THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") and Hong Kong Securities Clearing Company Limited ("**HKSCC**") take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

Capitalised terms used in this prospectus shall have the same meanings as defined in the section headed "Definitions" in this prospectus.

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

If you have sold or transferred all your shares in UDL Holdings Limited ("**Company**"), you should at once hand this prospectus, together with the accompanying Provisional Allotment Letter and Excess Application Form, to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

A copy of this prospectus, together with copies of the Provisional Allotment Letter, the Excess Application Form and (where applicable) the documents mentioned in the paragraph headed "Documents delivered to the Registrars of Companies" in Appendix III to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance and filed with the Registrar of Companies in Bermuda pursuant to the Companies Act 1981 of Bermuda. The Registrar of Companies in Hong Kong and the Registrar of Companies in Bermuda take no responsibility as to the contents of this prospectus.

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

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

UDL 太元

UDL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 620)

RIGHTS ISSUE OF 1,681,677,913 RIGHTS SHARES OF HK$0.01 EACH AT HK$0.09 PER RIGHTS SHARE, PAYABLE IN FULL ON ACCEPTANCE (IN THE PROPORTION OF ONE RIGHTS SHARE FOR EVERY TWO EXISTING SHARES HELD) BY NO LATER THAN 4:00 P.M. ON WEDNESDAY, 18 JULY 2007

Underwriters

新鴻基金融集團
SUN HUNG KAI FINANCIAL

HARBOUR FRONT LIMITED

It should be noted that SHK (on behalf of the Underwriters) reserves the right to terminate its obligations under the Underwriting Agreement on the occurrence of certain events. SHK (on behalf of the Underwriters) may terminate its commitment under the Underwriting Agreement prior to the Latest Time for Termination if prior to the Latest Time for Termination:

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

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

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

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

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

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

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

If the Underwriting Agreement is terminated by SHK (on behalf of the Underwriters) on or before the Latest Time for Termination or does not become unconditional, the Rights Issue will not proceed.

The Shares have been dealt in on an ex-rights basis since Wednesday, 27 June 2007. Dealings in the Rights Shares in their nil-paid form will take place from Friday, 6 July 2007 to Friday, 13 July 2007 (both days inclusive). If the conditions of the Rights Issue are not fulfilled and/or waived at or before 4:00 p.m. on Monday, 23 July 2007 (or such later time and/or date as the Company and SHK (on behalf of the Underwriters) may determine), the Underwriting Agreement shall terminate and the Rights Issue will not proceed. Any persons contemplating buying or selling Shares up to the date on which all the conditions of the Rights Issue are fulfilled and/or waived, and any dealing in the Rights Shares in their nil-paid form between Friday, 6 July 2007 and Friday, 13 July 2007 (both days inclusive), bear the risk that the Rights Issue may not become unconditional or may not proceed. Any Shareholders or other persons contemplating dealing in the Shares or the Rights Shares in their nil-paid form are recommended to consult their own professional advisers.

The latest time for acceptance and payment for the Right Shares is 4:00 p.m. on Wednesday, 18 July 2007. The procedures for acceptance and transfer are set out on pages 11 to 12 of this prospectus.

4 July 2007

CONTENTS

Page

	2007
Record Date	Tuesday, 3 July
Register of members re-opens	Wednesday, 4 July
Despatch of Rights Issue Documents	Wednesday, 4 July
First day of dealings in nil-paid Rights Shares	Friday, 6 July
Latest time for splitting of nil-paid Rights Shares	4:00 p.m., Tuesday, 10 July
Last day of dealings in nil-paid Rights Shares	Friday, 13 July
Latest Time for Acceptance of the offer of the Rights Shares as well as application for excess Rights Shares and the relevant payment	4:00 p.m., Wednesday, 18 July
Latest time for the Rights Issue to become unconditional	4:00 p.m., Monday, 23 July
Announcement of results of acceptance of and excess applications for the Rights Shares appears on newspapers (the Standard (in English) and the Hong Kong Economic Times (in Chinese))	Tuesday, 24 July
Despatch of refund cheques in respect of unsuccessful or partially unsuccessful excess applications for excess Rights Shares on or before	Tuesday, 24 July
Despatch of certificates for fully-paid Rights Shares on or before	Tuesday, 24 July
Commencement of dealings in fully-paid Rights Shares	9:30 a.m., Thursday, 26 July

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

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR THE RIGHTS SHARES

The Latest Time for Acceptance will not take place if there is:

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

(i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on the Latest Acceptance Date. Instead, the Latest Time for Acceptance will be extended to 5:00 p.m. on the same Business Day; or

(ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the Latest Acceptance Date. Instead, the Latest Time for Acceptance will be rescheduled to 4:00 p.m. on the next Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m..

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

It should be noted that SHK (on behalf of the Underwriters) reserves the right to terminate its obligations under the Underwriting Agreement on the occurrence of certain events. SHK (on behalf of the Underwriters) may terminate its commitment under the Underwriting Agreement prior to the Latest Time for Termination if prior to the Latest Time for Termination:

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

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

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

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

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

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

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

If the Underwriting Agreement is terminated by SHK (on behalf of the Underwriters) on or before the Latest Time for Termination or does not become unconditional, the Rights Issue will not proceed.

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

"2006 Annual Report"	the annual report of the Company for the financial year ended 31 July 2006
"Announcement"	the announcement of the Company dated 14 June 2007 in connection with the proposed Rights Issue
"associate(s)"	shall have the same meaning as defined in the Listing Rules
"Board"	the board of Directors
"Business Day"	a day (excluding Saturday, Sunday and any day on which a tropical cyclone warning no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a "black" rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are open for business
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Company"	UDL Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
"Director(s)"	the director(s) of the Company
"Excess Application Form(s)"	form(s) of application for excess Rights Shares
"Excluded Shareholders"	Overseas Shareholders to whom the Board, based on legal opinions provided by legal advisers, considers it necessary or expedient not to offer the Rights Shares on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place
"Group"	the Company and its subsidiaries from time to time
"Harbour Front"	Harbour Front Limited, a company incorporated in the British Virgin Islands and the controlling shareholder of the Company. Each of the executive Directors, namely, Mrs. Leung Yu Oi Leung, Irene, Ms. Leung Chi Yin, Gillian and Mr. Leung Chi Hong, Jerry holds one-third of the issued share capital of Harbour Front
"Harbour Front Concert Parties"	Harbour Front and parties acting in concert (within the meaning of the Code on Takeovers and Mergers of Hong Kong) with it

