

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement appears for information purposes only and does not constitute an invitation or offer to acquire, purchase, or subscribe for the securities.



# UDL HOLDINGS LIMITED

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

**(1) PROPOSED SETTLEMENT AGREEMENT AND ISSUE OF PROMISSORY NOTES;  
(2) PROPOSED RIGHTS ISSUE OF RIGHTS SHARES OF HK\$0.01 EACH AT HK\$0.03 PER RIGHTS SHARE,  
PAYABLE IN FULL ON ACCEPTANCE  
(IN THE PROPORTION OF 12 RIGHTS SHARES  
FOR EVERY FIVE EXISTING SHARES HELD);  
(3) VERY SUBSTANTIAL ACQUISITIONS AND CONNECTED TRANSACTIONS; AND  
(4) VERY SUBSTANTIAL DISPOSAL, BUY BACK AND CONNECTED TRANSACTIONS**

## INTRODUCTION

The 2005 Audited Accounts, which reported the net current liabilities of approximately HK\$34,347,000 and a deficiency of assets of approximately HK\$55,617,000 for the Group as at 31 July 2005, were prepared on a going concern basis, the validity of which is dependent upon certain factors as stated in the Auditors' Report contained in the 2005 Annual Report. In order to remove all these uncertain factors other than the uncertainties regarding the Group's ability to discharge the Shortfall Undertaking which will be addressed below, the Board wishes to put forward the following proposals to the Shareholders:

1. the Rights Issue;
2. the Acquisition of a yard holding company (namely YHCD);
3. the Acquisition of the Vessels; and
4. the Disposal.

In short, the above proposals serve the following purposes:

- The Rights Issue and/or the Disposal will (i) strengthen the capital base of the Company and remove the substantial net deficiency of assets of the Group and give it a considerable net assets value; (ii) remove the uncertainties regarding the Group's ability to raise additional equity funding; (iii) provide resources to normalise and expand the Group's businesses, including the resumption of the shipbuilding business; and (iv) provide additional working capital for the Group's operations in the future.
- The Acquisition of the Vessels and/or the Disposal will (i) remove all uncertainties regarding the financial support from the related party lenders to the Group; (ii) remove all uncertainties regarding the ability of the related party lenders to meet their respective payment obligations under the assigned loans; and (iii) allow the Group to expand its business for the supply of various kinds of reconditioned second hand marine engineering vessels.
- The Acquisition of the yard holding company will allow the Group to expand its business related to shipbuilding and structural steel engineering, which has been carried on by the Group since the year ended 31 March 1994, as well as provision of marine engineering services.

## PROPOSED ISSUE OF PROMISSORY NOTES

As stated in the Auditors' Report contained in the 2005 Annual Report, the Group's ability to discharge the Shortfall Undertaking is also one of the factors that may affect the going concern basis of the 2005 Audited Accounts. In order to remove this uncertainty, the Directors have discussed with the Scheme Administrator regarding the settlement of the Shortfall Undertaking in exchange for the issue of the Promissory Notes. The Directors consider that the settlement involving the issue of the Promissory Notes will remove the uncertainties regarding the Group's ability to discharge the Shortfall Undertaking which have become due since the financial year ended 31 July 2004 in accordance with the provisions of the Schemes.

A summary of the background leading to the proposed issue of the Promissory Notes and a summary of the principal terms of the Promissory Notes are set out in the section headed "Proposed Settlement Agreement and issue of Promissory Notes" in this announcement below.

## PROPOSED RIGHTS ISSUE

The Company proposes to raise approximately HK\$71.2 million before expenses by issuing 2,374,133,524 Rights Shares at the Subscription Price of HK\$0.03 per Rights Share on the basis of 12 Rights Shares for every five existing Shares in issue on the Record Date. The Rights Issue is not available to the Excluded Shareholders.

The aggregate number of Rights Shares to be issued pursuant to the terms of the Rights Issue represents approximately 240.00% of the Company's existing issued share capital and approximately 70.59% of the Company's issued share capital as enlarged by the issue of the Rights Shares.

Pursuant to the Underwriting Agreement, Harbour Front has undertaken to the Company that (1) it will procure the 575,442,287 Shares beneficially owned by the Harbour Front Concert Parties at the date of this announcement, representing approximately 58.17% of the existing issued share capital of the Company, will remain registered in the same name and beneficially owned by the Harbour Front Concert Parties on the Record Date; and (2) the Harbour Front Concert Parties including their nominees shall accept, and pay for, all the Rights Shares to be provisionally allotted to the Harbour Front Concert Parties as the holders of such Rights Shares pursuant to the Rights Issue. In addition, Harbour Front has also pursuant to the Underwriting Agreement undertaken to the Company and the Underwriter that it will take up, or procure the Harbour Front Concert Parties or their nominees to take up, in aggregate 565,996,774 excess Rights Shares and pay for such number of excess Rights Shares allocated to it or, as the case may be, them upon the excess Rights Shares are allocated to all Qualifying Shareholders who have applied for the excess Rights Shares. Shareholders should note that in allocating the excess Rights Shares, regards will be made to the principles set out in the paragraph headed "Application for excess Rights Shares" under the section headed "Proposed Rights Issue" in this announcement below and Harbour Front's undertaking will not give it or any other Harbour Front Concert Parties any preference in receiving the allocation of the excess Rights Shares otherwise than in accordance with the said principles.

The Rights Issue (other than the Rights Shares which will be provisionally allotted to the Harbour Front Concert Parties and the minimum number of the excess Rights Shares which Harbour Front has undertaken to take up or procure other Harbour Front Concert Parties to take up) will be fully underwritten by the Underwriter on the terms and subject to the conditions set out in the Underwriting Agreement. Further details of the underwriting arrangement are set out in the paragraph headed "Underwriting arrangement" under the section headed "Proposed Rights Issue" in this announcement below.

The Rights Issue is subject to the approval, on a poll, of the Independent Shareholders at the SGM under the Listing Rules. Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both nil-paid and fully-paid forms.

The Company will make a separate announcement regarding the expected timetable of the Rights Issue, which is expected to be published on the date of despatch of the Circular.

## VERY SUBSTANTIAL ACQUISITIONS AND CONNECTED TRANSACTIONS

On 29 December 2005, (i) the Company and Best Year entered into the YHCD Agreement pursuant to which Best Year has agreed to sell, and the Company has agreed to purchase the YHCD Shares and the YHCD Debts; (ii) the Company and Multi-Ventures entered into the Multi-Ventures Agreement in relation to the acquisition of the 13 vessels more particularly described in the Multi-Ventures Agreement; and (iii) the Company and Buggy entered into the Buggy Agreement in relation to the acquisition of the 20 vessels more particularly described in the Buggy Agreement.

As the aggregate consideration of the Acquisitions represents more than 100% in terms of one of the Percentage Ratios, the Acquisitions constitute very substantial acquisitions of the Company under the Listing Rules. As at the date of this announcement, Harbour Front, being the controlling Shareholder, owned the entire issued shares in Buggy and controlled the management of each of Best Year and Multi-Ventures in the manner as more particularly described below. In view of such relationships between the parties, the Acquisitions also constitute connected transactions of the Company and are therefore subject to the approval, on a poll, of the Independent Shareholders at the SGM under the Listing Rules.

## VERY SUBSTANTIAL DISPOSAL, BUY BACK AND CONNECTED TRANSACTIONS

On 29 December 2005, the Company entered into the Disposal Agreement with Harbour Front, pursuant to which the Company has agreed to sell, and Harbour Front has agreed to purchase by itself or by its designated nominee (i) the Disposal Shares and (ii) the Shareholders' Loan for an aggregate consideration of HK\$2.

As at the date of this announcement, the Company has a 100% attributable interests in UDLHK and UDLS. Both UDLHK and UDLS have substantial net deficiency of assets according to their respective audited accounts for the year ended 31 July 2005. Upon completion of the Disposal Agreement, the Company will cease to have any equity interest in UDLHK and UDLS and each of these companies will cease to be a subsidiary of the Company. Pursuant to Rule 14.06 of the Listing Rules, the Disposal constitutes a very substantial disposal of the Company. As Harbour Front is a connected person of the Company within the meaning of the Listing Rules, the Disposal also constitutes a connected transaction of the Company and is subject to the approval, on a poll, of the Independent Shareholders at the SGM.

By the Buy Back Agreement dated 29 December 2005, the Company has also conditionally agreed to re-purchase certain core vessels of UDLS as described below. The Buy Back also constitutes a connected transaction of the Company and is subject to the approval, on a poll, of the Independent Shareholders at the SGM.

## GENERAL

A Circular containing, among other things, details of the proposed Rights Issue, the Acquisitions, the Disposal and the Buy Back and information on the proposed issue of Promissory Notes, the advice and recommendation of the independent committee of the Board and the independent financial adviser, together with a notice convening the SGM will be despatched to the Shareholders as soon as practicable.

## INTRODUCTION

### Background

In the 2005 Annual Report, it has been reported that:

1. 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 certain principal purposes related to the administration of the Schemes.
2. The Company and the Scheme Administrator have had many discussions as to whether an alternative, more rapid and positive solution could be achieved for the Scheme Creditors. From this, a proposed solution (“**Global Solution**”) has emerged, recorded in the MOU. The goals under the Global Solution which are now targeted to be achieved in 2005 include, among other matters, (a) the settlement of the Shortfall Undertaking; (b) the sale of certain unencumbered Scheme Assets and Accounts Receivables vested in the Scheme Administrator to such person as the Scheme Administrator may in his absolute discretion consider appropriate (including Harbour Front) for HK\$20 million in cash; and (c) an undertaking by Harbour Front to purchase from the Scheme Administrator/Trustee all or such proportion of the Notes as the Scheme Administrator may determine at a price equal to 18/30ths of their normal value, payable in cash.
3. The 2005 Audited Accounts, which reported 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, were prepared on a going concern basis, the validity of which is dependent upon certain factors as stated in the Auditors’ Report. 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 equity funding; (b) the ability of the related party lenders to meet their respective repayment obligations under the assigned loans; and (c) the Group’s ability to discharge the Shortfall Undertaking and the feasibility and efficiency in implementation of the “Global Solution”. Due to the significant net deficits as at 31 July 2005 and the uncertainties as mentioned above, the auditors of the Company were not able to determine whether the going concern basis used in preparing those financial statements was appropriate. Accordingly, they have disclaimed their opinion in respect of this issue.
4. 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.
5. With recent recovery of the local economy and the development in the adjacent areas, the Group has also gradually resumed other business activities, particularly structural steel engineering projects as well as provision of contracting and engineering services, most of which have since the implementation of the Schemes in 2000 been suspended.
6. With the Group’s past experience and operations with extensive customers and vendors network in the shipbuilding industry built up since the 90s’, which closely relates to the marine construction engineering industry, the Group has already resumed its shipbuilding business and received considerable orders for the supply of various kinds of reconditioned second hand marine engineering vessels. These confirmed orders together with other orders, which are close to be concluded, are expected to contribute positively to the Group’s revenue.

## **Proposals**

In order to remove all the uncertain factors as outlined in sub-paragraph 3 under the paragraph headed "Background" above (other than the uncertainties regarding the Group's ability to discharge the Shortfall Undertaking which will be addressed below), the Board wishes to put forward the following proposals to the Shareholders:

1. the Rights Issue;
2. the acquisition of a yard holding company (namely, YHCD);
3. the acquisition of the Vessels; and
4. the Disposal.

In short, the above proposals serve the following purposes:

- The Rights Issue and/or the Disposal will (i) strengthen the capital base of the Company and remove the substantial net deficiency of assets of the Group and give it a considerable net assets value; (ii) remove the uncertainties regarding the ability of the Group to raise additional equity funding; (iii) provide resources to normalise and expand the Group's businesses, including the resumption of the shipbuilding business; and (iv) provide additional working capital for the Group's operations in the future.
- The acquisition of the Vessels and/or the Disposal will (i) remove all uncertainties regarding the financial support from the related party lenders to the Group; (ii) remove all uncertainties regarding the ability of the related party lenders to meet their respective payment obligations under the assigned loans; and (iii) allow the Group to expand its business for the supply of various kinds of reconditioned second hand marine engineering vessels.
- The acquisition of the yard holding company will allow the Group to expand its business related to shipbuilding and structural steel engineering, which has been carried on by the Group since the year ended 31 March 1994, as well as provision of marine engineering services.

