Notes to the Financial Statements

For the year ended 31 July 2006

1. GENERAL INFORMATION

The Company was incorporated in Bermuda on 31 May 1991 as an exempted company under the Companies Act 1981 of Bermuda (as amended) and its shares are listed on The Stock Exchange of Hong Kong Limited. The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are in the sales of vessels, marine engineering and structural steel engineering business.

The Company is a limited liabilities company incorporated in the Bermuda Islands. The address of its registered office is Crawford House, 50 Cedar Avenue, Hamilton HM 11, Bermuda.

The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

In the opinion of the directors, the ultimate holding company of the Company is Harbour Front Limited which is incorporated in the British Virgin Islands.

These consolidated financial statements are presented in thousands of units of Hong Kong dollars unless otherwise stated.

2. CORPORATE UPDATE

(a) The Rights Issue

On 14 February 2006, a rights issue of 2,374,133,524 rights shares of HK$0.01 each to the then shareholders on the basis of 12 rights shares for every 5 shares held on 14 February 2006 at HK$0.03 per rights share for cash. The proceeds were intended to use as follows:

(i) to finance the acquisition of the following:

- a wholly owned subsidiary, the Denlane Shipbuilding Pte Limited Shares and Debts;
- the 13 vessels pursuant to the Mutli-Ventures Agreement; and
- the 20 vessels pursuant to the Bugsy Agreement.

(ii) to apply HK$ 5 million towards partial repayment to the ultimate holding company, Harbour Front Limited

(iii) to apply towards the general working capital of the Group.

The details of the above are set out in the announcement of the Company on 6 March 2006.

2. CORPORATE UPDATE *(Continued)*

(b) Modifications to schemes of arrangement

The proposed modifications ("Scheme Modifications") were intended to allow a new Scheme Administrator to be appointed, with power to implement transactions which would produce a distribution of a cash dividend of approximately 1.4 cents in the dollar (and the Scheme Shares) to non-preferential Scheme Creditors.

The Scheme Administrator proposed modifications to the Schemes principally to provide for the following:

(i) an efficient mechanism for the replacement of the Scheme Administrator;

(ii) to permit a sale or other disposal by the Scheme Administrator of Unencumbered Assets and of the benefit of recoveries of Accounts Receivable and/or release from their obligations in respect of Unencumbered Assets and Accounts Receivable;

(iii) to permit the Administrator to approve a comprise or settlement of the Shortfall Undertaking;

(iv) to require the Scheme Administrator and Trustee to obtain the sanction of the Committee of Inspection or the approval of the Court before exercising a number of important powers to be granted by such modifications; and

(v) procedures to facilitate efficient termination of the Schemes, including the setting of a limit on the extent to which arbitration costs are to be paid out Scheme Funds.

The Scheme Modifications were sanctioned by the High Court of Hong Kong on 7 June 2006 and 21 July 2006, respectively.

(c) Settlement Structure Agreement

On 1 September 2006, the Company entered into a Settlement Agreement with the Scheme Administrator/Trustee after the implementation of the Scheme Modifications, the Scheme Administrator/Trustee agreed with the following principal terms:

(i) the Scheme Administrator/Trustee releases the Company from the Shortfall Undertakings (which is defined in the Scheme Document as the amount by which HK$176,000,000 exceeds the Disposal Proceeds), in consideration of the issue of HK$30,000,000 of promissory notes to the Scheme Administrator;

2. CORPORATE UPDATE *(Continued)*

(c) Settlement Structure Agreement *(Continued)*

(ii) the Scheme Administrator is released from any responsibility for repaying to the Company or any of its subsidiaries any amount in respect of

- a revolving fund of approximately HK$2,000,000 made available by the Company to the Scheme Administrator for financing the costs of recovering the Accounts Receivable;

- a non-revolving interim financing of approximately HK$3,200,000 made available by the Company to the Scheme Administrator for administration costs;

- expenses of approximately HK$700,000 incurred by the Company or its subsidiaries in preservation of the Unencumbered Assets pursuant to the Schemes.

The details are set out in the announcement of the Company on 1 September 2006.

(d) Secured borrowings

As explained in the Company's previous annual report dated 5 October 2005 and further updated in the Company's circular dated 27 January 2006, the Company's two subsidiaries, UDL Marine Assets (Hong Kong) Limited ("UMAHK") and UDL Marine Assets (Singapore) Pte Limited ("UMASPG") had outstanding bank and other loans amounting to approximately HK$29,042,000 ("First Loan") and HK$71,448,000 ("Second Loan") at 31 July 2005. These subsidiaries were disposed of on 8 March 2006, details of which are set out in note (10) to the financial statements.

(e) Legal proceedings

(i) Litigation against the Company in Bermuda

The status of the litigation as detailed in note 2(c) to the Company's financial statements for the year ended 31 July 2005 and further updated in the Company's circular dated 27 January 2006 remains unchanged and the Company has confirmed that it is the intention of the Company not to proceed with any of the approved share consolidation, creation and issuance of preference shares being subject of the dispute under such Bermuda litigation. The directors consider the concerned Bermuda litigation is no longer of serious nature at present.

2. CORPORATE UPDATE *(Continued)*

(e) Legal proceedings *(Continued)*

(i) Litigation against the Company in Bermuda (Continued)

As disclosed in the Company's circular dated 1 August 2003, on 16 May 2002, the Petitioners lodged a Petition under section 111 of the Companies Act with the Supreme Court of Bermuda against the Company as the first respondent and the Scheme Administrator as the second respondent. Details of the litigation can be found in the announcements of the Company dated 18 June 2002, 4 October 2002 and 20 November 2002 and in the circulars of the Company dated 11 November 2002 and 23 December 2002.

On 31 July 2002, Charterbase Management Limited, one of the Petitioners, issued the Bermuda Writ against the Company and against Mrs. Leung, Mr. Chan Kim Leung, Miss Leung, Mr. Pao Ping Wing JP and Mr. Wong Pui Fai who were directors of the Company in April 2001, at the time of the Subscription SGM. Mr. Wong Pui Fai and Mr. Chan Kim Leung resigned as the directors of the Company on 28 April 2002 and on 27 September 2002 respectively. The Bermuda Writ recited the basis of the Petitioners' Complaint with respect of Charterbase Management Limited, namely, that the circular regarding the Subscription misdescribed the Scheme Administrator's voting capacity in respect of the Shares held by the Scheme Administrator under the Scheme. The Bermuda Writ alleged that the Company was negligent and its directors were negligent and/or in breach of their fiduciary duty in misdescribing the Scheme Administrator's voting capacity in the circular regarding the Subscription. The Bermuda Writ claimed HK$3,000,000 being Charterbase Management Limited's estimated costs of the Petitioners' Complaint. On 15 August 2002 the Company entered an appearance to the Bermuda Writ, and the Company filed its defence on 12 September 2002. The Company has been advised by its Bermuda lawyers that it has good grounds to resist the Bermuda Writ. Charterbase Management Limited has taken no further steps in the proceedings since the defence was filed.

With regard to the Petition, in August 2002 the Company issued a summons to strike out the entire Petition and in the alternative to strike out the claim for a winding-up order. As stated in the Company's announcement dated 20 November 2002 and circulars dated 11 November 2002 and 23 December 2002, the hearing date of the summons, originally fixed for 18 and 19 November 2002, was adjourned due to the unavailability of the Petitioners' counsel and the hearing was rescheduled for 16 and 17 December 2002. The Company's strike out application was then adjourned, on the basis of the Petitioners' indication that they intended to file an amended Petition (the "Amended Petition"). The Amended Petition was duly filed on 3 April 2003.

