THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in UDL Holdings Limited (the "**Company**"), you should at once hand this circular, together with the accompanying form of proxy, to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

UDL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 620)

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

Financial adviser to the Company

AMS Corporate Finance Limited

Independent financial adviser to the independent board committee and the independent shareholders of the Company

Hercules

Hercules Capital Limited

A letter from the board of directors of the Company is set out on pages 10 to 44 of this circular. A letter from the independent committee of the board of directors of the Company ("**Independent Board Committee**") containing its recommendation to the independent shareholders of the Company (the "**Independent Shareholders**") in connection with the relevant transactions as detailed in this circular is set out on page 45 of this circular. A letter from Hercules Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, containing its advice in connection with such transactions is set out on pages 46 to 67 of this circular.

A notice convening a special general meeting of the Company to be held at 9:45 a.m. on Tuesday, 14 February 2006 at Room 306, 3rd Floor, Hong Kong International Trade & Exhibition Centre, No. 1 Trademart Drive, Kowloon Bay, Hong Kong is set out on pages 218 to 220 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's share registrar in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the special general meeting or any adjournment of it if you so wish.

Shareholders and prospective investors should note that the Underwriting Agreement (as defined in this circular) contains provisions granting Emperor Securities Limited, acting in its capacity as the underwriter of the Rights Issue (as defined in this circular), by notice in writing the right to terminate its obligations thereunder on the occurrence of certain events prior to 4:00 p.m. on Monday, 6 March 2006. Such events are more particularly described in the paragraph headed "Termination of the Underwriting Agreement" set out in the Letter from the Board contained in this circular.

27 January 2006

CONTENTS

EXPECTED TIMETABLE

The expected timetable for the Rights Issue set out below is ***indicative only*** and it has been prepared on the assumption that (1) the Rights Issue will be approved by the Independent Shareholders at the SGM and (2) the Rights Issue Documents will be despatched to the Qualifying Shareholders on the Business Day immediately following the date on which the SGM is held. The expected timetable is subject to change, and any such changes will be announced in a separate announcement by the Company as and when appropriate.

	2006
Despatch of the Circular with the notice of SGM	Friday, 27 January
Last day of dealings in Shares on a cum-rights basis	Wednesday, 8 February
First day of dealings in Shares on an ex-rights basis	Thursday, 9 February
Latest time for lodging transfer of Shares in order to qualify for the Rights Issue	4:00 p.m. on Friday, 10 February
Register of members of the Company closed	Monday, 13 February to Tuesday, 14 February (both dates inclusive)
Time of the SGM	9:45 a.m. on Tuesday, 14 February
Record Date	Tuesday, 14 February
Register of members re-opens	Wednesday, 15 February
Announcement of results of SGM appears on newspapers	Wednesday, 15 February
Despatch of Rights Issue Documents	Wednesday, 15 February
First day of dealings in nil-paid Rights Shares	Friday, 17 February
Latest time for splitting of nil-paid Rights Shares	4:00 p.m., Tuesday, 21 February
Last day of dealings in nil-paid Rights Shares	Friday, 24 February
Latest Time for Acceptance	4:00 p.m., Wednesday, 1 March
Latest time for the Rights Issue to become unconditional	4:00 p.m., Monday, 6 March
Announcement of results of acceptance of and excess applications for the Rights Shares appears on newspapers	Tuesday, 7 March
Despatch of refund cheques in respect of unsuccessful or partially unsuccessful excess applications for excess Rights Shares on or before	Tuesday, 7 March
Despatch of certificates for fully-paid Rights Shares on or before	Tuesday, 7 March
Commencement of dealings in fully-paid Rights Shares	9:30 a.m., Thursday, 9 March

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

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE

The Latest Time for Acceptance will not take place on 1 March 2006 if there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning,

in force in Hong Kong on such day at any time between 12:00 noon and 4:00 p.m., the Latest Time for Acceptance will be postponed to 4:00 p.m. on the next Business Day which does not have either of those warnings in force in Hong Kong at any time between 12:00 noon and 4:00 p.m..

If the Latest Time for Acceptance does not take place on 1 March 2006, the dates mentioned in this section headed "Expected timetable" may be affected. A press announcement will be made by the Company in such event.

DEFINITIONS

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

"2005 Annual Report"	the annual report of the Company for the financial year ended 31 July 2005
"2005 Audited Accounts"	the audited consolidated financial statements of the Group for the year ended 31 July 2005, the text of which is set out in the 2005 Annual Report
"Accounts Receivable"	has the meaning as defined in the Schemes, a summary of which was set out in the Composite Offer Document
"Acquisitions"	collectively: (1) the acquisition of the YHCD Shares and the YHCD Debts pursuant to the YHCD Agreement; (2) the acquisition of the 13 vessels pursuant to the Multi-Ventures Agreement; and (3) the acquisition of the 20 vessels pursuant to the Bugsy Agreement.
"associate(s)"	shall have the same meaning as defined in the Listing Rules
"Audited YHCD Completion Accounts"	the pro forma profit and loss accounts for the period commencing from 1 April 2005 and ending on the date of completion of the YHCD Agreement and the pro forma balance sheet of YHCD and its subsidiaries as at the date of completion of the YHCD Agreement as issued in accordance with the provisions of the YHCD Agreement
"Best Year"	Best Year (Asia) Limited, a company incorporated in Hong Kong with limited liability, the management of which is controlled by Harbour Front, and the vendor to the YHCD Agreement
"Board"	the board of Directors
"Bugsy"	Bugsy Development Company Limited, a company incorporated in Hong Kong with limited liability and 100% beneficially owned by Harbour Front, and the vendor to the Bugsy Agreement
"Bugsy Agreement"	the agreement dated 29 December 2005 entered into between Bugsy as vendor and the Company as purchaser for the acquisition of 20 marine engineering vessels
"Buy Back"	the purchase of certain core vessels from Harbour Front by the Group pursuant to the Buy Back Agreement

"Buy Back Agreement"	the conditional agreement dated 29 December 2005 entered into between Harbour Front as vendor and the Company as purchaser for the sale and purchase of certain core vessels as referred to in the paragraph headed "Reasons for the Disposal and Buy Back" under the section headed "Very substantial disposal, Buy Back and connected transactions" in the Letter from the Board contained in this circular
"Business Day"	a day (excluding Saturday and any day on which a tropical cyclone warning no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a "black" rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are open for business
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Committee of Inspection"	the committee of inspection formed under the Schemes
"Company"	UDL Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
"Composite Offer Document"	the composite offer and response document dated 12 October 2005 issued jointly by the Company and Harbour Front
"Court"	the High Court of Hong Kong
"December Announcement"	the announcement of the company dated 29 December 2005 in connection with (1) the proposed Settlement Agreement and issue of promissory notes; (2) proposed Rights Issue; (3) the Acquisitions; and (4) the Disposal and the Buy Back
"Disposal"	the disposal of the Disposal Shares and the Shareholders' Loans pursuant to the Disposal Agreement
"Disposal Agreement"	the conditional agreement dated 29 December 2005 entered into between the Company as vendor and Harbour Front as purchaser for the sale and purchase of the entire issued shares in UDLHK and UDLS and the Shareholders' Loans
"Director(s)"	the director(s) of the Company
"Disposal Shares"	together (i) the 4,000,000 shares of HK$1 each in UDLHK (representing the entire issued shares in UDLHK); and (ii) the 2,000,000 shares of S$1 each in UDLS (representing the entire issued shares in UDLS), both owned by the Company
"Excluded Shareholders"	Overseas Shareholders to whom the Board, based on legal opinions provided by legal advisers if the Board considers it necessary, considers it necessary or expedient not to offer the Rights Shares on account either of legal restrictions under the laws of relevant place or the requirements of the relevant regulatory body or stock exchange in that place

"Group"	the Company and its subsidiaries from time to time
"Harbour Front"	Harbour Front Limited, a company incorporated in the British Virgin Islands and the controlling shareholder of the Company
"Harbour Front Concert Parties"	Harbour Front and parties acting in concert with it
"Hercules"	Hercules Capital Limited, a licensed corporation to carry on type 6 regulated activity (advising on corporate finance) under the SFO and the independent financial adviser appointed by the Company to advise and give recommendation to the Independent Board Committee and the Independent Shareholders on the Rights Issue, the Acquisitions, the Disposal and the Buy Back
"HKSCC"	the Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong GAAP"	the generally accepted accounting principles in Hong Kong
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"Independent Board Committee"	the independent committee of the Board comprising the three independent non-executive Directors, namely Mr. Pao Ping Wing, *JP*, Professor Yuen Ming Fai, Matthew and Ms. Tse Mei Ha, established to advise and give recommendation to the Independent Shareholders on the Rights Issue, the Acquisitions, the Disposal and the Buy Back
"Independent Shareholders"	Shareholders other than Harbour Front and its associates
"Latest Practicable Date"	25 January 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Latest Time for Acceptance"	4:00 p.m. on, tentatively, 1 March 2006 or such later time as may be agreed between the Company and the Underwriter, being the latest time for acceptance of the offer of Rights Shares and if there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong on such day at any time between 12:00 noon and 4:00 p.m., the Latest Time for Acceptance will be postponed to 4:00 p.m. on the next business day which does not have either of those warnings in force in Hong Kong at any time between 12:00 noon and 4:00 p.m.
"Latest Time for Termination"	4:00 p.m. on, tentatively, 6 March 2006, being the third Business Day after the Latest Time for Acceptance
"Last Trading Day"	29 December 2005, being the last full trading day of the Shares prior to the release of the December Announcement
"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange

"MOU"	the memorandum of understanding dated 12 August 2005 and executed by the Company, Harbour Front and the Scheme Administrator as regards a proposed solution for the Scheme Creditors
"Multi-Ventures"	Multi-Ventures Limited, a company incorporated in Hong Kong with limited liability, the management of which is controlled by Harbour Front, and the vendor to the Multi-Ventures Agreement
"Multi-Ventures Agreement"	the conditional agreement dated 29 December 2005 and entered into between Multi-Ventures as vendor and the Company as purchaser for the acquisition of 13 marine engineering vessels
"Notes"	the notes proposed to be issued to the Scheme Administrator (on behalf of the Scheme Creditors) in settlement of the Shortfall Undertaking, the suggested terms of which are set out in the MOU
"Overseas Shareholder(s)"	the Shareholder(s) whose name(s) appear(s) on the register of members of the Company on the Record Date and whose registered address(es) on that date is/are outside Hong Kong
"Percentage Ratios"	the percentage ratios (other than the equity ratio) under Rule 14.07 of the Listing Rules
"PRC"	the People's Republic of China, which, for the purpose of this circular, excludes, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Prospectus"	the prospectus to be issued by the Company in relation to the Rights Issue
"Qualifying Shareholder(s)"	the Shareholder(s), other than the Excluded Shareholder(s), whose name(s) appear(s) on the register of members of the Company on the Record Date
"Record Date"	tentatively 14 February 2006, being a date determined by the Company and the Underwriter in accordance with the relevant regulations or requirements for ascertaining the entitlements under the Rights Issue
"Remaining UDL Group"	the Group other than UDLS and UDLHK
"Resultant Group"	the Company and its subsidiaries immediately after the completion of each of the Rights Issue, the Acquisitions, the Disposal and the Buy Back, assuming each of such transactions completed in accordance with its respective terms
"Rights Issue"	the proposed issue of Rights Shares on the basis of 12 Rights Shares for every five existing Shares to Qualifying Shareholders by way of rights or to holders of nil-paid Rights Shares at the Subscription Price, pursuant to the terms and conditions of the Underwriting Agreement and the Rights Issue Documents

"Rights Issue Documents"	the Prospectus, the provisional allotment letter and the form of application for excess Rights Shares
"Rights Share(s)"	2,374,133,524 new Share(s) to be issued by the Company pursuant to the Rights Issue
"Scheme Administrator"	the Scheme Administrator as defined in the Schemes (currently Mr. Matthew Finbarr O' Driscoll)
"Scheme Creditors"	shall bear the meaning as ascribed to it under the Schemes
"Scheme Modifications"	the proposed modifications to the Schemes and the Trust Deed so as to achieve certain principal purposes related to the administration of the Schemes which were approved at a meeting of the Scheme Creditors held on 9 November 2005 and were still subject to the sanction of the Court as at the Latest Practicable Date
"Scheme Shares"	the 252,306,195 Shares currently held by the Scheme Administrator for the non-preferential Scheme Creditors pending their distribution under the Schemes
"Schemes"	the schemes of arrangement in respect of the Company and 24 of its subsidiaries, the explanatory statement for which was dated 11 February 2000, which were sanctioned by Order of the Court on 18 April 2000 and became effective on 28 April 2000
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"September Announcement"	the announcement dated 7 September 2005 made jointly by the Company and Harbour Front in respect of, among other matters, the general offers for the securities of the Company not owned by the Harbour Front Concert Parties
"Settlement Agreement"	has the meaning ascribed to it under the paragraph headed "Background" in the section headed "Proposed Settlement Agreement and issue of Promissory Notes" in the Letter from the Board contained in this circular
"SGM"	the special general meeting of the Company to be convened to be held on 14 February 2006 for the purpose of approving, among other matters (if any), the Rights Issue, the Acquisitions, the Disposal and the Buy Back, and any adjournment thereof
"Share(s)"	ordinary shares which have a par value of HK$0.01 each in the capital of the Company
"Shareholder(s)"	shareholder(s) of the Company
"Shareholders' Loans"	such amount as equals 100% of the face value of the loans outstanding as at completion of the Disposal made by or on behalf of the Company or any other members of the Remaining UDL Group to any of UDLHK and UDLS

"Shortfall"	has the meaning ascribed to it under the paragraph headed "Background" in the section headed "Proposed Settlement Agreement and issue of Promissory Notes" in the Letter from the Board contained in this circular
"Shortfall Undertaking"	has the meaning ascribed to it under the paragraph headed "Background" in the section headed "Proposed Settlement Agreement and issue of Promissory Notes" in the Letter from the Board contained in this circular
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Price"	subscription price of HK$0.03 per Rights Share
"S$"	Singapore dollars, the lawful currency of Singapore
"Trust Deed"	the trust deed dated 11 February 2000 and made between the Company and the Trustee for the benefit of the Scheme Creditors for the purposes of implementation of the Schemes
"UDLAEH"	UDL Argos Engineering & Heavy Industries Company Limited, a subsidiary of the Company
"UDLHK"	UDL Marine Assets (Hong Kong) Limited, a company incorporated under the laws of Hong Kong and a subsidiary of the Company
"UDLS"	UDL Marine Assets (Singapore) Pte Limited, a company incorporated under the laws of Singapore and a subsidiary of the Company
"Underwriter"	Emperor Securities Limited, is a licensed corporation to carry on type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO, and the sole underwriter of the Rights Issue
"Underwriting Agreement"	the underwriting agreement dated 29 December 2005 and entered into between the Company, Harbour Front and the Underwriter in relation to the Rights Issue
"Unencumbered Assets"	has the meaning as defined in the Schemes, a summary of which was set out in the Composite Offer Document
"Vessels"	the 13 marine engineering vessels and 20 marine engineering vessels proposed to be acquired by the Company pursuant to the Multi-Ventures Agreement and the Bugsy Agreement, respectively
"YHCD"	Denlane Shipbuilding Pte Limited, a private company incorporated under the laws of Singapore and the entire issued shares in which are proposed to be acquired by the Company under the YHCD Agreement

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

Unless the context otherwise requires, translations of S$ into HK$ and RMB into HK$ are made in this circular, for illustration purposes only, at the rates of S$1.00 = HK$4.62 and RMB1.03 = HK$1.00 respectively. No representation is made that any amounts in S$ or RMB could have been or could be converted at such rates or at any other rates or at all.

UDL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 620)

Executive Directors:
Mrs. Leung Yu Oi Ling, Irene
Ms. Leung Chi Yin, Gillian
Mr. Lee Ka Lun, Stephen

Independent non-executive Directors:
Mr. Pao Ping Wing, *JP*
Professor Yuen Ming Fai, Matthew
Ms. Tse Mei Ha

Registered office:
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50 Cedar Avenue
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Room 702, 7th Floor
Aitken Vanson Centre
61 Hoi Yuen Road
Kwun Tong
Kowloon
Hong Kong

27 January 2006

To the Shareholders

Dear Sir or Madam,

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

INTRODUCTION

Reference is made to the December Announcement, in which the Company announced the Settlement Agreement and the issue of the Promissory Notes, the Rights Issue, the Acquisitions, the Disposal and the Buy Back.

Background

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

1. The Scheme Administrator had advised the Company that he intended to propose the Scheme Modifications so as to achieve certain principal purposes related to the administration of the Schemes.

2. The Company and the Scheme Administrator had had many discussions as to whether an alternative, more rapid and positive solution could be achieved for the Scheme Creditors.

From this, a proposed solution ("**Global Solution**") had emerged and been recorded in the MOU. The goals under the Global Solution which were then targeted to be achieved in 2005 include, among other matters, (a) the settlement of the Shortfall Undertaking; (b) the sale of certain Unencumbered Assets and Accounts Receivable vested in the Scheme Administrator to such person as the Scheme Administrator may in his absolute discretion consider appropriate (including Harbour Front) for HK$20 million in cash; and (c) an undertaking by Harbour Front to purchase from the Scheme Administrator/Trustee all or such proportion of the Notes as the Scheme Administrator may determine at a price equal to 18/30ths of their nominal value, payable in cash.

3. The 2005 Audited Accounts, which reported net current liabilities of approximately HK$34,347,000 and a deficiency of assets of approximately HK$55,617,000 for the Group at 31 July 2005, were prepared on a going concern basis, the validity of which was dependent upon certain factors as stated in the Auditors' Report contained therein. The financial statements did not include any adjustments that would result from the failure of (a) the Group to obtain the financial support and the additional equity funding; (b) the ability of the related party lenders to meet their respective repayment obligations under the assigned loans; and (c) the Group's ability to discharge the Shortfall Undertaking and the feasibility and efficiency in the implementation of the Global Solution. Due to the significant net deficits as at 31 July 2005 and the uncertainties as mentioned above, the auditors of the Company were not able to determine whether the going concern basis used in preparing those financial statements was appropriate. Accordingly, they had disclaimed their opinion in respect of this issue.

4. In order for the Company to fund its operations in the future, the Company would be required to implement certain fund raising plans, which might include (but not limited to) rights issue or other equity financing methods.

5. With recent recovery of the local economy and the development in the adjacent areas, the Group had also gradually resumed other business activities, particularly structural steel engineering projects as well as provision of contracting and engineering services, most of which had since the implementation of the Schemes in 2000 been suspended.

6. With the Group's past experience and operations with extensive customers and vendors network in the shipbuilding industry built up since the 90s', which closely related to the marine construction engineering industry, the Group had already resumed its shipbuilding business and received considerable orders for the supply of various kinds of reconditioned second hand marine engineering vessels. These confirmed orders together with other orders, which were then close to be concluded, were expected to contribute positively to the Group's revenue.

Proposals

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

1. the Rights Issue;

2. the acquisition of a yard holding company (namely, YHCD);

3. the acquisition of the Vessels; and

4. the Disposal.

In short, the above proposals serve the following purposes:

- The Rights Issue and/or the Disposal will (i) strengthen the capital base of the Company and remove the substantial net deficiency of assets of the Group and give it a considerable net assets value; (ii) remove the uncertainties regarding the ability of the Group to raise additional equity funding; (iii) provide resources to normalise and expand the Group's businesses, including the resumption of the shipbuilding business; and (iv) provide additional working capital for the Group's operations in the future.

- The acquisition of the Vessels and/or the Disposal will (i) remove all uncertainties regarding the financial support from the related party lenders to the Group; (ii) remove all uncertainties regarding the ability of the related party lenders to meet their respective payment obligations under the assigned loans; and (iii) allow the Group to expand its business for the supply of various kinds of reconditioned second hand marine engineering vessels.

- The acquisition of the yard holding company will allow the Group to expand its business related to shipbuilding and structural steel engineering, which has been carried on by the Group since the year ended 31 March 1994, as well as provision of marine engineering services.

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

PROPOSED SETTLEMENT AGREEMENT AND ISSUE OF PROMISSORY NOTES

Background

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

The Unencumbered Assets and the Accounts Receivable were transferred to the Scheme Administrator pursuant to the Schemes when they became effective on 28 April 2000 and then started to be implemented in May 2000 after the completion of the rights issue and acquisition as contemplated by the Schemes. The transfer was completed in mid 2000, and no parties to the MOU could have envisaged at the relevant time the subject matter of the Global Solution.

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

In the event of a shortfall ("**Shortfall**"), the Company is required to make up for the Shortfall beginning in the fourth financial year after the financial year in which the Schemes became effective. The amount of payment for the Shortfall by the Company in every financial year is limited to a maximum of 60% of the consolidated net profit of the Company and its subsidiaries for that financial year. There are no payment obligations on the Company in respect of the Shortfall in respect of any financial year in which the Company does not make an audited consolidated net profit. The Company's obligation to make up the Shortfall shall not be discharged unless and until the Company has paid the Shortfall in full ("**Shortfall Undertaking**"). Under the Schemes, the Company may, however, make up for such Shortfall using any part or all of the funds raised by the Company through any fund raising activities.

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

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

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

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

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

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

The Directors are advised that in the explanatory statement to the Scheme Creditors for the purpose of the Scheme Modifications, only the land use right for the site in Shatain, Dongguan, the PRC was valued by an independent valuer (not being the project manager appointed under the Schemes, and engaged under the Schemes and not by the Company) who reported directly to the Scheme Administrator. The Scheme Administrator, however, considers that substantial outstanding annual and licence fees, and fees, and title and administrative issues including those for restoring the licences of one of the joint ventures holding the land use right could affect the valuation. Due to difficulties in locating and identifying the numerous items of assets, expired licences in relation to the vessels and the quarry and the inadequacy of documents showing the ownership of these assets, no valuation has been carried out in respect of the Unencumbered Assets for the purposes of the explanatory statement in respect of the Scheme Modifications.

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

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

Settlement Agreement

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

1. The Scheme Administrator/Trustee releases the Company from the Shortfall Undertaking, in consideration of the issue by the Company to the Scheme Administrator/Trustee (or as the Scheme Administrator/Trustee may direct) of the Notes with an aggregate principal amount of HK$30 million.

2. The Scheme Administrator is released from any responsibility for repaying to the Company or any of its subsidiaries any amount in respect of (i) a revolving fund of HK$2 million made available by the Company pursuant to the Schemes for financing the costs of recovering the Accounts Receivable; (ii) a non-revolving interim financing of HK$3.2 million made available by the Company to the Schemes for its administration costs (as referred to in the Company's circular dated 23 April 2001); and (iii) expenses incurred by the Company or its subsidiaries in preservation of the Unencumbered Assets pursuant to the Schemes.

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

It is envisaged that the Settlement Agreement will only deal with the settlement of the Shortfall Undertaking and the issue of the Notes. The disposal of the Unencumbered Assets by the Scheme Administrator, which is one of the other goals of the Global Solution, will be separately documented by the Scheme Administrator with the purchaser (currently, the purchaser identified is Harbour Front) and the Company is not expected to be a party to such sale and purchase agreement. Up to the Latest Practicable Date, no negotiation had been conducted between the Group and Harbour Front as to whether or not the Group will acquire any of the Unencumbered Assets from Harbour Front after completion of the Global Solution. In the event of any such future transaction, the Company will comply with the then applicable requirements under the Listing Rules.

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

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

Terms of the Notes

As stated in the September Announcement, it was originally proposed that there would be an issue of convertible notes to the Scheme Administrator in discharge of the Shortfall Undertaking. Taking into account the maximum number of Shares that may fall to be issued under the convertible notes, the creation and issue of convertible notes will require the approval by the Shareholders in a general meeting. The Stock Exchange has raised concerns that Harbour Front's interests in the proposed issue of the convertible notes are materially different from the other shareholders of the Company and that Harbour Front should not vote on the resolution in respect of the creation and issue of the originally proposed convertible notes. In view that the first Court hearing for the sanction of the Scheme Modifications was scheduled to be heard in early January 2006, the Company has further discussed with the Scheme Administrator and, with his acknowledgment, agreed on, a non-binding basis, to issue the Notes in lieu of the convertible notes so as to expedite the negotiation of the proposed settlement which is in the interests of the Company and the Shareholders as a whole. As advised by the Company's legal advisers on the Schemes, the hearing of the Scheme Administrator's application for sanction of the Scheme Modifications held on 3 January 2006 was adjourned to a date to be fixed which date, in any event, shall not be earlier than 24 January 2006. The Company understands that the next hearing date has now been fixed as 9 March 2006.

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

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

Aggregate principal amount:	A series of promissory notes in the aggregate principal amount of HK$30 million in total. Each of the Promissory Notes is divided into four tranches. The aggregate principal amount of each tranche is HK$7.5 million.	
Interest:	1% per annum payable semi-annually in arrears.	
Security:	The Promissory Notes are not secured.	
Repayment Dates:	As regards the first tranche of the Promissory Notes:	the seventh day after the expiry of the sixth month of the issue of the Promissory Notes
	As regards the second tranche of the Promissory Notes:	the seventh day after the expiry of the 12th month of the issue of the Promissory Notes
	As regards the third tranche of the Promissory Notes:	the seventh day after the expiry of the 18th month of the issue of the Promissory Notes
	As regards the fourth tranche of the Promissory Notes:	the seventh day after the expiry of the 24th month of the issue of the Promissory Notes
		(each of the above dates is a "**Due Date**")
Right of election:	The Company will be given a right to elect to settle the whole or any part of the amount due on each Due Date by the issue of Shares to the holders of the Promissory Notes at a price equal to the higher of (1) 91% of the average closing price of the Shares as quoted on the Stock Exchange daily quotation sheets in the 20-day period immediately preceding each Due Date; and (2) the nominal value of the Shares. Before exercising any such right of election on the Due Date, the Company would obtain all requisite approvals from the Shareholders, and that of the Stock Exchange for the listing of, and permission to deal in, the Shares.	

Transferability:	The Promissory Notes are freely transferable by the holder(s) and the subsequent transferee(s) giving a notice of transfer to the Company.
Listing:	No application will be made for the listing of, or permission to deal in, the Promissory Notes on the Stock Exchange or any other stock exchange. Before the Company exercises its right of election referred to above, application for the listing of, and permission to deal in, the relevant Shares will be made to the Stock Exchange.
Voting rights:	The Promissory Notes do not entitle the holder(s) thereof any right to vote at the general meetings of the Company.

Signing of the Settlement Agreement

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

Completion and condition of the Settlement Agreement

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

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

The Scheme Creditors approved the Scheme Modifications (which allow the Scheme Administrator/ Trustee to proceed with the settlement of the Shortfall Undertaking as proposed above subject to the terms of modifications to the Scheme) at the meeting held on 9 November 2005. The hearing of the Scheme Administrator's application for sanction of the Scheme Modifications held on 3 January 2006 was adjourned to a date to be fixed which date, in any event, shall not be earlier than 24

January 2006. The Company understands that the next hearing date has now been fixed as 9 March 2006. Further announcement will be made by the Company upon receipt of the final outcome of the court hearing. Shareholders are again reminded that the Scheme Modifications, which are a pre-requisite for the Settlement Agreement, are still subject to the sanction of the Court.

As stated in the December Announcement, it was expected that the Settlement Agreement would be completed in late March 2006. The exact completion date will however be dependent on the outcome and the time of the sanction of the Scheme Modifications by the Court as mentioned above.

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

Upon the execution of the Settlement Agreement and the issue of the Promissory Notes, the Group is expected to (1) incur an additional liability of HK$30 million, being the principal amount of the Promissory Notes; (2) reduce its receivables as more particularly referred to in sub-paragraph 2 of the paragraph headed "Settlement Agreement" above by approximately HK$5.9 million as a result of the proposed terms of the Settlement Agreement; and (3) remove the uncertainty regarding the Company's contingent liability in connection with the Shortfall Undertaking. As such, the scheme reserve account of the Group will be reduced by approximately HK$35.9 million.

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

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

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

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

PROPOSED RIGHTS ISSUE

Issue statistics

Basis of the Rights Issue:	12 Rights Shares for every five existing Shares held on the Record Date
Number of existing Shares in issue:	989,222,302 Shares as at the Latest Practicable Date
Number of Rights Shares:	2,374,133,524 Rights Shares

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

Share option scheme and other securities convertible into Shares

As at the Latest Practicable Date, there were no outstanding share options granted under the share option scheme of the Company or any other warrants, options or securities convertible into Shares.

Subscription Price

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

The Subscription Price

– was equal to the closing price of HK$0.03 per Share as quoted on the Stock Exchange on 29 December 2005, being the Last Trading Day;

– represented a discount of approximately 24.33% to the average closing price of HK$0.0373 per Share for the 10 consecutive trading days up to and including 29 December 2005, being the Last Trading Day; and

– was equal to the closing price of HK$0.03 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

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

Status of the Rights Shares

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

Application for excess Rights Shares

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

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

(1) preference will be given to applications for less than a board lot of Rights Shares where they appear to the Directors that such applications are made to round up odd-lot holdings to board-lot holdings;

(2) allocation of the excess Rights Shares will be made in proportion to the number of nil-paid Rights Shares provisionally allotted to those Qualifying Shareholders who also have applied for the excess Rights Shares ("**Respective Proportion**"). Any excess Rights Shares remaining after satisfying the allocation under principle (1) above will firstly be allocated to the Qualifying Shareholders according to the Respective Proportion and, subject to the availability of excess Rights Shares, applications by the Qualifying Shareholders whose number of excess Rights Shares being applied for are equal to or less than the number of excess Rights Shares allocated according to their Respective Proportion will be satisfied in full;

(3) any further remaining excess Rights Shares be allocated to applicants in proportion to the excess Rights Shares applied by them after netting off their respective entitlements as calculated in (2) above; and

(4) in accordance with any further requirements of the Stock Exchange.

The investors with the Shares held by a nominee company should note that for the purposes of the principles above, the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, the investors whose Shares are registered in the name of nominee companies should note that the aforesaid arrangement in relation to the allocation of the excess Rights Shares will not be extended to beneficial owners individually. The investors with their Shares held by a nominee company are advised to consider whether they would like to arrange for registration of the relevant Shares in the name of the beneficial owner(s) prior to the Record Date.

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

Fractional entitlements

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

Share certificates for the Rights Shares

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

Qualifying Shareholders

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

To qualify for the Rights Issue, a Shareholder must be registered as a member of the Company at the close of business on the Record Date. However, Overseas Shareholders whose names appear on the register of members of the Company at the close of business on the Record Date to whom the Board, based on legal opinions provided by legal advisers if the Board considers it necessary, considers it necessary or expedient not to offer the Rights Shares on account either of legal restrictions under the laws of relevant place or the requirements of the relevant regulatory body or stock exchange in that place will not be regarded as Qualifying Shareholders.

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

Rights of Excluded Shareholders

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

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

Application for listing of the Right Shares on the Stock Exchange

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

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

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

None of the securities of the Company is listed or dealt in on any other stock exchange other than the Stock Exchange and no such listing or permission to deal is being or is proposed to be sought.

The first day of dealings in the Rights Shares in their fully-paid form is expected to commence on Thursday, 9 March 2006.

Conditions of the Rights Issue

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

(1) the passing by the Independent Shareholders at the SGM of an ordinary resolution to approve the Rights Issue (including, but not limited to, the exclusion of the offer of the Rights Issue to the Excluded Shareholders);

(2) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in all the Rights Shares (in their nil-paid and fully-paid forms); and

(3) the Underwriting Agreement becoming unconditional and not being terminated by the Underwriter in accordance with its terms.

Reasons for the Rights Issue and the use of proceeds

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

Upon the full subscription of the Rights Shares, the Company will receive (net of expenses) approximately HK$69.7 million. The expenses to be incurred in respect of the Rights Issue are estimated to be approximately HK$1.5 million and are payable by the Company. The Directors intend to use the net proceeds of the Rights Issue as follows:

– as to approximately HK$5.0 million to be applied towards partial repayment of the interim finance with principal amount of HK$20 million provided to the Group by Harbour Front as referred to in the Composite Offer Document;

– as to approximately HK$63.4 million to be applied towards payment for the consideration of the Acquisitions; and

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

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

During the 12 months prior to the December Announcement, the Company had not raised any funds by way of the issue of equity securities.

Underwriting arrangements

Underwriting Agreement

Date: 29 December 2005

Parties: (1) the Company

(2) Harbour Front, the controlling shareholder of the Company, which together with parties acting in concert with it, is interested in approximately 58.17% of the existing issued share capital of the Company

(3) the Underwriter, immediately before the signing of the Underwriting Agreement, did not have any interest in any Shares

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

Undertakings by Harbour Front: Pursuant to the Underwriting Agreement, Harbour Front has undertaken to the Company that (1) it will procure the 575,442,287 existing Shares beneficially owned by the Harbour Front Concert Parties at the Latest Practicable Date, representing approximately 58.17% of the existing issued share capital of the Company, will remain registered in the same names and beneficially owned by the Harbour Front Concert Parties on the Record Date; and (2) the Harbour Front Concert Parties including their nominees shall accept, and pay for, all the 1,381,061,488 Rights Shares to be provisionally allotted to the Harbour Front Concert Parties and their nominees (if applicable) as the holders of such Rights Shares pursuant to the Rights Issue. In addition, Harbour Front has also pursuant to the Underwriting Agreement undertaken in favour of the Company and the Underwriter to take up and/or procure the Harbour Front Concert Parties or their nominees to take up in aggregate 565,996,774 excess Rights Shares provided that their applications shall be treated in accordance with the allocation principles mentioned in the paragraph headed "Application for excess Rights Shares" above and rank pari passu with all other applications for excess Rights Shares made by other Qualifying Shareholders.

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

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

Conditions of the Underwriting Agreement

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

(1) the Company despatching this circular to the Shareholders containing, among other matters, details of the Rights Issue together with the proxy form and the notice of SGM;

(2) the passing by the Independent Shareholders at the SGM of an ordinary resolution to approve the Rights Issue (including, but not limited to, the exclusion of the offer of the Rights Issue to the Excluded Shareholders) by no later than 15 February 2006;

(3) each of the conditions precedent to the Acquisitions (other than the condition relating to the Rights Issue having become unconditional and completed) is fulfilled;

(4) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in all the Rights Shares (in their nil-paid and fully-paid forms);

(5) the filing and registration of all documents relating to the Rights Issue, which are required to be filed or registered with the Registrar of Companies in Hong Kong in accordance with the Companies Ordinance of Hong Kong and the filing of all documents relating to the Rights Issue, which are required to be filed with the Registrar of Companies in Bermuda in accordance with the Companies Act of Bermuda;

(6) the posting of the Rights Issue Documents to the Qualifying Shareholders; and

(7) compliance with and performance of all the undertakings and obligations of each of the Company and Harbour Front under the terms of Underwriting Agreement.

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

As at the Latest Practicable Date, Harbour Front was the controlling shareholder of the Company. Pursuant to Rule 7.19(6) of the Listing Rules, Harbour Front and its associates are required to abstain from voting in favour of the ordinary resolution in respect of the approval of the Rights Issue. Details of the interests in the Shares of Harbour Front and its associates are set out in the paragraph headed "Substantial shareholders' interests" in Appendix VII to this circular.

If any of the conditions of the Underwriting Agreement are not fulfilled or (where applicable) waived on or before the Latest Time for Acceptance (being 4:00 p.m. on 1 March 2006) (or such later time and/or date as the Company and the Underwriter may determine), the Underwriting Agreement shall terminate and (save in respect of any rights and obligations which may have accrued under the Underwriting Agreement prior to such termination) neither the Company nor the Underwriter shall have any rights or be subject to any obligations arising from the Underwriting Agreement and the Rights Issue will not proceed.

Termination of the Underwriting Agreement

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

(1) in the reasonable opinion of the Underwriter, the success of the Rights Issue would be materially and adversely affected by:

    (a) the introduction of any new regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Rights Issue; or

(b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement), of a political, military, financial, economic or other nature, or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or

(c) any material adverse change in the business or in the financial or trading position or prospects of the Group as a whole; or

(d) there occurs or comes into effect the imposition of any moratorium, suspension or material restriction on trading of the Shares generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or

(2) any material adverse change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading of securities, and a change in currency conditions for the purpose of this paragraph includes a change in the system under which the value of the Hong Kong currency is pegged with that of the currency of the United States of America) occurs which in the reasonable opinion of the Underwriter makes it inexpedient or inadvisable to proceed with the Rights Issue; or

(3) this circular or the Prospectus when published contains information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date of the Underwriting Agreement been publicly announced or published by the Company and which may in the reasonable opinion of the Underwriter is material to the Group as a whole upon completion of the Rights Issue and is likely to affect materially and adversely the success of the Rights Issue.

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

Put option in respect of the Underwritten Shares

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

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

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

The Shares will be dealt in on an ex-rights basis from Thursday, 9 February 2006. Dealing in the Rights Shares in the nil-paid form will take place from Friday, 17 February 2006 to Friday, 24 February 2006 (both days inclusive). If the conditions of the Rights Issue are not fulfilled and/or waived, or the Underwriting Agreement is terminated by the Underwriter, the Rights Issue will not proceed and the Rights Issue will lapse.

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

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

Shareholding structure of the Company before and after the Rights Issue

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

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

Notes:

1. These Shares are registered in the name of the spouse of Professor Yuen Ming Fai, Matthew, one of the independent non-executive Directors.

2. The percentage shareholding is negligible.

3. (a) As disclosed in the section headed "Substantial Shareholders" in 2005 annual report of the Company for the purposes of the SFO, the Scheme Administrator was interested in 252,306,195 Scheme Shares as at 31 July 2005. Such Scheme Shares are being held by the Scheme Administrator on trust for the benefits of the non-preferential Scheme Creditors. For the avoidance of doubt, the Shares held by the Scheme Administrator at present rank pari passu (i.e. equally) in all respects (including voting rights) with the issued Shares.

(b) As stated in the panel decision from the Takeovers and Mergers Panel of the Securities and Futures Commission of Hong Kong dated 28 September 2001, the Scheme Shares were allotted to the Scheme Administrator to hold "on trust for the non-preferential Scheme Creditors pending their distribution" and it was held that such Scheme Shares do carry "currently exercisable" voting rights. Under the Scheme, the only stated powers given to the Scheme Administrator in relation to the Scheme Shares are to receive, hold and distribute them to the Scheme Creditors upon proof of their claims. According to the Schemes (as further clarified by the Scheme Modifications), certain important powers of the Scheme Administrator and Trustee can be exercised only with the sanction of the Committee of Inspection or the approval of the Court. As confirmed by the Scheme Administrator, voting rights of the Scheme Shares is considered as an important power of the Scheme Administrator which will be exercised only with the sanction of the Committee of Inspection or the approval of the Court. According to the register of members of the Company, the shareholding of the Scheme Administrator remained unchanged as at the Latest Practicable Date. The non-preferential Scheme Creditors cannot exercise the voting rights attaching to such 252,306,195 Shares until the distribution of the Shares by the Scheme Administrator. As at the Latest Practicable Date, the Committee of Inspection comprised The Hongkong and Shanghai Banking Corporation Limited, Bank of America (Asia) Limited and Natexis Banques Populaires. Harbour Front has never been a member of the Committee of Inspection.

(c) According to the information available to the Company, no non-preferential Scheme Creditors will, for the sole reason of distribution of the Scheme Shares by the Scheme Administrator, be entitled to hold 10% or more of the issued share capital of the Company.

(d) As disclosed in the section headed "Global Solution" in the Composite Offer Document, Harbour Front is independent of the Scheme Administrator save that it is one of the non-preferential Scheme Creditors through previous acquisition of debts from creditors under the Schemes after the Schemes became effective on 28 April 2000. A total of nearly 800 claims have been submitted under the Schemes, totalling approximately HK$5.15 billion. The total claims submitted by Harbour Front amounted to approximately HK$856 million. Admitted scheme debts to which Harbour Front is entitled amount to approximately HK$230 million, representing less than 13% of the aggregate amount of all admitted scheme debts and held over claims under the Schemes. As stated in the section headed "Total Consideration" in the Composite Offer Document, the Company has consulted the Scheme Administrator, currently Mr. Matthew Finbarr O' Driscoll, on his intention regarding the Scheme Shares and has been advised that the Scheme Administrator intends to distribute a significant portion of the Scheme Shares to non-preferential Scheme Creditors as soon as the Scheme Modifications are adopted but subject to the completion of the Global Solution. As the process for the adoption of such modifications still require sanctioning by the Court and the exact timing and outcome of the Global Solution are still uncertain, it is not possible to predict accurately whether or not and when the Scheme Administrator would be in a position to make such distribution of Shares, Harbour Front's entitlements to the Scheme Shares are uncertain and cannot yet be quantified given that the adjudication of claims submitted to the Scheme Administrator has not been completed.

(e) As disclosed in section headed "Shareholding Structure" in the Company's circular dated 1 March 2000 and according to the updated information available to the Company, save for Harbour Front, the Scheme Administrator and the non-preferential Scheme Creditors are not connected with the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates. Also so far as the Directors are aware, save for Harbour Front Concert Parties, none of the Scheme Creditors is a connected person of the Company (within the meaning of the Listing Rules).

In the event that upon completion of the Rights Issue, less than 25% of the Shares are held by the public, the Company and Harbour Front will take appropriate steps to restore the public float as required under the Listing Rules.

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

Expected timetable

A detailed expected timetable for the Rights Issue is set out in the section headed "Expected timetable" in this circular.

VERY SUBSTANTIAL ACQUISITIONS AND CONNECTED TRANSACTIONS

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

(1) YHCD Agreement

Date: 29 December 2005

Parties:

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

(ii) the Company (as purchaser).

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

Consideration

The consideration of HK$23,000,000 of which the amounts of about HK$21,249,000 and about HK$1,751,000 are attributable to the YHCD Shares and the YHCD Debts respectively. The consideration was determined following arms' length negotiation between Best Year and the Company with reference to the net asset value of YHCD (approximately HK$25,131,000) and the book value of the YHCD Debts (approximately HK$1,751,000) as at 31 March 2005 in the light of the appraised value of a property, under a long-term lease held by YHCD, being its principal asset. According to the valuation report prepared by Vantage Valuers & Property Consultants Pte Ltd, being an independent firm of valuers, the open market value of such leasehold interest as at 31 December 2005 was S$4,500,000 (approximately HK$20,794,500). The discount of the aggregate consideration of the YHCD Shares and the YHCD Debts to the net asset value of YHCD is therefore approximately HK$2,131,000.

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

In connection with the completion audit of YHCD, the parties will instruct a valuer to carry out a valuation on YHCD's property interests as at completion of the YHCD Agreement. In the event that the audited net asset value of YHCD (taking into account the value of the YHCD Debts) as at completion of the YHCD Agreement is less than HK$21,249,000, the portion of consideration payable under the YHCD Agreement attributable to the YHCD Shares is subject to downward adjustment to the extent of the shortfall.

In the event that the YHCD Debts as at completion of the YHCD Agreement amount to less than HK$1,751,183, the portion of consideration payable under the YHCD Agreement attributable to the YHCD Debts is subject to downward adjustment to the extent of the shortfall.

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

Completion and conditions of the YHCD Agreement

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

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

(2) if necessary, all approvals, consents, authorisations and licences in relation to the change of beneficial ownership of YHCD as contemplated by the YHCD Agreement having been obtained from the requisite government or regulatory authorities or any third parties;

(3) the legal opinion regarding, among others, the legality and validity of YHCD's incorporation and operations and the subsistence and YHCD's interests in its property to be issued before the completion of the YHCD Agreement by a firm of Singapore lawyers in such form and substance to the satisfaction of the Company having been obtained;

(4) the Company being satisfied with the results of the review of the assets, liabilities, activities, operations, prospects and affairs of YHCD in accordance with the provisions in the YHCD Agreement;

(5) the Rights Issue becoming unconditional and is completed in accordance with the Underwriting Agreement; and

(6) the Company being satisfied that the Multi-Ventures Agreement and the Bugsy Agreement having been completed contemporaneously with or immediately after completion of the YHCD Agreement in accordance with their respective terms.

The Company is entitled to waive the conditions specified above in whole or in part except for the conditions referred to in paragraphs (1) and (3). If any of the above conditions has not been satisfied (or, as the case may be, waived by the Company) at or before 12:00 noon on 30 April 2006, or such later date as the Company may agree, the YHCD Agreement shall cease and determine and none of the parties shall have any obligations and liabilities thereunder save for any prior breaches. The Directors advise that the Company will only waive the condition referred to in paragraph (5) subject to the payment in advance of subscription proceeds by Harbour Front pursuant to its undertaking in the Underwriting Agreement and the Company being satisfied that the Rights Issue will be completed in accordance with its terms and for the other conditions if so necessary to suit the particular circumstances subject to proper professional advice.