As stated in the Auditors' Report contained in the 2005 Annual Report, the Group's ability to discharge the Shortfall Undertaking is also one of the factors that may affect the going concern basis of the 2005 Audited Accounts. In order to remove this uncertainty, the Directors have discussed with the Scheme Administrator regarding the settlement of the Shortfall Undertaking in exchange for the issue of the Promissory Notes. The Directors consider that the settlement involving the issue of the Promissory Notes will remove the uncertainties regarding the Group's ability to discharge the Shortfall Undertaking which has become due since the financial year ended 31 July 2004.

## **PROPOSED SETTLEMENT AGREEMENT AND ISSUE OF PROMISSORY NOTES**

### **Background**

The Company, together with 24 of its then subsidiaries, agreed on the terms and conditions of the Schemes with its creditors in 2000.

The unencumbered Scheme Assets and the Accounts Receivables (as each such term is defined in the Schemes and a summary of which was set out in the Composite Offer Document) were transferred to the Scheme Administrator pursuant to the Schemes when they became effective on 28 April 2000 and then started to be implemented in May 2000 after the completion of the rights issue and acquisition as contemplated by the Schemes. The transfer was completed in mid 2000, and no parties to the MOU could have envisaged at the relevant time the subject matter of the Global Solution.

Under the Trust Deed, the Company has undertaken to the Trustee, being the then Scheme Administrator of the Schemes, that the aggregate net disposal proceeds of the unencumbered Scheme Assets and the Accounts Receivable realised under the Schemes shall not be less than HK\$176 million. Under paragraph 17 of the Schemes, if the realisation or disposal of the unencumbered Scheme Assets cannot be completed within three years from the date on which the Schemes become effective, the new company incorporated for the purposes of the Schemes holding the Scheme Assets shall be obliged to offer the remaining unsold unencumbered Scheme Assets to the public for sale at which the Company or any of its subsidiaries (but not the connected persons of the Company) shall have the right to participate in the bidding for the purchase of such unencumbered Scheme Assets unless the project manager appointed under the Schemes certifies in writing that in his opinion, the costs and expenses of holding a public sale will exceed the estimated selling price of the remaining unsold unencumbered Scheme Assets.

In the event of a shortfall (“**Shortfall**”), the Company is required to make up for 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 (“**Shortfall Undertaking**”). Under the Schemes, the Company may, however, make up for such Shortfall using any part or all of the funds raised by the Company through any fund raising activities.

Since 2000, the Scheme Administrator has encountered numerous difficulties in realising the unencumbered Scheme Assets, due to difficulties in locating and identifying the numerous items of assets, expired licences in relation to the vessels and the quarry, inadequate documents showing the ownership of these assets and lack of funding for repair, fees and charges in order to put these assets in a marketable condition.

As disclosed in the 2005 Annual Report, the Scheme Administrator has informed the Company by a letter dated 14 August 2003 that the Shortfall amounted to, as at 31 July 2003, approximately HK\$170 million and had been liquidated. However, the Company had disputed with the Scheme Administrator on his quantification of the amount of the Shortfall as the Company was of the view that the Scheme Administrator had apparently failed to deal with the realisation of the Scheme Assets in accordance with paragraph 17 of the Schemes (as referred to above). Details of the dispute are set out in Note 2(b) to the 2005 Audited Accounts.

The Company did approach the Scheme Administrator for the purchase of certain of the Scheme Assets in February 2004. However, the Company had not reached any agreement on the terms and conditions of such purchase as the Scheme Administrator considered that he might take only such actions as were expressly or impliedly provided for by the terms of the Schemes and he had no power to accept or even to consider the offer at that time.

On 31 December 2004, in the light of the then prevailing circumstances, the project manager appointed under the Schemes issued a certificate in pursuance of paragraph 17 of the Schemes (as particularly described above) to certify that in his opinion the costs and expenses of holding a public sale would exceed the estimated selling price of the remaining unsold unencumbered Scheme Assets.

Substantive discussions took place in or about July 2005 when the features of the Global Solution emerged. As the Global Solution involves, among other matters, the goals referred to above, Harbour Front was asked by the Scheme Administrator to provide the requisite undertakings as regards the acquisition of Scheme Assets and the put option in respect of the Notes as detailed below about two weeks before the non-binding MOU was signed.

If the Scheme modifications that embody the Global Solution are not approved, the Scheme Administrator intends to apply to court for his release on the ground that the substance of the Schemes has failed.

The Directors are advised that in the explanatory statement to the Scheme Creditors for the purpose of the Scheme modifications, only the land use right for the site in Shatain, Dongguan, the PRC was valued by an independent valuer. The Scheme Administrator, however, considers that substantial outstanding annual and licence fees, and fees, and title and administrative issues including those for restoring the licences of one of the joint ventures holding the land use right could affect the valuation. Due to difficulties in locating and identifying the numerous items of assets, expired licences in relation to the vessels and the quarry and inadequate documents showing the ownership of these assets, no valuation has been carried out in respect of the unencumbered Scheme Assets for the purposes of the explanatory statement in respect of the Scheme modifications.

The estimated value of the Scheme Assets 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 (net of realisations/recoveries already made) in a liquidation scenario is about HK\$20.8 million (such value was disclosed in appendix III to the Composite Offer Document). The consideration for the disposal of the Scheme Assets and Accounts Receivable of HK\$20 million was determined by negotiation between Harbour Front and the Scheme Administrator. The disposal of 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.

Under paragraph 16(d) of the Schemes, connected persons of the Company are prohibited from letting, leasing or licensing the use of any of the unencumbered Scheme Assets. The Directors have been advised that the said paragraph 16(d) and paragraph 17 as referred to above do not, by themselves, prohibit the private sale of the Scheme Assets to a connected person of the Company. The Directors have confirmed that save for paragraphs 16(d) and 17, there are no prohibitions under the Schemes against disposal or leasing of the Scheme Assets to a connected person of the Company. Pursuant to the Scheme modifications, the Scheme Administrator seeks the express authorisation of the Scheme Creditors and the sanction of the court for the sale of Scheme Assets to any person (including any connected persons of the Company, such as Harbour Front) that the Scheme Administrator considers appropriate.

## Settlement Agreement

As stated in the September Announcement, one of the goals of the proposed solution for the Scheme Creditors and as recorded in the MOU, which is non-binding, is to settle the Shortfall Undertaking. It is proposed that the Scheme Administrator/Trustee so appointed after the implementation of the modifications to the Schemes and the Trust Deed will enter into an agreement with the Company (“**Settlement Agreement**”) with the following principal terms:

1. The Scheme Administrator/Trustee releases the Company from the Shortfall Undertaking, in consideration of the issue by the Company to the Scheme Administrator/Trustee (or as the Scheme Administrator/Trustee may direct) of the Notes with an aggregate principal amount of HK\$30 million.
2. The Scheme Administrator is released from any responsibility for repaying to the Company or any of its subsidiaries any amount in respect of (i) a revolving fund of HK\$2 million made available by the Company pursuant to the Schemes for financing the costs of recovering the Accounts Receivables; (ii) a non-revolving interim financing of HK\$3.2 million made available by the Company to the Schemes for its administration costs (as referred to in the Company’s circular dated 23 April 2001); and (iii) expenses incurred by the Company or its subsidiaries in preservation of the Scheme Assets pursuant to the Schemes.

As at 31 July 2005, the aggregate amount in respect of items (i) to (iii) under subparagraph 2 above was approximately HK\$10 million. For the avoidance of doubt, save for the amount in respect of item (ii) being HK\$3.2 million, the exact amounts in respect of items (i) and (iii) have not yet been agreed with the Scheme Administrator in the light of the previous disputes as detailed in Note 2(b) to the 2005 Audited Accounts. Under the Schemes, item (i) is only reimbursable to the Company upon successful recovery of an Account Receivable or defence of an arbitration claim and to the extent of the amount incurred or financed by the Company for the costs of such recovery or arbitration claim out of and capped by the available recovery proceeds or costs award; item (ii) is reimbursable to the Company upon available funding is generated by the Schemes and, should there be no sufficient funds for such reimbursement purpose, to be offset under the Company’s Shortfall Undertaking; and item (iii) is reimbursable to the Company or its scheme participating subsidiaries upon sale of the Unencumbered Assets subject to certain restrictions as detailed in the Schemes. In the event the Settlement Agreement is entered into and performed by the parties, the Company will not be able to recover the expenses incurred under item (ii) above but will still have the right under the Schemes, which have not been modified in this respect, to recover the expenses incurred under items (i) and (iii) should recovery of the concerned Accounts Receivables and realisation of the concerned Unencumbered Assets are successful. The exact amount of recovery of such expenses will be dependant on the exact amount of recovery/realisation proceeds available and subject to certain terms of the Schemes.

It is envisaged that the Settlement Agreement will only deal with the settlement of the Shortfall Undertaking and the issue of the Notes. The disposal of the unencumbered Scheme Assets by the Scheme Administrator, which is one of the other goals of the Global Solution, will be separately documented by the Scheme Administrator with the purchaser (currently, the purchaser identified is Harbour Front) and the Company is not expected to be a party to such sale and purchase agreement. Up to the date of this announcement, no negotiation has been conducted between the Group and Harbour Front as to whether or not the Group will acquire

any of the Scheme Assets from Harbour Front after completion of the Global Solution. In the event of any such future transaction, the Company will comply with the then applicable requirements under the Listing Rules.

As disclosed in Note 2(b) to the 2005 Audited Accounts, the Company did not agree with the Scheme Administrator's quantification of the Shortfall as a substantial portion of the Scheme Assets have not yet been realised. Under the Scheme modifications, the quantum of the Shortfall will be crystallised as the unencumbered Scheme Assets and the Accounts Receivables will be sold at HK\$20 million in cash. The terms of the Notes, including the face value in the amount of HK\$30 million of the Notes, were determined after arms' length negotiation between the Scheme Administrator and the Company. The Company has also had regard to the fact that HK\$30 million represents a discount of about 80% to the net shortfall amount of HK\$140 million (i.e. the amount under the Shortfall Undertaking after deducting the net proceeds recovered by the Scheme Administrator so far and the amounts to be realised or waived under the Global Solution).

According to the MOU which is non-binding, (i) completion of the Settlement Agreement (if so entered into) is conditional on certain conditions precedent while the Company will take steps for the convening of meetings and all other matters for the purpose of satisfying such conditions; (ii) the suggested terms of the Notes are subject to professional advice and where any material change in these terms is considered necessary during the course of preparation of the Notes, mutual agreement has to be made; and (iii) an outline timetable for the settlement is set out in the MOU. Subsequent to the obtaining of approvals for the modifications to the Schemes and the Trust Deed from the Scheme Creditors at the meeting of the Scheme Creditors held on 9 November 2005, the Scheme Administrator/Trustee and the Company on 19 December 2005 and 29 December 2005 have agreed mutually on a non-binding basis, and subject to the sanction of the committee of inspection formed under the Schemes ("**Committee of Inspection**") or the approval of the Court in any event on (i) the refined terms of the Notes to be issued for the discharge of the Shortfall Undertaking after seeking professional advice; (ii) the refined conditions precedent for the completion of the Settlement Agreement; and (iii) the time schedule for the completion of the Settlement Agreement, all of which as detailed below.

### **Terms of the Notes**

As stated in the September Announcement, it was originally proposed that there would be an issue of the convertible notes to the Scheme Administrator in discharge of the Shortfall. Taking into account the maximum number of Shares that may fall to be issued under the convertible notes, the creation and issue of the convertible notes will require the approval by the Shareholders in a general meeting. The Stock Exchange has raised concerns that Harbour Front's interests in the proposed issue of the convertible notes are materially different from the other shareholders of the Company and that Harbour Front should not vote on the resolution in respect of the creation and issue of the originally proposed convertible notes. In view that the court hearing for the sanction of the Scheme modifications are scheduled to be heard in early January 2006, the Company has further discussed with the Scheme Administrator and, with his acknowledgment, agree on, a non-binding basis, to issue the Notes in lieu of the convertible notes so as to expedite the negotiation of the proposed settlement which is in the interests of the Company and the Shareholders as a whole.

