THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this prospectus or as to the action to be taken, you should obtain professional advice.

If you have sold or transferred all your shares in UDL Holdings Limited ("**Company**"), you should at once hand this prospectus, together with the accompanying provisional allotment letter and form of application for excess rights shares, 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.

A copy of this prospectus, together with copies of the provisional allotment letter, the form of application for excess rights shares and (where applicable) the documents mentioned in the paragraph headed "Documents delivered to the Registrars of Companies" in appendix III to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance of Hong Kong and filed with the Registrar of Companies in Bermuda pursuant to the Companies Act 1981 of Bermuda. The Registrar of Companies in Hong Kong, the Registrar of Companies in Bermuda and the Securities and Futures Commission of Hong Kong take no responsibility as to the contents of this prospectus.

Dealing in the securities of the Company and the Rights Shares (as defined herein) in their nil-paid and fully-paid forms may be settled through CCASS (as defined herein) and you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser for details of the settlement arrangements and how such arrangements may affect your rights and interests.

Subject to the granting of the listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange as well as the compliance with the stock admission requirements of HKSCC, the Rights Shares in 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 respective commencement dates of dealings or such other dates 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 Operational Procedures in effect from time to time.

UDL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 620)

RIGHTS ISSUE OF 2,374,133,524 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) BY NO LATER THAN 4:00 P.M. ON WEDNESDAY, 1 MARCH 2006

Financial adviser to the Company

AMS Corporate Finance Limited

Underwriter

Emperor Securities Limited

It should be noted that the Underwriter (as defined herein) reserves the right to terminate its obligations under the Underwriting Agreement (as defined herein) on the occurrence of certain events. The Underwriter may terminate its commitment under the Underwriting Agreement prior to the Latest Time for Termination (as defined herein) 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 (as defined herein); 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 on the Stock Exchange due to exceptional financial circumstances or otherwise; or

(2) any material adverse change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading in securities, and a change in currency conditions for the purpose of this 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) the circular of the Company dated 27 January 2006 or this 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.

The Shares have been dealt in on an ex-rights basis since Thursday, 9 February 2006. Dealings in the Rights Shares in their 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 at or before 4:00 p.m. on Monday, 6 March 2006 (or such later time and/or date as the Company and the Underwriter may determine), the Underwriting Agreement shall terminate and the Rights Issue will not proceed. Any persons contemplating buying or selling Shares up to the date on which all the conditions of the Rights Issue are fulfilled and/or waived, and any dealing in the Rights Shares in their nil-paid form between Friday, 17 February 2006 to Friday, 24 February 2006 (both days inclusive), bear the risk that the Rights Issue may not become unconditional or may not proceed. Any Shareholders or other persons contemplating dealing in the Shares or the Rights Shares in their nil-paid form are recommended to consult their own professional advisers.

The latest time for acceptance and payment for the Right Shares is 4:00 p.m. on Wednesday, 1 March 2006. The procedures for acceptance and transfer are set out on pages 21 to 22 of this prospectus.

15 February 2006

CONTENTS

	2006
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 (the Standard (in English) and the Hong Kong Economic Times (in Chinese))	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 prospectus 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.

FORCE MAJEURE

It should be noted that the Underwriter reserves the right to terminate its obligations under the Underwriting Agreement 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 on the Stock Exchange due to exceptional financial circumstances or otherwise; or

(2) any material adverse change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading in securities, and a change in currency conditions for the purpose of this 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) the Circular or this 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.

In this prospectus, 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 prospectus
"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
"Circular"	the circular of the Company dated 27 January 2006 in connection with (1) the proposed Settlement Agreement and issue of promissory notes; (2) the proposed Rights Issue; (3) the Acquisitions; and (4) the Disposal and the Buy Back
"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) the 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

"Excess Application Form(s)"	form(s) of application for excess Rights Shares
"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
"HKSCC"	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 Shareholders"	Shareholders other than Harbour Front and its associates
"Latest Practicable Date"	10 February 2006, being the latest practicable date prior to the printing of this prospectus 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) appeared on the register of members of the Company on the Record Date and whose registered address(es) on that date was/were 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 prospectus, excludes, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Provisional Allotment Letter(s)"	provisional allotment letter(s) for the Rights Shares
"Qualifying Shareholder(s)"	the Shareholder(s), other than the Excluded Shareholder(s), whose name(s) appeared on the register of members of the Company on the Record Date
"Record Date"	14 February 2006, being the 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"	this prospectus, the Provisional Allotment Letter and the Excess Application Form
"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 prospectus
"SGM"	the special general meeting of the Company convened and 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
"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 prospectus

"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 prospectus
"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, 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 prospectus, 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:
Crawford House
4th Floor
50 Cedar Avenue
Hamilton HM11
Bermuda

Head office and principal place of business in Hong Kong:
Room 702, 7th Floor
Aitken Vanson Centre
61 Hoi Yuen Road
Kwun Tong
Kowloon
Hong Kong

15 February 2006

To the Qualifying Shareholders and, for information only, the Excluded Shareholders

Dear Sir or Madam,

RIGHTS ISSUE OF 2,374,133,524 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) BY NO LATER THAN 4:00 P.M. ON WEDNESDAY, 1 MARCH 2006

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.

On 27 January 2006, the Circular containing details of the Settlement Agreement and the issue of the Promissory Notes, the Rights Issue, the Acquisitions, the Disposal and the Buy Back and the notice of the SGM was despatched to each Shareholder. A copy of the Circular is available for inspection as set out in the paragraph headed "Documents available for inspection" in Appendix III to this prospectus.

At the SGM held on 14 February 2006, an ordinary resolution was passed on poll by the Independent Shareholders to approve, amongst other matters, the Rights Issue.

The primary purpose of this prospectus is to provide you with further details of the Rights Issue, including information on dealing in, transfer and acceptance of the Rights Shares, and certain financial and other information in respect of the Group.

Background to the proposals

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 has 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 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

– represented a discount of 25% to the closing price of HK$0.04 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 (including the independent non-executive Directors) 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 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.

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 on or before Tuesday, 7 March 2006.

Qualifying Shareholders

The Rights Issue Documents are sent 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 appeared 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 have not been registered or filed under the applicable securities or equivalent legislation of any jurisdiction other than Hong Kong and Bermuda. This prospectus (without the Provisional Allotment Letter and the Excess Application Form) is sent to the Excluded Shareholders for their information only.