Information on YHCD

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

In August 2000, YHCD was disposed of by the Group. As mentioned in the Company's circular dated 8 August 2000 relating to, among other matters, the disposal concerned (**"2000 Circular"**), the Directors' primary consideration at that time was to protect the interest of the Shareholders and not to incur unnecessary costs and expenses relating to the liquidation of the relevant companies which were anticipated to be non-recoverable. Mr. Leung Yat Tung, the spouse of Mrs. Leung Yu Oi Ling, Irene, proposed to acquire the Disposal Companies (as defined in the 2000 Circular and including YHCD) from the Group at a nominal consideration of HK$1.00 through Y. T. Leung Development Company Limited (**"YTL Co"**) pursuant to the agreement relating to the disposal of the Disposal Companies, aiming to running down outstanding liabilities of the Disposal Companies especially statutory debts relating to taxes and company registration fees and to settle and discharge the huge amount of inter-company debts that remained unsettled after the Reorganisation (as defined in the 2000 Circular) of the Group, with a view to dissolving the Disposal Companies as far as practicably possible. The Directors also expected that the disposal concerned would result in a better off financial position for the Group after removal of the aggregate amount of unaudited and unconsolidated deficiencies of the Disposal Companies of approximately HK$861 million as at 31 March 2000 without the need to make cash payment in respect of professional fees and statutory debts for maintaining the then existing status of the Disposal Companies.

While YHCD was disposed of to YTL Co in 2000 with a view to running down its outstanding liabilities as far as practicably possible for the purpose of dissolution, YHCD has not undergone any dissolution after the then disposal. The original intention of the Group to dissolve YHCD together with the other Disposal Companies in 2000 was formed on the basis of the then aggregate net liabilities of the Disposal Companies. From the date on which YHCD was incorporated up to 31 March 2000, YHCD had not commenced any business. At the time of the disposal to YTL Co, YHCD had no fixed assets and its net liabilities amounted to approximately S$12,000 (approximately HK$55,440) after its liabilities were set-off against the amount of S$700,000 (approximately HK$3,234,000) (being current assets of YHCD) retained by Oversea-Chinese Banking Corporation Limited in an escrow account maintained with it.

After YHCD was disposed of to YTL Co in 2000, YHCD obtained an existing lease (**"Lease"**) in March 2001 by way of mortgagee (Oversea-Chinese Banking Corporation Limited) sale and transfer from UDL Shipbuilding (Singapore) Pte Ltd (a company in liquidation since November 1996 and not within the control of the Group) in respect of a shipyard situated at 3 Benoi Road, Singapore 629877. Particulars of the Lease are contained in the valuation report set out in section 1 of Appendix V to this circular. As consideration for the Lease, YHCD was obliged to pay the landlord outstanding rental in the sum of S$2,606,746.33 (approximately HK$12,043,168.04) by installments over a period from February 2001 to June 2002. Such sum, together with the running rental and related costs and expenses, was paid with the assistance of Best Year in providing or procuring substantial financial resources to YHCD. The initial tenure of the Lease was 30 years commencing from 1 January 1972 and expiring on 31 December 2001. By the landlord's letter dated 8 September 2003, the renewal of the Lease for nine years with effect from 1 January 2002 was approved. As such, the management of YHCD had decided not to put forward any proposal for YHCD's voluntary dissolution.

The financial positions of YHCD have been substantially improved after Best Year became its shareholder which provided or procured financial resources for the repayment of outstanding rental of S$2,606,746 (approximately HK$12,043,166.52), running rental and interest outstanding in respect of the Lease. YHCD then operated the business generated by the renewed Lease and applied the income received for repayment of part of the finance provided by Best year and the total amount of the YHCD Debts is the residual amount.

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

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

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

Given that the consideration for the acquisition of the YHCD Shares and the YHCD Debts will be subject to downward adjustment in accordance with each of the audited net asset value of YHCD and the YHCD Debts, it is expected that the acquisition of the YHCD Shares and the YHCD Debts will not have any significant adverse effect on the asset and liabilities of the Group as a whole. Details of the pro forma effects of the Rights Issue and the Acquisitions on the earnings and assets and liabilities of the Group are set out in section A of Appendix III to this circular.

Reasons for the acquisition of YHCD

The Group's shipbuilding business started well before the 90s' and in 1991 when the Company became listed on the Stock Exchange, this business sector contributed over 22% of the Group's overall turnover of approximately HK$252 million. Shipbuilding business then remained one of the important business segments of the Group in the subsequent years. From the year ended 31 March 1995, the shipbuilding business started to be integrated with the marine engineering business to fulfil the huge ship repair requirements of the Group's own large fleet of marine engineering vessels and since then and up to the year ended 31 July 2004 as referred to below the Group had not provided any such service to outside customers. Shipbuilding business operation was very important logistic support for the Group's marine engineering operations and also reduced the Group's external repair and maintenance expenses substantially.

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

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

In view of the Group's past experience and operations with extensive customers and vendors network, which was built up in the 90s' in the shipbuilding industry which closely relates to the marine construction engineering industry, the Group resumed its shipbuilding business during the year ended 31 July 2004 and has received considerable orders for the supply of various kinds of reconditioned second hand marine engineering vessels. Turnover attributable to such business amounted to HK$1.541 million and HK$1.808 million for the years ended 31 July 2004 and 31 July 2005, representing approximately 7.9% and 16.3% of the Group's total turnover for the respective year.

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

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

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

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

(2) Multi-Ventures Agreement

Date: 29 December 2005

Parties:

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

(ii) the Company (as purchaser).

Subject matter of the Multi-Ventures Agreement: 13 vessels

Consideration

The aggregate consideration of HK$5,440,000 for the 13 vessels were determined after arm's length negotiation between the Company and Multi-Ventures and on normal commercial terms with reference to the prevailing market price and valuations. The unaudited book value of the 13 vessels as at 30 November 2005 amounted to approximately HK$5.44 million.

Among the 13 vessels agreed to be sold under the Multi-Ventures Agreement, eight vessels will be sold by Multi-Ventures as registered and beneficial owner (i.e. these vessels are registered under the name of Multi-Ventures and beneficially owned by Multi-Ventures) and five vessels as beneficial owner and authorised agent of the registered owner (i.e. these vessels are registered under the names of other parties but beneficially owned by Multi-Ventures). Pursuant to the Multi-Ventures Agreement, all title documents shall be properly executed to ensure legally effective transfers upon completion. Multi-Ventures purchased the vessels at an aggregate consideration of approximately HK$9 million during the past six years either through mortgagee sale or from parties not being members of the Group.

Multi-Ventures and the Company will jointly instruct a valuer to carry out a valuation of the 13 vessels as at a date not earlier than three months prior to completion of the sale and purchase of the 13 vessels in accordance with the Multi-Ventures Agreement. If the aggregate valuation of the 13 vessels is less than HK$5,440,000, the consideration payable under the Multi-Ventures Agreement is subject to downward adjustment to the extent of the shortfall.

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

Completion and conditions of the Multi-Ventures Agreement

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

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

(2) if necessary, all approvals, consents, authorisations and licences in relation to the change of beneficial ownership of the 13 vessels as contemplated by the Multi-Ventures Agreement having been obtained from the requisite government or regulatory authorities or any third parties;

(3) the Rights Issue becoming unconditional and is completed in accordance with the Underwriting Agreement; and

(4) the Company being satisfied that the YHCD Agreement and the Bugsy Agreement having been completed contemporaneously with or immediately after completion of the Multi-Ventures Agreement in accordance with their respective terms.

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

Information on the 13 vessels

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

Reasons for the acquisition of the 13 vessels

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

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

In view of the Group's past experience and operations with extensive customers and vendors network, which were built up in the 90s' in the shipbuilding industry which closely relates to the marine construction engineering industry, the Group has already resumed its shipbuilding business and has received considerable orders for the supply of various kinds of reconditioned second hand marine engineering vessels. Turnover attributable to such business amounted to HK$1.541 million and HK$1.808 million for the years ended 31 July 2004 and 31 July 2005, representing 7.9% and 16.3% of the Group's total turnover for the respective year.

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

Details of the pro forma effects of the Rights Issue and the Acquisitions on the earnings and assets and liabilities of the Group are set out in section A of Appendix III to this circular.

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

(3) Bugsy Agreement

Date: 29 December 2005

Parties:

(i) Bugsy, an investment holding company incorporated in Hong Kong with limited liability and is 100% beneficially owned by Harbour Front (as vendor); and

(ii) the Company (as purchaser).

Subject matter of the Bugsy Agreement: 20 vessels

Consideration

The aggregate consideration of HK$35,000,000 for the 20 vessels were determined after arm's length negotiation between the Company and Bugsy and on normal commercial terms with reference to the prevailing market price and valuations. The unaudited book value of the 20 vessels as at 30 November 2005 amounted to approximately HK$35 million.

Among the 20 vessels to be sold under the Bugsy Agreement, 16 vessels will be sold by Bugsy as registered and beneficial owner (i.e these vessels are registered under the name of Bugsy and beneficially owned by Bugsy) and four vessels as beneficial owner and authorised agent of the registered owner (i.e. these vessels are registered under the names of other parties but beneficially owned by Bugsy). Pursuant to the Bugsy Agreement, all title documents shall be properly executed to ensure legally effective transfers upon completion. Bugsy purchased the vessels at an aggregate consideration of approximately HK$37 million during the past five years either through mortgagee sale or from parties not being members of the Group.

Bugsy and the Company will jointly instruct a valuer to carry out a valuation of the 20 vessels as at a date not earlier than three months prior to completion of the sale and purchase of the 20 vessels in accordance with the Bugsy Agreement. If the aggregate valuation of the 20 vessels is less than HK$35,000,000, the consideration payable under the Bugsy Agreement is subject to downward adjustments to the extent of the shortfall.

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

Completion and conditions of the Bugsy Agreement

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

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

(2) if necessary, all approvals, consents, authorisations and licences in relation to the change of beneficial ownership of the 20 vessels as contemplated by the Bugsy Agreement having been obtained from the requisite government or regulatory authorities or any third parties;

(3) the Rights Issue becoming unconditional and is completed in accordance with the Underwriting Agreement; and

(4) the Company being satisfied that the YHCD Agreement and the Multi-Ventures Agreement having been completed contemporaneously with or immediately after completion of the Bugsy Agreement in accordance with their respective terms.

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

Information on the 20 vessels

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

Reasons for the acquisition of the 20 vessels

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

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

With the new infrastructure developments such as the Southeast Kowloon Development, the Old Kai Tak Airport Redevelopment, the North Lantau Development and the Hong Kong, Zhuhai and Macau Link expected to be implemented in the coming years following the recent recovery of the local economy together with the increase in demand for marine construction engineering services in the adjacent areas like Macau and the Guangdong Province, the Group is actively pursuing marketing and tendering work in order to secure orders and contracts for marine construction works under these large scale developments and projects which will require marine construction plant of large output performance like those to be acquired by the Group under the Bugsy Agreement. The Group's marine construction engineering operations are expected to be expanded accordingly and to make positive contribution to the Group's revenue for this current financial year (i.e. financial year ending 31 July 2006) onwards.

In view of the Group's past experience and operations with extensive customers and vendors network, which were built up in the 90s' in the shipbuilding industry which closely relates to the marine construction engineering industry, the Group has already resumed its shipbuilding business and has received considerable orders for the supply of various kinds of reconditioned second hand marine engineering vessels. Turnover attributable to such business amounted to HK$1.541 million and HK$1.808 million for the years ended 31 July 2004 and 31 July 2005, representing 7.9% and 16.3% of the Group's total turnover for the respective year.

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

Details of the pro forma effects of the Rights Issue and the Acquisitions on the earnings and assets and liabilities of the Group are set out in section A of Appendix III to this circular.

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

Relationship between the parties and implication of the Listing Rules

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

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

– Harbour Front could influence each of the two corporate directors of Best Year, being the vendor to the YHCD Agreement, on its decisions in relation to the financial and operation aspects of Best Year. However, the ultimate beneficial owners of Best Year are not connected persons of the Company and are independent of and not connected with the Company or any of the directors, chief executive and substantial shareholders (as defined in the Listing Rules) of the Company or of any of its subsidiaries, or any of their respective associates;

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

– Bugsy, being the vendor to the Bugsy Agreement, was a wholly owned subsidiary of Harbour Front.

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

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

Accordingly, the Acquisitions (as contemplated under the YHCD Agreement, Multi-Ventures Agreement and the Bugsy Agreement) are required to be approved, on a poll, by the Independent Shareholders pursuant to Rules 14.49 and Rule 14A.17 of the Listing Rules.

VERY SUBSTANTIAL DISPOSAL, BUY BACK AND CONNECTED TRANSACTIONS

Disposal Agreement

Date: 29 December 2005

Parties:

(i) the Company (as vendor); and

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

Subject matter of the Disposal Agreement:

(i) the 4,000,000 shares of HK$1 each in UDLHK (representing the entire issued shares in UDLHK);

(ii) the 2,000,000 shares of S$1 each in UDLS (representing the entire issued shares in UDLS),

both owned by the Company, and

(iii) the Shareholders' Loans.

Consideration

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

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

Completion and conditions of the Disposal Agreement

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

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

(2) if necessary, all approvals, consents, authorisations and licences in relation to the change of beneficial ownership of UDLS and UDLHK as contemplated by the Disposal Agreement having been obtained from the requisite government or regulatory authorities or any third parties.

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

Information on UDLHK and UDLS

UDLHK

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

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

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

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

UDLS

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

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

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

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

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

Reasons for the Disposal and Buy Back

The principal activity of the Company is investment holding and the principal activities of its principal subsidiaries are marine engineering and provision of miscellaneous engineering and management services. The principal assets of UDLHK and UDLS are vessels. The vessels of UDLHK had a net book value of approximately HK$20,900,000, out of which approximately HK$16,550,000 in value are security for a loan ("**First Loan**") of approximately HK$29,042,000 both as per audited financial statements of the Company and audited results of UDLHK for the year ended 31 July 2005. The vessels of UDLS had a net book value of approximately HK$54,500,000 being security for a loan ("**Second Loan**") of approximately HK$71,448,000 both as per audited financial statements of the Company for the year ended 31 July 2005.

As at 31 July 2005, the First Loan, which was assigned from a secured lender which is a bank based in Hong Kong to a related company of the Group, was 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 UDLHK and a personal guarantee from the spouse of Mrs. Leung Yu Oi Ling, Irene ("**Mrs. Leung**"), Mr. Leung Yat Tung ("**Mr. Leung**"). The First Loan bears interest at prime rate plus 2% per annum. The First Loan, together with the interest thereon, will not be required to be repaid until 1 August 2006.

As at 31 July 2005, the Second Loan, which was assigned from a secured lender which is a bank based in Singapore ("**Singapore secured lender**") to another related company of the Group, was 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 UDLS, a joint and several guarantee from Mrs. Leung and Mr. Leung, assignment of insurance and income for certain vessels, and subordination of loan from Mr. Leung and Mrs. Leung. The Second Loan bears interest at prime rate plus 2% per annum. The Second Loan, together with the interest thereon, will not be required to be repaid until 1 August 2006.

As at 5 October 2005, the related company which took over the interest of the Second Loan did not strictly conform to the original payment schedule. However, the moratorium has been maintained due to on-going negotiation between such related company and the Singapore secured lender on a revised payment schedule. There is uncertainty as to whether such related company will arrive at agreement with the Singapore secured lender on the revised payment schedule. The Directors are confident that the related company has the financial ability to meet its obligations and the Second Loan has accordingly been shown as a non-current liability in the consolidated accounts of the Group. Under the terms of the assignment with the related company which took over this loan, the Singapore secured lender retains its security over certain vessels and has recourse to UDLS should such related company default on the payment schedule agreed with the Singapore secured lender. Should such an event arise, UDLS would be required to make a full and immediate repayment of the Second Loan, which (together with interest accrued and as a result of the foreign exchange fluctuations) at 31 July 2005 amounted to approximately HK$82,273,000.

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

The Group/ individual company	**Revenue**		**Profit/(Loss)**	**Net assets/ (deficiency of assets)**		**Total assets**
	HK$'000	*%*	*HK$'000*	*HK$'000*	*%*	*HK$'000*
The Group	11,093	100%	(27,471)	(55,671)	100%	97,043
UDLHK	0	0%	(7,842)	(26,918)	49%	20,978 *(Note 1)*
UDLS	1,659	15%	(17,573)	(31,359)	56%	56,443 *(Note 2)*
UDLAEH	4,069 *(Note 3)*	37%	122	(1,466)	N.A.	3,730
USM	5,734 *(Note 3)*	52%	(1,647)	(4,122)	N.A.	8,033

Notes:

1. The total assets of UDLHK mainly comprised floating craft and vessels which had a book value of HK$20.9 million as at 31 July 2005. These vessels are currently not used in the marine engineering business operation of the Group.

2. The total assets of UDLS mainly comprised floating craft and vessels which had a book value of HK$54.5 million as at 31 July 2005. Nine of such vessels are core vessels of the Group and are subject to the Buy Back arrangement as described below.

3. The business of UDLAEH and USM did not rely on the vessels owned by UDLS.

As announced previously and disclosed in the 2005 Annual Report, the assigned loans now owing by UDLHK and UDLS to the related party lenders which are secured by vessels mortgage will be due for repayment on 1 August 2006. There has not been any substantive negotiation between the Group and each of the related party lenders recently as regards how such loans shall be repaid or refinanced when they fall due. The Group has continued to handle disposal of the non-core vessels as described in the Company's previous announcements. The Disposal will (i) remove all uncertainties regarding the financial support from the related party lenders to the Group; and (ii) remove all uncertainties regarding the ability of the related party lenders to meet their respective payment obligations under the assigned loans. The non-core vessels owned by UDLS (other than the nine vessels to be bought back as detailed below) do not have current use to the Group's operations. The vessels mortgage will not affect the Disposal. No members of the Group including the Company have granted any guarantee to the concerned loans. The Remaining UDL Group will not be responsible or accountable for the repayment of the concerned loans. Save for the new loan that may be obtained by the Group at its own discretion, and subject to approval by the bank, for the purpose of buying back the nine core vessels, the Group does not need to seek any refinancing after the Disposal. The loans will be handled by UDLHK, UDLS and Harbour Front after the Disposal.

The Group is close to concluding the grant of a new loan facility with its banker. The loan, if granted, will be in the form of a 5-year secured loan and the principal amount of which is expected to be not less than US$4.6 million. Such loan is expected to be available after the completion of the Global Solution and is intended to help finance the Group's purchase of the core vessels from UDLS, through the Buy Back arrangement as described below, without being affected by its deficiency of assets and the significant outstanding amount of the existing secured vessel loan. The audited book value of such nine core vessels was approximately HK$38 million as at 31 July 2005 and they are marine engineering vessels suitable for marine engineering construction use or general transportation purposes.

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

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

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

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

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

Financial effect of the Disposal and the Buy Back

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

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

As illustrated in section B of Appendix III to this circular, the Group is expected to record a net gain of approximately HK$37,393,000 upon completion of the Disposal.

As the consideration for the Buy Back is expected to be equal or close to the audited book value of the core vessels concerned as at 31 July 2005, the Buy Back is not expected to have any material impact on the net asset value of the Group (as a whole). Details of the pro forma effects of the Disposal on the earnings and assets and liabilities of the Group are set out in section B of Appendix III to this circular, and details of the pro forma effects of the Rights Issue, the Acquisitions, the Disposal and the Buy Back on the earnings and assets and liabilities of the Group are set out in sections B and C of Appendix III to this circular.

Relationship between the parties and implication of the Listing Rules

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

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

Accordingly, each of the Disposal and the Buy Back is required to be approved, on a poll, by the Independent Shareholders pursuant to Rules 14.49 and Rule 14A.17 of the Listing Rules.

GENERAL

Proposed share consolidation and issue of preference shares

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

The market price of the Shares has been traded below HK$0.10. The Exchange reserves the right under Rule 13.64 of the Listing Rules to require the Company to change the trading method or to proceed with a consolidation of the Shares.

Independent Board Committee and independent financial adviser

For the purposes of advising and giving recommendation to the Independent Shareholders on the Rights Issue, the Acquisitions, the Disposal and the Buy Back, the Independent Board Committee, comprising the three independent non-executive Directors namely Mr. Pao Ping Wing, *JP*, Professor Yuen Ming Fai, Matthew and Ms. Tse Mei Ha, has been formed by the Board. Your attention is drawn to the "Letter from the Independent Board Committee" on page 45 of this circular.

The Company has appointed Hercules as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders. Your attention is also drawn to the "Letter from Hercules" on pages 46 to 67 of this circular.

SGM

A notice of the SGM to be held at Room 306, 3rd Floor, Hong Kong International Trade & Exhibition Centre, No. 1 Trademart Drive, Kowloon Bay, Hong Kong at 9:45 a.m. on Tuesday, 14 February 2006 is set out on pages 218 to 220 of this circular for the purpose to consider and, if thought fit, to approve the Rights Issue, the Acquisitions, the Disposal and the Buy Back. As it is the intention of the Company that the Disposal will only proceed after completion of the Rights Issue and the Acquisitions, and the Buy Back is subject to, among other conditions, completion of the Disposal, the Company will seek approval of the Rights Issue, the Acquisitions, the Disposal and the Buy Back in one ordinary resolution at the SGM.

The Rights Issue, the Acquisitions, the Disposal and the Buy Back are subject to the approval by the Independent Shareholders at the SGM on a poll.

The form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return it to the branch registrar, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment of it, if you so wish.

PROCEDURE FOR DEMANDING A POLL AT A GENERAL MEETING OF THE COMPANY

Pursuant to bye-law 70 of the bye-laws of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

(i) by the chairman of the meeting; or

(ii) by at least three members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or

(iii) by any member or members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(iv) by any member or members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

In accordance with the requirements of the Listing Rules, the results of the poll will be published by way of an announcement in the local newspapers on the Business Day following the SGM.

RECOMMENDATION

The Directors (other than the independent non-executive Directors whose views are separately given in the letter from the Independent Board Committee as referred to below) believe that each of the Rights Issue, the Acquisitions, the Disposal and the Buy Back is fair and reasonable, in the interests of the Company and the Shareholders as a whole and on normal commercial terms. The Directors also consider that it is in the best interests of the Company for the Rights Issue, the Acquisition, the Disposal and the Buy Back to be implemented as far as possible as a total resolution to the various difficulties and uncertainties of the Group as mentioned above. It is also expected that the simultaneous removal of the difficulties and uncertainties of the Group will produce the optimum resulting effects onto the future operations and performance of the Group which are in the best interests of the Company and the Shareholders as a whole. The Company will therefore seek approval of all these transactions in one resolution, and the Directors recommend the Shareholders to vote in favour of the resolution to be proposed at the SGM to approve these transactions.

You are advised to read carefully the letter from the Independent Board Committee on page 45 of this circular. The Independent Board Committee, having taken into account the advice of Hercules, the text of which is set out on pages 46 to 67 of this circular, consider that the terms of the Rights Issue, the Acquisitions, the Disposal and the Buy Back are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to approve these transactions.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully
For and on behalf of the Board of
UDL Holdings Limited
LEE Ka Lun, Stephen
Executive Director

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Rights Issue, the Acquisitions, the Disposal and the Buy Back:

UDL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 620)

27 January 2006

To the Independent Shareholders

Dear Sir or Madam,

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

We refer to the circular of the Company dated 27 January 2006 ("**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

As the Independent Board Committee, we have been appointed to advise you in connection with the Rights Issue, the Acquisitions, the Disposal and the Buy Back (collectively, the "**Transactions**"), the details of each of which are set out in the "Letter from the Board" in the Circular.

Having considered the terms of the Transactions and the advice of Hercules in relation thereto set out on pages 46 to 67 of the Circular, we are of the opinion that the Transactions are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole we therefore recommend that you vote in favour of the ordinary resolution to be proposed at the SGM convened to approve the Transactions.

Yours faithfully,
Independent Board Committee
Mr. Pao Ping Wing, JP **Professor Yuen Ming Fai, Matthew** **Ms. Tse Mei Ha**
Independent non-executive Directors

The following is the full text of a letter from Hercules, which has been prepared for the purpose of inclusion in this circular, setting out its advice to the Independent Board Committee in relation to the Rights Issue, the Acquisitions, the Disposal and the Buy Back:

Hercules
Hercules Capital Limited

1503 Ruttonjee House
11 Duddell Street
Central
Hong Kong

27 January 2006

To the Independent Board Committee and
the Independent Shareholders

Dear Sirs,

PROPOSED RIGHTS ISSUE OF 2,374,173,524 RIGHTS SHARES OF HK$0.01 EACH AT HK$0.03 PER RIGHTS SHARE, PAYABLE IN FULL ON ACCEPTANCE (IN THE PROPORTION OF TWELVE RIGHTS SHARES FOR EVERY FIVE EXISTING SHARES HELD)

VERY SUBSTANTIAL ACQUISITIONS AND CONNECTED TRANSACTIONS AND VERY SUBSTANTIAL DISPOSAL, BUY BACK AND CONNECTED TRANSACTIONS

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Rights Issue, the Acquisitions, the Disposal and the Buy Back (together the "Transactions"), details of which are set out in the "Letter from the Board" contained in the circular of the Company dated 27 January 2006 to the Shareholders (the "Circular"), of which this letter forms part. Unless the context requires otherwise, terms used in this letter have the same meanings as defined elsewhere in the Circular.

On 29 December 2005, the Board announced that the Company had entered into the YHCD Agreement, the Multi-Ventures Agreement and the Bugsy Agreement with Best Year, Multi-Ventures and Bugsy respectively. As at the date on which these acquisition agreements were entered into, Harbour Front, the controlling shareholder of the Company, owns the entire issued share capital of Bugsy and could influence all the corporate directors of each of Best Year and Multi-Ventures on their decisions in relation to the financial and operation aspects of Best Year and Multi-Ventures respectively, and accordingly under Rules 14.06 and 14A.13 of the Listing Rules the Acquisitions constitute very substantial acquisitions and connected transactions of the Company and are subject to approval by the Independent Shareholders, by way of poll, at the SGM.

The consideration for the Acquisitions will be satisfied by the net proceeds raised from the Rights Issue. Under the Rights Issue, Qualifying Shareholders will be offered Rights Shares on the basis of twelve Rights Shares for every five existing Shares. As the Rights Issue would result in an increase in the issued share capital of the Company by more than 50%, it is subject to Independent Shareholders' approval pursuant to Rule 7.19(6) of the Listing Rules.

The Company also announced, on the same date, that the Company entered into the Disposal Agreement and the Buy Back Agreement with Harbour Front, the controlling shareholder of the Company and thus a connected person of the Company. Accordingly, under Rule 14A.13 of the Listing Rules, both the Disposal and the Buy Back constitute connected transactions of the Company. Pursuant to Rule 14.06 of the Listing Rules, the Disposal and the Buy Back also constitute a very substantial disposal and a very substantial acquisition respectively, of the Company. Therefore, both the Disposal and the Buy Back are subject to approval by the Independent Shareholders, by way of poll, at the SGM.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Pao Ping Wing, *JP*, Professor Yuen Ming Fai, Matthew and Ms. Tse Mei Ha, has been constituted to consider the terms of the Transactions and to advise the Independent Shareholders. We have been appointed to act as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in these regards.

In formulating our recommendations, we have reviewed, *inter alia*, (i) the audited consolidated financial statements of the Group for the three years ended 31 July 2005; (ii) the accountants' report on YHCD for the three years ended 31 March 2005 and for the four months ended 31 July 2005; (iii) the audited financial statements of UDLHK for the three years ended 31 July 2005; (iv) the audited financial statements of UDLS for the three years ended 31 July 2005; (v) the Underwriting Agreement; (vi) the YHCD Agreement; (vii) the Multi-Ventures Agreement; (viii) the Bugsy Agreement; (ix) the Disposal Agreement; (x) the Buy Back Agreement; (xi) the trading performance of the Shares from 1 December 2004 to the Latest Practicable Date; (xii) a comparison of the terms of the Rights Issue with those of other companies that we deemed comparable; (xiii) a comparison of the price-to-book ratio of YHCD with those of other companies that we deemed comparable; (xiv) the valuation reports prepared by Vantage Valuers & Property Consultants Pte Ltd and Win Well Engineering & Surveyors Ltd. as set out in Appendices V and VI to the Circular. We have also conducted verbal discussions with Vantage Valuers & Property Consultants Pte Ltd and Win Well Engineering & Surveyors Ltd. regarding the methodology, bases, considerations and assumptions employed in the valuations and have also undertaken such other studies, analyses and investigations that we deemed appropriate. We have assumed that such information and statements, and any representations made to us, are true, accurate and complete in all material respects as of the date hereof and we have relied upon on them in formulating our opinion. We have also assumed that all information, opinions and representations contained or referred to in the Circular are true, accurate and complete in all material respects as at the date of the Circular, and will continue as such at the date of the SGM, and that they may be relied upon in formulating our opinion. The Directors have confirmed that, having made all reasonable enquiries and to the best of their knowledge and belief, there are no material facts the omission of which would make any statements in the Circular misleading. We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation as required under Rule 13.80 of the Listing Rules. We have no reason to suspect that any material information has been withheld by the Directors or management of the Group, or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of the Group and the Resultant Group.

We have not considered the tax consequences on the Independent Shareholders arising from the subscription for, holding of or dealing in the Rights Shares or exercising any rights attached thereto or otherwise, since these are particular to their individual circumstances. Independent Shareholders who are in any doubt as to their tax position, or who are subject to overseas tax or Hong Kong taxation on securities dealing, should consult their own professional advisers without delay.

PRINCIPAL FACTORS CONSIDERED

The principal factors that we have taken into consideration in arriving at our opinion are set out below:

I. BACKGROUND TO THE TRANSACTIONS

The 2005 Audited Accounts, which report net current liabilities of approximately HK$34,347,000 and a deficiency of assets of approximately HK$55,617,000 for the Group as at 31 July 2005, were prepared on a going concern basis, the validity of which is dependent upon certain factors as stated in the Auditors' Report contained in the 2005 Annual Report. The financial statements do not include any adjustments that would result from the failure of (a) the Group to obtain the financial support and the additional equity funding; (b) the ability of the related party lenders to meet their respective repayment obligations under the assigned loans; and (c) the Group's ability to discharge the Shortfall Undertaking and the feasibility and efficiency in the implementation of the "Global Solution". Due to the significant net deficits as at 31 July 2005 and the uncertainties as mentioned above, the auditors of the Company were not able to determine whether the going concern basis used in preparing those financial statements was appropriate. Accordingly, they have disclaimed their opinion in respect of this issue.

In order to remove all these uncertain factors other than the uncertainties relating to the Group's ability to discharge the Shortfall Undertaking, the Board puts forward the following proposals to the Shareholders:

1. the Rights Issue;

2. the acquisition of a yard holding company, namely YHCD;

3. the acquisition of the Vessels; and

4. the Disposal.

As stated in the "Letter from the Board", the above proposals serve the following purposes:

- The Rights Issue and/or the Disposal will (i) strengthen the capital base of the Company and remove the substantial net deficiency of assets of the Group and give it a considerable net asset value; (ii) remove the uncertainties regarding the ability of the Group to raise additional equity funding; (iii) provide resources to normalize and expand the Group's businesses, including the resumption of the shipbuilding business; and (iv) provide additional working capital for the Group's operations in the future.

- The acquisition of the Vessels and/or the Disposal will (i) remove all uncertainties regarding the financial support from the related party lenders to the Group; (ii) remove all uncertainties regarding the ability of the related party lenders to meet their respective payment obligations under the assigned loans; and (iii) allow the Group to expand its business for the supply of various kinds of reconditioned second-hand marine engineering vessels.

- The acquisition of the yard holding company will allow the Group to expand its business related to shipbuilding and structural steel engineering, which has been carried on by the Group since the year ended 31 March 1994, as well as provision of marine engineering services.

II. THE RIGHTS ISSUE

II.1 Principal terms of the Rights Issue

An aggregate of 2,374,133,524 Rights Shares will be offered in connection with the Rights Issue, with a view to raising approximately HK$69.7 million, after expenses.

Qualifying Shareholders will be offered the Rights Shares at a price of HK$0.03 per Rights Share on the basis of twelve Rights Shares for every five existing Shares at the close of business on the Record Date. The Subscription Price is equal to the closing price of HK$0.03 per Share on the Last Trading Day. Fractional entitlements for the nil-paid Rights Shares will not be issued, but will be aggregated and sold in the market, if a premium (net of expenses) can be obtained, for the benefit of the Company.

The Rights Issue is conditional upon, *inter alia*, the Underwriting Agreement becoming unconditional and not being terminated by the Underwriter in accordance with its terms. In addition, the obligations of the Underwriter under the Underwriting Agreement to subscribe or procure subscribers for the Rights Shares which are not taken up in the Rights Issue (except for 1,947,058,262 Rights Shares which Harbour Front has agreed to take up or procure the taking up) remain conditional on, *inter alia*, each of the conditions precedent to the Acquisitions (other than the condition relating to the Rights Issue having become unconditional and completed) having been fulfilled.

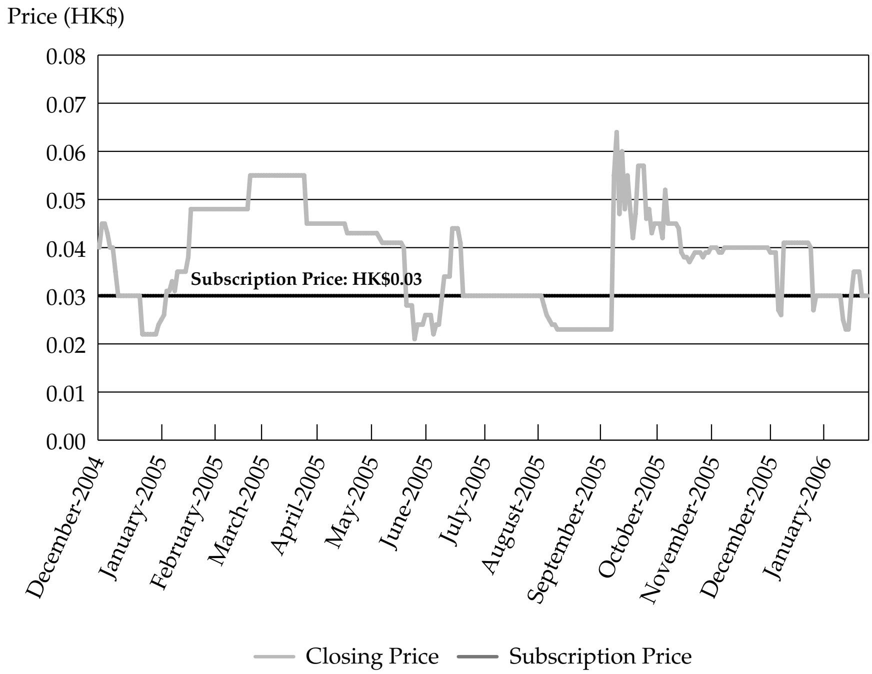
Full take-up of entitlements under the Rights Issue would result in the issue of 2,374,133,524 Rights Shares (representing approximately 240.00% of the Company's existing issued share capital and approximately 70.59% of the Company's issued share capital as enlarged by the issue of the Rights Shares).

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

II.1.1 Analysis of the Subscription Price

We have been advised by the Directors that the Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter with reference to the market price of the Shares in the past six months and that under prevailing market conditions.

A chart of historical closing price of the Shares from 1 December 2004 (being the first trading day of the twelve full calendar month period prior to the date of the December Announcement) to the Latest Practicable Date (the "Review Period") is set out below:



Source: Stock Exchange website

Set out in the table below is a comparison of the Subscription Price with the closing price of the Shares over various periods:

	Closing price *(HK$)*	Premium/(discount) of Subscription Price over/(to) closing price
Last Trading Day	0.030	0.0%
The theoretical ex-rights price based on the closing price on the Last Trading Day	0.030	0.0%
Average of the 10-day period up to and including the Last Trading Day	0.037	(19.6%)
Average of the 30-day period up to and including the Last Trading Day	0.038	(21.5%)
Average of the 90-day period up to and including the Last Trading Day	0.039	(23.6%)
Average of the 180-day period up to and including the Last Trading Day	0.036	(16.7%)
Average of the period from 1 December 2004 to the date of the Announcement (the "Pre-Announcement Period")	0.038	(21.6%)
Latest Practicable Date	0.030	0.0%
Highest (9 September 2005)	0.064	53.1%
Lowest (26 May 2005)	0.021	42.9%

Source: Stock Exchange website

As shown in the table above, the Subscription Price represented (i) no premium or discount to the closing price of HK$0.03 per Share on the Last Trading Day and the theoretical ex-rights price of HK$0.03 per Share based on the closing price on the Last Trading Day; and (ii) discounts ranging from approximately 16.7% to 23.6% to the average closing prices of the Shares during the Pre-Announcement Period. For comparison, we have made reference to the pricing statistics of all the rights issues carried out by other companies that are listed on the main board on the Stock Exchange (the "Rights Issue Comparable Companies") in the 6-month period prior to the date of the December Announcement. We note that the principal businesses of the Rights Issue Comparable Companies are not directly comparable to those carried on by the Company. However, we consider that an industry comparison would not be relevant as terms of rights issue are generally determined by reference to, *inter alia*, market condition, share price, financial condition, size of fund raised and are specific to each company. Details of the Rights Issue Comparable Companies are summarised in the table below:

Rights Issue Comparable Companies (stock code)	Date of announcement	Basis of entitlement	Subscription price *HK$*	Closing price on the last trading day *HK$*	10-day average closing price *HK$*	Theoretical ex-entitlement price *HK$*	Premium/(discount) of subscription price over/(to) the closing price on the last trading day %	the 10-day average closing price %	the theoretical ex-entitlement price %
Wealthmark International Holdings Ltd. (39)	8-Jul-05	1 for 2	0.540	0.630	0.650	0.600	(14.3%)	(16.9%)	(10.0%)
Asia Alliance Holdings Ltd. (616) *(Note)*	22-Jul-05	10 for 1	0.400	0.860	0.890	0.442	(53.5%)	(55.1%)	(9.5%)
Unity Investments Holdings Ltd. (913) *(Note)*	26-Jul-05	10 for 1	0.100	0.270	0.290	0.115	(63.0%)	(65.5%)	(13.0%)
Symphony Holdings Ltd. (1223)	27-Jul-05	1 for 2	0.630	1.650	1.653	1.310	(61.8%)	(61.9%)	(51.9%)
Garron International Ltd. (1226)	9-Aug-05	5 for 1	0.200	2.100	2.180	0.520	(90.5%)	(90.8%)	(61.5%)
Capital Estate Ltd. (193) *(Note)*	11-Aug-05	4 for 1	1.000	2.500	2.270	1.300	(60.0%)	(55.9%)	(23.1%)
Oriental Investment Corporation Ltd. (735)	12-Aug-05	3 for 10	0.100	0.129	0.129	0.122	(22.5%)	(22.7%)	(18.2%)
Century Legend (Holdings) Limited (79)	15-Aug-05	1 for 5	0.110	0.159	0.160	0.151	(30.8%)	(31.3%)	(27.2%)
renren Holdings Limited (59)	5-Oct-05	6 for 1	0.300	0.550	0.540	0.340	(45.5%)	(44.4%)	(11.8%)
Wonson International Holdings Limited (651)	6-Oct-05	4 for 1	0.050	0.111	0.115	0.062	(55.0%)	(56.5%)	(19.4%)
Heritage International Holdings Ltd. (412)	7-Oct-05	5 for 2	0.050	0.093	0.106	0.062	(46.2%)	(53.0%)	(19.7%)
Wai Yuen Tong Medicine Holdings Ltd. (897)	10-Oct-05	3 for 1	0.150	0.295	0.301	0.186	(49.2%)	(50.1%)	(19.5%)
Anex International Holdings Ltd. (723)	27-Oct-05	2 for 5	0.100	0.092	0.093	0.094	8.7%	7.9%	6.1%
QPL International Holdings Ltd. (243)	1-Nov-05	1 for 5	0.620	0.720	0.800	0.700	(13.9%)	(22.5%)	(11.4%)
HKR International Ltd. (480)	3-Nov-05	1 for 6	3.800	3.700	3.830	3.710	2.7%	(0.8%)	2.4%
Far East Technology International Ltd. (36)	9-Nov-05	1 for 2	0.915	1.220	1.219	1.118	(25.0%)	(24.9%)	(18.2%)
New World Cyberbase Ltd. (276)	14-Nov-05	2 for 1	0.150	0.233	0.233	0.178	(35.6%)	(35.6%)	(15.7%)
Maximum premium							8.7%	7.9%	6.1%
Maximum discount							(90.5%)	(90.8%)	(61.5%)
Mean							(38.5%)	(40.0%)	(18.9%)
The Company	29-Dec-05	12 for 5	0.030	0.030	0.037	0.030	0.0%	(19.6%)	0.0%

Source: Bloomberg and Stock Exchange website

Notes:

1. Adjustments made to take into account the effect of share consolidation.

As illustrated above, the discount represented by the Subscription Price to the 10-day average closing price of the Shares of 19.6% falls within the prevailing market range. As the Subscription Price represents no discount or premium to the closing price on the Last Trading Day and the theoretical ex-entitlement price, the dilution effect of the Rights Issue on the value of the shareholdings of those Shareholders who do not subscribe for the Rights Shares would be minimal. In view of the above, we are of the view that the Subscription Price is fair and reasonable.

In the event that the market price of the Shares falls below the Subscription Price, it is more cost-effective for those Qualifying Shareholders who wish to offset the dilution effects on their present shareholdings as a result of the Rights Issue to acquire the Shares from the market instead of subscribing for their entitlements under the Rights Issue.

II.1.2 Application for excess Rights Shares

As stated in the "Letter from the Board", Qualifying Shareholders are entitled to apply for any unsold entitlements of the Excluded Shareholders, any unsold Rights Shares created by adding together fractions of the Rights Shares and any nil-paid Rights Shares provisionally allotted but not accepted. Applications may be made by completing the form of application for excess Rights Shares and lodging the same with a separate remittance for the excess Rights Shares. The Directors will allocate the excess Rights Shares at their discretion on a fair and equitable basis, but will give preference to topping-up odd lots to whole board lots of Shares. Shareholders with their Shares held by a nominee company should note that the Directors will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, investors should note that the aforesaid arrangement for allocation of excess Rights Shares will not be extended to the ultimate beneficial owners individually. Investors with their Shares held by a nominee company are advised to consider whether they would like to arrange for the registration of the relevant Shares in the name of the beneficial owner(s) himself (themselves) prior to the Record Date.

II.2 Effect of the Rights Issue on shareholding of the Independent Shareholders

For those Qualifying Shareholders who subscribe for their full entitlements under the Rights Issue and do not apply for excess Rights Shares, their shareholding interests in the Company will remain unchanged after the Rights Issue.

For those Qualifying Shareholders who do not subscribe for their full entitlements under the Rights Issue, depending on the extent to which they subscribe for the Rights Shares, their attributable interests in the Company upon completion of the Rights Issue will be diluted by up to 70.6%.

We are of the view that the dilution effect is not prejudicial as all Qualifying Shareholders are offered an equal opportunity to participate in the enlargement of the capital base of the Company and Independent Shareholders' interests in the Company will not be diluted if they elect to subscribe for their full entitlements under the Rights Issue.

Nil-paid Rights Shares are expected to be traded on the Stock Exchange in board lots of 40,000. In addition to its entitlement, Harbour Front has undertaken to take up and/or procure the Harbour Front Concert Parties or their nominees to take up in aggregate 565,996,774 excess Rights Shares, which will be allocated on the same basis as the applications for excess Rights Shares by the other Qualifying Shareholders, if any. Qualifying Shareholders who do not wish to take up their entitlements under the Rights Issue may realise their nil-paid Rights Shares in the market, if a premium can be obtained over the costs of sale. Nevertheless, Qualifying Shareholders should note that any dealings in the Rights Shares in their nil-paid form between 17 February 2006 to 24 February 2006 (both dates inclusive) bear the risk that the Rights Issue may not become unconditional or may not proceed.

II.3 Underwriting Agreement

II.3.1 Undertakings from Harbour Front

Pursuant to the Underwriting Agreement, Harbour Front has undertaken to the Company that it will procure the 575,442,287 existing Shares beneficially owned by the Harbour Front Concert Parties at the Latest Practicable Date, representing approximately 58.17% of the existing issued share capital of the Company, will remain registered in the same names and beneficially owned by the Harbour Front Concert Parties on the Record Date, and to take up and/or procure the Harbour Front Concert Parties or their nominees to take up in aggregate 565,996,774 excess Rights Shares in addition to their entitlements. Harbour Front has also agreed to pre-pay its subscription monies for the Rights Shares provisionally allotted to it under the Rights Issue after the ordinary resolution approving the Rights Issue is duly passed by the Independent Shareholders if such pre-payment is requested by the Company.