As detailed in the refined principal terms below, the Company may elect to repay the Notes by way of issue of new Shares. The Company will take all necessary action to comply with the Listing Rules in respect of such issue of new Shares (which include the obtaining of the approval from the Shareholders in accordance with the Listing Rules).

The refined principal terms of the Notes (now named “**Promissory Notes**”) as mutually agreed on a non-binding basis, between the Scheme Administrator/Trustee and the Company are as follows:

- Aggregate principal amount:* A series of promissory notes in the aggregate principal amount of HK\$30 million in total. Each of the Promissory Notes is divided into four tranches. The aggregate principal amount of each tranche is HK\$7.5 million
- Interest:* 1% per annum payable semi-annually in arrears
- Security:* The Promissory Notes are not secured
- Repayment Dates:* On the seventh day after the expiry of (1) the sixth month; (2) the 12th month; (3) the 18th month; and (4) the 24th month from the date of issue of the Promissory Notes (each, a “**Due Date**”)
- Right of election:* The Company will be given a right to elect to settle the whole or any part of the amount due on each Due Date by the issue of Shares to the holders of the Promissory Notes at a price equal to the higher of (1) 91% of the average closing price of the Shares as quoted on the Stock Exchange daily quotation sheets in the 20-day period immediately preceding each Due Date; and (2) the nominal value of the Shares. Before exercising any such right of election on the Due Date, the Company would obtain all requisite approvals from the Shareholders, and that of the Stock Exchange for the listing of, and permission to deal in the Shares
- Transferability:* The Promissory Notes are freely transferable by the holder(s) and the subsequent transferee(s) giving a notice of transfer to the Company.
- Listing:* No application will be made for the listing of, or permission to deal in, the Promissory Notes on the Stock Exchange or any other stock exchange.
- Before the Company exercises its rights of election referred to above, application for the listing of, and permission to deal in, the relevant Shares will be made to the Stock Exchange.
- Voting rights:* The Promissory Notes do not entitle the holder(s) thereof any right to vote at the general meetings of the Company



## **Signing of the Settlement Agreement**

Under the Schemes which were sanctioned by the High Court of Hong Kong on 18 April 2000, the obligation of the Company to pay the Shortfall shall arise upon the commencement of the fourth financial year of the Company after the financial year in which the Schemes became effective and shall continue until all the Shortfall shall have been eliminated by payments to be made in respect of subsequent financial years subject to the restrictions as detailed in the Scheme. In addition, the Company may make up for the Shortfall using any or all part of any funds raised by the Company through any fund raising activities provided that such use is not prohibited. The Directors were authorised by the independent shareholders at a general meeting on 24 March 2000 to take all necessary steps and to do all other things and execute all documents which may be necessary or desirable for the purpose of giving effect to or carrying into effect the terms and provisions of the Schemes. The legal advisers to the Company on the Schemes have advised the Company that it is therefore within the power of the Directors to enter into the Settlement Agreement involving the issue of the Promissory Notes for release from the Shortfall Undertaking which have become due since the financial year ended 31 July 2004. Accordingly, the entering into of the Settlement Agreement and the issue of the Promissory Notes will not be subject to any further approval by the Shareholders. If however, the Directors decide before each Due Date it is desirable for the Company to discharge the whole or any part of the amount due under the Promissory Notes by the issue of Shares, approvals will first be sought from the Shareholders subject to applicable regulatory constraints. The Directors will apply for the approval of the Stock Exchange for the listing of, and permission to deal in, the Shares to be issued in discharge of any amount due on a Due Date before exercising any such right of election. In the event these requisite approvals for exercising of the Company's right of election in respect of any of the Promissory Notes could not be obtained, the relevant tranche of such Promissory Notes which is due shall be settled by cash payment.

## **Completion and condition of the Settlement Agreement**

Completion of the Settlement Agreement shall take place within 14 days or such later date as the Scheme Administrator/Trustee and the Company may mutually agree after all clearance required under the Listing Rules and if so necessary other regulatory requirements necessary for completion of the Settlement Agreement having been obtained.

The Company contemplates and intends to fulfill this condition precedent within 60 days or such later date as the Scheme Administrator/Trustee and the Company may mutually agree after implementation of the modifications to the Schemes and the Trust Deed. The Company will take steps for all matters for the purpose of satisfying such a condition, and will use its best efforts to obtain satisfaction of such a condition.

Assuming that the Scheme modifications are sanctioned by the court in January 2006, it is expected that the Settlement Agreement will be completed in late March 2006.

The Scheme Creditors have approved the modifications to the Schemes and the Trust Deed (which allow the Scheme Administrator/Trustee to proceed with the settlement of the Shortfall Undertaking as proposed above subject to the terms of modifications to the Scheme) at the meeting held on 9 November 2005. The modifications are, however, still subject to the sanction of the High Court of Hong Kong. Application for sanctioning the modifications has been issued by the Scheme Administrator on 16 December 2005 and such application is now scheduled to be heard on 3 January 2006.

Apart from the MOU, certain correspondences between the Company and the Scheme Administrator and his legal advisers regarding certain logistics concerning the modifications to the Schemes and the above-mentioned non-binding mutual agreement regarding (i) the refined terms of the Notes after seeking professional advice; (ii) the refined conditions for the completion of the Settlement Agreement; and (iii) the time schedule for the completion of the Settlement Agreement, no other documents in respect of the settlement of the Shortfall Undertaking has been entered into between the Company and the Scheme Administrator. The Settlement Agreement is expected to be entered into after the sanction of the modifications to the Schemes by the High Court of Hong Kong but the exact timing will need to be determined by the Scheme Administrator in line with the overall administration of the Schemes. Unless the Scheme Administrator otherwise elects, it is intended by him that the release of the Shortfall Undertaking and the other goals of the Global Solution will only be effected when the Scheme Administrator/Trustee has received respectively the HK\$30 million Promissory Notes from the Company and/or the purchase consideration from Harbour Front at 18/30ths of the face value at the request of the Scheme Administrator and also the consideration in cash for other goals of the Global Solution. Further announcements will be made by the Company upon the execution of the Settlement Agreement and the issue of the Promissory Notes.

**Put option in respect of the Notes (now called Promissory Notes)**

The Promissory Notes are transferable. Pursuant to the MOU, Harbour Front has granted to the Scheme Administrator/Trustee a put option, exercisable by the Scheme Administrator/Trustee within seven days from the issue of the Notes, whereby Harbour Front will purchase and the Scheme Administrator/Trustee will sell the Notes in part or in whole as the Scheme Administrator/Trustee may determine, at a price equal to 18/30ths of the principal amount of the Notes so put to Harbour Front and such purchase price shall be payable in cash immediately. According to the explanatory statement for the modifications of the Schemes issued to the Scheme Creditors, the Scheme Administrator intends to invite the non-preferential Scheme Creditors to elect whether they wish their relevant entitlement to the Notes to be sold to Harbour Front for cash and the proceeds then distributed to them, or whether they wish to receive a distribution of Notes in specie.

It was stated in the September Announcement that Harbour Front would, subject to compliance with all applicable legal and regulatory requirements, make available the Notes so purchased by it by a clawback offer to the Shareholders at a price equal to 18/30ths of their nominal value plus the transaction costs pro rata to their respective shareholdings in the Company. The rationale behind such proposed clawback offer was to give the Shareholders a right to participate in the issue of the convertible notes (if they are so put to Harbour Front) so that they may be able to minimise, as far as practicable, the dilution effect of the issue of such convertible notes. Under the current structure of the Promissory Notes, given that it is unclear at this stage whether the Company will exercise its right of election on or before each Due Date to discharge all or any part of the Notes by an issue of Shares and whether or not the requisite approvals from the shareholders and the Stock Exchange would be obtained, Harbour Front considers and has decided, that it is not appropriate to proceed with the clawback offer.

The Directors (including the independent non-executive Directors) consider that the terms of the Global Solution, as far as the Company and the Shareholders are concerned, are fair and reasonable.

## **PROPOSED RIGHTS ISSUE**

### **Issue statistics**

<i>Basis of the Rights Issue</i>	:	12 Rights Shares for every five existing Shares held on the Record Date
<i>Number of existing Shares in issue</i>	:	989,222,302 Shares as at the date of this announcement
<i>Number of Rights Shares</i>	:	2,374,133,524 Rights Shares

The nil-paid Rights Shares proposed to be provisionally allotted pursuant to the terms of the Rights Issue represents approximately 240.00% of the Company's existing issued share capital and approximately 70.59% of the Company's issued share capital as enlarged by the issue of the Rights Shares.

### **Share option scheme**

As at the date of this announcement, there are no outstanding share options granted under the share option scheme of the Company or any other warrants, options or securities convertible into Shares.

### **Subscription Price**

The Subscription Price for the Rights Shares is HK\$0.03 per Rights Share, payable in full when a Qualifying Shareholder accepts his/her/its provisional allotment under the Rights Issue or applies for excess Rights Shares or when a transferee of nil-paid Rights Shares subscribes for the Rights Shares.

#### **The Subscription Price**

- is equal to the closing price of HK\$0.03 per Share as quoted on the Stock Exchange on 29 December 2005, being the Last Trading Day; and
- represents a discount of approximately 24.33% to the average closing price of HK\$0.0373 per Share for the 10 consecutive trading days up to and including 29 December 2005, being the Last Trading Day.

The Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter with reference to the market price of the Shares in the past six months and that under prevailing market conditions. Each Shareholder is entitled to subscribe for the Rights Shares at the same price in proportion to his/her/its existing shareholding in the Company. The Directors (other than the independent non-executive Directors whose opinion will be formed after considering the advice and recommendation of the independent financial adviser) consider the Subscription Price to be fair and reasonable and to be in the interests of the Company and the Shareholders as a whole.

### **Status of the Rights Shares**

The Rights Shares, when allotted and fully-paid, will rank pari passu with the then existing Shares in issue in all respects. Holders of such Rights Shares will be entitled to receive all future dividends and distributions which are declared after the date of allotment and issue of the Rights Shares.

### **Application for excess Rights Shares**

Qualifying Shareholders are entitled to apply for any unsold entitlements of the Excluded Shareholders, unsold Rights Shares created by adding together fractions of the Rights Shares and any nil-paid Rights Shares provisionally allotted but not accepted.

Applications may be made by completing the form of application for excess Rights Shares and lodging the same with a separate remittance for the excess Rights Shares. The Directors will allocate the excess Rights Shares at their discretion on a fair and equitable basis on the following principles:

- (1) preference will be given to applications for less than a board lot of Rights Shares where they appear to the Directors that such applications are made to round up odd-lot holdings to whole-lot holdings;
- (2) allocation of the excess Rights Shares will be made in proportion to the number of nil-paid Rights Shares provisionally allotted to those Qualifying Shareholders who also have applied for the excess Rights Shares (“**Respective Proportion**”). Any excess Rights Shares remaining after satisfying the allocation under principle (1) above will firstly be allocated to the Qualifying Shareholders according to the Respective Proportion and, subject to the availability of excess Rights Shares, applications by the Qualifying Shareholders whose number of excess Rights Shares being applied for are equal to or less than the number of excess Rights Shares allocated according to their Respective Proportion will be satisfied in full;
- (3) any further remaining excess Rights Shares be allocated to applicants in proportion to the excess Rights Shares applied by them after netting off their respective entitlements as calculated in (2) above; and
- (4) in accordance with any further requirements of the Stock Exchange.

Pursuant to the Underwriting Agreement, Harbour Front has undertaken in favour of the Company and the Underwriter to take up and/or procure the Harbour Front Concert Parties or their nominees to take up in aggregate 565,996,774 excess Rights Shares and pay for such number of excess Rights Shares allocated to it or, as the case may be, them upon the excess Rights Shares are allocated to all Qualifying Shareholders who have applied for the excess Rights Shares. Shareholders should note that in allocating the excess Rights Shares, regards will be made to the principles set out above and Harbour Front’s undertaking will not give it or any other Harbour Front Concert Parties any preference in receiving the allocation of the excessive Rights Shares otherwise than in accordance with the said principles.

#### **Fractional entitlements**

Fractional entitlements for the nil-paid Rights Shares will not be issued but will be aggregated and sold, if a premium (net of expenses) can be obtained, for the benefit of the Company.