2. CORPORATE UPDATE *(Continued)*

(e) Legal proceedings *(Continued)*

(i) Litigation against the Company in Bermuda (Continued)

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

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

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

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

2. a declaration that all Shareholders including Harbour Front, the Scheme Administrator and Charterbase Management Limited should have the same percentage of voting rights as represented by the number of shares each owned at the Subscription SGM, and are entitled to vote in the same manner at all future general meetings of the Company;

3. declarations that the following were void and/or invalid:

   (i) the Subscription of the 100,922,478 Subscription Shares by Harbour Front which was purportedly approved at the Subscription SGM;

   (ii) the 50,641,239 Subscription Rights Shares taken up by Harbour Front pursuant to the 2002 Rights Issue; and

   (iii) the 30,111,520 Subscription Rights Shares taken up by Harbour Front pursuant to its application for excess 2002 Rights Shares;

4. Orders restraining the Company from registering the above shares or any transfer of them;

5. Orders restraining the Company from recognising the exercise of any rights attaching to any of the above shares;

2. CORPORATE UPDATE *(Continued)*

(e) Legal proceedings *(Continued)*

(i) Litigation against the Company in Bermuda (Continued)

6. an order that the method of allotment of excess 2002 Rights Shares in the prospectus issued by the Company on 11 November 2002 is advantageous to Harbour Front and unfairly prejudicial to other shareholders;

7. an order that the 181,495,237 Shares being the sum of the Harbour Front shares be offered to all Shareholders apart from Harbour Front and its associates for unlimited subscription on fair and equitable terms;

8. an order that the Company should hold a special general meeting of the Shareholders as soon as possible to appoint new Directors who should be authorised to organise and implement the offer of 181,495,237 Shares in the manner and terms prescribed in the preceding paragraph;

9. an order that the Company should accept the Hung Ngai Offer;

10. an order restraining the Company from doing anything that would in any way increase the shareholding of Harbour Front and its associates; and

11. an order restraining the Company from doing anything that would result in the dilution of the Shares held by any one or more of Shareholders without the approval granted by the general meeting of Shareholders in which Harbour Front and its associates should be excluded from voting.

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

2. CORPORATE UPDATE *(Continued)*

(e) Legal proceedings *(Continued)*

(i) Litigation against the Company in Bermuda (Continued)

The Company has applied for security for costs, in relation to the Amended Petition. A court hearing was held on 28 August 2003 and the Court reserved its judgment. Subsequently, in the judgment dated 14 April 2004, the Court holds that the Joint Petitioners' prayers to wind up the Company and/or to appoint a liquidator are an abuse of the Court's process. The Court therefore considers it unreasonable to permit the Petitioners to pursue such prayers which should not be entertained. In May 2004, the joint petitioners applied to the Court for re-amending the petition (the "Re-amended Petition"). In the event, the Bermuda Court made an order granting the Re-amended Petition leaving out the prayer for winding-up at the request of the petitioners' attorney during the court hearing. Moreover, in the Re-amended petition, the petitioners no longer seek an order that a provisional liquidator be appointed pending the effective hearing of the Re-amended Petition.

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

The resolutions for the proposed share consolidation and creation and issuance of Preference Shares (the "Proposal") have been passed in the Company's Special General Meeting held on 22 August 2003. However, such proposals had not been implemented in result of the Company's intention not to proceed with any of such proposals. The details of which are set out in the Company's Circular dated 27 January 2006.

(ii) Other litigation against the Group

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

A Statement of Claim had thereafter been issued on 28 September 2005 and that the 3 plaintiffs made a claim as further particularized in note 37(b) to the financial statements against 10 defendants including the Company, UDL Management Limited, UDL Ship Management Limited and Leung Yu Oi Ling Irene.

2. CORPORATE UPDATE *(Continued)*

(e) Legal proceedings *(Continued)*

(ii) Other litigation against the Group (Continued)

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

3. BASIS OF PREPARATION

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of floating craft and vessels, financial assets and financial liabilities at fair values.

The presentation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 6.

4. PRINCIPAL ACCOUNTING POLICIES

(a) Change in accounting policies

In the current year, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations, the 2005 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS-Int 15	Operating Leases – Incentives
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciated Assets
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of HKASs 1, 2, 7, 8, 10, 16, 17, 21, 24, 27, 33 and 36 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected certain disclosures in the financial statements.

– HKASs 7, 8, 10, 27, 33 and 36 had no material effect in the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Change in accounting policies *(Continued)*

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land and land use rights were accounted for at cost less accumulated depreciation and impairment.

The adoption of HKASs 32, 39 and 39 (Amendment) has resulted in a change in accounting policy relating to the recognition, measurement, derecognition and disclosure of financial assets and financial liabilities. However, the effects of adopting HKASs 32, 39 and 39 (Amendment) are insignificant as the financial assets and liabilities of the Group are mainly arising from trading activities with short maturity dates, in which the fair value of the financial assets and liabilities approximates to its carrying value. The Group does not have any derivative financial instruments or hedging activities at the balance sheet date.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 July 2005, the provision of share options to employees did not result in an expense in the income statement. Effective from 1 August 2005, the Group expenses the cost of share options in the income statement. Under the transitional provision, retrospective treatment is required only in respect of share options granted after 7 November 2002 and had not yet vested on 1 August 2005. The Group had no such options.

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards, whenever applicable. All standards adopted by the Group require retrospective application other than:

HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with the standard on a retrospective basis;

HKAS-Int 15 – does not require the recognition of incentives for leases beginning before 1 August 2005; and

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Standards, amendments and interpretations to published standards which are not yet effective

Certain new standards, interpretations and amendments to existing standards have been published that are mandatory for accounting periods beginning on or after 1 January 2006 or later periods but which the Group has not yet adopted, are as follows:

Effective for the year ending 31 July 2007

HKAS 19 Amendment	Employee benefits – Actuarial gains and losses, group plans and disclosures
HKAS 39 Amendment	Cash flow hedge accounting of forecast intragroup transactions
HKAS 39 Amendment	The fair value option
HKAS 39 and HKFRS 4 Amendments	Financial instruments: Recognition and measurement and insurance contracts – Financial guarantee contracts
HKFRS 1 and 6 Amendments	First-time adoption of HKFRS and exploration for and evaluation of mineral resources
HKFRS – Int 4	Determining whether an arrangement contains a lease
HKFRS – Int 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
HK (IFRIC) – Int 6	Liabilities arising from participating in a specific market-waste electrical and electronic equipment
HK (IFRIC) – Int 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economics
HK (IFRIC) – Int 8	Scope of HKFRS 2
HK (IFRIC) – Int 9	Reassessment of embedded derivatives

Effective for the year ending 31 July 2008

HKAS 1 Amendment	Presentation of financial statements: capital disclosures
HKFRS 7	Financial instruments: disclosures

The Group has already commenced an assessment of the impact of these new standards, amendments and interpretations but is not yet in a position to state whether they would have a significant impact on its results of operations and financial position.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Consolidation

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

(i) Subsidiaries

Subsidiaries are fully consolidated from the date on which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure the consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(ii) Associates

An associate is an entity in which the Group has significant influence but not control, over its management, including participation in the financial decision and operating policy of the Company generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in an associate are accounted for in the consolidated financial statements under the equity method of accounting and are initially recognised at cost and adjusted thereafter for the post acquisition change in the group's share of net assets of the associate. The Group's investments in an associate includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associate post acquisition, post-tax results is recognised in the income statement. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Consolidation *(Continued)*

(ii) *Associates* (Continued)

Investments in associates are stated at cost less provision for impairment losses. The results of associate are accounted for by the Group on the basis of dividend received.

(d) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the attributable share of the net identifiable assets of the acquired subsidiaries, associates or jointly controlled entities at the date of acquisition.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates and jointly controlled entities is included in interests in associates and jointly controlled entities respectively. Goodwill is tested annually for impairment and carries at cost less accumulated impairment losses. Gains and losses on the disposal of all or part of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purposes to testing for impairment.

Any excess of the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognized immediately in the income statement.

On disposal of a cash generating unit, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(e) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(f) Foreign currency translation

(i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's functional and presentation currency.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Foreign currency translation *(Continued)*

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the investment revaluation reserve in equity.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(c) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(g) Property, plant and equipment

Property, plant and equipment, other than floating craft and vessels, are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Subsequent expenditure relating to property, plant and equipment is added to the carrying amount of the assets if it can be demonstrated that such expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets.

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

Any revaluation increase arising from revaluation of floating craft and vessels is credited to the revaluation reserve except to the extent it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in the net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a precious revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Depreciation is provided to write off the cost or valuation of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Floating craft and vessels	10%
Furniture, fixtures and office equipment	10 – $33\frac{1}{3}$ %
Plant, machinery and workshop equipment	10 – $33\frac{1}{3}$ %
Motor vehicles	10 – 25%

Floating craft and vessels under construction are not depreciated until the construction work has been completed and the assets put into use.