II.3.2 Underwriting arrangements

Subject to fulfillment of the conditions set out in the Underwriting Agreement, 427,075,262 Rights Shares will be fully underwritten by the Underwriter and a 2.25% underwriting commission on the total Subscription Price of the Underwritten Shares is payable by the Company. The commission to be received by the Underwriter will be approximately HK$288,000. For comparison, we set out in the table below the underwriting commissions of the Rights Issue Comparable Companies.

Rights Issue Comparable Companies (stock code)	**Underwriting commission**
Wealthmark International Holdings Ltd. (39)	2.50%
Asia Alliance Holdings Ltd. (616)	1.00%
Unity Investments Holdings Ltd. (913)	2.50%
Symphony Holdings Ltd. (1223)	2.50%
Garron International Ltd. (1226)	3.00%
Capital Estate Ltd. (193)	1.50%
Oriental Investment Corporation Ltd. (735)	2.50%
Century Legend (Holdings) Limited (79)	2.50%
renren Holdings Limited (59)	2.50%
Wonson International Holdings Limited (651)	2.50%
Heritage International Holdings Ltd. (412)	2.00%
Wai Yuen Tong Medicine Holdings Ltd. (897)	2.50%
Anex International Holdings Ltd. (723)	2.50%
QPL International Holdings Ltd. (243)	2.50%
HKR International Ltd. (480)	2.50%
Far East Technology International Ltd. (36)	2.50%
New World Cyberbase Ltd. (276)	1.50%
Maximum	3.00%
Minimum	1.00%
Mean	2.29%
The Company	2.25%

As shown above, the underwriting commission of 2.25% to be charged by the Underwriter under the Underwriting Agreement is slightly lower than the average of the underwriting commissions paid by the Rights Issue Comparable Companies, we are of the view that such rate is fair and reasonable so far as the Company and the Shareholders are concerned.

II.4 Alternate fund raising methods

As stated in the September Announcement, the 2005 Annual Report and the Composite Offer Document, in order for the Company to fund its operations in the future, the Company would be required to implement certain fund raising plans, which may include (but not limited to) rights issue or other equity financing methods.

According to the Directors, in addition to the Rights Issue, they have considered and attempted to obtain other ways of fund raising such as bank borrowings, share placement and issue of convertible securities. Given the current unfavorable financial condition of the Group, the significant net deficits, and the fact that the Group reported net loss after taxation for four consecutive financial years, the preliminary responses to the abovementioned fund raising activities were not forthcoming. The Directors are also of the view that further bank borrowings may impose undue pressure on the Group's financial position and therefore it will be in the interest of the Company to raise equity capital so as to strengthen its capital base. On the other hand, placing of new Shares and issue of convertible securities would result in excessive dilution of shareholdings and value to the Shareholders without first offering them the opportunity to participate in the equity raising exercise. We concur with the Directors' view that it is in the best interests of the Company and the Shareholders to raise further capital by way of the Rights Issue as it will allow all Qualifying Shareholders the opportunity to maintain their respective pro rata shareholding interests in the Company.

II.5 Use of proceeds

As stated in the "Letter from the Board", net proceeds of the Rights Issue, approximately HK$69.7 million after expenses, are intended to be used as follows:

– as to approximately HK$5.0 million to be applied towards partial repayment of the interim finance with principal amount of HK$20 million provided to the Group by Harbour Front as referred to in the Composite Offer Document;

– as to approximately HK$63.4 million to be applied towards payment for the consideration of the Acquisitions; and

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

Since the Rights Issue is intended to mainly finance the Acquisitions, we are of the view that the use of proceeds is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

III. THE ACQUISITIONS

On 29 December 2005, the Company entered into three acquisition agreements with Best Year, Multi-Ventures and Bugsy. Each of these acquisition agreements is inter-conditional and is also conditional upon, *inter alia*, the Rights Issue becoming unconditional and completed in accordance with the Underwriting Agreement, and completion of these acquisition agreements will take place contemporaneously or within a short period of time. The consideration for the Acquisitions will be satisfied by the net proceeds from the Rights Issue.

III.1 YHCD Agreement

III.1.1 Overview

Pursuant to the YHCD Agreement, the Company has conditionally agreed to acquire from Best Year the entire issued share capital of YHCD and take an assignment of the YHCD Debts for a total cash consideration of HK$23,000,000. The consideration shall be paid by the Company to Best Year in cash upon completion of the YHCD Agreement.

III.1.2 Information on YHCD

YHCD is a private company incorporated under the laws of Singapore and is operating a yard together with a factory building and water frontage for the usage by engineering operations including offshore engineering works.

Summarised below is the historical financial information of YHCD extracted from the accountants' report on YHCD as set out in Appendix II to the Circular:

	Four months ended 31 July	Year ended 31 March		
	2005	2005	2004	2003
	S$'000	*S$'000*	*S$'000*	*S$'000*
Turnover	440	1,418	1,436	1,608
Operating cost	(303)	(910)	(913)	(935)
Gross profit	137	508	523	673
Valuation losses on investment property	(300)	(700)	(700)	(600)
	(163)	(192)	(177)	73
Administrative expenses	(138)	(431)	(419)	(561)
(Loss) from operation	(301)	(623)	(596)	(488)
Finance costs	–	–	–	–
(Loss) before taxation	(301)	(623)	(596)	(488)
Taxation	–	(7)	(10)	(3)
Net (loss) for the period/year	(301)	(630)	(606)	(491)

During the above reporting periods, YHCD was principally engaged in operating a shipyard in Singapore. Turnover comprised rental income, berthing income and other service income received or receivable from the tenants. As advised by management of the Group, part of the shipyard of YHCD was leased to independent third parties for shipbuilding operations and YHCD did not conduct any shipbuilding business during the above reporting periods. Operating loss was reported for each of the reporting periods and was primarily attributable to the substantial valuation losses on investment property. However, the acquisition of YHCD is expected to provide synergistic value to the Group, details of which are discussed in the section headed "III.1.3 Reasons for the acquisition of YHCD" below.

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

As at 31 July 2005, the net asset value of YHCD was approximately S$5,116,000 (equivalent to approximately HK$23.6 million).

III.1.3 Reasons for the acquisition of YHCD

III.1.3.1 Business of the Group

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

As advised by the Directors, the Group's shipbuilding business and structural steel engineering business commenced before the 90s' and in March 1994 respectively but the former came into a halt in 1996 due to adverse market conditions and the latter was suspended when the Schemes were implemented in mid-2000. These businesses have resumed in the last couple of years. Turnover attributable to shipbuilding and supply of various kinds of reconditioned second-hand marine engineering vessels amounted to HK$1.541 million and HK$1.808 million for the years ended 31 July 2004 and 31 July 2005, representing approximately 7.9% and 16.3% of the Group's total turnover for the respective year. While turnover attributable to structural steel engineering amounted to HK$0.5 million and HK$4.069 million for the years ended 31 July 2004 and 31 July 2005, representing approximately 2.6% and 36.7% of the Group's total turnover for the respective year.

III.1.3.2 Potential synergies from the acquisition of YHCD

As stated in the "Letter from the Board", through the acquisition of YHCD, the Group aims at (i) enhancing its recurrent income as a portion of the yard leased by YHCD under a long term lease is currently utilised by other Independent Third Parties under engineering service agreements with various durations; (ii) further expanding its shipbuilding and repairing, and structural steel engineering business including offshore engineering related services by utilising the assets of YHCD for engineering operations; and (iii) expanding into areas that are related to the shipbuilding business:

(a) the modules fabrication of topside installation for oil/gas production platforms;

(b) fabrication of offshore rig components as outsource segment of work from the major proprietary product builders; and

(c) minor components such as pipework and ancillary installations.

In addition, we have been advised by management of the Company that the assets of YHCD could be applied towards the shipbuilding operation of the Group which would provide important logistics support to the Group's marine engineering operations and reduce the Group's external repair and maintenance expenses substantially for its resumed and expanding shipbuilding business. With its expertise, extensive customers and vendors network in the shipbuilding business principally in the Greater China Region, the Group could further expand its geographic coverage into the Singapore market. And the existing client base of YHCD would facilitate the establishment of the Group's business network in Singapore's shipbuilding market. Therefore, the acquisition of YHCD would provide synergistic value to the Group for developing its existing business and the supply of various kinds of reconditioned second-hand marine engineering vessels, including the 33 vessels to be acquired pursuant to the Multi-Ventures Agreement and the Bugsy Agreement. Management of the Group believes that such development and expansion of the Group's existing business as well as related areas with the utilisation of its existing management and administration resources will (i) enlarge the Group's shipbuilding business in terms of business scale and operation capabilities; and (ii) improve the Group's operational efficiency and cost effectiveness.

Having considered (i) the business nature of the Group; (ii) the fact that the acquisition of YHCD presents an opportunity for the Company to expand its shipbuilding and repairing, and structural steel engineering business in terms of business scale, and to broaden its business scope and operation capabilities thereby improving the Group's operational efficiency and cost effectiveness; and (iii) the potential synergistic value and logistic support for the business development of the Group, we are of the view that the acquisition of YHCD is in line with the Company's principal business and the YHCD Agreement is on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

III.1.4 Basis of the consideration

The consideration for the acquisition is HK$23,000,000, of which the amount of about HK$21,249,000 and about HK$1,751,000 are attributable to the YHCD Shares and the YHCD Debts respectively.

As noted in the "Letter from the Board", the consideration was negotiated between the parties at arm's length, having regard to the net asset value of YHCD of approximately HK$25,131,000 and the book value of the YHCD Debts of approximately HK$1,751,000 as at 31 March 2005 in the light of the appraised value of a property leased, under a long-term lease by YHCD, being its principal asset. The discount of the aggregate consideration of the YHCD Shares and the YHCD Debts to the net asset value of YHCD is approximately HK$2,131,000 or 8.5%.

In the event that the audited net asset value of YHCD as at the date of completion of the YHCD Agreement (which includes a valuation to reflect the fair market value of the shipyard as at completion of the YHCD Agreement) is less than HK$21,249,000, the portion of consideration payable under the YHCD Agreement attributable to the YHCD Shares is subject to downward adjustment to the extent of the shortfall.

In the event that the YHCD Debt as at the date of completion of the YHCD Agreement is less than HK$1,751,183, the portion of consideration payable under the YHCD Agreement attributable to the YHCD Debts is also subject to downward adjustment to the extent of the shortfall.

III.1.4.1 Independent professional valuation of the property leased by YHCD

The market value of the shipyard has been valued by Vantage Valuers & Property Consultants Pte Ltd, an independent valuer, as of 31 December 2005 at approximately S$4.5 million (approximately HK$20,794,500) on an "open market" basis, details of which are set out in Appendix V to the Circular.

To assess the fairness and reasonableness of the valuation report, we have discussed with Vantage Valuers & Property Consultants Pte Ltd and reviewed the methodology, bases, considerations and key assumptions employed in the valuation. We note that Vantage Valuers & Property Consultants Pte Ltd has applied the investment method, which considers the current rent being received from the shipyard, and cross checked with the comparable sale method. Based on our discussions with Vantage Valuers & Property Consultants Pte Ltd, we consider that the underlying basis of the valuation is fair and reasonable, and the valuation is arrived at after due and careful considerations, and is therefore fair and reasonable.

III.1.4.2 Reference to net asset value

As at 31 July 2005, the audited net asset value of YHCD and the book value of the YHCD Debts amounted to approximately HK$23.6 million and HK$1.1 million respectively. Given the fact that (i) YHCD is operating an asset-based business; (ii) as at 31 July 2005, the principal asset of YHCD comprised a shipyard leased by YHCD of approximately HK$23.1 million, and the major liabilities of YHCD comprised amounts due to related companies and other creditors and accruals of approximately HK$5.9 million excluding the YHCD Debt; and (iii) in the event that the audited net asset value of YHCD as at the date of completion of the YHCD Agreement (which includes a valuation to reflect the fair market value of the shipyard as at completion of the YHCD Agreement) is less than the consideration of the YHCD Shares, the portion of consideration payable under the YHCD Agreement attributable to the YHCD Shares is subject to downward adjustment to the extent of the shortfall, we consider it fair and reasonable to use the net asset value as the basis to determine the consideration.

In assessing the fairness and reasonableness of the consideration, we have reviewed the price-to-book ratio ("P/B Ratio") of ten listed companies (the "Comparable Companies") whose businesses include shipbuilding operations and principal assets contain shipbuilding facilities including shipyards as at the date of the YHCD Agreement as valuation benchmarks. In the absence of any public information on private companies which carry similar businesses as YHCD, we consider the Comparable Companies running sufficiently similar businesses as YHCD appropriate for the purpose of our analysis.

Comparable Companies (Ticker)	Place of listing	Principal business	P/B Ratio *(times)*
ABG Shipyard Limited (ABGS)	India	• a private sector ship building company in India having facilities to build and repair a variety of marine ships and serves commercial and government customers • manufactures bulk carriers, deck barges, interceptor boats, anchor handling supply ships, diving support ships, tugs, and offshore vessels	4.31
Bharati Shipyard Limited (BHSL)	India	• a shipyard that designs and constructs sea-going, coastal, harbour, and inland crafts and vessels, products range from simple inland cargo barges, deep-sea trawlers and dredgers to maneuverable and power-packed ocean going tractor tugs, cargo ships, and tankers required for the offshore industry	5.41
Guangzhou Shipyard International Company Limited (317)	Hong Kong	• manufacturers and markets ships, plastic lifeboats, jetfoils, metal structures, castings, ball bearings, and cutting tools • provides services such as the scrapping, repairing and leasing of ships and boats	1.04
Hyundai Heavy Industries Co., Ltd. (009540)	Korea	• builds ships for commercial, and military purposes • manufactures oil tankers, cargo and passenger vessels, and warships • produces heavy industrial machineries, electrical components for engines and power trains, and industrial vehicles, such as cranes and bulldozers	1.36
Daewoo Shipbuilding & Marine Engineering Co., Ltd. (042660)	Korea	• manufactures naval and commercial ships, products include crude oil tankers, bulk carriers, container ships, gas carriers, multi-purpose cargo ships, chemical tankers, and other vessels	2.96

Comparable Companies (Ticker)	Place of listing	Principal business	P/B Ratio *(times)*
Samsung Heavy Industrials Co., Ltd. (010140)	Korea	• manufactures crude oil tankers, container vessels, bulk carriers, cruisers, and passenger ferries • produces steel and bridge structures, and material handling equipment • provides civil engineering, architectural, and plant construction services	1.72
SembCorp Marine Limited (SMM)	Singapore	• operates ship building, ship owning, ship repair and conversion • provides equipment rental, cleaning and maintenance services, marine, general electronic, and electrical works • trades copper slag, processes copper slag for grit blasting and building, as well as fabricates metal structures	3.76
Hyundai Mipo Dockyard Co., Ltd. (010620)	Korea	• repairs and builds ships • specializes in reconstruction of used vessels • manufactures steel products, such as hatch covers, and bridges	2.64
Austal Limited (ASB)	Australia	• designs and manufactures high performance aluminium ferries, luxury motor yachts, catamarans and workboats	2.45
Pan-United Corporation Limited (PAN)	Singapore	• provides shipping, ship repair, shipbuilding, shipconversion and ship chartering services • provides hydraulic, automation, and specialised engineering services, multi-media advertising solutions, and security surveillance systems • supplies petroleum products, trades cement and bulk commodities, and develops properties	1.33
Maximum			**5.41**
Minimum			**1.04**
Average			**2.70**
YHCD			0.94 *(Note 1)*

Source: Bloomberg

Note:

1. The implied P/B Ratio of YHCD is calculated as the aggregate consideration of the YHCD Shares and the YHCD Debts adjusted for the decrease in YHCD Debt as at 31 July 2005 divided by the audited net asset value of YHCD of approximately HK$23.6 million as at 31 July 2005.

As shown in the table above, the P/B Ratios of the Comparable Companies range from approximately 1.04 times to 5.41 times, with an average of approximately 2.70 times. The implied P/B Ratio of YHCD of approximately 0.94 times is lower than the average of the Comparable Companies. The lower implied P/B Ratio of YHCD reflects the fact that YHCD is a privately held company and has been operating at a loss.

Based on the above, we consider the consideration for the acquisition of the YHCD Shares and the YHCD Debts to be fair and reasonable.

III.2 Multi-Ventures Agreement

III.2.1 Overview

Pursuant to the Multi-Ventures Agreement, the Company has conditionally agreed to acquire 13 vessels from Multi-Ventures for a total cash consideration of HK$5,440,000. Among the 13 vessels, eight vessels will be sold by Multi-Ventures as registered and beneficial owner (i.e. these vessels are registered under the name of Multi-Ventures and beneficially owned by Multi-Ventures) and five vessels as beneficial owner and authorised agent of the registered owner (i.e. these vessels are registered under the names of other parties but beneficially owned by Multi-Ventures). Pursuant to the Multi-Ventures Agreement, all title documents shall be properly executed to ensure legally effective transfers upon completion of the sale and purchase of the 13 vessels. The consideration shall be paid by the Company to Multi-Ventures in cash upon completion of the Multi-Ventures Agreement.

III.2.2 Information on the 13 vessels

The 13 vessels are crafts and vessels for general marine transportation and engineering supporting services. The unaudited book value of the 13 vessels as at 30 November 2005 amounted to approximately HK$5.44 million.

III.2.3 Reasons for the acquisition of the 13 vessels

The Group intends to acquire the 13 unencumbered vessels for sale after reconditioning so as to further expand its operation in the supply of reconditioned second-hand marine engineering vessels. Subject to the marine engineering construction market conditions and licensing repair works to be carried out on some of the vessels, the vessels could also be used in the Group's operations if not sold. In addition, in our discussion with Win Well Engineering & Surveyors Ltd., we note that the components of these 13 vessels could be dismantled for component sale or used for reconditioning of other vessels.

In view of the above, and having considered the business nature of the Group as detailed in the sub-section headed "III.1.3.1 Business of the Group" above, we are of the view that the transactions contemplated by the Multi-Ventures Agreement are in line with the Company's principal business and the Multi-Ventures Agreement is on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

III.2.4 Basis of the consideration

The aggregate consideration is HK$5,440,000. As noted in the "Letter from the Board", the consideration was negotiated between the parties at arm's length, having regard to the prevailing market price and valuations.

Multi-Ventures and the Company will jointly instruct a valuer to carry out a valuation of the 13 vessels as at a date not earlier than three months prior to completion of the sale and purchase of the 13 vessels in accordance with the Multi-Ventures Agreement. If the aggregate value of the 13 vessels is less than HK$5,440,000, the consideration payable under the Multi-Ventures Agreement is subject to downward adjustment to the extent of the shortfall.

III.2.4.1 Independent professional valuation of the 13 vessels

The market value of the vessels has been valued by Win Well Engineering & Surveyors Ltd., an independent valuer, as of 31 December 2005 at approximately HK$5,440,000, details of which are set out in Appendix VI to the Circular. The valuation has been made on an "open market for continued existing use" basis.

To assess the fairness and reasonableness of the valuation report, we have discussed with Win Well Engineering & Surveyors Ltd. and reviewed the methodology, bases, considerations and key assumptions employed in the valuation. We note that Win Well Engineering & Surveyors Ltd. has considered the depreciation replacement cost approach and the market data approach. The former considers the cost to reproduce or replace in new condition the vessels in accordance with current market prices for similar vessels, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence present (physical, functional or economic), taking into consideration past and present maintenance policy and rebuilding history. The latter considers prices recently paid for similar vessels, with adjustments made to the indicated market price to reflect condition and utility of the vessels relative to the market comparative. Based on our discussions with Win Well Engineering & Surveyors Ltd., we consider that the methodology applied is consistent with market practice and the underlying basis of the valuation is fair and reasonable, and therefore the valuation is fair and reasonable.

Based on the above, we consider the consideration for the acquisition of the 13 vessels to be fair and reasonable.

III.3 Bugsy Agreement

III.3.1 Overview

Pursuant to the Bugsy Agreement, the Company has conditionally agreed to acquire 20 vessels from Bugsy for a total cash consideration of HK$35,000,000. Among the 20 vessels, 16 vessels will be sold by Bugsy as registered and beneficial owner (i.e. these vessels are registered under the name of Bugsy and beneficially owned by Bugsy) and four vessels as beneficial owner and authorised agent of the registered owner (i.e. these vessels are registered under the names of other parties but beneficially owned by Bugsy). Pursuant to the Bugsy Agreement, all title documents shall be properly executed to ensure legally effective transfers upon completion of the sale and purchase of the 20 vessels. The consideration shall be paid by the Company to Bugsy in cash upon completion of the Bugsy Agreement.

III.3.2 Information on the 20 vessels

The 20 vessels are marine engineering vessels suitable for marine engineering construction use or general transportation purposes. The unaudited book value of the 20 vessels as at 30 November 2005 amounted to approximately HK$35 million.

III.3.3 Reasons for the acquisition of the 20 vessels

The Group intends to acquire the 20 unencumbered vessels primarily for the marine engineering construction operation of the Group subject to licensing repair works to be carried out on some of the vessels. As noted in the "Letter from the Board", the acquisition of these 20 vessels provides the

Group with a broadened base of resources to normalise and expand its existing principal businesses, in particular the marine construction engineering business, so as to capture the growing demand for marine construction engineering services (as detailed in the subsection headed "Reasons for the acquisition of the 20 vessels" in the "Letter from the Board") which will require marine construction plant of large output performance. Furthermore, the acquisition of these 20 vessels will also enable the Company to maintain a complete fleet of vessels for general marine engineering operation after the Disposal, regardless of completion of the Buy Back. Nevertheless, subject to market condition, some of the vessels could also be sold after reconditioning so as to further expand its operation in the supply of reconditioned second-hand marine engineering vessels. According to the Directors, the expansion of the Group's marine construction engineering operations would make positive contribution to the Group's revenue.

We have been advised by the Company that they have sold various similar vessels, including grab dredger and split hopper barge in 2005 to the PRC, Europe and South East Asia. In our discussion with Win Well Engineering & Surveyors Ltd., we note that (i) they have considered these transactions as well as other comparable transactions for similar vessels in terms of nature, type and size in their valuation (please also refer to the subsection headed "III.3.4.1 Independent professional valuation of the 20 vessels" for details); and (ii) in the event these vessels are not sold or used in the Group's operations, subject to market conditions and licensing repair works to be carried out on some of the vessels, they could be leased out for project works.

In view of the above, and having considered the business nature of the Group as detailed in the sub-section headed "III.1.3.1 Business of the Group" above, we are of the view that the transactions contemplated by the Bugsy Agreement are in line with the Group's principal business and the Bugsy Agreement is on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

III.3.4 Basis of the consideration

The aggregate consideration is HK$35,000,000. As noted in the "Letter from the Board", the consideration was negotiated between the parties at arm's length, having regard to the prevailing market price and valuations.

Bugsy and the Company will jointly instruct a valuer to carry out a valuation of the 20 vessels as at a date not earlier than three months prior to completion of the sale and purchase of the 20 vessels in accordance with the Bugsy Agreement. If the aggregate value of the 20 vessels is less than HK$35,000,000, the consideration payable under the Bugsy Agreement is subject to downward adjustment to the extent of the shortfall.

III.3.4.1 Independent professional valuation of the 20 vessels

The market value of the vessels has been valued by Win Well Engineering & Surveyors Ltd., an independent valuer, as of 31 December 2005 at approximately HK$35,000,000, details of which are set out in Appendix VI to the Circular. The valuation has been made on an "open market for continued existing use" basis.

To assess the fairness and reasonableness of the valuation report, we have discussed with Win Well Engineering & Surveyors Ltd. and reviewed the methodology, bases, considerations and key assumptions employed in the valuation. We note that Win Well Engineering & Surveyors Ltd. has considered the depreciation replacement cost approach and the market data approach (please refer to the subsection headed "III.2.4.1 Independent professional valuation of the 13 vessels" above for details). Based on our discussions with Win Well Engineering & Surveyors Ltd., we consider that the methodology applied is consistent with market practice and the underlying basis of the valuation is fair and reasonable, and therefore the valuation is fair and reasonable.

Based on the above, we consider the consideration for the acquisition of the 20 vessels to be fair and reasonable.

In view of the foregoing, we consider that the Acquisitions are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

IV. THE DISPOSAL AND THE BUY BACK

IV.1 The Disposal Agreement

IV.1.1 Overview

Pursuant to the Disposal Agreement, the Company has conditionally agreed to sell and Harbour Front has conditionally agreed to purchase by itself or by its designated nominee, the entire issued share capital of UDLHK and UDLS and the Shareholders' Loans for a total cash consideration of HK$2. The consideration shall be paid by Harbour Front to the Company in cash upon completion of the Disposal Agreement.

IV.1.2 Information on UDLHK and UDLS

IV.1.2.1 UDLHK

UDLHK is a private company incorporated under the laws of Hong Kong and is engaged in marine engineering. The principal assets of UDLHK are floating craft and vessels which had a book value of HK$20.9 million as at 31 July 2005, out of which approximately HK$16,550,000 worth vessels are security for a loan of approximately HK$29,042,000 ("First Loan"). The First Loan, which was assigned from a secured lender which is a bank based in Hong Kong to a related company of the Group ("Related Party Lender"), was 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 UDLHK and a personal guarantee from the spouse of Mrs. Leung Yu Oi Ling, Irene ("Mrs. Leung"), Mr. Leung Yat Tung ("Mr. Leung"). Other than that, no member of the Group has provided any guarantee for the First Loan. The First Loan bears interest at prime rate plus 2% per annum. The First Loan, together with the interest thereon, will not be required to be repaid until 1 August 2006. The vessels owned by UDLHK are currently not used in the marine engineering business operation of the Group. The loans of UDLHK are also secured by a floating charge on all its assets.

Summarised below is the historical financial information of UDLHK:

	Audited	
	Year ended 31 July	
	2005	**2004**
	HK$	*HK$*
(Loss) before taxation and extraordinary items	(7,841,545)	(5,828,943)
Net (loss) after taxation and extraordinary items	(7,841,545)	(5,828,943)

As at 31 July 2005, the audited net deficit of UDLHK was approximately HK$26.918 million.

IV.1.2.2 UDLS

UDLS is a private company incorporated under the laws of Singapore and is engaged in marine engineering. The principal assets of UDLS are floating craft and vessels which had a book value of HK$54.5 million as at 31 July 2005 being security for a loan of approximately HK$71,448,000 ("Second Loan"). Nine of such vessels are core vessels desirable for the use in the marine engineering construction by the Group and are subject to the Buy Back arrangement. The loans of UDLS are also secured by a floating charge on all its assets.

The Second Loan, which was assigned from a secured lender which is a bank based in Singapore ("Singapore Secured Lender") to a Related Party Lender, was 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 UDLS, a joint and several guarantee from Mrs. Leung and Mr. Leung, assignment of insurance and income for certain vessels, and subordination of loan from Mr. Leung and Mrs. Leung. Other than that, no member of the Group has provided any guarantee for the Second Loan. The Second Loan bears interest at prime rate plus 2% per annum. The Second Loan, together with the interest thereon, will not be required to be repaid until 1 August 2006.

As at 5 October 2005, the Related Party Lender who took over the interest of the Second Loan did not strictly conform to the original payment schedule. However, the moratorium has been maintained due to on-going negotiation between the Related Party Lender and the Singapore Secured Lender on a revised payment schedule. There is uncertainty as to whether the Related Party Lender will arrive at agreement with the Singapore Secured Lender on the revised payment schedule. The Directors are confident that the Related Party Lender has the financial ability to meet its obligations and the Second Loan has accordingly been shown as a non-current liability in the consolidated accounts of the Group.

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

Summarised below is the historical financial information of UDLS (prepared in accordance with Singapore Standards on Auditing):

	Audited	
	Year ended 31 July	
	2005	2004
	HK$	*HK$*
(Loss) before taxation and extraordinary items	(17,573,874)	(1,347,620)
Net (loss) after taxation and extraordinary items	(17,573,874)	(1,347,620)

As at 31 July 2005, the audited net deficit of UDLS (prepared in accordance with Singapore Standards on Auditing) was approximately HK$31.359 million.

As at 31 July 2005, the Shareholders' Loans amounted to approximately HK$18,869,000, of which HK$8,786,000 and HK$10,083,000 are attributable to UDLHK and UDLS respectively.

IV.1.3 Reasons for the Disposal

As announced previously and disclosed in the 2005 Annual Report, the assigned loans now owing by UDLHK and UDLS to the related party lenders which are secured by vessels will be due for repayment on 1 August 2006. There has not been any substantive negotiation between the Group and each of the related party lenders recently regarding how such loans shall be repaid or refinanced when they fall due. The Group has continued to handle the disposal of non-core vessels as described in the Company's previous announcements.

We also noted in the "Letter from the Board" that UDLHK and UDLS are not the principal operating subsidiaries of the Company but contributed significant amounts of net loss and deficiency of assets to the Group for the year ended 31 July 2005.

In view of the above, and having considered (i) after completion of the Disposal, UDLHK and UDLS will cease to be subsidiaries of the Company and their financial results and assets and liabilities will no longer be consolidated in the accounts of Group; (ii) the Company will be able to get rid of the significant outstanding amount of the existing secured vessel loan; and (iii) the disposal of non-core assets is in line with the corporate strategy, we concur with the Directors that the Disposal will (i) remove all uncertainties regarding the financial support from the related party lenders to the Group; and (ii) remove all uncertainties regarding the ability of the related party lenders to meet their respective payment obligations under the assigned loans.

IV.1.4 Basis of the consideration

The aggregate consideration is HK$2.

Given (i) the substantial net deficit of UDLHK and UDLS as at the Latest Practicable Date as advised by the Company; (ii) the uncertainties regarding the financial support from the related party lenders to the Group; and (iii) the uncertainties regarding the ability of the related party lenders to meet their respective payment obligations under the assigned loans, we concur with the Directors' view that the shareholdings in these two companies have practically no commercial value. Having considered the positive effect of the Disposal on the financial position of the Group as illustrated in the section headed "B. Unaudited pro forma financial information on the Group after taking into account only the result of the completion of the Disposal" contained in Appendix III to the Circular and analysed in the section headed "IV.3 Financial effects of the Transactions on the Group" below, we are of the view that the Disposal is on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

IV.2 The Buy Back Agreement

IV.2.1 Overview

Pursuant to the Buy Back Agreement, the Company has conditionally agreed to acquire 9 core vessels from UDLS for a total cash consideration of HK$37.7 million. The Buy Back Agreement is conditional upon, inter alia, completion of the Disposal Agreement in accordance with its terms, and the Group has obtained a new loan facility, which is expected to be not less than US$4.6 million, to satisfy a substantial portion of the consideration for the Buy Back. The consideration shall be paid by the Company to Harbour Front in cash upon completion of the Buy Back Agreement.

IV.2.2 Information on the 9 core vessels

The 9 vessels are marine engineering vessels suitable for marine engineering construction use or general transportation purposes. They are owned by UDLS and had an audited book value of approximately HK$38 million as at 31 July 2005.

IV.2.3 Reasons for the Buy Back

The 9 core vessels of UDLS are desirable for use in marine engineering construction by the Group subject to business needs.

IV.2.4 Basis of the consideration

The aggregate consideration is HK$37.7 million, which is equal to the audited book value of the core vessels concerned as at 31 July 2005.

Harbour Front and the Company will jointly instruct a valuer to carry out a valuation of the 9 core vessels as at a date not earlier than three months prior to completion of the Buy Back Agreement. If the aggregate value of the 9 core vessels is less than HK$37.7 million, the consideration payable under the Buy Back Agreement is subject to downward adjustment to the extent of the shortfall.

IV.2.4.1 Independent professional valuation of the 9 core vessels

The market value of the vessels has been valued by Win Well Engineering & Surveyors Ltd., an independent valuer, as of 31 December 2005 at approximately HK$37,700,000, details of which are set out in Appendix VI to the Circular. The valuation has been made on an "open market for continued use" basis.

To assess the fairness and reasonableness of the valuation report, we have discussed with Win Well Engineering & Surveyors Ltd. and reviewed the methodology, bases, considerations and key assumptions employed in the valuation. We note that Win Well Engineering & Surveyors Ltd. has considered the depreciation replacement cost approach and the market data approach (please refer to the subsection headed "III.2.4.1 Independent professional valuation of the 13 vessels" above for details). Based on our discussions with Win Well Engineering & Surveyors Ltd., we consider that the methodology applied is consistent with market practice and the underlying basis of the valuation is fair and reasonable, and therefore the valuation is fair and reasonable.

Based on the above, we consider the consideration for the Buy Back to be fair and reasonable and that the Buy Back is on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

IV.2.5 Funding of the Buy Back

As stated in the "Letter from the Board", the Group is close to concluding the grant of a new loan facility with its banker. The loan, if granted, will be in the form of a 5-year secured loan and the principal amount of which is expected to be not less than US$4.6 million. Such loan is expected to be available after completion of the Global Solution and is intended to help financing the Group's purchase of the 9 core vessels from UDLS.

However, Independent Shareholders should note that, subject to the final valuation of the 9 core vessels, the principal amount of the 5-year secured loan may or may not be sufficient for the Company to satisfy the consideration for the Buy Back. In the event that the new loan is insufficient, further equity fund raising activities may be conducted by the Company.

As stated in the "Letter from the Board", in the event that the Buy Back cannot be implemented while business needs arise, the Group has the alternative to apply some of the vessels acquired under the Acquisitions for its marine engineering operations subject to licensing repair works to be carried out on some of the vessels.

IV.3 Financial effects of the Transactions on the Group

As stated in the "Letter from the Board", it is the intention of the Company that the Disposal will only proceed after completion of the Rights Issue and the Acquisitions, and the Buy Back is subject to completion of the Disposal, we therefore consider the financial effects of the Transactions on the Group as a whole.

The pro forma financial effects below are a summary of the complete pro forma financial information as set out in the subsections headed "C1. Unaudited pro forma consolidated balance sheet of the Resultant Group" and "C2. Unaudited pro forma consolidated income statement of the Resultant Group" contained in Appendix III to the Circular:

	Before the Transactions	**After the Transactions**	**Percentage change**
(Loss) attributable to shareholders	HK$(27,471,000)	HK$(4,138,000)	n.m.
Net asset value (deficit)	HK$(55,617,000)	HK$52,082,000	n.m.
Net asset value (deficit) per share	HK$(0.056)[(1)]	HK$0.015[(2)]	n.m.
Cash and cash equivalent	HK$812,000	HK$4,646,000	472.2%
Net current assets (liabilities)	HK$(34,347,000)	HK$53,905,000	n.m.

Notes:

1. Based on 989,222,302 Shares in issue as at the Latest Practicable Date.

2. Based on 3,363,355,826 Shares then in issue upon completion of the Transactions.

3. n.m. denotes not meaningful

Earnings

Loss attributable to the Shareholders for the year ended 31 July 2005 amounted to approximately HK$27.5 million and the pro forma loss attributable to the Shareholders would have improved to approximately HK$4.1 million.

Net asset value

The audited consolidated net deficit of the Group as at 31 July 2005 was approximately HK$55.6 million or HK$0.056 per Share. Upon completion of the Transactions the net deficit would have been replaced by a net asset value of approximately HK$52.1 million or HK$0.015 per Share.

Working capital

The Group had net current liabilities of approximately HK$34.3 million as at 31 July 2005. Upon completion of the Transactions, the Group would have net current assets of approximately HK$53.9 million.

Based on the above, we consider the positive financial effects of the Transactions on the Group are in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

Having considered the abovementioned principal factors and reasons, we consider that the Transactions are on normal commercial terms and in the interests of the Company and the Shareholders as a whole, and the terms of the Transactions are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we would recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolution to approve the Transactions at the SGM.

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

1. FINANCIAL SUMMARY

Set out below is the summary of the financial information extracted from the relevant annual reports of the Company and the auditors' reports contained in the annual reports of the Company for the audited financial statements of the Group for the three years ended 31 July 2005. Please refer below to the qualifications as stated in the reports of the auditors for the financial statements of the Group for the two years ended 31 July 2005. There are no qualifications in the audited financial statements of the company for the year ended 31 July 2003. Your attention is however drawn to the paragraph headed "Fundamental uncertainties relating to the going concern basis" in the auditor's report for the financial statement of the Group for the year ended 31 July 2003 which is reproduced in paragraph (iii) of this section below.

(i) Consolidated income statement

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

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

(ii) Consolidated assets and liabilities

	As at 31 July		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets	134,429	80,267	79,220
Current assets	27,508	20,221	17,823
Total assets	161,937	100,488	97,043
Non-current liabilities	(115,985)	(96,658)	(100,490)
Current liabilities	(49,898)	(48,480)	(52,170)
Total liabilities	(165,883)	(145,138)	(152,660)
Net liabilities	(3,946)	(44,650)	(55,617)

(iii) Reports of the auditors for the financial statements of the Group for the three years ended 31 July 2005

A. Report of the auditors for the financial statements of the Group for the year ended 31 July 2003

*The following is the full text of the reproduced report of Grant Thornton, the auditors of the Company, for the year ended 31 July 2003 extracted from pages 15 to 16 of the annual report of the Company for the year ended 31 July 2003 ("**2003 Annual Report**"). The page references in this reproduced report are the same as those in the 2003 Annual Report.*

Certified Public Accountants
Hong Kong Member of
Grant Thornton International

Grant Thornton
均富會計師行

To the members of UDL Holdings Limited
(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 17 to 63 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Fundamental uncertainties relating to the going concern basis

In forming our opinion we have considered the adequacy of the disclosures in the financial statements concerning the basis of their preparation. As further explained in note 3, the financial statements, which report net current liabilities of HK$22,390,000 and a deficiency of assets of HK$3,946,000 for the Group at 31 July 2003, have been prepared on a going concern basis, the validity of which is dependent upon:

(i) The continued financial support (the "Financial Support") of the related companies (the "Related Party Lenders") which have refinanced the secured borrowings of the Company's operating subsidiaries that were overdue, into secured long term loans totalling HK$111,568,000 as at 31 July 2003;

(ii) The ability of one of the Related Party Lenders which has refinanced approximately HK$62,395,000 of a subsidiary's secured borrowings referred to above, to meet the payment schedule agreed with the original secured lender (the "Assignment Payments"); failing which the original secured lender has recourse to the subsidiary for immediate repayment of the full amount due; and

(iii) The Group's ability to raise additional equity funding from the Company's existing and/ or new shareholders ("Additional Equity Funding") to overcome any short term financing difficulties and possible negative cash flows arising from the Group's business and the adverse effects on cash flow of any repayments due under the Shortfall Undertaking arising from the Scheme of Arrangement entered into by the Company in April 2000, further details of which are set out in note 2(b).

The financial statements do not include any adjustments that would result from the failure of the Group to obtain the Financial Support and the Additional Equity Funding and of the Related Party Lender to meet its Assignment Payments. We consider that appropriate disclosures relating to these fundamental uncertainties have been made in the financial statements, and our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 July 2003 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton
Certified Public Accountants

Hong Kong
27 November 2003

B. *Report of the auditors for the financial statements of the Group for the year ended 31 July 2004*

*The following is the full text of the reproduced report of CCIF CPA Limited, the auditors of the Company, for the year ended 31 July 2004 extracted from pages 13 to 15 of the annual report of the Company for the year ended 31 July 2004 ("**2004 Annual Report**"). The page references in this reproduced report are the same as those in the 2004 Annual Report.*

CCIF
CCIF CPA LIMITED
37/F Hennessy Centre
500 Hennessy Road
Causeway Bay Hong Kong

To the members of UDL Holdings Limited
(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 16 to 63 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of the financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. However, the evidence available to us was limited in respect of the followings:

1) Scope limitation – insufficient evidence for land use right

Land use right with net book value of approximately HK$1,028,000 was reflected in the financial statements of a PRC subsidiary which was not audited by us. There was no sufficient evidence available for us to examine the balance and ownership of land use right and accordingly we are unable to confirm the carrying value and ownership of the land use right as at 31 July 2004 and whether the amount has been fairly stated.

2) Scope limitation – other borrowings

The Group had other borrowings from a related party lender of approximately HK$27,978,000 included under other borrowings in the consolidated balance sheet as at 31 July 2004. There was no sufficient information available for us to verify the accuracy and completeness of this balance. As a result, we are unable to satisfy ourselves whether the balances of these borrowings have been fairly stated.

3) Scope limitation – commitments

Due to the uncertainty as mentioned in the preceding paragraph 1 of the scope limitation, we are not able to verify the completeness and accuracy of operating lease commitments. As a result, we are unable to determine whether all the commitments had been properly disclosed in the financial statements.

4) Scope limitation – fundamental uncertainty relating to going concern of the company

As further explained in note 3, the financial statements, which report net current liabilities of HK$28,259,000 and a deficiency of assets of HK$44,650,000 for the Group at 31 July 2004, have been prepared on a going concern basis, the validity of which is dependent upon:

(i) The continued financial support (the "Financial Support") of the related companies (the "Related Party Lenders") which have refinanced the secured borrowings of the Company's operating subsidiaries that were overdue, into secured long term loans totalling HK$94,201,000 as at 31 July 2004;

(ii) The ability of one of the Related Party Lenders which has refinanced approximately HK$66,223,000 of a subsidiary's secured borrowings referred to above, to meet the payment schedule agreed with the original secured lender (the "Assignment Payments"); failing which the original secured lender has recourse to the subsidiary for immediate repayment of the full amount due;

(iii) The Group's ability to raise additional equity funding from the Company's existing and/or new shareholders ("Additional Equity Funding") to overcome any short term financing difficulties and possible negative cash flows arising from the Group's business; and

(iv) The Group's ability to overcome the financing difficulties in respect of the adverse effects on cash flow of any repayments under the Shortfall Undertaking arising from the Scheme of Arrangement entered into by the Company in April 2000 which become due in current year. Further details of which are set out in note 2(b) to the financial statements ("Shortfall Undertaking").

The financial statements do not include any adjustments that would result from the failure of (a) the Group to obtain the Financial Support and the Additional Equity Funding; (b) Related Party Lenders' ability to meet its Assignment Payments; and (c) the Group's ability to discharge the Shortfall Undertaking. We are unable to obtain adequate evidence or assurances we consider necessary to satisfy ourselves as to the appropriate disclosures for the adoption of the going concern basis in the preparation of the financial statements as set out above. Furthermore, due to the significant deficiency of assets at 31 July 2004 and the uncertainty as mentioned in the preceding paragraphs regarding the scope limitation, we are not able to determine whether the going concern basis used in preparing these financial statements is appropriate. Accordingly, we have disclaimed our opinion in respect of this issue.

Qualified opinion: Disclaimer on view given by financial statements

Because of the significance of the possible effect of the limitation in evidence available to us and the fundamental uncertainties relating to the going concern basis, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of the affairs of the Company and of the Group as at 31 July 2004 or its loss and cash flows for the year then ended. In all other respects, in our opinion the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants

Chan Wai Dune, Charles
Practising Certificate Number P00712

Hong Kong, 25 November 2004

C. *Reports of the auditors for the financial statements of the Group for the year ended 31 July 2005*

The following together with Section 2 below is the full text of the reproduced report of CCIF CPA Limited, the auditors of the Company, for the year ended 31 July 2005 extracted from pages 17 to 63 of the 2005 Annual Report. The page references in this reproduced report are the same as those in the 2005 Annual Report.

CCIF
CCIF CPA LIMITED
37/F Hennessy Centre
500 Hennessy Road
Causeway Bay Hong Kong

To the members of UDL Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 20 to 63 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believed that our audit provides a reasonable basis for our opinion.

Fundamental uncertainty relating to going concern of the Group

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

(i) The continued financial support (the "Financial Support") of the related companies (the "Related Party Lenders") which have refinanced the secured borrowings of the Company's operating subsidiaries that were overdue, into secured long term loans totalling approximately HK$100,490,000 as at 31 July 2005;

(ii) The ability of one of the Related Party Lenders which has refinanced approximately HK$71,448,000 of a subsidiary's secured borrowings referred to above, to meet the payment schedule agreed with and the revised payment schedule proposed to the original secured lender (the "Assignment Payments"); failing which the original secured lender has recourse to the subsidiary for immediate repayment of the full amount due;

(iii) The Group's ability to raise additional funding to overcome any short term financing difficulties and possible negative cash flows arising from the Group's business; and

(iv) The Group's ability to overcome the financing difficulties in respect of the adverse effects on cash flow of any repayments under the Shortfall Undertaking arising from the Scheme of Arrangement entered into by the Company in April 2000 which become due since last year and the feasibility of the new scheme of arrangement "Global Solution" which is an arrangement among the Company, Harbour Front Limited and the Scheme Administrator targeted to settle the Shortfall Undertaking. Further details of which are set out in note 2(b) to the financial statements ("Shortfall Undertaking").

The financial statements do not include any adjustments that would result from the failure of (a) the Group to obtain the Financial Support and the additional funding; (b) Related Party Lenders' ability to meet its Assignment Payments; and (c) the Group's ability to discharge the Shortfall Undertaking and the feasibility and efficiency in implementation of "Global Solution". Due to the significant net assets' deficits at 31 July 2005 and the uncertainty as mentioned in the preceding paragraphs, we are not able to determine whether the going concern basis used in preparing these financial statements is appropriate. Accordingly, we have disclaimed our opinion in respect of this issue.