"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong GAAP"	the generally accepted accounting principles in Hong Kong
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"Latest Acceptance Date"	18 July 2007
"Latest Practicable Date"	27 June 2007, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information contained herein
"Latest Time for Acceptance"	4:00 p.m. on the Latest Acceptance Date or such later time as may be agreed between the Company and SHK (on behalf of the Underwriters), being the latest time for acceptance of the offer of and payment for the Rights Shares and if there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong on such day at any time (i) before 12:00 noon and no longer in force after 12:00 noon on such day, such latest time for acceptance will be extended to 5:00 p.m. on the same Business Day; or (ii) between 12:00 noon and 4:00 p.m., such latest time for acceptance will be postponed to 4:00 p.m. on the next Business Day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 4:00 p.m.
"Latest Time for Termination"	4:00 p.m. on, tentatively, 23 July 2007, being the third Business Day after the Latest Acceptance Date
"Last Trading Day"	14 June 2007, being the date of the Announcement
"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange
"Overseas Shareholder(s)"	the Shareholder(s) whose name(s) appeared on the register of members of the Company on the Record Date and whose registered address(es) on that date was/were outside Hong Kong
"PRC"	the People's Republic of China, which, for the purpose of this prospectus, excludes, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Provisional Allotment Letter(s)"	provisional allotment letter(s) for the Rights Shares
"Qualifying Shareholder(s)"	the Shareholder(s), other than the Excluded Shareholder(s), whose name(s) appeared on the register of members of the Company on the Record Date

"Record Date"	3 July 2007 or such other date as may be agreed between the Company and the Underwriters in accordance with the relevant regulations or requirements for ascertaining the entitlements under the Rights Issue
"Rights Issue"	the proposed issue of Rights Shares on the basis of one Rights Share for every two existing Shares to the Qualifying Shareholders by way of rights or to holders of nil-paid Rights Shares at the Subscription Price, pursuant to the terms and conditions of the Underwriting Agreement and the Rights Issue Documents
"Rights Issue Documents"	this prospectus, the Provisional Allotment Letter and the Excess Application Form
"Rights Share(s)"	1,681,677,913 new Share(s) to be issued by the Company pursuant to the Rights Issue
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary shares which have a par value of HK$0.01 each in the capital of the Company
"Shareholder(s)"	shareholder(s) of the Company
"SHK"	Sun Hung Kai International Limited, a licensed corporation to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and one of the Underwriters
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Price"	subscription price of HK$0.09 per Rights Share
"U.S."	the United States of America
"Underwriters"	SHK and Harbour Front
"Underwriting Agreement"	the underwriting agreement dated 14 June 2007 and entered into between the Company, Harbour Front and SHK in relation to the Rights Issue
"%"	per cent.

UDL HOLDINGS LIMITED

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

Executive Directors:
Mrs. Leung Yu Oi Ling, Irene
Ms. Leung Chi Yin, Gillian
Mr. Leung Chi Hong, Jerry

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

Registered office:
Crawford House
4th Floor
50 Cedar Avenue
Hamilton HM11
Bermuda

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

4 July 2007

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

Dear Sir or Madam,

RIGHTS ISSUE OF 1,681,677,913 RIGHTS SHARES OF HK$0.01 EACH AT HK$0.09 PER RIGHTS SHARE, PAYABLE IN FULL ON ACCEPTANCE (IN THE PROPORTION OF ONE RIGHTS SHARE FOR EVERY TWO EXISTING SHARES HELD) BY NO LATER THAN 4:00 P.M. ON WEDNESDAY, 18 JULY 2007

INTRODUCTION

Reference is made to the Announcement, in which the Company announced the Rights Issue.

As stated in the Announcement, the Company proposed to retain SHK as lead underwriter of the Rights Issue on 11 June 2007 and proposed to raise approximately HK$151 million before expenses by issuing 1,681,677,913 Rights Shares at the Subscription Price of HK$0.09 per Rights Share on the basis of one Rights Shares for every two existing Shares in issue on the Record Date.

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

PROPOSED RIGHTS ISSUE

Issue statistics

Basis of the Rights Issue	:	One Rights Share for every two existing Shares held on the Record Date
Number of existing Shares in issue	:	3,363,355,826 Shares as at the Latest Practicable Date
Number of Rights Shares	:	1,681,677,913 Rights Shares

The nil-paid Rights Shares proposed to be provisionally allotted pursuant to the terms of the Rights Issue represents 50% of the Company's existing issued share capital and approximately 33.33% of the Company's issued share capital as enlarged by the issue of the Rights Shares.

Share option scheme

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

Subscription Price

The Subscription Price for the Rights Shares is HK$0.09 per Rights Share, payable in full when a Qualifying Shareholder accepts his/her/its provisional allotment under the Rights Issue or applies for excess Rights Shares or when a transferee of nil-paid Rights Shares subscribes for the Rights Shares.

The Subscription Price:

- represented a discount of approximately 58.90% to the closing price of HK$0.219 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- represented a discount of approximately 67.27% to the closing price of HK$0.275 per Share as quoted on the Stock Exchange on 14 June 2007, being the Last Trading Day;
- represented a discount of 68.75% to the average closing price of HK$0.288 per Share for the five consecutive trading days up to and including 14 June 2007, being the Last Trading Day;
- represented a discount of approximately 67.51% to the average closing price of HK$0.277 per Share for the 10 consecutive trading days up to and including 14 June 2007, being the Last Trading Day;
- represented a premium of approximately 27.66% over the average monthly closing price of HK$0.0705 per Share for the 12 consecutive months from June 2006 to May 2007;
- represented a discount of 57.75% to the theoretical ex-rights price of approximately HK$0.213 per Share based on the closing price as quoted on the Stock Exchange on 14 June 2007, being the Last Trading Day; and

– represented a premium of approximately 2,400% over the audited consolidated net tangible asset value of approximately HK$0.0036 per Share as at 31 July 2006.

The Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriters with reference to the market price of the Shares in the 12 consecutive months from June 2006 to May 2007. During the 12 consecutive months from June 2006 to May 2007, the lowest and highest closing prices of the Shares as quoted on the Stock Exchange was HK$0.024 per Share recorded on 16 August 2006 and HK$0.32 per Share recorded on 12 June 2007 respectively. The average monthly closing prices per Share during the 12 months from June 2006 to May 2007 ranged from HK$0.0262 to HK$0.2376, with an average monthly closing price of HK$0.0705 per Share. Despite the Subscription Price represents a significant discount to the recent closing prices of the Shares, in light of the recent volatile and generally upward trend of the prices of the Shares, the Company considers that the Subscription Price, representing a premium of approximately 27.66% over the average monthly closing price of HK$0.0705 per Share for the 12 consecutive months from June 2006 to May 2007, is reasonable. Each Shareholder is entitled to subscribe for the Rights Shares at the same price in proportion to his/her/its existing shareholding in the Company. The Directors (including the independent non-executive Directors) consider the Subscription Price to be fair and reasonable and to be in the interests of the Company and the Shareholders as a whole.

Status of the Rights Shares

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

Fractional entitlements

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

Share certificates for the Rights Shares

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

Qualifying Shareholders

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

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

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

Rights of Excluded Shareholders

The Rights Issue Documents will not be registered or filed under the applicable securities or equivalent legislation of any jurisdiction other than Hong Kong and Bermuda. The Company will send the Prospectus (without the Provisional Allotment Letters and Excess Application Forms) to the Excluded Shareholders for their information only.

Based on the register of members of the Company, there were 26 Shareholders with registered addresses in nine jurisdictions outside Hong Kong as at the Latest Practicable Date. Pursuant to Rule 13.36(2) of the Listing Rules, the Board has made enquiries with its legal advisers in these nine jurisdictions as to whether there is any legal restriction under the applicable securities legislation of the relevant jurisdiction or requirement of any relevant regulatory body or stock exchange with respect to the offer of Rights Shares to such Overseas Shareholders.

The Company has been advised by its legal advisers on the laws of Malaysia and the U.S. that either (i) the Rights Issue Documents will be required to be registered or filed with or subject to approval by the relevant regulatory authorities in the relevant jurisdictions (as the case may be); or (ii) the Company would need to take additional steps to ensure compliance with the regulatory requirements of the relevant regulatory authorities in the relevant jurisdictions. Therefore, the Company would need to take additional steps to ensure compliance with the relevant laws and regulations if the Rights Issue is to be offered to the Overseas Shareholders with registered addresses in these two jurisdictions. Having considered the circumstances, the Directors are of the view that it is not expedient to extend the Rights Issues to such Overseas Shareholders taking into consideration that the time and costs involved in complying with the legal requirements of these jurisdictions would outweigh the possible benefits to the relevant Overseas Shareholders and the Company. Thus, the Rights Issue will not be extended to the Overseas Shareholders in Malaysia and the U.S.. The Company will send this prospectus, for information only, to such Overseas Shareholders with registered addresses in Malaysia and the U.S. but will not send them the Provisional Allotment Letters and the Excess Application Forms.

The Company has also been advised by its legal advisers on the laws of Macau, New Zealand, the PRC, Singapore, Spain, Taiwan and the United Kingdom that either (i) there is no legal restriction under the applicable legislation of the relevant jurisdictions or requirement of any relevant regulatory body or stock exchange with respect to the offer of the Rights Issue to the Overseas Shareholders in the relevant jurisdictions; or (ii) the Company would be exempt from obtaining approval from, and/or registration of the Rights Issue Documents with, the relevant regulatory authorities under the applicable laws and regulations of the relevant jurisdictions since the Company would meet the relevant requirements for exemption under the relevant jurisdictions. Based on the advice of the Company's legal advisers on the laws of Macau, New Zealand, the PRC, Singapore, Spain, Taiwan and the United Kingdom, the Directors believe that the Rights Issue Documents would not be required to be registered under the relevant laws and regulations of these seven jurisdictions and may be despatched to the Overseas Shareholders with registered addresses in these seven jurisdictions without any restrictions. In view of this, the Directors have decided to extend the Rights Issue to the Overseas Shareholders with registered addresses in Macau, New Zealand, the PRC, Singapore, Spain, Taiwan and the United Kingdom and such Overseas Shareholders, together with the Shareholders with registered addresses in Hong Kong, are Qualifying Shareholders for the purpose of the Rights Issue. The Company will send the Rights Issue Documents to such Qualifying Shareholders.

In addition, the Directors have been advised by its legal advisers on the laws of the PRC that while the Overseas Shareholder with its registered address in the PRC may be lawfully offered the Rights Shares, it needs to comply with the relevant exchange control regulations in the PRC and the necessary approval and registration requirements under the applicable PRC laws if it wishes to take up the Rights Shares. Therefore, although the Overseas Shareholder with its registered address in the PRC will not be excluded from the Rights Issue, such Overseas Shareholder is advised to consult its own professional advisers whether it would be beneficial or expedient for it to participate in the Rights Issue and if so, to ensure that it has complied with all the applicable exchange control regulations in the PRC before taking up the Rights Shares.

The attention of the Overseas Shareholders having his/her/its/their registered address(es) in the PRC, Singapore and the United Kingdom is drawn to Appendix IV to this prospectus.

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

Procedures for acceptance and transfer

Qualifying Shareholders will find enclosed with this prospectus a Provisional Allotment Letter which entitles Qualifying Shareholders to subscribe for the number of Rights Shares shown therein. **If you wish to exercise your rights to subscribe for all the Rights Shares specified in the Provisional Allotment Letter, you will need to lodge the Provisional Allotment Letter in accordance with the instructions printed thereon, together with a remittance (or such other mode of payment as may be agreed between the Company and such Qualifying Shareholder) for the full amount payable on acceptance, with Tengis Limited, the Company's branch registrar and transfer office in Hong Kong, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by no later than 4:00 p.m. on Wednesday, 18 July 2007. All remittances must be made in Hong Kong dollars. Cheques must be drawn on an account with, and cashier's orders must be issued by, a licensed bank in Hong Kong and made payable to "UDL HOLDINGS LIMITED – RIGHTS ISSUE ACCOUNT" and crossed "ACCOUNT PAYEE ONLY"**.