#### **Share certificates for the Rights Shares**

Subject to the fulfilment of the conditions of the Rights Issue, certificates for all fully-paid Rights Shares are expected to be posted to Qualifying Shareholders who have accepted and applied for (where appropriate), and paid for the Rights Shares by ordinary post at their own risk.

#### **Qualifying Shareholders**

The Company will send the Rights Issue Documents to the Qualifying Shareholders only.

To qualify for the Rights Issue, the Shareholder must be registered as a member of the Company at the close of business on the Record Date. However, Overseas Shareholders whose names appear on the register of members of the Company at the close of business on the Record Date to whom the Board, based on legal opinions provided by legal advisers if the Board considers it necessary, considers it necessary or expedient not to offer the Rights Shares on account either of legal restrictions

under the laws of relevant place or the requirements of the relevant regulatory body or stock exchange in that place will not be regarded as Qualifying Shareholders.

The Company retains the right, however, in its discretion to vary the requirements set out above to avoid any offer of Rights Shares to Shareholders (without compliance with registration or other legal requirements) outside Hong Kong.

### **Rights of Excluded Shareholders**

The Rights Issue Documents will not be registered or filed under the applicable securities or equivalent legislation of any jurisdiction other than Hong Kong and Bermuda. The Company will send the Prospectus (without the provisional allotment letters and forms of application for excess Rights Shares) to the Excluded Shareholders for their information only.

Arrangements will be made for the Rights Shares, which would otherwise have been provisionally allotted to the Excluded Shareholders in nil-paid form, to be sold as soon as practicable after dealings in nil-paid Rights Shares commence, if a premium, net of expenses, can be obtained. The proceeds of each sale, less expenses, of HK\$100 or more will be paid to the Excluded Shareholders in Hong Kong dollars pro rata to their respective shareholding. The Company will keep individual amounts of less than HK\$100 for its own benefit.

### **Application for listing of the Right Shares on the Stock Exchange**

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

Nil-paid Rights Shares are expected to be traded in board lots of 40,000 (Shares then in issue are traded in board lots of 40,000). Dealings in nil-paid and fully-paid Rights Shares will be subject to the payment of stamp duty in Hong Kong.

### **Conditions of the Rights Issue**

The Rights Issue is conditional upon the following conditions being fulfilled:

- (1) the passing by the Independent Shareholders at the SGM of an ordinary resolution to approve the Rights Issue (including, but not limited to, the exclusion of the offer of the Rights Issue to the Excluded Shareholders);
- (2) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in all the Rights Shares (in their nil-paid and fully-paid forms); and
- (3) the Underwriting Agreement becoming unconditional and not being terminated by the Underwriter in accordance with its terms.

### **Reasons for the Rights Issue and the use of proceeds**

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.

Upon the full subscription of the Rights Shares, the Company will receive, net of expenses, approximately HK\$69.7 million. The Directors intend to use the net proceeds of the Rights Issue as follows:

- as to approximately HK\$5.0 million to be applied towards partial repayment of the interim finance with principal amount of HK\$20 million provided to the Group by Harbour Front as referred to in the Composite Offer Document;
- as to approximately HK\$63.4 million to be applied towards payment for the consideration of the Acquisitions; and

- as to approximately HK\$1.3 million to be applied towards the general working capital of the Group.

As stated in the September Announcement and the Composite Offer Document, in order for the Company to fund its operations in the future, the Company would be required to implement certain fund raising plans, which may include (but not limited to) rights issue or other equity financing methods. The Directors (other than the independent non-executive Directors whose opinion will be formed after considering the advice and recommendation of the independent financial adviser) consider that it is in the best interest of the Company and the Shareholders to raise further capital by way of the Rights Issue which will allow all Qualifying Shareholders the opportunity to maintain their respective pro rata shareholding interests in the Company.

## **Underwriting arrangements**

### ***Underwriting Agreement***

Date: 29 December 2005

Parties:

- (1) the Company
- (2) Harbour Front, the controlling shareholder of the Company, which together with its parties acting in concert is interested in approximately 58.17% of the existing issued share capital of the Company
- (3) the Underwriter, immediately before the signing of the Underwriting Agreement did not have any interest in any Shares

Number of Shares underwritten: 427,075,262 Rights Shares (being the total number of 2,374,133,524 Rights Shares to be provisionally issued under the Rights Issue excluding the number of Rights Shares which Harbour Front has agreed to take up or procure the taking up as described below) (“**Underwritten Shares**”)

Undertakings by Harbour Front Pursuant to the Underwriting Agreement, Harbour Front has undertaken to the Company that (1) it will procure the 575,442,287 existing Shares beneficially owned by the Harbour Front Concert Parties at the date of this announcement, representing approximately 58.17% of the existing issued share capital of the Company, will remain registered in the same names and beneficially owned by the Harbour Front Concert Parties on the Record Date; and (2) the Harbour Front Concert Parties including their nominees shall accept, and pay for, all the Rights Shares to be provisionally allotted to the Harbour Front Concert Parties and their nominees (if applicable) as the holders of such Rights Shares pursuant to the Rights Issue. In addition, Harbour Front has also pursuant to the Underwriting Agreement undertaken in favour of the Company and the Underwriter to take up and/or procure the Harbour Front Concert Parties or their nominees to take up in aggregate 565,996,774 excess Rights Shares provided that their applications shall be treated in accordance with the allocation principles mentioned in the paragraph headed “Application for excess Rights Shares” above and rank pari passu with all other application for excess Rights Shares made by other Qualifying Shareholders.

For the purposes of earlier commencement of the business expansion after the Group had focused their efforts in formulating and implementing solutions for resolving the difficulties of the Group since the last financial year ended 31 July 2005, Harbour Front has also agreed to pre-pay its subscription monies for the Rights Shares provisionally allotted to it under the Rights Issue after the ordinary resolution approving the Rights Issue is duly passed by the Independent Shareholders if such pre-payment is requested by the Company.

Commission: 2.25% of the total Subscription Price of the Rights Shares underwritten by the Underwriter.

***Conditions of the Underwriting Agreement***

The obligations of the Underwriter in underwriting the Underwritten Shares is conditional upon:

- (1) the Company despatching the Circular to the Shareholders containing, among other matters, details of the Rights Issue together with the proxy form and the notice of SGM;
- (2) the passing by the Independent Shareholders at the SGM of an ordinary resolution to approve the Rights Issue (including, but not limited to, the exclusion of the offer of the Rights Issue to the Excluded Shareholders) by no later than 28 February 2006;
- (3) each of the conditions precedent to the Acquisitions (other than the condition relating to the Rights Issue having become unconditional and completed) is fulfilled;
- (4) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in all the Rights Shares (in their nil-paid and fully-paid forms);
- (5) the filing and registration of all documents relating to the Rights Issue, which are required to be filed or registered with the Registrar of Companies in Hong Kong in accordance with the Companies Ordinance and the filing of all documents relating to the Rights Issue, which are required to be filed with the Registrar of Companies in Bermuda in accordance with the Companies Act of Bermuda;
- (6) the posting of the Prospectus and related documents to the Qualifying Shareholders; and
- (7) compliance with and performance of all the undertakings and obligations of each of the Company and Harbour Front under the terms of Underwriting Agreement.

None of the Company, Harbour Front and the Underwriter may waive conditions (1), (2), (4), (5) and (6) set out above. The Underwriter may waive condition (7) above in whole or in part by written notice to the Company and Harbour Front and by mutual agreement between the Company, Harbour Front and the Underwriter, condition (3) above may be waived in whole or in part.

If any of the conditions of the Underwriting Agreement are not fulfilled or waived on or before 28 February 2006 (or such later time and/or date as the Company and the Underwriter may determine), neither the Company nor the Underwriter shall have any rights or be subject to any obligations arising from the Underwriting Agreement and the Rights Issue will not proceed.

***Termination of the Underwriting Agreement***

The Underwriting Agreement contains provisions granting the Underwriter, by notice in writing, the right to terminate its obligations thereunder on the occurrence of certain events. The Underwriter may terminate its commitment under the Underwriting Agreement prior to the Latest Time for Termination if prior to the Latest Time for Termination:

- (1) in the reasonable opinion of the Underwriter, the success of the Rights Issue would be materially and adversely affected by:
  - (a) the introduction of any new regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Rights Issue; or
  - (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof), of a political, military, financial, economic or other nature, or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
  - (c) any material adverse change in the business or in the financial or trading position or prospects of the Group as a whole; or
  - (d) there occurs or comes into effect the imposition of any moratorium, suspension or material restriction on trading in the Shares generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or
- (2) any material adverse change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading in securities, and a change in currency conditions for the purpose of this clause includes a change in the system under which the value of the Hong Kong currency is pegged with that of the currency of the United States of America) occurs which in the reasonable opinion of the Underwriter makes it inexpedient or inadvisable to proceed with the Rights Issue; or
- (3) the Circular or the Prospectus when published contain information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date of the Underwriting Agreement been publicly announced or published by the Company and which may in the reasonable opinion of



the Underwriter is material to the Group as a whole upon completion of the Rights Issue and is likely to affect materially and adversely the success of the Rights Issue.

If the Underwriting Agreement is terminated by the Underwriter on or before the Latest Time for Termination or does not become unconditional, the Rights Issue will not proceed.

***Put option in respect of the Underwritten Shares***

Pursuant to the Underwriting Agreement, Harbour Front has granted a put option to the Underwriter and its sub-underwriters (if any) in respect of the Underwritten Shares that shall have been taken up by each Underwriter and its sub-underwriters (if any) in pursuance of their respective underwriting or sub-underwriting commitment under the Rights Issue (“**Taken-up Underwritten Shares**”).

Upon the exercise of the put option by the Underwriter and its sub-underwriters (if any), Harbour Front will be required to purchase the Taken-up Underwritten Shares at HK\$0.03 each, i.e. the same as the Subscription Price. Such put option is exercisable twice during a period of 12 months from the date of issue of the Promissory Notes and will only become exercisable by the Underwriter and each of its sub-underwriters (if any), in respect of its Taken-up Underwritten Shares which remain registered in its name throughout the period from the date of issue of the Taken-up Underwritten Shares until (and including) the date when the option is exercised, if the issued share capital of the Company is increased as a result of the allotment and issue of new Shares pursuant to the terms and conditions of the Promissory Notes. In addition, such put option is only exercisable by the Underwriter and each of its sub-underwriters (if any), in respect of its Taken-up Underwritten Shares, to the extent, in performing its obligations under the put option, Harbour Front will not cause the Company in breach of the minimum public float requirement stipulated under Rule 8.08 of the Listing Rules.

**WARNING OF THE RISK OF DEALING IN THE SHARES AND NIL-PAID RIGHTS SHARES**

**If the conditions of the Rights Issue are not fulfilled and/or waived, or the Underwriting Agreement is terminated by the Underwriter, the Rights Issue will not proceed and the Rights Issue will lapse.**

**Any persons contemplating buying or selling Shares from the date of this announcement up to the date on which all the conditions of the Rights Issue are fulfilled, and any dealings in the Rights Shares in their nil-paid form, bear the risk that the Rights Issue may not become unconditional or may not proceed.**

**Any Shareholders or other persons contemplating dealings in the Shares or nil-paid Rights Shares are recommended to consult their own professional advisers.**

## Shareholding structure of the Company before and after the Rights Issue

The following table illustrates the shareholding change as a result of the Rights Issue:

	As at the date of this announcement		Assuming all rights entitlements are taken up by the respective Shareholder		Assuming no Shareholders (other than the Harbour Front Concert Parties) have taken up their rights entitlements and 565,996,774 excess Rights Shares are allocated to Harbour Front in pursuance of the Underwriting Agreement	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
Harbour Front Concert Parties	575,442,287	58.17%	1,956,503,775	58.17%	2,522,500,549	75.00%
Non-public (Note 1)	4,800	(Note 2)	16,320	(Note 2)	4,800	(Note 2)
Public Scheme Administrator and Scheme Creditors (Note 3)	252,306,195	25.51%	857,841,063	25.51%	252,306,195	7.50%
Other public Shareholders	161,469,020	16.32%	548,994,668	16.32%	161,469,020	4.80%
Underwriter and sub-underwriter(s) (if any)	–	–	–	–	427,075,262	12.70%
	<u>989,222,302</u>	<u>100%</u>	<u>3,363,355,826</u>	<u>100%</u>	<u>3,363,355,826</u>	<u>100%</u>

### Notes:

1. These Shares are registered in the name of the spouse of Professor Yuen Ming Fai, Matthew, one of the independent non-executive Directors.
2. The percentage shareholding is negligible.
- 3.1 As disclosed in the section headed “Substantial Shareholders” in 2005 annual report of the Company for the purposes of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), the Scheme Administrator was interested in 252,306,195 Shares (the “Scheme Shares”) as at 31 July 2005. Such Scheme Shares are being held by the Scheme Administrator on trust for the benefits of the non-preferential Scheme Creditors. For the avoidance of doubt, the Shares held by the Scheme Administrator at present rank *pari passu* (i.e. equally) in all aspects (including voting rights) with the issued Shares.