Qualified opinion: Disclaimer on view given by financial statements

Because of the significance of the fundamental uncertainties relating to the going concern basis, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of the affairs of the Company and of the Group as at 31 July 2005 or its loss and cash flows for the year then ended. In all other respects, in our opinion the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants

Chan Wai Dune, Charles
Practising Certificate Number P00712

Hong Kong, 5 October 2005

2. SUMMARY OF AUDITED FINANCIAL STATEMENTS

Set out below is the audited financial statements together with the relevant notes to the financial statements of the Group as extracted from the 2005 Annual Report of the Company for the year ended 31 July 2005.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 July 2005

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

The notes on pages 81 to 102 form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 July 2005

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

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

Leung Yu Oi Ling, Irene
Director

Leung Chi Yin, Gillian
Director

The notes on pages 81 to 102 form an integral part of these financial statements.

BALANCE SHEET
As at 31 July 2005

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

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

Leung Yu Oi Ling, Irene
Director

Leung Chi Yin, Gillian
Director

The notes on pages 81 to 102 form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 July 2005

	2005	2004
	HK$'000	*HK$'000*
Cash flows from operating activities		
Loss before taxation	(27,750)	(16,479)
Adjustments for:		
Depreciation and amortisation	19,421	20,332
Interest expenses	8,999	9,359
Gain on disposal of property, plant and equipment	(160)	(16,978)
Provision for bad and doubtful debts	1,196	536
Provision for impairment loss on property, plant and equipment	932	–
Reversal of provision for annual leave	(95)	–
Provision for doubtful debts written back	–	(75)
Reversal of provision for accrued interest	(452)	–
Operating profit/(loss) before working capital changes	2,091	(3,305)
Decrease in trade and other receivables	5,986	7,539
Increase in amounts due from related companies	(3,392)	(880)
Increase/(decrease) in trade and other payables	2,790	(10,735)
(Decrease)/increase in amounts due to related companies	(12,696)	6,659
Increase in amounts due to directors	649	–
Cash used in operations	(4,572)	(722)
Interest paid	(405)	–
Net cash used in operating activities	(4,977)	(722)
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,982)	(138)
Proceeds from sale of property, plant and equipment	650	28,936
Net cash (used in)/generated from investing activities	(1,332)	28,798
Cash flows from financing activities		
Proceeds from issuance of share capital	1,316	–
Other loans repaid	(4,660)	(26,286)
Other loans raised	12,983	–
Net cash generated from/(used in) financing activities	9,639	(26,286)
Net increase in cash and cash equivalents	3,330	1,790
Cash and cash equivalents at 1 August	183	550
Effect of foreign exchange rate change, net	(3,275)	(2,157)
Cash and cash equivalents at 31 July	238	183
Analysis of balances of cash and cash equivalents		
Cash and bank balances	812	616
Bank overdrafts	(574)	(433)
	238	183

The notes on pages 81 to 102 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 July 2005

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

The notes on pages 81 to 102 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

1. GENERAL INFORMATION

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

2. CORPORATE UPDATE

(a) Restructuring agreement

As explained in the Group's previous annual report, the Group experienced significant financial difficulties during the period ended 31 July 2000. This forced the Group to enter into a restructuring arrangement with its creditors and to discontinue and/or dispose of its contracting, structural steel and electrical and mechanical engineering businesses.

In summary, the principal terms of the reorganisation proposal, which include the schemes of arrangement (the "Reorganisation Proposal"), involved, inter alia, the followings:

(i) Schemes of arrangement for the Company and 24 of its subsidiaries (collectively the "Scheme Participating Companies"), excluding KEL Holdings Limited and its subsidiaries, under Section 166 of the Hong Kong Companies Ordinance (individually the "Scheme" and collectively the "Schemes");

(ii) A reduction and consolidation of the issued share capital of the Company and a reduction of its share-premium account (the "UDL Capital Reorganisation");

(iii) A rights issue of approximately 210 million rights shares to the then existing shareholders on the basis of five rights shares for every share held by them upon the completion of the UDL Capital Reorganisation (the "2000 Rights Issue");

(iv) a new issue of approximately 252 million new shares of HK$0.10 each in the capital of the Company after the UDL Capital Reorganisation to the non-preferential scheme creditors in proportion to their non-preferential scheme debts; and

(v) the acquisition of UDL Marine Assets (Hong Kong) Limited ("UMAHK") and UDL Marine Assets (Singapore) Pte Limited ("UMASPG") by the Company from the proceeds of the 2000 Rights Issue.

Details of the Restructuring Agreement and the Reorganisation Proposal are set out in the Company's announcement dated 16 October 1999 and the Company's circular to shareholders dated 1 March 2000.

The UDL Capital Reorganisation and the 2000 Rights Issue were approved at a special general meeting of the Company held on 24 March 2000. The UDL Capital Reorganisation became effective on 28 April 2000 and the 2000 Rights Issue became unconditional on 25 May 2000.

(b) The Schemes

The implementation of the Schemes involved, inter alia, the following principal steps:

(i) the transfer of the unencumbered assets of the Scheme Participating Companies (the "Unencumbered Assets") and the net proceeds from the recovery of their accounts receivable (the "Accounts Receivable"), other than those receivables which are intercompany debts and those charged to financial creditors as security, for no consideration to a company newly incorporated in Hong Kong with limited liability (the "Newco"), the shares of which are held by the administrator of the Schemes (the "Scheme Administrator") on trust for the scheme creditors;

(ii) the distribution of the proceeds from the sale of the Unencumbered Assets and the recovery of the Accounts Receivable, after settlement of post-scheme costs and the preferential claims of the scheme creditors, to the scheme creditors in proportion to their scheme debts as cash dividends;

(iii) the issue of 252,306,195 new shares of HK$0.10 each to the scheme creditors in proportion to their non-preferential scheme debts, representing 50% of the enlarged issued share capital of the Company; and

(iv) the acceptance by each non-preferential scheme creditor of

(i) the payment of cash dividends; and

(ii) the issue and allotment of new shares of the Company to him, in each case in accordance with the provisions of the Scheme, in full satisfaction and discharge of his non-preferential scheme debt.

The Company has undertaken to the trustee, being the then Scheme Administrator, by a trust deed dated 11 February 2000, made between the Company and the trustee for the benefit of the scheme creditors, that the aggregate disposal proceeds of the Unencumbered Assets and the Accounts Receivable realised under the Schemes shall not be less than HK$176 million. In the event of a shortfall (the "Shortfall"), the Company is required to make up the Shortfall beginning in the fourth financial year after the financial year in which the Schemes became effective. The amount of payment for the Shortfall by the Company in every financial year is limited to a maximum of 60% of the consolidated net profit of the Company and its subsidiaries for that financial year. There are no payment obligations on the Company in respect of the Shortfall in respect of any financial year in which the Company does not make an audited consolidated net profit. The Company's obligation to make up the Shortfall shall not be discharged unless and until the Company has paid the Shortfall in full (the "Shortfall Undertaking").

The Scheme was sanctioned by the Court of First Instance of Hong Kong and became effective on 28 April 2000. On 26 May 2000, the Rights Issue and the acquisition of the shares of UMAHK and UMASPG by the Company under the Restructuring Agreement were completed, the implementation of the Schemes became unconditional and the Company issued approximately 252 million new shares of HK$0.10 each to the Scheme Administrator pending distribution to the non-preferential scheme creditors upon the implementation of the Schemes.

On 20 July 2000, appeals were made against dismissal of 5 of the winding-up petitions which were presented by ex-employees of certain of the Scheme Participating Companies. Those appeals were heard on 7 and 8 November 2000 and were dismissed pursuant to a judgement dated 7 December 2000. A further appeal was made and the hearing took place at the Court of Final Appeal on 12 and 13 November 2001. On 3 December 2001, the Court of Final Appeal handed down its judgment dismissing all the appeals against the sanction of the Scheme with costs awarded in favour of the subsidiaries. The Court also dismissed appeals against the petition dismissal. Since the commencement of the Scheme, the Group has assisted the Scheme Administrator where possible, to pursue arbitration and/or legal proceedings to recover and preserve the value of the Unencumbered Assets and the Accounts Receivable. Under the terms of the Scheme, the Group will be reimbursed for such recovery costs upon the successful recovery of these assets. To date the Group has incurred approximately HK$4.9 million in recovery action costs. The directors are confident that these costs will be reimbursed, and have accordingly included these amounts in other receivables in the balance sheet at 31 July 2005.

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

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

– The sale to Harbour Front of the Unencumbered Assets and Accounts Receivable for HK$20 million in cash;

– The settlement of the Shortfall Undertaking for HK$30 million in convertible notes issued by the Company and convertible (into the Company's shares)/redeemable in four tranches of HK$7.5 million over two years; and

– An undertaking by Harbour Front to purchase from the Scheme Administrator all or such proportion as the Scheme Administrator may determine of such convertible notes at a price equal to 18/30ths of their nominal value, payable in cash, immediately.

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

– To permit a replacement of the Scheme Administrator/Trustee;

– To permit a sale or other disposal by the Scheme Administrator of Unencumbered Assets and of the benefit of recoveries of Accounts Receivables and/or a release of the Company and the Scheme Participating Subsidiaries (as defined in the Schemes) from their obligations in respect of Unencumbered Assets and Accounts Receivable. Such Unencumbered Assets do not comprise any Shares;

– To permit the Scheme Administrator/Trustee to approve a compromise or settlement of the Shortfall Undertaking;

– To require the Scheme Administrator/Trustee to obtain the sanction of the Committee of Inspection established for the purposes of the Schemes or the approval of the High Court of Hong Kong before exercising a number of important powers to be granted by such modifications; and

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

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

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

(c) Legal proceedings

(i) Litigation against the Company in Bermuda

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(ii) *Other litigation against the Group*

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

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

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

(d) Secured borrowings

As explained in the Company's previous annual report, the Company's two main operating subsidiaries, UMAHK and UMASPG had outstanding bank and other loans amounting to approximately HK$107,285,000 at 31 July 2002, which were secured against the Group's floating craft and vessels (the "vessels"). As at that date, the two subsidiaries were unable to meet their loan repayment obligations, and under the terms of the various loan agreements, this constituted a default which entitled the various financial institutions (the "secured lenders") to demand immediate repayment of the balances outstanding.

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

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

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

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

3. BASIS OF PREPARATION

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

Change in presentation of analysis of expenses

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

In preparing the financial statements, the directors have given careful consideration to the liquidity of the Group and its ability to meet its ongoing obligations in light of its adverse financial position as at 31 July 2005. At that date, the Group had consolidated net current liabilities of approximately HK$34,347,000 and a deficiency of assets of approximately HK$55,617,000.

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

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

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

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

In preparing these financial statements, the directors have given careful consideration to the Group's ability to fund its working capital requirements, and meet its debt servicing obligations and Shortfall Undertaking. The Group has recently obtained a financing facility from a bank with conditions precedent including the completion of the Global Solution. This facility is to be used for the purchase of a fleet of vessels such that the Group can resume and enhance its marine engineering business. There is uncertainty however as to whether the conditions precedent will be met. On the basis that the Group will obtain the Financial Support and the additional funding and the Related Party Lender is able to meet its Assignment Payments and the feasibility to implement the new scheme of arrangement in discharging the Shortfall Undertaking and the fulfillment of the conditions precedent to the new financing facility, the directors are satisfied that the Group will then be able to meet its financial obligations as and when they fall due in the foreseeable future. Accordingly, these financial statements have been prepared on a going concern basis.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively.

4. PRINCIPAL ACCOUNTING POLICIES

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

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

(a) Basis of consolidation

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

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

(b) Goodwill

Goodwill arising on the acquisition of subsidiaries, associates or jointly-controlled entities represents the excess of the cost of the acquisition over the fair value of the identifiable assets and liabilities acquired. Goodwill is stated at cost less any accumulated amortisation and impairment.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

Negative goodwill arising on an acquisition of subsidiaries, associates or jointly-controlled entities represents the excess of the fair value of the identifiable assets and liabilities acquired over the cost of acquisition.

To the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair value of the non-monetary assets acquired, is recognised as income on a systematic basis over the remaining weighted average useful life of those acquired depreciable/amortisable assets. Negative goodwill in excess of the fair value of the non-monetary assets acquired is recognised immediately in the income statement.

Prior to 1 August 2001, negative goodwill arising on acquisitions was credited to capital reserve in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits negative goodwill on acquisitions which occurred prior to 1 August 2001, to remain credited to this reserve. Negative goodwill on acquisitions after this date is treated according to the accounting policy mentioned above.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated income statement and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to reserves at the time of acquisition is written back and included in the calculation of gain or loss on disposal.

(c) Subsidiaries

Subsidiaries are those enterprises controlled by the Company.

Control exists when the Company has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

Subsidiaries are carried at cost less impairment loss.

(d) Property, plant and equipment

(i) Depreciation

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

Floating craft and vessels	10%
Furniture, fixtures and office equipment	$10 – 33^1/_3$%
Plant, machinery and workshop equipment	$10 – 33^1/_3$%
Motor vehicles	10 – 25%

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

(ii) *Measurement bases*

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

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

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

– when a deficit arises on revaluation, it will be charged to the income statement, if and to the extent that it exceeds the amount held in the reserve in respect of the same asset, immediately prior to the revaluation; and

– when a surplus arises on revaluation, it will be credited to the income statement, if and to the extent that a deficit on revaluation in respect of the same asset, had previously been charged to the income statement.

When assets are sold or retired, any gain or loss resulting from their disposal, being the difference between the net disposal proceeds and the carrying amount of the assets, is included in the income statement.

(e) Land use right

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

(f) Operating leases

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

(g) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purpose and the tax bases respectively. Deferred tax assets also arise from unused tax losses and unused tax credits.

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

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

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

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

(h) Foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the rates of exchange ruling at that date. Gains and losses arising on exchange are dealt with in the income statement.

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

(i) Construction contracts

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

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

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

(j) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

(k) Employee benefits

(i) Employee entitlements

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

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

(ii) Pension obligations

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

(l) Impairment

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

(i) Calculation of recoverable amount

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

(ii) *Reversals of impairment*

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

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(m) Provisions

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

(n) Recognition of revenue

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

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

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

Interest income is recognised on a time proportion basis.

(o) Cash and cash equivalents

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

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

5. TURNOVER

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

	2005	**2004**
	HK$'000	*HK$'000*
Marine engineering income	7,024	19,052
Structural steel engineering income	4,069	500
	11,093	19,552

6. SEGMENT INFORMATION

(a) Geographical segments

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

(b) Business segments

No separate analysis of financial information by business segments is presented as the Group's revenue, results, assets and liabilities were all derived from its principal line of business of marine engineering and structural steel engineering operations.

7. LOSS FROM OPERATING ACTIVITIES

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

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

(b) Included in other revenue:

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

(c) Included in other operating expenses:

	2005 *HK$'000*	2004 *HK$'000*
Provision for bad and doubtful debts	1,196	536
Provision for impairment loss on property, plant and equipment	932	–

8. FINANCE COSTS

	2005 *HK$'000*	2004 *HK$'000*
Interest charges on:		
Bank and other borrowings wholly repayable within five years	8,999	9,359

9. TAXATION

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

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

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

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

	2005 *HK$'000*	2004 *HK$'000*
Loss before taxation	(27,750)	(16,479)
Notional tax on loss before taxation	(4,856)	(2,884)
Effect of different tax rates in other countries	(612)	(212)
Tax effect of expense/(income) that are not deductible/(taxable) in determining taxable profit	4,061	1,397
Utilisation of unrecognised tax losses	(411)	(139)
Tax effect of unrecognised tax losses	1,818	6,203
Realisation of deferred tax assets previously not recognised	–	(4,365)
(Over)/Under-provision in prior years	(279)	55
Taxation (credit)/charge	(279)	55

10. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders for the year dealt with in the financial statements of the Company is a loss of approximately HK$7,519,000 (2004: approximately HK$7,911,000).

11. LOSS PER SHARE

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

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

12. PROPERTY, PLANT AND EQUIPMENT

The Group

	Floating craft and vessels *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(d))*	(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
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(d))*	(37,142)	–	–	–	(37,142)
Exchange realignments	(183)	–	8	–	(175)
At 31 July 2005	919	8	503	45	1,475
Net book value					
At 31 July 2005	75,400	2	2,781	49	78,232
At 31 July 2004	78,107	–	1,066	66	79,239
The analysis of cost or valuation of the above assets is as follows:					
At cost	–	10	3,284	94	3,388
At professional valuation 2005	76,319	–	–	–	76,319
	76,319	10	3,284	94	79,707

The Company

	Office equipment
	HK$'000
Cost	
Addition and at 31 July 2005	2
Accumulated depreciation and impairment	
Charge for the year and at 31 July 2005	–
Net book value	
At 31 July 2005	2
At 31 July 2004	–

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

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

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

13. LAND USE RIGHT

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

14. INTERESTS IN SUBSIDIARIES

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

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

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

* *not audited by CCIF CPA Limited.*

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the financial position of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

15. TRADE AND OTHER RECEIVABLES

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

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

	2005 *HK$'000*	2004 *HK$'000*
Current	393	301
1 – 3 months	707	383
4 – 6 months	291	58
7 – 12 months	72	894
Over 1 year	164	402
	1,627	2,038

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.

16. BANK AND OTHER BORROWINGS

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

Notes:

(a) As at 31 July 2005, the Group's other loans of approximately HK$71,448,000, assigned from a Singapore secured lender to a Related Party Lender were secured by a legal charge on the Group's floating craft and vessels with net book value of approximately HK$54,500,000, fixed and floating charges over the assets of UMASPG, a joint and several guarantee from Mrs. Leung and the spouse of Mrs. Leung, Mr. Leung Yat Tung ("Mr. Leung"), assignment of insurance and income for certain vessels, and subordination of loan from Mr. Leung and Mrs. Leung. The loans bear interest at prime rate+2% per annum. The loans, together with the interest thereon, will not be required to be repaid until 1 August 2006.

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

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

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

(c) As at 31 July 2005, the Group's other loan of approximately HK$12,522,000 was borrowed from third parties which was used to finance the Group's operations. The loan is unsecured, repayable on demand and bears interest at prime rate to prime rate+2% per annum.

17. TRADE AND OTHER PAYABLES

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

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

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

18. DEFERRED TAX

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

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

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

	Group		Company	
	2005	2004	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deferred tax liabilities	5,486	2,000	–	–
Deferred tax assets	(5,486)	(2,000)	–	–
	–	–	–	–

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

19. SHARE CAPITAL

	Number of shares	*HK$'000*
Authorised:		
Ordinary shares of HK$0.01 each at 1 August 2004 and 31 July 2005	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 31 July 2005	971,699,302	9,717

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

20. RESERVES

Group

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

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

Company

	Share premium *HK$'000*	Capital redemption reserve *HK$'000*	Contributed surplus *HK$'000*	Accumulated losses *HK$'000*	Scheme reserve *HK$'000*	Total *HK$'000*
At 1 August 2003	7,224	1,264	21,689	(378,451)	324,964	(23,310)
Loss for the year	–	–	–	(7,911)	–	(7,911)
At 31 July 2004	7,224	1,264	21,689	(386,362)	324,964	(31,221)
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)

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

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

21. DIRECTORS' AND MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

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

The emoluments of the directors were within the following bands:

Emoluments bands	**Number of directors**	
	2005	**2004**
Nil – HK$1,000,000	5	3
HK$1,000,001 – HK$1,500,000	–	–
HK$1,500,001 – HK$2,000,000	1	–
HK$2,000,001 – HK$2,500,000	–	1

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

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

(b) Five highest paid individuals

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

	2005	2004
	HK$'000	*HK$'000*
Salaries and other benefits	1,444	2,240

The emoluments were within the following bands:

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

22. RETIREMENT BENEFITS SCHEME

Defined contribution scheme

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

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

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

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

For the year ended 31 July 2005, the Group made contributions of approximately HK$170,000 (2004: approximately HK$185,000) towards the MPF Scheme and CPF.

23. EQUITY COMPENSATION BENEFITS

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

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

(a) Movement in share options

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

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

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

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

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

(d) Details of share options exercised during the year

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

24. OPERATING LEASE COMMITMENTS

(a) As lessee

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

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

(b) As lessor

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

	Group	
	2005	**2004**
	HK$'000	*HK$'000*
Plant and factory		
Within one year	2,550	876
In the second to fifth years inclusive	3,613	–
	6,163	876

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

25. OTHER COMMITMENTS

	Group	
	2005	**2004**
	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	6,820
	6,054	6,820

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

26. CONTINGENT LIABILITIES

(a) At 31 July 2005, the Company and the Group had contingent liabilities in respect of the Company's undertaking to the trustee of the Schemes that the aggregate proceeds of the Unencumbered Assets and the Accounts Receivables realised under the Schemes shall not be less than HK$176 million (2004: HK$176 million), further details of which are set out in note 2(b).

(b) An amount of SGD358,982 (equivalent to HK$1,680,233) (2004: HK$1,609,699) relating to interest payable on banking facilities of a subsidiary. The directors of the subsidiary are disputing this amount and no provision has been made in the financial statements.

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

27. RELATED PARTY TRANSACTIONS

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

	Note	2005 HK$'000	2004 HK$'000
Handling fee income from Bugsy Development Company Limited ("Bugsy") #	(a)	203	–
Agency fee income from Bugsy #	(a)	282	–
Ship management fee income from Bugsy #	(a)	693	986
Plant hire cost paid to Bugsy #	(a)	–	1,618
Handling charges paid to Bugsy #	(a)	–	18
Management fee paid to Bugsy #	(a)	–	726
Rental charges paid to Capital Hope Investments Limited ("Capital Hope")	(b)	384	351
Sales of vessel to Capital Hope	(b)	–	1,300
Rental charges paid to Denlane Shipbuilding Pte Limited ("Denlane") #	(c)	83	81
Management service fee income from Denlane #	(c)	1,659	1,614
Subcontracting fee paid to United Colours Development Limited ("United Colours")	(d)	65	–
Ship management income from Giant Lead Enterprises Limited ("Giant Lead")	(e)	7	–
Plant hire cost paid to Gitanes Engineering Company Limited ("Gitanes")	(f)	–	24
Ship management fee income from Gitanes	(f)	132	66
Handling fee income from Gitanes	(f)	9	–
Rental charges paid to Decorling Limited ("Decorling")	(g)	1,017	892
Interest charged by Universal Grade Limited ("Universal Grade")	(h)	1,680	2,432
Agency fee income from Universal Grade	(h)	114	92
Ship management fee income from Universal Grade	(h)	422	175
Handling fee income from Universal Grade	(h)	199	–
Interest charged by Hong Hay Pte Limited ("Hong Hay")	(i)	–	474
Agency fee income from Hong Hay	(i)	–	47
Ship management fee income from Hong Hay	(i)	178	103
Handling fee income from Hong Hay	(i)	17	–
Interest charged by Windermere Pte Limited ("Windermere")	(j)	5,512	4,695
Interest charged by Harbour Front Limited ("Harbour Front")	(k)	886	1,115
Consultancy fee income from Tonic Engineering & Construction Company Limited ("Tonic")	(l)	500	–
Provision for doubtful debts from Tonic	(l)	–	80
Ship management fee income from Exact Nice Limited ("Exact Nice")	(m)	35	17
Shipbuilding and repair income from Exact Nice	(m)	120	131
Ship management fee income from Jelanter Limited ("Jelanter")	(n)	46	23
Shipbuilding and repair income from Jelanter	(n)	124	140
Ship management fee income from Link Full International Limited ("Link Full") #	(o)	375	187
Shipbuilding and repair income from Link Full #	(o)	492	558
Handling fee income from Link Full #	(o)	174	–
Ship management fee income from Possider Company Limited ("Possider")	(p)	46	23
Shipbuilding and repair income from Possider	(p)	244	270
Ship management fee income from Top Union Investments Limited ("Top Union")	(q)	143	73
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)	68	34
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	118
Consultant service fee paid to YTL Strategic Corporate Consultancy Ltd. ("YTL")	(t)	671	330
Provision for doubtful debts written back from Chui Hing Construction Limited ("Chui Hing")	(u)	–	75
Rental charges paid to Chui Hing	(u)	33	–

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

\# *One of the Group's top five customers.*

(a) Bugsy is a company in which Ms. Leung Chi Yin, Gillian ("Ms. Leung") is a director and shareholder.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(r) UDL Offshore is a company in which Mrs. Leung and Ms. Leung are directors.

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

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

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

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

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

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

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transaction

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

29. POST BALANCE SHEET EVENTS

(a) Subsequent to the balance sheet date, the Group disposed two vessels to a third party at its net book value for a consideration of HK$300,000.

(b) A non-binding Memorandum of Understanding dated 12 August 2005 in relation to a proposed solution, the Global Solution, was entered into by the Company, Harbour Front Limited and the Scheme Administrator. Further details of which are set out in note 2(b) to the financial statements.

(c) The Company and the Group had pending litigation in respect of the Statement of Claim dated 28 September 2005 for HCA 624 of 2005, further details of which are set out in notes 2(c)(ii) and 26(c) to the financial statements.

30. APPROVAL OF THE FINANCIAL STATEMENTS

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

3. MANAGEMENT DISCUSSION AND ANALYSIS

(i) For the year ended 31 July 2003

The following is the management discussion and analysis extracted from the annual report of the Company for the year ended 31 July 2003. The page references in the reproduced information are the same as those in the 2003 Annual Report.

FINANCIAL REVIEW

For the year ended 31 July 2003, turnover of the Group amounted to approximately HK$23.8 million, as compared to HK$31.2 million for the corresponding period in 2002. The decrease in turnover was due to the continuous sluggish economy in Hong Kong and in the region and the negative public sentiment towards reclamation projects over environmental issues.

Net loss for the year ended 31 July 2003 for the Group has narrowed to approximately HK$18.3 million as compared to HK$76 million for the corresponding period in 2002. The Group's deficiency of capital and its net current liabilities were reduced to approximately HK$3.9 million and HK$22.4 million respectively as comparing to HK$52 million and HK$128.5 million respectively at 31 July 2002.

The Group continues to operate under a high gearing level. However, the Group's current ratio (current assets to current liabilities) as of 31 July 2003 was 55% as compared to 22% for the corresponding period in 2002. The improvement in liquidity was the result of the financial support of certain related companies which have refinanced the Group's secured loans that were overdue into secured long-term loan during the period under review.

OPERATING REVIEW

For the year ended 31 July 2003, the Group continues to focus on its principal business of marine engineering projects, which contributed mainly to the Group's turnover. Although market condition in Hong Kong and the Southeast Asia Region remains sluggish, the PRC market appears to be very vibrant as the Group has allocated additional resources in pursuing engineering projects in this market.

During the year under review, the Group has participated in other marine engineering related businesses, which has contributed to the Group's turnover. Additionally, certain vessels of the Group were disposed of during the year in which the proceeds were used to service the Group's indebtedness.

In November 2002, the Company had conducted a fund raising exercise by way of Rights Issue, which netted HK$6.6 million for general working capital requirement. In 22 August 2003, the Company Shareholders at the SGM passed a resolution to create and issue preference shares to further raise fund for the Group. The implementation of the resolution however is being withheld until a certain proceeding against the Company is resolved. For details please refer to previous circular and the SGM result announcement on the subject. Despite the temporary setback, the Group is committed and will continue to explore other possible alternatives to reduce its debt level, and to enhance its asset base and earning capacity.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 July 2003, the Group had in aggregate other borrowings of approximately HK$116 million. Details of the Group's indebtness and obligation are set out in note 15 of the financial statements. Several events occurred during the year under review, which has enhanced the Group's liquidity position.

1. The Group's outstanding secured loans of approximately HK$112 million were refinanced through finance support of certain related companies and thus alleviated disposal and foreclosure pressure from such liabilities.

2. The Group was successful in completing a rights issue in November 2002 that has netted the Company HK$6.6 millions that was used as working capital for the Group.

3. Several vessels were disposed of during the year in which the proceeds from the disposal was used to service the Group's indebtedness.

SIGNIFICANT INVESTMENT

During the year under review, UDL Argos Engineering & Heavy Industries Company Limited ("Argos"), a wholly owned subsidiary of the Group, has set up a Wholly Owned Foreign Enterprise in Zhongzhan, People's Republic of China ("PRC") with a registered capital of HK$10 million to establish a shipyard for marine engineering and related steel works business. As at 31 July 2003, Argos has procured certain land use rights in Zhongzhan for HK$1,085,000 for the intended shipyard.

MATERIAL DISPOSAL OF A SUBSIDIARY

Universal Dockyard Limited, a 98.75% owned subsidiary of the Company, was wound-up on 9 June 2003. From the date of winding up, Dockyard's net liabilities was deconsolidated from the Group's balance sheet, resulting in a net gain on deemed disposal of a subsidiary of approximately HK$17.6 million to the Group.

EMPLOYEES

As at 31 July 2003, there are approximately 18 staff members and 95 contract workers employed by the Company and/or its subsidiaries. The directors are actively reviewing staffing levels and remuneration packages with a view to maintain cost-effective management structure.

On 31 December 2002, the date of the last Annual General Meeting, a new share option scheme was approved and adopted by the Shareholders by way of a special resolution. The purpose of the scheme is to recognize and reward those eligible participants that have made considerable contributions to the Group. Please refer to note 22 of the financial statements for details of the scheme.

PROSPECT AND FUTURE PLANS

Given favorable policies to Hong Kong companies by the Central Chinese Government such as the Closer Economic Partnership Arrangement (CEPA) which was signed and concluded in June 2003, the PRC market represents tremendous growth opportunity for the Group. The Group is committed and has planned to allocate more resources in seeking out business opportunity in the PRC on marine engineering and related businesses.

CONTINGENT LIABILITIES

Save for the shortfall undertaking of HK$176 million the Company has committed under the Scheme as disclosed in note 2(b) of the financial statements and a guarantee of payment issued by a subsidiary as disclosed in note 25 of the financial statement, there is no other contingent liabilities that the Group is aware of.

(ii) For the year ended 31 July 2004

The following is the management discussion and analysis extracted from the annual report of the Company for the year ended 31 July 2004. The page references in the reproduced information are the same as those in the 2004 Annual Report.

FINANCIAL REVIEW

For the year ended 31 July 2004, turnover of the Group amounted to approximately HK$19.6 million, as compared to HK$23.8 million for the corresponding period in 2003. The continuous decrease in turnover was due to the continuous sluggish construction market in Hong Kong and in the region and the negative public sentiment towards reclamation projects over environmental issues and the effects of environmental protection laws.

Net loss for the year ended 31 July 2004 for the Group is approximately HK$16.5 million as compared to HK$18.2 million for the corresponding period in 2003. The Group's deficiency of capital and its net current liabilities is approximately HK$44.7 million and HK$28.3 million respectively as comparing to HK$3.9 million and HK$22.4 million respectively at 31 July 2003.

The Group continues to operate under a high gearing level. The Group's current ratio (current assets to current liabilities) as of 31 July 2004 was 42% as compared to 55% for the corresponding period in 2003.

OPERATING REVIEW

For the year ended 31 July 2004, the Group continues to focus on its principal business of marine engineering projects, which contributed mainly to the Group's turnover. Although market condition in Hong Kong and the Southeast Asia Region remains sluggish, the PRC market appears to be very vibrant as the Group has allocated additional resources in pursuing engineering projects in this market.

As disclosed in the Annual Report 2003 and in the Company's announcement dated 13 May 2004, the Company is now considering various alternatives to secure adequate financial resources in fulfilling its business needs both in the short term and in the long-run which may or may not result in abandonment of the proposal for the issuance of preference shares.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 July 2004, the Group had in aggregate other borrowings of approximately HK$99 million. Details of the Group's indebtness and obligation are set out in note 16 to the financial statement.

EMPLOYEES

As at 31 July 2004, there are approximately 13 staff members and 25 contract workers employed by the Company and/or its subsidiaries. The directors are actively reviewing staffing levels and remuneration packages with a view to maintain cost-effective management structure.

PROSPECT AND FUTURE PLANS

Given favorable policies to Hong Kong companies by the Central Chinese Government such as the Closer Economic Partnership Arrangement (CEPA) which was signed and concluded in June 2003 and the great market demand, the PRC market represents tremendous growth opportunity for the Group. The Group is committed and has planned to allocate more resources in seeking out business opportunity in the PRC on marine engineering and related business.

CONTINGENT LIABILITIES

Save for the shortfall undertaking of HK$176 million the Company has committed under the Scheme as disclosed in note 2(b) to the financial statements, a guarantee of payment issued by a subsidiary and interest dispute on banking facilities of a subsidiary as disclosed in note 26 to the financial statement, there is no other contingent liabilities that the Group is aware of.

(iii) For the year ended 31 July 2005

The following is the management discussion and analysis extracted from the annual report of the Company for the year ended 31 July 2005. The page references in the reproduced information are the same as those in the 2005 Annual Report.

FINANCIAL REVIEW

For the year ended 31 July 2005, turnover of the Group amounted to approximately HK$11.1 million, as compared to HK$19.6 million for the corresponding period in 2004. The continuous decrease in turnover was mainly due to the continuous sluggish construction market in Hong Kong and the fact that the management of the Group had diverted their efforts in (i) working with the Scheme Administrator for the formulation of the Global Solution; and (ii) resolving the financial difficulties of the Group as mentioned above.

Net loss for the year ended 31 July 2005 for the Group is approximately HK$27.5 million as compared to HK$16.5 million for the corresponding period in 2004. The Group's deficiency of assets and its net current liabilities is approximately HK$55.6 million and HK$34.3 million respectively as comparing to HK$44.7 million and HK$28.3 million respectively at 31 July 2004. Measures to mitigate such losses are highlighted in the sections headed "Business Prospects" in the Chairman's Statement and "Liquidity and Financial Resources" below.

The Group continues to operate under a high gearing level. The Group's current ratio (current assets to current liabilities) as of 31 July 2005 was 34% as compared to 42% for the corresponding period in 2004.

OPERATING REVIEW

The Group is actively pursuing marketing and tendering work to secure orders and contracts for marine construction works under coming large scale developments and projects which will require marine construction plant of large output performance like those possessed by the Group. The Group's marine construction engineering operations are expected to be expanded accordingly and to make positive contribution to the Group's revenue.

The Group has resumed its shipbuilding business and has received considerable orders for the supply of various kinds of reconditioned second hand marine engineering vessels. These confirmed orders and other orders which are close to be concluded are expected to contribute positively to the Group's revenue.

The Group is now co-operating with major structural steel engineering contractors in the PRC and has recently gained a new contract for the Stonecutters Bridge project and has also secured a pre-bid commitment from one of the few tenderers for the main contract of the superstructure for Zhu Jiang Huang Bu Bridge. These contracts, if concluded, are expected to make positive contribution to the Group's revenue.

For the year ended 31 July 2005, out of the Group's turnover of HK$11.1 million (2004: HK$19.5 million) marine engineering (comprising marine engineering construction and shipbuilding business) amounted to approximately HK$7 million (2004: HK$19 million) while structural steel engineering contributed approximately HK$4.1 million (2004: HK$0.5 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 July 2005, the Group had in aggregate other borrowings of approximately HK$116 million (2004: HK$99 million). Details of the Group's indebtedness and obligation are set out in note 16 to the financial statements.

Pursuant to the refinancing arrangements among certain then lenders of the Group, certain related parties (the "Related Parties") of the Group and certain members of the Group, such lenders had assigned their interests in the loans due from the Group to the Related Parties which included Universal Grade Limited, Hong Hay Pte Limited and Windermere Pte Limited ("Windermere"). As at the Latest Practicable Date, Universal Grade Limited and Hong Hay Pte Limited had no further outstanding obligations under the assignment of loans. The Directors understand that the outstanding payment to be made by Windermere to the lender concerned amounted to approximately US$6 million as at 31 August 2005 and such outstanding amount shall be paid by Windermere in accordance with the payment schedule agreed between Windermere and the lender concerned and may also be reduced by the proceeds received by the Group in respect of the disposal of the non-core vessels owned by UDL Marine Assets (Singapore) Pte Limited, a wholly-owned subsidiary of the Company. The Group will also continue to handle any disposal of the non-core vessels as described above.

The assigned loans now owing by the Group to the Related Parties will be due for repayment on 1 August 2006. Save as disclosed below, there has not been any substantive negotiation between the Group and each of the Related Parties as regard how such loans shall be repaid or refinanced when they fall due. The previous understanding between the Company and the Related Parties as disclosed in the financial statements in the 2004 Annual Report was that the conversion of the loans into equity of the Company would be an alternative to repayment in cash if the Company was unable to repay the Related Parties in August 2006. Given that these loans will not be due for repayment in around a year's time, no definitive agreements have been reached at this stage regarding the equity conversion of these loans. The amount owing by the Group to the three Related Parties amounted to approximately HK$100.5 million (2004: HK$94.2 million).

Currently, the Group's operations are principally funded by (1) deposits or mobilisation payments under the new orders received; (2) short-term financing by Harbour Front; and (3) normal commercial credit terms granted by suppliers and vendors.

For the purposes of providing the Company with adequate working capital for financing needs before and after implementation of the Global Solution up till the completion of the possible fund raising exercise, the Group has just secured an interim financing facility in the amount of HK$20,000,000 from Harbour Front under an interim finance agreement dated 5 October 2005.

EMPLOYEES

As at 31 July 2005, other than the outsourcing vendors but including contract workers, the Group had an aggregate of 65 technical and working staff. The directors are actively reviewing staffing levels and remuneration packages with a view to maintain cost-effective management structure.

PROSPECT AND FUTURE PLANS

The Group continues to focus on marine engineering, structural steel engineering and general contracting business.

With the new infrastructure developments such as the Southeast Kowloon Development, the Old Kai Tak Airport Redevelopment, the North Lantau Development and the Hong Kong, Zhuhai and Macau Link expected to be implemented in the coming years following the recent recovery of the local economy together with the increase in demand for marine construction engineering services in the adjacent areas like Macau and the Guangdong Province, the Group is actively pursuing marketing and tendering work in order to secure orders and contracts for marine construction works under these large scale developments and projects.

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

CONTINGENT LIABILITIES

Save for the contingent liabilities as disclosed in note 26 to the financial statements, there is no other contingent liabilities that the Group is aware of.

4. STATEMENT OF INDEBTEDNESS FOR THE GROUP

Borrowings

As at the close of business on 30 November 2005, being the latest practicable date for this statement of indebtedness, the Group had the following borrowings:

	Repayable within one year *HK$'000*	Repayable after one year *HK$'000*	Total *HK$'000*
Secured loans	102,894 *(i)*	–	102,894
Bank overdrafts	582 *(ii)*	–	582
Unsecured loans			
– Harbour Front Limited	9,558 *(iii)*	10,303 *(iv)*	19,861
– Multi-Ventures Limited	6,758 *(iii)*	–	6,758
– Other	6,361 *(iii)*	–	6,361
	22,677	10,303	32,980
	126,153	10,303	136,456

Notes:

(i) As at 30 November 2005, the Group has two secured loans from one Singapore and one Hong Kong related parties lender respectively. The loan from Singapore lender of HK$73,356,248 was secured by the floating crafts and vessels of UDL Marine Assets (Singapore) Pte Limited ("UDLS") with net book value of HK$49,803,640, a fixed and floating charges over the assets of UDLS, joint and several guarantee from a director of the Company, Mrs. Leung Yu Oi Ling ("Mrs. Leung") and her spouse Mr. Leung Yat Tung ("Mr. Leung"), an assignment of insurance and income for certain vessels and subordination of loan from Mrs. Leung and Mr. Leung. The loan bears interest at prime rate +2% per annum and is required to be repaid starting from 1 August 2006.

The loan from Hong Kong lender of HK$29,537,530 was secured by the floating crafts and vessels of UDL Marine Assets (Hong Kong) Limited ("UDLHK") with net book value of HK$19,119,189, a first floating charge on undertaking of all UDLHK's property, assets and right and a personal guarantee from Mr. Leung. The loan bears interest at prime +2% per annum and is required to be repaid starting from 1 August 2006.

(ii) As at 30 November 2005, the outstanding bank overdraft was secured by UDLS's floating crafts and vessels, a fixed and floating charges over the assets of UDLS, joint and several guarantee from a director of the Company, Mrs. Leung and her spouse Mr. Leung, an assignment of insurance and income for certain vessels and subordination of loan from Mrs. Leung and Mr. Leung.

(iii) As at 30 November 2005, unsecured loans of HK$22,677,042 were borrowed from three related parties which are used to finance the Group's operation. These loans were unsecured, repayable on demand and bear interest at prime to prime +2% per annum.

(iv) As at 5 October 2005, the Group's entered into an interim finance agreement with Harbour Front, a shareholder of the Company, for a revolving facility limit up to HK$20,000,000 which is used to finance necessary costs and expenses incurred in the Global Solution plan, rollover the previous advance from Harbour Front and as working capital of the Group. The facility bears interest at prime rate +2% per annum, is unsecured and repayable on demand. As at 30 November 2005, the outstanding amount of the facility was HKD10,303,161.

Debt securities

As at 30 November 2005, the Group had no debt securities outstanding.

Contingent liabilities

Save as disclosed in the "Letter from the Board" contained in this circular and in the 2005 Audited accounts (a copy of which is set out in section 2 in this Appendix above), as at 30 November 2005, the Group had no significant contingent liabilities.

Disclaimers

Save as aforesaid or otherwise disclosed herein and apart from intra-group liabilities, the Group did not have outstanding indebtedness as at 30 November 2005 or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees or other contingent liabilities.

5. MATERIAL ADVERSE CHANGE

Save as disclosed in the paragraph headed "Proposed Settlement Agreement and Issue of Promissory Notes" in the letter from the Board contained in this circular and in the 2005 Audited Accounts (a copy of which is set out in Section 2 in this Appendix above), the Directors are not aware of any material adverse changes in the financial or trading position or prospects of the Group since 31 July 2005, being the date the latest audited consolidated financial statements of the Group to which was made up.

6. WORKING CAPITAL

As at the Latest Practicable Date, after taking into account the available credit facilities as described in more detail in the above section headed "Indebtedness", internal resources (including cash generated from operating activities) of the Group and the estimated net proceeds of the Rights Issue and that one of the conditions precedent for the Buy Back Agreement being the Group has obtained sufficient funding (whether by way of equity fund raising and/or bank borrowings) to pay the purchase price under the Buy Back Agreement, the Directors are of the opinion that the Group has sufficient working capital for at least twelve months from the date of this circular, including financing the Acquisitions.

7. BUSINESS PROSPECTS

Trend of the business of the Group

The principal business of the Group after the implementation of the Schemes is marine engineering. As the local marine construction market was sluggish in the past few years and had resulted in very keen competition, the Group was very cautious in negotiating for new orders and contracts. Although the Group's marine construction engineering operations had reduced in the first half of the financial year ended 31 July 2005 partly due to the unfavourable market conditions and partly as a measure of the Group to control its operation costs, the Group's fleet of marine construction vessels which are in a ready condition could yield an annual production capacity of around 4.5 million cubic metres volume of dredging, reclamation and transportation of marine engineering construction materials. With the new infrastructure developments such as the Southeast Kowloon Development, the Old Kai Tak Airport Redevelopment, the North Lantau Development and the Hong Kong, Zhuhai and Macau Link expected to be implemented in the coming years following the recent recovery of the local economy together with the increase in demand for marine construction engineering services in the adjacent areas like Macau and the Guangdong Province, the Group is actively pursuing marketing and tendering work in order to secure orders and contracts for marine construction works under these large scale developments and projects which will require marine construction plant of large output performance like those possessed by the Group. The Group's marine construction engineering operations are expected to be expanded accordingly and to make positive contribution to the Group's revenue for this current financial year (i.e. financial year ending 30 July 2006) ("**FY2006**") onwards.

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

With the recovery of the local economy and the development in the adjacent areas, in FY2006, the Group has also picked up other business activities, such as structural steel engineering projects and provision of contracting and engineering services, which have since the implementation of the Schemes in 2000 been suspended. As regards the structural steel engineering projects, the Group is now co-operating with major structural steel engineering contractors in the PRC and has recently gained a new contract for the Stonecutters Bridge project and has also secured a pre-bid commitment from one of the few tenders for the main contract of the superstructure for Zhu Jiang Huang Bu Bridge. These contracts, if concluded, are expected to make positive contribution to the Group's revenue in the FY2006.

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

Trend of the business of the Resultant Group

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

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

After the acquisition of the 33 unencumbered vessels and the Disposal, other than applying the 33 vessels for the marine engineering construction operation of the Group, some of vessels will be sold after reconditioning so as to further expand its operation in the supply of reconditioned second hand marine engineering vessels.