It should be noted that unless the duly completed Provisional Allotment Letter, together with the appropriate remittance (or such other mode of payment as may be agreed between the Company and such Qualifying Shareholder), has been lodged with Tengis Limited, the Company's branch registrar and transfer office in Hong Kong at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, by no later than 4:00 p.m. on Wednesday, 18 July 2007, whether by the original allottee or any person in whose favour the rights have been validly transferred, the relevant provisional allotment and all rights and entitlement thereunder will be deemed to have been declined and will be cancelled and such Rights Shares will be available for application on Excess Application Forms by Qualifying Shareholders.

If you wish to accept only part of your provisional allotment and/or to transfer part of your right to subscribe for the Rights Shares provisionally allotted to you or to transfer your rights to more than one person, the entire Provisional Allotment Letter must be surrendered by no later than 4:00 p.m. on Tuesday, 10 July 2007, to Tengis Limited, the Company's branch registrar and transfer office in Hong Kong at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong which will cancel the entire Provisional Allotment Letter and issue new Provisional Allotment Letters in the denominations required.

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

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

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

Application for excess Rights Shares

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

Applications may be made by completing the Excess Application Form in accordance with the instructions printed thereon and lodging the same with a separate remittance (or such other mode of payment as may be agreed between the Company and such Qualifying Shareholder) for the excess Rights Shares applied for with Tengis Limited, the Company's branch registrar and transfer office in Hong Kong, by no later than 4:00 p.m. on Wednesday, 18 July 2007. **All remittances accompanying the Excess Application Forms must be made in Hong Kong dollars. Cheques must be drawn on an account with, and cashier's orders must be issued by, a licensed bank in Hong Kong and made payable to "UDL HOLDINGS LIMITED – EXCESS APPLICATION ACCOUNT" and crossed "ACCOUNT PAYEE ONLY"**. The Company will determine on a fair and equitable basis after consulting with the Underwriters and preference will be given to applications for less than a board lot of Rights Shares where they appear to the Directors that such applications are made to round up odd-lot holdings to whole-lot holdings.

The investors with the Shares held by a nominee company should note that for the purposes of the principles above, the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, the investors whose Shares are registered in the name of the nominee companies should note that the aforesaid arrangement in relation to the allocation of the excess Rights Shares will not be extended to beneficial owners individually.

The Qualifying Shareholder(s) will be notified of any allotment of excess Rights Shares made to him/her/it/them on or about Tuesday, 24 July 2007 by way of a press announcement.

If no excess Rights Shares are allotted to the Qualifying Shareholder(s) who has/have applied for excess Rights Shares, it is expected that a cheque for the amount tendered on application in full without interest will be posted to the Qualifying Shareholder's address on the register of members of the Company by ordinary post at his/her/its/ their own risk on or about Tuesday, 24 July 2007. If the number of excess Rights Shares allotted to the Qualifying Shareholder(s) is less than that applied for, it is expected that a cheque for the amount of the surplus application monies, without interest, will be posted to the Qualifying Shareholder's address on the register of members of the Company without interest at the Qualifying Shareholder's own risk on or about Tuesday, 24 July 2007.

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

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

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

Application for listing of the Right Shares on the Stock Exchange

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both nil-paid and fully-paid forms.

Provisional allotments of the Rights Shares made to Qualifying Shareholders will be transferable and there will be trading in the nil-paid entitlements on the Stock Exchange from Friday, 6 July 2007 to Friday, 13 July 2007 (both days inclusive). It is expected that dealings in the Rights Shares (in their fully-paid forms) on the Stock Exchange will commence on Thursday, 26 July 2007. However, it should be noted that if SHK (on behalf of the Underwriters) exercises its right to terminate its obligations under the Underwriting Agreement, the Rights Issue will not proceed. Dealings in nil-paid and fully-paid Rights Shares (in board lots of 40,000 Rights Shares) will be subject to the payment of stamp duty in Hong Kong.

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

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

Conditions of the Rights Issue

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

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

(2) the Underwriting Agreement becoming unconditional and not being terminated by SHK (on behalf of the Underwriters) in accordance with its terms.

None of the Company, SHK and Harbour Front may waive condition (1) set out above and the conditions of the Underwriting Agreement are set out in the paragraph headed "Conditions of the Underwriting Agreement" below.

Reasons for the Rights Issue and the use of proceeds

The principal activity of the Company is investment holding and the principal activities of its principal subsidiaries are mainly marine engineering, structural steel engineering and general civil engineering contract work.

Upon the full subscription of the Rights Shares, the Company will receive, net of expenses of approximately HK$3 million (including the commission to be paid to the Underwriters and the related professional fees and expenses), approximately HK$148 million. The Directors intend to use the net proceeds of the Rights Issue as follows:

- as to approximately HK$75 million to be applied towards repayment of the interim finance provided to the Group by Harbour Front pursuant to a finance agreement dated 30 April 2007 entered into between the Company as borrower and Harbour Front as lender in relation to a revolving facility of up to HK$75 million. Such interim financing arrangement was provided to the Company for (i) the rollover of the outstanding loan amount due from the Company to Harbour Front under an interim finance agreement dated 5 October 2005; (ii) prepayment of the full outstanding amount of promissory notes issued by the Company under a Settlement Agreement dated 1 September 2006 as part of the Global Solution to the Schemes (as more particularly described in the announcement of the Company dated 1 September 2006 and in the circular of the Company dated 27 January 2006); and (iii) general working capital. Such interim financing arrangement was divided into two tranches (Tranche A being HK$52,461,780.81 for the rollover of the outstanding loan amount and general working capital as mentioned above and Tranche B being HK$22,538,219.19 for the prepayment of promissory notes as mentioned above). Facility drawn down under Tranche B bears the same interest rate applicable to the promissory notes (being 1% per annum before the respective original repayment dates of the relevant promissory notes). Facility drawn down under Tranche A bear an interest at the best lending rate as quoted by The Hongkong and Shanghai Banking Corporation Limited plus 2% per annum and such an interest rate also applies to the remaining portion of the facility drawn down under Tranche B after the respective original repayment dates of the relevant promissory notes. Such interim financing arrangement is repayable, among other circumstances, when the Company receives proceeds from any issue of new Shares to the Shareholders to raise funds; and

- as to approximately HK$73 million to be applied towards the general working capital of the Group.

