UDL HOLDINGS LIMITED
太元集團有限公司

(incorporated in Bermuda with limited liability)

Annual Report 2007

Stock Code: 620

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mrs. Leung Yu Oi Ling, Irene
Miss Leung Chi Yin, Gillian
Mr. Leung Chi Hong, Jerry

Independent Non-Executive Directors

Mr. Pao Ping Wing, JP
Prof. Yuen Ming Fai, Matthew
Ms. Tse Mei Ha

AUDIT COMMITTEE

Mr. Pao Ping Wing, JP
Prof. Yuen Ming Fai, Matthew
Ms. Tse Mei Ha

REMUNERATION COMMITTEE

Mr. Pao Ping Wing, JP
Prof. Yuen Ming Fai, Matthew
Ms. Tse Mei Ha
Miss. Leung Chi Yin, Gillian

COMPANY SECRETARY

Mr. Pang Kee Chau

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

REGISTRARS

Hong Kong

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Bermuda

The Bank of Bermuda Limited
6 Front Street
Hamilton HM11
Bermuda

AUDITORS

CCIF CPA Limited

LEGAL ADVISERS

As to Hong Kong laws:

Tsang & Lee, Solicitors
Chui & Partners

As to Bermuda laws:

Appleby Spurling & Kempe

PRINCIPAL BANKERS

Industrial and Commercial Bank of China (Asia) Limited
Wing Lung Bank Limited

WEBSITE

www.udl.com.hk

The Group continued its effort in cultivation during the Financial Year ended 31 July 2007 and we have observed overall improvements. Total sales amounted to HK$38.1 million, comparing with HK$22.1 million in the year ended 31 July 2006. The financial position of the Group has also strengthened. The rights issue exercise was successful from which net proceeds of approximately HK$148 million were raised.

REVIEW OF BUSINESS AND CORPORATE DEVELOPMENT

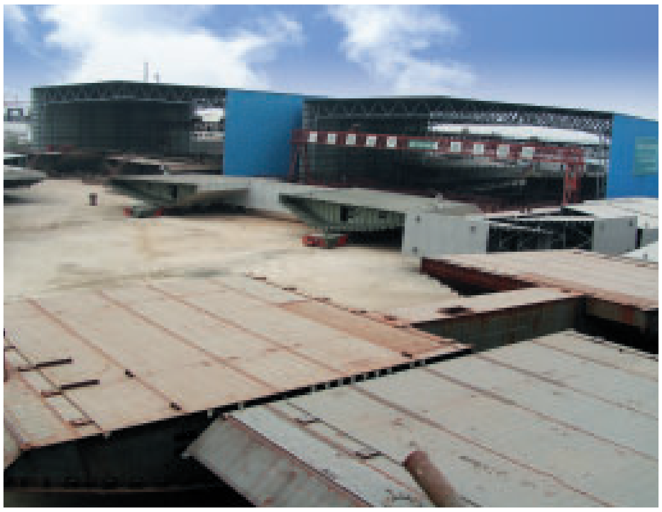
Given the enhanced capital base of the Group, upgrading works to the Singapore and Zhongshan, China, yard facilities have gone underway to meet the surging demands in the shipbuilding and offshore engineering sector. The synergy from the combined capacity of these two yard facilities, given their independent advantages, will provide the Group a sound competitive edge in the market.

Sea front of Singapore Shipyard – Denlane Shipbuilding Pte Ltd

The growth in global demand for oil has been strong and steady over the past several years. Operators are likely to continue investing in exploration and production to replace depleting reserves. This translates demand in the related shipbuilding and offshore engineering market and we are prepared to take up the forthcoming opportunities. In addition to the existing yard facilities in Singapore and Zhongshan, the Group is considering a longer term arrangement in taking up and utilizing a Dongguan, (China), facilities, which combines and consolidates the mutually matching and critical mass effect as well as promotes the enhanced capabilities in the shipbuilding, marine and offshore engineering industry.

Efforts have also been put in reviving the contracting division. This year, despite the relatively inactive market in Hong Kong, the Group has succeeded in breaking back into the main stream play by securing major contracting projects which include water main rehabilitation and dredging related work.

Chairman's Statement



Deck assembly work for the Stonecutters Bridge

BUSINESS PROSPECTS

Demand in the shipbuilding, marine and offshore engineering sector is robust and will increase with oil price continuing to sustain at record high level. Level of enquiries for shipbuilding and offshore industry support work is growing, some of which has already rendered into orders, including specialized construction, such as derrick erection , outfitting and installation. Demand for offshore support vessels (OSVs) will also be strong given the existing positive outlook for the offshore industry. Ship repair and modification works in the regional market also have strong demand. Our historical performance in similar building projects and current combined capacities prepare us to meet all these market needs.

Our combined production capacities today from the Group's Zhongshan and Singapore yards are of 4 to 6 units of 5,000 dwt class vessels and annual steel fabrication projects of up to 20,000 tons. Future integration of a Dongguan yard facilities could beef up total production capacities of up to 40,000 tons per year. Promising prospect in the shipbuilding marine and offshore engineering sector, together with the anticipated increase in production capacities and synergies derived from integration of the yard facilities, we can expect to see the overall performance of the Group to improve at a multiple factor.

Sales improvement in the structural steel engineering and contracting divisions is foreseeable. The Hong Kong government has indicated to push forward 10-large scale infrastructure projects in the coming years. We are confident to harvest from these forthcoming opportunities.

In the light of changing business environment and global demand, the Group will continue developing and optimizing its established strength as well as venturing into new opportunities, such as the new technology sector, to further enhance the value for our shareholders.

I would like to express my deepest appreciation to all staff members and directors for their hard work and dedication to the Group as well as to take this opportunity to thank our customers, business partners, bankers and shareholders for their continued support.

Leung Yu Oi Ling, Irene
Chairman

Hong Kong, 23 November 2007

OPERATING REVIEW

With a view to expand in the shipbuilding, marine and offshore engineering division as well as to revive other contracting activities, the Financial Year ended 31 July 2007 has been a year continuous cultivation. During the year, efforts were spent in production facilities enhancement and management team development for taking up opportunities offered in the surging offshore engineering market as well as in the infrastructure sector.

For the Financial year ended 31 July 2007, the Group reported a turnover of HK$38.1 million (2006: HK$22.1 million) and a loss of HK$4.3 million (2006: profit of HK$29.7 million). Increase in turnover was attributed to the growing performance in the shipbuilding, marine and offshore engineering division ("Marine Engineering"), which amounted to HK$19.4 million, 50.9% of the total turnover. Total loss has in essence been lowered this year, as the high profit recorded as at 31 July 2006 was due to a notional gain from disposal of subsidiaries with significant net liabilities. Gross profit of the Group has also been improved to HK$13.9 million (2006: HK$8.6 million) and loss from operation activities was reduced significantly to HK$0.6 million (2006: loss of HK$1.8 million).

Marine Engineering

Global demand for oil remains robust, leading to an increasing need of related shipbuilding and offshore engineering support. The upgrade and combined effects of the Singapore and Zhongshan yard facilities have brought to the Group many opportunities from the growing shipbuilding and offshore engineering market. These projects include shipbuilding, ship repair and modification, as well as specialized construction, such as derrick erection, outfiting and installation.

Derrick under construction at Singapore shipyard.

Turnover of the Marine Engineering sector has increased to HK$19.4 million this year (2006: HK$8.9 million).

Structural Steel Engineering

The Structural Steel Engineering division has improved with a higher turnover of HK$4.7 million this year (2006: HK$3.6 million). Contracts include deck assembly work for the Stonecutters Bridge as well as other structural steel projects in Guangdong through co-operation with active contractors in China. The Group continues in pursuing business for structural steel in the region in collaboration with its business partners.

Flat Top Bridge under construction

Vessel Sales

Level of enquiries for the type of vessels the Group has to offer remains strong, some of which may translate into orders. The regional market is still in great demand for these vessels. The Group reported a turnover of HK$13.9 million this year (2006: HK$9.6 million) in vessel sales. Nevertheless, the Group would consider reserving part of the existing fleets for contracting projects.

FUTURE PROSPECTS AND OUTLOOK

In the light of oil price sustaining at a high level over the past few years, investment in exploration and production is expected to continue, and demand in the related shipbuilding, marine and offshore engineering sector will thus remain strong. To harvest the opportunities derived from this surging demand, the Group is considering a longer term arrangement to team up and utilize facilities in Dongguan, China. Integration of facilities in Singapore, Zhongshan and Dongguan ensures the Group to be in a competitive position with enhanced production and marketing capabilities.

Positive outlook can also be observed in the structural steel engineering and contracting divisions, given the Hong Kong government intentions to push forward various large scale infrastructure projects in the coming years.

The Group will continue with its strategy of developing in its core activities as well as venturing into new opportunities, such as the new technology sector, for potential substantial growth. To take up and realize benefits from these efforts, there is a possible need to raise funds.

FINANCIAL REVIEW

Financial position has improved this year. The Group reported a total net assets of HK$150 million (2006: HK$12 million). Liabilities have been lowered and finance cost will be reduced significantly in the future.

Zhongshan (China) yard facilities

During the period under review, HK$151.3 million was raised as a result of the exercise of allotment of 1,681,677,913 rights shares at subscription the price of HK$0.09 per rights share, in accordance to the circular dated 4 July 2007. Total issued shares capital of the Company hence amounted to 5,045,033,739 shares (2006: 3,363,355,826 shares).

The Company and the Scheme Administrator/ Trustee entered into a Settlement Structure Agreement on 1 September 2006 and the promissory notes, in the principal amount of HK$30 million, were issued to the Scheme administrator/Trustee on the same date as part of the Settlement Structure Agreement. The promissory notes were fully repaid during the year.

LIQUIDITY AND FINANCIAL RESOURCES

Bank and other borrowings as at 31 July 2007 have been reduced to a total of HK$3.8 million (2006: HK$5.6 million) and the promissory notes were fully settled. The gearing ratio of the Group as a result, calculated by dividing total liabilities by total asset value, decreased to 11.5% (2006: 87.2%).