The assets' residual value and useful lives are reviewed, and adjusted if appropriate at each balance sheet date.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(g) Property, plant and equipment *(Continued)*

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gain or loss on disposal of a property, plant and equipment is the difference between the net sale proceeds and the carrying amount to the relevant asset, and is recognised in the income statement.

(h) Leasehold land and land use rights

The upfront prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the leases or when there is impairment, the impairment is expensed in the income statement.

(i) Impairment

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

(i) Calculation of recoverable amount

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

(ii) Reversals of impairment

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

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss had been recognised in prior years.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(k) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

(l) Construction contracts

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

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

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

(m) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost comprises the direct costs of merchandise and charges that have been incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are increment costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commission paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges and transfer taxes and duties. Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(o) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. All other borrowing costs are charged to the income statement in the period in which they are incurred.

(p) Provisions

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

(q) Employee benefits

(i) Employee entitlements

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

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

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(q) Employee benefits *(Continued)*

(ii) Pension obligations

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

(iii) Share-based payments

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense with a corresponding increase in an option reserve within equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(r) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liability and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liabilities in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(r) Deferred income tax *(Continued)*

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(s) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged to the income statement on a straight line basis over the lease terms.

(t) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(u) Recognition of revenue

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

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

Revenue from sales of vessels is recognised when goods are delivered and title has passed.

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

Interest income is recognised on a time proportion basis using the effective interest method.

Rental income is recognised on a straight-line basis over the rental period.

5. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose to a variety of financial risks, credit risk, liquidity risk and cash flow and fair value of interest-rate risks and foreign exchange risk.

The Group's risk management program seeks to minimise the potential adverse effects of financial risks on the Group's performance.

(i) Credit risk

The Group has policies in place to ensure that provision of services are made to customers with an appropriate credit history.

(ii) Liquidity risk

The Group monitors current and expected liquidity requirements to ensure that sufficient cash and adequate amount of committed credit facilities are maintained.

(iii) Cash flow and fair value interest rate risk

The Group has no significant interest-bearing assets. The Group's income and cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk.

(iv) Foreign exchange risk

The Group mainly operates in Singapore and Hong Kong with most of the transactions settled in Hong Kong dollars. The Group's assets and liabilities, and transactions arising from its operations and are exposed to foreign exchange risk are primarily to Singapore dollars. The Group has not used any forward contracts or currency borrowings to hedge its exposure as foreign exchange risk is considered minimal.

(b) Fair value estimation

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial assets and liabilities for disclosure purposed is estimated by discounting the future contracted cash flows at the current market interest rate is available to the Group for similar financial instruments.

6. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Group makes estimates and assumptions about the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

(i) Estimates of fair value of floating craft and vessels

The best estimate of fair value is current prices in an active market for similar asset and other contracts. In the absence of such information, the Group determines the amount with a range of reasonable fair value estimates. In making its judgment, the Group considers information from a variety of sources including:

– current prices in an active market for vessels of different nature, condition or location, adjusted to reflect those differences; and

– recent prices of similar vessels in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices.

(ii) Deferred tax

The Group provides for deferred tax in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax assets are only recognised to the extent that it is probable future taxation profits will be available against which the unused tax losses or unused tax credits can be utilized, and significant judgment is required in determining whether it is probable.

7. TURNOVER

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

	2006 ***HK$'000***	2005 *HK$'000*
Sales of vessels	**9,624**	–
Marine engineering income	**8,894**	7,024
Structural steel engineering income	**3,595**	4,069
	22,113	11,093

8. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

In determining the Group's geographical segments, segment revenue is based on the geographical location of the customers. Segment assets and capital expenditure are based on the geographical location of the assets.

(a) Business segments

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments.

The following table presents revenue, results and expenditure for the Group's business segments for the two years ended 31 July 2006 and 2005:

	Marine engineering		Structural steel engineering		Sales of vessels		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:								
Sales to external customers	**8,894**	7,024	**3,595**	4,069	**9,624**	–	**22,113**	11,093
Segment results	**5,173**	5,380	**3,368**	2,058	**22**	–	**8,563**	7,438
Unallocated other income							**1,195**	6,574
Unallocated expenses							**(11,606)**	(32,763)
Loss from operations							**(1,848)**	(18,751)
Finance costs							**(2,584)**	(8,999)
Share of losses of associates							**(65)**	–
Gain on disposal of subsidiaries							**38,130**	–
Restructuring expenses							**(4,013)**	–
Profit/(loss) before taxation							**29,620**	(27,750)
Income tax							**98**	279
Profit/(loss) after taxation							**29,718**	(27,471)

8. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

The following table presents assets, liabilities and expenditure for the Group's business segments for the two years ended 31 July 2006 and 2005:

	Marine engineering		Structural steel engineering		Sales of vessels		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
ASSETS								
Segment assets	**45,585**	94,727	**2,772**	1,199	**43,326**	–	**91,683**	95,926
Unallocated assets							**2,219**	1,117
Consolidated total assets							**93,902**	97,043
LIABILITIES								
Segment liabilities	**33,835**	134,150	**3,748**	2,461	**830**	–	**38,413**	136,611
Unallocated liabilities							**43,478**	16,049
Consolidated total liabilities							**81,891**	152,660
OTHER INFORMATION								
Capital expenditure incurred during the year	**20,894**	1,982	**–**	–	**5,447**	–	**26,341**	1,982
Revaluation surplus arising from property, plant and equipment	**–**	–	**–**	–	**357**	–	**357**	–
Depreciation and amortisation	**529**	19,421	**–**	–	**227**	–	**756**	19,421
Other non-cash expenses:								
Impairment loss on property, plant and equipment	**631**	932	**–**	–	**–**	–	**631**	932
Impairment loss on doubtful debts	**125**	1,196	**–**	–	**–**	–	**125**	1,196

8. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

The following table presents revenue, result and certain assets and expenditure for the Group's geographical segments for the two years ended 31 July 2006 and 2005:

	Hong Kong		Singapore		PRC		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:								
Sales to external customers	**17,114**	9,434	**4,999**	1,659	**–**	–	**22,113**	11,093
Gain on disposal of subsidiaries	**38,130**	–	**–**	–	**–**	–	**38,130**	–
Other income	**910**	3,133	**285**	3,441	**–**	–	**1,195**	6,574
							61,438	17,667
Other segment information								
Segment assets	**61,950**	35,856	**28,098**	56,346	**3,854**	4,841	**93,902**	97,043
Capital expenditure incurred during the year	**5,455**	2	**20,886**	–	**–**	1,980	**26,341**	1,982

9. OTHER REVENUE AND INCOME

	2006	2005
	HK$'000	*HK$'000*
Foreign exchange gain, net	**141**	2,796
Negative goodwill on acquisition of subsidiaries *(note 30)*	**684**	–
Handling fee income	**–**	927
Interest income	**18**	–
Reversal of provision for accrued interest	**–**	452
Reversal of provision for annual leave	**60**	95
Reversal of impairment loss on doubtful debts	**278**	–
Gain on disposal of property, plant and equipment	**–**	160
Others	**14**	2,144
	1,195	6,574

10. GAIN ON DISPOSAL OF SUBSIDIARIES

On 29 December 2005, the Company entered into sale and purchase agreements with the ultimate holding company, Harbour Front Limited ("Harbour Front"), to dispose of two of its wholly-owned subsidiaries, namely UDL Marine Assets (HK) Limited and UDL Marine Assets (Singapore) Pte Limited for an aggregate consideration of HK$2 (note 29(b)). Gain of HK$38,130,000, which represent the aggregate net liabilities of these two subsidiaries at the disposal, was derived from the disposal of these subsidiaries.

11. PROFIT/(LOSS) BEFORE TAXATION

The Group's profit/(loss) before taxation is arrived at after charging:

	2006	2005
	HK$'000	*HK$'000*
Auditors' remuneration	**580**	480
Non-audit service fees paid to auditors	**350**	–
Amortisation of land use rights	**58**	57
Depreciation	**698**	19,364
Operating lease charges in respect of:		
Land and buildings	**2,236**	1,287
Staff costs (including directors and key management)		
– salaries, wages and other benefits	**4,002**	5,394
– contributions to defined contribution scheme	**146**	170
Impairment loss on bad and doubtful debts	**125**	1,196
Impairment loss on property, plant and equipment	**631**	932

12. FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
Interest charges on:		
Bank and other borrowings wholly repayable within five years	**2,584**	8,999

13. TAXATION

No Hong Kong profits tax has been provided in the financial statements for the current year as the Group did not derive any assessable profit for the year (2005: Nil). The tax credit represents over-provision of Hong Kong profits tax in the previous year.