In February 2006, the Company raised fund by way of a rights issue of 2,374,133,524 rights shares of HK$0.01 each at HK$0.03 per rights share (in the proportion of 12 rights shares for every five then existing shares held). The net proceeds of such rights issue of approximately HK$69.7 million were largely applied towards payment for the consideration of various acquisitions as proposed in the prospectus dated 15 February 2006 of the Company and repayment of HK$5 million interim finance provided to the Group by Harbour Front. As only approximately HK$1.3 million from the net proceeds of such rights issue remained and was used as general working capital of the Group, the Directors (including the independent non-executive Directors) consider that it is in the best interest of the Company and the Shareholders to raise further capital by way of the Rights Issue to strengthen its capital base and at the same time to allow all Qualifying Shareholders the opportunity to maintain their respective pro rata shareholding interests in the Company if they so wish.

The Board also considers that it is in the best interest of the Company and the Shareholders to utilise the proceeds of the Rights Issue to repay the interim financing arrangement provided to the Group by Harbour Front, so that the Company can, on the one hand, rely on its own working capital and financial resources to pursue its business development and, on the other hand, save the interest expenses which will be incurred in connection with the interim financing arrangement with Harbour Front. In addition, as mentioned above, it is a term of the finance agreement dated 30 April 2007 that the Company shall be required to repay the interim finance, being the drawn down amount, with any interest accrued thereon, of a revolving facility of up to HK$75 million, among other circumstances, when the Company receives proceeds from any issue of new Shares to the Shareholders to raise funds.

The Company had not carried out any fund raising exercise or issued any equity securities in the 12-month period immediately preceding the Last Trading Day.

Underwriting arrangement

Underwriting Agreement

Date:	14 June 2007. The Underwriting Agreement was entered into by the parties after the close of the trading hours on 14 June 2007.
Parties:	(1) the Company; (2) Harbour Front, the controlling shareholder of the Company, which, together with parties acting in concert with it, is interested in approximately 53.49% of the existing issued share capital of the Company; and (3) SHK, immediately before the signing of the Underwriting Agreement did not have any interest in any Shares.
Number of Shares underwritten:	1,681,677,913 Rights Shares (in which 222,222,222 Rights Shares are to be underwritten by SHK and 1,459,455,691 Rights Shares are to be underwritten by Harbour Front) ("**Underwritten Shares**"). The basis for the allocation of 222,222,222 Rights Shares and 1,459,455,691 Rights Shares to SHK and Harbour Front respectively is subject to the commercial decision of SHK and Harbour Front.
Commission:	2.50% of the total Subscription Price of the Rights Shares (other than such number of Rights Shares which will be allotted and issued under the Rights Issue in respect of the Shares owned by the Harbour Front Concert Parties as at the Record Date and as at the Latest Practicable Date, such Shares amounted to 1,798,991,449 Shares) underwritten by the Underwriters.

Conditions of the Underwriting Agreement

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

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

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

(3) the posting of the Prospectus Documents to the Qualifying Shareholders; and

(4) compliance with and performance of all the undertakings and obligations of the Company under the terms of the Underwriting Agreement.

None of the Company, SHK and Harbour Front may waive conditions (1), (2) and (3) set out above. SHK (on behalf of the Underwriters) may waive condition (4) above in whole or in part by written notice to the Company.

If the conditions of the Underwriting Agreement are not satisfied and/or waived (to the extent such condition is capable of being waived) in whole or in part by the Underwriters by 18 July 2007 or such later date or dates as SHK (on behalf of the Underwriters) may agree with the Company in writing, the Underwriting Agreement shall terminate and no party will have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breach.

Termination of the Underwriting Agreement

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

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

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

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

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

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

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

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

If the Underwriting Agreement is terminated by SHK (on behalf of the Underwriters) on or before the Latest Time for Termination or does not become unconditional, the Rights Issue will not proceed.

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

If the conditions of the Rights Issue are not fulfilled and/or waived, or the Underwriting Agreement is terminated by SHK (on behalf of the Underwriters), the Rights Issue will not proceed and the Rights Issue will lapse.

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

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

EXPECTED TIMETABLE

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

SHAREHOLDING STRUCTURE OF THE COMPANY BEFORE AND AFTER THE RIGHTS ISSUE

The following table illustrated the shareholding changes as a result of the Rights Issue based on the shareholding of Harbour Front Concert Parties as at the Latest Practicable Date:

	As at the Latest Practicable Date		Assuming all rights entitlements are taken up by the respective Shareholder		Assuming no Shareholders have taken up their rights entitlements and the Underwriters are required to perform their underwriting obligations in pursuance of the Underwriting Agreement in full	
	No. of Shares	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*
Harbour Front Concert Parties	1,798,991,449	53.49%	2,698,487,173	53.49%	3,258,447,140	64.59%
Non-public *(Note 1)*	4,800	*Note 2*	7,200	*Note 2*	4,800	*Note 2*
Public	1,564,359,577	46.51%	2,346,539,366	46.51%	1,564,359,577	31.01%
SHK and sub-underwriter(s) (if any)	–	–	–	–	222,222,222	4.40%
	3,363,355,826	100%	5,045,033,739	100%	5,045,033,739	100%

Notes:

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

2. The percentage shareholding is negligible.

3. Each of the executive Directors, namely, Mrs. Leung Yu Oi Ling, Irene, Ms. Leung Chi Yin, Gillian and Mr. Leung Chi Hong, Jerry holds one-third of the issued share capital of Harbour Front.

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

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

(i) by the Chairman of the meeting; or

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

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

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

ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of the Board of
UDL Holdings Limited
Leung Yu Oi Ling, Irene
Chairman

1. FINANCIAL SUMMARY

Set out below is the summary of the financial information extracted from the relevant annual reports of the Company for the three years ended 31 July 2006.