Accordingly, no action has been taken to permit the Rights Issue in any territory outside Hong Kong. No person receiving this prospectus or a Provisional Allotment Letter or an Excess Application Form in any territory outside Hong Kong may treat it as an offer or invitation to apply for the Rights Shares or excess Rights Shares, unless in a territory where such an offer or invitation could lawfully be made without compliance with any registration or other legal and regulatory requirements thereof. It is the responsibility of anyone outside Hong Kong wishing to make an application for the Rights Shares to satisfy himself/herself/itself, before acquiring any rights to subscribe for the provisionally allotted Rights Shares, as to the observance of the laws and regulations of all relevant territories, including the obtaining of any governmental or other consents and to pay any taxes, duties and other amounts required to be paid in such territory or jurisdiction in connection therewith. No application for the Rights Shares will be accepted from any Excluded Shareholders. The Company reserves the right to refuse to accept any application for the Rights Shares where it believes that in doing so it would violate the applicable securities legislation or other laws or regulations of any jurisdiction.

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.

Procedures for acceptance and transfer

Qualifying Shareholders will find enclosed with this prospectus a Provisional Allotment Letter which entitles Qualifying Shareholders to subscribe for the number of Rights Shares shown therein. **If you wish to exercise your rights to subscribe for all the Rights Shares specified in the Provisional Allotment Letter, you will need to lodge the Provisional Allotment Letter in accordance with the instructions printed thereon, together with a remittance for the full amount payable on acceptance, with Tengis Limited, the Company's branch registrar and transfer office in Hong Kong, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by no later than 4:00 p.m. on Wednesday, 1 March 2006. All remittances must be made in Hong Kong dollars. Cheques must be drawn on an account with, and cashier's orders must be issued by, a licensed bank in Hong Kong and made payable to "UDL HOLDINGS LIMITED – RIGHTS ISSUE ACCOUNT" and crossed "ACCOUNT PAYEE ONLY".**

It should be noted that unless the duly completed Provisional Allotment Letter, together with the appropriate remittance, has been lodged with Tengis Limited, the Company's branch registrar and transfer office in Hong Kong at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, by no later than 4:00 p.m. on Wednesday, 1 March 2006, whether by the original allottee or any person in whose favour the rights have been validly transferred, the relevant provisional allotment and all rights and entitlement thereunder will be deemed to have been declined and will be cancelled and such Rights Shares will be available for application on Excess Application Forms by Qualifying Shareholders.

If you wish to accept only part of your provisional allotment and/or to transfer a part of your right to subscribe for the Rights Shares provisionally allotted to you or to transfer your rights to more than one person, the entire Provisional Allotment Letter must be surrendered by no later than 4:00 p.m. on Tuesday, 21 February 2006, to Tengis Limited, the Company's branch registrar and transfer office in Hong Kong at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong which will cancel the entire Provisional Allotment Letter and issue new Provisional Allotment Letters in the denominations required.

The Provisional Allotment Letter contains further information regarding the procedures to be followed for acceptance and/or transfer of the whole or part of your provisional allotment.

All cheques and cashier's orders accompanying completed Provisional Allotment Letters will be presented for payment immediately upon receipt and all interest earned on such monies will be retained for the benefit of the Company. Completion and return of a Provisional Allotment Letter with a cheque and/or a cashier's order, whether by you or by any nominated transferee, will constitute a warranty by the applicant that the cheque and/or the cashier's order will be honoured on first presentation. Without prejudice to the other rights of the Company in respect thereof, the Company reserves the right to reject any Provisional Allotment Letter in respect of which the accompanying cheque and/or cashier's order is dishonoured on first presentation, and, in such event, the relevant provisional allotment and all rights and entitlement given pursuant to which will be deemed to have been declined and will be cancelled.

If the Underwriter terminates the Underwriting Agreement before the Latest Time for Termination, the monies received in respect of acceptance of Rights Shares will be returned to the Qualifying Shareholders or such other persons in whose favour the nil-paid Rights Shares shall have been validly transferred without interest by means of cheques despatched by ordinary post to the respective addresses on the register of members at their own risk as soon as practicable thereafter.

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 Excess Application Form in accordance with the instructions printed thereon and lodging the same with a separate remittance for the excess Rights Shares applied for with Tengis Limited, the Company's branch registrar and transfer office in Hong Kong, by no later than 4:00 p.m. on Wednesday, 1 March 2006. **All remittances accompanying the Excess Application Forms must be made in Hong Kong dollars. Cheques must be drawn on an account with, and cashier's orders must be issued by, a licensed bank in Hong Kong and made payable to "UDL HOLDINGS LIMITED - EXCESS APPLICATION ACCOUNT" and crossed "ACCOUNT PAYEE ONLY".** 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 the 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.

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.

The Qualifying Shareholder(s) will be notified of any allotment of excess Rights Shares made to him/her/it/them on or about Tuesday, 7 March 2006 by way of a press announcement.

If no excess Rights Shares are allotted to the Qualifying Shareholder(s), it is expected that a cheque for the amount tendered on application in full without interest will be posted to the Qualifying Shareholder's address on the register of members of the Company by ordinary post at his/her/its/their own risk on or about Tuesday, 7 March 2006. If the number of excess Rights Shares allotted to the Qualifying Shareholder(s) is less than that applied for, it is expected that a cheque for the amount of the surplus application monies, without interest, will be posted to the Qualifying Shareholder's address on the register of members of the Company without interest at the Qualifying Shareholder's own risk on or about Tuesday, 7 March 2006.

All cheques and cashier's orders will be presented for payment immediately following receipt and all interest earned on such monies will be retained for the benefit of the Company. Completion and return of the Excess Application Form together with a cheque or cashier's order in payment for the excess Rights Shares applied for will constitute a warranty by the applicant that the cheque or cashier's order will be honoured on first presentation. If any cheque or cashier's order accompanying a completed Excess Application Form is dishonoured on first presentation, without prejudice to the other rights of the Company, such Excess Application Form is liable to be rejected.

An Excess Application Form is for use only by the Qualifying Shareholder(s) to whom it is addressed and is not transferable. All documents, including cheques, will be despatched by ordinary post at the risk of the recipients to their address as appeared on the Company's register or members.

If the Underwriter terminates the Underwriting Agreement before the Latest Time for Termination, the monies received in respect of applications for excess Rights Shares will be returned to applications without interest by means of cheques despatched by ordinary post to their addresses on the register of Shareholders at the risk of such applicants as soon as practicable thereafter.

Application for listing of the Right Shares on the Stock Exchange

Application has been made 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.

Provisional allotments of the Rights Shares made to Qualifying Shareholders will be transferable and there will be trading in the nil-paid entitlements on the Stock Exchange from Friday, 17 February 2006 to Friday, 24 February 2006 (both days inclusive). It is expected that dealings in the Rights Shares (in their fully-paid forms) on the Stock Exchange will commence on Thursday, 9 March 2006. However, it should be noted that if the Underwriter exercises its right to terminate its obligations under the Underwriting Agreement, the Rights Issue will not proceed. Dealings in nil-paid and fully-paid Rights Shares (in board lots of 40,000 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.