Financial and trading prospects of the Resultant Group for the current financial year

The Rights Issue, Acquisitions and/or the Disposal will in the current financial year (i) strengthen the capital base of the Company and remove the substantial net deficiency of assets of the Group and give it a considerable net assets value; (ii) remove all uncertainties regarding the financial support from the related party lenders to the Group; (iii) remove all uncertainties regarding the ability of the related party lenders to meet their respective payment obligations under the assigned loans; and (iv) allow the Group to expand its business for the supply of various kinds of reconditioned second hand marine engineering vessels; (v) remove the uncertainties regarding the ability of the Group to raise additional equity funding; (vi) provide resources to normalise and expand the Group's businesses, including the resumption and expansion of the shipbuilding business and structural steel engineering; and (vi) provide additional working capital for the Group's operations in the future.

8. STATEMENT OF UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS/LIABILITIES

The statement of unaudited pro forma adjusted consolidated net tangible assets/liabilities prepared in accordance with paragraph 13 of Appendix 1B of the Listing Rules is set out below to illustrate the effect of the Rights Issue on the net tangible assets/liabilities of the Group as if the Rights Issue and the Acquisitions, which are inter-conditional with the Rights Issue, had taken place on 31 July 2005.

The following statement of unaudited pro forma adjusted consolidated net tangible assets/liabilities of the Group is based on the audited consolidated net liabilities of the Group as at 31 July 2005, as shown in the consolidated balance sheet as at 31 July 2005 set out in "SUMMARY OF AUDITED FINANCIAL STATEMENTS" in section 2 of this Appendix, and adjusted for the effect of the Rights Issue and the Acquisitions, which are inter-conditional with the Rights Issue. It has been compiled for illustrative purposes only, to provide the Shareholders with information about the impact of the Rights Issue and the Acquisitions, which are inter-conditional with the Rights Issue, and, because of its nature, may not give a true picture of the financial position or results of the Group.

	Audited consolidated net tangible liabilities of the Group as at 31 July 2005	**Estimated net proceeds from the Rights Issue** *(Note 1)*	**Estimated increase in net tangible assets of the Group arising from the Acquisitions** *(Note 2)*	**Unaudited pro forma adjusted consolidated net tangible assets of the Group after the Rights Issue and the Acquisitions**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Based on the Subscription Price of HK$0.03 per Rights Share	(55,617)	69,723	1,741	15,847

	Audited consolidated net tangible liabilities of the Group per Share as at 31 July 2005 *(Note 3)*	**Unaudited pro forma adjusted consolidated net tangible assets of the Group per Share after the Rights Issue and the Acquisitions** *(Note 3)*
	HK$	*HK$*
Based on the Subscription Price of HK$0.03 per Rights Share	(0.056)	0.005

Notes:

1. The estimated net proceeds from the Rights Issue is based on the Subscription Price of HK$0.03 per Rights Share with 2,374,133,524 Rights Shares issued, after deduction of the estimated share issue and related expenses of approximately HK$1,500,000.

2. The estimated increase in net tangible assets of the Group arising from the Acquisitions represents the estimated net increase in the fair values of the tangible assets and liabilities of the Group from the Acquisitions over the considerations paid after deduction of the estimated related expenses of approximately HK$276,000.

3. The calculation of the audited consolidated net tangible liabilities of the Group per Share as at 31 July 2005 is based on the audited consolidated net tangible liabilities of the Group as at 31 July 2005 and 989,222,302 Shares in issue as at the Latest Practicable Date. The unaudited pro forma adjusted consolidated net tangible assets per Share of the Group after the Rights Issue and the Acquisitions are based on the unaudited pro forma adjusted consolidated net tangible assets of the Group and 3,363,355,826 Shares in issue immediately following the completion of the Rights Issue, assuming the completion of the Rights Issue with 2,374,133,524 Rights Shares issued.

9. ACCOUNTANTS' REPORT ON THE GROUP

The following is the text of the accountants' report prepared for inclusion in this circular from the independent reporting accountants of the Company, CCIF CPA Limited.

CCIF

CCIF CPA LIMITED

37/F Hennessy Centre
500 Hennessy Road
Causeway Bay Hong Kong

27 January 2006

The Directors
UDL Holdings Limited
Room 702, 7th Floor
Aitken Vanoon Centre
61 Hoi Yuen Road
Kwun Tong, Kowloon
Hong Kong

Dear Sirs,

We set out below our report on the financial information of UDL Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the three years ended 31 July 2003, 2004 and 2005 (the "Relevant Periods") for inclusion in the circular of the Company dated 27 January 2006 (the "Circular") in connection with, inter alia, (i) the Company's proposed rights issue on the basis of twelve rights shares for every five shares held on the record date, (ii) the proposed acquisitions of the entire issued share capital of Denlane Shipbuilding Pte Limited from Best Year (Asia) Limited, thirteen marine engineering vessels from Multi-Ventures Limited and twenty marine engineering vessels from Bugsy Development Company Limited respectively by the Company, (iii) the proposed disposal of the entire issued share capitals of both UDL Marine Assets (Hong Kong) Limited and UDL Marine Assets (Singapore) Pte Limited by the Company to Harbour Front Limited, and (iv) the proposed buy back by the Group of nine vessels from UDL Marine Assets (Singapore) Pte Limited.

The Company is a limited liability company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited.

We have acted as auditors of the Group for the years ended 31 July 2004 and 2005. Grant Thornton, Certified Public Accountants were the auditors of the Group for the year 31 July 2003.

During the Relevant Periods, the Company was an investment holding company and the Group was principally engaged in marine engineering, structural steel engineering and general contracting work. Details of the subsidiaries of the Company are listed on note 14 to the financial information below.

We have examined the audited consolidated financial statements of the Group for the Relevant Periods (the "Underlying Financial Statements") in accordance with the Auditing Guideline "Prospectuses and the reporting accountant" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). No audited consolidated financial statements of the Group in respect of any period subsequent to 31 July 2005 have been prepared.

The consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the Group for the years ended 31 July 2003, 31 July

2004 and 31 July 2005 and the consolidated balance sheets of the Group as at 31 July 2003, 31 July 2004 and 31 July 2005 together with the notes thereon (the "Financial Information") set out in this report have been prepared from the Underlying Financial Statements after making any adjustments, if appropriate, for the purpose of preparing our report for inclusion in the Circular.

The preparation of the Financial Information is the responsibility of the directors of the Company who approve its issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

Fundamental uncertainty relating to going concern of the Group

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

(i) The continued financial support (the "Financial Support") of the related companies (the "Related Party Lenders") which have refinanced the secured borrowings of the Company's operating subsidiaries that were overdue, into secured long term loans totalling approximately HK$100,490,000 as at 31 July 2005;

(ii) The ability of one of the Related Party Lenders which has refinanced approximately HK$71,448,000 of a subsidiary's secured borrowings referred to above, to meet the payment schedule agreed with and the revised payment schedule proposed to the original secured lender (the "Assignment Payments"); failing which the original secured lender has recourse to the subsidiary for immediate repayment of the full amount due;

(iii) The Group's ability to raise additional funding to overcome any short term financing difficulties and possible negative cash flows arising from the Group's business;

(iv) The Group's ability to overcome the financing difficulties in respect of the adverse effects on cash flow of any repayments under the Shortfall Undertaking arising from the Scheme of Arrangement entered into by the Company in April 2000 which become due since last year and the feasibility of the new scheme of arrangement "Global Solution" which is an arrangement among the Company, Harbour Front Limited and the Scheme Administrator targeted to settle the Shortfall Undertaking. Further details of which are set out in note 2(b), the Financial Information ("Shortfall Undertaking"); and

(v) The outcome of the Recent Proposals which include, inter alia, the Rights Issue, the Acquisitions, the Disposal and the Buy Back as disclosed in note 2(e), the Financial Information.

The Financial Information does not include any adjustments that would result from the failure of (a) the Group to obtain the Financial Support and the additional funding; (b) Related Party Lenders' ability to meet its Assignment Payments; (c) the Group's ability to discharge the Shortfall Undertaking and the feasibility and efficiency in implementation of "Global Solution"; and (d) the Group to implement the Recent Proposals. Due to the significant net assets' deficits at 31 July 2005 and the uncertainty as mentioned in the preceding paragraphs, we are not able to determine whether the going concern basis used in preparing the Financial Information is appropriate. Accordingly, we have disclaimed our opinion in respect of this issue.

Because of the significance of the fundamental uncertainties relating to the going concern basis, we are unable to form an opinion as to whether the Financial Information give a true and fair view of the states of the affairs of the Company and of the Group as at 31 July 2003, 31 July 2004 and 31 July 2005 or its losses and cash flows for the Relevant Periods.

FINANCIAL INFORMATION

Set out below is the Financial Information together with the relevant notes for the Relevant Periods.

CONSOLIDATED INCOME STATEMENT

		Year ended 31 July		
		2003	**2004**	**2005**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	*5*	23,801	19,552	11,093
Other revenue	*7(b)*	40,174	21,492	6,574
Total revenue		63,975	41,044	17,667
Staff costs	*7(a)*	(6,937)	(5,848)	(5,564)
Marine engineering and structural steel engineering costs		(18,696)	(14,584)	(3,655)
Depreciation and amortisation		(16,668)	(20,332)	(19,421)
Other operating expenses		(26,216)	(7,400)	(7,778)
Loss from operating activities	*7(a)*	(4,542)	(7,120)	(18,751)
Finance costs	*8*	(13,474)	(9,359)	(8,999)
Loss before taxation		(18,016)	(16,479)	(27,750)
Taxation	*9*	(240)	(55)	279
Loss attributable to shareholders	*10*	(18,256)	(16,534)	(27,471)
Loss per share	*11*			
– Basic		HK$0.02	HK$0.02	HK$0.03
– Diluted		N/A	N/A	N/A

The notes on pages 120 to 150 form an integral part of these financial information.

CONSOLIDATED BALANCE SHEET

		Year ended 31 July		
		2003	**2004**	**2005**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	*12*	133,344	79,239	78,232
Land use right	*13*	1,085	1,028	988
		134,429	80,267	79,220
Current assets				
Trade and other receivables	*15*	24,076	16,083	10,097
Amounts due from related companies	*27*	2,651	3,522	6,914
Cash and bank balances		781	616	812
		27,508	20,221	17,823
Current liabilities				
Bank and other borrowings	*16*	231	2,833	16,059
Trade and other payables	*17*	25,809	15,074	17,864
Amounts due to related companies	*27*	23,634	30,294	17,598
Amounts due to directors		–	–	649
Provision for taxation		224	279	–
		(49,898)	(48,480)	(52,170)
Net current liabilities		(22,390)	(28,259)	(34,347)
Total assets less current liabilities		112,039	52,008	44,873
Non-current liabilities				
Bank and other borrowings	*16*	(115,985)	(96,658)	(100,490)
NET LIABILITIES		(3,946)	(44,650)	(55,617)
CAPITAL AND RESERVES				
Share capital	*19*	9,356	9,356	9,717
Reserves	*20*	(13,302)	(54,006)	(65,334)
DEFICIENCY OF ASSETS		(3,946)	(44,650)	(55,617)

The notes on pages 120 to 150 form an integral part of these financial information.

BALANCE SHEET

		Year ended 31 July		
		2003	**2004**	**2005**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	*12*	–	–	2
Interests in subsidiaries	*14*	(8,106)	(6,455)	(3,054)
		(8,106)	(6,455)	(3,052)
Current assets				
Trade and other receivables	*15*	14,382	9,774	1,048
Amounts due from related companies	*27*	4	–	52
Cash and bank balances		122	34	15
		14,508	9,808	1,115
Current liabilities				
Bank and other borrowings	*16*	–	2,400	12,522
Trade and other payables	*17*	2,897	3,300	2,387
Amounts due to related companies	*27*	15,059	19,518	10,824
Amounts due to directors		–	–	398
		(17,956)	(25,218)	(26,131)
Net current liabilities		(3,448)	(15,410)	(25,016)
Total assets less current liabilities		(11,554)	(21,865)	(28,068)
Non-current liabilities				
Other borrowing – secured		(2,400)	–	–
NET LIABILITIES		(13,954)	(21,865)	(28,068)
CAPITAL AND RESERVES				
Share capital	*19*	9,356	9,356	9,717
Reserves	*20*	(23,310)	(31,221)	(37,785)
DEFICIENCY OF ASSETS		(13,954)	(21,865)	(28,068)

The notes on pages 120 to 150 form an integral part of these financial information.

CONSOLIDATED CASH FLOW STATEMENT

	Year ended 31 July		
	2003	2004	2005
	HK$'000	*HK$'000*	*HK$'000*
Cash flows from operating activities			
Loss before taxation	(18,016)	(16,479)	(27,750)
Adjustments for:			
Depreciation and amortisation	16,668	20,332	19,421
Interest expenses	13,474	9,359	8,999
(Gain)/loss on disposal of property, plant and equipment	784	(16,978)	(160)
Provision for bad and doubtful debts	17,762	536	1,196
Provision for impairment loss on property, plant and equipment	(19,505)	–	932
Reversal of provision for annual leave	–	–	(95)
Provision for doubtful debts written back	–	(75)	–
Reversal of provision for accrued interest	–	–	(452)
Gain on deemed disposal of a subsidiary	(17,579)	–	–
Operating profit/(loss) before working capital changes	(6,412)	(3,305)	2,091
Decrease/(increase) in trade and other receivables	(13,799)	7,539	5,986
Increase in amounts due from related companies	(598)	(880)	(3,392)
Increase/(decrease) in trade and other payables	1,498	(10,735)	2,790
(Decrease)/increase in amounts due to related companies	18,549	6,659	(12,696)
Increase in amounts due to directors	–	–	649
Cash used in operations	(762)	(722)	(4,572)
Interest paid	–	–	(405)
Income taxes paid	(16)	–	–
Net cash used in operating activities	(778)	(722)	(4,977)
Cash flows from investing activities			
Purchase of property, plant and equipment	(1,748)	(138)	(1,982)
Proceeds from sale of property, plant and equipment	1,569	28,936	650
Deemed disposal of a subsidiary, net of cash disposal	(13)	–	–
Net cash (used in)/generated from investing activities	(192)	28,798	(1,332)
Cash flows from financing activities			
Proceeds from issuance of share capital	7,497	–	1,316
Other loans repaid	(9,668)	(26,286)	(4,660)
Other loans raised	–	–	12,983
Net cash generated from/(used in) financing activities	(2,171)	(26,286)	9,639
Net increase/(decrease) in cash and cash equivalents	(3,141)	1,790	3,330
Cash and cash equivalents at 1 August	3,626	550	183
Effect of foreign exchange rate change, net	65	(2,157)	(3,275)
Cash and cash equivalents at 31 July	550	183	238
Analysis of balances of cash and cash equivalents			
Cash and bank balances	781	616	812
Bank overdrafts	(231)	(433)	(574)
	550	183	238

The notes on pages 120 to 150 form an integral part of these financial information.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Exchange fluctuation reserve HK$'000	Capital reserve HK$'000	Accumulated losses HK$'000	Revaluation reserve HK$'000	Scheme reserve HK$'000	Total HK$'000
At 1 August 2002	6,055	3,028	1,264	(1,651)	717	(1,157,881)	–	1,096,502	(51,966)
Issue of shares by rights issue	3,028	4,541	–	–	–	–	–	–	7,569
Issue of shares by exercise of options	273	381	–	–	–	–	–	–	654
Share issue expenses	–	(726)	–	–	–	–	–	–	(726)
Surplus on revaluation of floating craft and vessels	–	–	–	–	–	–	58,617	–	58,617
Exchange realignment – Subsidiaries	–	–	–	162	–	–	–	–	162
Loss for the year	–	–	–	–	–	(18,256)	–	–	(18,256)
At 31 July 2003	9,356	7,224	1,264	(1,489)	717	(1,176,137)	58,617	1,096,502	(3,946)
At 1 August 2003	9,356	7,224	1,264	(1,489)	717	(1,176,137)	58,617	1,096,502	(3,946)
Revaluation surplus transferred to the income statement on disposal of floating craft and vessels	–	–	–	–	–	–	(22,998)	–	(22,998)
Exchange realignment – subsidiaries	–	–	–	(1,172)	–	–	–	–	(1,172)
Loss for the year	–	–	–	–	–	(16,534)	–	–	(16,534)
At 31 July 2004	9,356	7,224	1,264	(2,661)	717	(1,192,671)	35,619	1,096,502	(44,650)
At 1 August 2004	9,356	7,224	1,264	(2,661)	717	(1,192,671)	35,619	1,096,502	(44,650)
Issue of shares by exercise of options	361	955	–	–	–	–	–	–	1,316
Surplus on revaluation of floating craft and vessels	–	–	–	–	–	–	17,270	–	17,270
Revaluation surplus transferred to the income statement on disposal of floating craft and vessels	–	–	–	–	–	–	(299)	–	(299)
Exchange realignment – subsidiaries	–	–	–	(1,783)	–	–	–	–	(1,783)
Loss for the year	–	–	–	–	–	(27,471)	–	–	(27,471)
At 31 July 2005	9,717	8,179	1,264	(4,444)	717	(1,220,142)	52,590	1,096,502	(55,617)

The notes on pages 120 to 150 form an integral part of these financial information.

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

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

2. CORPORATE UPDATE

(a) Restructuring agreement

As explained in the Group's previous audited annual reports, the Group experienced significant financial difficulties during the period ended 31 July 2000. This forced the Group to enter into a restructuring arrangement with its creditors and to discontinue and/or dispose of its contracting, structural steel and electrical and mechanical engineering businesses.

In summary, the principal terms of the reorganisation proposal, which include the schemes of arrangement (the "Reorganisation Proposal"), involved, inter alia, the followings:

(i) Schemes of arrangement for the Company and 24 of its subsidiaries (collectively the "Scheme Participating Companies"), excluding KEL Holdings Limited and its subsidiaries, under Section 166 of the Hong Kong Companies Ordinance (individually the "Scheme" and collectively the "Schemes");

(ii) A reduction and consolidation of the issued share capital of the Company and a reduction of its share-premium account (the "UDL Capital Reorganisation");

(iii) A rights issue of approximately 210 million rights shares to the then existing shareholders on the basis of five rights shares for every share held by them upon the completion of the UDL Capital Reorganisation (the "2000 Rights Issue");

(iv) a new issue of approximately 252 million new shares of HK$0.10 each in the capital of the Company after the UDL Capital Reorganisation to the non-preferential scheme creditors in proportion to their non-preferential scheme debts; and

(v) the acquisition of UDL Marine Assets (Hong Kong) Limited ("UDLHK") and UDL Marine Assets (Singapore) Pte Limited ("UDLS") by the Company from the proceeds of the 2000 Rights Issue.

Details of the Restructuring Agreement and the Reorganisation Proposal are set out in the Company's announcement dated 16 October 1999 and the Company's circular to shareholders dated 1 March 2000.

The UDL Capital Reorganisation and the 2000 Rights Issue were approved at a special general meeting of the Company held on 24 March 2000. The UDL Capital Reorganisation became effective on 28 April 2000 and the 2000 Rights Issue became unconditional on 25 May 2000.

(b) The Schemes

The implementation of the Schemes involved, inter alia, the following principal steps:

(i) the transfer of the unencumbered assets of the Scheme Participating Companies (the "Unencumbered Assets") and the net proceeds from the recovery of their accounts receivable (the "Accounts Receivable"), other than those receivables which are intercompany debts and those charged to financial creditors as security, for no consideration to a company newly incorporated in Hong Kong with limited liability (the "Newco"), the shares of which are held by the administrator of the Schemes (the "Scheme Administrator") on trust for the scheme creditors;

(ii) the distribution of the proceeds from the sale of the Unencumbered Assets and the recovery of the Accounts Receivable, after settlement of post-scheme costs and the preferential claims of the scheme creditors, to the scheme creditors in proportion to their scheme debts as cash dividends;

(iii) the issue of 252,306,195 new shares of HK$0.10 each to the scheme creditors in proportion to their non-preferential scheme debts, representing 50% of the enlarged issued share capital of the Company; and

(iv) the acceptance by each non-preferential scheme creditor of:

(i) the payment of cash dividends; and

(ii) the issue and allotment of new shares of the Company to him, in each case in accordance with the provisions of the Scheme, in full satisfaction and discharge of his non-preferential scheme debt.

The Company has undertaken to the trustee, being the then Scheme Administrator, by a trust deed dated 11 February 2000, made between the Company and the trustee for the benefit of the scheme creditors, that the aggregate disposal proceeds of the Unencumbered Assets and the Accounts Receivable realised under the Schemes shall not be less than HK$176 million. In the event of a shortfall (the "Shortfall"), the Company is required to make up the Shortfall beginning in the fourth financial year after the financial year in which the Schemes became effective. The amount of payment for the Shortfall by the Company in every financial year is limited to a maximum of 60% of the consolidated net profit of the Company and its subsidiaries for that financial year. There are no payment obligations on the Company in respect of the Shortfall in respect of any financial year in which the Company does not make an audited consolidated net profit. The Company's obligation to make up the Shortfall shall not be discharged unless and until the Company has paid the Shortfall in full (the "Shortfall Undertaking").

The Scheme was sanctioned by the Court of First Instance of Hong Kong and became effective on 28 April 2000. On 26 May 2000, the Rights Issue and the acquisition of the shares of UDLHK and UDLS by the Company under the Restructuring Agreement were completed, the implementation of the Schemes became unconditional and the Company issued approximately 252 million new shares of HK$0.10 each to the Scheme Administrator pending distribution to the non-preferential scheme creditors upon the implementation of the Schemes.

On 20 July 2000, appeals were made against dismissal of 5 of the winding-up petitions which were presented by ex-employees of certain of the Scheme Participating Companies. Those appeals were heard on 7 and 8 November 2000 and were dismissed pursuant to a judgement dated 7 December 2000. A further appeal was made and the hearing took place at the Court of Final Appeal on 12 and 13 November 2001. On 3 December 2001, the Court of Final Appeal handed down its judgment dismissing all the appeals against the sanction of the Scheme with costs awarded in favour of the subsidiaries. The Court also dismissed appeals against the petition dismissal. Since the commencement of the Scheme, the Group has assisted the Scheme Administrator where possible, to pursue arbitration and/or legal proceedings to recover and preserve the value of the Unencumbered Assets and the Accounts Receivable. Under the terms of the Scheme, the Group will be reimbursed for such recovery costs upon the successful recovery of these assets. To date the Group has incurred approximately HK$4.9 million in recovery action costs. The directors are confident that these costs will be reimbursed, and have accordingly included these amounts in other receivables in the balance sheet at 31 July 2005.

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

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

- The sale to Harbour Front of the Unencumbered Assets and Accounts Receivable for HK$20 million in cash;

- The settlement of the Shortfall Undertaking for HK$30 million in convertible notes issued by the Company and convertible (into the Company's shares)/redeemable in four tranches of HK$7.5 million over two years; and

- An undertaking by Harbour Front to purchase from the Scheme Administrator all or such proportion as the Scheme Administrator may determine of such convertible notes at a price equal to 18/30ths of their nominal value, payable in cash, immediately.

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

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

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

In the event of non-completion of the Global Solution, then the disputes concerning the Disposal Proceeds and the Shortfall previously raised by the Company in 2003 with the Scheme Administrator/Trustee will continue and may upon the failure of any settlement proposals, fall to the determined by the Courts.

(c) Legal proceedings

(i) Litigation against the Company in Bermuda

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(ii) Other litigation against the Group

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

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

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

(d) Secured borrowings

As explained in the Company's previous annual report, the Company's two main operating subsidiaries, UDLHK and UDLS had outstanding bank and other loans amounting to approximately HK$107,285,000 at 31 July 2002, which were secured against the Group's floating craft and vessels (the "vessels"). As at that date, the two subsidiaries were unable to meet their loan repayment obligations, and under the terms of the various loan agreements, this constituted a default which entitled the various financial institutions (the "secured lenders") to demand immediate repayment of the balances outstanding.

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

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

(e) Latest development

As disclosed in the chapter headed Letter from the Board ("the Letter of the Board") set out on pages 10 to 44 of the circular dated 27 January 2006 in which these financial information is to be included, the Company has put forward the following proposals to its shareholders:

1. the proposed settlement agreement and issue of promissory notes;

2. the proposed rights issue;

3. the proposed acquisition of a yard holding company in Singapore;

4. the proposed purchases of a total of thirty three marine engineering vessels;

5. the proposed disposal of the Group's entire interests in UDLHK and UDLS; and

6. the proposed buy back of nine vessel for UDLS.

Further details of the above proposals can be referred to in the Letter from the Board.

3. BASIS OF PREPARATION

The financial information on pages 115 to 150 are prepared in accordance with and comply with all applicable Statements of Standard Accounting Practice ("SSAPs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The financial information are prepared under the historical cost convention except for the Group's floating craft and vessels which are shown at valuation, further details of which are set out in note 4(d) below.

In preparing the financial information, the directors have given careful consideration to the liquidity of the Group and its ability to meet its ongoing obligations in light of its adverse financial position as at 31 July 2005. At that date, the Group had consolidated net current liabilities of approximately HK$34,347,000 and a deficiency of assets of approximately HK$55,617,000.

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

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

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

As disclosed in the Letter from the Board, the Company has put forward recently certain proposals to improve the long term financial positions.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively.

4. PRINCIPAL ACCOUNTING POLICIES

HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial information for the Relevant Periods.

(a) Basis of consolidation

The financial information incorporate the financial statements of the Company and its subsidiaries during the Relevant Periods.

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

(b) Goodwill

Goodwill arising on the acquisition of subsidiaries, associates or jointly-controlled entities represents the excess of the cost of the acquisition over the fair value of the identifiable assets and liabilities acquired. Goodwill is stated at cost less any accumulated amortisation and impairment.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

Negative goodwill arising on an acquisition of subsidiaries, associates or jointly-controlled entities represents the excess of the fair value of the identifiable assets and liabilities acquired over the cost of acquisition.

To the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair value of the non-monetary assets acquired, is recognised as income on a systematic basis over the remaining weighted average useful life of those acquired depreciable/ amortisable assets. Negative goodwill in excess of the fair value of the non-monetary assets acquired is recognised immediately in the income statement.

Prior to 1 August 2001, negative goodwill arising on acquisitions was credited to capital reserve in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits negative goodwill on acquisitions which occurred prior to 1 August 2001, to remain credited to this reserve. Negative goodwill on acquisitions after this date is treated according to the accounting policy mentioned above.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated income statement and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to reserves at the time of acquisition is written back and included in the calculation of gain or loss on disposal.

(c) Subsidiaries

Subsidiaries are those enterprises controlled by the Company.

Control exists when the Company has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

Subsidiaries are carried at cost less impairment loss.

(d) Property, plant and equipment

(i) Depreciation

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

Floating craft and vessels	10%
Furniture, fixtures and office equipment	10 – $33^1/_3$%
Plant, machinery and workshop equipment	10 – $33^1/_3$%
Motor vehicles	10 – 25%

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

(ii) Measurement bases

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

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

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

– when a deficit arises on revaluation, it will be charged to the income statement, if and to the extent that it exceeds the amount held in the reserve in respect of the same asset, immediately prior to the revaluation; and

– when a surplus arises on revaluation, it will be credited to the income statement, if and to the extent that a deficit on revaluation in respect of the same asset, had previously been charged to the income statement.

When assets are sold or retired, any gain or loss resulting from their disposal, being the difference between the net disposal proceeds and the carrying amount of the assets, is included in the income statement.

(e) Land use right

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

(f) Operating leases

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

(g) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purpose and the tax bases respectively. Deferred tax assets also arise from unused tax losses and unused tax credits.

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

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

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

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

(h) Foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the rates of exchange ruling at that date. Gains and losses arising on exchange are dealt with in the income statement.

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

(i) Construction contracts

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

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

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

(j) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

(k) Employee benefits

(i) Employee entitlements

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

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

(ii) Pension obligations

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

(l) Impairment

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

(i) Calculation of recoverable amount

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

(ii) Reversals of impairment

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

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(m) Provisions

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

(n) Recognition of revenue

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

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

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

Interest income is recognised on a time proportion basis.

(o) Cash and cash equivalents

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

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

5. TURNOVER

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

	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Marine engineering income	18,988	19,052	7,024
Structural steel engineering income	4,813	500	4,069
	23,801	19,552	11,093

6. SEGMENT INFORMATION

(a) Geographical segments

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

(b) Business segments

No separate analysis of financial information by business segments is presented as the Group's revenue, results, assets and liabilities were all derived from its principal line of business of marine engineering and structural steel engineering operations.

7. LOSS FROM OPERATING ACTIVITIES

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

	2003 *HK$'000*	**2004** *HK$'000*	**2005** *HK$'000*
Auditors' remuneration	708	555	480
Amortisation of land use right	47	57	57
Depreciation	16,621	20,275	19,364
Operating lease rentals in respect of:			
Land and buildings	2,610	1,130	1,287
Loss on disposal of property, plant and equipment	784	–	–
Staff costs (including directors' emoluments)			
– salaries, wages and other benefits	6,737	5,663	5,394
– contributions to defined contribution scheme	200	185	170

(b) Included in other revenue:

	2003 *HK$'000*	**2004** *HK$'000*	**2005** *HK$'000*
Foreign exchange gain, net	402	1,990	2,796
Increase claim	2,688	–	–
Handling fee income	–	23	927
Gain on deemed disposal of a subsidiary *(note 28)*	17,579	–	–
Reversal of impairment losses	19,505	–	–
Reversal of provision for accrued interest	–	–	452
Reversal of provision for annual leave	–	–	95
Project management income	–	2,019	–
Provision for doubtful debts written back			
– related companies	–	75	–
Gain on disposal of property, plant and equipment	–	16,978	160
Others	–	407	2,144

(c) Included in other operating expenses:

	2003 *HK$'000*	**2004** *HK$'000*	**2005** *HK$'000*
Provision for bad and doubtful debts	17,762	536	1,196
Provision for impairment loss on property, plant and equipment	–	–	932

8. FINANCE COSTS

	2003 *HK$'000*	**2004** *HK$'000*	**2005** *HK$'000*
Interest charges on:			
Bank and other borrowings wholly repayable within five years	13,474	9,359	8,999

9. TAXATION

No Hong Kong profits tax has been provided in the financial information for the Relevant Periods as the Group did not derive any assessable profit for Relevant Periods. The tax (credit)/charge represents (over)/under-provision of Hong Kong profits tax in the prior years.

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

	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Hong Kong profits tax – (over)/under-provision in prior years	240	55	(279)
Deferred tax *(note 18)*	–	–	–
	240	55	(279)

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

	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Loss before taxation	(18,016)	(16,479)	(27,750)
Notional tax on loss before taxation	(3,153)	(2,884)	(4,856)
Effect of different tax rates in other countries	(519)	(212)	(612)
Tax effect of expense/(income) that are not deductible/(taxable) in determining taxable profit	(604)	1,397	4,061
Utilisation of unrecognised tax losses	–	(139)	(411)
Tax effect of unrecognised tax losses	4,276	6,203	1,818
Realisation of deferred tax assets previously not recognised	–	(4,365)	–
(Over)/Under-provision in prior years	240	55	(279)
Taxation (credit)/charge	240	55	(279)

10. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders for the year dealt with in the financial statements of the Group is a loss of: approximately HK$18,256,000 for 2003, approximately HK$16,534,000 for 2004 and approximately HK$27,471,000 for 2005.

11. LOSS PER SHARE

The calculation of basic loss per share for the years ended 31 July 2003, 2004 and 2005 is based on the loss attributable to shareholders of approximately HK$18,256,000, HK$16,534,000 and HK$27,471,000, respectively, and the weighted average number of 822,125,572, 935,551,302 and 956,637,635 ordinary shares respectively, in issue during the Relevant Periods.

Diluted earnings per share for the years ended 31 July 2003, 2004 and 2005 have not been shown as there were no dilutive potential ordinary shares during those periods.

12. PROPERTY, PLANT AND EQUIPMENT

The Group

	Floating craft and vessels *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 2002	143,658	54	600	91	144,403
Additions	–	–	524	92	616
Revaluation *(note 4(d))*	8,381	–	–	–	8,381
Disposal	(15,689)	(46)	(11)	(91)	(15,837)
Exchange realignments	–	–	7	–	7
At 31 July 2003	136,350	8	1,120	92	137,570
At 1 August 2003	136,350	8	1,120	92	137,570
Additions	–	–	138	–	138
Revaluation *(note 4(d))*	(9,297)	–	–	–	(9,297)
Disposals	(31,300)	–	–	–	(31,300)
Exchange realignments	1,562	–	15	–	1,577
At 31 July 2004	97,315	8	1,273	92	98,688
At 1 August 2004	97,315	8	1,273	92	98,688
Additions	–	2	1,980	–	1,982
Revaluation *(note 4(e))*	(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
Accumulated depreciation and impairment					
At 1 August 2002	67,796	15	78	22	67,911
Charge for the year	16,553	8	49	11	16,621
Reversal of impairment losses *(note 7(b))*	(19,505)	–	–	–	(19,505)
Written back on disposal	(9,950)	(15)	(11)	(26)	(10,002)
Revaluation *(note 4(d))*	(50,236)	–	–	–	(50,236)
Exchange realignments	(564)	–	1	–	(563)
At 31 July 2003	4,094	8	117	7	4,226
At 1 August 2003	4,094	8	117	7	4,226
Charge for the year	20,168	–	88	19	20,275
Written back on disposals	(17,430)	–	–	–	(17,430)
Revaluation *(note 4(d))*	12,201	–	–	–	12,201
Exchange realignments	175	–	2	–	177
At 31 July 2004	19,208	8	207	26	19,449
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(e))*	(37,142)	–	–	–	(37,142)
Exchange realignments	(183)	–	8	–	(175)
At 31 July 2005	919	8	503	45	1,475
Net book value					
At 31 July 2005	75,400	2	2,781	49	78,232
At 31 July 2004	78,107	–	1,066	66	79,239
At 31 July 2003	132,256	–	1,003	85	133,344
The analysis of cost or valuation of the above assets is as follows:					
At cost	–	8	1,120	92	1,220
At professional valuation 2003	136,350	–	–	–	136,350
At 31 July 2003	136,350	8	1,120	92	137,570
At cost	–	8	1,273	92	1,373
At professional valuation 2003	97,315	–	–	–	97,315
At 31 July 2004	97,315	8	1,273	92	98,688
At cost	–	10	3,284	94	3,388
At professional valuation 2005	76,319	–	–	–	76,319
At 31 July 2005	76,319	10	3,284	94	79,707

The Company

	Office equipment *HK$'000*
Cost	
Addition and at 31 July 2005	2
Accumulated depreciation and impairment	
Charge for the year and at 31 July 2005	–
Net book value	
At 31 July 2005	2
At 31 July 2004	–
At 31 July 2003	–

The Group's floating craft and vessels were revalued on 31 January 2003 and 31 May 2003 by Win Well Engineering & Surveyors Limited, an independent professional valuer in Hong Kong, at their open market value. The revaluation surplus of HK$58,617,000 has been transferred to the revaluation reserve of the Group.

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

The Group's floating craft and vessels, with an aggregate net book value of approximately 2003: HK$132,256,000, 2004: HK$72,725,000 and 2005: HK$71,050,000 were pledged to secure certain loans granted to two of the Company's subsidiaries (notes 16).

Had the floating craft and vessels been carried at cost less accumulated depreciation, their carrying amount would have been approximately 2003: HK$56,952,000, 2004: HK$49,745,000 and 2005: HK$40,016,000.

13. LAND USE RIGHT

	2003 *HK$'000*	2004 *HK$'000*	2005 *HK$'000*
Cost			
At 1 August	–	1,132	1,132
Addition	1,132	–	–
Exchange realignments	–	–	19
At 31 July	1,132	1,132	1,151
Accumulated amortisation and impairment			
At 1 August	–	47	104
Amortisation for the year	47	57	57
Exchange realignments	–	–	2
At 31 July	47	104	163
Net carrying value	1,085	1,028	988

14. INTERESTS IN SUBSIDIARIES

	2003	2004	2005
	HK$'000	*HK$'000*	*HK$'000*
Unlisted shares, at cost	89,535	89,535	89,535
Amounts due from subsidiaries	23,507	28,982	35,524
	113,042	118,517	125,059
Less: Provisions	(100,342)	(105,817)	(112,359)
	12,700	12,700	12,700
Amounts due to subsidiaries	(20,806)	(19,155)	(15,754)
	(8,106)	(6,455)	(3,054)

Particulars of the principal subsidiaries as at 31 July 2003 are as follows:

Name	Place of incorporation/ operation	Particulars of issued/registered share capital	Percentage of issued/registered capital held by the Group	Percentage of issued/registered capital held by the Company	Principal activities
UDL Marine Assets (Hong Kong) Limited	Hong Kong	HK$4,000,000	100%	100%	Marine engineering
UDL Marine Assets (Singapore) Pte Limited	Singapore	S$2,000,000	100%	100%	Marine engineering
S.K. Luk Construction Company Limited	Hong Kong	HK$500,000	100%	100%	Marine engineering
UDL Dredging Limited	Hong Kong	HK$2	100%	100%	Marine engineering
UDL Ship Management Limited	Hong Kong	HK$2	100%	100%	Marine engineering
UDL Argos Engineering & Heavy Industries Company Limited	Hong Kong	HK$124,000,000	100%	100%	Investment holding and engineering works

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

On 9 June 2003, Universal Dockyard Limited ("Dockyard"), a 98.75% owned subsidiary of the Company, was wound up. The Group consolidated the results and net assets/liabilities of Dockyard into its Group accounts upto that date. From the date of winding up, Dockyard's net liabilities were deconsolidated from the Group's balance sheet, resulting in a net gain to the Group of HK$17,579,000. No security nor guarantee has been given by the Group in support of Dockyard's liabilities due to third parties.

Particulars of the principal subsidiaries as at 31 July 2004 are as follows:

Name	Place of incorporation/ operation	Particulars of issued/registered share capital	Percentage of issued/registered capital held by the Group	Percentage of issued/registered capital held by the Company	Principal activities
UDL Marine Assets (Hong Kong) Limited	Hong Kong	HK$4,000,000	100%	100%	Marine engineering
UDL Marine Assets (Singapore) Pte Limited	Singapore	S$2,000,000	100%	100%	Marine engineering
S.K. Luk Construction Company Limited	Hong Kong	HK$500,000	100%	100%	Marine engineering
UDL Dredging Limited	Hong Kong	HK$2	100%	100%	Marine engineering
UDL Ship Management Limited	Hong Kong	HK$2	100%	100%	Marine engineering and provision of ship management services
UDL Argos Engineering & Heavy Industries Company Limited	Hong Kong	HK$124,000,000	100%	100%	Investment holding and engineering works
中山太元重工業有限公司	PRC	RMB10,000,000	100%	–	Not yet commenced business operation

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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

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

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the financial position of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

15. TRADE AND OTHER RECEIVABLES

	Group			Company		
	2003	**2004**	**2005**	**2003**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables *(note (a))*	4,663	2,038	1,627	299	192	–
Net amount due from a customer for contract work	1,347	–	–	–	–	–
Retention money receivable	218	1,098	1,098	–	–	–
Prepayments, deposits and other receivables	17,848	12,947	7,372	14,083	9,582	1,048
	24,076	16,083	10,097	14,382	9,774	1,048

(a) The Group's aged analysis of trade receivables net of provisions for doubtful debts was as follows:

	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Current	1,716	301	393
1 – 3 months	144	383	707
4 – 6 months	155	58	291
7 – 12 months	875	894	72
Over 1 year	1,773	402	164
	4,663	2,038	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.

16. BANK AND OTHER BORROWINGS

	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Group			
Bank and other borrowings comprise:			
Bank overdrafts	231	433	574
Other loans	115,985	99,058	115,975
	116,216	99,491	116,549
Analysed as:			
Secured	113,968	94,201	100,490
	(a), (b) and (c)	*(d) and (e)*	*(g) and (h)*
Unsecured – loan	2,017	4,857	15,485
– bank overdrafts	231	433	574
	116,216	99,491	116,549
Bank and other borrowings are repayable as follows:			
Within one year or on demand	231	2,833	16,059
More than one year, but not exceeding two years	4,417	2,457	100,490
More than two years, but not exceeding five years	111,568	94,201	–
	116,216	99,491	116,549
Less: Amount due within one year and shown under current liabilities	(231)	(2,833)	(16,059)
Amount due after one year	115,985	96,658	100,490

Company	2003	2004	2005
	HK$'000	*HK$'000*	*HK$'000*
Other loan	2,400	2,400	12,522
Analysed as:			
Secured	2,400*(c)*	–*(f)*	–*(i)*
Unsecured	–	2,400*(f)*	12,522*(i)*
	2,400	2,400	12,522
Other loan is repayable as follows:			
Within one year or on demand	–	2,400	12,522
More than one year, but not exceeding two years	2,400	–	–
	2,400	2,400	12,522
Less: Amount within one year and shown under current liabilities	–	(2,400)	(12,522)
Amount due after one year	2,400	–	–

Notes:

(a) As at 31 July 2003, the Group's other loans of HK$77,010,000, assigned from two Singapore secured lenders to two Related Party Lenders during the year, were secured by a legal charge on the Group's floating craft and vessels with net book value of HK$98,361,000, fixed and floating charges over the assets of UDLS, a joint and several guarantee from Mrs. Leung and the spouse of Mrs. Leung, Mr. Leung Yat Tung ("Mr. Leung"), assignment of insurance and income for certain vessels, and subordination of loan from Mr. Leung and Mrs. Leung. The loans bear interest at prime rate+2% per annum. The loans, together with the interest thereon, will not be required to be repaid until 1 August 2006.

Under the terms of the assignment with one of the Related Party Lenders who took over these loans, a Singapore secured lender retains its security over certain vessels and has recourse to UDLS should this Related Party Lender default on the payment schedule agreed with the Singapore secured lender. Should such an event arise, UDLS would be required to make a full and immediate repayment of that loan, which at 31 July 2003 amounted to HK$62,395,000.

(b) As at 31 July 2003, the Group's other loans of HK$34,558,000 which was assigned from a Hong Kong secured lender to a Related Party Lender during the year, were secured by the Group's floating craft and vessels with net book value of HK$33,895,000, a first floating charge on all the undertaking, property, assets and rights of UDLHK and a personal guarantee from Mr. Leung. The loan bears interest at prime rate+2% per annum. The loan, together with the interest thereon, will not be required to be repaid until 1 August 2006.

(c) As at 31 July 2003, the Group's other loan of HK$2,400,000 was borrowed from a third party to put down as a deposit towards the purchase of new vessels. The loan is secured against the deposits for the new vessels, bears interest at prime rate+2% per annum and not repayable within 12 months.

(d) As at 31 July 2004, the Group's other loans of HK$66,223,000, assigned from two Singapore secured lenders to two Related Party Lenders were secured by a legal charge on the Group's floating craft and vessels with net book value of HK$55,025,000, fixed and floating charges over the assets of UDLS, a joint and several guarantee from Mrs. Leung and the spouse of Mrs. Leung, Mr. Leung Yat Tung ("Mr. Leung"), assignment of insurance and income for certain vessels, and subordination of loan from Mr. Leung and Mrs. Leung. The loans bear interest at prime rate+2% per annum. The loans, together with the interest thereon, will not be required to be repaid until 1 August 2006.

Under the terms of the assignment with one of the Related Party Lenders who took over these loans, a Singapore secured lender retains its security over certain vessels and has recourse to UDLS should this Related Party Lender default on the payment schedule agreed with the Singapore secured lender. Should such an event arise, UDLS would be required to make a full and immediate repayment of that loan, which at 31 July 2004 amounted to HK$67,070,000.

(e) As at 31 July 2004, the Group's other loans of HK$27,978,000 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 HK$17,700,000, a first floating charge on all the undertaking, property, assets and rights of UDLHK and a personal guarantee from Mr. Leung. The loan bears interest at prime rate+2% per annum. The loan, together with the interest thereon, will not be required to be repaid until 1 August 2006.

(f) As at 31 July 2004, the Group's other loan of HK$2,400,000 was borrowed from a third party which was used to put down as a deposit towards the purchase of new vessels. On 23 July 2004, the Group sold all rights, benefits and obligation in those vessel purchase contracts to another third party and the loan became unsecured thereafter. The terms of the loan is interest-bearing at prime rate+2% per annum and was subsequently repaid on 27 October 2004.

(g) As at 31 July 2005, the Group's other loans of approximately HK$71,448,000, assigned from a Singapore secured lender to a Related Party Lender were secured by a legal charge on the Group's floating craft and vessels with net book value of approximately HK$54,500,000, fixed and floating charges over the assets of UDLS, a joint and several guarantee from Mrs. Leung and the spouse of Mrs. Leung, Mr. Leung Yat Tung ("Mr. Leung"), assignment of insurance and income for certain vessels, and subordination of loan from Mr. Leung and Mrs. Leung. The loans bear interest at prime rate+2% per annum. The loans, together with the interest thereon, will not be required to be repaid until 1 August 2006.