EXPOSURE OF FOREIGN EXCHANGE

The Group's assets and liabilities are mainly dominated in either Hong Kong Dollars or Singapore Dollars. Income and expenses derived from the operations in Singapore were mainly dominated in Singapore Dollars. There is no significant exposure to the fluctuation of foreign exchange rate, but the Group will closely monitor the market and make appropriate adjustments when necessary.

CONTINGENT LIABILITIES

Save for those disclosed in note 35 to the financial statement, there are no other contingent liabilities that the Group is aware of.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 July 2007, other than outsourcing vendors but including contract workers, the Group has an aggregate of 60 technical and working staff. Total staff costs, excluding contract workers, amounted to HK$3.5 million this year, as compared with HK$4.1 million as at 31 July 2006.

There was no material change to the staff policy during the year under review. The Group encourages high productivity and remunerates its employees based on their qualification, work experiences, prevailing market prices and contribution to the Group. The incentive schemes such as share option scheme for employees will be proposed in due course.

EXECUTIVE DIRECTORS

Mrs. Leung Yu Oi Ling, Irene, aged 54, 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.

Miss Leung Chi Yin, Gillian, aged 27, daughter of Mrs. Leung Yu Oi Ling, Irene, was redesignated in September 2002 as an Executive Director. Miss Leung graduated in Commerce from Queen's University, Canada and also completed MSc Law and Accounting from the London School of Economic and Political Science, London. Miss. Leung is responsible for financial management and administration of the Group.

Mr. Leung Chi Hong, Jerry, aged 25, son of Mrs. Leung Yu Oi Ling, Irene, brother of Miss Leung Chi Yin, Gillian, was appointed as the Executive Director on 1 October 2006. Mr. Leung possesses BSc in Physics and Computer from McGill University, Canada. He has over four years of experience in ship management in mainland China and South East Asia. He is responsible for the operation of the Group's marine division.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Pao Ping Wing, JP, aged 59, was appointed to the Board in August 1997, holds a Master of Science degree in human settlements planning and development. In the past 20 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 the director of Oriental Press Group Limited (stock code: 018), Sing Lee Software (Group) Limited (stock code: 8076), Zhuzhou CSR Times Electric Co., Limited (Stock code: 3898) and Hembly International Holdings Limited (stock code: 3989), which are listed on the Hong Kong 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.

Prof. Yuen Ming Fai, Matthew, aged 56, was appointed to the Board in April 2002. Prof. Yuen spent 4 years in United Kingdom's Industry before taking up a lecturing position at the Hong Kong University in 1979. He is currently a Professor in Mechanical Engineering at The Hong Kong University of Science and Technology. Prof. Yuen is a graduate of the University of Hong Kong and the University of Bristol. He is a Fellow of The Hong Kong Institution of Engineers and a Fellow of Institution of Mechanical Engineers, United Kingdom. Prof. Yuen has extensive research experience in design and manufacturing. He is also appointed as an Non-Executive Director of Fong's Industries Company Limited (Stock code: 641).

Ms. Tse Mei Ha, aged 35, was appointed to the Board in September 2004, is a Certified Public Accountant in Hong Kong. She has over ten years of experience in the accountancy profession including working with public accountant and auditor firms.

CORPORATE GOVERNANCE PRACTICES

The Company acknowledges the importance of good corporate governance practices and believes that maintaining high standard of corporate governance practices is crucial to the development of the Company.

During the financial year ended 31 July 2007, the Company complied with the Code on Corporate Governance Practices (the "Code Provision") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong (the "Listing Rules").

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all directors of the Company (the "Directors") have confirmed that they have complied with the required standards set out in the Model Code throughout the year ended 31 July 2007.

BOARD OF DIRECTORS

Composition and role

The board of directors (the "Board") of the Company comprises:

Executive Directors:
Leung Yu Oi Ling, Irene *(Chairman)*
Leung Chi Yin, Gillian
Leung Chi Hong, Jerry

Independent Non-Executive Directors:
Yuen Ming Fai, Matthew
Pao Ping Wing
Tse Mei Ha

The Board has six members, whose biographical details are set out in the "Directors' Biographies" of this annual report. Three Independent Non-Executive Directors have no relationship between members of the Board and any senior management of the Company. Ms. Tse Mei Ha is one of the Independent Non-Executive Directors possesses appropriate professional qualifications with accounting and financial management expertise. The Company has received from each of its Independent Non-Executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and the Company considers that all of the Independent Non-Executive Directors are independent. The Board is responsible to ensure the Company achieves its objectives, approve the business strategic plans, review management performance and maintain internal controls, monitoring financial reporting process and business operations.

The Board responsibility to promote the Company by directing and supervising its affairs in a responsible and effective manner. Each director has a duty to act in good faith and in the best interests of the Company. The Directors are aware of their collective and individual responsibilities to all members for the manner which the affairs of the Company are managed, controlled and operated.

The Board meets regularly during the year. The following table shows the attendance of all the Directors at meetings during the year:

	Meetings Attended/Held			Annual
Directors	Board	Audit Committee	Remuneration Committee	General Meeting
Executive Directors				
Leung Yu Oi Ling, Irene	4/4	–	–	1/1
Leung Chi Yin, Gillian	4/4	–	2/2	1/1
Lee Ka Lun, Stephen*	1/1	–	–	–
Leung Chi Hong, Jerry#	4/4	–	–	1/1
Independent Non-Executive Directors				
Yuen Ming Fai, Matthew	4/4	2/2	2/2	1/1
Pao Ping Wing	4/4	2/2	2/2	1/1
Tse Mei Ha	4/4	2/2	2/2	0/1

* Resigned on 1 October 2006

\# Appointed on 1 October 2006

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company fully supports the division of responsibility between the Chairman of the Board and the Chief Executive Officer ("CEO"), to ensure a balance of power and authority. The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. With the support of the management, the Chairman is also responsible for ensuring that the directors receive adequate information and appropriate briefing on issues arising at Board meetings.

The CEO focuses on implementing objectives, policies and strategies approved and delegated by the Board. The CEO is in charge of the Group's day-to-day management and operations. The CEO is also responsible for developing strategic plans and formulating the organisational structure, control systems and internal procedures and processes for the Board's approval. The position of the Chairman is held by Mrs. Leung Yu Oi Ling, Irene while Miss Leung Chi Yin, Gillian is acting as the position of CEO as at the date of this report.

REMUNERATION COMMITTEE

The Remuneration Committee is responsible for reviewing the remuneration package of the Executive Directors and senior management, including bonus and options granted under the share option scheme, to ensure that such remuneration is reasonable and not excessive.

Currently, the Remuneration Committee comprised of four members, majority of which are Independent Non-Executive Directors, namely Prof. Yuen Ming Fai, Matthew, Mr. Pao Ping Wing, Ms. Tse Mei Ha and Miss Leung Chi Yin, Gillian as the committee members. Currently, Prof. Yuen Ming Fai, Matthew is the Chairman of the Remuneration Committee.

The Remuneration Committee met two times in the year ended 31 July 2007.

Remuneration policy of the Company is to enable the Company to retain and motivate employees (including Executive Directors) to meet corporate objectives. An Executive Director is not allowed to approve his/her own remuneration. The remuneration package of Executive Directors includes basic salary, housing allowance, performances bonus and share option. The directors' fee of Independent Non-Executive Directors is subject to annual assessment.

A special resolution was passed at a general meeting to comply with the Code Provision A.4.2 that every director, including those appointed for a specific term, be subjected to retirement by rotation at least every three years.

NOMINATION OF DIRECTORS

Appointment of new Directors is a matter for consideration by the Board. The Board will review the profiles of the candidates before considering the appointment, re-nomination and retirement of Directors.

According to the Company's Bye-laws, any Directors so appointed by the Board shall hold office, in the case of filling a casual vacancy, only until the next following general meeting of the Company or, in the case of an addition to their number, until the next following annual general meeting ("AGM") of the Company, who shall then be eligible for re-election at such AGM.

The Company is now complied with Code Provision A.4.1, non-executive directors are appointed for a specific term, subject to re-election. All Independent Non-Executive Directors will retire on 31 December 2009, subject to reviewed by the Board and re-nomination.

In accordance with the Bye-laws, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. The Board considers that sufficient measures has been and will be taken to ensure the corporate governance practices of the Company are not less exacting than those in the Code.

Every newly appointed Director will be given an introduction of regulatory requirements. The Directors are continually updated on the latest development of the Listing Rules and other applicable statutory requirements to ensure compliance and upkeep of good corporate governance practices.

AUDITORS' REMUNERATION

In this fiscal year, the total remuneration of the Company's auditor, CCIF CPA Limited are set out as follows:

	HK$
Audit services	600,000
Reporting on rights issues	100,000

The Audit Committee has concluded that it is satisfied with the professional performance of the auditors, CCIF CPA Limited ("CCIF"), and therefore recommended to the Board that CCIF be re-appointed as the Company's auditor in the forthcoming annual general meeting.

AUDIT COMMITTEE

The Audit Committee is mainly responsible for providing an independent review and supervision of the financial reporting process and the Group's internal control systems.

The Company formulated written terms of reference for the Audit Committee in accordance with the requirements of the Listing Rules. The Audit Committee consists of three Independent Non-Executive Directors, namely Prof. Yuen Ming Fai, Matthew, Mr Pao Ping Wing, JP and Ms. Tse Mei Ha, in which Ms. Tse Mei Ha is the chairman of the Audit Committee. The Audit Committee held two meetings during the year with attendance rate of 100%.

At the Audit Committee meeting on 23 November 2006, the Audit Committee reviewed the Group's financial statements for the year ended 31 July 2006 and the annual results announcement with a recommendation to the Board for approval.

At the Audit Committee meeting on 24 April 2007, the Audit Committee reviewed the financial statements for the six months period ended 31 January 2007 and the interim results announcement with a recommendation to the Board for approval.

The Group's audited financial statement for the year ended 31 July 2007 has been duly reviewed by the Audit Committee. The members of the Audit Committee unanimously recommended for approval by the Board.