(i) Consolidated income statement

	Year ended 31 July		
	2004	**2005**	**2006**
Results	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	19,522	11,093	22,113
Profit/(loss) before taxation	(16,479)	(27,750)	29,620
Tax	(55)	279	98
Profit/(loss) attributable shareholders	(16,534)	(27,471)	29,718

(ii) Consolidated assets and liabilities

	As at 31 July		
	2004	**2005**	**2006**
Financial position	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	100,488	97,043	93,902
Total liabilities	(145,138)	(152,660)	(81,891)
Net assets/(liabilities)	(44,650)	(55,617)	12,011

(iii) Audited financial statements for the year ended 31 July 2006

(a) Set out below is the auditors' report extracted from the 2006 Annual Report. References to page numbers in this sub-paragraph are references to the page numbers of the 2006 Annual Report.

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

TO THE MEMBERS OF UDL HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 23 to 87 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

BASIS OF OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of the Company and the Group as at 31 July 2006 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants

Choi Man On
Practising Certificate Number P02410

Hong Kong, 24 November 2006

(b) Set out below is the audited financial statements of the Group for the year ended 31 July 2006 together with comparative figures for the year ended 31 July 2005 which were extracted from the 2006 Annual Report. References to page numbers in this sub-paragraph are references to the page numbers of the 2006 Annual Report.

Consolidated Income Statement
For the year ended 31 July 2006

	Note	2006 HK$'000	2005 HK$'000
Turnover	7	22,113	11,093
Other revenue and income	9	1,195	6,574
Total revenue and income		23,308	17,667
Staff costs	11	(4,148)	(5,564)
Marine engineering and structural steel engineering costs and cost of vessels		(13,550)	(3,655)
Depreciation and amortization		(756)	(19,421)
Other operating expenses		(6,702)	(7,778)
Loss from operations		(1,848)	(18,751)
Finance costs	12	(2,584)	(8,999)
Share of losses of associates		(65)	–
Gain on disposal of subsidiaries	10	38,130	–
Restructuring expenses		(4,013)	–
Profit/(loss) before taxation	11	29,620	(27,750)
Taxation	13	98	279
Profit/(loss) attributable to shareholders	14	29,718	(27,471)
Earnings/(loss) per share	15		
– Basic		HK$0.01	(HK$0.02)
			Restated
– Diluted		N/A	N/A

Consolidated Balance Sheet
As at 31 July 2006

	Note	2006 HK$'000	2005 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	16	28,392	78,232
Land use rights	17	888	930
Investments in associates	18	86	–
		29,366	79,162
Current assets			
Inventories	20	34,908	–
Land use rights	17	58	58
Trade and other receivables	21	13,251	10,097
Amounts due from related companies	38	15,281	6,914
Cash and bank balances		1,038	812
		64,536	17,881
Current liabilities			
Bank and other borrowings	22	5,633	16,059
Trade and other payables	23	13,321	17,864
Promissory notes	24	7,500	–
Amount due to ultimate holding company	25	25,692	10,082
Amounts due to related companies	38	6,241	7,516
Amounts due to directors	39	920	649
Provision for taxation		84	–
		59,391	52,170
Net current assets/(liabilities)		5,145	(34,289)
Total assets less current liabilities		34,511	44,873
Non-current liabilities			
Bank and other borrowings	22	–	100,490
Promissory notes	24	22,500	–
		22,500	100,490
NET ASSETS/(LIABILITIES)		12,011	(55,617)
CAPITAL AND RESERVES			
Share capital	27	33,634	9,717
Reserves	28	(21,623)	(65,334)
NET EQUITY/(CAPITAL DEFICIENCY)		12,011	(55,617)

Balance Sheet
As at 31 July 2006

	Note	2006 HK$'000	2005 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	16	8	2
Investments in subsidiaries	19	25,717	(3,054)
Investment in an associate	18	16	–
		25,741	(3,052)
Current assets			
Trade and other receivables	21	2,172	1,048
Amount due from a subsidiary	19	38,096	–
Amounts due from related companies	38	–	52
Cash and bank balances		23	15
		40,291	1,115
Current liabilities			
Bank and other borrowings	22	5,633	12,522
Trade and other payables	23	7,210	2,387
Promissory notes	24	7,500	–
Amount due to ultimate holding company	25	25,692	10,082
Amounts due to related companies	38	4	742
Amounts due to directors	39	631	398
		46,670	26,131
Net current liabilities		(6,379)	(25,016)
Total assets less current liabilities		19,362	(28,068)
Non-current liabilities			
Promissory notes	24	22,500	–
NET LIABILITIES		(3,138)	(28,068)
CAPITAL AND RESERVES			
Share capital	27	33,634	9,717
Reserves	28	(36,772)	(37,785)
CAPITAL DEFICIENCY		(3,138)	(28,068)

Consolidated Cash Flow Statement
For the year ended 31 July 2006

	2006	2005
	HK$'000	*HK$'000*
Cash flows from operating activities		
Profit/(loss) before taxation	29,620	(27,750)
Adjustments for:		
Depreciation and amortisation	756	19,421
Gain on disposal of property, plant and equipment	–	(160)
Gain on disposal of subsidiaries	(38,130)	–
Impairment loss on bad and doubtful debts	125	1,196
Impairment loss on property, plant and equipment	631	932
Interest expenses	2,584	8,999
Interest income	(18)	–
Negative goodwill written off	(684)	–
Reversal of provision for annual leave	(60)	(95)
Reversal of provision for accrued interest	–	(452)
Reversal of impairment loss on doubtful debts	(278)	–
Share of losses of associates	65	–
Operating (loss)/profit before working capital changes	(5,389)	2,091
Increase in inventories	(34,908)	–
(Increase)/decrease in trade and other receivables	(5,207)	5,986
Increase in amounts due from related companies	(2,317)	(3,392)
(Decrease)/increase in trade and other payables	(2,068)	2,790
Decrease in amounts due to related companies	(3,379)	(12,696)
Increase in amounts due to directors	311	649
Cash used in operations	(52,957)	(4,572)
Tax paid	(45)	–
Interest paid	(2)	(405)
Net cash used in operating activities	(53,004)	(4,977)

