the letters of consent from AMS, Access Capital and Hercules referred to in section headed "Consents and qualifications" in this Appendix.