INTERNAL CONTROLS

The Board has the responsibility to maintain an effective internal control system in order to safeguard the Group's assets and protect the shareholders' interests. The Board assesses the effectiveness of the internal control system and procedures derived from discussions with the management of the Group and reviews conducted by the Audit Committee. The Board believes that the existing internal control system is adequate and effective.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors acknowledge their responsibility for preparing the Group's consolidated financial statements in accordance with statutory requirements and applicable accounting standards. The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern, the Board has prepared the financial statement on a going concern basis. The Directors also acknowledge that the publication of the consolidated financial statements shall be distributed to the members of the Company in a timely manner.

The Directors presented their annual report and the audited financial statements for the year ended 31 July 2007.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 19 to the financial statements, which are mainly marine engineering, structural steel engineering and general contract work.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the percentage of the turnover attributable to the Group's five largest customers in aggregate was about 75% of the total turnover of the Group and the percentage of purchases attributable to the Group's five largest suppliers in aggregate was about 80% of the total purchases of the Group.

Save as disclosed in note 36 to the financial statements, neither the directors, their associates nor those shareholders which to the knowledge of the directors own more than 5% of the Company's share capital, held any interest in the Group's five largest customers or suppliers.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 July 2007 are set out in the consolidated income statement on page 23 and the accompanying notes to the financial statements. As at 31 July 2007, the Company did not have any reserves available for cash distribution and/or distribution in specie, as calculated in accordance with the Companies Act 1981 of Bermuda (as amended). Accordingly, the Directors do not recommend the payment of a dividend in respect of the year ended 31 July 2007.

SEGMENTS INFORMATION

An analysis of the Group's turnover and contribution to results by business segments and geographical are set out in Note 6 to the financial statements.

FINANCIAL SUMMARY FOR LAST FIVE YEAR

A financial summary of the published results of the Group and its assets and liabilities for the last five financial years is set out on page 80. The summary does not form part of the audited financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in note 29 to the financial statements.

RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in the Consolidated Statement of Changes in Equity on page 26 and note 30 to the financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 16 to the financial statements.

DIRECTORS AND SERVICE CONTRACTS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

Leung Yu Oi Ling, Irene
Leung Chi Yin, Gillian
Lee Ka Lun, Stephen (Resigned on 1 October 2006)
Leung Chi Hong, Jerry (Appointed on 1 October 2006)

Independent Non-Executive Directors:

Pao Ping Wing
Yuen Ming Fai, Matthew
Tse Mei Ha

In accordance with clause 99(A) as amended by clause 182(vi) of the Company's Bye-Laws, Mrs. Leung Yu Oi Ling, Irene, Prof. Yuen Ming Fai, Matthew and Ms. Tse Mei Ha will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

All Independent Non-executive Directors have been appointed, subject to retirement by rotation in accordance with the Company's Bye-Laws 99, for a specific term and they have confirmed their independence pursuant to rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong (the "Listing Rules").

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 36 to the financial statements, no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

The Company has not granted to any directors of the rights to subscribe for shares in the capital of the Company pursuant to the Company's share option scheme as further detailed in note 33 to the financial statements.

Save as disclosed above, at no time during the year was the Company or any its subsidiaries a party to any arrangement to enable the directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporation.

DIRECTORS' INTERESTS IN SHARES

As at 31 July 2007, the interests or short positions of the Directors in the shares or the underlying shares, if any, of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which are required (a) to be notified to the Company or the Stock Exchange pursuant to Division 7 & 8 of Part XV of the SFO; or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transaction by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Interests in the Company

		Number of Shares and nature of interest	
Name of Directors	*Notes*	**Personal**	**Other**
Leung Yu Oi Ling, Irene	*1, 3*	–	2,652,167,346
Leung Chi Yin, Gillian	*1, 2, 3*	63,199,200	2,652,287,346
Leung Chi Hong, Jerry	*1, 2, 3*	16,506,774	2,652,287,346
Yuen Ming Fai, Matthew	*4*	–	4,800

Note 1: 2,652,155,933 shares are held by Harbour Front Limited or its designated nominees, as the trustee of a unit trust. All of the units in the unit trust are beneficially owned by a discretionary trust, the beneficiaries of which are Mrs. Leung Yu Oi Ling, Irene and her children, namely, Miss Leung Chi Yin, Gillian, Mr. Leung Chi Hong, Jerry and Mr. Leung Kai Hong (aged under 18).

Note 2: 120,000 shares are held by Y T Leung Trading Company Limited, which is beneficially owned by Miss Leung Chi Yin, Gillian and Mr. Leung Chi Hong, Jerry.

Note 3: 11,413 shares held by Vital Strategic Corporate Consultancy Limited, which is beneficially owned by Harbour Front Limited, Mrs. Leung Yu Oi Ling, Irene, Miss Leung Chi Yin, Gillian, Mr. Leung Chi Hong, Jerry and Mr. Leung Kai Hong as to 18%, 20%, 22%,20% and 20% respectively.

Note 4: 4,800 shares are held by Mrs. Yuen Chiu Yin May, May. Mrs. Yuen is the spouse of Prof. Yuen Ming Fai, Matthew.

Save as disclosed in this paragraph, as at the date of this report, none of the Directors or chief executive of the Company had interests in the shares or the underlying shares, if any, of the Company or its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company or the Stock Exchange pursuant to Division 7 & 8 of Part XV of the SFO; or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transaction by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

There was no contract or arrangement subsisting at the date of this report in which any of the Directors was materially interested and which was significant in relation to the business of the Group taken as a whole.

SUBSTANTIAL SHAREHOLDERS

As at 31 July 2007, the interests and short positions of the substantial shareholders (other than a Director of the Company) in the shares of the Company as recorded in the register as required to be kept under Section 336 of the SFO were as follows:

Interests in Shares

Name of shareholder	Number of Shares held	Shareholding Percentage
Harbour Front Limited *(Notes 1, 2, 3)*	2,652,155,933	52.57%

Notes:

(1) 2,651,671,497 shares are held by Harbour Front Limited, as the trustee of a unit trust. All the units in the unit trust are beneficially owned by a discretionary trust, beneficiaries of which are Mrs. Leung Yu Oi Ling, Irene and her children, Miss Leung Chi Yin, Gillian, Mr. Leung Chi Hong, Jerry and Mr. Leung Kai Hong (aged under 18);

(2) 4,436 shares are held by Bugsy Development Company Limited ("Bugsy"). Miss Leung Chi Yin, Gillian and Mr. Leung Chi Hong, Jerry hold shares in Bugsy on trust of Harbour Front Limited;

(3) 480,000 shares held by Gitanes Engineering Company Limited, which is beneficially owned by Harbour Front Assets Investments Limited (which fully owned by Harbour Front Limited), Miss Leung Chi Yin, Gillian, Mr. Leung Chi Hong, Jerry as to 37.8%, 10.2% and 10.2% respectively;

Other than as disclosed above, the Company has not been notified of any other interests or short position and underlying shares of the Company as required to be recorded in the register under Section 336 of the SFO as at 31 July 2007.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-Laws although there are no restrictions against such rights under the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. Information on the corporate governance practices adopted by the Company is set out in Corporate Governance Report on pages 10 to 14.

CONNECTED TRANSACTIONS

Details of the related party transactions and connected transactions of the Group are set out in note 36 to the financial statements.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors at the date of this report, the Company has maintained the prescribed public float under the Listing Rules.

EMOLUMENT POLICY

At 31 July 2007, the Group had about 60 employees in Hong Kong, Singapore and the Mainland China at prevailing market remuneration with employee benefits such as medical benefit, provident fund schemes and share options scheme.

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit as, qualifications and competence.

The emoluments of the Directors of the Company are decided by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees, the status of the share options is set out in note 33 to the consolidated financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDITORS

CCIF CPA Limited, Certified Public Accountants had been the auditors of the Company in the preceding four years. A resolution will be submitted at the forthcoming annual general meeting to re-appoint CCIF CPA Limited as the auditors of the Company.

On behalf of the Board

Leung Yu Oi Ling, Irene
Chairman

Hong Kong
23 November 2007

CCIF
CCIF CPA LIMITED
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
UDL HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of UDL Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 23 to 79, which comprise the consolidated and company balance sheets as at 31 July 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made 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 the report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 July 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants

Leung Chun Wa
Practising Certificate Number P04963

Hong Kong, 23 November 2007

Consolidated Income Statement

For the year ended 31 July 2007

	Note	2007 HK$'000	2006 HK$'000
Turnover	5	**38,141**	22,113
Other revenue and income	7	**1,191**	1,195
Staff costs	9	**(3,553)**	(4,148)
Marine engineering and structural steel engineering costs and cost of vessels		**(24,198)**	(13,550)
Depreciation and amortisation		**(1,686)**	(756)
Other operating expenses		**(10,501)**	(6,702)
Loss from operations		**(606)**	(1,848)
Finance costs	10	**(3,586)**	(2,584)
Share of losses of associates		**(99)**	(65)
Gain on disposal of subsidiaries	8	**–**	38,130
Restructuring expenses		**–**	(4,013)
(Loss)/profit before taxation	9	**(4,291)**	29,620
Taxation	11	**(50)**	98
(Loss)/profit attributable to equity holders of the Company	14	**(4,341)**	29,718
(Loss)/earnings per share – basic and diluted	15	**(0.10 cents)**	1.16 cents
			(Restated)

The notes on pages 29 to 79 form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 July 2007

	Note	2007 HK$'000	2006 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	16	31,468	28,392
Prepaid lease payments	17	879	888
Investments in associates	18	10	86
		32,357	29,366
Current assets			
Inventories	20	31,500	34,908
Prepaid lease payments	17	62	58
Trade and other receivables	21	8,590	13,251
Amounts due from related companies	36	13,502	15,281
Cash and cash equivalents	22	83,606	1,038
		137,260	64,536
Current liabilities			
Other loans from a related company	23	3,832	5,633
Trade and other payables	24	11,167	13,321
Promissory notes	25	–	7,500
Amount due to ultimate holding company	26	102	25,692
Amounts due to related companies	36	3,486	6,241
Amounts due to directors	27	964	920
Provision for taxation		57	84
		19,608	59,391
Net current assets		117,652	5,145
Total assets less current liabilities		150,009	34,511
Non-current liabilities			
Promissory notes	25	–	22,500
NET ASSETS		150,009	12,011
CAPITAL AND RESERVES			
Share capital	29	50,450	33,634
Reserves	30	99,559	(21,623)
TOTAL EQUITY		150,009	12,011

Leung Yu Oi Ling, Irene
Director

Leung Chi Yin, Gillian
Director

The notes on pages 29 to 79 form an integral part of these financial statements.