The amount of taxation credited to the consolidated income statement represents:

	2006	2005
	HK$'000	*HK$'000*
Current tax		
Hong Kong		
– over-provision in prior years	**–**	279
Singapore		
– over-provision in prior periods	**98**	–
	98	279
Deferred tax *(note 26)*	**–**	–
Total tax credit for the year	**98**	279

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

	2006	2005
	HK$'000	*HK$'000*
Profit/(loss) before taxation	**29,620**	(27,750)
Notional tax on profit/(loss) before taxation	**5,183**	(4,856)
Effect of different tax rates in other countries	**(175)**	(612)
Tax effect of expense/(income) that are non-deductible/(taxable) in determining taxable profit	**(6,183)**	4,061
Utilisation of unrecognised tax losses	**(458)**	(411)
Tax effect of unused tax losses	**1,633**	1,818
Over-provision in prior periods/years	**98**	279
Actual taxation credit	**98**	279

14. PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders for the year dealt with in the financial statements of the Company amounted to approximately HK$11,907,000 (2005: approximately HK$7,519,000).

15. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders of approximately HK$29,718,000 (2005: Loss of approximately HK$27,471,000) and the adjusted weighted average number of 2,193,367,830 ordinary shares (2005: 1,162,002,208 ordinary shares as adjusted) in issue during the year as adjusted to reflect the right issue completed during the year.

Diluted earnings per share has not been disclosed as there is no dilutive potential ordinary shares as at 31 July 2006. Diluted loss per share as at 31 July 2005 was not disclosed as the effect on the outstanding share options was anti-dilutive.

16. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings HK$'000	Floating craft and vessels HK$'000	Furniture, fixtures and office equipment HK$'000	Plant, machinery and workshop equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation						
At 1 August 2004	–	97,315	8	1,273	92	98,688
Additions	–	–	2	1,980	–	1,982
Revaluation *(note 4(g))*	–	(21,454)	–	–	–	(21,454)
Disposals	–	(1,443)	–	–	–	(1,443)
Exchange realignments	–	1,901	–	31	2	1,934
At 31 July 2005	–	76,319	10	3,284	94	79,707
Additions	20,815	5,440	44	42	–	26,341
Revaluation *(note 4(g))*	–	130	–	–	–	130
Disposals	–	(76,319)	(8)	(646)	–	(76,973)
Exchange realignments	672	–	–	45	2	719
At 31 July 2006	21,487	5,570	46	2,725	96	29,924
Accumulated depreciation and impairment						
At 1 August 2004	–	19,208	8	207	26	19,449
Charge for the year	–	19,057	–	288	19	19,364
Impairment loss	–	932	–	–	–	932
Written back on disposals	–	(953)	–	–	–	(953)
Revaluation *(note 4(g))*	–	(37,142)	–	–	–	(37,142)
Exchange realignments	–	(183)	–	8	–	(175)
At 1 July 2005	–	919	8	503	45	1,475
Charge for the year	171	227	3	278	19	698
Written back on disposals	–	(919)	(8)	(147)	–	(1,074)
Revaluation *(note 4(g))*	–	(227)	–	–	–	(227)
Impairment loss	631	–	–	–	–	631
Exchange realignments	19	–	–	8	2	29
At 31 July 2006	821	–	3	642	66	1,532
Net book value						
At 31 July 2006	20,666	5,570	43	2,083	30	28,392
At 31 July 2005	–	75,400	2	2,781	49	78,232

The analysis of cost or valuation of the above assets is as follows:

	Buildings HK$'000	Floating craft and vessels HK$'000	Furniture, fixtures and office equipment HK$'000	Plant, machinery and workshop equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At cost	–	–	46	2,725	96	2,867
At professional valuation 2006	21,487	5,570	–	–	–	27,057
	21,487	5,570	46	2,725	96	29,924

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Company

	Office equipment *HK$'000*
Cost	
Addition and at 1 August 2005	2
Additions	7
At 31 July 2006	9
Accumulated depreciation and impairment	
At 1 August 2005	–
Charge for the year	1
At 31 July 2006	1
Net book value	
At 31 July 2006	8
At 31 July 2005	2

The Group's leasehold building with short term lease is situated outside Hong Kong. The building was built on a piece of leasehold land which was leased from JTC Corporation with monthly rental of S$48,851. The building was revalued on 31 July 2006 by Vantage Valuers and Property Consultants Pte Limited, an independent professional valuer in Singapore. The impairment loss of approximately HK$631,000 has been charged to the income statement.

The Group's floating craft and vessels were revalued individually on 31 July 2006 by Win Well Engineering & Surveyors Limited, an independent professional valuer in Hong Kong, at their open market value. The revaluation surplus of approximately HK$357,000 has been transferred to the revaluation reserve of the Group.

Had the floating craft and vessels been carried at cost less accumulated depreciation, their carrying amount would have been approximately HK$5,213,000 (2005: approximately HK$40,016,000).

17. LAND USE RIGHTS

	2006 HK$'000	2005 HK$'000
Carrying amount at 1 August		
As previously reported	–	–
Reclassification upon adoption of HKAS 17	988	1,028
As restated	988	1,028
Amortised during the year	(58)	(57)
Exchange realignments	16	17
Carrying amount at 31 July	946	988
Current portion	(58)	(58)
Non-current portion	888	930

Prepaid lease payments represent payments for land use rights held under short term leases in Mainland China.

18. INVESTMENTS IN ASSOCIATES

	The Group		The Company	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Unlisted shares, at cost	–	–	–	–
Share of net assets	1,185	–	9	–
	1,185	–	9	–
Amounts due from associates	7	–	7	–
Amount due to associates	(1,106)	–	–	–
	(1,099)	–	7	–
	86	–	16	–

The amounts due from/(to) associates are unsecured, interest-free and have no fixed terms of repayment.

18. INVESTMENTS IN ASSOCIATES *(Continued)*

Particulars of the associates at 31 July 2006 are as follows:

Name	Place of incorporation/ operation	Percentage issued share capital held by the Company	Principal activities
Royal Top Engineering Limited	Hong Kong	50%	Provision of consulting services
Press United Logistic Limited	Hong Kong	50%	Distribution of newspaper and magazines

Summarised financial information in respect of the Group's associates is set out below:

	2006	2005
	HK$'000	*HK$'000*
Revenue	**185**	–
Loss for the year	**(131)**	–
Group's share of associates' results for the year	**(65)**	–

	2006	2005
	HK$'000	*HK$'000*
Total assets	**2,403**	–
Total liabilities	**(34)**	–
Net assets	**2,369**	–
Group's share of associate's net assets	**1,185**	–

19. INVESTMENTS IN SUBSIDIARIES

	2006	2005
	HK$'000	*HK$'000*
Unlisted shares, at cost	**96,105**	89,535
Amounts due from subsidiaries (i)	**25,614**	35,524
	121,719	125,059
Less: Impairment loss	**(85,025)**	(112,359)
	36,694	12,700
Amounts due to subsidiaries (i)	**(10,977)**	(15,754)
	25,717	(3,054)

(i) The amount due from/(to) subsidiaries are unsecured, interest free and not repayable within the next twelve months.

(ii) The amount due from a subsidiary (classified as current assets) is unsecured, interest free and repayable on demand.