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.

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.

At the SGM, an ordinary resolution was passed, on a poll, by the Independent Shareholders to approve, amongst other matters, the Rights Issue.

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 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 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 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 the Circular to the Shareholders containing, among other matters, details of the Rights Issue together with the proxy form and the notice of SGM;

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

Harbour Front is the controlling shareholder of the Company. Pursuant to Rule 7.19(6) of the Listing Rules, Harbour Front and its associates have abstained 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 III to this prospectus. At the SGM, an ordinary resolution was passed, on a poll, by the Independent Shareholders to approve, amongst other matters, the Rights Issue.

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 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) the Circular or this 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 have been dealt in on an ex-rights basis since Thursday, 9 February 2006. Dealing in the Rights Shares in their 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 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 the Rights Shares in their nil-paid form 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 prospectus.

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 by internal resources (including the net proceeds from the Rights Issue).

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 being 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.

At the SGM, an ordinary resolution was passed, on a poll, by the Independent Shareholders to approve, amongst other matters, the YHCD Agreement and the transactions therein.

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. 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 the 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 (including the independent non-executive Directors) 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 being 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.

At the SGM, an ordinary resolution was passed, on a poll, by the Independent Shareholders to approve, amongst other matters, the Multi-Ventures Agreement and the transactions therein.

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 the Circular.

The Directors (including the independent non-executive Directors) 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 being 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.

At the SGM, an ordinary resolution was passed, on a poll, by the Independent Shareholders to approve, amongst other matters, the Bugsy Agreement and the transactions therein.

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 the Circular.

The Directors (including the independent non-executive Directors) 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.

The Acquisitions (as contemplated under the YHCD Agreement, Multi-Ventures Agreement and the Bugsy Agreement) were approved, on a poll, by the Independent Shareholders at the SGM 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.

At the SGM, an ordinary resolution was passed, on a poll, by the Independent Shareholders to approve, amongst other matters, the Disposal Agreement and the transactions therein.

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 (including the independent non-executive Directors) 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 the 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 the 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 the 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.

Each of the Disposal and the Buy Back was approved, on a poll, by the Independent Shareholders at the SGM 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.

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.

ADDITIONAL INFORMATION

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

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

A. 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

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

The notes on pages 61 to 82 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	**Leung Chi Yin, Gillian**
Director	*Director*

The notes on pages 61 to 82 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 61 to 82 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 61 to 82 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 July 2005

	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 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 61 to 82 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	2004
	HK$'000	*HK$'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	2004
	HK$'000	*HK$'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	2004
	HK$'000	*HK$'000*
Provision for bad and doubtful debts	1,196	536
Provision for impairment loss on property, plant and equipment	932	–

8. FINANCE COSTS

	2005	2004
	HK$'000	*HK$'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	2004
	HK$'000	*HK$'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 *HK$'000*	2004 *HK$'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 *HK$'000*	2004 *HK$'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.

B. Set out below is the audited financial statements together with the relevant notes to the financial statements of the Group as extracted from the 2004 Annual Report of the Company for the year ended 31 July 2004.

CONSOLIDATED INCOME STATEMENT
For the year ended 31 July 2004

	Note	**2004** *HK$'000*	**2003** *HK$'000*
Turnover	*5*	19,552	23,801
Cost of sales		(34,604)	(35,249)
Gross loss		(15,052)	(11,448)
Other revenue	*7(b)*	21,492	42,156
Administrative expenses		(13,024)	(17,488)
Other operating expenses	*7(c)*	(536)	(17,762)
Loss from operating activities	*7(a)*	(7,120)	(4,542)
Finance costs	*8*	(9,359)	(13,474)
Loss before taxation		(16,479)	(18,016)
Taxation	*9*	(55)	(240)
Loss attributable to shareholders	*10*	(16,534)	(18,256)
Loss per share – Basic	*11*	HK$0.02	HK$0.02

CONSOLIDATED BALANCE SHEET
As at 31 July 2004

	Note	2004 HK$'000	2003 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	12	79,239	133,344
Land use right	13	1,028	1,085
		80,267	134,429
Current assets			
Trade and other receivables	15	16,083	24,076
Amounts due from related companies	27	3,522	2,651
Cash and bank balances		616	781
		20,221	27,508
Current liabilities			
Bank and other borrowings	16	2,833	231
Trade and other payables	17	15,074	25,809
Amounts due to related companies	27	30,294	23,634
Provision for taxation		279	224
		(48,480)	(49,898)
Net current liabilities		(28,259)	(22,390)
Total assets less current liabilities		52,008	112,039
Non-current liabilities			
Other borrowings	16	(96,658)	(115,985)
NET LIABILITIES		(44,650)	(3,946)
CAPITAL AND RESERVES			
Share capital	19	9,356	9,356
Reserves	20	(54,006)	(13,302)
DEFICIENCY OF ASSETS		(44,650)	(3,946)

Approved and authorised for issue by the board of directors on 25 November 2004

Leung Yu Oi Ling, Irene
Director

Leung Chi Yin, Gillian
Director

The notes on pages 22 to 63 form an integral part of these financial statements.

BALANCE SHEET
As at 31 July 2004

	Note	2004 HK$'000	2003 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	14	(6,455)	(8,106)
Current assets			
Trade and other receivables	15	9,774	14,382
Amounts due from related companies	27	–	4
Cash and bank balances		34	122
		9,808	14,508
Current liabilities			
Other borrowings – unsecured	16	2,400	–
Trade and other payables	17	3,300	2,897
Amounts due to related companies	27	19,518	15,059
		(25,218)	(17,956)
Net current liabilities		(15,410)	(3,448)
Total assets less current liabilities		(21,865)	(11,554)
Non-current liabilities			
Other borrowings – secured	16	–	(2,400)
NET LIABILITIES		(21,865)	(13,954)
CAPITAL AND RESERVES			
Share capital	19	9,356	9,356
Reserves	20	(31,221)	(23,310)
DEFICIENCY OF ASSETS		(21,865)	(13,954)

Approved and authorised for issue by the board of directors on 25 November 2004

Leung Yu Oi Ling, Irene
Director

Leung Chi Yin, Gillian
Director

The notes on pages 22 to 63 form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 July 2004