	Note	2007 HK$'000	2006 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	16	6	8
Investments in subsidiaries	19	11,224	25,717
Investment in an associate	18	–	16
		11,230	25,741
Current assets			
Trade and other receivables	21	187	2,172
Amount due from a subsidiary	19	39,053	38,096
Amounts due from related companies	36	10	–
Cash and cash equivalents	22	74,874	23
		114,124	40,291
Current liabilities			
Other loans from a related company	23	3,832	5,633
Trade and other payables	24	3,730	7,210
Promissory notes	25	–	7,500
Amount due to ultimate holding company	26	102	25,692
Amounts due to related companies	36	6	4
Amounts due to directors	27	566	631
		8,236	46,670
Net current assets/(liabilities)		105,888	(6,379)
Total assets less current liabilities		117,118	19,362
Non-current liabilities			
Promissory notes	25	–	22,500
NET ASSETS/(LIABILITIES)		117,118	(3,138)
CAPITAL AND RESERVES			
Share capital	29	50,450	33,634
Reserves	30	66,668	(36,772)
TOTAL EQUITY/(CAPITAL DEFICIENCY)		117,118	(3,138)

Leung Yu Oi Ling, Irene
Director

Leung Chi Yin, Gillian
Director

The notes on pages 29 to 79 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 July 2007

	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 2005	9,717	8,179	1,264	(4,444)	717	(1,220,142)	52,590	1,096,502	(55,617)
Issue of shares by rights issue *(note 29)*	23,742	47,482	–	–	–	–	–	–	71,224
Issue of shares by exercise of options *(note 29)*	175	395	–	–	–	–	–	–	570
Exchange realignment – subsidiaries	–	–	–	717	–	–	–	–	717
Revaluation surplus arising from property, plant and equipment *(note 16)*	–	–	–	–	–	–	357	–	357
Disposal of subsidiaries	–	–	–	4,132	(717)	49,175	(52,590)	–	–
Issue of promissory notes *(note 25)*	–	–	–	–	–	–	–	(30,000)	(30,000)
Waiver of scheme expenses	–	–	–	–	–	–	–	(4,958)	(4,958)
Profit for the year	–	–	–	–	–	29,718	–	–	29,718
At 31 July 2006	33,634	56,056	1,264	405	–	(1,141,249)	357	1,061,544	12,011
Issue of shares by rights issue *(note 29)*	16,816	129,754	–	–	–	–	–	–	146,570
Exchange realignment – subsidiaries	–	–	–	1,393	–	–	–	–	1,393
Revaluation surplus arising from property, plant and equipment *(note 16)*	–	–	–	–	–	–	1,825	–	1,825
Scheme expenses	–	–	–	–	–	–	–	(7,449)	(7,449)
Loss for the year	–	–	–	–	–	(4,341)	–	–	(4,341)
At 31 July 2007	50,450	185,810	1,264	1,798	–	(1,145,590)	2,182	1,054,095	150,009

The notes on pages 29 to 79 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 July 2007

	2007 HK$'000	2006 HK$'000
Operating activities		
(Loss)/profit before taxation	**(4,291)**	29,620
Adjustments for:		
Depreciation and amortisation	**1,686**	756
Gain on disposal of subsidiaries	**–**	(38,130)
Impairment on doubtful debts	**1,195**	125
Impairment on leasehold buildings	**–**	631
Provision on stock obsolescence	**200**	–
Interest expenses	**3,586**	2,584
Interest income	**(174)**	(18)
Negative goodwill written off	**–**	(684)
Reversal of provision for annual leave	**–**	(60)
Reversal of impairment on doubtful debts	**–**	(278)
Reversal of impairment on leasehold buildings	**(631)**	–
Share of losses of associates	**99**	65
Operating profit/(loss) before working capital changes	**1,670**	(5,389)
Decrease/(increase) in inventories	**3,208**	(34,908)
Increase in trade and other receivables, net	**(3,833)**	(5,207)
Decrease/(increase) in amounts due from related companies	**1,779**	(2,317)
Decrease in trade and other payables	**(2,304)**	(2,068)
Decrease in amounts due to related companies	**(2,755)**	(3,379)
Increase in amounts due to directors	**44**	311
Cash used in operations	**(2,191)**	(52,957)
Tax paid	**(84)**	(45)
Interest paid	**(3,586)**	(2)
Net cash used in operating activities	**(5,861)**	(53,004)

Consolidated Cash Flow Statement

For the year ended 31 July 2007

	Note	2007 HK$'000	2006 HK$'000
Investing activities			
Interest received		**174**	18
Acquisition of subsidiaries	*31(a)*	**–**	(20,985)
Acquisition of an associate		**–**	(151)
Disposal of subsidiaries	*31(b)*	**–**	436
Purchase of property, plant and equipment		**(1,078)**	(5,480)
Decrease in amount due to an associate		**(23)**	–
Net cash used in investing activities		**(927)**	(26,162)
Financing activities			
(Repayment)/advances from ultimate holding company		**(25,590)**	15,610
Proceeds from shares issued under rights issue		**146,570**	71,794
Repayment of other loans from a related company		**(1,801)**	(8,079)
Proceeds from other loans from a related company		**–**	630
Repayment of promissory notes	*25*	**(30,000)**	–
Net cash generated from financing activities		**89,179**	79,955
Net increase in cash and cash equivalents		**82,391**	789
Cash and cash equivalents at 1 August		**1,038**	238
Effect of foreign exchange rate changes		**177**	11
Cash and cash equivalents at 31 July		**83,606**	1,038
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**8,958**	1,038
Time deposits		**74,648**	–
	22	**83,606**	1,038

The notes on pages 29 to 79 form an integral part of these financial statements.

1. GENERAL INFORMATION

(a) The Company was incorporated in Bermuda as an exempted company with limited liabilities. Its shares are listed on The Stock Exchange of Hong Kong Limited. The address of the register office and the principal place of business of the Company are disclosed in the corporate information in the annual report.

(b) The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are the sales of vessels, marine engineering and structural steel engineering business.

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

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

(e) Scheme of Arrangement

The Company and its subsidiaries had experienced significant financial difficulties in 2000. The Company and 24 of its subsidiaries (the "Scheme Participating Companies") entered into a restructuring scheme of arrangement with its creditors (the "Scheme"). The Scheme was duly approved by the Scheme creditors and sanctioned by the court on 18 April 2000 and became effective on 28 April 2000. The Scheme Participating Companies transferred the unencumbered assets and the net proceeds from the recovery of their accounts receivable (collectively the "Scheme Assets") for no consideration to the scheme company, the shares of which are held by the Scheme Administrator on trust for the Scheme creditors. The Company had undertaken to the Scheme Administrator that the aggregate disposal proceeds of the Scheme Assets shall not be less than HK$176 million ("Scheme Undertaking"). In the event of a shortfall, the Company was required to make up the shortfall.

The modification of the Scheme were sanctioned by the High Court of HK on 7 June 2006 and 21 July 2006, under which, the Scheme Administrator was approved to enter into a settlement of the shortfall of Scheme Undertaking with the Company.

On 1 September 2006, the Company entered into a Settlement Structure Agreement with the Scheme Administrator and Trustee under the Scheme, in consideration of the issue of HK$30,000,000 of promissory notes to the Scheme Administrator, the Company is fully released and discharged from each and every obligation and liability of the Company, including the obligations in the Scheme Undertaking. The promissory notes were fully settled in May 2007.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which also include Hong Kong Accounting Standards ("HKASs") and interpretations, issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. These financial statements have been prepared under the historical cost convention, as modified by the revaluation of floating crafts and vessels and leasehold buildings.

The HKICPA has issued certain new and revised HKFRSs that are first effective for the current accounting period of the Group and the Company. The adoption of these new HKFRSs, to the extent that they are relevant to the Group, did not have significant effect on the Group's results of operations and financial position for the current or prior accounting periods presented in these financial statements.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Statement of compliance *(Continued)*

The Group has not early adopted the following new or revised standards, amendments and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 23 (Revised)	Borrowing Costs[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment[3]
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions[4]
HK(IFRIC) – Int 12	Service Concession Arrangements[5]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[6]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[5]

1 Effective for annual periods beginning on or after 1 January 2007
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 November 2006
4 Effective for annual periods beginning on or after 1 March 2007
5 Effective for annual periods beginning on or after 1 January 2008
6 Effective for annual periods beginning on or after 1 July 2008

(b) Consolidation

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

(i) Subsidiaries

Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Consolidation *(Continued)*

(i) Subsidiaries (Continued)

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

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

(ii) Associates

An associate is an entity in which the Group or the Company has significant influence, but not control or joint control over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method of accounting and is initially recorded at cost and adjusted thereafter for the post-acquisition changes in the Group's share of net assets of the associate, less any identified impairment loss, unless it is classified as held for sale. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results for the year of the associate, including any impairment loss on goodwill recognised for the year relating to the interests in the associate.

When the Group's share of losses in an associate equals to or exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred, in which case they are recognised immediately in the income statement.

In the Company's balance sheet, investments in associate is stated at cost less provision for impairment losses, unless it is classified as held for sale. The results of associate is accounted for by the Company on the basis of dividends received and receivable.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Goodwill

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

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

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

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

(d) Segment reporting

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

(e) Foreign currency translation

(i) Functional and presentation currency

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Foreign currency translation *(Continued)*

(ii) Transactions and balances

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

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

(iii) Group companies

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

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

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Foreign currency translation *(Continued)*

(iii) Group companies (Continued)

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(f) Property, plant and equipment

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

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

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

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

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

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

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

(g) Prepaid lease payments

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

(h) 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. An impairment loss is recognised in the income statement whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

(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 cash inflows and which is largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit).