- 3.2 *As stated in the SFC's panel decision from the Takeovers and Mergers Panel dated 28 September 2001, the Scheme Shares were allotted to the Scheme Administrator to hold "on trust for the non-preferential Scheme Creditors pending their distribution" and it was held that such Scheme Shares do carry "currently exercisable" voting rights. Under the Scheme, the only stated powers given to the Scheme Administrator in relation to the Scheme Shares are to receive, hold and distribute them to the Scheme Creditors upon proof of their claims. According to the Schemes (as further clarified by the modifications to the Schemes), certain important powers of the Scheme Administrator and Trustee can be exercised only with the sanction of the Committee of Inspection or the approval of the Court. As confirmed by the Scheme Administrator, voting rights of the Scheme Shares is considered as an important power of the Scheme Administrator which will be exercised only with the sanction of the Committee of Inspection or the approval of the Court. According to the register of members of the Company, the shareholding of the Scheme Administrator remains unchanged as at the date of this announcement. The non-preferential Scheme Creditors cannot exercise the voting rights attached to such 252,306,195 Shares until the distribution of the Shares by the Scheme Administrator. The Committee of Inspection currently comprises The Hongkong and Shanghai Banking Corporation Limited, Bank of America (Asia) Limited and Natexis Banques Populaires. Harbour Front has never been a member of the Committee of Inspection.*
- 3.3 *According to the information available to the Company, no non-preferential Scheme Creditors will for the sole reason of distribution of the Scheme Shares by the Scheme Administrator, be entitled to hold 10% or more of the issued share capital of the Company.*
- 3.4 *As disclosed in the section headed "Global Solution" in the Company's composite document dated 12 October 2005, Harbour Front is independent of the Scheme Administrator save that it is one of the non-preferential Scheme Creditors through previous acquisition of debts from creditors under the Schemes after the Schemes became effective on 28 April 2000. A total of nearly 800 claims have been submitted under the Schemes, totalling approximately HK\$5.15 billion. The total claims submitted by Harbour Front amounted to approximately HK\$856 million. Admitted scheme debts to which Harbour Front is entitled amount to approximately HK\$230 million, representing less than 13% of the aggregate amount of all admitted scheme debts and held over claims under the Schemes. As stated in the section headed "Total Consideration" in the Composite Offer Document, the Company has consulted the Scheme Administrator, currently Mr. Matthew Finbarr O'Driscoll, on his intention regarding the Scheme Shares and has been advised that the Scheme Administrator intends to distribute a significant portion of the Scheme Shares to non-preferential Scheme Creditors as soon as the proposed modifications to the Schemes and the Trust deed are adopted but subject to the completion of the Global Solution. As the process for the adoption of such modifications still require sanctioning by the Court and the exact timing and outcome of the Global Solution are still uncertain, it is not possible to predict accurately whether or not and when the Scheme Administrator would be in a position to make such distribution of Shares, Harbour Front's entitlements to the Scheme Shares is uncertain and cannot yet be quantified given that the adjudication of claims submitted to the Scheme Administrator has not been completed.*
- 3.5 *As disclosed in section headed "Shareholding Structure" in the Company's circular dated 1 March 2000 and accordingly to updated information available to the Company, save for Harbour Front, the Scheme Administrator and the non-preferential Scheme Creditors are not connected with the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates (as such terms are defined in the Listing Rules). Also so far as the Directors are aware, save for Harbour Front Concert Parties, none of the Scheme Creditors is a connected person of the Company (within the meaning of the Listing Rules).*

Shareholders and public investors should note that the above shareholding changes are for illustration purposes only and the actual changes in the shareholding structure of the Company upon completion of the Rights Issue are subject to various factors, including the results of acceptance of the Rights Issue. Shareholders should be reminded that under the proposed refined terms of the Promissory Notes as detailed above, the Company shall have a right of election to settle the Promissory Notes by the issue of new Shares. Before exercising any such right of election, the Company however would need to obtain all requisite approvals from the Shareholders, and

that of the Stock Exchange for the listing of, and permission to deal in the Shares. Further announcements will be made by the Company if the Company decides to exercise the rights of election.

### **Expected timetable**

The Company will make a separate announcement regarding the expected timetable of the Rights Issue, which is expected to be published on the date of despatch of the Circular.

### **VERY SUBSTANTIAL ACQUISITIONS AND CONNECTED TRANSACTIONS**

The Directors are pleased to announce that three acquisition agreements were entered into between the Company and Best Year, Multi-Ventures and Bussy, respectively on 29 December 2005. Details of the Acquisitions, involving the YHCD Agreement, the Multi-Ventures Agreement and the Bussy Agreement are set out below.

#### **(1) YHCD Agreement**

**Date** : 29 December 2005

**Parties** : (i) Best Year, an investment holding company incorporated in Hong Kong with limited liability (as vendor). The relationship between Best Year and the Group is more particularly described in the paragraph headed "Relationship between the parties and implication of the Listing Rules" in this section below; and  
(ii) the Company (as purchaser).

**Subject matter of the YHCD Agreement** : the YHCD Shares, being 700,000 issued shares of S\$1 each in the capital of YHCD, a company incorporated in Singapore and is engaged in shipbuilding and repairing, and structural steel engineering activities including offshore engineering related services, and the non-interesting and unsecured YHCD Debts

#### **Consideration**

The consideration of HK\$23,000,000 of which the amount of about HK\$21,249,000 and about HK\$1,751,000 are attributable to the YHCD Shares and the YHCD Debts respectively. The consideration was determined following arms' length negotiation between Best Year and the Company with reference to the net asset value of YHCD (approximately HK\$25,131,000 and the book value of the YHCD Debts (approximately HK\$1,751,000) as at 31 March 2005 in the light of the appraised value of a property leased, under a long-term lease by YHCD, being its principal asset. The discount of the aggregate consideration of the YHCD Shares and the YHCD Debts to the net asset value of YHCD is therefore approximately HK\$2,131,000.

The shareholding of YHCD was acquired by Best Year in August 2000 at nominal value as YHCD had deficiency of assets together with significant outstanding obligations to banks and rentals at that time. Best Year has subsequent to becoming the shareholder of YHCD provided or procured financial resources to YHCD amounting to approximately HK\$19 million for payment of YHCD's operating expenses, including outstanding rental, running rental and necessary costs and expenses for operating premises.

The portion of consideration payable under the YHCD Agreement attributable to the YHCD Shares is subject to pro tanto downward adjustments in the event that the audited net asset value of YHCD as at Completion is less than HK\$21,249,000.

The portion of consideration payable under the YHCD Agreement attributable to the YHCD Debts is subject to pro tanto downward adjustment in the event that the YHCD Debt as at Completion is less than HK\$1,751,183.

The consideration shall be paid by the Company to Best Year in cash at completion of the YHCD Agreement.

***Completion and conditions of the YHCD Agreement***

Completion of the YHCD Agreement shall take place on the second Business Day falling on the date on which all the following conditions are fulfilled or, as the case may be, waived:

- (1) the Independent Shareholders approving, by way of ordinary resolution and on a poll at the SGM, the YHCD Agreement and the transactions contemplated therein and all other consents and acts required under the Listing Rules being obtained and completed or, as the case may be, the relevant waiver from compliance with any of such rules being obtained from the Stock Exchange;
- (2) if necessary, all approvals, consents, authorisations and licences in relation to the change of beneficial ownership of YHCD as contemplated by the YHCD Agreement having been obtained from the requisite government or regulatory authorities or any third parties;
- (3) the legal opinion regarding, among others, the legality and validity of YHCD's incorporation and operations and the subsistence and YHCD's interests in its property to be issued before the completion of the YHCD Agreement by a firm of Singapore lawyers in such form and substance to the satisfaction of the Company having been obtained;
- (4) the Company being satisfied with the results of the review of the assets, liabilities, activities, operations, prospects and affairs of YHCD in accordance with the provisions in the YHCD Agreement;
- (5) the Rights Issue becoming unconditional and is completed in accordance with the Underwriting Agreement; and
- (6) the Company being satisfied that the Multi-Ventures Agreement and the Buggy Agreement having been completed contemporaneously with or immediately after completion of the YHCD Agreement in accordance with their respective terms.

The Company is entitled to waive the conditions specified above in whole or in part except for the conditions referred to in paragraphs (1) and (3). If any of the above conditions has not been satisfied (or, as the case may be, waived by the Company) at or before 12:00 noon on 30 April 2006, or such later date as the Company may agree, the YHCD Agreement shall cease and determine and none of the parties shall have any obligations and liabilities thereunder save for any prior breaches. The Directors advise that the Company will only waive the condition referred to in paragraph (5) subject to the

payment in advance of subscription proceeds by Harbour Front pursuant to its undertaking in the Underwriting Agreement and the Company being satisfied that the Rights Issue will be completed in accordance with its terms and for the other conditions if so necessary to suit the particular circumstances subject to proper professional advice.

***Information on YHCD***

YHCD is a private company incorporated under the laws of Singapore and is operating a yard together with a factory building and water frontage for the usage by engineering operations including offshore engineering works. YHCD has an authorised capital of S\$2,000,000 divided into 2,000,000 shares of S\$1 each and 700,000 fully paid shares of which have up to the date of this announcement been issued and beneficially owned by Best Year.

The audited net profit/(loss) of YHCD (prepared in accordance with Singapore Standards on Auditing) for the two years ended 31 March 2005 was approximately as follows:

	<b>For the year ended 31 March 2004</b>	<b>For the year ended 31 March 2005</b>
Net profit/(loss) (before taxation and extraordinary items)	HK\$26,062	(HK\$101,130)
Net (loss) (after taxation and extraordinary items)	(HK\$20,147)	(HK\$133,478)

The audited net asset value of YHCD (prepared in accordance with Singapore Standards on Auditing) as at 31 March 2004 and 31 March 2005 was approximately S\$614,535 (equivalent to approximately HK\$2,839,766) and S\$5,438,428 (equivalent to approximately HK\$25,130,976) respectively. As at 31 March 2005, the audited value of YHCD Debts amounted to approximately S\$378,962 (equivalent to approximately HK\$1,751,183).

***Reasons for the acquisition of YHCD***

The Group's shipbuilding business started well before the 90s' and in 1991 when the Company became listed on the Stock Exchange, this business sector contributed over 22% of the Group's overall turnover of approximately HK\$252 million. Shipbuilding business then remained one of the important business segments of the Group in the subsequent years. Started from the year ended 31 March 1995, the shipbuilding business started to be integrated with the marine engineering business to fulfill the huge ship repair requirements of the Group's own large fleet of marine engineering vessels. Shipbuilding business operation was very important logistic support for the Group's marine engineering operations and also reduced the Group's external repair and maintenance expenses substantially.

The Group's structural steel engineering business started in the year ended 31 March 1994 when the Group acquired UDLAEH (as defined below), together with the related building services business, this business sector contributed over 36% of the Group's overall turnover of approximately HK\$1,339 million. In the subsequent year, structural steel engineering has developed into an individual business segment of the Group and remained so up to the implementation of the Schemes in mid 2000.

The principal activity of the Company is investment holding and the principal activities of its principal subsidiaries are marine engineering including shipbuilding and repair and provision of miscellaneous engineering and management services including structural steel engineering.

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. Turnover attributable to such business amounted to HK\$1.541 million and HK\$1.808 million for the years ended 31 July 2004 and 31 July 2005, representing approximately 7.9% and 16.3% of the Group's total turnover for the respective year.