	Note	2004 HK$'000	2003 HK$'000
Cash flows from operating activities			
Loss before taxation		(16,479)	(18,016)
Adjustments for:			
Depreciation and amortisation		20,332	16,668
Interest expenses		9,359	13,474
(Gain)/loss on disposal of property, plant and equipment		(16,978)	784
Provision for bad and doubtful debts		536	17,762
Reversal for impairment in value of vessels		–	(19,505)
Provision for doubtful debts written back		(75)	–
Gain on deemed disposal of a subsidiary	28(a)	–	(17,579)
Operating loss before working capital changes		(3,305)	(6,412)
Decrease/(increase) in trade and other receivables		7,539	(13,799)
Increase in amounts due from related companies		(880)	(598)
(Decrease)/increase in trade and other payables		(10,735)	1,498
Increase in amounts due to related companies		6,659	18,549
Cash used in operations		(722)	(762)
Income taxes paid		–	(16)
Net cash used in operating activities		(722)	(778)
Cash flows from investing activities			
Purchase of property, plant and equipment		(138)	(1,748)
Proceeds from sale of property, plant and equipment		28,936	1,569
Deemed disposal of a subsidiary, net of cash disposed		–	(13)
Net cash generated from/(used in) investing activities		28,798	(192)
Cash flows from financing activities			
Proceeds from issuance of share capital		–	7,497
Repayment of bank and other borrowings		(26,286)	(9,668)
Net cash used in financing activities		(26,286)	(2,171)
Net increase/(decrease) in cash and cash equivalents		1,790	(3,141)
Cash and cash equivalents at 1 August		550	3,626
Effect of foreign exchange rate change, net		(2,157)	65
Cash and cash equivalents at 31 July		183	550
Analysis of balances of cash and cash equivalent			
Cash and bank balances		616	781
Bank overdraft		(433)	(231)
		183	550

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 July 2004

	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 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)

The notes on pages 22 to 63 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2004

1. GENERAL INFORMATION

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

2. CORPORATE UPDATE

(a) Restructuring agreement

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

In summary, the principal terms of the reorganisation proposal, which include the schemes of arrangement (the "Reorganisation Proposal"), involved, inter alia, the 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$3.8 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 2004.

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 2004.

In an effort to resolve the dispute with the Scheme Administrator concerning his quantification of the Disposal Proceeds and the Shortfall, the Company has originally made an offer to the Scheme Administrator (acting on behalf of the Scheme Creditors) to purchase all the remaining Scheme Assets and to discharge its Undertaking in respect of the Shortfall, but the offer has not been accepted. The Company is now working intensively with its professional advisors with a view to conclude and implement (if possible) alternative proposals for amicable settlement of various issues under the Scheme.

(c) Legal proceedings – 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;

   (iii) the 30,111,520 Harbour Front 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;

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. The Company is now considering various alternatives for securing 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.

(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 2004 amounted to HK$67,070,000. 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 was in full compliance with the terms of the assignment of the loan with the Singapore secured lender. 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 16 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. 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(e) below.

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 2004. At that date, the Group had consolidated net current liabilities of HK$28,259,000 and a deficiency of assets of HK$44,650,000.

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 2004 amounted to HK$67,070,000. As at the date on which these financial statements were approved, the Related Party Lender was in full compliance with the terms of the assignment of the loan with the Singapore secured lender. 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 2003, 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 2004. The directors are hopeful that the Shortfall undertaking will be discharged under the latest alternative proposal as mentioned in note 2(b) to the financial statements.

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 HK$722,000 before finance charges. As explained in the Chairman's Statement, the market conditions for the Group's core business of marine engineering remain sluggish, although the directors believe the PRC market holds much more promise and are actively pursuing opportunities in that market. Owing to the poor outlook for the marine engineering business as a whole, the directors have diversified into the marine engineering related business of steel works, which they believe has good prospects. However there is no guarantee these areas will generate profits and/or positive cash flows. The directors consider that until the outlook for the marine engineering business picks up and because of the uncertainty of the success of the new business initiatives and the adverse effects on cash flows of any repayment due under the Shortfall Undertaking, the Group may need to raise additional equity funding from the Company's existing and/or new shareholders, to overcome any short term financing difficulties (the "Additional Equity Funding").

In preparing these financial statements, the directors have given careful consideration to the Group's ability to fund its working capital requirements, meet its debt servicing obligations and Shortfall Undertaking. On the basis that the Group will obtain the Financial Support and the Additional Equity 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, 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

(a) Adoption of new and revised SSAP

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with Statement of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Institute of Certified Public Accountants, 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.

SSAP 12 (Revised) "Income taxes" is effective for the first time for the current year's financial statements. It prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future;

- a deferred tax liability has been recognised relating to the fair value adjustments arising from the acquisition of subsidiaries; and

- a deferred tax asset has been recognised for tax losses arising in the current/prior years to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised.

Disclosures:

- the related note disclosures are now more extensive than previously required. The disclosures are presented in note 9 to the financial statements and include reconciliation between the accounting loss and the tax expense for the year.

Unless otherwise stated, the 2003 comparative figures presented herein have incorporated the effect of the adjustments, where applicable, resulting from the adoption of the new accounting standard above.

(b) Basis of consolidation

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

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

(c) Goodwill

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.

(d) Subsidiaries

Subsidiaries are those enterprises controlled by the Company.

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

Subsidiaries are carried at cost less impairment loss.

(e) Property, plant and equipment

(i) Depreciation

Depreciation is provided to write off the cost 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 – 331/3%
Plant, machinery and workshop equipment	10 – 331/3%
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.

(f) 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.

(g) Operating leases

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

(h) Deferred taxation

Deferred taxation is provided in full, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values in the accounts. Deferred tax liabilities are provided in full of all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised.

(i) Foreign currencies

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

The 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.

(j) 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.

(k) 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.

(l) 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.

(m) 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.

(n) 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.

(o) 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 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 is recognised as revenue when the agreed services have been provided.

Interest income is recognised on a time proportion basis.

(p) 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 company's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

5. TURNOVER

The Group's turnover represents revenue derived from its marine engineering operations which comprise marine engineering works income and the gross rental income from its vessels and related services provided as a result thereof.

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.

7. LOSS FROM OPERATING ACTIVITIES

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

	2004	**2003**
	HK$'000	*HK$'000*
Auditors' remuneration	555	708
Amortisation of land use right	57	47
Contribution to Mandatory Provident Fund	185	200
Depreciation	20,275	16,621
Operating lease rentals in respect of:		
Land and buildings	1,130	2,610
Loss on disposal of property, plant and equipment	–	784
Staff costs (including directors' emoluments)	8,426	6,737

(b) Included in other revenue:

	2004	**2003**
	HK$'000	*HK$'000*
Foreign exchange gain, net	1,990	402
Insurance claim	–	2,688
Handling fee income	23	–
Gain on deemed disposal of a subsidiary *(note 28(a))*	–	17,579
Project management income	2,019	–
Provision for doubtful debts written back		
– related companies	75	–
Reversal of impairment losses	–	19,505
Gain on disposal of property, plant and equipment	16,978	–

(c) Included in other operating expenses:

	2004	**2003**
	HK$'000	*HK$'000*
Provision for bad and doubtful debts	536	17,762

8. FINANCE COSTS

	2004	**2003**
	HK$'000	*HK$'000*
Interest charges on:		
Bank and other borrowings wholly repayable within five years	9,359	13,474

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 (2003: Nil). The tax charge represents under-provision of Hong Kong profits tax in the previous year.