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) Impairment *(Continued)*

(ii) Recognition of impairment losses

An impairment loss is recognised in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

(iii) Reversals of impairment losses

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

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

Reversal of impairment losses are credited to income statement in the year in which the reversals are recognised.

(i) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter measured at amortised cost using the effective interest method, less provision for impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment loss for bad and doubtful debts.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, deemed deposits with banks and other financial institutes and short term highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value, having been within three months of maturity at acquisition. 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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities, trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(l) Construction contracts

When the outcome of a construction contract can be estimated reliably, revenue and contract costs are recognised in the income statement by reference to the stage of completion of the contract at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that will probably be recoverable and contract costs are recognised as an expense in the period in which they are incurred.

(m) Inventories

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

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value, net of transaction costs incurred. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost, any difference between the amount initially recognised (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings, using the effective interest method.

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

(o) Borrowing costs

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(p) Provisions and contingent liabilities

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

(q) Employee benefits

(i) Employee entitlements

Employee entitlements to annual leave and long service payments are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service payments as a result of services rendered by employees up to the balance sheet date. Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

(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.

For employees in Singapore, the Group made contributions to the Central Provident Fund, a defined contribution plan regulated and managed by the government of Singapore.

(iii) Share-based payment

The fair value at grant date of share options granted to directors and employees is expensed on a straight-line basis over the relevant vesting periods to the income statement with a corresponding increase in employee share-based compensation reserve. At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in the income statement with a corresponding adjustment to employee share-based compensation reserve.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(q) Employee benefits *(Continued)*

(iii) Share-based payment (Continued)

At the time when the share options are exercised, the amount previously recognised in employee share-based compensation reserve will be transferred to share premium. When the share options are forfeited or lapsed, the amount previously recognised in employee share-based compensation reserve will be transferred to retained profits.

(r) Taxation

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 in equity, in which case they are recognised in equity. 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.

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(s) Leases

A lease is classified as a finance lease whenever the terms of the lease transferred substantially all the risks and rewards of ownership to the leassee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the terms of the relevant lease.

The Group as lessee

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

(t) Recognition of revenue

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

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

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

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(u) Related parties

Parties are considered to be related to the Group if:

(i) the party has the ability, directly, or indirectly through one or more intermediaries, to control the Group or excise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of the key management personnel of the Group or its parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close member of the family of any individual referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influence by, that individual in their dealings with the entity.

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

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

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

(i) Credit risk

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

(ii) Liquidity risk

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

3. FINANCIAL RISK MANAGEMENT *(Continued)*

(a) Financial risk factors *(Continued)*

(iii) Fair value or cash flow interest rate risk

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

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

(iv) Foreign exchange risk

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

(b) Fair value estimation

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

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

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

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS *(Continued)*

(b) Valuation of leasehold buildings

As described in note 16, leasehold buildings are stated at fair value based on a valuation performed by an independent firm of professional valuers. In determining the fair value, the valuers have based on a method of valuation which involves, inter-alia, certain estimates including the condition of the property, the sales evidence available for similar properties and existing rent receivable. In relying on the valuation report, the management has exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions.

(c) Recognition of deferred tax

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

(d) Impairment of trade receivables

If circumstances indicate that the carrying amount of trade receivables may not be recoverable, an impairment loss may be recognised. The carrying amount of trade receivables is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. The Group estimates the future cash flows from the trade receivables with reference to the age of the trade receivable, debtors' credit-worthiness and repayment history.

(e) Outstanding litigations

As detailed in note 35, the Group had contingent liabilities in respect of a number of legal proceedings in Hong Kong and Bermuda. The directors are of the opinion, after giving due consideration to the advice from the Company's legal counsels, that the claims and damages can be successfully defended and recovered by the Group. The directors are also of the opinion that as the outcome of the litigations against the Group and the related legal costs cannot be estimated reliably, no provision has been made in the financial statements.

5. TURNOVER

The Group's turnover represents revenue derived from the sales of vessels, marine engineering and structural steel engineering operations which comprise engineering contract income and related services. Revenue recognised during the year is as follows:

	2007	2006
	HK$'000	*HK$'000*
Sales of vessels	**13,980**	9,624
Marine engineering income	**19,410**	8,894
Structural steel engineering income	**4,751**	3,595
	38,141	22,113

6. SEGMENT INFORMATION

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

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

(a) Business segments

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

6. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

The following table presents revenue, results and expenditure for the Group's business segments for the two years ended 31 July 2007 and 2006:

	Marine engineering		Structural steel engineering		Sales of vessels		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:								
Sales to external customers	**19,410**	8,894	**4,751**	3,595	**13,980**	9,624	**38,141**	22,113
Segment results	**8,619**	5,173	**4,442**	3,368	**882**	22	**13,943**	8,563
Unallocated other revenue and income							**1,191**	1,195
Unallocated expenses							**(15,740)**	(11,606)
Loss from operations							**(606)**	(1,848)
Finance costs							**(3,586)**	(2,584)
Share of losses of associates							**(99)**	(65)
Gain on disposal of subsidiaries							**–**	38,130
Restructuring expenses							**–**	(4,013)
(Loss)/profit before taxation							**(4,291)**	29,620
Taxation							**(50)**	98
(Loss)/profit after taxation							**(4,341)**	29,718

6. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

The following table presents assets, liabilities and expenditure for the Group's business segments for the two years ended 31 July 2007 and 2006:

	Marine engineering		Structural steel engineering		Sales of vessels		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
ASSETS								
Segment assets	**52,594**	45,585	**2,748**	2,772	**44,014**	43,326	**99,356**	91,683
Unallocated assets							**70,261**	2,219
Total consolidated assets							**169,617**	93,902
LIABILITIES								
Segment liabilities	**9,078**	33,835	**1,176**	3,748	**1,069**	830	**11,323**	38,413
Unallocated liabilities							**8,285**	43,478
Total consolidated liabilities							**19,608**	81,891
OTHER INFORMATION								
Capital expenditure incurred during the year	**998**	20,894	**80**	–	**–**	5,447	**1,078**	26,341
Depreciation and amortisation	**1,045**	529	**–**	–	**641**	227	**1,686**	756
Provision on stock obsolescence	**–**	–	**–**	–	**200**	–	**200**	–
Impairment on property, plant and equipment	**–**	631	**–**	–	**–**	–	**–**	631
Reversal of impairment on doubtful debts	**–**	278	**–**	–	**–**	–	**–**	278
Reversal of impairment on property, plant and equipment	**631**	–	**–**	–	**–**	–	**631**	–
Impairment on doubtful debts	**–**	125	**1,195**	–	**–**	–	**1,195**	125

6. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

The following table presents revenue, results and certain assets and expenditure for the Group's geographical segments for the two years ended 31 July 2007 and 2006:

	Hong Kong		Singapore		PRC		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:								
Sales to external customers	**20,235**	17,114	**17,906**	4,999	**–**	–	**38,141**	22,113
Gain on disposal of subsidiaries	**–**	38,130	**–**	–	**–**	–	**–**	38,130
Other income	**1,118**	910	**73**	285	**–**	–	**1,191**	1,195
							39,332	61,438
Segment assets	**128,856**	61,950	**34,208**	28,098	**6,553**	3,854	**169,617**	93,902
Capital expenditure incurred during the year	**95**	5,455	**983**	20,886	**–**	–	**1,078**	26,341

7. OTHER REVENUE AND INCOME

	2007	2006
	HK$'000	*HK$'000*
Net exchange gain	**40**	141
Negative goodwill *(note 31(a))*	**–**	684
Interest income	**174**	18
Reversal of provision for annual leave	**–**	60
Reversal of impairment on doubtful debts	**–**	278
Reversal of impairment on leasehold buildings	**631**	–
Reversal of overprovision of expenses	**215**	–
Management fee from an associate	**68**	–
Others	**63**	14
	1,191	1,195

8. GAIN ON DISPOSAL OF SUBSIDIARIES

On 29 December 2005, the Company entered into sale and purchase agreements with the ultimate holding company, Harbour Front Limited, to dispose of two of its wholly-owned subsidiaries, namely UDL Marine Assets (HK) Limited and UDL Marine Assets (Singapore) Pte Limited for an aggregate consideration of HK$2. These transactions were completed on 14 February 2006. Gain of approximately HK$38,130,000 was derived from the disposal of these subsidiaries (note 31(b)) and recognised in 2006.

9. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation has been arrived at after charging:

	2007	2006
	HK$'000	*HK$'000*
Auditors' remuneration	**652**	580
Depreciation	**1,626**	698
Operating lease charges in respect of :		
– land and buildings	**4,166**	2,236
– amortisation of prepaid lease payments	**60**	58
Staff costs (including directors and key management)		
– salaries, wages and other benefits	**3,423**	4,002
– contributions to defined contribution scheme	**130**	146
	3,553	4,148
Provision on stock obsolescence	**200**	–
Impairment on doubtful debts	**1,195**	125
Impairment on leasehold buildings	**–**	631

10. FINANCE COSTS

	2007	2006
	HK$'000	*HK$'000*
Interest paid on other loans from a related company	**455**	741
Interest paid on promissory notes	**194**	–
Interest paid to ultimate holding company	**2,937**	1,843
	3,586	2,584

11. TAXATION

No Hong Kong profits tax has been provided in the financial statements as the companies within the Group have either accumulated tax losses brought forward, which exceed the estimated assessable profits for the year, or did not have any assessable profits for the year.

Provision for taxation outside Hong Kong is provided for at the applicable rates of taxation for the year on the estimated assessable profits arising in the relevant tax jurisdictions during the year.