Particulars of the principal subsidiaries as at 31 July 2006 are as follows:

Name	**Place of incorporation/ operation**	**Particulars of issued/registered share capital**	**Percentage of issued/registered capital held by the Group**	**Company**	**Principal activities**
China Famous Limited	Hong Kong	HK$1	100%	100%	Trading of vessels
Denlane offshore Engineering Pte Limited*	Singapore	S$1,000	100%	–	Dormant
Denlane Shipbuilding Pte Limited*	Singapore	S$700,000	100%	100%	Marine engineering construction and services
East Coast Towing Limited	Hong Kong	HK$2	100%	100%	Dormant
Econo Plant Hire Company Limited	Hong Kong	HK$2	100%	100%	Dormant
Everpoint Company Limited	Hong Kong	HK$13,720,480	100%	100%	Dormant
Exact Profit Limited	Hong Kong	HK$20	100%	100%	Dormant

19. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ operation	Particulars of issued/registered share capital	Percentage of issued/registered capital held by the Group	Company	Principal activities
Fairking Transportation Limited	Hong Kong	HK$100	100%	100%	Dormant
Faith On International Limited	Hong Kong	HK$2	100%	100%	Dormant
Full Keen Investment Limited	Hong Kong	HK$2	100%	100%	Dormant
Graceful Ease Investment Limited	Hong Kong	HK$2	100%	100%	Dormant
Keen Yield Investment Limited	Hong Kong	HK$2	100%	100%	Dormant
S.K. Luk Construction Company Limited	Hong Kong	HK$500,000	100%	100%	Marine engineering
UDL Argos Engineering & Heavy Industries Company Limited	Hong Kong	HK$124,000,000	100%	100%	Investment holding, structural steel engineering works and management services
UDL Civil Contractors Limited	Hong Kong	HK$6,800,000	100%	100%	Dormant
UDL Contracting Limited	Hong Kong	HK$50,700,000	100%	100%	Engineering and contracting
UDL Dredging Limited	Hong Kong	HK$2	100%	100%	Dormant
UDL E & M (BVI) Limited	BVI	US$1	100%	100%	Dormant
UDL Employment Services Limited	Hong Kong	HK$2	100%	100%	Provision of human resources management and administrative services
UDL Investment Limited	Hong Kong	HK$2	100%	100%	Dormant

19. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ operation	Particulars of issued/registered share capital	Percentage of issued/registered capital held by the Group	Company	Principal activities
UDL Management Limited	Hong Kong	HK$2	100%	100%	Dormant
UDL Marine Operation Limited	Hong Kong	HK$2	100%	100%	Dormant
UDL Marine Pte Limited*	Singapore	S$3,150,000	100%	100%	Dormant
UDL Ship Management Limited	Hong Kong	HK$2	100%	100%	Marine engineering and ship management services
UDL Steel Fabricators & Shipbuilders Company Limited	Hong Kong	HK$2	100%	100%	Dormant
UDL Ventures Limited	Hong Kong	HK$1	100%	100%	Dormant
Wellfull Time Limited	Hong Kong	HK$2	100%	100%	Dormant
中山太元重工業有限公司#	PRC	HK$10,000,000	100%	–	Dormant

* not audited by CCIF CPA Limited.

wholly owned foreign enterprise

20. INVENTORIES

	2006 **HK$'000**	2005 HK$'000
At cost:		
Finished goods	**34,908**	–

All finished goods are vessels which are stated at cost.

21. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade receivables *(note (a))*	**3,736**	1,627	**–**	–
Retention money receivable	**1,098**	1,098	**–**	–
Prepayments, deposits and other receivables	**8,417**	7,372	**2,172**	1,048
	13,251	10,097	**2,172**	1,048

(a) As at 31 July 2006, the Group's age analysis of trade receivables net of impairment losses on doubtful debts of HK$1,675,000 (2005: HK$19,131,000) was as follows:

	2006	2005
	HK$'000	*HK$'000*
Current	**354**	393
1 – 3 months	**1,247**	707
4 – 6 months	**683**	291
7 – 12 months	**1,057**	72
Over 1 year	**395**	164
	3,736	1,627

Trading terms with customers are largely on credit, where trade deposits, advances and payment in advance are normally required. Invoices are normally payable within 30 days of issuance, except for certain well established customers, where the terms are extended beyond 30 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are regularly reviewed by senior management.

22. BANK AND OTHER BORROWINGS

	2006 HK$'000	2005 HK$'000
Group		
Bank and other borrowings comprise:		
Bank overdrafts	–	574
Other loans	5,633	115,975
	5,633	116,549
Analysed as:		
Secured – notes (a) and (b)	–	100,490
Unsecured – loans	5,633	15,485
– bank overdrafts	–	574
	5,633	116,549
Bank and other borrowings are repayable as follows:		
Within one year or on demand	5,633	16,059
More than one year but not exceeding two years	–	100,490
More than two years but not exceeding five years	–	–
	5,633	116,549
Less: Amount due within one year and shown under current liabilities	(5,633)	(16,059)
Amount due after one year	–	100,490
Company		
Other loans – unsecured – note (c)	5,633	12,522
Other loans are repayable as follows:		
Within one year or on demand and shown under current liabilities	5,633	12,522
Less: Amount due within one year and shown under current liabilities	(5,633)	(12,522)
Amount due after one year	–	–

22. BANK AND OTHER BORROWINGS *(Continued)*

Notes:

(a) As at 31 July 2005, the Group's other loans of approximately HK$71,448,000, assigned by Singapore secured lenders to a Related Party Lender were secured by a legal charge on the Group's floating craft and vessels with net book value of approximately HK$54,500,000, fixed and floating charges over the assets of UDL Marine Assets (Singapore) Pte Ltd ("UMASPG"), a joint and several guarantee from Mrs. Leung and the spouse of Mrs. Leung, Mr. Leung Yat Tung ("Mr. Leung"), assignment of insurance and income for certain vessels, and subordination of loan from Mr. Leung and Mrs. Leung. The loans bear interest at prime rate plus 2% per annum. The loans, together with the interest thereon, would not be required to be repaid until 1 August 2006. UMASPG was disposed of on 8 March 2006, details of which are set out in note 10 to the financial statements.

(b) As at 31 July 2005, the Group's other loans of approximately HK$29,042,000 which was assigned from a Hong Kong secured lender to a Related Party Lender were secured by the Group's floating craft and vessels with net book value of approximately HK$16,550,000, a first floating charge on all the undertaking, property, assets and rights of UDL Marine Assets (Hong Kong) Limited ("UMAHK") and a personal guarantee from Mr. Leung. The loan bears interest at prime rate plus 2% per annum. The loan, together with the interest thereon, would not be required to be repaid until 1 August 2006. UMAHK was disposed of on 8 March 2006, details of which are set out in note 10 to the financial statements.

(c) As at 31 July 2006, the Group's other loans of approximately HK$5,633,000 were borrowed from three related companies namely, Multi-Ventures Limited, Best Year (Asia) Limited and Marine Lord Systems Limited which were used to finance the Group's operations. The loans are unsecured, repayable on demand and bear interest at Hong Kong prime rate plus 2% per annum.

23. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables (note (a))	**258**	5,575	**–**	–
Advances received	**–**	1,056	**–**	–
Other payables and accruals	**13,063**	11,233	**7,210**	2,387
	13,321	17,864	**7,210**	2,387

(a) As at 31 July 2006, the age analysis of trade payables was as follows:

	2006	2005
	HK$'000	*HK$'000*
Current	**94**	185
1 – 3 months	**61**	21
4 – 6 months	**1**	18
7 – 12 months	**10**	29
Over 1 year	**92**	5,322
	258	5,575

24. PROMISSORY NOTES

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Principal repayable:				
Within 1 year	**7,500**	–	**7,500**	–
Payable after 1 year but within 2 years	**15,000**	–	**15,000**	–
After 2 years but within 5 years	**7,500**	–	**7,500**	–
Total	**30,000**	–	**30,000**	–
Amount due to Scheme Administrator under promissory notes	**30,000**	–	**30,000**	–
Portion classified as current liabilities	**(7,500)**	–	**(7,500)**	–
Non-current portion	**22,500**	–	**22,500**	–

24. PROMISSORY NOTES *(Continued)*

The promissory notes payable to Scheme Administrator are unsecured, interest bearing at 1% per annum and with maturity dates on 28 February 2007, 31 August 2007, 29 February 2008 and 31 August 2008. The details of the promissory notes are disclosed in note 2(c)(i).

25. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

The amount due to ultimate holding company is unsecured, interest bearing at Hong Kong prime rate plus 2% and repayable on demand.