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

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

(h) 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 UDLHK and a personal guarantee from Mr. Leung. The loan bears interest at prime rate+2% per annum. The loan, together with the interest thereon, will not be required to be repaid until 1 August 2006.

(i) As at 31 July 2005, the Group's other loan of approximately HK$12,522,000 was borrowed from third parties which was used to finance the Group's operations. The loan is unsecured, repayable on demand and bears interest at prime rate to prime rate+2% per annum.

17. TRADE AND OTHER PAYABLES

	Group			Company		
	2003	**2004**	**2005**	**2003**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables *(note (a))*	9,945	5,570	5,575	–	–	–
Advances received	8,298	1,437	1,056	–	–	–
Other payables and accruals	7,566	8,067	11,233	2,897	3,300	2,387
	25,809	15,074	17,864	2,897	3,300	2,387

(a) The aged analysis of trade payables was as follows:

	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Current	493	80	185
1 – 3 months	268	34	21
4 – 6 months	61	15	18
7 – 12 months	246	526	29
Over 1 year	8,877	4,915	5,322
	9,945	5,570	5,575

18. DEFERRED TAX

The following are the movements of major deferred tax assets and liabilities recognised by the Group during the Relevant Periods:

	Accelerated depreciation allowance	Revaluation reserve	Tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deferred tax arising from:				
At 1 August 2002	769	–	(769)	–
(Credited)/charged to income statement *(note 9)*	269	2,298	(2,567)	–
At 31 July 2003	1,038	2,298	(3,336)	–
At 1 August 2003	1,038	2,298	(3,336)	–
(Credited)/charged to income statement *(note 9)*	(322)	(1,014)	1,336	–
At 31 July 2004	716	1,284	(2,000)	–
At 1 August 2004	716	1,284	(2,000)	–
(Credited)/charged to income statement *(note 9)*	2,941	545	(3,486)	–
At 31 July 2005	3,657	1,829	(5,486)	–

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

	Group			Company		
	2003	2004	2005	2003	2004	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Deferred tax liabilities	3,336	2,000	5,486	–	–	–
Deferred tax assets	(3,336)	(2,000)	(5,486)	–	–	–
	–	–	–	–	–	–

The Group has unused tax losses of HK$169,693,247 as at 31 July 2003, HK$183,895,019 as at 31 July 2004 and HK$267,957,743 as at 31 July 2005 respectively available for offset against future profits. A deferred tax asset has been recognised in respect of 2004: HK$11,430,776 and 2005: HK$31,353,138 of such losses. No deferred tax assets in respect of the remaining 2003: HK$169,693,247, 2004: HK$172,464,243 and 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.

19. SHARE CAPITAL

		Number of shares	HK$'000
Authorised:			
Ordinary shares of HK$0.01 each at 1 August 2003, 1 August 2004 and 31 July 2005		12,000,000,000	120,000
Issued and fully paid:			
Ordinary shares of HK$0.01 each at 1 August 2002		605,534,868	6,055
Issue of shares by right issue	*(i)*	302,767,434	3,028
Issue of shares by exercise of options	*(ii)*	27,249,000	273
Ordinary shares of HK$0.01 each at 31 July 2003 and 31 July 2004		935,551,302	9,356
Issue of shares by exercise of options	*(iii)*	36,148,000	361
Ordinary shares of HK$0.01 each at 31 July 2005		971,699,302	9,717

Note:

(i) On 29 November 2002, 302,767,434 shares of HK$0.01 each were issued at a price of HK$0.025 per shares by way of rights issue for a total cash consideration, before expenses, of HK$7,569,000 on the basis of one rights share for every two existing shares held on 25 October 2002. These shares rank pari passu in all respect with the existing share capital of the Company. The net proceeds of the rights issue were used as working capital of the Group.

(ii) During the year, options were exercised to subscribe for 27,249,000 shares in the Company at subscription price of HK$0.024 per share. The net consideration was HK$654,000 of which HK$273,000 was credited to share capital and the balance HK$381,000 was credited to the share premium account.

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

20. RESERVES

Group

	2003 *HK$'000*	2004 *HK$'000*	2005 *HK$'000*
Share premium	7,224	7,224	8,179
Capital redemption reserve	1,264	1,264	1,264
Exchange fluctuation reserve	(1,489)	(2,661)	(4,444)
Capital reserve	717	717	717
Accumulated losses	(1,176,137)	(1,192,671)	(1,220,142)
Revaluation reserve	58,617	35,619	52,590
Scheme reserve	1,096,502	1,096,502	1,096,502
	(13,302)	(54,006)	(65,334)

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

Company

	Share premium HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Scheme reserve HK$'000	Total HK$'000
At 1 August 2002	3,028	1,264	21,689	(365,030)	324,964	(14,085)
Issue of shares by rights issue	4,541	–	–	–	–	4,541
Issue of shares by exercise of options	381	–	–	–	–	381
Share issue expenses	(726)	–	–	–	–	(726)
Loss for the year	–	–	–	(13,421)	–	(13,421)
At 31 July 2003	7,224	1,264	21,689	(378,451)	324,964	(23,310)
At 1 August 2003	7,224	1,264	21,689	(378,451)	324,964	(23,310)
Loss for the year	–	–	–	(7,911)	–	(7,911)
At 31 July 2004	7,224	1,264	21,689	(386,362)	324,964	(31,221)
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)

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

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

21. DIRECTORS' AND MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the Relevant Periods are as follows:

	2003 HK$'000	2004 HK$'000	2005 HK$'000
Fees			
Executive directors	40	40	32
Independent non-executive directors	80	80	115
	120	120	147
Other emoluments			
Executive directors	2,406	2,160	2,545
Independent non-executive directors	80	160	120
	2,486	2,320	2,665
	2,606	2,440	2,812

The emoluments of the directors were within the following bands:

Emoluments bands	Number of directors		
	2003	2004	2005
Nil – HK$1,000,000	4	3	5
HK$1,000,001 – HK$1,500,000	–	–	–
HK$1,500,001 – HK$2,000,000	–	–	1
HK$2,000,001 – HK$2,500,000	1	1	–

The Company granted 18,166,000 (for 2003), nil (for 2004) and 18,710,000 (for 2005) share options to the directors.

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

(b) Five highest paid individuals

The five highest paid individuals of the Group for the year included 2003: three, 2004: one and 2005: three executive directors, details of whose emoluments are set out above. The emoluments of the remaining 2003: two, 2004: four and 2005: two employees were as follows:

	2003	2004	2005
	HK$'000	*HK$'000*	*HK$'000*
Salaries and other benefits	1,394	2,240	1,444

The emoluments were within the following bands:

Emoluments bands	Number of individuals		
	2003	2004	2005
Nil – HK$1,000,000	1	3	2
HK$1,000,001 – HK$1,500,000	1	1	–

22. RETIREMENT BENEFITS SCHEME

Defined contribution scheme

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

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

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

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

During the Relevant Periods, the Group made contributions of approximately 2003: HK$200,000, 2004: HK$185,000 and 2005: HK$170,000 towards the MPF Scheme and CPF.

23. EQUITY COMPENSATION BENEFITS

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

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

(a) Movement in share options

	2003 *Number ('000)*	**2004** *Number ('000)*	**2005** *Number ('000)*
Outstanding as at 1 August	–	18,159	18,159
Granted during the year	45,408	–	37,420
Exercised during the year	(27,249)	–	(36,148)
Outstanding as at 31 July	18,159	18,159	19,431
Options vested at 31 July	18,159	18,159	19,431

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

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

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

Date granted	**Exercise period**	**Exercise price**	**2003** *Number ('000)*	**2004** *Number ('000)*	**2005** *Number ('000)*
15 April 2003	16 April 2003 – 30 December 2012	HK$0.024	45,408	–	–
2 December 2004	3 December 2004 – 30 December 2012	HK$0.04	–	–	37,420

(d) Details of share options exercised during the year ended 31 July 2003

Exerices date	**Exercise price** *HK$*	**Market value per share at exercise date** *HK$*	**Proceeds received** *HK$'000*	**Number of shares** *HK$'000*
17 June 2003	0.024	0.022	218	9,083
26 June 2003	0.024	0.022	218	9,083
26 June 2003	0.024	0.022	218	9,083
				27,249

(e) No share options were exercised during the year ended 31 July 2004

(f) Details of share options exercised during the year end 31 July 2005

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

24. OPERATING LEASE COMMITMENTS

(a) As lessee

The total future minimum lease payments under non-cancellable operating leases were payable as follows:

	Group			Company		
	2003	**2004**	**2005**	**2003**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Land and buildings						
Within one year	382	1,022	348	–	384	107
In the second to fifth years inclusive	840	1,279	1,231	–	64	–
More than five years	5,425	4,853	4,748	–	–	–
	6,647	7,154	6,327	–	448	107

(b) As lessor

The total future minimum lease receipts under non-cancellable operating leases were receivable as follows:

	Group		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Plant and factory			
Within one year	–	876	2,550
In the second to fifth years inclusive	–	–	3,613
	–	876	6,163

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

25. OTHER COMMITMENTS

	Group			Company		
	2003	**2004**	**2005**	**2003**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Contracted but not provided for in respect of acquisition of vessels	48,386	–	1,244	48,386	–	–
Commitments in respect of capital contribution to a subsidiary in the People's Republic of China	8,800	6,820	4,810	–	–	–
	57,186	6,820	6,054	48,386	–	–

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

26. CONTINGENT LIABILITIES

(a) As at 31 July 2003, 2004 and 2005, the Company and the Group had contingent liabilities in respect of the Company's undertaking to the trustee of the Schemes that the aggregate proceeds of the Unencumbered Assets and the Accounts Receivables realised under the Schemes shall not be less than HK$176 million, further details of which are set out in note 2(b).

(b) During the year ended 31 July 2003 and 2004, a subsidiary has guaranteed a payment of subcontracting fee payable on a back-to-back basis by a subcontractor to a sub-subcontractor for a steel work project undertaken by the subsidiary which subcontracted the project to the subcontractor on a back-to-back basis. The amount attributable to the Group was HK$66,831,000.

(c) As at 31 July 2004, there was an amount of SGD358,982 (equivalent to HK$1,609,699) relating to interest payable on banking facilities of a subsidiary. The directors of the subsidiary are disputing this amount and no provision has been made in the financial statements.

(d) As at 31 July 2005, there was an amount of SGD358,982 (equivalent to 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.

(e) During the year ended 31 July 2005, the Company and the Group had pending litigation in respect of the Statement of Claim for HCA 624 of 2005 dated 28 September 2005, the Group's solicitor is of the view that there are three claims which duplicate partly with each others. Fonfair claims against the defendants for the amount of HK$19,568,644.66 together with interest and costs, Money Facts claims the amount of HK$13,334,211.42 (HK$12,874,121.48 of which is pleaded by Money Facts as part of its loss and damage suffered by virtue of its 7,900/12,008th interest held in Fonfair) together with interest and costs, and Leung Yuet Keung claims the amount of HK$15,190,409.54 (HK$6,667,105.71 of which is pleaded by Leung Yuet Keung as part of his loss and damage suffered by virtue of his 3,950/7,900th interest held in Money Facts) together with interest and costs. As pleaded by the plaintiffs, (a) Harbour Front Limited, which is the majority shareholder of the Company, holds 3,958 out of the 12,008 issued ordinary shares of Fonfair and 3,950 out of the 7,900 issued ordinary shares of Money Facts; (b) Money Facts holds 7,900 out of the 12,008 issued ordinary shares of Fonfair; and (c) Leung Yuet Keung holds 3,950 out of the 7,900 issued ordinary shares of Money Facts, further details of which are set out in note 2(c)(ii).

27. RELATED PARTY TRANSACTIONS

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

	Note	2003 HK$'000	2004 HK$'000	2005 HK$'000
Handling fee income from Bugsy Development Company Limited ("Bugsy") #	*(a)*	–	–	203
Agency fee income from Bugsy #	*(a)*	–	–	282
Ship management fee income from Bugsy #	*(a)*	–	986	693
Plant hire income from Bugsy Development Company Limited ("Bugsy")*#	(a)	17	–	–
Berthing and security expenses paid to Bugsy*#	(a)	406	–	–
Direct overhead expenses paid to Bugsy*#	(a)	634	–	–
Plant hire cost paid to Bugsy #	*(a)*	5,119	1,618	–
Handling charges paid to Bugsy #	*(a)*	–	18	–
Management fee paid to Bugsy #	*(a)*	–	726	–
Agency fee paid to Bugsy*#	(a)	140	–	–
Sale of a vessel to Bugsy*#	(a)	705	–	–
Rental charges paid to Capital Hope Investments Limited ("Capital Hope")	*(b)*	456	351	384
Sales of vessel to Capital Hope	*(b)*	–	1,300	–
Rental charges paid to Denlane Shipbuilding Pte Limited ("Denlane") #	*(c)*	73	81	83
Management service fee income from Denlane #	*(c)*	1,586	1,614	1,659
Subcontracting fee paid to United Colours Development Limited ("United Colours")	*(d)*	–	–	65
Ship management income from Giant Lead Enterprises Limited ("Giant Lead")	*(e)*	–	–	7
Rental charges paid to Giant Lead Enterprises Limited ("Giant Lead")	(e)	77	–	–
Plant hire cost paid to Gitanes Engineering Company Limited ("Gitanes")	*(f)*	69	24	–
Ship management fee income from Gitanes	*(f)*	–	66	132
Handling fee income from Gitanes	*(f)*	–	–	9
Rental charges paid to Decorling Limited ("Decorling")	*(g)*	721	892	1,017
Interest charged by Universal Grade Limited ("Universal Grade")	*(h)*	2,641	2,432	1,680
Agency fee income from Universal Grade	*(h)*	–	92	114
Ship management fee income from Universal Grade	*(h)*	–	175	422
Handling fee income from Universal Grade	*(h)*	–	–	199
Interest charged by Hong Hay Pte Limited ("Hong Hay")	*(i)*	1,047	474	–
Agency fee income from Hong Hay	*(i)*	–	47	–
Ship management fee income from Hong Hay	*(i)*	–	103	178
Handling fee income from Hong Hay	*(i)*	–	–	17
Interest charged by Windermere Pte Limited ("Windermere")	*(j)*	1,477	4,695	5,512
Interest charged by Harbour Front Limited ("Harbour Front")	*(k)*	445	1,115	886
Consultancy fee income from Tonic Engineering & Construction Company Limited ("Tonic")	*(l)*	–	–	500
Plant hire income from Tonic Engineering & Construction Co., Ltd. ("Tonic")	*(e)*	401	–	–
Provision for doubtful debts from Tonic	*(l)*	–	80	–
Ship management fee income from Exact Nice Limited ("Exact Nice")	*(m)*	–	17	35
Shipbuilding and repair income from Exact Nice	*(m)*	–	131	120
Ship management fee income from Jelanter Limited ("Jelanter")	*(n)*	–	23	46
Shipbuilding and repair income from Jelanter	*(n)*	–	140	124
Ship management fee income from Link Full International Limited ("Link Full") #	*(o)*	–	187	375
Shipbuilding and repair income from Link Full #	*(o)*	–	558	492
Handling fee income from Link Full #	*(o)*	–	–	174
Ship management fee income from Possider Company Limited ("Possider")	*(p)*	–	23	46
Shipbuilding and repair income from Possider	*(p)*	–	270	244
Ship management fee income from Top Union Investments Limited ("Top Union")	*(q)*	–	73	143
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)*	–	34	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)*	–	118	283
Consultant service fee paid to YTL Strategic Corporate Consultancy Ltd. ("YTL")	*(t)*	–	330	671
Provision for doubtful debts written back from Chui Hing Construction Limited ("Chui Hing")	*(u)*	–	75	–
Rental charges paid to Chui Hing	*(u)*	–	–	33
Rental charged by Fonfair Company Limited ("Fonfair")	(v)	1,093	–	–
Provision against amount due from Fonfair	(v)	5,009	–	–

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

\# *One of the Group's top five customers.*

(a) Bugsy is a company in which Ms. Leung Chi Yin, Gillian ("Ms. Leung") is a director and shareholder.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(r) UDL Offshore is a company in which Mrs. Leung and Ms. Leung are directors.

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

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

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

(v) Fonfair is a company in which Mr. Leung is a director until 1 March 2001. Mrs. Leung and Miss Leung have indirect beneficial interests.

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

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

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

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Deemed disposal of a subsidiary

	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Net liabilities disposed of:			
Property, plant and equipment	32	–	–
Trade and other receivables	2,511	–	–
Amounts due from related companies	22	–	–
Cash and bank balances	13	–	–
Trade and other payables	(7,083)	–	–
Amounts due to related companies	(13,074)	–	–
	(17,579)	–	–
Gain on deemed disposal of a subsidiary	17,579	–	–
	–	–	–
Analysis of the net cash outflow in respect of deemed disposal of a subsidiary is as follows:			
Cash consideration	–	–	–
Cash and bank balances disposed of	(13)	–	–
Net cash outflow in respect of deemed disposal of a subsidiary	(13)	–	–

There was no consideration for the deemed disposal of a subsidiary.

(b) Major non-cash transaction

(i) During the year ended 31 July 2004, the Group disposed its vessels at a consideration of HK$28,936,000, in which HK$7,180,000 was settled directly to the Related Party Lenders (Note 2(d)) and HK$20,486,000 was settled by debiting a subsidiary's current account. The remaining balance was settled directly to company's bank account.

(ii) During the year ended 31 July 2005, the Group disposed its vessels at a consideration of HK$650,000, in which HK$615,500 was settled directly to the Related Party Lenders (Note 2(d)) and HK$34,500 was settled by debiting a related company's current account.

29. POST BALANCE SHEET EVENT

(a) Subsequent to the balance sheet date 31 July 2005, the Group disposed two vessels to a third party at its net book value for a consideration of HK$300,000.

(b) A non-binding Memorandum of Understanding dated 12 August 2005 in relation to a proposed solution, the Global Solution, was entered into by the Company, Harbour Front Limited and the Scheme Administrator. Further details of which are set out in note 2(b) to the financial information.

(c) The Company and the Group had pending litigation in respect of the Statement of Claim dated 28 September 2005 for HCA 624 of 2005, further details of which are set out in notes 2(c)(ii) and 26(c) to the financial information.

d) According to a conditional agreement dated 29 December 2005 entered into between the Company as Vendor and Harbour Front as purchaser, the details of which were included in an announcement of the Company dated 29 December 2005 and also in the Letter from the Board, the Group will dispose of its entire interest in two of its subsidiaries, namely UDLHK and UDLS to Harbour Front Limited. The financial information in respect of UDLHK and UDLS is set out in note 30 below.

(e) As mentioned in note 2(e) to the financial information and also in the Letter from the Board, the Company has recently put forward the following proposals to its shareholders:

1. the proposed settlement agreement and issue of promissory notes;
2. the proposed rights issue;
3. the proposed acquisition of a yard holding company in Singapore;
4. the proposed purchases of a total of thirty three marine engineering vessels;
5. the proposed disposal of the Group's entire interests in UDLHK and UDLS; and
6. the proposed buy back of nine vessel for UDLS.

Further details of the above proposals can be referred to in the Letter from the Board.

30. DISPOSAL OF UDLHK AND UDLS

In accordance with SSAP33 "Discontinuing Operations", the financial information of UDLHK and UDLS during the Relevant Periods is disclosed as follows:–

(a) Combined income statements

	Year ended 31 July 2003 HK$'000	2004 HK$'000	2005 HK$'000
Turnover	4,636	10,553	1,659
Other revenue	26,539	22,067	3,960
Total revenue	31,175	32,620	5,619
Staff costs	(926)	(938)	(917)
Marine engineering and structural steel engineering costs	(5,453)	(12,181)	(2,567)
Depreciation and amortisation	(16,652)	(20,191)	(19,080)
Other operating expenses	(7,238)	(1,903)	(1,283)
Profit/(Loss) from operating activities	906	(2,593)	(18,228)
Finance costs	(12,833)	(8,088)	(7,699)
Loss before taxation	(11,927)	(10,681)	(25,927)
Taxation	–	–	–
Loss attributable to shareholder	(11,927)	(10,681)	(25,927)

(b) Combined balance sheet

	Year ended 31 July 2003 HK$'000	2004 HK$'000	2005 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	132,761	78,601	75,887
Current assets			
Trade and other receivables	3,735	364	351
Amounts due from related companies	101	1,217	831
Cash and bank balances	431	151	138
	4,267	1,732	1,320
Current liabilities			
Bank and other borrowings	231	433	3,473
Trade and other payables	16,616	8,710	8,403
Amounts due to related companies	18,889	21,994	23,078
Amounts due to directors	45	–	40
	35,781	31,137	34,994
Net current liabilities	(31,514)	(29,405)	(33,674)
Total assets less current liabilities	101,247	49,196	42,213
Non-current liabilities			
Bank and other borrowings	(113,584)	(96,657)	(100,490)
NET LIABILITIES	(12,337)	(47,461)	(58,277)
CAPITAL AND RESERVES			
Shares capital	12,661	12,661	12,661
Reserve	(24,998)	(60,122)	(70,938)
DEFICIENCY OF ASSETS	(12,337)	(47,461)	(58,227)

(c) Combined cash flows statements

	Year ended 31 July 2003 HK$'000	2004 HK$'000	2005 HK$'000
Cash flows from operating activities			
Loss before taxation	(11,927)	(10,681)	(25,927)
Adjustment for:			
Depreciation and amortisation	16,652	20,365	19,011
Interest expenses	12,832	8,149	7,699
Gain on disposal of property, plant & equipment	787	(19,978)	(160)
Provision for doubtful debts	4,018	–	–
Provision for impairment loss on property, plant and equipment	(19,505)	–	932
Other receivables written off	404	(2,194)	–
Reversal of provision for annual leave	(3,498)	–	–
Reversal of provision for accured interest	–	–	(452)
Operating profit/(loss) before working capital changes	(237)	(4,339)	1,103
Decrease in trade & other receivables	6,508	4,005	14
Decrease/(Increase) in amounts due from related companies	1,800	(334)	257
Increase/(decrease) in trade and other payables	1,338	(13,183)	(307)
(Decrease)/increase in amounts due to related companies	(4,579)	6,995	1,213
Increase in amounts due to directors	–	–	40
Cash used in operations	4,830	(6,856)	2,320
Interest paid	(7,491)	(74)	(66)
Net cash (used in)/generated from operating activities	(2,661)	(6,930)	2,254
Cash flows from investing activities			
Purchase of property, plant & equipment	–	(5,780)	–
Proceeds from sale of property, plant & equipment	5,018	37,376	650
Net cash generated from investing activities	5,018	31,596	650
Cash flows from financing activities			
Proceeds from issuance of share capital	(5,675)	–	–
Other loans repaid	–	(25,151)	(616)
Net cash used in financing activities	(5,675)	(25,151)	(616)
Net (Decrease)/Increase in cash and cash equivalents	(3,318)	(485)	2,288
Cash and cash equivalents at 1 August	3,516	205	(282)
Effect of foreign exchange rate change, net	–	–	(2,441)
Cash and cash equivalent at 31 July	198	(280)	(435)
Analysis of balances of cash and cash equivalents			
Cash and bank balances	431	151	138
Bank overdrafts	(233)	(431)	(573)
	198	(280)	(435)

Yours faithfully,
CCIF CPA Limited
Certified Public Accountants
Hong Kong

Chan Wai Dune, Charles
Practising Certificate Number P00712

The following is the text of a report on YHCD, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, CCIF CPA Limited, Certified Public Accountants, Hong Kong.

CCIF

CCIF CPA LIMITED

37/F Hennessy Centre
500 Hennessy Road
Causeway Bay Hong Kong

27 January 2006

The Directors
UDL Holdings Limited
Room 702, 7th Floor
Aitken Vanson Centre
61 Hoi Yuen Road
Kwun Tong, Kowloon
Hong Kong

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of Denlane Shipbuilding Pte Limited (the "Company"), for each of the three years ended 31 March 2003, 2004 and 2005 and for the four months ended 31 July 2005 (together the "Relevant Periods"), including the balance sheets as at 31 March 2003, 2004, 2005 and 31 July 2005, the income statements, statements of changes in equity and statements of cash flows for the Relevant Periods, and the notes thereto, for inclusion in a circular issued by UDL Holdings Limited ("UDL") dated 27 January 2006 (the "Circular") in connection with the proposed acquisition of the entire issued share capital of the Company by UDL.

The Company was incorporated under the laws of The Republic of Singapore as a private company with limited liability on 9 December 1998. The Company was principally engaged in operating a ship yard in Singapore during the Relevant Periods.

The statutory audited financial statements of the Company for the three years ended 31 March 2003, 2004 and 2005, which were prepared in accordance with the Singapore Financial Reporting Standards ("SFRSs") issued by the Council on Corporate Disclosure and Governance and the disclosure requirements of the Singapore Companies Act, Chapter 50, were audited by Fadhillah Goh & Co., certified public accountants registered in Singapore. No audited financial statements of the Company have been prepared for the four months ended 31 July 2004 and 2005. For the purpose of this report, we have reviewed all the relevant transactions and information relating to the Company for the Relevant Periods.

For the purpose of this report, the directors of the Company have prepared the financial statements of the Company for the Relevant Periods (the "HKGAAP accounts") in accordance with the Hong Kong Financial Reporting Standards (the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). We have carried out independent audit procedures on the HKGAAP accounts in accordance with Hong Kong Standards on Auditing issued by HKICPA. The Financial Information set out in this report has been prepared from the HKGAAP accounts.

We have examined the Financial Information for the Relevant Periods set out below in accordance with the Auditing Guideline "Prospectuses and the reporting accountant" issued by the HKICPA.

The preparation of the Financial Information is the responsibility of the directors of the Company who approve its issue. The directors of the UDL are responsible for the contents of the Circular in which this report is included. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company as at 31 March 2003, 2004, 2005 and 31 July 2005, and of the results and cash flows of the Company for the Relevant Periods.

The comparative Financial Information of the Company for the four months ended 31 July 2004 has been extracted from the HKGAAP accounts for the same period which was prepared by the directors of the Company solely for the purpose of this report. We have reviewed the Financial Information for the four months ended 31 July 2004 in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. Our review consisted principally of making enquires of Company's management and applying analytical procedures to the Financial Information for the four months ended 31 July 2004 and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the Financial Information for the four months ended 31 July 2004. On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to Financial Information for the four months ended 31 July 2004.

A. FINANCIAL INFORMATION

Income statement
(Expressed in thousands of Singapore dollars)

		Year ended 31 March			For months ended 31 July	
		2003	**2004**	**2005**	**2004**	**2005**
	Notes	*S$'000*	*S$'000*	*S$'000*	*S$'000*	*S$'000*
					(unaudited)	
Turnover	*4*	1,608	1,436	1,418	492	440
Operating cost		(935)	(913)	(910)	(265)	(303)
Gross profit		673	523	508	227	137
Valuation losses on investment property		(600)	(700)	(700)	(250)	(300)
		73	(177)	(192)	(23)	(163)
Other income		–	–	–	6	–
Administrative expenses		(561)	(419)	(431)	(126)	(138)
Loss from operation		(488)	(596)	(623)	(143)	(301)
Finance costs		–	–	–	–	–
Loss before taxation		(488)	(596)	(623)	(143)	(301)
Taxation	*6*	(3)	(10)	(7)	(10)	– *(Note)*
Loss for the year/period		(491)	(606)	(630)	(153)	(301)

Note: The taxation amount for four months ended 31 July 2005 is S$240.

Balance sheet
(Expressed in thousands of Singapore dollars)

		As at 31 March			As at 31 July	
		2003	2004	2005	2004	2005
	Notes	*S$'000*	*S$'000*	*S$'000*	*S$'000*	*S$'000*
					(unaudited)	
Non-current assets						
Investment property	*8*	6,700	6,000	5,300	5,750	5,000
Current assets						
Trade debtors	*9*	179	171	189	155	185
Other debtors, deposits and prepayments	*10*	37	31	36	33	41
Amount due from related companies	*11*	1,903	1,754	1,636	1,739	1,473
Bank balances and cash		9	12	8	37	10
		2,128	1,968	1,869	1,964	1,709
Current liabilities						
Trade creditors	*12*	16	7	8	7	6
Other creditors and accruals	*13*	1,218	803	566	683	543
Amount due to a related party	*11*	20	40	60	40	60
Amount due to a director	*11*	–	–	–	–	9
Amount due to related companies	*11*	679	679	720	688	727
Amount due to holding company	*11*	239	379	379	379	229
Taxation		3	13	19	23	19
		2,175	1,921	1,752	1,820	1,593
Net current assets/(liabilities)		(47)	47	117	144	116
NET ASSETS		6,653	6,047	5,417	5,894	5,116
CAPITAL AND RESERVES						
Share capital	*14*	700	700	700	700	700
Retained profits		5,953	5,347	4,717	5,194	4,416
TOTAL EQUITY		6,653	6,047	5,417	5,894	5,116

Statement of changes in equity
(Expressed in thousands of Singapore dollars)

	Attributable to equity holders of Denlane Shipbuilding Pte Limited		
	Share capital	**Retained profits**	**Total**
	S$'000	*S$'000*	*S$'000*
At 1 April 2002	700	6,444	7,144
Loss for the year	–	(491)	(491)
At 31 March 2003	700	5,953	6,653
Loss for the year	–	(606)	(606)
At 31 March 2004	700	5,347	6,047
Loss for the year	–	(630)	(630)
At 31 March 2005	700	4,717	5,417
Loss for the period	–	(301)	(301)
At 31 July 2005	700	4,416	5,116
At 1 April 2004	700	5,347	6,047
Loss for the period	–	(153)	(153)
At 31 July 2004	700	5,194	5,894

Statement of cash flow
(Expressed in thousands of Singapore dollars)

	As at 31 March			As at 31 July	
	2003	**2004**	**2005**	**2004**	**2005**
	S$'000	*S$'000*	*S$'000*	*S$'000*	*S$'000*
				(unaudited)	
Operating activities					
Loss before taxation	(488)	(596)	(623)	(143)	(301)
Adjustment for:					
Valuation losses on investment property	600	700	700	250	300
Operating profit/(loss) before change in working capital	112	104	77	107	(1)
(Increase)/decrease in trade debtors	(97)	8	(18)	16	4
(Increase)/decrease in other debtors, deposits and prepayments	(8)	6	(5)	(2)	(5)
Decrease in amount due from related companies	3	149	118	15	163
(Decrease)/increase in trade creditors	4	(9)	1	–	(2)
(Decrease)/increase in other creditors and accrual	124	(415)	(237)	(120)	(23)
Increase in amount due to a related party	20	20	20	–	–
Increase in amount due to a director	–	–	–	–	9
(Decrease)/increase in amount due to related companies	(158)	–	41	9	7
(Decrease)/increase in amount due to holding company	–	140	–	–	(150)
	–	3	(3)	25	2
Tax paid					
Income tax paid	–	–	(1)	–	–
Net increase/(decrease) in cash and cash equivalents	–	3	(4)	25	2
Cash and cash equivalents at the beginning of the year/period	9	9	12	12	8
Cash and cash equivalents at the end of the year/period	9	12	8	37	10
Analysis of cash and cash equivalents					
Bank balances and cash	9	12	8	37	10

Notes to the financial information

1. GENERAL

The Company is incorporated in The Republic of Singapore ("Singapore") as a private company with limited liability. The Company's ultimate holding company is Best Year (Asia) Limited, a company which is incorporated in Hong Kong.

The Financial Information are presented in Singapore dollars which is the same as the functional currency of the Company.

The principal activity of the Company during the Relevant Periods was engaged in operating of a ship yard in Singapore.

2. EARLY ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

Since 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") and Interpretation ("INT") (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. For the purpose of preparing and presenting the Financial Information of the Relevant Periods, the Company has early adopted all these new HKFRSs.

The HKICPA has also issued the following standards and interpretation that are not yet effective. The Company has considered the following standards and interpretations but does not expect they will have a material effect on how the results of operations and financial position of the Company are prepared and presented.

HKAS 1 (Amendment)	Capital Disclosures (note i)
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures (note ii)
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intra-group Transactions (note ii)
HKAS 39 (Amendment)	The Fair Value Option (note ii)
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts (note ii)
HKFRS 1 & 6 (Amendment)	Exploration for and Evaluation of Mineral Resources (note ii)
HKFRS 7	Financial Instruments: Disclosures (note i)
HKFRS – INT 4	Determining whether an Arrangement contains a Lease (note ii)
HKFRS – INT 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (note ii)
HKFRS – INT 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (note ii)

Notes:

(i) Effective for annual periods beginning on or after 1 January 2007.

(ii) Effective for annual periods beginning on or after 1 January 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost basis except for certain property and financial instruments, which are measured at revalued amounts or fair values. The Financial Information has been prepared in accordance with accounting principles generally accepted in Hong Kong including applicable HKFRSs issued by HKICPA.

Investment property

Investment property is land and/or buildings which is owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

Investment property is stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in income statement.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit as reported in the income statement because it excludes items of income and expenses that are taxable or deductible in other years/periods, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets are liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charges or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

Foreign currencies transactions during the Relevant Periods are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

Related parties

Parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party financial and operating decisions, or vice versa, or where the Company 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 Company where those parties are individuals, and post-employment benefit plans which are the benefit of employees of the Company or of any entity that is a related party of the Company.

Impairment

At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Any impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the assets is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the assets in prior years/periods. A reversal of an impairment loss is recognised as income immediately.

Provision and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company had a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefit will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Revenue recognition

Provided it is probable that the economic benefits will flow to the Company and can be measured reliably, then revenue is recognised in income statement as follow:

Rental income is recognised on the income statement on time basis over the lease term.

Berthing income and other service income are recognised when the services are provided.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

(i) Bank balance and cash

Bank balance and cash comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(ii) Trade and other debtors

Trade and other debtors are initially recognised at the fair value and thereafter stated at cost less any provision for bad and doubtful debts.

(iii) Trade and other creditors

Trade and other creditors are initially recognised at fair value and thereafter stated at cost unless discount is given.

4. TURNOVER

The Company was principally engaged in operating a ship yard in Singapore during the Relevant Periods.

Turnover represents the rental income, berthing income and other services income received or receivable from the tenants. The amount of these significant category of revenue recognised in turnover during the Relevant Periods is as follows:

	Year ended 31 March			Four months ended 31 July	
	2003	2004	2005	2004	2005
	S$'000	*S$'000*	*S$'000*	*S$'000* (unaudited)	*S$'000*
Rental income	1,382	1,163	1,206	427	372
Berthing income	175	112	61	24	14
Other services income	51	161	151	41	54
	1,608	1,436	1,418	492	440

5. LOSS BEFORE TAXATION

	Year ended 31 March			Four months ended 31 July	
	2003	2004	2005	2004	2005
	S$'000	*S$'000*	*S$'000*	*S$'000* (unaudited)	*S$'000*
Loss before taxation has been arrived at after charging:					
Auditors' remuneration	2	3	4	–	2
Management fee paid	380	380	380	120	120
Commission paid	50	30	30	–	11
Equipment rental and maintenance paid	96	84	84	–	–
Operating lease rentals in respect of investment property	450	450	472	179	150

6. TAXATION

	Year ended 31 March			Four months ended 31 July		
	2003	2004	2005	2004	2005	
	S$'000	*S$'000*	*S$'000*	*S$'000* (unaudited)	*S$'000*	
Current tax						
Provision for the year/period	3	10	7	10	–	*(Note)*
Under/(Over) provision in respect of prior year/period	–	–	–	–	–	
	3	10	7	10	–	
Deferred tax expenses						
Origination and reversal of temporary difference	–	–	–	–	–	
Total income tax expenses in income statement	3	10	7	10	–	*(Note)*

The provision for Singapore Income Tax for year of assessment 2005 is calculated at 20% (2004: 20%, 2003: 22%) of the estimated assessable profits for the Relevant Periods.

Reconciliation of effective tax rate

The tax charges for the year/period can be reconciliation to the loss before taxation per the income statement as follow:

	Year ended 31 March			Four months ended 31 July		
	2003	2004	2005	2004	2005	
	S$'000	*S$'000*	*S$'000*	*S$'000* (unaudited)	*S$'000*	
Loss before taxation	(488)	(596)	(623)	(143)	(301)	
Tax expenses on loss before tax at 22% (change to 20% after year of assessment 2004)	(107)	(119)	(125)	(29)	(60)	
Adjustment:						
Tax effect on permanent differences/not deductible for tax purposes	10,406	10,629	8,326	39	60	
Tax losses utilised	(6,556)	–	–	–	–	
Tax effect on exempt income	(3,740)	(10,500)	(8,194)	–	–	
Tax expenses	3	10	7	10	–	*(Note)*

Note: The taxation amount for four months ended 31 July 2005 is S$240.

7. DIRECTORS' REMUNERATION

Directors' remuneration for the year/period is as follow:

	Year ended 31 March			Four months ended 31 July	
	2003	**2004**	**2005**	**2004**	**2005**
	S$'000	*S$'000*	*S$'000*	*S$'000* (unaudited)	*S$'000*
Leung Yu Oi Ling	–	–	–	–	–
Gillian Leung Chi Yin	–	–	–	–	–
Yu Kam Suen (Resigned on 6 October 2003)	–	–	–	–	–
	–	–	–	–	–

8. INVESTMENT PROPERTY

	As at 31 March			As at 31 July	
	2003	**2004**	**2005**	**2004**	**2005**
	S$'000	*S$'000*	*S$'000*	*S$'000* (unaudited)	*S$'000*
Valuation at cost					
Balance brought forward	7,300	6,700	6,000	6,000	5,300
Revaluation deficit recognised in the income statement	(600)	(700)	(700)	(250)	(300)
Balance carried forward	6,700	6,000	5,300	5,750	5,000

The Company's investment property located at 3 Benoi Road, Singapore 629877 is a shipyard, which was acquired on 31 March 2001 at cost of S$700,000 and the permitted lease term was up to 31 December 2002. On 9 December 2002, the Company successfully extended the lease term of 9 years up to 31 December 2010.

The fair values of the property at the respective balance sheet dates have been arrived at on the basis of valuations carried out by a Singapore independent appraiser, Vantage Valuers & Property Consultants Pte Limited, who being a corporate member of Singapore Institute of Surveyors and Valuers. The valuer used the investment method to perform the valuation which took into consideration the current rent being received from the property to determine its fair value. The valuer has also cross checked with the Comparable Sale method to determine the open market value of the property at the balance sheet dates. Moreover if there is any impairment loss for the property, the loss is recognised in the income statement immediately.

9. TRADE DEBTORS

According to the lease term of most tenancy agreements, the Company should not provide any credit term for the rental income/other services income/berthing income receivables.

	As at 31 March			As at 31 July	
	2003	**2004**	**2005**	**2004**	**2005**
	S$'000	*S$'000*	*S$'000*	*S$'000* (unaudited)	*S$'000*
Trade debtors *(Note)*	189	171	189	155	185
Less:					
Provision for doubtful debts:					
Balance at the beginning of the year/period	–	10	–	–	–
Provision for the year/period	10	–	–	–	–
Recovered during the year/period	–	–	–	–	–
Direct write off during the year/period	–	(10)	–	–	–
Balance at the end of the year/period	10	–	–	–	–
	179	171	189	155	185

Note: Included in the trade debtors' balances are the following amounts:

Trade account with related companies	77	95	112	100	119

Amounts included in the trade debtors are the rental income/other services income/berthing income receivables with an aged analysis as follow:

	As at 31 March			As at 31 July	
	2003	**2004**	**2005**	**2004**	**2005**
	S$'000	*S$'000*	*S$'000*	*S$'000* (unaudited)	*S$'000*
0 – 30 days	47	38	53	21	26
31 – 60 days	12	26	20	28	17
61 – 90 days	11	14	5	1	12
Over 90 days	109	93	111	105	130
	179	171	189	155	185

10. OTHER DEBTORS, DEPOSITS AND PREPAYMENTS

	As at 31 March			As at 31 July	
	2003	**2004**	**2005**	**2004**	**2005**
	S$'000	*S$'000*	*S$'000*	*S$'000*	*S$'000*
				(unaudited)	
Other debtors	107	107	104	109	109
Less:					
Provision for doubtful debts:					
Balance at the beginning of the year/period	(97)	(97)	(97)	(97)	(97)
Provision for the year/period	–	–	–	–	–
Balance at the end of the year/period	(97)	(97)	(97)	(97)	(97)
	10	10	7	12	12
Deposits paid	27	21	29	21	29
Prepayments	–	–	–	–	–
	37	31	36	33	41

11. AMOUNTS DUE FROM/(TO) RELATED COMPANIES, RELATED PARTIES AND HOLDING COMPANY

The amounts are non trade in nature, unsecured, interest free and have no fixed terms of repayment.

12. TRADE CREDITORS

Amounts included in the trade creditors with aged analysis as follow:

	As at 31 March			As at 31 July	
	2003	**2004**	**2005**	**2004**	**2005**
	S$'000	*S$'000*	*S$'000*	*S$'000*	*S$'000*
				(unaudited)	
0 – 30 days	13	7	6	6	6
31 – 60 days	3	–	2	1	–
	16	7	8	7	6

13. OTHER CREDITORS AND ACCRUALS

	As at 31 March			As at 31 July	
	2003	2004	2005	2004	2005
	S$'000	*S$'000*	*S$'000*	*S$'000* (unaudited)	*S$'000*
Other creditors	1,007	606	440	559	390
Accruals	116	82	22	37	9
Tenants' deposit received	95	115	104	87	144
	1,218	803	566	683	543

14. SHARE CAPITAL

	As at 31 March			As at 31 July	
	2003	2004	2005	2004	2005
	S$'000	*S$'000*	*S$'000*	*S$'000* (unaudited)	*S$'000*
Authorised:					
2,000,000 ordinary shares of S$1 each	2,000	2,000	2,000	2,000	2,000
Issued and fully paid:					
700,000 ordinary shares of S$1 each	700	700	700	700	700

There is no change in the capital during the Relevant Periods.

15. COMMITMENTS

For the each year/period ended days of the Relevant Periods, the total future lease payments under non-cancelable operating leases are payable as below:

	As at 31 March			As at 31 July	
	2003	2004	2005	2004	2005
	S$'000	*S$'000*	*S$'000*	*S$'000* (unaudited)	*S$'000*
Within 1 year	450	472	609	443	609
After 1 year but within 5 years	2,299	2,436	2,436	2,436	2,436
After 5 years	1,675	1,066	457	863	254
	4,424	3,974	3,502	3,742	3,299

Actual lease payment will be reduced by any rebates and concession to be granted by the lessor, JTC Corporation, on discretionary basis.

16. SIGNIFICANT RELATED PARTY TRANSACTIONS

Other than the related parties information disclosed elsewhere in the Financial Information, the following are related party transactions entered into by the Company with related parties at agreed rates:–

	Year ended 31 March			Four months ended 31 July	
	2003	2004	2005	2004	2005
	S$'000	*S$'000*	*S$'000*	*S$'000*	*S$'000*
				(unaudited)	
Rental income received	18	18	18	6	6
Commission paid to a related company	50	30	30	–	–
Equipment rental & maintenance paid to a related company	96	84	84	–	–
Professional fees paid to a related company	100	–	–	–	–
Management fee paid to a related company	360	360	360	360	360
Management fee paid to a related company	–	20	20	20	20
Amount due from related companies	1,903	1,754	1,636	1,739	1,473
Amount due to a related party	20	40	60	40	60
Amount due to a director	–	–	–	–	9
Amount due to holding company	239	379	379	379	229
Amount due to related companies	679	679	720	688	727

B. FINANCIAL MANAGEMENT AND RISK

Exposure to credit, fair value, interest rate, liquidity and foreign risks arises in the normal course of the company's business. These risks are limited by the Company's financial management policies and practices described below:

Fair value risk

The Company's fair value risk relates primarily to the Company's investment property, trade and other debtors, trade and other creditors and amount due from/(to) related companies/director/parties/holding company. Currently, the directors of the Company only consider the fair value risk of the Company's investment property as significant.

Liquidity risk

The Company receives cash resources mainly in forms of rental income, berthing income and other services income. The Company's liquidity risk relates primarily to the risk that cash may not be available to pay obligations when they fall due. However, in the opinion of the directors, the Company is able to repay all its debts and also able to generate adequate funds to finance its operations and to cover maturities, claims and surrenders.

Credit risk

The Company's principal financial assets are trade and other receivables, bank balances and cash and amount due by related companies.

The Company's credit risk is primarily attributable to its trade and other receivables and amount due by related companies. The amounts presented in the balance sheet are net of accumulated impairment, if any, estimated by the director of the Company based on prior experience and their assessment of the current economic environment. The Company has no significant concentration of credit risk on trade receivable and amount due by related companies.

The credit risk on liquid funds is limited because majority of the counterparties are banks or creditworthy financial institutions.

Foreign exchange risk

The Company functional and presentation currency has been in Singapore dollars since the operations are mainly in Singapore and the operating expenses incurred are denominated in Singapore dollars. Accordingly, the director consider the foreign exchange risk is not significant.