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

	2004	**2003**
	HK$'000	*HK$'000*
Hong Kong profits tax		
– under provision in prior years	55	240
Deferred tax *(note 18)*	–	–
	55	240

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

	2004	**2003**
	HK$'000	*HK$'000*
Loss before taxation	(16,479)	(18,016)
Notional tax on loss before tax	(2,884)	(3,153)
Effect of different taxation rates in other countries	(212)	(519)
Tax effect of expense/(income) that are not deductible/taxable in determining taxable profit	1,397	(604)
Utilisation of unrecognised tax losses	(139)	–
Tax effect of unrecognised tax losses	6,203	4,276
Realisation of deferred tax assets previously not recognised	(4,365)	–
Under-provision in prior years	55	240
Taxation charge	55	240

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$7,911,000 (2003: loss of HK$13,421,000).

11. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31 July 2004 is based on the loss attributable to shareholders of HK$16,534,000 (2003: loss of HK$18,256,000) and the weighted average number of 935,551,302 ordinary shares (2003: 822,125,572 ordinary shares) in issue during the year.

Diluted earnings per share for the years ended 31 July 2004 and 2003 have not been shown as there were no dilutive potential ordinary shares during those periods.

12. PROPERTY, PLANT AND EQUIPMENT

	Floating craft and vessels	Furniture, fixtures and office equipment	Plant, machinery and workshop equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation					
At 1 August 2003	136,350	8	1,120	92	137,570
Additions	–	–	138	–	138
Revaluation *(note 4(e))*	(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
Accumulated depreciation					
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(e))*	12,201	–	–	–	12,201
Exchange realignments	175	–	2	–	177
At 31 July 2004	19,208	8	207	26	19,449
Net book value					
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	1,273	92	1,373
At professional valuation 2003	97,315	–	–	–	97,315
	97,315	8	1,273	92	98,688

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, with an aggregate net book value of HK$72,725,000 (2003: HK$132,256,000) were pledged to secure certain loans granted to two of the Company's subsidiaries (note 16(a) and 16(b)).

Had the floating craft and vessels been carried at cost less accumulated depreciation, their carrying amount would have been HK$49,745,000 (2003: HK$56,952,000).

13. LAND USE RIGHT

	2004	2003
	HK$'000	*HK$'000*
Cost		
At 1 August	1,132	–
Addition	–	1,132
At 31 July	1,132	1,132
Accumulated amortisation		
At 1 August	47	–
Amortisation for the year	57	47
At 31 July	104	47
Net carrying value	1,028	1,085

14. INTERESTS IN SUBSIDIARIES

	2004 HK$'000	2003 HK$'000
Unlisted shares, at cost	89,535	89,535
Amounts due from subsidiaries	28,982	23,507
	118,517	113,042
Less: Provisions	(105,817)	(100,342)
	12,700	12,700
Amounts due to subsidiaries	(19,155)	(20,806)
	(6,455)	(8,106)

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.

15. TRADE AND OTHER RECEIVABLES

	Group 2004 HK$'000	Group 2003 HK$'000	Company 2004 HK$'000	Company 2003 HK$'000
Trade receivables *(note (a))*	2,038	4,663	192	299
Net amount due from a customer for contract work	–	1,347	–	–
Retention money receivable	1,098	218	–	–
Prepayments, deposits and other receivables	12,947	17,848	9,582	14,083
	16,083	24,076	9,774	14,382

(a) As at 31 July 2004, the Group's aged analysis of trade receivables net of provisions for doubtful debts was as follows:

	2004	**2003**
	HK$'000	*HK$'000*
Current	301	1,716
1 – 3 months	383	144
4 – 6 months	58	155
7 – 12 months	894	875
Over 1 year	402	1,773
	2,038	4,663

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

	2004	**2003**
	HK$'000	*HK$'000*
Group		
Bank and other borrowings comprise:		
Bank overdrafts	433	231
Other loans	99,058	115,985
	99,491	116,216
Analysed as:		
Secured – Notes (a) and (b)	94,201	113,968
Unsecured – loan	4,857	2,017
– bank overdrafts	433	231
	99,491	116,216
Bank and other borrowings are repayable as follows:		
Within one year or on demand	2,833	231
More than one year, but not exceeding two years	2,457	4,417
More than two years, but not exceeding five years	94,201	111,568
	99,491	116,216
Less: Amount due within one year and shown under current liabilities	(2,833)	(231)
Amount due after one year	96,658	115,985
Company		
Other loan	2,400	2,400
Analysed as:		
Secured – *note (c)*	–	2,400
Unsecured – *note (c)*	2,400	–
	2,400	2,400
Other loan is repayable as follows:		
Within one year or on demand	2,400	–
More than one year, but not exceeding two years	–	2,400
	2,400	2,400
Less: Amount within one year and shown under current liabilities	(2,400)	–
Amount due after one year	–	2,400

Notes:

(a) 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 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.

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 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 2004 amounted to HK$67,070,000.

(b) 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 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 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.

17. TRADE AND OTHER PAYABLES

	Group		Company	
	2004	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables *(note (a))*	5,570	9,945	–	–
Advances received	1,437	8,298	–	–
Other payables and accruals	8,067	7,566	3,300	2,897
	15,074	25,809	3,300	2,897

(a) As at 31 July 2004, the aged analysis of trade payables was as follows:

	2004	**2003**
	HK$'000	*HK$'000*
Current	80	493
1 – 3 months	34	268
4 – 6 months	15	61
7 – 12 months	526	246
Over 1 year	4,915	8,877
	5,570	9,945

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 2002				
– As previously reported	–	–	–	–
– Effect of adoption of SSAP 12 (revised)	769	–	(769)	–
– As restated	769	–	(769)	–
(Credited)/charged to income statement *(note 9)*	269	2,298	(2,567)	–
At 31 July 2003 (restated)	1,038	2,298	(3,336)	–
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)	–

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	
	2004	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deferred tax liabilities	2,000	3,336	–	–
Deferred tax assets	(2,000)	(3,336)	–	–
	–	–	–	–

The Group has unused tax losses of HK$183,895,019 (2003: HK$169,693,249) available for offset against future profits. No deferred tax assets in respect of these unused tax losses have been recognised due to the unpredictability of future taxable profits streams.