Consolidated Cash Flow Statement *(Continued)*
For the year ended 31 July 2006

	Note	2006 HK$'000	2005 HK$'000
Cash flows from investing activities			
Interest received		18	–
Acquisition of subsidiaries	*29(a)*	(20,985)	–
Acquisition of associates		(151)	–
Disposal of subsidiaries	*29(b)*	436	–
Purchase of property, plant and equipment		(5,480)	(1,982)
Proceeds from sale of property, plant and equipment		–	650
Net cash used in investing activities		(26,162)	(1,332)
Cash flows from financing activities			
Advances from ultimate holding company		15,610	–
Proceeds from issuance of share capital		71,794	1,316
Repayment of other loans		(8,079)	(4,660)
Proceeds from other loans		630	12,983
Net cash generated from financing activities		79,955	9,639
Net increase in cash and cash equivalents		789	3,330
Cash and cash equivalents at 1 August		238	183
Effect of foreign exchange rate change, net		11	(3,275)
Cash and cash equivalents at 31 July		1,038	238
Analysis of balances of cash and cash equivalents			
Cash and bank balances		1,038	812
Bank overdrafts		–	(574)
		1,038	238

Consolidated Statement of Changes in Equity
For the year ended 31 July 2006

	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 2004	9,356	7,224	1,264	(2,661)	717	(1,192,671)	35,619	1,096,502	(44,650)
Issue of shares by exercise of options	361	955	–	–	–	–	–	–	1,316
Surplus on revaluation of floating craft and vessels	–	–	–	–	–	–	17,270	–	17,270
Revaluation surplus transferred to the income statement on disposal of floating craft and vessels	–	–	–	–	–	–	(299)	–	(299)
Exchange realignment – subsidiaries	–	–	–	(1,783)	–	–	–	–	(1,783)
Loss for the year	–	–	–	–	–	(27,471)	–	–	(27,471)
At 31 July 2005	9,717	8,179	1,264	(4,444)	717	(1,220,142)	52,590	1,096,502	(55,617)
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 27)*	23,742	47,482	–	–	–	–	–	–	71,224
Issue of shares by exercise of options *(note 27)*	175	395	–	–	–	–	–	–	570
Exchange realignment – subsidiaries	–	–	–	717	–	–	–	–	717
Revaluation surplus arising from property, plant and equipment	–	–	–	–	–	–	357	–	357
Disposal of subsidiaries	–	–	–	4,132	(717)	49,175	(52,590)	–	–
Issue of promissory notes	–	–	–	–	–	–	–	(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

Notes to the Financial Statements

1. GENERAL INFORMATION

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

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

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

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

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

2. CORPORATE UPDATE

(a) The Rights Issue

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

(i) to finance the acquisition of the following:

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

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

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

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

(b) Modifications to schemes of arrangement

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

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

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

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

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

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

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

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

(c) Settlement Structure Agreement

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

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

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

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

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

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

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

(d) Secured borrowings

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

(e) Legal proceedings

(i) Litigation against the Company in Bermuda

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(ii) Other litigation against the Group

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

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

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

3. BASIS OF PREPARATION

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

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

4. PRINCIPAL ACCOUNTING POLICIES

(a) Change in accounting policies

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

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

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

- HKAS 1 has affected certain disclosures in the financial statements.
- HKASs 7, 8, 10, 27, 33 and 36 had no material effect in the Group's policies.
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

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

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

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

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

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

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

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

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

Effective for the year ending 31 July 2007

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

Effective for the year ending 31 July 2008

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

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

(c) Consolidation

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

(i) Subsidiaries

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

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

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

(ii) Associates

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

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

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

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

(d) Goodwill

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

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

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

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

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

(e) Segment reporting

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

(f) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

(iii) Group companies

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

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

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

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

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

(g) Property, plant and equipment

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

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

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

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

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

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

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 to the relevant asset, and is recognised in the income statement.

(h) Leasehold land and land use rights

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

(i) Impairment

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

(i) Calculation of recoverable amount

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

(ii) Reversals of impairment

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

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

(j) Trade and other receivables

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

(k) Cash and cash equivalents

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

(l) Construction contracts

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

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

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

(m) Inventories

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

(n) Borrowings

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

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

(o) Borrowing costs

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

(p) Provisions

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

(q) Employee benefits

(i) Employee entitlements

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

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

(ii) Pension obligations

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

(iii) Share-based payments

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

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

(r) Deferred income tax

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

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

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

(s) Operating leases

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

(t) Related parties

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

(u) Recognition of revenue

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

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

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

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

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

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

5. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

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

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

(i) Credit risk

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

(ii) Liquidity risk

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

(iii) Cash flow and fair value interest rate risk

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

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

(iv) Foreign exchange risk

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

(b) Fair value estimation

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

6. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

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

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

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

(ii) Deferred tax

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

7. TURNOVER

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

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

8. SEGMENT INFORMATION

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

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

(a) Business segments

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

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

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

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

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

(b) Geographical segments

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

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

9. OTHER REVENUE AND INCOME

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

10. GAIN ON DISPOSAL OF SUBSIDIARIES

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

11. PROFIT/(LOSS) BEFORE TAXATION

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

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

12. FINANCE COSTS

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

13. TAXATION

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

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

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

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

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

14. PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

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

15. EARNINGS/(LOSS) PER SHARE

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

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

16. PROPERTY, PLANT AND EQUIPMENT

The Group

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

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

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

The Company

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

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

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

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

17. LAND USE RIGHTS

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

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

18. INVESTMENTS IN ASSOCIATES

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

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

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

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

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

	2006	**2005**
	HK$'000	*HK$'000*
Revenue	185	–
Loss for the year	(131)	–
Group's share of associates' results for the year	(65)	–
Total assets	2,403	–
Total liabilities	(34)	–
Net assets	2,369	–
Group's share of associate's net assets	1,185	–