With the recovery of the local economy and the development in the adjacent areas, the Group has also picked up other business activities, such as structural steel engineering, which have since the implementation of the Schemes in 2000 been suspended. Turnover attributable to such business amounted to HK\$0.5 million and HK\$4.069 million for the years ended 31 July 2004 and 31 July 2005, representing approximately 2.6% and 36.7% of the Group's total turnover for the respective year.

Through the acquisition of YHCD, being the yard holding company, the Group aims at enhancing its recurrent income and further expanding its shipbuilding and repairing, and structural steel engineering business including offshore engineering related services by utilising the assets of YHCD for engineering operations. Due to the up surge of requirements in Singapore for fabricating and building capacity of shipbuilding and structural steel engineering nature from the oil, gas and offshore engineering industries and together with the high profile emphasis placed on such development by the Singapore government, the growth of the related manufacturing product industry for offshore exploration and production facilities has been steadily increased for some seven years. It is expected the Group could expand its business into (i) the modules fabrication of topside installation for oil/gas production platforms; (ii) fabrication of offshore rig components as outsource segment of work from the major proprietary product builders; and (iii) minor components such as pipework and ancillary installations.

A portion of the yard leased by YHCD under a long term lease is currently utilised by other Independent Third Parties under engineering service agreements with various durations. This is expected to generate a steady income for the Group, in addition to the engineering business developed and operated by the Group, if the completion of the YHCD Agreement takes place in accordance with its terms.

The Directors (excluding the independent non-executive Directors whose view will be formed after considering the advice and recommendation of the independent financial adviser) are of the view that the terms of the YHCD Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Shareholders as a whole.

(2) **Multi-Ventures Agreement**

**Date** : 29 December 2005

**Parties** : (i) Multi-Ventures, an investment holding company incorporated in Hong Kong with limited liability (as vendor). The relationship between Multi-Ventures and the Group is more particularly described in the paragraph headed “Relationship between the parties and implication of the Listing Rules” in this section below; and  
(ii) the Company (as purchaser).

**Subject matter of the Multi-Ventures Agreement** : 13 vessels

**Consideration**

The aggregate consideration of HK\$5,440,000 for the 13 vessels were determined after arm’s length negotiation between the Company and Multi-Ventures and on normal commercial terms with reference to the prevailing market price and valuations.

Among the 13 vessels agreed to be sold under the Multi-Ventures Agreement, eight vessels will be sold by Multi-Ventures as registered and beneficial owner and five vessels as beneficial owner and authorised agent of the registered owner. Multi-Ventures purchased the vessels at an aggregate consideration of approximately HK\$9 million during the past six years.

Multi-Ventures and the Company will jointly instruct a valuer to carry out a valuation of the 13 vessels as at a date not earlier than three months prior to Completion. The consideration payable under the Multi-Ventures Agreement is subject to pro tanto downward adjustments if the aggregate valuation of the 13 vessels is less than HK\$5,440,000.

The consideration of the 13 vessels shall be paid by the Company to Multi-Ventures in cash at completion of the Multi-Ventures Agreement.

**Completion and conditions of the Multi-Ventures Agreement**

Completion of the Multi-Ventures Agreement shall take place on the second Business Day falling on the date on which all the following conditions are fulfilled or, as the case may be, waived:

- (1) the Independent Shareholders approving, by way of ordinary resolution and on a poll at the SGM, the Multi-Ventures Agreement and the transactions contemplated therein and all other consents and acts required under the Listing Rules being obtained and completed or, as the case may be, the relevant waiver from compliance with any of such rules being obtained from the Stock Exchange;
- (2) if necessary, all approvals, consents, authorisations and licences in relation to the change of beneficial ownership of the 13 vessels as contemplated by the Multi-Ventures Agreement having been obtained from the requisite government or regulatory authorities or any third parties;



- (3) the Rights Issue becoming unconditional and is completed in accordance with the Underwriting Agreement; and
- (4) the Company being satisfied that the YHCD Agreement and the Buggy Agreement having been completed contemporaneously with or immediately after completion of the Multi-Ventures Agreement in accordance with their respective terms.

The Company is entitled to waive the conditions specified above in whole or in part except for the condition referred to in paragraph (1). If any of the above conditions has not been satisfied (or, as the case may be, waived by the Company) at or before 12:00 noon on 30 April 2006, or such later date as the Company may agree, the Multi-Ventures Agreement shall cease and determine and none of the parties shall have any obligations and liabilities thereunder save for any prior breaches. The Directors advise that the Company will only waive the condition referred to in paragraph (3) above subject to payment in advance of subscription proceeds by Harbour Front pursuant to its undertaking in the Underwriting Agreement, and the Company being satisfied that the Rights Issue will be completed in accordance with its terms and for the other conditions if so necessary to suit the particular circumstances subject to proper professional advice.

***Information on the 13 vessels***

The 13 vessels are crafts and vessels for general marine transportation and engineering supporting services.

***Reasons for the acquisition of the 13 vessels***

The Group's shipbuilding business started well before the 90s' and in 1991 when the Company became listed on the Stock Exchange, this business sector contributed over 22% of the Group's overall turnover of approximately HK\$252 million. Shipbuilding business then remained one of the important business segments of the Group in the subsequent years. Started from the year ended 31 March 1995, the shipbuilding business started to be integrated with the marine engineering business to fulfil the huge ship repair requirements of the Group's own large fleet of marine engineering vessels. Shipbuilding business operation was very important logistic support for the Group's marine engineering operations and also reduced the Group's external repair and maintenance expenses substantially.

The principal activity of the Company is investment holding and the principal activities of its principal subsidiaries are marine engineering including shipbuilding and repairing and provision of miscellaneous engineering and management services including structural steel engineering.

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. Turnover attributable to such business amounted to HK\$1.541 million and HK\$1.808 million for the years ended 31 July 2004 and 31 July 2005 representing 7.9% and 16.3% of the Group's total turnover for the respective year.

The Group intends to acquire the 13 unencumbered vessels for sale after reconditioning so as to further expand its operation in the supply of reconditioned second hand marine engineering vessels. Subject to the marine engineering construction market conditions, the vessels could also be used in the Group's operations if not sold.

The Directors (excluding the independent non-executive Directors whose view will be formed after considering the advice and recommendation of the independent financial adviser) are of the view that the terms of the Multi-Ventures Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Shareholders as a whole.

**(3) Bugsy Agreement**

**Date** : 29 December 2005

**Parties** : (i) Bugsy, an investment holding company incorporated in Hong Kong with limited liability and is 100% beneficially owned by Harbour Front (as vendor); and  
(ii) the Company (as purchaser).

**Subject matter of the Bugsy Agreement** : 20 vessels

**Consideration**

The aggregate consideration of HK\$35,000,000 for the 20 vessels were determined after arm's length negotiation between the Company and Bugsy and on normal commercial terms with reference to the prevailing market price and valuations.

Among the 20 vessels to be sold under the Bugsy Agreement, 16 vessels will be sold by Bugsy as registered and beneficial owner and four vessels as beneficial owner and authorised agent of the registered owner. Bugsy purchased the vessels at an aggregate consideration of approximately HK\$37 million during the past five years.

Bugsy and the Company will jointly instruct a valuer to carry out a valuation of the 20 vessels as at a date not earlier than three months prior to Completion. The consideration payable under the Bugsy Agreement is subject to pro tanto downward adjustments if the aggregate valuation of the 20 vessels is less than HK\$35,000,000.

The consideration of the 20 vessels shall be paid by the Company to Bugsy in cash at completion of the Bugsy Agreement.

**Completion and conditions of the Bugsy Agreement**

Completion of the Bugsy Agreement shall take place on the second Business Day falling on the date on which all the following conditions are fulfilled or, as the case may be, waived:

- (1) the Independent Shareholders approving, by way of ordinary resolution and on a poll at the SGM, the Bugsy Agreement and the transactions contemplated therein and all other consents and acts required under the Listing Rules being obtained and completed or, as the case may be, the relevant waiver from compliance with any of such rules being obtained from the Stock Exchange;

- (2) if necessary, all approvals, consents, authorisations and licences in relation to the change of beneficial ownership of the 20 vessels as contemplated by the Buggy Agreement having been obtained from the requisite government or regulatory authorities or any third parties;
- (3) the Rights Issue becoming unconditional and is completed in accordance with the Underwriting Agreement; and
- (4) the Company being satisfied that the YHCD Agreement and the Multi-Ventures Agreement having been completed contemporaneously with or immediately after completion of the Buggy Agreement in accordance with their respective terms.

The Company is entitled to waive the conditions specified above in whole or in part except for the condition referred to in paragraph (1). If any of the above conditions has not been satisfied (or, as the case may be, waived by the Company) at or before 12:00 noon on 30 April 2006, or such later date as the Company may agree, the Buggy Agreement shall cease and determine and none of the parties shall have any obligations and liabilities thereunder save for any prior breaches. The Directors advise that the Company will only waive the condition referred to in paragraph (3) above subject to payment in advance of subscription proceeds by Harbour Front pursuant to its undertaking in the Underwriting Agreement and the Company being satisfied that the Rights Issue will be completed in accordance with its terms and for the other conditions if so necessary to suit the particular circumstances subject to proper professional advice.

***Information on the 20 vessels***

The 20 vessels are marine engineering vessels suitable for marine engineering construction use or general transportation purposes.

***Reasons for the acquisition of the 20 vessels***

The Group's shipbuilding business started well before the 90s' and in 1991 when the Company became listed on the Stock Exchange, this business sector contributed over 22% of the Group's overall turnover of approximately HK\$252 million. Shipbuilding business then remained one of the important business segments of the Group in the subsequent years. Started from the year ended 31 March 1995, the shipbuilding business started to be integrated with the marine engineering business to fulfil the huge ship repair requirements of the Group's own large fleet of marine engineering vessels. Shipbuilding business operation was very important logistic support for the Group's marine engineering operations and also reduced the Group's external repair and maintenance expenses substantially.

The Acquisition of these 20 vessels provides the Group with a broadened base of resources to normalise and expand its existing principal businesses, in particular the marine construction engineering business. Furthermore, the Acquisition will also enable the Company to maintain a complete fleet of vessels for general marine engineering operation after the Disposal, the implementation of which is to (i) remove all uncertainties regarding the financial support from the related party lenders to the Group; and (ii) remove all uncertainties regarding the ability of the related party lenders to meet their respective payment obligations under the assigned loans and yet maintaining a core fleet of vessels for its continued business in marine engineering construction without solely relying on the outcome of the granting

of the new vessel loan as detailed below in the section headed “Very substantial disposal, Buy Back and connected transactions” in this announcement below.

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 to be acquired by the Group under the Buggy Agreement. 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) 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. Turnover attributable to such business amounted to HK\$1.541 million and HK\$1.808 million for the years ended 31 July 2004 and 31 July 2005, representing 7.9% and 16.3% of the Group’s total turnover for the respective year.

The Group intends to acquire the 20 unencumbered vessels primarily for the marine engineering construction operation of the Group. Subject to market condition, some of vessels could also be sold after reconditioning so as to further expand its operation in the supply of reconditioned second hand marine engineering vessels.

The Directors (excluding the independent non-executive Directors whose view will be formed after considering the advice and recommendation of the independent financial adviser) are of the view that the terms of the Buggy Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Shareholders as a whole.

### **Relationship between the parties and implication of the Listing Rules**

Currently, Harbour Front is the controlling shareholder of the Company.

As at the date on which the YHCD Agreement, the Multi-Ventures Agreement and the Buggy Agreement were entered into,

- Harbour Front could influence each of the two corporate directors of Best Year, being the vendor to the YHCD Agreement, on its decisions in relation to the financial and operation aspects of Best Year;
- Harbour Front could influence each of the three corporate directors of Multi-Ventures, being the vendor to the Multi-Ventures Agreement, on its decisions in relation to the financial and operation aspects of Multi-Ventures; and

- Bussy, being the vendor to the Bussy Agreement, was a wholly owned subsidiary of Harbour Front.

In view of the above relationships between parties, each of the transactions contemplated under the YHCD Agreement, the Multi-Ventures Agreement and the Bussy Agreement constitutes a connected transaction of the Company for the purposes of Chapter 14A of the Listing Rules.

As the aggregate consideration of the Acquisitions represent more than 100% in terms of one of the Percentage Ratios, the Acquisitions constitute very substantial acquisitions of the Company for the purposes of Chapter 14 of the Listing Rules.