26. DEFERRED TAX

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

	Accelerated depreciation allowance *HK$'000*	**Revaluation reserve** *HK$'000*	**Tax losses** *HK$'000*	**Total** *HK$'000*
At 1 August 2004	716	1,284	(2,000)	–
(Credited)/charged to income statement *(note 13)*	2,941	545	(3,486)	–
At 31 July 2005	3,657	1,829	(5,486)	–
At 1 August 2005	3,657	1,829	(5,486)	–
(Credited)/charged to income statement *(note 13)*	(3,010)	(1,767)	4,777	–
At 31 July 2006	647	62	(709)	–

26. DEFERRED TAX *(Continued)*

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

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Deferred tax liabilities	**709**	5,486	**1**	–
Deferred tax assets	**(709)**	(5,486)	**(1)**	–
	–	–	**–**	–

At 31 July 2006, the Group has unused tax losses of HK$192,150,441 (2005: HK$267,957,743) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$4,055,154 (2005: HK$31,353,138) of such losses. No deferred tax assets in respect of the remaining HK$188,095,287 (2005: HK$236,604,605) due to the unpredictability of future taxable profits streams. This amount of unused tax losses could be carried forward indefinitely.

27. SHARE CAPITAL

	Number of shares	*HK$'000*
Authorised:		
Ordinary shares of HK$0.01 each at 1 August 2005 and 31 July 2006	12,000,000,000	120,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each at 1 August 2004	935,551,302	9,356
Issue of shares by exercise of options	36,148,000	361
Ordinary shares of HK$0.01 each at 1 August 2005	971,699,302	9,717
Issue of shares by rights issue *(note 1)*	2,374,133,524	23,742
Issue of shares by exercise of options *(note 2)*	17,523,000	175
Ordinary shares of HK$0.01 each at 31 July 2006	3,363,355,826	33,634

27. SHARE CAPITAL *(Continued)*

Note:

1. During the year, 2,374,133,524 shares of HK$0.01 each were issued at a price of HK$0.03 per share by way of rights issue for a total cash consideration, before expenses of HK$23,741,000 on the basis of 12 rights share for every 5 existing shares held on 14 February 2006. These shares rank pari passu in all respect with existing share capital of the Company. The net proceeds of the rights issue were used to finance the acquisition of a subsidiary, vessels and working capital of the Group.

2. During the year, options were exercised to subscribe for 17,523,000 shares in the Company at subscription price of HK$0.024 – HK$0.04 per share. The consideration was HK$570,232 of which HK$175,230 was credited to share capital and the balance of HK$395,002 was credited to the share premium account.

28. RESERVES

Group

	2006	2005
	HK$'000	*HK$'000*
Share premium	**56,056**	8,179
Capital redemption reserve	**1,264**	1,264
Exchange fluctuation reserve	**405**	(4,444)
Capital reserve	**–**	717
Accumulated losses	**(1,141,249)**	(1,220,142)
Revaluation reserve	**357**	52,590
Scheme reserve	**1,061,544**	1,096,502
	(21,623)	(65,334)

Details of the movements in the above reserves during the year are set out in the consolidated statement of changes in equity on page 29.

28. RESERVES *(Continued)*

Company

	Share premium	**Capital redemption reserve**	**Contributed surplus**	**Accumulated losses**	**Scheme reserve**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 August 2004	7,224	1,264	21,689	(386,362)	324,964	(31,221)
Issue of shares by exercise of options	955	–	–	–	–	955
Loss for the year	–	–	–	(7,519)	–	(7,519)
At 31 July 2005	8,179	1,264	21,689	(393,881)	324,964	(37,785)
At 1 August 2005	8,179	1,264	21,689	(393,881)	324,964	(37,785)
Issue of shares by rights issue	47,483	–	–	–	–	47,483
Issue of shares by exercise of options	395	–	–	–	–	395
Issue of promissory notes	–	–	–	–	(30,000)	(30,000)
Waiver of scheme expenses	–	–	–	–	(4,958)	(4,958)
Loss for the year	–	–	–	(11,907)	–	(11,907)
At 31 July 2006	56,057	1,264	21,689	(405,788)	290,006	(36,772)

The contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued in exchange for the issued share capital of the subsidiaries and the aggregate net asset value of the subsidiaries acquired, pursuant to the Group reorganisation in September 1991. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders under certain circumstances which the Company cannot currently meet.

The scheme reserve of the Group and the Company represents the net liabilities of the Scheme Participating Companies and the Company as at 28 April 2000, which were discharged pursuant to the Scheme.

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

During the year, the Group acquired 100% equity interest in Denlane Shipbuilding Pte Limited (note 30) and UDL Ventures Limited (formerly known as Pine Concept Limited).

	2006 *HK$'000*
NET ASSETS ACQUIRED	
Property, plant and equipment	20,861
Trade receivables	812
Prepayment, deposit and other receivable	3,828
Amount due from related companies	7,114
Cash and bank balances	264
Other payables and accruals	(6,002)
Amounts due to related companies	(4,718)
Provision for taxation	(226)
	21,933
Negative goodwill	(684)
Total consideration	21,249
SATISFIED BY	
Purchase consideration settled in cash	21,249
Cash and cash equivalent in subsidiaries acquired	(264)
Cash outflow on acquisition	20,985

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Disposal of subsidiaries

	2006
	HK$'000
NET LIABILITIES DISPOSED	
Property, plant and equipment	**75,887**
Trade and other receivables	**1,727**
Amounts due from related companies	**947**
Cash and bank balances	**138**
Bank and other borrowings	**(103,388)**
Bank overdrafts	**(574)**
Trade and other payables	**(8,404)**
Amounts due to related companies	**(4,423)**
Amounts due to directors	**(40)**
	(38,130)
Gain on disposal of subsidiaries	**38,130**
Consideration	**–**
SATISFIED BY	
Consideration settled in cash	**–**
Cash and cash equivalent in subsidiaries disposed	**436**
Cash inflow on disposal	**436**

30. BUSINESS COMBINATION

In December 2005, the Group acquired 100% equity interest in Denlane Shipbuilding Pte Limited from a related company, Best Year (Asia) Limited, for a consideration of HK$21,249,000. Details of net assets acquired were as follows:

	Fair value *HK$'000*	Acquiree's carrying amount *HK$'000*
NET ASSETS ACQUIRED		
Property, plant and equipment	20,861	20,861
Trade receivables	720	720
Prepayment, deposit and other receivable	228	228
Amount due from related companies	7,114	7,114
Cash and bank balances	263	263
Other payables and accruals	(2,310)	(2,310)
Amounts due to related companies	(4,717)	(4,717)
Provision for taxation	(226)	(226)
	21,933	21,933
Minority interest	–	
Net assets acquired	21,933	
Purchase consideration settled in cash	21,249	
Negative goodwill written off in the income statement	684	

The acquired subsidiary contributed revenues of approximately HK$4,999,000 and net loss of approximately HK$1,046,000 for the period since the date of acquisition.

31. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance is as follows:

Directors' emoluments

The remuneration of every director for the year ended 31 July 2006 is set out below:

Name of director	Fees	Salary	Discretionary bonuses	Share based payments	Other benefits	Employer's contribution to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors							
Leung Yu Oi Ling	–	1,295	–	–	418	29	1,742
Leung Chi Yin, Gillian	–	491	–	–	–	30	521
Lee Ka Lun, Stephen	–	1,412	–	–	–	12	1,424
Independent non-executive Directors							
Pao Ping Wing	40	40	–	–	–	–	80
Yuen Ming Fai	40	50	–	–	–	–	90
Tse Mei Ha	40	50	–	–	–	–	90
	120	3,338	–	–	418	71	3,947

The remuneration of every director for the year ended 31 July 2005 is set out below:

Name of director	Fees	Salary	Discretionary bonuses	Share based payments	Other benefits	Employer's contribution to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors							
Leung Yu Oi Ling	–	1,416	–	–	409	36	1,861
Leung Chi Yin, Gillian	32	234	–	–	–	21	287
Lee Ka Lun, Stephen	–	425	–	–	–	4	429
Independent non-executive Directors							
Pao Ping Wing	40	40	–	–	–	–	80
Yuen Ming Fai	40	40	–	–	–	–	80
Tse Mei Ha	35	40	–	–	–	–	75
	147	2,195	–	–	409	61	2,812

32. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Five highest paid individuals

The five highest paid individuals of the Group for the year included three (2005: three) executive directors, details of whose emoluments are set out above. The emoluments of the remaining two (2005: two) employees were as follows:

	2006	2005
	HK$'000	*HK$'000*
Salaries and other benefits	**625**	1,444

The emoluments were within the following bands:

Emoluments bands	**Number of individuals**	
	2006	2005
Nil – HK$1,000,000	**2**	2
HK$1,000,001 – HK$1,500,000	**–**	–

33. RETIREMENT BENEFITS SCHEME

Defined contribution scheme

Up till 30 November 2000, the Group operated a defined contribution retirement benefits scheme for all qualified employees. The assets of the scheme are held separately from those of the Group in funds under the control of an independent trustee.