19. SHARE CAPITAL

	Number of shares	*HK$'000*
Authorised:		
Ordinary shares of HK$0.01 each at 1 August 2003 and 31 July 2004	12,000,000,000	120,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each at 1 August 2003 and at 31 July 2004	935,551,302	9,356

Note: There was no movement in the issued capital of the Company for the current and prior years.

20. RESERVES

Group

	2004	2003
	HK$'000	*HK$'000*
Share premium	7,224	7,224
Capital redemption reserve	1,264	1,264
Exchange fluctuation reserve	(2,661)	(1,489)
Capital reserve	717	717
Accumulated losses	(1,192,671)	(1,176,137)
Revaluation reserve	35,619	58,617
Scheme reserve	1,096,502	1,096,502
	(54,006)	(13,302)

Details of the movements in the above reserves during the year are set out in the consolidated statement of changes in equity on page 21.

Company

	Share premium	Capital redemption reserve	Contributed surplus	Accumulated losses	Scheme reserve	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 August 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)

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:

	2004	2003
	HK$'000	*HK$'000*
Fees		
Executive directors	40	40
Independent non-executive directors	80	80
	120	120
Other emoluments		
Executive directors	2,160	2,406
Independent non-executive directors	160	80
	2,320	2,486
	2,440	2,606

The emoluments of the directors were within the following bands:

Emoluments bands	**Number of directors**	
	2004	**2003**
Nil – HK$1,000,000	3	4
HK$1,000,001 – HK$1,500,000	–	–
HK$1,500,001 – HK$2,000,000	–	–
HK$2,000,001 – HK$2,500,000	1	1

No share options granted to the directors during the year.

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 one (2003: three) executive directors, details of whose emoluments are set out above. The emoluments of the remaining four (2003: two) employees were as follows:

	2004	2003
	HK$'000	*HK$'000*
Salaries and other benefits	2,240	1,394

The emoluments were within the following bands:

Emoluments bands	**Number of individuals**	
	2004	**2003**
Nil – HK$1,000,000	3	1
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.

For the year ended 31 July 2004, the Group made contributions of HK$185,000 (2003: HK$200,000) 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

	2004 *Number ('000)*	**2003** *Number ('000)*
Outstanding as at 1 August	18,159	–
Granted during the year	–	45,408
Exercised during the year	–	(27,249)
Outstanding as at 31 July	18,159	18,159
Options vested at 31 July	18,159	18,159

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

Date granted	**Exercise period**	**Exercise price**	**2004** *Number ('000)*	**2003** *Number ('000)*
15 April 2003	16 April 2003 – 30 December 2012	HK$0.024	18,159	18,159

(c) No options were granted or exercised during the year.

24. OPERATING LEASE COMMITMENTS

(a) As lessee

At 31 July 2004, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	Group		**Company**	
	2004 *HK$'000*	**2003** *HK$'000*	**2004** *HK$'000*	**2003** *HK$'000*
Land and buildings				
Within one year	1,022	382	384	–
In the second to fifth years inclusive	1,279	840	64	–
More than five years	4,853	5,425	–	–
	7,154	6,647	448	–

(b) As lessor

At 31 July 2004, the total future minimum lease receipts under non-cancellable operating leases were receivable as follows:

	Group	
	2004	**2003**
	HK$'000	*HK$'000*
Plant and equipment		
Within one year	876	–

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

25. OTHER COMMITMENTS

	Group		Company	
	2004	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Contracted but not provided for	–	48,386	–	48,386
Commitments in respect of capital contribution to a subsidiary in the People's Republic of China	6,820	8,800	–	–
	6,820	57,186	–	48,386

26. CONTINGENT LIABILITIES

(a) At 31 July 2004, 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 (2003: HK$176 million), further details of which are set out in note 2(b).

(b) During the year, 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 is HK$66,831,000 (2003: HK$66,831,000).

(c) 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.

27. RELATED PARTY TRANSACTIONS

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

	Note	2004 HK$'000	2003 HK$'000
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)	1,618	5,119
Agency fee paid to Bugsy*#	(a)	–	140
Sale of a vessel to Bugsy*#	(a)	–	705
Ship management fee income from Bugsy*#	(a)	986	–
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)	351	456
Sales of vessel to Capital Hope	(b)	1,300	–
Rental charges paid to Denlane Shipbuilding Pte Limited ("Denlane")#	(c)	81	73
Management service fee income from Denlane#	(c)	1,614	1,586
Rental charged by Fonfair Company Limited ("Fonfair")	(d)	–	1,093
Provision against amount due from Fonfair	(d)	–	5,009
Rental charges paid to Giant Lead Enterprises Limited ("Giant Lead")	(e)	–	77
Plant hire cost paid to Gitanes Engineering Company Limited ("Gitanes")	(f)	24	69
Ship management fee income from Gitanes	(f)	66	–
Rental charges paid to Decorling Limited ("Decorling")	(g)	892	721
Interest charged by Universal Grade Limited ("Universal Grade")	(h)	2,432	2,641
Agency fee income from Universal Grade	(h)	92	–
Ship management fee income from Universal Grade	(h)	175	–
Interest charged by Hong Hay Pte Limited ("Hong Hay")	(i)	474	1,047
Agency fee income from Hong Hay	(i)	47	–
Ship management fee income from Hong Hay	(i)	103	–
Interest charged by Windermere Pte Limited ("Windermere")	(j)	4,695	1,477
Interest charged by Harbour Front Limited ("Harbour Front")	(k)	1,115	445
Plant hire income from Tonic Engineering & Construction Co., Ltd. ("Tonic")	(l)	–	401
Provision for doubtful debts from Tonic	(l)	80	–
Ship management fee income from Exact Nice Limited ("Exact Nice")	(m)	17	–
Shipbuilding and repair income from Exact Nice	(m)	131	–
Ship management fee income from Jelanter Limited ("Jelanter")	(n)	23	–
Shipbuilding and repair income from Jelanter	(n)	140	–
Ship management fee income from Link Full International Limited ("Link Full")#	(o)	187	–
Shipbuilding and repair income from Link Full#	(o)	558	–
Ship management fee income from Possider Company Limited ("Possider")	(p)	23	–
Shipbuilding and repair income from Possider	(p)	270	–
Ship management fee income from Top Union Investments Limited ("Top Union")	(q)	73	–
Ship management fee income from UDL Offshore Pte Limited ("UDL Offshore")	(r)	34	–
Plant hire cost paid to Dongguan Chun Wah Engineering & Heavy Industries Company Limited ("DG Chun Wah")	(s)	118	–
Consultant service fee paid to YTL Strategic Corporate Consultancy Ltd. ("YTL")	(t)	330	–
Provision for doubtful debts written back from Chui Hing Construction Limited ("Chui Hing")	(u)	75	–

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

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

(a) Bugsy is a company in which Mrs. Leung and Miss Leung have indirect beneficial interests. Mrs. Leung and Miss Leung Chi Yin, Gillian ("Miss Leung") are directors of Bugsy.