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

	2007	2006
	HK$'000	*HK$'000*
Current tax-overseas		
Provision for the year	**50**	–
Over-provision in respect of prior years	**–**	(98)
	50	(98)
Deferred taxation *(note 28)*	**–**	–
	50	(98)

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

	2007	2006
	HK$'000	*HK$'000*
(Loss)/profit before taxation	**(4,291)**	29,620
Notional tax on (loss)/profit before taxation	**(751)**	5,183
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(168)**	(175)
Tax effect of expenses that are non-deductible in determining taxable profit	**(121)**	(6,183)
Tax effect of tax losses utilised	**(246)**	(458)
Tax effect of tax losses not recognised	**1,336**	1,633
Over-provision in prior periods	**–**	(98)
Actual tax expense/(credit)	**50**	(98)

12. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follow:

The remuneration of every director for the year ended 31 July 2007 is set out below:

Name of director	Fees	Salary paid by the Company	Salary paid by subsidiaries	Discretionary bonuses	Share based payments	Other benefits	Retirement benefit scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive Directors								
Leung Yu Oi Ling, Irene	–	816	216	–	–	384	31	1,447
Leung Chi Yin, Gillian	–	420	153	–	–	–	32	605
Leung Chi Hong, Jerry#	–	95	343	–	–	–	12	450
Lee Ka Lun, Stephen*	–	175	–	–	–	–	2	177
Independent non-executive Directors								
Pao Ping Wing	40	–	–	–	–	40	–	80
Yuen Ming Fai	40	–	–	–	–	60	–	100
Tse Mei Ha	40	–	–	–	–	60	–	100
	120	1,506	712	–	–	544	77	2,959

Leung Chi Hong, Jerry was appointed on 1 October 2006.

* Lee Ka Lun, Stephen was resigned on 1 October 2006.

During the year, no emoluments were paid by the Group to the directors as inducement to join, or upon joining the Group, or as compensation for loss of office.

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

Name of director	Fees	Salary paid by the Company	Salary paid by subsidiaries	Discretionary bonuses	Share based payments	Other benefits	Retirement benefit scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive Directors								
Leung Yu Oi Ling, Irene	–	1,200	95	–	–	418	29	1,742
Leung Chi Yin, Gillian	–	420	71	–	–	–	30	521
Lee Ka Lun, Stephen	–	36	1,376	–	–	–	12	1,424
Independent non-executive Directors								
Pao Ping Wing	40	–	–	–	–	40	–	80
Yuen Ming Fai	40	–	–	–	–	50	–	90
Tse Mei Ha	40	–	–	–	–	50	–	90
	120	1,656	1,542	–	–	558	71	3,947

13. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2006: three) of them are executive directors whose emoluments are disclosed in note 12. The emoluments in respect of the remaining two (2006: two) individuals are as follows:

	2007	2006
	HK$'000	*HK$'000*
Salaries and other benefits	**844**	625

The emoluments were within the following bands:

Emoluments bands	**Number of individuals**	
	2007	2006
HK$Nil – HK$1,000,000	**2**	2

14. (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to equity holders of the Company includes a loss of approximately HK$23,832,000 (2006: loss of approximately HK$11,906,000) which has been dealt with in the financial statements of the Company.

15. (LOSS)/EARNINGS PER SHARE

The calculation of (loss)/earnings per share is based on loss attributable to equity holders of the Company of approximately HK$4,341,000 (2006: profit approximately HK$29,718,000) and on the weighted average number of 4,223,030,659 ordinary shares (2006: 2,568,782,859 ordinary shares as adjusted) in issue during the year as adjusted to reflect the rights issue completed during the year.

There were no dilutive potential shares in existence during the years ended 31 July 2006 and 2007, therefore diluted (loss)/earnings per share are same as basic (loss)/earnings per share for both the current and prior years.

16. PROPERTY, PLANT AND EQUIPMENT

The Group

	Leasehold buildings HK$'000	Floating craft and vessels HK$'000	Furniture, fixtures and office equipment HK$'000	Plant, machinery and workshop equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation						
At 1 August 2005	–	76,319	10	3,284	94	79,707
Additions	20,815	5,440	44	42	–	26,341
Surplus on revaluation	–	357	–	–	–	357
Elimination of depreciation on revaluation	–	(227)	–	–	–	(227)
Disposals	–	(76,319)	(8)	(646)	–	(76,973)
Exchange realignments	672	–	–	45	2	719
At 31 July 2006	21,487	5,570	46	2,725	96	29,924
Additions	–	–	998	–	80	1,078
Surplus on revaluation	1,274	551	–	–	–	1,825
Elimination of depreciation on revaluation	(604)	(581)	–	–	–	(1,185)
Exchange realignments	1,078	–	1	164	6	1,249
At 31 July 2007	23,235	5,540	1,045	2,889	182	32,891
Accumulated depreciation and impairment						
At 1 August 2005	–	919	8	503	45	1,475
Charge for the year	171	227	3	278	19	698
Impairment loss	631	–	–	–	–	631
Written back on disposals	–	(919)	(8)	(147)	–	(1,074)
Elimination of depreciation on revaluation	–	(227)	–	–	–	(227)
Exchange realignments	19	–	–	8	2	29
At 31 July 2006	821	–	3	642	66	1,532
Charge for the year	392	581	331	300	22	1,626
Reversal of impairment	(631)	–	–	–	–	(631)
Elimination of depreciation on revaluation	(604)	(581)	–	–	–	(1,185)
Exchange realignments	22	–	8	47	4	81
At 31 July 2007	–	–	342	989	92	1,423
Net book value						
At 31 July 2007	23,235	5,540	703	1,900	90	31,468
At 31 July 2006	20,666	5,570	43	2,083	30	28,392

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

The Group *(Continued)*

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

	Leasehold buildings	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$'000*	*HK$'000*
At cost	–	–	1,045	2,889	182	4,116
At professional valuation 2007	23,235	5,540	–	–	–	28,775
	23,235	5,540	1,045	2,889	182	32,891

The Company

	Office equipment
	HK$'000
Cost	
At 1 August 2005	2
Additions	7
At 31 July 2006 and 31 July 2007	9
Accumulated depreciation	
At 1 August 2005	–
Charge for the year	1
At 31 July 2006 and 1 August 2006	1
Charge for the year	2
At 31 July 2007	3
Net book value	
At 31 July 2007	6
At 31 July 2006	8

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

The Company *(Continued)*

The Group's leasehold buildings under a short term lease were situated outside Hong Kong. The buildings were built on a piece of leasehold land which was leased from JTC Corporation at a monthly rental of approximately S$49,000 (2006: approximately S$49,000). The buildings were revalued on 31 July 2007 by Vantage Valuers and Property Consultants Pte Limited, an independent professional valuer in Singapore on an open market value basis. The revaluation surplus of approximately of HK$1,274,000 (2006: HK$ Nil) has been transferred to the revaluation reserve.

The Group's floating craft and vessels were revalued individually on 31 July 2007 by Win Well Engineering & Surveyors Limited, an independent professional valuer in Hong Kong, on an open market value basis. The revaluation surplus of approximately HK$551,000 (2006: approximately HK$357,000) has been transferred to the revaluation reserve.

Had the floating craft and vessels and leasehold buildings been carried at cost less accumulated depreciation, their carrying amount would have been approximately HK$4,989,000 and HK$1,372,000 (2006: approximately HK$5,213,000 and HK$1,690,000), respectively.

17. PREPAID LEASE PAYMENTS

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Land use rights outside Hong Kong:		
Medium-term lease	**941**	946
Analysed for reporting purposes as:		
Current portion	**62**	58
Non-current portion	**879**	888
	941	946

Prepaid lease payments represent payments for the land use rights in Mainland China expiring in 2022.

18. INVESTMENTS IN ASSOCIATES

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
At beginning of year	**1,185**	1,250	**9**	9
Share of associates' results	**(99)**	(65)	**(9)**	–
At end of year	**1,086**	1,185	**–**	9
Representing:				
Share of net assets	**1,086**	1,185	**–**	–
Amount due from an associate	**–**	–	**–**	7
Amount due to an associate	**(1,076)**	(1,099)	**–**	–
	(1,076)	(1,099)		7
	10	86	**–**	16

During the year, the Company disposed of its entire interest in an associate, Royal Top Engineering Limited, to a related company, at a nominal consideration of HK$1.

Particulars of the associate at 31 July 2007 are as follows:

Name	Place of incorporation/ operation	Percentage of issued share capital held by the Company	Principal activities
Press United Logistic Limited	Hong Kong	50%	Distribution of newspapers and magazines

18. INVESTMENTS IN ASSOCIATES *(Continued)*

The summarised financial information in respect of the Group's associate is set out below:

	2007 **HK$'000**	2006 HK$'000
Revenue	**–**	185
Loss for the year	**(180)**	(131)
Group's share of associates' results for the year	**(90)**	(65)
Total assets	**2,176**	2,403
Total liabilities	**(5)**	(34)
Net assets	**2,171**	2,369
Group's share of associates' net assets	**1,086**	1,185

During the year, the Group has discontinued recognition of its share of losses of the associate. The amount of unrecognised share of loss of associate, extract from the relevant management accounts of the associate for the year is as follows:

	2007 **HK$'000**	2006 HK$'000
Unrecognised share of loss of associate for the year	**(9)**	–

The amount due from/(to) an associate is unsecured, interest-free and repayable on demand.

19. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2007	2006
	HK$'000	*HK$'000*
Unlisted shares, at cost	**96,105**	96,105
Amounts due from subsidiaries	**30,683**	25,614
	126,788	121,719
Less: Impairment loss	**(109,379)**	(85,025)
	17,409	36,694
Amounts due to subsidiaries	**(6,185)**	(10,977)
	11,224	25,717

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

Particulars of the principal subsidiaries as at 31 July 2007 are as follows:

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

19. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ operation	Particulars of issued/registered share capital	Percentage of issued/registered capital held by the Group	Company	Principal activities
Faith On International Limited	Hong Kong	HK$2	100%	100%	Dormant
Full Keen Investment Limited	Hong Kong	HK$2	100%	100%	Dormant
Graceful Ease Investment Limited	Hong Kong	HK$2	100%	100%	Dormant
Keen Yield Investment Limited	Hong Kong	HK$2	100%	100%	Dormant
S.K. Luk Construction Company Limited	Hong Kong	HK$500,000	100%	100%	Dormant
UDL Argos Engineering & Heavy Industries Company Limited	Hong Kong	HK$124,000,000	100%	100%	Investment holding, structural steel engineering works and management services
UDL Civil Contractors Limited	Hong Kong	HK$6,800,000	100%	100%	Dormant
UDL Contracting Limited	Hong Kong	HK$50,700,000	100%	100%	Engineering and contracting
UDL Dredging Limited	Hong Kong	HK$2	100%	100%	Inactive
UDL E & M (BVI) Limited	BVI	US$1	100%	100%	Dormant
UDL Employment Services Limited	Hong Kong	HK$2	100%	100%	Provision of human resources management services
UDL Investment Limited	Hong Kong	HK$550,000	100%	100%	Dormant
UDL Management Limited	Hong Kong	HK$2	100%	100%	Dormant
UDL Marine Operation Limited	Hong Kong	HK$2	100%	100%	Dormant
UDL Marine Pte Limited*	Singapore	S$3,150,000	100%	100%	Dormant
UDL Ship Management Limited	Hong Kong	HK$2	100%	100%	Marine engineering and ship management services

19. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ operation	Particulars of issued/registered share capital	Percentage of issued/registered capital held by the Group	Percentage of issued/registered capital held by the Company	Principal activities
UDL Steel Fabricators & Shipbuilders Company Limited	Hong Kong	HK$2	100%	100%	Dormant
UDL Ventures Limited	Hong Kong	HK$1	100%	100%	Dormant
Wellfull Time Limited	Hong Kong	HK$2	100%	100%	Dormant
中山太元重工業有限公司	PRC	HK$10,000,000	100%	–	Inactive

* Companies not audited by CCIF CPA Limited. The financial statements of the subsidiaries not audited by CCIF CPA Limited reflect total net assets and total turnover constituting approximately 19% and 47%, respectively of the related consolidated totals.

20. INVENTORIES

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Vessels held for resale	**31,500**	34,908

21. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade receivables	**3,152**	3,736	**–**	–
Retention money receivable	**–**	1,098	**–**	–
Prepayments, deposits and other receivables	**5,438**	8,417	**187**	2,172
	8,590	13,251	**187**	2,172

The aging analysis of trade receivables, net of impairment on doubtful debts of approximately HK$1,195,000 (2006: approximately HK$125,000), of the Group as at the balance sheet date is as follows:

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Current	**1,281**	354
1 – 3 months	**1,147**	1,247
4 – 6 months	**6**	683
7 – 12 months	**707**	1,057
Over 1 year	**11**	395
	3,152	3,736

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.

Included in the other receivables on 31 July 2007 is the aggregate amount of approximately HK$4,150,000 incurred by the Group to pursue arbitration and/or legal proceedings to recover the value of the Scheme Assets. Under the terms of the Scheme, the Group will be reimbursed for such recovery costs upon the successful recovery of these assets. As detailed in the last year's annual report, the Scheme was sanctioned by the High Court of Hong Kong in June and July 2006, respectively, for modifications under which the Scheme Assets were transferred to Harbour Front in September 2006. Based on an undertaking letter from Harbour Front, the Group is entitled to a reimbursement of these recovery costs.

22. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**8,958**	1,038	**226**	23
Time deposits	**74,648**	–	**74,648**	–
	83,606	1,038	**74,874**	23

Time deposits carry floating interest rates at an effective interest rate of 3.24% per annum.

Included in cash and cash equivalents in the balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2007	2006	**2007**	2006
	'000	*'000*	***'000***	*'000*
Renminbi	**348**	256	**–**	–
United States dollars	**600**	–	**–**	–
Singapore dollars	**170**	152	**–**	–

23. OTHER LOANS FROM A RELATED COMPANY

	The Group and The Company	
	2007	2006
	HK$'000	*HK$'000*
Other loans-unsecured	**3,832**	5,633

As at 31 July 2007, the Group's other loans of approximately HK$3,832,000 (2006: HK$5,633,000) were borrowed from a related company, Marine Lord System Limited which were used to finance the Group's operations. The loans are unsecured, repayable on demand and bear interest at Hong Kong prime rate plus 2% per annum.

24. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables	**1,035**	258	**–**	–
Other payables and accruals	**10,132**	13,063	**3,730**	7,210
	11,167	13,321	**3,730**	7,210

The aging analysis of trade payables at the balance sheet date is as follows:

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Current	**281**	94
1 – 3 months	**671**	61
4 – 6 months	**7**	1
7 – 12 months	**29**	10
Over 1 year	**47**	92
	1,035	258

25. PROMISSORY NOTES

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within 1 year and included in current liabilities	–	7,500	–	7,500
After 1 year and included in non-current liabilities				
– After 1 year but within 2 years	–	15,000	–	15,000
– After 2 years but within 5 years	–	7,500	–	7,500
	–	22,500	–	22,500
	–	30,000	–	30,000

The promissory notes was issued to the Scheme Administrator and were unsecured, bearing interest at the rate of 1% per annum. The promissory notes were fully repaid during the year.

26. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

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

27. AMOUNTS DUE TO DIRECTORS

The amounts due to directors are unsecured, interest-free and repayable on demand.

28. DEFERRED TAXATION

The components of deferred tax liabilities/(assets) of the Group in the consolidated balance sheet and the movements during the year are as follows:

	The Group			
	Accelerated depreciation allowances	Revaluation reserve	Tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 August 2005	3,657	1,829	(5,486)	–
(Credited)/charged to income statement *(note 11)*	(3,010)	(1,767)	4,777	–
At 31 July 2006 and 1 August 2006	647	62	(709)	–
(Credited)/charged to income statement *(note 11)*	70	319	(389)	–
At 31 July 2007	717	381	(1,098)	–

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Deferred tax liabilities recognised	**1,098**	709	**1**	1
Deferred tax assets recognised	**(1,098)**	(709)	**(1)**	(1)
	–	–	**–**	–

At 31 July 2007, the Group has unused tax losses of approximately HK$198,868,000 (2006: approximately HK$192,150,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$6,274,000 (2006: approximately HK$4,055,000) of such losses. No deferred tax assets in respect of the remaining approximately HK$192,594,000 (2006: approximately HK$188,095,000) was recognised due to the unpredictability of future taxable profit streams. This amount of unused tax loss could be carried forward indefinitely.

29. SHARE CAPITAL

	2007	2006
	HK$'000	*HK$'000*
Authorised:		
12,000,000,000 ordinary shares of HK$0.01 each	**120,000**	120,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each at 1 August	**33,634**	9,717
Issue of shares by rights issue *(note a)*	**16,816**	23,742
Issue of shares by exercise of options *(note b)*	**–**	175
Ordinary shares of HK$0.01 each at 31 July	**50,450**	33,634

Notes:

a) Issue of shares by rights issue

In February 2006, 2,374,133,524 shares of HK$0.01 each were issued at a price of HK$0.03 per share by way of rights issue for a total cash consideration of approximately HK$71,224,000 on the basis of 12 rights shares for every 5 shares held on 14 February 2006. These shares rank pari passu in all respects with the then existing shares of the Company. The net proceeds of the rights issue were used to finance the acquisition of a subsidiary, vessels and for additional working capital of the Group.

In July 2007, 1,681,677,913 shares of HK$0.01 each were issued at a price of HK$0.09 per share by way of rights issue for a total cash consideration of approximately HK$146,570,000, on the basis of 1 rights share for every 2 existing shares held on 4 July 2007. These shares rank pari passu in all respects with the then existing shares of the Company. The net proceeds of the rights issue were used to repay the interim finance provided by the ultimate holding company, Harbour Front Limited and for additional working capital of the Group.

b) Issue of shares by exercise of options

During the year ended 31 July 2006, options issued to employees were exercised to subscribe for 17,523,000 shares in the Company at subscription prices of HK$0.024 to HK$0.04 per share. The total consideration amounted to approximately HK$570,000 of which approximately HK$175,000 was credited to share capital and the balance of approximately HK$395,000 was credited to the share premium.

30. RESERVES

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Share premium	**185,810**	56,056
Capital redemption reserve	**1,264**	1,264
Exchange fluctuation reserve	**1,798**	405
Accumulated losses	**(1,145,590)**	(1,141,249)
Revaluation reserve	**2,182**	357
Scheme reserve	**1,054,095**	1,061,544
	99,559	(21,623)

Details of the movements in the above reserves during the year are set out in the consolidated statement of changes in equity on page 26.

The 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 2005	8,179	1,264	21,689	(393,881)	324,964	(37,785)
Issue of shares by rights issue *(note 29)*	47,482	–	–	–	–	47,482
Issue of shares by exercise of option *(note 29)*	395	–	–	–	–	395
Issue of promissory notes	–	–	–	–	(30,000)	(30,000)
Waiver of scheme expenses	–	–	–	–	(4,958)	(4,958)
Loss for the year	–	–	–	(11,906)	–	(11,906)
At 1 August 2006	56,056	1,264	21,689	(405,787)	290,006	(36,772)
Issue of shares by rights issue *(note 29)*	129,754	–	–	–	–	129,754
Scheme expenses	–	–	–	–	(2,482)	(2,482)
Loss for the year	–	–	–	(23,832)	–	(23,832)
At 31 July 2007	185,810	1,264	21,689	(429,619)	287,524	66,668

30. RESERVES *(Continued)*

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, less the promissory notes of HK$30 million issued to the Scheme Administrator as consideration to release the Company's Shortfall Undertaking pursuant to the Settlement Structure Agreement dated 1 September, 2006, and related scheme expenses for the recovery of Scheme Assets.

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

In December 2005, the Group acquired 100% of the issued share capital of Denlane Shipbuilding Pte Limited from a related company, Best Year (Asia) Limited, for a consideration of approximately HK$21,249,000.

Details of net assets acquired were as follows:

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

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

(b) Disposal of subsidiaries

In February 2006, the Group disposed 100% of the issued share capital of UDL Marine Assets (HK) Limited and UDL Marine Assets (Singapore) Pte Limited to its ultimate holding company, Harbour Front, for a consideration of HK$2.