The retirement benefits scheme contributions represent amounts paid and payable by the Group to the funds at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contributions made by the employer, the contributions payable by the Group are reduced by the amount of forfeited contributions.

From 1 December 2000, the Group arranged for all its Hong Kong employees to join the Mandatory Provident Fund Scheme ("the MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, the Group and each of its employees make monthly contributions to the scheme at 5% of the employees earnings as defined under the Mandatory Provident Fund legislation. Both the employer's and the employee's contributions are subject to a cap of HK$1,000 per month, and thereafter contributions are voluntary. Contributions to the plan vest immediately.

33. RETIREMENT BENEFITS SCHEME *(Continued)*

Defined contribution scheme *(Continued)*

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

For the year ended 31 July 2006, the Group made contributions of approximately HK$146,000 (2005: approximately HK$170,000) towards the MPF Scheme and CPF.

34. EQUITY COMPENSATION BENEFITS

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

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

(a) Movements in share options

	2006 ***Number ('000)***	2005 *Number ('000)*
Outstanding as at 1 August	**19,431**	18,159
Granted during the year	**–**	37,420
Exercised during the year	**(17,523)**	(36,148)
Cancelled/lapsed during the year	**(1,908)**	–
Outstanding as at 31 July	**–**	19,431
Options vested at 31 July	**–**	19,431

34. EQUITY COMPENSATION BENEFITS *(Continued)*

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

Date granted	Exercise period	Exercise price	2006 Number ('000)	2005 Number ('000)
15 April 2003	16 April 2003 – 30 December 2012	HK$0.024	–	10,076
2 December 2004	3 December 2004 – 30 December 2012	HK$0.04	–	9,355
			–	19,431

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

Date granted	Exercise period	Exercise price	2006 Number ('000)	2005 Number ('000)
2 December 2004	3 December 2004 – 30 December 2012	HK$0.04	–	37,420

(d) Details of share options exercised during the year

Exercise date	Exercise price HK$	Market value per share at exercise date HK$	Proceeds received HK$'000	Number of shares ('000)
7 September 2005	0.024	0.06	24	1,000
7 September 2005	0.04	0.06	374	9,355
13 October 2005	0.024	0.05	172	7,168
			570	17,523

35. OPERATING LEASE COMMITMENTS

(a) As lessee

At 31 July 2006, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Land and buildings				
Within one year	**3,489**	348	**401**	107
In the second to fifth years inclusive	**11,093**	1,231	**32**	–
More than five years	**4,437**	4,748	**–**	–
	19,019	6,327	**433**	107

(b) As lessor

At 31 July 2006, the total future minimum lease receipts under non-cancellable operating leases were receivable as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Plant and factory		
Within one year	**5,848**	2,550
In the second to fifth years inclusive	**1,180**	3,613
	7,028	6,163

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

36. OTHER COMMITMENTS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Contracted but not provided for in respect of acquisition of vessels	**–**	1,244
Commitments in respect of capital contribution to a subsidiary in the People's Republic of China	**4,810**	4,810
	4,810	6,054

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

37. CONTINGENT LIABILITIES

(a) An amount of SGD358,982 (equivalent to HK$1,766,335) (2005: HK$1,680,233) relating to interest payable on banking facilities of a subsidiary. The directors of the subsidiary are disputing this amount and no provision has been made in the financial statements.

(b) The Company and the Group had pending litigation in respect of the Statement of Claim for HCA 624 of 2005 dated 28 September 2005, the Group's solicitor is of the view that there are three claims which duplicate partly with each others. Fonfair claims against the defendants for the amount of HK$19,568,644.66 together with interest and costs, Money Facts claims the amount of HK$13,334,211.42 (HK$12,874,121.48 of which is pleaded by Money Facts as part of its loss and damage suffered by virtue of its 7,900/12,008th interest held in Fonfair) together with interest and costs, and Leung Yuet Keung claims the amount of HK$15,190,409.54 (HK$6,667,105.71 of which is pleaded by Leung Yuet Keung as part of his loss and damage suffered by virtue of his 3,950/7,900th interest held in Money Facts) together with interest and costs. As pleaded by the plaintiffs, (a) Harbour Front, which is the majority shareholder of the Company, holds 3,958 out of the 12,008 issued ordinary shares of Fonfair and 3,950 out of the 7,900 issued ordinary shares of Money Facts Limited; (b) Money Facts holds 7,900 out of the 12,008 issued ordinary shares of Fonfair; and (c) Leung Yuet Keung holds 3,950 out of the 7,900 issued ordinary shares of Money Facts, further details of which are set out in note 2(e)(ii).

37. CONTINGENT LIABILITIES *(Continued)*

(c) At 31 July 2005, the Company and the Group had contingent liabilities in respect of the Company's undertaking to the trustee of the Schemes that the aggregate proceeds of the Unencumbered Assets and the Accounts Receivables realised under the Schemes shall not less than HK$176 million.

On 1 September 2006, the Company entered into a Settlement Agreement with the Scheme Administrator/Trustee to release the Company from the Shortfall undertakings of HK$176 million in consideration of the issue of HK$30 million of promissory notes to the Scheme Administrator and the Scheme Administrator is also released from the responsibility from repaying the Company expenses and costs approximately HK$4.9 million. The scheme reserve has been reduced by approximately HK$34.9 million accordingly. Details of which are set out in note 28 to the financial statements.

38. RELATED PARTY TRANSACTIONS

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

	Note	**2006** ***HK$'000***	2005 *HK$'000*
Handling fee income from Bugsy Development Company Limited ("Bugsy")*	*(a)*	**–**	203
Agency fee income from Bugsy*	*(a)*	**45**	282
Ship management fee income from Bugsy*	*(a)*	**357**	693
Shipbuilding and repair income from Bugsy*	*(a)*	**72**	–
Purchase of vessels from Bugsy*#	*(a)*	**35,000**	–
Rental charges paid to Capital Hope Investments Limited ("Capital Hope")	*(b)*	**384**	384
Ship management fee income from Capital Hope	*(b)*	**27**	–
Rental charges paid to Denlane Shipbuilding Pte Limited ("Denlane")	*(c)*	**–**	83
Management service fee income from Denlane	*(c)*	**–**	1,659
Subcontracting fee paid to United Colours Development Limited ("United Colours")*	*(d)*	**–**	65
Consultant service fee paid to United Colours*	*(d)*	**127**	–
Handling charges paid to United Colours*	*(d)*	**564**	–
Ship management income from Giant Lead Enterprises Limited ("Giant Lead")	*(e)*	**4**	7

38. RELATED PARTY TRANSACTIONS *(Continued)*

	Note	2006 HK$'000	2005 HK$'000
Consultancy fee income from Gitanes Engineering Company Limited ("Gitanes")*	*(f)*	**320**	–
Ship management fee income from Gitanes*	*(f)*	**11**	132
Handling fee income from Gitanes*	*(f)*	**–**	9
Consultant service fee paid to Gitanes*	*(f)*	**180**	–
Purchase of vessel from Gitanes*#	*(f)*	**5,200**	–
Rental charges paid to Decorling Limited ("Decorling")	*(g)*	**627**	1,017
Interest expenses paid to Universal Grade Limited ("Universal Grade")	*(h)*	**–**	1,680
Shipbuilding and repair income from Universal Grade	*(h)*	**12**	–
Agency fee income from Universal Grade	*(h)*	**–**	114
Ship management fee income from Universal Grade	*(h)*	**273**	422
Handling fee income from Universal Grade	*(h)*	**–**	199
Agency fee income from Hong Hay Pte Limited ("Hong Hay")	*(i)*	**3**	–
Ship management fee income from Hong Hay	*(i)*	**127**	178
Handling fee income from Hong Hay	*(i)*	**–**	17
Interest expenses paid to Windermere Pte Limited ("Windermere")	*(j)*	**–**	5,512
Interest expenses paid to Harbour Front Limited ("Harbour Front")	*(k)*	**1,843**	886
Consultancy fee income from Tonic Engineering & Construction Company Limited ("Tonic")	*(l)*	**320**	500
Ship management fee income from Exact Nice Limited ("Exact Nice")	*(m)*	**20**	35
Shipbuilding and repair income from Exact Nice	*(m)*	**–**	120
Ship management fee income from Jelanter Limited ("Jelanter")	*(n)*	**46**	46
Shipbuilding and repair income from Jelanter	*(n)*	**–**	124