Interest rate risk

The Company's interest rate risk relates primarily to the amount due to JTC Corporation, one of the sundry creditor of the company, which bearing a floating interest rate. However, the director of the Company consider the interest rate risk is not significant and not material.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company in respect of any period subsequent to 30 November 2005.

D. SUBSEQUENT EVENT

On 29 December 2005, the Company's holding company, Best Year (Asia) Limited, entered into an agreement with UDL pursuant to which UDL agreed to acquire the entire issued shares of the Company at a consideration of HK$23,000,000 subject to adjustments as provided in the agreement.

Yours faithfully,
CCIF CPA Limited
Certified Public Accountants
Hong Kong

Chan Wai Dune, Charles
Practising Certificate Number P00712

INTRODUCTION

The following is the unaudited pro forma financial information of the Resultant Group as if the Rights Issue, the Acquisitions, the Disposal and the Buy Back have been completed.

The unaudited pro forma consolidated income statement and the unaudited pro forma consolidated cash flow statement for the year ended 31 July 2005 and the unaudited pro forma consolidated balance sheet of the Resultant Group have been prepared using accounting policies materially consistent with those of the Group based on the audited consolidated financial statements of the Group for the year ended 31 July 2005 as set out in Appendix I to this circular and the audited financial information of YHCD as set out in the accountants' report in Appendix II to this circular, after certain pro forma adjustments.

New and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") are effective for accounting periods beginning on or after 1 January 2005. The Group did not early adopted the new HKFRSs but YHCD had early adopted these new HKFRSs throughout the Relevant Periods (as defined in the Accountants' report on YHCD in Appendix II to this circular). As such, certain adjustments were made to restate the financial information of YHCD using the same Hong Kong Financial Reporting Standards ("HKFRSs") adopted by the Group.

The unaudited pro forma financial information is presented in three parts. Part A below has been prepared to provide the information on the Group after taking into account only the results of the completion of the Rights Issue and the Acquisitions. Part B below has been prepared to provide the information on the Group after taking into account only the result of the completion of the Disposal. Part C below has been prepared to provide the information on the Resultant Group as a result of the completion of the Rights Issue, the Acquisitions, the Disposal and the Buy Back. As the unaudited pro forma financial information has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Resultant Group as at 31 July 2005 or at any future dates. Also, it may not give a true picture of the results and the cash flows of the Resultant Group for the year ended 31 July 2005 or for any future financial periods.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE GROUP AFTER TAKING INTO ACCOUNT ONLY THE RESULTS OF THE COMPLETION OF THE RIGHTS ISSUE AND THE ACQUISITIONS

1. Unaudited pro forma consolidated balance sheet of the Group

			Acquisitions					
	The Group – as at 31 July 2005 (audited)	Pro forma adjustments related to Rights Issue	Balance sheet of YHCD – as at 31 July 2005 (audited)	Balance sheet of YHCD – as at 31 July 2005 after GAAP adjustments (unaudited)	Pro forma adjustments related to YHCD	Pro forma adjustments related to Multi-Ventures Agreement	Pro forma adjustments related to Bugsy Agreement	Unaudited pro forma consolidated balance sheet of the Group
	HK$'000	*HK$'000*	*S$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		Note 2	*Note 3*	*Note 4-5*	*Note 6*	*Note 7*	*Note 8*	
ASSETS AND LIABILITIES								
Non-current assets								
Property, plant and equipment	78,232		–	–		5,440		83,672
Investment Property	–		5,000	23,403				23,403
Land use right	988		–	–				988
	79,220		5,000	23,403				108,063
Current assets								
Trade and other receivables	10,097		226	1,054				11,151
Stock	–		–	–			35,000	35,000
Amounts due from related companies	6,914		1,473	6,896	(15)			13,795
Cash and bank balances	812	69,723	10	48	(23,102)	(5,527)	(35,088)	6,866
	17,823		1,709	7,998				66,812
Current liabilities								
Bank and other borrowings	16,059		–	–				16,059
Trade and other payables	17,864		549	2,568				20,432
Amounts due to related companies	17,598		1,016	4,756	(1,087)			21,267
Amounts due to directors	649		9	42				691
Provision for taxation	–		19	89				89
	52,170		1,593	7,455				58,538
Net current assets/(liabilities)	(34,347)		116	543				8,274
Total assets less current liabilities	44,873		5,116	23,946				116,337
Non-current liabilities								
Bank and other borrowings	(100,490)		–	–				(100,490)
NET ASSETS/(LIABILITIES)	(55,617)		5,116	23,946				15,847
CAPITAL AND RESERVES								
Shares capital	9,717	23,741	700	3,276	(3,276)			33,458
Reserves	(65,334)	45,982	4,416	20,670	(18,754)	(87)	(88)	(17,611)
SURPLUS/(DEFICIENCY) OF ASSETS	(55,617)		5,116	23,946				15,847

Notes to the unaudited pro forma consolidated balance sheet

1. The pro forma consolidated balance sheet of the Group as presented has been prepared as if the Rights Issue and the Acquisitions had been completed on 31 July 2005.

2. The estimated net proceeds from the Rights Issue of HK$69,723,493 is based on the Subscription Price of HK$0.03 per Rights Share with 2,374,133,524 Rights Shares issued, after deduction of the estimated share issue and related expenses of approximately HK$1,500,513.

3. The balances are extracted from the audited balance sheet of YHCD as at 31 July 2005 as set out in Appendix II to this circular, and have been reclassified to conform to the presentation format of the consolidated balance sheet of the Group.

4. For the purpose of the pro forma consolidated balance sheet, the audited balance sheet of YHCD as at 31 July 2005 has been translated into Hong Kong Dollars at an exchange rate of S$1 to HK$4.68055.

5. New and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") are effective for accounting periods beginning on or after 1 January 2005. The Group did not early adopt the new HKFRSs but YHCD had early adopted these new HKFRSs throughout the Relevant Periods. As such, adjustments ("GAAP adjustments") were made to restate the financial information of YHCD using the same Hong Kong Financial Reporting Standards adopted by the Group for consistency, as follows:

   Accumulated gain arising from accumulated change in fair value of an investment property, which amounted to HK$20,126,365 (S$4,300,000) as at 31 July 2005, was adjusted from retained profit to revaluation reserve.

6. The consideration for the acquisition of YHCD is HK$23,000,000. Under HKFRSs, the Group will apply the purchase method to account for the acquisition of YHCD in the consolidated financial statements of the Group. In applying the purchase method, the identifiable assets and liabilities of YHCD will be recorded on the balance sheet of the Group at their fair values at the date of completion. Any goodwill or negative goodwill arising on the acquisition will be determined as the excess or deficit of the purchase price to be incurred by the Group over the Group's interests in the net fair values of the identifiable assets and liabilities of YHCD at the date of completion.

   The adjustments reflect the following:

   (i) The total consideration of HK$23,000,000 will be satisfied by cash.

   (ii) Negative goodwill of HK$2,017,764 arising from the acquisition of YHCD, which is derived from the consideration payable of HK$23,000,000 minus the net assets of YHCD acquired which amounted to HK$23,946,096 and the loan due from YHCD to Best Year (Asia) Limited of HK$1,071,668 as at 31 July 2005.

   (iii) The estimated expenses related to the acquisition of YHCD is approximately HK$102,000.

   (iv) Intra-group balance of HK$15,007 (S$3,206) between YHCD and a subsidiary of UDL has been eliminated.

7. According to the Multi-Ventures Agreement, 13 marine engineering vessels are to be acquired from Multi-Ventures Limited at a consideration of HK$5,440,000. These 13 vessels are valued by Win Well Engineering and Surveyors Limited at a total amount of HK$5,440,000 as at 31 December 2005. The Group will use these 13 vessels in its marine engineering business and has classified these 13 vessels as property, plant and equipment in the pro forma balance sheet. The estimated expenses related to acquisition of 13 vessels is approximately HK$87,000.

8. According to the Bugsy Agreement, 20 marine engineering vessels are to be acquired from Bugsy Development Company Limited at a consideration of HK$35,000,000. These 20 vessels are valued by Win Well Engineering and Surveyors Limited at a total amount of HK$35,000,000 as at 31 December 2005. The Group's current intention is to recondition these vessels for resell purpose and has classified these 20 vessels as trading stock in the pro forma balance sheet. The estimated expenses related to acquisition of 20 vessels is approximately HK$88,000.

2. Unaudited pro forma consolidated income statement of the Group

	The Group for year ended 31 July 2005 (audited) *HK$'000*	Acquisitions: YHCD for year ended 31 March 2005 (audited) *S$'000* *Note 2*	Acquisitions: YHCD for year ended 31 March 2005 after GAAP adjustments (unaudited) *HK$'000* *Note 3-4*	Unaudited pro forma consolidated income statement of the Group *HK$'000*
Turnover	11,093	1,418	6,636	17,729
Other revenue	6,574	–	–	6,574
Total revenue	17,667	1,418	6,636	24,303
Staff costs	(5,564)	–	–	(5,564)
Marine engineering and structural steel engineering costs	(3,655)	–	–	(3,655)
Depreciation and amortisation	(19,421)	–	–	(19,421)
Other operating expenses	(7,778)	(2,041)	(6,275)	(14,053)
Profit/(Loss) from operating activities	(18,751)	(623)	361	(18,390)
Finance costs	(8,999)	–	(1)	(9,000)
Profit/(Loss) before taxation	(27,750)	(623)	360	(27,390)
Taxation	279	(7)	(33)	246
Profit/(Loss) attributable to shareholders	(27,471)	(630)	327	(27,144)

Notes to the unaudited pro forma consolidated income statement

1. The pro forma consolidated income statement of the Group as presented has been prepared as if the Rights Issue and the Acquisitions had been completed on 1 August 2004.

2. The balances are extracted from the audited income statement of YHCD for the year ended 31 March 2005 as set out in Appendix II to this circular, and have been reclassified to conform to the presentation format of the consolidated income statement of the Group. Operating cost of S$909,924 in the income statement of YHCD has been reclassified to other operating expenses in the pro forma income statement.

3. For the purpose of the pro forma consolidated income statement, the audited income statement of YHCD for the year ended 31 March 2005 has been translated into Hong Kong Dollars at an exchange rate of S$1 to HK$4.68055.

4. New and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") are effective for accounting periods beginning on or after 1 January 2005. The Group did not early adopt the new HKFRSs but YHCD had early adopted these new HKFRSs throughout the Relevant Periods. As such, adjustments ("GAAP adjustments") were made to restate the financial information of YHCD using the same Hong Kong Financial Reporting Standards adopted by the Group for consistency, as follows:

   The decrease in fair value of an investment property for the year ended 31 March 2005 of HK$3,276,385 (S$700,000) was adjusted from other operating expenses to revaluation reserve.

5. The vessels to be acquired under the Multi-Ventures Agreement and the Bugsy Agreement are primarily in idling condition and did not have an identifiable income stream in the past year.

3. Unaudited pro forma consolidated cash flow statement of the Group

	The Group for year ended 31 July/2005 (audited) *HK$'000*	Acquisitions: YHCD for year ended 31 March 2005 (audited) *S$'000* *Note 2*	Acquisitions: YHCD for year ended 31 March 2005 after GAAP adjustments (unaudited) *HK$'000* *Note 3-4*	Unaudited pro forma consolidated cash flow statement of the Group *HK$'000*
Cash flows from operating activities				
Profit/(Loss) before taxation	(27,750)	(623)	360	(27,390)
Adjustment for:				
Depreciation and amortisation	19,421	–	–	19,421
Interest expenses	8,999	–	–	8,999
Gain on disposal of property, plant & equipment	(160)	–	–	(160)
Provision for doubtful debts	1,196	–	–	1,196
Provision for impairment loss o property, plant and equipment	932	–	–	932
Net valuation losses on investment property	–	700	–	–
Reversal of provision for annual leave	(95)	–	–	(95)
Reversal of provision for accrued interest	(452)	–	–	(452)
Operating profit before working capital changes	2,091	77	360	2,451
(Increase) /Decrease in trade & other receivables	5,986	(23)	(114)	5,872
(Increase)/Decrease in amounts due from related companies	(3,392)	118	556	(2,836)
Increase/(Decrease) in trade and other payables	2,790	(236)	(1,107)	1,683
Increase/(Decrease) in amounts due to related companies	(12,696)	61	290	(12,406)
Increase in amounts due to directors	649	–	–	649
Cash used in operations	(4,572)	(3)	(15)	(4,587)
Interest paid	(405)	–	–	(405)
Tax paid	–	(1)	(2)	(2)
Net cash used in operating activities	(4,977)	(4)	(17)	(4,994)
Cash flows from investing activities				
Purchase of property, plant & equipment	(1,982)	–	–	(1,982)
Proceeds from sale of property, plant & equipment	650	–	–	650

		Acquisitions		
	The Group for year ended 31 July/2005 (audited) *HK$'000*	**YHCD for year ended 31 March 2005 (audited)** *S$'000* *Note 2*	**YHCD for year ended 31 March 2005 after GAAP adjustments (unaudited)** *HK$'000* *Note 3-4*	**Unaudited pro forma consolidated cash flow statement of the Group** *HK$'000*
Net cash used in investing activities	(1,332)	–	–	(1,332)
Cash flows from financing activities				
Proceeds from issuance of share capital	1,316	–	–	1,316
Other loans repaid	(4,660)	–	–	(4,660)
Other loans raised	12,983	–	–	12,983
Net cash generated from financing activities	9,639	–	–	9,639
Net Increase/(Decrease) in cash and cash equivalents	3,330	(4)	(17)	3,313
Cash and cash equivalents at 1 August 2004	183	12	53	236
Effect of foreign exchange rate change, net	(3,275)	–	–	(3,275)
Cash and cash equivalent at 31 July 2005	238	8	36	274
Analysis of balances of cash and cash equivalents				
Cash and bank balances	812	8	36	848
Bank overdrafts	(574)	–	–	(574)
	238	8	36	274

Notes to the unaudited pro forma consolidated cash flow statement

1. The pro forma consolidated cash flow statement of the Group as presented has been prepared as if the Rights Issue and the Acquisitions had been completed on 1 August 2004.

2. The balances are extracted from the audited cash flow statement of YHCD for the year ended 31 March 2005 as set out in Appendix II to this circular, and have been reclassified to conform to the presentation format of the consolidated cash flow statement of the Group.

3. For the purpose of the pro forma consolidated cash flow statement, the audited cash flow statement of YHCD for the year ended 31 March 2005 has been translated into Hong Kong Dollars at an exchange rate of S$1 to HK$4.68055.

4. New and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") are effective for accounting periods beginning on or after 1 January 2005. The Group did not early adopt the new HKFRSs but YHCD had early adopted these new HKFRSs throughout the Relevant Periods. As such, adjustments ("GAAP adjustments") were made to restate the financial information of YHCD using the same Hong Kong Financial Reporting Standards adopted by the Group for consistency, as follows:

   The decrease in fair value of an investment property for the year ended 31 March 2005 of HK$3,276,385 (S$700,000) was adjusted from other operating expenses to revaluation reserve.

5. The vessels to be acquired under the Multi-Ventures Agreement and the Bugsy Agreement are primarily in idling condition and did not have an identifiable income stream in the past year.

B. UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE GROUP AFTER TAKING INTO ACCOUNT ONLY THE RESULT OF THE COMPLETION OF THE DISPOSAL

1. Unaudited pro forma consolidated balance sheet of the Group

	The Group – as at 31 July 2005 (audited) *HK$'000*	Pro forma adjustments related to Disposal *HK$'000* *Note 2*	Unaudited pro forma consolidated balance sheet of the Group *HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	78,232	(75,887)	2,345
Land use right	988		988
	79,220		3,333
Current assets			
Trade and other receivables	10,097	(351)	9,746
Amounts due from related companies	6,914	(947)	5,967
Cash and bank balances	812	(222)	590
	17,823		16,303
Current liabilities			
Bank and other borrowings	16,059	(3,473)	12,586
Trade and other payables	17,864	(8,403)	9,461
Amounts due to related companies	17,598	(2,394)	15,204
Amounts due to directors	649	(40)	609
	52,170		37,860
Net current liabilities	(34,347)		(21,557)
Total assets less current liabilities	44,873		(18,224)
Non-current liabilities			
Bank and other borrowings	(100,490)	100,490	–
NET LIABILITIES	(55,617)		(18,224)
CAPITAL AND RESERVES			
Shares capital	9,717		9,717
Reserves	(65,334)	37,393	(27,941)
DEFICIENCY OF ASSETS	(55,617)		(18,224)

Notes to the unaudited pro forma consolidated balance sheet

1. The pro forma consolidated balance sheet of the Group as presented has been prepared as if the Disposal had been completed on 31 July 2005.

2. According to the Disposal Agreement, the Group will dispose of its entire interest in two of its subsidiaries, namely UDL Marine Assets (Hong Kong) Limited ("UDLHK") and UDL Marine Assets (Singapore) Pte Limited ("UDLS") to Harbour Front Limited at a total consideration of HK$2. The adjustments were put through to eliminate the assets and liabilities of UDLHK and UDLS as well as the respective reserves related to UDLHK and UDLS for the pro forma balance sheet. The estimated expenses related to the Disposal is approximately HK$84,000.

2. Unaudited pro forma consolidated income statement of the Group

	The Group for year ended 31 July 2005 (audited) *HK$'000*	**Pro forma adjustments related to Disposal** *HK$'000* *Note 2*	**Unaudited pro forma consolidated income statement of the Group** *HK$'000*
Turnover	11,093	(1,659)	9,434
Other revenue	6,574	(3,350)	3,224
Total revenue	17,667		12,658
Staff costs	(5,564)	917	(4,647)
Marine engineering and structural steel engineering costs	(3,655)	388	(3,267)
Depreciation and amortisation	(19,421)	19,080	(341)
Other operating expenses	(7,778)	1,221	(6,557)
Loss from operating activities	(18,751)		(2,154)
Finance costs	(8,999)	7,699	(1,300)
Loss before taxation	(27,750)		(3,454)
Taxation	279		279
Loss attributable to shareholders	(27,471)		(3,175)

Notes to the unaudited pro forma consolidated income statement

1. The pro forma consolidated income statement of the Group as presented has been prepared as if the Disposal had been completed on 1 August 2004

2. According to the Disposal Agreement, the Group will dispose of its entire interest in two of its subsidiaries, namely UDLHK and UDLS to Harbour Front Limited at a total consideration of HK$2. The adjustments reflect the elimination of the profit and loss items of UDLHK and UDLS in the Group's consolidated income statement for the year ended 31 July 2005.

3. Unaudited pro forma consolidated cash flow statement of the Group

	The Group for year ended 31 July/2005 (audited) *HK$'000*	**Pro forma adjustments related to Disposal** *HK$'000* *Note 2*	**Unaudited pro forma consolidated cash flow statement of the Group** *HK$'000*
Cash flows from operating activities			
Loss before taxation	(27,750)	24,296	(3,454)
Adjustment for:			
Depreciation and amortisation	19,421	(19,080)	341
Interest expenses	8,999	(7,699)	1,300
Gain on disposal of property, plant & equipment	(160)	160	–
Provision for doubtful debts	1,196		1,196
Provision for impairment loss of property, plant and equipment	932	(932)	–
Reversal of provision for annual leave	(95)		(95)
Reversal of provision for accrued interest	(452)	452	–
Operating profit/(loss) before working capital changes	2,091		(712)
Decrease in trade and other receivables	5,986	(14)	5,972
Increase in amounts due from related companies	(3,392)	(355)	(3,747)
Increase in trade and other payables	2,790	307	3,097
Decrease in amounts due to related companies	(12,696)	586	(12,110)
Increase in amounts due to directors	649	(40)	609
Cash used in operations	(4,572)		(6,891)
Interest paid	(405)	66	(339)
Net cash used in operating activities	(4,977)		(7,230)
Cash flows from investing activities			
Purchase of property, plant & equipment	(1,982)		(1,982)
Proceeds from sale of property, plant & equipment	650	(650)	–

	The Group for year ended 31 July/2005 (audited) *HK$'000*	Pro forma adjustments related to Disposal *HK$'000* *Note 2*	Unaudited pro forma consolidated cash flow statement of the Group *HK$'000*
Net cash used in investing activities	(1,332)		(1,982)
Cash flows from financing activities			
Proceeds from issuance of share capital	1,316		1,316
Other loans repaid	(4,660)	616	(4,044)
Other loans raised	12,983		12,983
Net cash generated from financing activities	9,639		10,255
Net Increase in cash and cash equivalents	3,330		1,043
Cash and cash equivalents at 1 August 2004	183	282	465
Effect of foreign exchange rate change, net	(3,275)	2,441	(834)
Cash and cash equivalent at 31 July 2005	238		674
Analysis of balances of cash and cash equivalents			
Cash and bank balances	812	(138)	674
Bank overdrafts	(574)	574	–
	238		674

Notes to the unaudited pro forma consolidated cash flow statement

1. The pro forma consolidated cash flow statement of the Group as presented has been prepared as if the Disposal had been completed on 1 August 2004.

2. According to the Disposal Agreement, the Group will dispose of its entire interest in two of its subsidiaries, namely UDLHK and UDLS to Harbour Front Limited at a total consideration of HK$2. The adjustments were put through to reconcile the cash flow effect of UDLHK and UDLS for the pro forma cash flow statement.

C. UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE RESULTANT GROUP AS A RESULT OF THE COMPLETION OF THE RIGHTS ISSUE, THE ACQUISITIONS, THE DISPOSAL AND THE BUY BACK

1. Unaudited pro forma consolidated balance sheet of the Resultant Group

			Acquisitions							
	The Group – as at 31 July 2005 (audited) *HK$'000*	Pro forma adjustments related to Rights Issue *HK$'000* *Note 2*	Balance sheet of YHCD – as at 31 July 2005 (audited) *S$'000* *Note 3*	Balance sheet of YHCD – as at 31 July 2005 after GAAP adjustments (unaudited) *HK$'000* *Note 4-5*	Pro forma adjustments related to YHCD *HK$'000* *Note 6*	Pro forma adjustments related to Multi-Ventures Agreement *HK$'000* *Note 7*	Pro forma adjustments related to Bugsy Agreement *HK$'000* *Note 8*	Pro forma adjustments related to Disposal *HK$'000* *Note 9*	Pro forma adjustments related to Buy Back *HK$'000* *Note 10*	Unaudited pro forma consolidated balance sheet of the Resultant Group *HK$'000*
ASSETS AND LIABILITIES										
Non-current assets										
Property, plant and equipment	78,232		–	–		5,440		(75,887)		7,785
Investment Property	–		5,000	23,403						23,403
Land use right	988		–	–						988
	79,220		5,000	23,403						32,176
Current assets										
Trade and other receivables	10,097		226	1,054				(351)		10,800
Stock	–		–	–			35,000	–	37,700	72,700
Amounts due from related companies	6,914		1,473	6,896	(15)			(947)		12,848
Cash and bank balances	812	69,723	10	48	(23,102)	(5,527)	(35,088)	(222)	(1,999)	4,645
	17,823		1,709	7,998						100,993
Current liabilities										
Bank and other borrowings	16,059		–	–				(3,473)	1,789	14,375
Trade and other payables	17,864		549	2,568				(8,403)		12,029
Amounts due to related companies	17,598		1,016	4,756	(1,087)			(2,394)		18,873
Amounts due to directors	649		9	42				(40)		651
Provision for taxation	–		19	89						89
	52,170		1,593	7,455						46,017
Net current assets/(liabilities)	(34,347)		116	543						54,976
Total assets less current liabilities	44,873		5,116	23,946						87,152
Non-current liabilities										
Bank and other borrowings	(100,490)		–	–				100,490	(33,999)	(33,999)
NET ASSETS/(LIABILITIES)	(55,617)		5,116	23,946						53,153
CAPITAL AND RESERVES										
Shares capital	9,717	23,741	700	3,276	(3,276)					33,458
Reserves	(65,334)	45,982	4,416	20,670	(18,754)	(87)	(88)	37,393	(87)	19,695
SURPLUS/(DEFICIENCY) OF ASSETS	(55,617)		5,116	23,946						53,153
Consolidated net tangible assets/ (liabilities) per Share *(Note 11)*	(HK$0.056)									HK$0.016

Notes to the unaudited pro forma consolidated balance sheet

1. The pro forma consolidated balance sheet of the Resultant Group as presented has been prepared as if the Rights Issue, the Acquisitions, the Disposal and the Buy Back had been completed on 31 July 2005.

2. The estimated net proceeds from the Rights Issue of HK$69,723,493 is based on the Subscription Price of HK$0.03 per Rights Share with 2,374,133,524 Rights Shares issued, after deduction of the estimated share issue and related expenses of approximately HK$1,500,513.

3. The balances are extracted from the audited balance sheet of YHCD as at 31 July 2005 as set out in Appendix II to this circular, and have been reclassified to conform to the presentation format of the consolidated balance sheet of the Group.

4. For the purpose of the pro forma consolidated balance sheet, the audited balance sheet of YHCD as at 31 July 2005 has been translated into Hong Kong Dollars at an exchange rate of S$1 to HK$4.68055.

5. New and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") are effective for accounting periods beginning on or after 1 January 2005. The Group did not early adopt the new HKFRSs but YHCD had early adopted these new HKFRSs throughout the Relevant Periods. As such, adjustments ("GAAP adjustments") were made to restate the financial information of YHCD using the same Hong Kong Financial Reporting Standards adopted by the Group for consistency, as follows:

   Accumulated gain arising from accumulated change in fair value of an investment property, which amounted to HK$20,126,365 (S$4,300,000) as at 31 July 2005, was adjusted from retained profit to revaluation reserve.

6. The consideration for the acquisition of YHCD is HK$23,000,000. Under HKFRSs, the Group will apply the purchase method to account for the acquisition of YHCD in the consolidated financial statements of the Group. In applying the purchase method, the identifiable assets and liabilities of YHCD will be recorded on the balance sheet of the Group at their fair values at the date of completion. Any goodwill or negative goodwill arising on the acquisition will be determined as the excess or deficit of the purchase price to be incurred by the Group over the Group's interests in the net fair values of the identifiable assets and liabilities of YHCD at the date of completion.

   The adjustments reflect the following:

   (i) The total consideration of HK$23,000,000 will be satisfied by cash.

   (ii) Negative goodwill of HK$2,017,764 arising from the acquisition of YHCD, which is derived from the consideration payable of HK$23,000,000 minus the net assets of YHCD acquired which amounted to HK$23,946,096 and the loan due from YHCD to Best Year (Asia) Limited of HK$1,071,668 as at 31 July 2005.

   (iii) The estimated expenses related to the acquisition of YHCD is approximately HK$102,000.

   (iv) Intra-group balance of HK$15,007 (S$3,206) between YHCD and a subsidiary of UDL has been eliminated.

7. According to the Multi-Ventures Agreement, 13 marine engineering vessels are to be acquired from Multi-Ventures Limited at a consideration of HK$5,440,000. These 13 vessels are valued by Win Well Engineering and Surveyors Limited at a total amount of HK$5,440,000 as at 31 December 2005. The Group will use these 13 vessels in its marine engineering business and has classified these 13 vessels as property, plant and equipment in the pro forma balance sheet. The estimated expenses related to acquisition of 13 vessels is approximately HK$87,000.

8. According to the Bugsy Agreement, 20 marine engineering vessels are to be acquired from Bugsy Development Company Limited at a consideration of HK$35,000,000. These 20 vessels are valued by Win Well Engineering and Surveyors Limited at a total amount of HK$35,000,000 as at 31 December 2005. The Group's current intention is to recondition these vessels for resell purpose and has classified these 20 vessels as trading stock in the pro forma balance sheet. The estimated expenses related to acquisition of 20 vessels is approximately HK$88,000.

9. According to the Disposal Agreement, the Group will dispose of its entire interest in two of its subsidiaries, namely UDLHK and UDLS to Harbour Front Limited at a total consideration of HK$2. The adjustments were put through to eliminate the assets and liabilities of UDLHK and UDLS as well as the respective reserves related to UDLHK and UDLS for the pro forma balance sheet. The estimated expenses related to disposal is approximately HK$84,000.

10. According to the Buy Back Agreement, 9 vessels are to be bought back from UDLS at a total consideration of HK$37,700,000. These 9 vessels are valued by Win Well Engineering and Surveyors Limited at total amount of HK$37,700,000 as at 31 December 2005. The Group's current intention is to recondition these vessels for resell purpose and has classified these 9 vessels as trading stock in the pro forma balance sheet. The estimated expenses related to Buy Back is approximately HK$87,000. The Group is close to concluding the grant of a new loan facility with a banker. The loan, if granted, will be in the form of a 5-year secured loan and the principal amount of which is expected to be not less than HK$35,788,000 (US$4.6 million). Such loan is expected to be available after the completion of the Global Solution and is intended to help financing the Group for the acquisition of the 9 vessels under the Buy Back. Repayment will commence on the 15th day of the 9th month following the date of the drawdown of the term loan.

11. The calculation of the consolidated net tangible liabilities of the Group per Share as at 31 July 2005 is based on the audited consolidated net tangible liabilities of the Group as at 31 July 2005 and 989,222,302 Shares in issue as at the Latest Practicable Date. The unaudited pro forma adjusted consolidated net tangible assets per Share of the Resultant Group are based on the unaudited pro forma adjusted consolidated net tangible assets of the Resultant Group and 3,363,355,826 Shares in issue immediately following the completion of the Rights Issue, assuming the completion of the Rights Issue with 2,374,133,524 Rights Shares issued.

2. Unaudited pro forma consolidated income statement of the Resultant Group

	The Group for year ended 31 July 2005 (audited) *HK$'000*	Acquisitions: YHCD for year ended 31 March 2005 (audited) *S$'000* *Note 2*	Acquisitions: YHCD for year ended 31 March 2005 after GAAP adjustments (unaudited) *HK$'000* *Note 3-4*	Pro forma adjustments related to Disposal *HK$'000* *Note 5*	Pro forma adjustments related to Buy Back *HK$'000* *Note 6*	Unaudited pro forma consolidated income statement of the Resultant Group *HK$'000*
Turnover	11,093	1,418	6,636	(1,659)		16,070
Other revenue	6,574	–	–	(3,350)		3,224
Total revenue	17,667	1,418	6,636			19,294
Staff costs	(5,564)	–	–	917		(4,647)
Marine engineering and structural steel engineering costs	(3,655)	–	–	388		(3,267)
Depreciation and amortisation	(19,421)	–	–	19,080		(341)
Other operating expenses	(7,778)	(2,041)	(6,275)	1,221		(12,832)
Profit/(Loss) from operating activities	(18,751)	(623)	361			(1,793)
Finance costs	(8,999)	–	(1)	7,699	(1,290)	(2,591)
Profit/(Loss) before taxation	(27,750)	(623)	360			(4,384)
Taxation	279	(7)	(33)			246
Profit/(Loss) attributable to shareholders	(27,471)	(630)	327			(4,138)

Notes to the unaudited pro forma consolidated income statement

1. The pro forma consolidated income statement of the Resultant Group as presented has been prepared as if the Rights Issue, the Acquisitions, the Disposal and the Buy Back had been completed on 1 August 2004.

2. The balances are extracted from the audited income statement of YHCD for the year ended 31 March 2005 as set out in Appendix II to this circular, and have been reclassified to conform to the presentation format of the consolidated income statement of the Group. Operating cost of S$909,924 in the income statement of YHCD has been reclassified to other operating expenses in the pro forma income statement.

3. For the purpose of the pro forma consolidated income statement, the audited income statement of YHCD for the year ended 31 March 2005 has been translated into Hong Kong Dollars at an exchange rate of S$1 to HK$4.68055.

4. New and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") are effective for accounting periods beginning on or after 1 January 2005. The Group did not early adopt the new HKFRSs but YHCD had early adopted these new HKFRSs throughout the Relevant Periods. As such, adjustments ("GAAP adjustments") were made to restate the financial information of YHCD using the same Hong Kong Financial Reporting Standards adopted by the Group for consistency, as follows:

   The decrease in fair value of an investment property for the year ended 31 March 2005 of HK$3,276,385 (S$700,000) was adjusted from other operating expenses to revaluation reserve.

5. According to the Disposal Agreement, the Group will dispose of its entire interest in two of its subsidiaries, namely UDLHK and UDLS to Harbour Front Limited at a total consideration of HK$2. The adjustments reflect the elimination of the profit and loss items of UDLHK and UDLS in the Group's consolidated income statement for the year ended 31 July 2005.

6. According to the Buy Back Agreement, 9 vessels are to be bought back from UDLS at a total consideration of HK$37,700,000. These 9 vessels are valued by Win Well Engineering and Surveyors Limited at total amount of HK$37,700,000 as at 31 December 2005. The Group's current intention is to recondition these vessels for resell purpose and has classified these 9 vessels as trading stock in the pro forma balance sheet. The Group is close to concluding the grant of a new loan facility with a banker. The loan, if granted, will be in the form of a 5-year secured loan and the principal amount of which is expected to be not less than HK$35,788,000 (US$4.6 million). Such loan is expected to be available after the completion of the Global Solution and is intended to help financing the Group for the acquisition of the 9 vessels under the Buy Back. Repayment will commence on the 15th day of the 9th month following the date of the drawdown of the Term Loan. Interest is 2.5% over the prevailing SIBOR as determined by the bank for interest period of 3 months. The estimated interest for the year is approximately HK$1,290,000.

7. The vessels to be acquired under the Multi-Ventures Agreement, the Bugsy Agreement and the Buy Back Agreement are primarily in idling condition and did not have an identifiable income stream in the past year.

3. Unaudited pro forma consolidated cash flow statement of the Resultant Group

	The Group for year ended 31 July/2005 (audited) *HK$'000*	Acquisitions: YHCD for year ended 31 March 2005 (audited) *S$'000* *Note 2*	Acquisitions: YHCD for year ended 31 March 2005 after GAAP adjustments (unaudited) *HK$'000* *Note 3-4*	Pro forma adjustments related to Disposal *HK$'000* *Note 5*	Pro forma adjustments related to Buy Back *HK$'000* *Note 6*	Unaudited pro forma consolidated cash flow statement of the Resultant Group *HK$'000*
Cash flows from operating activities						
Profit/(Loss) before taxation	(27,750)	(623)	360	24,296	(1,290)	(4,384)
Adjustment for:						
Depreciation and amortisation	19,421	–	–	(19,080)		341
Interest expenses	8,999	–	–	(7,699)	1,290	2,590
Gain on disposal of property, plant & equipment	(160)	–	–	160		–
Provision for doubtful debts	1,196	–	–			1,196
Provision for impairment loss of property, plant and equipment	932	–	–	(932)		–
Net valuation losses on investment property	–	700	–			–
Reversal of provision for annual leave	(95)	–	–			(95)
Reversal of provision for accrued interest	(452)	–	–	452		–
Operating profit/(loss) before working capital changes	2,091	77	360			(352)
(Increase) /Decrease in trade & other receivables	5,986	(23)	(114)	(14)		5,858
(Increase)/Decrease in amounts due from related companies	(3,392)	118	556	(355)		(3,191)
Increase/(Decrease) in trade and other payables	2,790	(236)	(1,107)	307		1,990
Increase/(Decrease) in amounts due to related companies	(12,696)	61	290	586		(11,820)
Increase in amounts due to directors	649	–	–	(40)		609
Cash used in operations	(4,572)	(3)	(15)			(6,906)
Interest paid	(405)	–	–	66	(1,290)	(1,629)
Tax paid	–	(1)	(2)			(2)
Net cash used in operating activities	(4,977)	(4)	(17)			(8,537)
Cash flows from investing activities						
Purchase of property, plant & equipment	(1,982)	–	–			(1,982)
Proceeds from sale of property, plant & equipment	650	–	–	(650)		–

	The Group for year ended 31 July/2005 (audited) HK$'000	Acquisitions: YHCD for year ended 31 March 2005 (audited) S$'000 Note 2	Acquisitions: YHCD for year ended 31 March 2005 after GAAP adjustments (unaudited) HK$'000 Note 3-4	Pro forma adjustments related to Disposal HK$'000 Note 5	Pro forma adjustments related to Buy Back HK$'000 Note 6	Unaudited pro forma consolidated cash flow statement of the Resultant Group HK$'000
Net cash used in investing activities	(1,332)	–	–			(1,982)
Cash flows from financing activities						
Proceeds from issuance of share capital	1,316	–	–			1,316
Other loans repaid	(4,660)	–	–	616	(1,789)	(5,833)
Other loans raised	12,983	–	–			12,983
Net cash generated from financing activities	9,639	–	–			8,466
Net Increase/(Decrease) in cash and cash equivalents	3,330	(4)	(17)			(2,053)
Cash and cash equivalents at 1 August 2004	183	12	53	282		518
Effect of foreign exchange rate change, net	(3,275)	–	–	2,441		(834)
Cash and cash equivalent at 31 July 2005	238	8	36			(2,369)
Analysis of balances of cash and cash equivalents						
Cash and bank balances	812	8	36	(138)	(3,079)	(2,369)
Bank overdrafts	(574)	–	–	574		–
	238	8	36			(2,369)

Notes to the unaudited pro forma consolidated cash flow statement

1. The pro forma consolidated cash flow statement of the Resultant Group as presented has been prepared as if the Rights Issue, the Acquisitions, the Disposal and the Buy Back had been completed on 1 August 2004.

2. The balances are extracted from the audited cash flow statement of YHCD for the year ended 31 March 2005 as set out in Appendix II to this circular, and have been reclassified to conform to the presentation format of the consolidated cash flow statement of the Group.

3. For the purpose of the pro forma consolidated cash flow statement, the audited cash flow statement of YHCD for the year ended 31 March 2005 has been translated into Hong Kong Dollars at an exchange rate of S$1 to HK$4.68055.

4. New and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") are effective for accounting periods beginning on or after 1 January 2005. The Group did not early adopt the new HKFRSs but YHCD had early adopted these new HKFRSs throughout the Relevant Periods. As such, adjustments ("GAAP adjustments") were made to restate the financial information of YHCD using the same Hong Kong Financial Reporting Standards adopted by the Group for consistency, as follows:

   The decrease in fair value of an investment property for the year ended 31 March 2005 of HK$3,276,385 (S$700,000) was adjusted from other operating expenses to revaluation reserve.

5. According to the Disposal Agreement, the Group will dispose of its entire interest in two of its subsidiaries, namely UDLHK and UDLS to Harbour Front Limited at a total consideration of HK$2. The adjustments were put through to reconcile the cash flow effect of UDLHK and UDLS for the pro forma cash flow statement.

6. According to the Buy Back Agreement, 9 vessels are to be bought back from UDLS at a total consideration of HK$37,700,000. These 9 vessels are valued by Win Well Engineering and Surveyors Limited at total amount of HK$37,700,000 as at 31 December 2005. The Group's current intention is to recondition these vessels for resell purpose and hence classified these 9 vessels as trading stock in the pro forma balance sheet. The Group is close to concluding the grant of a new loan facility with a banker. The loan, if granted, will be in the form of a 5-year secured loan and the principal amount of which is expected to be not less than HK$35,788,000 (US$4.6 million). Such loan is expected to be available after the completion of the Global Solution and is intended to help financing the Group for the acquisition of the 9 vessels under the Buy Back. Repayment will commence on the 15th day of the 9th month following the date of the drawdown of the Term Loan. Interest is 2.5% over the prevailing SIBOR as determined by the bank for interest period of 3 months. The estimated interest for the year is approximately HK$1,290,000.

7. The vessels to be acquired under the Multi-Ventures Agreement, the Bugsy Agreement and the Buy Back Agreement are primarily in idling condition and did not have an identifiable income stream in the past year.

The following is the text of a report received from CCIF CPA Limited, Certified Public Accountants, Hong Kong the independent reporting accountants, for inclusion in this circular, in respect of the statement of unaudited pro forma adjusted consolidated net tangible assets/liabilities of the Group set out in Appendix I and the unaudited pro forma financial information of the Resultant Group as set out in Appendix III.

CCIF

CCIF CPA LIMITED

37/F Hennessy Centre
500 Hennessy Road
Causeway Bay Hong Kong

27 January 2006

The Directors
UDL Holdings Limited
Room 702, 7th Floor
Aitken Vanson Centre
61 Hoi Yuen Road
Kwun Tong, Kowloon
Hong Kong

Dear Sirs,

We report on (1) the statement of unaudited pro forma adjusted consolidated net tangible assets/liabilities of UDL Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") and (2) the unaudited pro forma financial information of the Resultant Group, which are set out respectively on page 112 in the section headed "Statement of unaudited pro forma adjusted consolidated net tangible assets/liabilities" of Appendix I and on pages 168 to 188 under the heading of "Unaudited pro forma financial information on the Resultant Group" in Appendix III to the Company's circular dated 27 January 2006 (the "Circular") in connection with, inter alia, (i) the Company's proposed rights issue on the basis of twelve rights shares for every five shares held on the record date (the "Rights Issue"), (ii) the proposed acquisitions of the entire issued share capital of Denlane Shipbuilding Pte Limited from Best Year (Asia) Limited, thirteen marine engineering vessels from Multi-Ventures Limited and twenty marine engineering vessels from Bugsy Development Company Limited respectively by the Company (the "Acquisitions"), (iii) the proposed disposal of the entire issued share capitals of both UDL Marine Assets (Hong Kong) Limited and UDL Marine Assets (Singapore) Pte Limited by the Company to Harbour Front Limited (the "Disposal"), and (iv) the proposed buy back by the Group of nine vessels from UDL Marine Assets (Singapore) Pte Limited (the "Buy Back"). The statement of unaudited pro forma adjusted consolidated net tangible assets/liabilities and the unaudited pro forma financial information have been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Rights Issue, the Acquisitions, the Disposal and the Buy Back might have affected the relevant financial information presented.

RESPONSIBILITIES

It is the responsibility solely of the directors of the Company to prepare the statement of unaudited pro forma adjusted consolidated net tangible assets/liabilities and the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

It is our responsibility to form an opinion, as required by the Listing Rules, on the statement of unaudited pro forma adjusted consolidated net tangible assets/liabilities and the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the statement of unaudited pro forma adjusted consolidated net tangible assets/liabilities and of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the statement of unaudited pro forma adjusted consolidated net tangible assets/liabilities and the unaudited pro forma financial information with the directors of the Company.

Our work does not constitute an audit or review in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such assurance on the statement of unaudited pro forma adjusted consolidated net tangible assets/liabilities and the unaudited pro forma financial information.

(1) The statement of unaudited pro forma adjusted consolidated net tangible assets/liabilities which has been prepared on the basis set out on page 112 in the section headed "Statement of unaudited pro forma adjusted consolidated net tangible assets/liabilities" of Appendix I to the Circular and (2) the unaudited pro forma financial information which has been prepared on the basis set out on pages 168 to 188 under the heading of "Unaudited pro forma financial information of the Resultant Group" in Appendix III to the Circular, are for illustrative purpose only and, because of their nature, they may not be indicative of:

– the financial position of the Group or the Resultant Group (as defined in the Circular) as at 31 July 2005 or at any future dates; or

– the results and cash flows of the Group or the Resultant Group (as defined in the Circular) for the year ended 31 July 2005 or for any future periods.

OPINION

In our opinion:

(I) For the statement of unaudited pro forma adjusted consolidated net tangible assets/liabilities,

(a) it has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the statement of unaudited pro forma adjusted consolidated net tangible assets/liabilities as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

and

(II) For the pro forma financial information,

(a) it has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
CCIF CPA Limited
Certified Public Accountants
Hong Kong

Chan Wai Dune, Charles
Practising Certificate Number P00712

The following is the text of the reports prepared by Vantage Valuers & Property Consultants Pte Ltd and Shenzhen Zhongxinhuacheng Real Estate Assessment Ltd, each being an independent firm of valuers, in connection with the valuation of the property interests of the Resultant Group for the purpose of inclusion in this circular.

1. In respect of property interest owned by Denlane Shipping Pte Ltd, the shares of which are to be acquired by the Company under the YHCD Agreement

VANTAGE
VALUERS & PROPERTY CONSULTANTS PTE LTD
Bus. Reg. No.: 199505689K
50 Chin Swee Road
#06-01 Thong Chai Building
Singapore 169874

27 January, 2006

UDL Holdings Limited
7/F Aitken Vanson Centre
61 Hoi Yuen Road
Kwun Tong, Kowloon
Hong Kong

Denlane Shipbuilding Pte Ltd
3 Benoi Road
Singapore 629877

Dear Sirs,

VALUATION OF A SHIPYARD, 3 BENOI ROAD, SINGAPORE 629877

(1) INTRODUCTION

We thank you for your recent instruction to us to advise on the current open market value of the balance 5-year leasehold interest of the above-mentioned property as on 31st December, 2005 for sale purpose:

The term "current open market value" means the price at which the sale of an interest in property might reasonably be expected to have been completed unconditionally for cash consideration on the valuation assuming:

(a) a willing seller;

(b) that prior to the date of valuation there had been a reasonable period (having regard to the nature of the property and the state of the market), for the proper marketing of the interest, for the agreement of price and terms and for the completion of sale;

(c) that the state of the market, level of values and other circumstances were, on an earlier assumed date of exchange of contracts, the same as on the date of valuation; and

(d) that no account is taken of any additional bid by a purchaser with a "special interest".