(b) Capital Hope is a company in which Miss Leung has a direct equity interest. Miss Leung is a director of Capital Hope.

(c) Denlane is a company in which Mrs. Leung is a director.

(d) Fonfair is a company in which Mr. Leung is a director until 1 March 2001. Mrs. Leung and Miss Leung have indirect beneficial interests.

(e) Giant Lead is a company in which Mrs. Leung and Miss Leung have indirect beneficial interests. Mrs. Leung and Miss Leung are directors of Giant Lead.

(f) Gitanes is a company in which Mrs. Leung has a direct equity interest. Mrs. Leung and Miss Leung are directors of Gitanes.

(g) Decorling is a company in which Mrs. Leung has a direct equity interest. Mrs. Leung and Miss 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 over Universal Grade in making 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 over Hong Hay in making 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 over Windermere in making financial and operating decisions.**

(k) Harbour Front is a major shareholder of the Company. ##

(l) Tonic is a company in which Mrs. Leung has a direct equity interest. Mrs. Leung and Miss Leung are directors of Tonic.

(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 is a director.

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

(t) YTL is a company in which Mrs. Leung and Miss Leung have indirect equity interests. Miss Leung is a director.

(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

(a) Deemed disposal of a subsidiary

	2004	**2003**
	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, 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.

29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements on pages 16 to 63 were approved by the Board of Directors on 25 November 2004.

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 31 December 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	103,596 *(i)*	–	103,596
Bank overdrafts	596 *(ii)*	–	596
Unsecured loans			
– Harbour Front Limited	9,609 *(iii)*	14,902 *(iv)*	24,511
– Multi-Ventures Limited	6,096 *(iii)*	–	6,096
– Other	5,201 *(iii)*	–	5,201
	20,906	14,902	35,808
	125,098	14,902	140,000

Notes:

(i) As at 31 December 2005, the Group had two secured loans from one Singapore and one Hong Kong related parties lender respectively. The loan from the Singapore lender of HK$73,875,107 was secured by the floating crafts and vessels of UDL Marine Assets (Singapore) Pte Limited ("UDLS") with net book value of HK$48,372,918, 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 the Hong Kong lender of HK$29,720,840 was secured by the floating crafts and vessels of UDL Marine Assets (Hong Kong) Limited ("UDLHK") with net book value of HK$18,748,986, 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 31 December 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 31 December 2005, unsecured loans of HK$20,906,052 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 31 December 2005, the outstanding amount of the facility was HK$14,902,455.

Debt securities

As at 31 December 2005, the Group had no debt securities outstanding.

Contingent liabilities

Save as disclosed in the "Letter from the Board" contained in this prospectus and in the 2005 Audited Accounts (a copy of which is set out in section 2 in this Appendix above), as at 31 December 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 31 December 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 prospectus 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 "Statement of indebtedness for the Group", 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 prospectus, 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)*	**Unaudited pro forma adjusted consolidated net tangible assets of the Group after the Rights Issue but before the Acquisitions**	**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*	*HK$'000*
Based on the Subscription Price of HK$0.03 per Rights Share	(55,617)	69,723	14,106	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 but before the Acquisitions** *(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$*	*HK$*
Based on the Subscription Price of HK$0.03 per Rights Share	(0.056)	0.004	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 of the Group per Share after the Rights Issue but before the Acquisitions and 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.

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 prospectus, in respect of the statement of unaudited pro forma adjusted consolidated net tangible assets/liabilities of the Group set out in Appendix I to this prospectus.

CCIF

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

15 February 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 the statement of unaudited pro forma adjusted consolidated net tangible assets/ liabilities of UDL Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") set out on page 120 in the section headed "Statement of unaudited pro forma adjusted consolidated net tangible assets/liabilities" of Appendix I to the Company's prospectus dated 15 February 2006 (the "Prospectus") in connection with 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"). The statement of unaudited pro forma adjusted consolidated net tangible assets/liabilities has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Rights Issue 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 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 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 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 with the directors of the Company.

Our work does not constitute an audit or review in accordance with Hong Kong Standards on Auditing 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.

The statement of unaudited pro forma adjusted consolidated net tangible assets/liabilities has been prepared on the basis set out on page 120 in the section headed "Statement of unaudited pro forma adjusted consolidated net tangible assets/liabilities" of Appendix I to the Prospectus for illustrative purpose only and, because of its nature, it may not be indicative of:

– the financial position of the Group or the Resultant Group (as defined in the Prospectus) as at 31 July 2005 or at any future dates; or

– the results of the Group or the Resultant Group (as defined in the Prospectus) for the year ended 31 July 2005 or for any future periods.

OPINION

In our opinion:

(a) the statement of unaudited pro forma adjusted consolidated net tangible assets/liabilities 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.

Yours faithfully,
CCIF CPA Limited
Certified Public Accountants
Hong Kong

Chan Wai Dune, Charles
Practising Certificate Number P00712

1. RESPONSIBILITY STATEMENT

This prospectus 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 prospectus 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 prospectus 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%
		Through controlled corporations	2,393,567,449 *(Notes 1(b), 2, 3 and 4)*	241.96%
	Harbour Front *(Note 5)*	Beneficial owner	1	33.33%
Leung Chi Yin, Gillian	The Company	Beneficial owner	63,199,200 *(Note 6(a))*	6.39%
		Through controlled corporations	2,330,878,249 *(Notes 2, 3 and 6(b))*	235.63%
	Harbour Front *(Note 5)*	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. 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).

3. 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.

4. 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.

5. Harbour Front is the holding company of the Company and is thus an associated corporation of the Company.

6. (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.

7. The above percentage of interest in the Company is calculated on the basis of 989,222,302 Shares in issue as at the Latest Practicable Date.

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 prospectus.

(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 9)*
Harbour Front	Beneficial owner	2,268,189,049 *(Note 2)*	229.29% *(Note 9)*
	Through controlled corporation	30,882,200 *(Note 3)*	3.12% *(Note 9)*
Value Partners Investment Limited	Beneficial owner	61,153,097 *(Note 4)*	6.18% *(Note 9)*
Wang Xianping	Through controlled corporation	61,153,097 *(Note 4)*	6.18% *(Note 9)*
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 5)*	12.69% *(Note 10)*
Joybridge Services Limited	Through controlled corporations	427,075,262 *(Note 5)*	12.69% *(Note 10)*
Emperor International Holdings Limited	Through controlled corporations	427,075,262 *(Note 5)*	12.69% *(Note 10)*
Charron Holdings Limited	Through controlled corporations	427,075,262 *(Note 5)*	12.69% *(Note 10)*
Jumbo Wealth Limited	Through controlled corporations	427,075,262 *(Notes 5 and 6)*	12.69% *(Note 10)*
GZ Trust Corporation	Trustee	427,075,262 *(Notes 5 and 7)*	12.69% *(Note 10)*
Luk Siu Man, Semon	Interest of spouse	427,075,262 *(Notes 5, 6, 7 and 8)*	12.69% *(Note 10)*
Yeung Sau Shing, Albert	Founder of trusts	427,075,262 *(Notes 5, 6, 7 and 8)*	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 have been 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. 61,153,097 Shares are held by Value Partners Investment Limited which is 100% beneficially owned by Mr. Wang Xianping.