Accordingly, the Acquisitions (as contemplated under the YHCD Agreement, Multi-Ventures Agreement and the Bussy Agreement) are required to be approved, on a poll, by the Independent Shareholders pursuant to Rules 14.49 and Rule 14A.17 of the Listing Rules. The Circular containing, among other matters, further details of the Acquisitions, the advice and recommendation of the independent committee of the Board and the independent financial adviser, and the notice of the SGM will be despatched to the Shareholders as soon as practicable.

## **VERY SUBSTANTIAL DISPOSAL, BUY BACK AND CONNECTED TRANSACTIONS**

### **Disposal Agreement**

*Date* : 29 December 2005

*Parties* : (i) the Company (as vendor); and  
(ii) Harbour Front or its designated nominee (as purchaser). Harbour Front is the trustee of a unit trust which is beneficially owned by a discretionary trust, the beneficiaries of which include two executive Directors (namely, Mrs. Leung Yu Oi Ling, Irene and Ms. Leung Chi Yin, Gillian) and certain of their family members

*Subject matter of the Disposal Agreement* : (i) the 4,000,000 shares of HK\$1 each in UDLHK (representing the entire issued shares in UDLHK);  
(ii) the 2,000,000 shares of S\$1 each in UDLS (representing the entire issued shares in UDLS), both owned by the Company, and  
(iii) the Shareholders' Loans

### **Consideration**

The aggregate consideration for the sale and purchase of (i) the Disposal Shares; and (ii) the Shareholders' Loans is HK\$2 and shall be paid by Harbour Front to the Company in cash upon completion of the Disposal Agreement.

Due to (i) the substantial net deficiency of assets of UDLHK and UDLS; (ii) uncertainties regarding the financial support from the related party lenders to the Group; and (iii) uncertainties regarding the ability of the related party lenders to meet their respective payment obligations under the assigned loans, all as reported in the 2005 Audited Accounts, the shareholding in these two companies has practically no commercial value.

### ***Completion and conditions of the Disposal Agreement***

Completion of the Disposal Agreement shall take place on the second Business Day falling on the date on which all the following conditions are fulfilled or, as the case may be, waived:

- (1) the Independent Shareholders approving, by way of ordinary resolution and on a poll at the SGM, the Disposal Agreement and the transactions contemplated thereby and all other consents and acts required under the Listing Rules being obtained and completed or, as the case may be, the relevant waiver from compliance with any of such rules being obtained from the Stock Exchange; and
- (2) if necessary, all approvals, consents, authorisations and licences in relation to the change of beneficial ownership of UDLS and UDLHK as contemplated by the Disposal Agreement having been obtained from the requisite government or regulatory authorities or any third parties.

The Company is entitled to waive the condition referred to in paragraph (2) above. If any of the above conditions has not been satisfied (or, as the case may be, waived by the Company) at or before 12:00 noon on 30 April 2006, or such later date as Harbour Front may agree, the Disposal Agreement shall cease and determine and none of the parties shall have any obligations and liabilities thereunder save for any prior breaches. The exact timing of completion of the Disposal will be determined by the Company in line with the progress and completion of the Acquisitions and the Rights Issue. It is intended that the Disposal will be completed after completion of the Acquisitions. The Directors advise that the Company will only waive the condition referred to in paragraph (2) if so necessary to suit the particular circumstances subject to proper professional advice.

### **Information on UDLHK and UDLS**

#### ***UDLHK***

UDLHK is a private company incorporated under the laws of Hong Kong which has an authorised capital of HK\$5,000,000 divided into 5,000,000 shares of HK\$1 each, 4,000,000 fully paid shares of which were as at the date of this announcement beneficially owned by the Company. UDLHK is engaged in marine engineering.

The audited net loss of UDLHK (prepared in accordance with SSAPs) for the two years ended 31 July 2005 were as follows:

	<b>For the year ended 31 July 2004</b>	<b>For the year ended 31 July 2005</b>
Net (loss) (before taxation and extraordinary items)	HK\$(5,828,942.54)	HK\$(7,841,544.98)
Net (loss) (after taxation and extraordinary items)	HK\$(5,828,942.54)	HK\$(7,841,544.98)

The audited net deficiency of assets of UDLHK (prepared in accordance with Hong Kong GAAP) as at 31 July 2004 and 31 July 2005 was approximately HK\$22.189 million and HK\$26.918 million respectively.

### *UDLS*

UDLS is a private company incorporated under the laws of Singapore which has an authorised share capital of S\$2,000,000 divided into 2,000,000 shares of S\$1 each, 2,000,000 fully paid shares of which have up to the date of this announcement been issued and beneficially owned by the Company. UDLS is engaged in marine engineering and its principal assets are vessels. The vessels of UDLS had an audited net book value of approximately HK\$54,500,000 as at 31 July 2005 and are now being pledged as security for a loan made to the Group of approximately HK\$71,448,000. Amongst these vessels, there are some core vessels desirable for the use of the marine engineering construction by the Group subject to business needs as detailed below.

The audited net loss of UDLS (prepared in accordance with Singapore Standards on Auditing) for the two years ended 31 July 2005 was as follows:

	<b>For the year ended 31 July 2004</b>	<b>For the year ended 31 July 2005</b>
Net loss (before taxation and extraordinary items)	HK\$(1,347,619.55)	HK\$(17,573,874.11)
Net loss (after taxation and extraordinary items)	HK\$(1,347,619.55)	HK\$(17,573,874.11)

The audited net deficiency of assets of UDLS (prepared in accordance with Singapore Standards on Auditing) as at 31 July 2004 and 31 July 2005 was approximately HK\$24.969 million and HK\$31.359 million respectively.

Based on the 2005 Audited Accounts and the audited results for UDLHK, the Shareholders' Loans amounted to approximately HK\$18,869,000 and the amount of Shareholders' Loans contributed by UDLHK and UDLS are HK\$8,786,000 and HK\$10,083,000 respectively.

### **Reasons for the Disposal and Buy Back**

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. The principal assets of UDLHK and UDLS are vessels. The vessels of UDLHK had a net book value of approximately HK\$20,900,000 and out of which approximately HK\$16,550,000 worth vessels are security for a loan of approximately HK\$29,042,000 both as per audited financial statements of the Company and audited results for UDLHK for the year ended 31 July 2005. The vessels of UDLS had a net book value of approximately HK\$54,500,000 being security for a loan of approximately HK\$71,448,000 both as per audited financial statements of the Company for the year ended 31 July 2005. Both of the loans of UDLHK and UDLS are also secured by a floating charge on all their respective assets.

UDLHK and UDLS are not principal operating subsidiaries of the Company. The principal activities/businesses of the Group currently are not conducted through UDLHK or UDLS and are conducted through UDL Argos Engineering & Heavy Industries Company Limited (“UDLAEH”) and UDL Ship Management Limited (“USM”). The contribution of each of UDLHK, UDLS, UDLAEH and USM (before consolidation elimination) to the Group’s assets and operating results according to the 2005 Audited Accounts and audit results for these subsidiaries are as follows:

The Group/ individual company	Revenue		Profit/ (Loss)	Net assets/ (deficiency of assets)		Total assets
	HK\$’000	%	HK\$’000	HK\$’000	%	HK\$’000
The Group	11,093	100%	(27,471)	(55,617)	100%	97,043
UDLHK	0	0%	(7,842)	(26,918)	49%	20,978 (Note 1)
UDLS	1,659	15%	(17,573)	(31,359)	56%	56,443 (Note 2)
UDLAEH	4,069	37%	122	(1,466)	N.A.	3,730
USM	5,734	52%	(1,647)	(4,122)	N.A.	8,033

Notes:

1. The total assets of UDLHK mainly comprised of floating craft and vessels which had a book value of HK\$20.9 million as at 31 July 2005. These vessels are currently not used in the marine engineering business operation of the Group.
2. The total assets of UDLS mainly comprised of floating craft and vessels which had a book value of HK\$54.5 million as at 31 July 2005. Nine of such vessels are core vessels of the Group and are subject to the Buy Back arrangement as described below.

As announced previously and disclosed in the 2005 Annual Report, the assigned loans now owing by UDLHK and UDLS to the related party lenders will be due for repayment on 1 August 2006. There has not been any substantive negotiation between the Group and each of the related party lenders recently as regards how such loans shall be repaid or refinanced when they fall due. The Group has continued to handle disposal of the non-core vessels as described in the Company’s previous announcements. The Disposal will (i) remove all uncertainties regarding the financial support from the related party lenders to the Group; and (ii) remove all uncertainties regarding the ability of the related party lenders to meet their respective payment obligations under the assigned loans.

The Group is close to concluding 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 expected to be not less than US\$4.6 million. Such loan is expected to be available after the completion of the Global Solution and is intended to help financing the Group’s purchase of the core vessels from UDLS, through the Buy Back arrangement as described below, without being affected by its deficiency of assets and the significant outstanding amount of the existing secured vessel loan. The audited book value of such nine core vessels was approximately HK\$38 million as at 31 July 2005 and they are marine engineering vessels suitable for marine engineering construction use or general transportation purposes.

As stated in the section headed “Very substantial acquisitions and connected transactions”, the Group’s shipbuilding business started well before the 90s’ and in 1991 when the Company became listed on the Stock Exchange, this business sector contributed over 22% of the Group’s overall turnover of approximately HK\$252 million. Shipbuilding business then remained one of the important business segments



of the Group in the subsequent years. Started from the year ended 31 March 1995, the shipbuilding business started to be integrated with the marine engineering business to fulfill the huge ship repair requirements of the Group's own large fleet of marine engineering vessels. Shipbuilding business operation was very important logistic support for the Group's marine engineering operations and also reduced the Group's external repair and maintenance expenses substantially.

In order to implement the Buy Back arrangement under which the Group will acquire nine core vessels from UDLS, the Company, as purchaser, also entered into the Buy Back Agreement with Harbour Front who has agreed to procure the disposal of the relevant core vessels owned by UDLS to the Company (or its nominee) on 29 December 2005. Completion of the Buy Back Agreement is conditional upon (i) completion of the Disposal Agreement in accordance with its terms; (ii) the Group has obtained sufficient funding (whether by way of equity fund raising and/or bank borrowings) to pay the purchase price under the Buy Back Agreement; and (iii) where the core vessels are subject to any encumbrances, the Company is satisfied that all such encumbrances have been released or will be released upon completion of the Buy Back, and the completion shall take place on the second Business Day falling on the date on which all the above conditions are fulfilled or as regards condition (iii), waived by the Company. If any of the conditions set out above has not been satisfied (or, in respect of condition (iii), waived by the Company) at or before 12:00 noon on 31 July 2006, or such later date as the Company may agree, the Buy Back Agreement shall cease and determine and none of the parties shall have any obligations and liabilities thereunder save for any prior breaches.

The consideration for the Buy Back will be approximately HK\$38 million, which is equal to the audited book value of the core vessels concerned as at 31 July 2005 and is payable in cash at completion. Harbour Front and the Company will jointly instruct a valuer to carry out a valuation of the nine core vessels as at a date not earlier than three months prior to Completion. The consideration payable under the Buy Back Agreement is subject to pro tanto downward adjustments if the aggregate valuation of the nine core vessels is less than HK\$38 million.

In the event that the new loan cannot be obtained and the Buy Back cannot be implemented while business needs arise, the Group has the alternative to apply some of the vessels acquired under the Acquisitions for its marine engineering operations.

The Directors (excluding the independent non-executive Directors whose view will be formed after considering the advice and recommendation of the independent financial adviser) are of the view that the terms of each of the Disposal Agreement and the Buy Back Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Shareholders as a whole.

#### **Financial effect of the Disposal and Buy Back**

UDLHK and UDLS are wholly-owned subsidiaries of the Company and their financial results are consolidated with those of the Company.

After completion of the Disposal, the Company no longer holds any shareholding interest in UDLHK and UDLS and therefore each of UDLHK and UDLS will cease to be a subsidiary of the Company. According to the 2005 Audited Accounts and audited results for UDLHK and UDLS, the deficiency of assets of the Group contributed by UDLHK and UDLS amounting to approximately HK\$16.9 million and HK\$20.6 million respectively (before any further accounting adjustments as necessary) will be removed from the consolidated account of the Company upon the deconsolidation of UDLHK and UDLS and, accordingly there will be a positive effect on the financial position of the Group.