We have made the necessary searches and investigations to assist us in our assessment of value and have also last inspected the subject site on 9th November, 2005 and are pleased to submit our report and valuation hereunder;

(2) LOCATION AND LOCALITY

The subject property is located in an industrial estate at Benoi Road. It is situated off the junction of Benoi Road and Pioneer Road. This industrial estate is accessible from Benoi Road.

The immediate locality is industrial in character, comprising mainly detached industrial building and multi-storey purpose built factories. Prominent shipyards nearby include Keppei Singmanne and Singapore Technologies Marine.

Food centre, fire post and other amenities are available in the vicinity.

Public transport is available with access to bus stands, Pan-Island Expressway, Ayer Rajah Expressway and other expressways.

(3) DESCRIPTION OF SUBJECT PROPERTY

The subject property, known as 3 Benoi Road, is a purpose built shipyard comprising several detached workshops with assembly area and ancillary 2-storeyed office building. Its has frontage to car parking area.

The workshops are generally constructed with steel trusses, steel columns, metal cladding wall, reinforced concrete floor and metal roofs. The office building is constructed with reinforced concrete floor, reinforced concrete wall with in fill plastered brick walls, concrete staircases and concrete flat roof. It is fitted with solid timber doors, aluminium framed sliding and top hung glass windows and interior timber doors. Its external facade is fitted with metal stairs.

The office block is served by concrete staircases.

Interior Accommodation and Finishes & Fittings are as follows:

Accommodation	**Finishes & fittings**
Ground Floor	
Reception Area	Vinyl tiles to floor, light holding false ceiling boards, solid panel glass doors
Separate Male/Female Toilets	Mosaic tiled floor, full wall height glaze tiles, sanitary ware
Workshops Area, Canteen, Carpentry Shop, Store	Cement screed floor, metal doors, timber doors

Accommodation	Finishes & fittings
Second Storey	
General Office Area, Manager's Room, Conference Room, Executive Rooms	Carpet for floor, split unit air-condition diffusers
Stairs	Vinyl tiles, timber railing
Separate Male/Female Toilets	Mosaic tiled floor, full wall height glaze tiles, sanitary ware
Other Fixtures & Fittings	The office area is fitted with suspended ceiling boards with light fittings and split unit air-conditioners. The building is equipped with fire alarm, fire hose reels, fire extinguishers, electric lighting, electrical wiring and water pipes

The buildings are around 30 years old.

(4) DESCRIPTION OF SUBJECT SITE

Subject site on which the shipyard is built comprises a generally flat land at road level with open air car parking lots for visitors, loading/unloading by, driveway and storage area available within the compound which is enclosed by chain link fence, brick wall with metal gates. There is a guardhouse at the entrance. The subject site has a long frontage with entrance/exit to Benoi Road. It has a water frontage to Benoi Channel with 5 berths at the quay line.

(5) OCCUPATION OF PROPERTY

The subject property was part owner occupied and part tenanted as on the date of inspection.

(6) LEGAL DESCRIPTION OF SUBJECT PROPERTY

According to the Singapore Land Authority's record, the legal description of the subject property is as follows:–

Lot No.	:	183N
Mukim	:	7
Land Area	:	47894 sq m (or about 515,531 sq ft)
Tenure	:	30-year lease commencing from 1st January, 1972, in its letter dated 8th September, 2003, the JTC Corporation ("JTC") granted the approval for a renewal of lease of 9 years with effect from 1st January, 2002

(7) DATE OF INSPECTION

We have last inspected the subject property on 9th November, 2005.

(8) STATE OF MAINTENANCE

As on the date of inspection, the subject property was in an average state of repair and maintenance.

(9) MASTER PLAN ZONING

The subject land is zoned "Business 2" in the Singapore Master Plan, 2003 Edition.

(10) EXISTING USE

As on the date of inspection, the subject property was used as a shipyard with ancillary office.

(11) FLOOR AREA

According to the information made available to us, the subject property has a floor area of approximately 9289.07 sq m (or about 99,988 sq ft) subject to survey. The floor area comprised the following:

Front 2-storey Administration Block	:	836.12 sq m
Covered Fabrication Workshops	:	8036.13 sq m
Single-storey Canteen	:	412.21 sq m
Single-storey Guardhouse	:	4.61 sq m
	Total	9289.07 sq m

In addition the subject property has a water frontage of about 229.514 metre-run to Benoi Channel.

(12) LAND RENT

According to the information made known to us, the Land Rent payable to JTC is S$48,851 (approximately HK$225,692) per month.

(13) STRUCTURAL SURVEY

We have not been instructed to carry out a structural survey of the subject property. We have assumed that the subject property is in sound structural condition for the purpose of this valuation.

(14) METHOD OF VALUATION

We use the Investment Method of valuation but cross checked with the Comparable Sale Method to determine the open market value of the balance leasehold interest of the subject property. We took into consideration the current rent being received – approximately S$146,470 (approximately HK$676,691) per month, from the subject property which is at present held for investment purpose. Relevant adjustments are made to sales of similar properties in the vicinity to account for the difference in size, market condition and other factors to arrive at the value of the subject property. As the future land rent (payable to JTC) has yet to be made known to us, we therefore rely on the current land rent in our computation of the balance 5-year leasehold interest.

This report contains all material details of the basis of valuation which follow "The HKIS Valuation Standards on Properties" (First Edition 2005) published by The Hong Kong Institute of Surveyors.

(15) VALUATION

Having taken into account the condition of the subject property, the sales evidence available, the existing rent receivable from the subject property and the state of the property market, we are of the opinion that.

That the current open market value of the balance 5-year leasehold interest of the subject property at 3 Benoi Road Singapore 829877 as on 31st December 2005 is S$4,500,000 (Singapore Dollars Four Million & Five Hundred Thousand Only) (approximately HK$20,790,000) on vacant possession basis for sale purpose.

Yours faithfully
Vantage Valuers & Property Consultants Pte Ltd
KOH HENG ANN
Director, Licensed Appraiser
BSc (Estate Management)
Singapore Appraiser's Licence No. AD041-2005779F

Koh Heng Ann is a Licensed Appraiser in Singapore under the Appraisers and House Agents Act (Chapter 16) of Singapore who has 22 years of experience within the property valuation profession and has extensive knowledge and experience in residential, commercial and industrial property valuation in Singapore.

2. In respect of property interest held by the Group

Shenzhen Zhongxinhuacheng Real Estate Assessment Limited
Room 608, Tongqing Mansion, Tongle Building, Sungangdonglu, Luohu District, Shenzhen

27 January, 2006

The Directors
UDL Holdings Limited

Dear Sirs,

We have accepted the engagement of UDL Holdings Limited (the "Company") to value the usage rights to the industrial land and factory property situated outside Xigiang Zhongshun Daweidi, Henglan County, Zhongshan City, Guangdong Province rented by a subsidiary of the Company, namely UDL Argos Engineering and Heavy Industries Company Limited. We have physically visited the location, made the relevant enquiries and obtained such legal documents as we considered necessary for the purpose of providing you with our opinion of the property valuation as at 31st December, 2005.

We have conducted our analysis in accordance with the national standard of the People's Republic of China on "Valuation norms for real estates" (「房地產估價規範」) to form opinions and conclusions for the preparation of this valuation consultation report. The facts stated in this valuation consultation report are true and accurate.

The information provided in this valuation consultation report represents our professional analyses, opinions and conclusions, which are subject to by the assumptions and limiting conditions as stated herein. We are not interested in the subject property of this report, nor do we have any interest in or conflict with or prejudice against the parties concerned.

We have physically inspected the subject property of this valuation consultation report.

In this consultation report is our valuation of the open market value of real estates, which is intended to the best price at which the sale of an interest in a property would have been reasonably completed at the date of valuation, assuming that:

a. prior to the date of valuation, there have been a reasonable period of time for both parties to the transaction to fully understand the nature of the property and the state of the real estates market as well as for negotiation of transaction.

b. both parties are at a fair state of transaction with sufficient bargaining rights in the real estates dealings.

c. no account is taken of any additional bid by a purchaser with a special interest.

d. we have defined the property interest of the subject property with the relevant information provided by the instructing party. Regarding the gross floor area of the subject property, the valuation is based on the relevant information provided by the instructing party, and we have not conducted any on-site measurement.

e. we have only carried out a general inspection on the exterior of the property and have not made any survey on the structure or the service. Therefore, we are unable to confirm whether the building structure and service have material defects. This report has been prepared with an assumption that the property's interior structure and equipment are free of material defects.

f. the validity of the usage fees of industrial land and factory property represents the remaining term of the leasing contract, which is equivalent to about 17 years starting from 31st December, 2005.

Based on the actual state of the above land and property, we have adopted the replacement cost approach and income approach to carry out this valuation in accordance with the legal principle, highest and best use principle, replacement principle and valuation date principle:

Cost approach means the calculation of the replacement or reproduction costs of building the subject property at the valuation date, net of depreciation, in order to appraize an objective and reasonable price or value of the subject property.

In the course of this asset valuation, the scope of asset valuation, appraised value and valuation parameters were determined and selected in accordance with the internal financial statements of the asset owner, external economic environment and market conditions on this date.

Price standards (information) adopted in this asset valuation are prevailing market prices in the open market on the valuation date.

Income approach measures the objective and reasonable price or value of the subject property by discounting the total expected future ordinary net income of the subject property at an appropriate capitalization rate at the valuation date.

Rental industrial and factory premises with identical use value that can replace each other may have impact on and result in competition to each other, thus affecting their prices and leading to similar price movements. This is the valuation principle of value parameter modification to land and factory premises on rental basis.

No allowance has been made in our report for any charges, guarantees or indebtedness on the subject property nor for any expenses or taxation that may be incurred in effecting the sale.

This report contains all material details of the basis of valuation which follow "The HKIS Valuation Standards on Properties" (First Edition 2005) published by The Hong Kong Institute of Surveyors.

Our summary of value and valuation certificate are attached herewith.

Yours faithfully,
Shenzhen Zhongxinhuacheng Real Estate Assessment Limited
Shenzhen Real Estate Assessment Organization
Certificant No(「資質証書」):深房評字(2005) 200號
Zhang Jing
Executive Director
PRC Real Estate Appraiser
Qualification Certificate No. 0006595

Zhang Jing is a qualified PRC Real Estate Appraiser registered with the Department of Construction of the PRC and holding a Qualification Certificate of Real Estate Appraiser (房地產估價師資格証書) granted by Shenzhen Immovable Property Assets Appraisal Academic Society (深圳市不動產估價學會), who has around 9 years of experience within the real estate assessment profession and has extensive knowledge and experience in residential, commercial and industrial property assessment in PRC.

Valuation Summary

	Property	Open market value as at 31st December, 2005
1.	A piece of industrial land and factory property situated outside Xigiang Zhongshun Daweidi, Henglan County, Zhongshan City, Guangdong Province	RMB1,020,000.00 (approximately HK$990,291.00)

Valuation Certificate

Property	Description and Tenure	Open market value as at 31st December, 2005
A piece of industrial land and factory property situated outside Xigiang Zhongshun Daweidi, Henglan County, Zhongshan City, Guangdong Province	The property has a land area of 33,662.10 square meters and the factory area of 1,358 square meters. The rights to use the subject property were acquired on 1st October, 2002 with the payment of RMB1,200,000 (approximately HK$1,165,048) leasing fees by UDL Argos Engineering and Heavy Industries Company Limited ("UDL Argos") which has the legal rights of use for 20 years. Total costs expensed on the property (including the RMB1,200,000 (approximately HK$1,165,048) acquisition costs) is RMB1,850,000 (approximately HK$1,796,116). The rights to use the above property was obtained from Zhongshan Henglan Town Industrial Development Co Ltd through a leasing contract. The title of the above property is vested with Zhongshan Henglan Town Industrial Development Co Ltd. There are no other material conditions affecting the legal rights of use of the property by UDL Argos.	RMB 1,020,000.00 (approximately HK$990,291.00)

The following is the text of a letter from Win Well Engineering and Surveyors Ltd., an independent professional valuer, prepared for the purpose of incorporation in this circular in connection with its valuation of the vessels to be acquired by the Company under the Multi-Ventures Agreement, the Bugsy Agreement and the Buy Back Agreement.

WIN WELL ENGINEERING
& SURVEYORS LIMITED

Win Well Engineering and Surveyors Ltd
Blk. 4, 8/F., Flat B,
Golden Dragon Ind. Centre,
182-190 Tai Lin Pai Rd.,
Kwai Chung,
N.T., Hong Kong

27 January 2006

The Directors
UDL Holdings Limited
7/F Aitken Vanson Centre,
61 Hoi Yuen Road,
Kwun Tong, Kowloon
Hong Kong

Dear Sirs

VALUATION OF MARINE VESSELS UNDER THE MULTI-VENTURES AGREEMENT, THE BUGSY AGREEMENT AND THE BUY BACK AGREEMENT

1.0 SUMMARY

1.01 Instructions

Win Well Engineering & Surveyors Limited has been retained jointly by UDL Holdings Limited, Multi-Ventures Limited, Bugsy Development Company Limited and Harbour Front Limited to conduct and prepare valuations of the three respective groups of marine vessels under the Multi-Ventures Agreement, the Bugsy Agreement and the Buy Back Agreement (hereinafter referred to as the "Vessels). In accordance with your instructions, this letter has been prepared for inclusion in a circular to the shareholders of UDL Holdings Limited relating to its acquisitions of the Vessels.

We confirm that we have undertaken inspections, made relevant enquiries and obtained such further information as is available, for the purpose of providing you with our opinion on the value of the Vessels.

1.02 Purpose of valuation

The purpose of this valuation is to formulate and express an opinion of open market value for continued existing use of the subject Vessels. It is our understanding that the valuation is required for accounting/financial purposes.

1.03 Valuation date

Our valuation is our opinion of the open market value for continued existing use of the subject Vessels as at 31 December 2005 as inspected during the period of 22 December 2005 to 31 December 2005 and on the assumption that the condition is the same as at inspection dates.

1.04 Opinion of value

Premised on the accompanying assumptions, considerations and schedule, our opinion of the open market value for continued existing use of the Vessels as at valuation date is fairly represented in the amount of:

(a) Vessels under the Multi-Ventures Agreement

HK$5,440,000 (Hong Kong Dollars Five Million and Four Hundred and Forty Thousand Only.)

(b) Vessels under the Bugsy Agreement

HK$35,000,000 (Hong Kong Dollars Thirty Five Million Only.)

(c) Vessels under the Buy Back Agreement

HK$37,700,000 (Hong Kong Dollars Thirty Seven Million and Seven Hundred Thousand Only.)

We hereby certify that we have neither any present nor any prospective interest in any of the concerned companies or the appraised Vessels or the value reported.

2.0 DESCRIPTIVE INFORMATION

2.01 Vessels evaluated

(a) Vessels under the Multi-Ventures Agreement

Nine Vessels subject to this valuation reportedly owned by Multi-Ventures Limited, consists of:

- Landing Pontoon – 1 no.
- Pontoon – 2 no.
- Motor Launch – 4 no.
- Motor Tug – 2 no.

While Multi-Ventures Limited is the beneficial owner and authorized agent of the other four Vessels, consists of:

- Pontoon – 1 no.
- Motor Launch – 1 no.
- Motor Tug – 2 no.

(b) *Vessels under the Bugsy Agreement*

Sixteen Vessels subject to this valuation reportedly owned by Bugsy Development Co. Ltd., consists of:

- Grab Dredger – 1 no.
- Split Hopper Barge – 13 no.
- Motor Tug – 2 no.

While Bugsy Development Co. Ltd. is the beneficial owner and authorized agent of the other four Vessels, consists of:

- Grab Dredger – 1 no.
- Split Hopper Barge – 2 no.
- Cutter Suction Dredger – 1 no.

(c) *Vessels under the Buy Back Agreement*

Eight Vessels subject to this valuation reportedly owned by UDL Marine Assets (Singapore) Pte Ltd., whose entire shareholding will be beneficially owned by Harbour Front Limited or its subsidiary upon completion of a Disposal Agreement dated 29 December 2005 entered into between UDL Holdings Limited and Harbour Front Limited, consists of:

- Grab Dredger – 2 no.
- Split Hopper Barge – 1 no.
- Motor Tug – 5 no.

While UDL Marine Assets (Singapore) Pte Ltd. is the beneficial owner and authorized agent of the other one Vessel, consists of:

- Motor Tug – 1 no.

2.02 Location

The subject Vessels were inspected in Hong Kong and Zhongshan, PRC.

2.03 Observation

At the time of our inspections, the subject Vessels were observed to be generally in fair and idling condition. Although the Vessels were not used, it is our opinion that they are capable of operating the purpose for which they were designed and built for, subject to licensing repair works to be carried out on some of the vessels.

3.0 Basis of value

We have valued the subject Vessels on the basis of:

Open market value for continued existing use which is defined as the estimated amount at which the subject asset in its continued use might be expected to be purchased and sold between a willing buyer and a willing seller, neither being under compulsion, each having a reasonable knowledge of all relevant facts, with equity to both, and contemplating the retention of the asset in its present existing use as part of an on-going business.

The opinion of open market value for continued existing use is not necessarily intended to represent the amount that might be realized from piecemeal disposition of the subject asset in the open market or from an alternative use of the asset, and is expressed as subject to adequate profitability of the undertaking.

4.0 VALUATION METHODOLOGY

4.1 Approaches to value

In arriving at our opinion of value, we have considered the two generally accepted approaches to value, namely the depreciated replacement cost approach and market data approach.

Depreciated Replacement Cost Approach – considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence present (physical, functional or economic), taking into consideration past and present maintenance policy and rebuilding history. This approach generally furnishes the most reliable indication of the value of assets in the absence of a known market based on comparable sales.

Market Data Approach – considers prices recently paid for similar assets, with adjustments made to the indicated market price to reflect condition and utility of the appraised assets relative to the market comparative. Assets for which there is established used market comparable may be appraised by this approach.

4.2 Scope of investigation

We have conducted a listing and inspections of the subject Vessels, obtained further information, investigated market conditions and interviewed personnel to establish condition, utility and history of the Vessels.

During our inspections conducted from 22 December 2005 to 31 December 2005, we observed that all the vessels are safely moored. Any deferred maintenance, physical wear and tear, operating malfunctions, lack of utility, or any observable conditions distinguishing the appraised Vessels from vessel of like kind in new conditions were noted and made part of our judgment in arriving at the values.

We did not attempt to operate the Vessels. Our inspections were superficial only. We did not undertake any tests of equipment and did not undertake any survey of the hull, hoists and engine.

We have relied to a considerable extent on information such as records, listings and specifications provided by the Company. We have not investigated the title or any liabilities affecting the Vessels appraised.

We have not made any deduction in respect of any grant either available or received, neither has any adjustment been made for any outstanding amounts owing under financing agreement (if applicable).

4.3 Considerations and assumptions

In forming our opinion of value, the following considerations and assumptions were made:

- Cost of replacement or reproduction, defined as the estimated amount of money needed to acquire in like kind and in new condition an asset or group of assets taking into consideration current prices for materials, manufactured equipment, labour, contractor's overhead, profit and fees and all other attendant costs associated with its acquisition and installation in place, but without provision for financing charges.

- Cost of engineering, supervision and commissioning for those plant items which are deemed appropriate.

- Accrued depreciation which was based on the observed condition and present and prospective serviceability in comparison with new units of like kind.

- Maintenance policy, character, level of use of the vessels, and to all other factors which were deemed to have an influence in their value.

- The Vessels will continue in their present existing use in business subject to adequate potential profitability of the business.

- Estimated prices from and to a dealer for similar used vessels in the secondhand market, if available.

Yours faithfully,
For and on behalf of
Win Well Engineering
and
Surveyors Limited
Tam Chi Yung
B.Eng., C.Eng., M.I. MarE., MHKIE., RPE
Director

Tam Chi Yung has 8 years of experience within the marine equipment survey and appraisal profession and has extensive knowledge and experience in valuation of marine vessels.

1. RESPONSIBILITY STATEMENT

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

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and following completion of the Rights Issue were and will be as follows:

Authorised:		*HK$*
12,000,000,000	Shares	120,000,000.00
Issued and fully paid or credited as fully paid or to be issued under the Rights Issue:		
989,222,302	Shares as at the Latest Practicable Date	9,892,223.02
2,374,133,524	Rights Shares to be issued	23,741,335.24
3,363,355,826	Shares	33,633,558.26

All the Shares in issue and to be issued rank and will rank pari passu in all respects with each other including rights to dividends, voting and return of capital.

No share or loan capital of the Company has been issued or is proposed to be issued for cash or otherwise and no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any such capital, except for the Right Shares.

The Shares are listed on the Stock Exchange. No part of the share or loan capital of the Company is listed or dealt in, nor is listing or permission to deal in the share or loan capital of the Company being, or proposed to be, sought on any other stock exchange.

3. DISCLOSURE OF INTERESTS

(a) As at the Latest Practicable Date, the interests and short positions of each Director in the shares or underlying shares of the Company and chief executive of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	The Company/ name of associated corporation	Capacity	Number of shares	Approximate percentage of interests
Leung Yu Oi Ling, Irene	The Company	Beneficial owner	65,223,900 *(Note 1(a))*	6.59% *(Note 2)*
		Through controlled corporations	2,393,567,449 *(Notes 1(b), 3, 4 and 5)*	241.96% *(Note 2)*
	Harbour Front *(Note 6)*	Beneficial owner	1	33.33%
Leung Chi Yin, Gillian	The Company	Beneficial owner	63,199,200 *(Note 7(a))*	6.39% *(Note 2)*
		Through controlled corporations	2,330,878,249 *(Notes 3, 4 and 7(b))*	235.63% *(Note 2)*
	Harbour Front *(Note 6)*	Beneficial owner	1	33.33%
Yuen Ming Fai, Matthew	The Company	Interest of spouse	4,800	Negligible

Notes:

1. (a) These Shares include the Rights Shares which will be provisionally allotted to Mrs. Leung Yu Oi Ling, Irene under the Rights Issue.

   (b) These Shares include (i) the Rights Shares which will be provisionally allotted to companies controlled by Mrs. Leung Yu Oi Ling, Irene under the Rights Issue; and (ii) 565,996,774 excess Right Shares which Harbour Front has undertaken to take up pursuant to the Underwriting Agreement.

2. This is calculated on the basis of 989,222,302 Shares in issue as at the Latest Practicable Date.

3. These Shares include 2,268,189,049 Shares in which Harbour Front is interested, including the Rights Shares and excess Rights Shares referred to in Note 1(b) above. Harbour Front is the trustee of a unit trust. All of the units in the unit trust are beneficially owned by a discretionary trust, the beneficiaries of which are Mrs. Leung Yu Oi Ling, Irene and her children, Ms. Leung Chi Yin, Gillian, Mr. Leung Chi Hong, Jerry and Mr. Leung Kai Hong (aged under 18).

4. These Shares comprise (i) 30,882,200 Shares in which Bugsy is interested and include the Rights Shares which will be provisionally allotted to it under the Rights Issue (Bugsy is a wholly owned subsidiary of Harbour Front); and (ii) 31,807,000 Shares in which YTL Strategic Corporate Consultancy Limited is interested and include the Rights Shares which will be provisionally allotted to it under the Rights Issue. YTL Strategic Corporate Consultancy Limited is beneficially owned by Harbour Front, Ms. Leung Chi Yin, Gillian, Mr. Leung Chi Hong, Jerry, Mr. Leung Kai Hong and Mrs. Leung Yu Oi Ling, Irene, as to 18%, 22%, 20%, 20% and 20% respectively.

5. These Shares include 62,689,200 Shares in which Decorling Limited, which is beneficially owned by Mrs. Leung Yu Oi Ling, Irene, is interested and include the Rights Shares which will be provisionally allotted to it under the Rights Issue.

6. Harbour Front is the holding company of the Company and is thus an associated corporation of the Company.

7. (a) These Shares include the Rights Shares which will be provisionally allotted to Ms. Leung Chi Yin, Gillian under the Rights Issue.

   (b) These Shares include (i) the Rights Shares which will be provisionally allotted to companies controlled by Ms. Leung Chi Yin, Gillian under the Rights Issue; and (ii) 565,996,774 excess Right Shares which Harbour Front has undertaken to take up pursuant to the Underwriting Agreement.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

(b) As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which have been, since 31 July 2005, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group save for the Acquisitions, the Disposal and the Buy Back, particulars of which are set out in the "Letter from the Board" contained in this circular.

(c) As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group since 31 July 2005, being the date to which the latest published audited financial statements of the Company were made up, and which was significant in relation to the business of the Group save for (i) the interim finance agreement dated 5 October 2005 and made between Harbour Front as the lender and the Company as the borrower in relation to an interim financing facility of HK$20,000,000, (ii) the Underwriting Agreement; (iii) the YHCD Agreement; (iv) the Multi–Ventures Agreement; (v) the Bugsy Agreement; (vi) the Disposal Agreement; and (vii) the Buy Back Agreement. Each of the counterparty to the said agreements is either Harbour Front or a company in which Harbour Front has significant influence. Mrs. Leung Yu Oi Ling, Irene and Ms. Leung Chi Yin, Gillian, each being an executive Director, were beneficiaries of a discretionary trust which beneficially owns all of the units in an unit trust in which Harbour Front is a trustee and were also directors of Harbour Front. Accordingly, each of Mrs. Leung Yu Oi Ling, Irene and Ms. Leung Chi Yin, Gillian are considered as interested in each of the transactions as contemplated under (i) the interim finance agreement dated 5 October 2005 and made between Harbour Front as the lender and the Company as the borrower in relation to an interim financing facility of HK$20,000,000, (ii) the Underwriting Agreement; (iii) the YHCD Agreement; (iv) the Multi-Ventures Agreement; (v) the Bugsy Agreement; (vi) the Disposal Agreement; and (vii) the Buy Back Agreement.

4. SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date, so far as was known to the Directors, the following are details of the persons (other than a Director or chief executive of the Company) who had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company were as follows:

Name of Shareholder	Capacity	Number of Shares held	Approximate percentage of interest
Mr. Matthew Finbarr O' Driscoll	Scheme Administrator	252,306,195 *(Note 1)*	25.51% *(Note 4)*
Harbour Front	Beneficial owner	2,268,189,049 *(Note 2)*	229.29% *(Note 4)*
	Through controlled corporation	30,882,200 *(Note 3)*	3.12% *(Note 4)*
Value Partners Investment Limited	Beneficial owner	61,153,097 *(Note 5)*	6.18% *(Note 4)*
Wang Xianping	Through controlled corporation	61,153,097 *(Note 5)*	6.18% *(Note 4)*
Emperor Securities Limited	Beneficial owner	427,075,262	12.69% *(Note 10)*
Emperor Financial Services (Hong Kong) Limited	Through controlled corporation	427,075,262 *(Note 6)*	12.69% *(Note 10)*
Joybridge Services Limited	Through controlled corporations	427,075,262 *(Note 6)*	12.69% *(Note 10)*
Emperor International Holdings Limited	Through controlled corporations	427,075,262 *(Note 6)*	12.69% *(Note 10)*
Charron Holdings Limited	Through controlled corporations	427,075,262 *(Note 6)*	12.69% *(Note 10)*
Jumbo Wealth Limited	Through controlled corporations	427,075,262 *(Notes 6 and 7)*	12.69% *(Note 10)*
GZ Trust Corporation	Trustee	427,075,262 *(Notes 6 and 8)*	12.69% *(Note 10)*
Luk Siu Man, Semon	Interest of spouse	427,075,262 *(Notes 6, 7, 8 and 9)*	12.69% *(Note 10)*
Yeung Sau Shing, Albert	Founder of trusts	427,075,262 *(Notes 6, 7, 8 and 9)*	12.69% *(Note 10)*

Notes:

1. Mr. Matthew Finbarr O'Driscoll is the Scheme Administrator of the Schemes, and holds 252,306,195 Shares on trust for the creditors of the Schemes pending distribution pursuant to the terms of the Schemes.

2. These Shares include Shares in which Harbour Front is interested, the Rights Shares which will be provisionally allotted to it under the Rights Issue and 565,996,774 excess Right Shares which it has undertaken to take up pursuant to the Underwriting Agreement. Harbour Front is the trustee of a unit trust. All of the units in the unit trust are beneficially owned by a discretionary trust, the beneficiaries of which are Mrs. Leung Yu Oi Ling, Irene and her children, Ms. Leung Chi Yin, Gillian, Mr. Leung Chi Hong, Jerry and Mr. Leung Kai Hong (aged under 18). Each of Mrs. Leung Yu Oi Ling, Irene, Ms. Leung Chi Yin, Gillian and Mr. Leung Chi Hong, Jerry holds one-third of the issued share capital of Harbour Front.

3. These Shares comprise the issued Shares in which Bugsy is interested and the Rights Shares which will be provisionally allotted to it under the Rights Issue. Bugsy is a wholly owned subsidiary of Harbour Front.

4. This is calculated on the basis of 989,222,302 Shares in issue as at the Latest Practicable Date.

5. 61,153,097 Shares are held by Value Partners Investment Limited which is 100% beneficially owned by Mr. Wang Xianping.

6. These Shares are the Right Shares which Emperor Securities Limited has agreed to underwrite pursuant to the Underwriting Agreement. Emperor Securities Limited is a wholly owned subsidiary of Emperor Financial Services (Hong Kong) Limited, which in turn, is a wholly owned subsidiary of Joybridge Services Limited. Joybridge Services Limited is a wholly owned subsidiary of Emperor International Holdings Limited. Emperor International Holdings Limited is owned by Charron Holdings Limited as to 71.48%. Charron Holdings Limited is a wholly owned subsidiary of Jumbo Wealth Limited. Jumbo Wealth Limited is a wholly owned subsidiary of GZ Trust Corporation.

7. Jumbo Wealth is the trustee of the A&A Unit Trust.

8. GZ Trust Corporation is the trustee of The Albert Yeung Discretionary Trust.

9. Mr. Yeung Sau Shing, Albert is the founder of The Albert Yeung Discretionary Trust. The A&A Unit Trust is under The Albert Yeung Discretionary Trust. Ms. Luk Siu Man, Semon is the spouse of Mr. Yeung Sau Shing, Albert.

10. This is calculated on the basis of 3,363,355,826 Shares in issue (which share capital includes the Rights Shares to be allotted and issued under the Rights Issue).

Save as disclosed above, there was no person known to the Directors, who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

5. SERVICE AGREEMENTS

As at the Latest Practicable Date, there was no existing or proposed service contract, excluding contract expiring or terminable by the employer within one year, without payment of compensation (other than statutory compensation) between any of the Directors with any member of the Group.

6. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business of the Company) have been entered into by the Company and/or member(s) of the Group within two years immediately preceding the date of this circular which are or may be material:

(a) the interim finance agreement dated 5 October 2005 and made between Harbour Front as the lender and the Company as the borrower in relation to an interim financing facility of HK$20,000,000;

(b) the Underwriting Agreement;

(c) the YHCD Agreement;

(d) the Multi-Ventures Agreement;

(e) the Bugsy Agreement;

(f) the Disposal Agreement; and

(g) the Buy Back Agreement.

7. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors and their respective associates was interested in any business apart from the business of the Group, which competed or was likely to compete, either directly or indirectly, with that of the Group.

8. LITIGATION

Litigation against the Company in Bermuda

As disclosed in the Company's circular dated 1 August 2003, on 16 May 2002, the petitioners lodged a petition ("**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 a writ in Bermuda ("**Bermuda Writ**") against the Company and against Mrs. Leung Yu Oi Ling, Irene, Mr. Chan Kim Leung, Ms. Leung Chi Yin, Gillian, Mr. Pao Ping Wing *JP* and Mr. Wong Pui Fai who were directors of the Company in April 2001, at the time of the special general meeting as regards the then subscription of shares of the Company ("**Subscription SGM**"). Mr. Wong Pui Fai and Mr. Chan Kim Leung resigned as the directors of the Company on 28 April 2002 and 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 ("**Amended Petition**"). The Amended Petition was duly filed on 3 April 2003.

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

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

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

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

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

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

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

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

   (iii) the 30,111,520 subscription rights shares taken up by Harbour Front pursuant to its application for excess 2002 Rights Shares.

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

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

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

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

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

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

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

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

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

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

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

Other litigation against the Group

On 11 April 2005, three 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 Mrs. Leung Yu Oi Ling Irene in respect of claim damages arising from the inability of Fonfair as landlord of "Yau Tong Property" to recover from the former tenant, Universal Dockyard Limited (which was a subsidiary of the Company) 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 three plaintiffs made a claim against 10 defendants including the Company, UDL Management Limited, UDL Ship Management Limited and Mrs. Leung Yu Oi Ling, Irene.

In the opinions of the Group's solicitors, there is no need to join so many parties as co-defendants and this action might subject to further legal consideration and show that Leung Yuet Keung's and his associates' claims in this action against so 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 the 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.

As at the Latest Practicable Date, the above legal proceedings had not had any further material developments. Save as disclosed above, no member of the Group was engaged in any litigation or claim of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any members of the Group.

9. CORPORATION INFORMATION

Registered office	Crawford House 4th Floor 50 Cedar Avenue Hamilton HM11 Bermuda
Head office and principal place of business	Room 702, 7th Floor Aitken Vanson Centre 61 Hoi Yuen Road Kwun Tong Kowloon Hong Kong
Company secretary	Mr. Pang Kee Chau *Member of Hong Kong Institute of Certified Public Accountants and Certified Practising Accountant of Australia*
Qualified accountant	Mr. Pang Kee Chau *Member of Hong Kong Institute of Certified Public Accountants and Certified Practising Accountant of Australia*
Authorised representatives	Mrs. Leung Yu Oi Ling, Irene *Executive Director* Mr. Lee Ka Lun, Stephen *Executive Director*
Principal share registrar and transfer office	The Bank of Bermuda Limited 6 Front Street Hamilton HM11 Bermuda
Hong Kong branch share registrar and transfer office	Tengis Limited 26th Floor, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Principal banker	Industrial and Commercial Bank of China (Asia) Limited
Auditors	CCIF CPA Limited Certified Public Accountants 37/F, Hennessy Centre 500 Hennessy Road Causeway Bay Hong Kong

Legal advisers of the Company	*As to Hong Kong laws in general:* Tsang & Lee, Solicitors 1510-12, 15th Floor Nan Fung Tower 173 Des Voeux Road Central Hong Kong *As to Hong Kong laws on the Rights Issue, the Acquisitions, the Disposal and the Buy Back:* Chiu & Partners 41st Floor, Jardine House 1 Connaught Place Central Hong Kong
Financial adviser	AMS Corporate Finance Limited 20/F., Hong Kong Diamond Exchange Building 8-10 Duddell Street Central Hong Kong

10. EXPERTS

The following are the qualifications of the experts who have given opinion or advice contained in this circular:

Name	**Qualification**
Hercules	a corporation licensed to carry on type 6 regulated activity (advising on corporate finance) under the SFO
CCIF CPA Limited ("**CCIF**")	Certified Public Accountants
Vantage Valuers & Property Consultants Pte Ltd ("**Vantage**")	A firm of licensed valuers, Singapore
Win Well Engineering and Surveyors Limited ("**WWES**")	A firm of chartered engineers and marine vessel surveyors, Hong Kong
Shenzhen Zhongxinhuacheng Real Estate Assessment Limited ("**SZREA**")	A firm of licensed valuers, PRC

As at the Latest Practicable Date, none of Hercules, CCIF, Vantage, WWES or SZREA has any shareholding, directly or indirectly, in the Company or any of its members or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in the Company or any of its members.

Hercules, CCIF, Vantage, WWES and SZREA did not have any direct or indirect interest in any assets which have, since 31 July 2005, being the date of the latest published audited accounts of the Company, been acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to, any member of the Company.

Hercules, CCIF, Vantage, WWES and SZREA were not materially interested in any contract or arrangement entered into by any member of the Company which contract or arrangement is subsisting as at the date of this circular and which is significant in relation to the business of the Company taken as a whole.

11. CONSENTS

Hercules, CCIF, Vantage, WWES and SZREA have given and have not withdrawn their written consent as to the issue of this circular with the inclusion herein of their respective opinions or letters and/or reference to their names, opinions or letters in the form and context in which they respectively appear.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Room 702, 7th Floor, Aitken Vanson Centre, 61 Hoi Yuen Road, Kwun Tong, Hong Kong during normal business hours from 27 February 2006 up to and including the date of the SGM:

(a) the Company's memorandum of association and bye-laws of the Company;

(b) the material contracts as referred to in the paragraph 6 to this appendix;

(c) the annual report of the Group for each of the two financial years ended 31 July 2005;

(d) the letter from the Independent Board Committee, the text of which is set out on page 45 of this circular;

(e) the letter from Hercules, the text of which is set out on pages 46 to 67 of this circular;

(f) the letter of consents referred to in paragraph 11 of this appendix;

(g) the accountants' report of the Group for the three years ended 31 July 2005 as set out in section 9 of Appendix I to this circular;

(h) the accountants' report on YHCD prepared by CCIF for the three years ended 31 March 2005 and the four months ended 31 July 2005 as set out in Appendix II to this circular;

(i) the report issued by CCIF in connection with the statement of unaudited pro forma consolidated net tangible assets/liabilities of the Group set out in Appendix I to this circular and the unaudited pro forma financial information on the Resultant Group as set out in Appendix III to this circular;

(j) the property valuation report issued by Vantage and the property valuation report issued by SZREA as set out in sections 1 and 2 of Appendix V to this circular, respectively;

(k) the valuation report on vessels issued by WWES as set out in Appendix VI to this circular; and

(l) this circular.

13. MISCELLANEOUS

(a) The authorised representatives of the Company are

(i) Mrs. Leung Yu Oi Ling, Irene;

Mrs. Leung Yu Oi Ling, Irene, aged 52, joined the Group in June 1991 and is currently the Chairman of the Group. Mrs. Leung is at present responsible for the general management, business development and marketing of the Group. Mrs. Leung is a graduate of Leicester Polytechnic in the United Kingdom and has had extensive experience prior to joining the Group in running her own interior design company.

(ii) Mr. Lee Ka Lun, Stephen

Mr. Lee Ka Lun, Stephen, aged 48, joined the Group in March 2005 and is currently the Chief Executive Officer of the Group. Mr. Lee is at present responsible for the overall business operation of the Group. Mr. Lee has received B.A. (Architectural Studies) and B. Building from the University of Hong Kong. He is a Fellow Member of The Royal Institution of Chartered Surveyors and The Hong Kong Institute of Surveyors. He has more than 20 years experience in consultancy, project management, construction and dispute resolution. Prior to joining the Group, Mr. Lee was a General Manager of a public listed construction group in Hong Kong.

(b) The secretary of the Company is Mr. Pang Kee Chau who is also the qualified accountant of the Company. Mr. Pang is a member of Hong Kong Institute of Certified Public Accountants and a Certified Practising Accountant of Australia.

(c) The English text of this circular shall prevail over the Chinese text in case of inconsistency.

UDL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 620)

NOTICE IS HEREBY GIVEN that the special general meeting of UDL Holdings Limited ("**Company**") will be held on Tuesday, 14 February 2006 at 9.45 a.m. at Room 306, 3rd Floor, Hong Kong International Trade & Exhibition Centre, No. 1 Trademart Drive, Kowloon Bay, Hong Kong for the purpose of considering and, if thought fit, passing the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**

(a) conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting or agreeing to grant on or before 6 March 2006 the listing of, and permission to deal in, the Rights Shares (as defined below), in both nil-paid and fully paid forms; and (ii) subject to and conditional upon the obligations of Harbour Front Limited ("**Harbour Front**") and Emperor Securities Limited ("**Underwriter**") under the underwriting agreement dated 29 December 2005 made between the Company, Harbour Front and the Underwriter ("**Underwriting Agreement**"), a copy of which has been produced to this meeting and marked "**A**" and initialled by the chairman of the meeting for identification purpose, becoming unconditional:

(aa) the Underwriting Agreement be and is hereby confirmed, approved and ratified;

(bb) the issue of 2,374,133,524 shares of HK$0.01 each in the Company (each, a "**Rights Share**") pursuant to an offer by way of rights to holders of shares of HK$0.01 each of the Company (each, a "**Share**") at HK$0.03 per Rights Share ("**Rights Issue**") in the proportion of 12 Rights Shares for every five Shares held by holders of Shares ("**Shareholders**") whose names appear on the register of members of the Company on 14 February 2006 (or such other date as the Company may agree with the Underwriter in writing) ("**Record Date**") other than those Shareholders whose addresses on the register of members of the Company are outside Hong Kong on the Record Date and whom the directors of the Company ("**Directors**"), after taking into account the legal opinions provided by legal advisers if the Directors consider it necessary, consider their exclusion from the Rights Issue to be necessary or expedient on and otherwise subject to the terms and conditions set out in the circular to the Shareholders dated 27 January 2006 ("**Circular**"), a copy of which has been produced to this meeting and marked "**B**" and initialled by the chairman of the meeting for identification purpose, and on such other terms and conditions as may be determined by the Directors be and is hereby approved; and

(cc) the Directors be and are hereby authorised to allot and issue the Rights Shares on terms and conditions as set out in the Circular and on such other terms and conditions as may be determined by the Directors and to do all such acts and things, to sign and execute all such further documents and to take such steps as the Directors may in their absolute discretion consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Rights Issue and the Underwriting Agreement or any of the transactions contemplated thereunder;

(b) the conditional sale and purchase agreement dated 29 December 2005 made between the Company as purchaser and Best Year (Asia) Limited as vendor in respect of the sale and purchase of the entire issued share capital of, and shareholder's loans to, Denlane Shipbuilding Pte Limited ("**YHCD Agreement**"), a copy of which has been produced to the meeting and marked "**C**" and initialled by the chairman of the meeting for identification purpose, be and is hereby approved;

(c) the conditional sale and purchase agreement dated 29 December 2005 made between the Company as purchaser and Multi-Ventures Limited as vendor in respect of the acquisition of 13 vessels more particularly described in that agreement ("**Multi-Ventures Agreement**"), a copy of which has been produced to the meeting and marked "**D**" and initialled by the chairman of the meeting for identification purpose, be and is hereby approved;

(d) the conditional sale and purchase agreement dated 29 December 2005 made between the Company as purchaser and Bugsy Development Company Limited as vendor in respect of the acquisition of 20 vessels more particularly described in that agreement ("**Bugsy Agreement**"), a copy of which has been produced to the meeting and marked "**E**" and initialled by the chairman of the meeting for identification purpose, be and is hereby approved;

(e) the conditional sale and purchase agreement dated 29 December 2005 made between the Company as vendor and Harbour Front as purchaser in respect of the disposal by the Company of the entire issued share capital of, and shareholder's loans to, each of UDL Marine Assets (Hong Kong) Limited and UDL Marine Assets (Singapore) Pte Limited ("**Disposal Agreement**"), a copy of which has been produced to the meeting and marked "**F**" and initialled by the chairman of the meeting for identification purpose, be and is hereby approved;

(f) the conditional sale and purchase agreement dated 29 December 2005 made between the Company as purchaser and Harbour Front as vendor in respect of the acquisition of nine vessels more particularly described in that agreement ("**Buy Back Agreement**"), a copy of which has been produced to the meeting and marked "**G**" and initialled by the chairman of the meeting for identification purpose, be and is hereby approved; and

(g) the Directors be and are hereby authorised to do all such acts and things, to sign and execute all such further documents and to take such steps as the Directors may in their absolute discretion consider necessary, appropriate, desirable or expedient to give effect to or in connection with the YHCD Agreement, the Multi-Ventures Agreement, the Bugsy Agreement, the Disposal Agreement and the Buy Back Agreement or any of them or any of the transactions contemplated under any of such agreements."

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

Hong Kong, 27 January 2006

Principal place of business in Hong Kong:
Room 702, 7th Floor
Aitken Vanson Centre
61 Hoi Yuen Road
Kwun Tong
Hong Kong

Notes:

(1) A member entitled to attend and vote at the above meeting may appoint a proxy to attend and on a poll vote on his behalf and such proxy need not be a member of the Company. A form of proxy for use at the meeting is enclosed.

(2) In order to be valid, the form of proxy, together with any power of attorney or authority under which it is signed or a notarially certified copy of that power of attorney or authority, must be deposited at the Company's registrar in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

(3) Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the meeting convened or any adjournment thereof and in such event, the authority of the proxy shall be deemed to be revoked.

As at the date hereof, the board of directors of the Company comprises Mrs. Leung Yu Oi Ling, Irene, Ms. Leung Chi Yin, Gillian and Mr. Lee Ka Lun, Stephen as executive Directors and Mr. Pao Ping Wing, JP, Professor Yuen Ming Fai, Matthew and Ms. Tse Mei Ha as independent non-executive Directors.