Details of net assets disposed of were as follows:

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

32. RETIREMENT BENEFITS SCHEME

Defined contribution scheme

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

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

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

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 2007, the Group made contributions of approximately HK$130,000 (2006: approximately HK$146,000) towards the MPF Scheme and CPF.

33. 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. Since the adoption of the share option scheme, the Company has granted options carrying rights to subscribe for 82,828,000 shares, of which 80,920,000 has been exercised and the remaining option for 1,908,000 shares has been cancelled and expired. As at 31 July 2007, there were no outstanding options in issue.

33. EQUITY COMPENSATION BENEFITS *(Continued)*

Movements in share options

	The Company	
	2007	2006
	Number ('000)	*Number ('000)*
Outstanding as at 1 August	**–**	19,431
Granted during the year	**–**	–
Exercised during the year	**–**	(17,523)
Cancelled/lapsed during the year	**–**	(1,908)
Outstanding as at 31 July	**–**	–

34. OPERATING LEASE COMMITMENTS

At 31 July 2007, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Land and buildings				
Within one year	**3,340**	3,489	**–**	401
In the second to fifth years inclusive	**8,574**	11,093	**–**	32
More than five years	**4,570**	4,437	**–**	–
	16,484	19,019	**–**	433

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

35. CONTINGENCIES AND LITIGATIONS

(a) On 31 July 2002, Charterbase Management Limited and United People Assets Limited, the Petitioners, issued the Bermuda Writ against the Company and against Mrs. Leung Yu Oi Ling, Irene,, Mr. Chan Kim Leung, Miss 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 Subscription SGM. Mr. Wong Pui Fai and Mr. Chan Kim Leung subsequently 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 and United People Assets 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. The Petitioners have 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 dates of the summons, originally fixed for 18 and 19 November 2002, were 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 and two new parties were joined as Petitioners, namely 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.

35. CONTINGENCIES AND LITIGATIONS *(Continued)*

(a) *(Continued)*

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;

35. CONTINGENCIES AND LITIGATIONS *(Continued)*

(a) *(Continued)*

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

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

35. CONTINGENCIES AND LITIGATIONS *(Continued)*

(a) *(Continued)*

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

(b) An amount of SGD358,982 (equivalent to HK$1,766,335) (2006: HK$1,680,233) relating to interest payable on banking facilities was charged to UDL Marine Pte Limited, a subsidiary of the Company. 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 referenced 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 Company Limited ("Fonfair") claimed against the Company and the Group for the amount of HK$19,568,644.66 together with interest and costs, Money Facts Limited ("Money Facts") claimed the amount of HK$13,334,211.42 (HK$12,874,121.48 of which was 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 claimed the amount of HK$15,190,409.54 (HK$6,667,105.71 of which was 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. The plaintiffs, (i) Harbour Front is the majority shareholder of the Company, holding 3,958 out of the 12,008 issued ordinary shares of Fonfair and 3,950 out of the 7,900 issued ordinary shares of Money Facts Limited; (ii) Money Facts holds 7,900 out of the 12,008 issued ordinary shares of Fonfair; and (iii) Leung Yuet Keung holds 3,950 out of the 7,900 issued ordinary shares of Money Facts.

(d) UDL Contracting Limited ("UDL Contracting"), a wholly-owned subsidiary of the Company, commenced legal action against two defendants on 8 June 2007 to claim damages in relation to the construction of a printing workshop carried out by UDL Contracting. Default judgement in the sum of approximately HK$162 million was awarded by the Court in favour of UDL Contracting on 27 June 2007. However, one defendant took out a Summons to apply to set aside the default judgement. The legal counsels are of the opinion that UDL Contracting has merits in its claims and, in the event of an unfavourable outcome, the losses which UDL Contracting may suffer are essentially the legal costs incurred in the proceedings as there is no counterclaim from the defendants. Any recovery of the claim is a Scheme Asset pursuant to the 2000 Scheme.

35. CONTINGENCIES AND LITIGATIONS *(Continued)*

(e) UDL Argos Engineering & Heavy Industries Co., Ltd ("UDL Argos"), a wholly-owned subsidiary of the Company, has commenced legal action against a contractor to recover the unsettled balance of approximately HK$2.9 million from the contractor. This contractor applied for a stay of the proceedings to arbitration. By a judgement delivered on 29 August 2007, the Court ordered a stay of the action to arbitration and also made an order that UDL Argos do bear the costs of the application. The legal counsels are of the opinion that no monetary claims having been made either by UDL Argos or Dragages, the only liability from this action is the payment of UDL Argos' own costs and the costs of this contractor estimated to be not exceeding HK$150,000. Any recovery of the claim is a Scheme Asset pursuant to the 2000 Scheme.

(f) The Company's wholly-owned subsidiary, UDL Argos has filed a claim against a contractor to recover the sum of approximately HK$6.9 million in respect of services rendered. This contractor also counterclaimed for liquidated damages of HK$4.2 million. Arbitration hearing will be held in November 2007. The directors are of the opinion that the claim can be successfully defended by the Group on the basis that such counterclaims are prohibited by the Scheme.

36. RELATED PARTY TRANSACTIONS

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

		The Group	
		2007	2006
	Note	***HK$'000***	*HK$'000*
Purchase of vessels from Bugsy Development Company Limited ("Bugsy") *(note 3)*	*(a)*	**–**	35,000
Rental charges paid to Capital Hope Investments Limited ("Capital Hope")	*(b)*	**384**	384
Purchase of vessels from Gitanes Engineering Company Limited (Gitanes") *(note 3)*	*(c)*	**–**	5,200
Rental charges paid to Decorling Limited ("Decorling")	*(d)*	**996**	627
Interest expenses paid to Harbour Front Limited ("Harbour Front") *(note 1)*	*(e)*	**2,937**	1,843
Commission fee paid to Harbour Front	*(e)*	**1,258**	–
Interest expenses paid to Best Year (Asia) Limited ("Best Year")	*(f)*	**–**	79
Purchase of subsidiaries from Best Year	*(f)*	**–**	21,249
Interest expenses paid to Multi ventures Limited ("Multi-Ventures")	*(g)*	**–**	165
Interest expenses paid to Marine Lord Systems Limited ("Marine Lord") *(note 2)*	*(h)*	**455**	497
Other loans from Marine Lord *(note 2)*	*(h)*	**3,832**	5,474
Purchase of vessels from UDL Marine Assets (Hong Kong) Limited ("UMAHK") *(note 3)*	*(i)*	**7,350**	–
Disposal of an associate to Harbour Front Assets Investments Limited ("Harbour Front Assets") at nominal consideration of HK$1	*(j)*	**–**	–
Purchase of vessels from UDL Marine Assets (Singapore) Pte Ltd (UMASPG") *(note 3)*	*(k)*	**1,530**	–
Management fee income from Royal Top Engineering Limited ("Royal Top")	*(l)*	**68**	–

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

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

(c) Gitanes is a company in which Mrs. Leung Yu Oi Ling, Irene is a director and Ms. Leung Chi Yin, Gillian is a shareholder.

36. RELATED PARTY TRANSACTIONS *(Continued)*

(d) Decorling is a company in which Mrs. Leung Yu Oi Ling, Irene and Ms. Leung Chi Yin, Gillian are directors.

(e) Harbour Front is a major shareholder of the Company. Mrs. Leung Yu Oi Ling, Irene and Ms. Leung Chi Yin, Gillian are directors and shareholders of Harbour Front.

(f) Best Year is a wholly-owned subsidiary of Harbour Front.

(g) Multi-Ventures is a wholly-owned subsidiary of Harbour Front.

(h) Marine Lord is a wholly-owned subsidiary of Harbour Front.

(i) UMAHK is a wholly-owned subsidiary of Harbour Front.

(j) Harbour Front Assets is a wholly-owned subsidiary of Harbour Front.

(k) UMASPG is a wholly-owned subsidiary of Harbour Front.

(l) Royal Top was an associate of the Company and was disposed of during the year.

Mrs. Leung Yu Oi Ling, Irene, Ms. Leung Chi Yin, Gillian and Mr. Leung Chi Hong, Jerry are the directors of UDL Holdings Limited.

Notes:

(1) The amount due to Harbour Front is unsecured, bears interest at Hong Kong prime rate plus 2% per annum and repayable on demand.

(2) The amount due to Marine Lord is unsecured, bears interest at Hong Kong prime rate plus 2% per annum and repayable on demand.

(3) These transactions were carried out on commercial terms as agreed by respective parties in the ordinary course of business.

All other amounts due from/(to) related companies with the exception of the amount due to Marine Lord are unsecured, interest-free and repayable on demand.

On 30 April 2007, the Company entered into a loan agreement with Harbour Front under which the Company borrowed an unsecured short term loan of approximately HK$75 million which bore interest at prevailing prime rate plus 2% per annum. The loan was fully repaid in July 2007. Other details of the amount due to Harbour Front are disclosed in note 26 to the financial statements.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements on pages 23 to 79 were approved by the Board of Directors on 23 November 2007.

Five Year Summary

For the year ended 31 July 2007

A summary of the results of the Group and of its assets and liabilities for the last five financial years as extracted from the audited financial statements, is set out below:

	Year ended				
	31 July 2007	31 July 2006	31 July 2005	31 July 2004	31 July 2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Results					
Turnover	**38,141**	22,113	11,093	19,552	23,801
(Loss)/profit before taxation	**(4,291)**	29,620	(27,750)	(16,479)	(18,016)
Taxation	**(50)**	98	279	(55)	(240)
(Loss)/profit after taxation but before minority interests	**(4,341)**	29,718	(27,471)	(16,534)	(18,256)
Minority interests	**–**	–	–	–	–
Net (loss)/profit attributable to shareholders	**(4,341)**	29,718	(27,471)	(16,534)	(18,256)

	As at				
	31 July 2007	31 July 2006	31 July 2005	31 July 2004	31 July 2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets and liabilities					
Total assets	**169,617**	93,902	97,043	100,488	161,937
Total liabilities	**(19,608)**	(81,891)	(152,660)	(145,138)	(165,883)
Net assets/(liabilities)	**150,009**	12,011	(55,617)	(44,650)	(3,946)