38. RELATED PARTY TRANSACTIONS *(Continued)*

	Note	2006 HK$'000	2005 HK$'000
Ship management fee income from Link Full International Limited ("Link Full")	(o)	**172**	375
Shipbuilding and repair income from Link Full	(o)	**6**	492
Agency fee income from Link Full	(o)	**54**	–
Handling fee income from Link Full	(o)	**–**	174
Ship management fee income from Possider Company Limited ("Possider")	(p)	**46**	46
Shipbuilding and repair income from Possider	(p)	**–**	244
Ship management fee income from Top Union Investments Limited ("Top Union")	(q)	**63**	143
Shipbuilding and repair income from Top Union		**10**	–
Agency fee income from Top Union	(q)	**–**	13
Handling fee income from Top Union	(q)	**–**	55
Ship management fee income from UDL Offshore Pte Limited ("UDL Offshore")	(r)	**40**	68
Handling fee income from UDL Offshore	(r)	**–**	8
Plant hire cost paid to Dongguan Chun Wah Engineering & Heavy Industries Company Limited ("DG Chun Wah")	(s)	**–**	283
Consultant service fee paid to Vital Strategic Corporate Consultancy Ltd. ("Vital") (formally known as YTL Strategic Corporate Consultancy Ltd)	(t)	**–**	671
Rental charges paid to Chui Hing	(u)	**77**	33
Interest expenses paid to Best Year (Asia) Limited	(v)	**79**	–
Purchase of subsidiary from Best Year (Asia) Limited	(v)	**21,249**	–
Purchase of debts from Best Year (Asia) Limited	(v)	**1,751**	–
Purchase of vessels from Multi – Ventures#	(w)	**5,440**	–
Interest expenses paid to Multi – Ventures Limited	(w)	**165**	–
Interest expenses paid to Marine Lord Systems Limited	(x)	**496**	–
Sales of subsidiaries to Harbour Front Limited	(k)	**–**	–

* One of the Group's top five suppliers.

The purchases were conducted on normal commercial terms with reference to the prevailing market price and valuations.

38. RELATED PARTY TRANSACTIONS *(Continued)*

(a) Bugsy is a wholly owned subsidiary of Harbour Front.

(b) Capital Hope is a company in which Ms. Leung is a director and shareholder.

(c) Denlane is a company in which Mrs. Leung and Ms. Leung are directors.

(d) United Colours is a company in which Mrs. Leung is a director and shareholder.

(e) Giant Lead is a company in which Mrs. Leung and Ms. Leung are directors.

(f) Gitanes is a company in which Mrs. Leung is a director and Ms. Leung is a shareholder.

(g) Decorling is a company in which Mrs. Leung is a shareholder. Mrs. Leung and Ms. Leung are directors of Decorling.

(h) Universal Grade is a company in which Harbour Front Limited, a major shareholder of the Company, has the ability to exercise significant influence in making its financial and operating decisions.**

(i) Hong Hay is a company in which Harbour Front Limited, a major shareholder of the Company, has the ability to exercise significant influence in making its financial and operating decisions.**

(j) Windermere is a company in which Harbour Front Limited, a major shareholder of the Company, has the ability to exercise significant influence in making financial and operating decisions.**

(k) Harbour Front is a major shareholder of the Company. Mrs. Leung and Ms. Leung are directors and shareholders of Harbour Front.[##]

(l) Tonic is a company in which Mrs. Leung is a director and Ms. Leung is a shareholder.

(m) Exact Nice is a company in which Mrs. Leung is a director.

(n) Jelanter is a company in which Mrs. Leung is a director.

(o) Link Full is a company in which Mrs. Leung is a director.

(p) Possider is a company in which Mrs. Leung is a director.

(q) Top Union is a company in which Mrs. Leung is a director.

38. RELATED PARTY TRANSACTIONS *(Continued)*

(r) UDL Offshore is a company in which Mrs. Leung and Ms. Leung are directors. Both of them resigned on 1 August 2005.

(s) DG Chun Wah is a company in which Mrs. Leung is a director.

(t) Vital is a company in which Ms. Leung is a director and shareholder and Mrs. Leung and Harbour Front are shareholders.

(u) Chui Hing is a company in which Mrs. Leung is a director.

(v) Best Year (Asia) Limited is a company in which Harbour Front Limited has the ability to exercise significant influence in making its financial and operating decision.

(w) Multi-Ventures Limited is a company in which Harbour Front Limited has the ability to exercise significant influence in making its financial and operating decision.

(x) Mrs Leung is the director of Top Union, which holds 50% shares of Marine Lord Systems Limited.

Mrs Leung and Ms Leung are the directors of UDL Holdings Limited.

** The amounts due to Universal Grade, Hong Hay and Windermere are secured by floating craft and vessels, bear interest at prime rate plus 2% p.a. and would be repayable on 1 August 2006. Details about the terms of the amounts due to these three companies are set out in note 22 to the financial statements.

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

All other amounts due from/(to) related companies with the exception of the amounts due to Universal Grade, Hong Hay and Windermere, are unsecured, interest free and repayable on demand.

39. AMOUNT DUE TO DIRECTORS

The amount due to directors is unsecured, interest free and repayable on demand.

40. POST BALANCE SHEET EVENTS

(a) Modifications to schemes of arrangement

The proposed modifications ("Scheme Modifications") were intended to allow a new Scheme Administrator to be appointed, with power to implement transactions which would produce a distribution of a cash dividend of approximately 1.4 cents in the dollar (and the Scheme Shares) to non-preferential Scheme Creditors.

The Scheme Administrator proposed modifications to the Schemes principally to provide for the following:

(i) an efficient mechanism for the replacement of the Scheme Administrator;

40. POST BALANCE SHEET EVENTS *(Continued)*

(a) Modifications to schemes of arrangement *(Continued)*

(ii) to permit a sale or other disposal by the Scheme Administrator of Unencumbered Assets and of the benefit of recoveries of Accounts Receivable and/or release from their obligations in respect of Unencumbered Assets and Accounts Receivable;

(iii) to permit the Administrator to approve a comprise or settlement of the Shortfall Undertaking;

(iv) to require the Scheme Administrator and Trustee to obtain the sanction of the Committee of Inspection or the approval of the Court before exercising a number of important powers to be granted by such modifications; and

(v) procedures to facilitate efficient termination of the Schemes, including the setting of a limit on the extent to which arbitration costs are to be paid out Scheme Funds.

The Scheme Modifications were sanctioned by the High Court of Hong Kong on 7 June 2006 and 21 July 2006, respectively.

(b) Settlement Structure Agreement

On 1 September 2006, the Company entered into a Settlement Agreement with the Scheme Administrator/Trustee after the implementation of the Scheme Modifications, the Scheme Administrator/Trustee with the following principal terms:

(i) the Scheme Administrator/Trustee releases the Company from the Shortfall Undertakings (which is defined in the Scheme Document as the amount by which HK$176,000,000 exceeds the Disposal Proceeds), in consideration of the issue of HK$30,000,000 of promissory notes to the Scheme Administrator;

(ii) the Scheme Administrator is released from any responsibility for repaying to the Company or any of its subsidiaries any amount in respect of

– a revolving fund of HK$2,000,000 made available by the Company to the Scheme Administrator for financing the costs of recovering the Accounts Receivable;

– a non-revolving interim financing of HK$3,200,000 made available by the Company to the Scheme Administrator for administration costs;

– expenses of HK$700,000 incurred by the Company or its subsidiaries in preservation of the Unencumbered Assets pursuant to the Schemes.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements on pages 23 to 87 were approved by the Board of Directors on 24 November 2006.