5. 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.

6. Jumbo Wealth is the trustee of the A&A Unit Trust.

7. GZ Trust Corporation is the trustee of The Albert Yeung Discretionary Trust.

8. 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.

9. This is calculated on the basis of 989,222,302 Shares in issue as at the Latest Practicable Date.

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 prospectus 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 judgment. 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 was known to the Directors to be pending or threatened against any members of the Group.

9. PARTICULARS OF DIRECTORS

(a)

Name	Address
Mrs. Leung Yu Oi Ling, Irene	8/F., 1C Austin Road, Tsimshatsui, Kowloon, Hong Kong
Ms. Leung Chi Yin, Gillian	8/F., 1C Austin Road, Tsimshatsui, Kowloon, Hong Kong
Mr. Lee Ka Lun, Stephen	21E, Block 6, Pokfulam Gardens, Hong Kong
Mr. Pao Ping Wing, *JP*	15F3, King Wing Building, Whampoa Estate, Hunghom, Kowloon, Hong Kong
Professor Yuen Ming Fai, Matthew	4A, Tower 18, Senior Staff Quarters, Hong Kong University of Science & Technology, Clear Water Bay, New Territories, Hong Kong
Ms. Tse Mei Ha	Flat A, 22/F., Block 7, Park Central, Tseung Kwan O, Hong Kong

(b) Qualifications and experience

Executive Directors

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 UK and has had extensive experience prior to joining the Group in running her own interior design company. Mrs. Leung is the mother of Ms. Leung Chi Yin, Gillian, an executive Director.

Ms. Leung Chi Yin, Gillian, aged 25, was redesignated in September 2002 as an executive Director. Ms. Leung graduated in Commerce from Queen's University, Kingston, Ontario, Canada and also completed MSc Law and Accounting from the London School of Economics and Political Science, London. Ms. Leung is responsible for financial management and administration of the Group. Ms. Leung is the daughter of Mrs. Leung Yu Oi Ling, Irene; an executive Director and the Chairman of the Group.

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.

Independent non-executive Directors

Mr. Pao Ping Wing, *JP*, aged 58, was appointed to the Board in August 1997. Mr. Pao obtained a master degree in human settlements planning and development. In the past 19 years, he has been actively serving on government policy and executive bodies, especially those of town planning, urban renewal, public housing and environment matters. He is also a director of Oriental Press Group Limited which is a publicly listed company on the Stock Exchange. He was elected as one of the Ten Outstanding Young Persons of Hong Kong in 1982 and one of the Ten Outstanding Young Persons of the World in 1983. Mr. Pao has been appointed as a Justice of the Peace for Hong Kong since 1987.

Professor Yuen Ming Fai, Matthew, aged 55, was appointed to the Board in April 2002. Professor Yuen spent approximately four years in United Kingdom's Industry before taking up a lecturing position at the University of Hong Kong in 1979. He is currently the Director of Technology Transfer Centre at The Hong Kong University of Science and Technology and a Professor in Mechanical Engineering. Professor Yuen is a graduate of the University of Hong Kong and the University of Bristol. He is a Member of The Hong Kong Institution of Engineers and a Fellow of Institution of Mechanical Engineers, United Kingdom. Professor Yuen has extensive research experience in design and manufacturing.

Ms. Tse Mei Ha, aged 33, was appointed to the Board in September 2004. Ms. Tse is a Certified Public Accountant in Hong Kong. She has ten years' experience in the accountancy profession including working with public accountant and auditor firms.

10. CORPORATE 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* 8/F., 1C Austin Road Tsimshatsui Kowloon Hong Kong

	Mr. Lee Ka Lun, Stephen *Executive Director* 21E, Block 6 Pokfulam Gardens Hong Kong
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 Central Branch ICBC Asia Building 122-126 Queen's Road Central Hong Kong
Auditors and reporting accountants	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

11. EXPERTS

CCIF CPA Limited ("CCIF"), Certificated Public Accountants, has given opinion or advice contained in this prospectus.

As at the Latest Practicable Date, CCIF did not have 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.

CCIF 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.

CCIF is 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 prospectus and which is significant in relation to the business of the Company taken as a whole.

12. CONSENT

CCIF has given and has not withdrawn its written consent as to the issue of this prospectus with the inclusion herein of its opinions or letters and/or reference to its name, opinion or letter in the form and context in which they appear.

13. DOCUMENTS DELIVERED TO THE REGISTRARS OF COMPANIES

A copy of this prospectus together with copies of the Provisional Allotment Letter, the Excess Application Form and the written consent referred to in paragraph 12 in this Appendix have been registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies Ordinance of Hong Kong. A copy of this prospectus together with copies of the Provisional Allotment Letter and the Excess Application Form have been filed with the Registrar of Companies in Bermuda as required under the Companies Act 1981 of Bermuda.

14. LEGAL EFFECT

This prospectus, the Provisional Allotment Letter and the Excess Application Form, and all acceptances of any offer or application contained in or made on such documents, are governed by and shall be construed in accordance with the laws of Hong Kong. Where an application is made in pursuance of any of such documents, the relevant document(s) shall have the effect of rendering all persons concerned bound by the provisions, other than the penal provisions, of Sections 44A and 44B of the Companies Ordinance of Hong Kong, so far as applicable.

15. 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 the date of this prospectus up to and including the Latest Time for Acceptance:

(a) the Company's memorandum of association and bye-laws of the Company;

(b) the material contracts as referred to in paragraph 6 in this Appendix;

(c) the annual report of the Group for each of the two financial years ended 31 July 2005;

(d) the letter of consent referred to in paragraph 12 in this Appendix;

(e) the report issued by CCIF in connection with the statement of unaudited pro forma consolidated net tangible assets/liabilities of the Group, as set out in Appendix II to this prospectus; and

(f) the Circular.

16. 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) Save as disclosed in this prospectus, the Directors are not aware of any material adverse change in the financial or trading position of the Company since the date to which the latest published audited accounts of the Company were made up.

(d) Save as disclosed in this prospectus, no capital of any member of the Group is under any outstanding option, or agreed conditionally or unconditionally to be put under any outstanding option.