As the consideration for the Buy Back is expected to be equal or close to the audited book value of the core vessels concerned as at 31 July 2005, the Buy Back is not expected to have any material impact on the net asset value of the Group (as a whole).

### **Relationship between the parties and implication of the Listing Rules**

As stated above, Harbour Front is the current controlling shareholder of the Company and upon completion of the Disposal Agreement, UDLS will become a wholly owned subsidiary of Harbour Front. As such, each of the transactions contemplated under the Disposal Agreement and the Buy Back Agreement constitutes a connected transaction of the Company for the purposes of Chapter 14A of the Listing Rules.

As the aggregate consideration value of the total assets under the Disposal (with or without the Buy Back) represent more than 75% in terms of one of the Percentage Ratios, the Disposal constitutes a very substantial disposal of the Company for the purposes of Chapter 14 of the Listing Rules.

Accordingly, each of the Disposal and the Buy Back is required to be approved, on a poll, by the Independent Shareholders pursuant to Rules 14.49 and Rule 14A.17 of the Listing Rules. The Circular containing, among other matters, further details of the Disposal, the advice and recommendation of the independent committee of the Board and the independent financial adviser, and the notice of the SGM will be despatched to the Shareholders as soon as practicable.

## **GENERAL**

### **Proposed share consolidation and issue of preference shares**

At the special general meeting of the Company held on 22 August 2003, resolutions were passed to approve the proposed share consolidation and creation and issuance of preference shares. As a result of the various legal proceedings as detailed in the audited financial statements of the Company set out in the Company's annual reports for the year ended 31 July 2004 and for the year ended 31 July 2005 respectively, such proposals have not, up to the date of this announcement, been implemented. The Company wishes to take this opportunity to inform the Shareholders and the public that it is the intention of the Company not to proceed with any of such proposals.

### **Circular, SGM and Rights Issue Documents**

The Circular containing, among other things, details of the Settlement Agreement including the proposed issue of the Promissory Notes, the proposed Rights Issue, the Acquisitions and the Disposal including the Buy Back, the advice and recommendation of the independent committee of the Board and the independent financial adviser in respect of the Rights Issue, the Acquisitions and the Disposal and the related Buy Back, together with a notice convening the SGM will be despatched to the Shareholders as soon as practicable.

The Rights Issue Documents setting out details of the Rights Issue will be despatched to the Qualifying Shareholders as soon as practicable, subject to the conditions set out under the paragraph headed "Conditions of the Rights Issue" in the section headed "Proposed Rights Issue" above being satisfied.

### **Board**

As at the date of this announcement, the Board comprises three executive Directors namely Mrs. Leung Yu Oi Ling, Irene, 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.

For the purposes of advising the independent Shareholders on (i) the Rights Issue; (ii) the Acquisitions; and (iii) the Disposal and the related Buy Back, an independent board committee, comprising the three independent non-executive Directors, will be formed by the Board. The Company has appointed Hercules Capital Limited as the independent financial adviser to advise the said independent board committee.

## **DEFINITIONS**

In this announcement, the following expressions have the meanings set out below unless the context otherwise requires:

“2005 Annual Report”	the annual report of the Company for the financial year ended 31 July 2005
“2005 Audited Accounts”	the audited consolidated financial statements of the Group for the year ended 31 July 2005, the text of which are set out in the 2005 Annual Report
“associate(s)”	shall have the same meaning as in the Listing Rules
“Acquisitions”	collectively: <ol style="list-style-type: none"><li>(1) the acquisition of the YHCD Shares and the YHCD Debts pursuant to the YHCD Agreement;</li><li>(2) the acquisition of the 13 vessels pursuant to the Multi-Ventures Agreement; and</li><li>(3) the acquisition of the 20 vessels pursuant to the Buggy Agreement.</li></ol>
“Audited YHCD Completion Accounts”	the proforma profit and loss account for the period commencing from 31 March 2005, the date to which the audited accounts YHCD and its subsidiaries are made up and ending on the date of completion of the YHCD Agreement and the proforma consolidated balance sheet of YHCD and its subsidiaries as at the date of completion of the YHCD Agreement as issued in accordance with the provisions of the YHCD Agreement
“Best Year”	Best Year (Asia) Limited, a company incorporated in Hong Kong with limited liability and the management of which is controlled by Harbour Front. Best Year is the vendor to the YHCD Agreement
“Board”	the board of Directors
“Buggy”	Buggy Development Company Limited, a company incorporated in Hong Kong with limited liability and is 100% beneficially owned by Harbour Front. Buggy is the vendor to the Buggy Agreement
“Buggy Agreement”	the agreement dated 29 December 2005 entered into between Buggy as vendor and the Company as purchaser for the acquisition of 20 marine engineering vessels

“Buy Back”	the purchase of certain core vessels from Harbour Front by the Group pursuant to the Buy Back Agreement
“Buy Back Agreement”	the conditional agreement dated 29 December 2005 entered into between Harbour Front as vendor and the Company as purchaser for the sale and purchase of certain core vessels as referred to in the paragraph headed “Reasons for the Disposal and Buy Back” under the section headed “Very substantial disposal, Buy Back and connected transactions” in this announcement
“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 open for business
“Circular”	the circular containing, among other things, details of the settlement proposal under the Settlement Agreement, the issue of the Convertible Notes, the Rights Issue, the Acquisitions and the Disposal and the Buy Back, together with a notice convening the SGM to be despatched to the Shareholders as soon as practicable
“Company”	UDL Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“Composite Offer Document”	The composite offer and response document dated 12 October 2005 issued jointly by the Company and Harbour Front
“Disposal”	the disposal of the Disposal Shares and the Shareholders’ Loans pursuant to the Disposal Agreement
“Disposal Agreement”	the conditional agreement dated 29 December 2005 entered into between the Company as vendor and Harbour Front as purchaser for the sale and purchase of the entire issued shares in UDLHK and UDLS and the Shareholders’ Loans
“Director(s)”	the director(s) of the Company
“Disposal Shares”	together (i) the 4,000,000 shares of HK\$1 each in UDLHK (representing the entire issued shares in UDLHK); and (ii) the 2,000,000 shares of S\$1 each in UDLS (representing the entire issued shares in UDLS), both owned by the Company

“Excluded Shareholders”	Overseas Shareholders to whom the Board, based on legal opinions provided by legal advisers if the Board considers it necessary, considers it necessary or expedient not to offer the Rights Shares on account either of legal restrictions under the laws of relevant place or the requirements of the relevant regulatory body or stock exchange in that place
“Group”	the Company and its subsidiaries from time to time
“Harbour Front”	Harbour Front Limited, a company incorporated in the British Virgin Islands, the controlling shareholder of the Company
“Harbour Front Concert Parties”	Harbour Front and parties acting in concert with it
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong GAAP”	the generally accepted accounting principles in Hong Kong
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Independent Shareholders”	Shareholders other than Harbour Front and its associates
“Latest Time for Termination”	4:00 p.m. on the third Business Day after the latest time for acceptance of the offer of the Rights Shares as provided in the Underwriting Agreement
“Last Trading Day”	29 December 2005, being the last full trading day of the Shares prior to the release of this announcement
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“MOU”	the memorandum of understanding dated 12 August 2005 and executed by the Company, Harbour Front and the Scheme Administrator as regards a proposed solution for the Scheme Creditors
“Multi-Ventures”	Multi-Ventures Limited, a company incorporated in Hong Kong with limited liability, the management of which is controlled by Harbour Front. Multi-Ventures is the vendor to the Multi-Ventures Agreement
“Multi-Ventures Agreement”	the conditional agreement dated 29 December 2005 and entered into between Multi-Ventures as vendor and the Company as purchaser for the acquisition of 13 marine engineering vessels
“Notes”	the notes proposed to be issued to the Scheme Administrator (on behalf of the Scheme Creditors) in settlement of the Shortfall Undertaking, suggested terms of which are set out in the MOU

“Overseas Shareholder(s)”	the Shareholder(s) whose name(s) appear(s) on the register of members of the Company on the Record Date and whose registered address(es) on that date is/are outside Hong Kong
“Percentage Ratios”	the percentage ratios (other than the equity ratio) under Rule 14.07 of the Listing Rules
“PRC”	the People’s Republic of China, which, for the purpose of this announcement, excludes, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Prospectus”	the prospectus to be issued by the Company in relation to the Rights Issue
“Qualifying Shareholder(s)”	the Shareholder(s), other than the Overseas Shareholder(s), whose name(s) appear(s) on the register of members of the Company on the Record Date
“Record Date”	a date to be specified by the Company in the Circular in accordance with the relevant regulations or requirements for ascertaining the entitlements under the Rights Issue
“Remaining UDL Group”	the Group immediately after completion of the Disposal Agreement
“Rights Issue”	the proposed issue of Rights Shares on the basis of 12 Rights Shares for every five existing Shares to Qualifying Shareholders by way of rights or to holders of nil-paid Rights Shares at the Subscription Price, pursuant to the terms and conditions of the rights issue
“Rights Issue Documents”	the Prospectus, the provisional allotment letter and the form of application for excess Rights Shares
“Rights Share(s)”	2,374,133,524 new Share(s) to be issued by the Company pursuant to the Rights Issue
“Scheme Administrator”	the Scheme Administrator as defined in the Schemes (currently Mr. Matthew Finbarr O’ Driscoll)
“Scheme Creditors”	shall bear the meaning as ascribed to it under the Schemes
“Scheme Shares”	the 252,306,195 Shares currently held by the Scheme Administrator for the non-preferential Scheme Creditors pending their distribution under the Schemes
“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

“September Announcement”	the announcement dated 7 September 2005 made jointly by the Company and Harbour Front in respect of, among other matters, the general offers for the securities of the Company not owned by the Harbour Front Concert Parties
“Settlement Agreement”	has the meaning ascribed to it under the paragraph headed “Background” in the section headed “Proposed issue of Promissory Notes” in this announcement
“SGM”	the special general meeting of the Company to be convened to be held on or about the SGM Date for the purpose of approving, among other matters, the Rights Issue, the Acquisitions and the Disposal, and any adjournment thereof
“Share(s)”	ordinary shares which have a par value of HK\$0.01 each in the capital of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Shareholders’ Loans”	such amount as equals 100% of the face value of the loans outstanding as at completion of the Disposal made by or on behalf of the Company or any other members of the Remaining UDL Group to any of UDLHK and UDLS
“Shortfall”	has the meaning ascribed to it under the paragraph headed “Background” in the section headed “Proposed issue of Promissory Notes” in this announcement
“Shortfall Undertaking”	has the meaning ascribed to it under the paragraph headed “Background” in the section headed “Proposed issue of Promissory Notes” in this announcement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	subscription price of HK\$0.03 per Rights Share
“S\$”	Singapore dollars, the lawful currency of Singapore
“Trust Deed”	the trust deed dated 11 February 2000 made between the Company and the Trustee for the benefit of the Scheme Creditors for the purposes of implementation of the Schemes
“UDLHK”	UDL Marine Assets (Hong Kong) Limited, a private company incorporated under the laws of Hong Kong
“UDLS”	UDL Marine Assets (Singapore) Pte Limited, a private company incorporated under the laws of Singapore
“Underwriter”	Emperor Securities Limited
“Underwriting Agreement”	the underwriting agreement entered into between the Company, Harbour Front and the Underwriter in relation to the Rights Issue
“Vessels”	the 13 vessels and 20 vessels proposed to be acquired by the Company pursuant to the Multi-Ventures Agreement and the Bussy Agreement, respectively

“YHCD”	Denlane Shipbuilding Pte Limited, a private company incorporated under the laws of Singapore
“YHCD Agreement”	the conditional agreement dated 29 December 2005 and entered into between Best Year as vendor, and the Company as purchaser for the acquisition of the YHCD Shares and the YHCD Debts
“YHCD Debts”	such amounts as equals 100% of the face value of the loans outstanding as at completion of the acquisition of YHCD (which amount should be construed according to the terms and conditions of the YHCD Agreement) made by or on behalf of Best Year to YHCD
“YHCD Shares”	the 700,000 issued shares of S\$1 each in the capital of YHCD, representing the entire issued share capital of YHCD
“%”	per cent.

By Order of the board  
**UDL Holdings Limited**  
**Lee Ka Lun, Stephen**  
*Director*

Hong Kong, 29 December 2005

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