19. INVESTMENTS IN SUBSIDIARIES

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

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

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

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

Name	Place of incorporation/ operation	Particulars of issued/registered share capital	Percentage of issued/registered capital held by the Group	Company	Principal activities
China Famous Limited	Hong Kong	HK$1	100%	100%	Trading of vessels
Denlane offshore Engineering Pte Limited*	Singapore	S$1,000	100%	–	Dormant
Denlane Shipbuilding Pte Limited*	Singapore	S$700,000	100%	100%	Marine engineering construction and services
East Coast Towing Limited	Hong Kong	HK$2	100%	100%	Dormant
Econo Plant Hire Company Limited	Hong Kong	HK$2	100%	100%	Dormant
Everpoint Company Limited	Hong Kong	HK$13,720,480	100%	100%	Dormant
Exact Profit Limited	Hong Kong	HK$20	100%	100%	Dormant
Fairking Transportation Limited	Hong Kong	HK$100	100%	100%	Dormant
Faith On International Limited	Hong Kong	HK$2	100%	100%	Dormant
Full Keen Investment Limited	Hong Kong	HK$2	100%	100%	Dormant
Graceful Ease Investment Limited	Hong Kong	HK$2	100%	100%	Dormant
Keen Yield Investment Limited	Hong Kong	HK$2	100%	100%	Dormant
S.K. Luk Construction Company Limited	Hong Kong	HK$500,000	100%	100%	Marine engineering
UDL Argos Engineering & Heavy Industries Company Limited	Hong Kong	HK$124,000,000	100%	100%	Investment holding, structural steel engineering works and management services

Name	Place of incorporation/ operation	Particulars of issued/registered share capital	Percentage of issued/registered capital held by the Group	Company	Principal activities
UDL Civil Contractors Limited	Hong Kong	HK$6,800,000	100%	100%	Dormant
UDL Contracting Limited	Hong Kong	HK$50,700,000	100%	100%	Engineering and contracting
UDL Dredging Limited	Hong Kong	HK$2	100%	100%	Dormant
UDL E & M (BVI) Limited	BVI	US$1	100%	100%	Dormant
UDL Employment Services Limited	Hong Kong	HK$2	100%	100%	Provision of human resources management and administrative services
UDL Investment Limited	Hong Kong	HK$2	100%	100%	Dormant
UDL Management Limited	Hong Kong	HK$2	100%	100%	Dormant
UDL Marine Operation Limited	Hong Kong	HK$2	100%	100%	Dormant
UDL Marine Pte Limited*	Singapore	S$3,150,000	100%	100%	Dormant
UDL Ship Management Limited	Hong Kong	HK$2	100%	100%	Marine engineering and ship management services
UDL Steel Fabricators & Shipbuilders Company Limited	Hong Kong	HK$2	100%	100%	Dormant
UDL Ventures Limited	Hong Kong	HK$1	100%	100%	Dormant
Wellfull Time Limited	Hong Kong	HK$2	100%	100%	Dormant
中山太元重工業有限公司#	PRC	HK$10,000,000	100%	–	Dormant

* not audited by CCIF CPA Limited.
\# wholly owned foreign enterprise

20. INVENTORIES

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

All finished goods are vessels which are stated at cost.

21. TRADE AND OTHER RECEIVABLES

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

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

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

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

22. BANK AND OTHER BORROWINGS

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

Notes:

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

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

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

23. TRADE AND OTHER PAYABLES

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

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

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

24. PROMISSORY NOTES

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

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

25. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

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

26. DEFERRED TAX

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

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

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

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

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

27. SHARE CAPITAL

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

Note:

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

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

28. RESERVES

Group

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

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

Company

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

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

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

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

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

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

(b) Disposal of subsidiaries

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

30. BUSINESS COMBINATION

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

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

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

31. DIRECTORS' REMUNERATION

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

Directors' emoluments

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

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

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

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

32. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Five highest paid individuals

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

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

The emoluments were within the following bands:

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

33. RETIREMENT BENEFITS SCHEME

Defined contribution scheme

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

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

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

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

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

34. EQUITY COMPENSATION BENEFITS

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

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

(a) Movements in share options

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

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

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

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

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

(d) Details of share options exercised during the year

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

35. OPERATING LEASE COMMITMENTS

(a) As lessee

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

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

(b) As lessor

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

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

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

36. OTHER COMMITMENTS

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

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

37. CONTINGENT LIABILITIES

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

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

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

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

38. RELATED PARTY TRANSACTIONS

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

	Note	2006 HK$'000	2005 HK$'000
Handling fee income from Bugsy Development Company Limited ("Bugsy")*	*(a)*	–	203
Agency fee income from Bugsy*	*(a)*	45	282
Ship management fee income from Bugsy*	*(a)*	357	693
Shipbuilding and repair income from Bugsy*	*(a)*	72	–
Purchase of vessels from Bugsy*#	*(a)*	35,000	–
Rental charges paid to Capital Hope Investments Limited ("Capital Hope")	*(b)*	384	384
Ship management fee income from Capital Hope	*(b)*	27	–
Rental charges paid to Denlane Shipbuilding Pte Limited ("Denlane")	*(c)*	–	83
Management service fee income from Denlane	*(c)*	–	1,659
Subcontracting fee paid to United Colours Development Limited ("United Colours")*	*(d)*	–	65
Consultant service fee paid to United Colours*	*(d)*	127	–
Handling charges paid to United Colours*	*(d)*	564	–
Ship management income from Giant Lead Enterprises Limited ("Giant Lead")	*(e)*	4	7
Consultancy fee income from Gitanes Engineering Company Limited ("Gitanes")*	*(f)*	320	–
Ship management fee income from Gitanes*	*(f)*	11	132
Handling fee income from Gitanes*	*(f)*	–	9
Consultant service fee paid to Gitanes*	*(f)*	180	–
Purchase of vessel from Gitanes*#	*(f)*	5,200	–
Rental charges paid to Decorling Limited ("Decorling")	*(g)*	627	1,017
Interest expenses paid to Universal Grade Limited ("Universal Grade")	*(h)*	–	1,680
Shipbuilding and repair income from Universal Grade	*(h)*	12	–
Agency fee income from Universal Grade	*(h)*	–	114
Ship management fee income from Universal Grade	*(h)*	273	422
Handling fee income from Universal Grade	*(h)*	–	199
Agency fee income from Hong Hay Pte Limited ("Hong Hay")	*(i)*	3	–
Ship management fee income from Hong Hay	*(i)*	127	178
Handling fee income from Hong Hay	*(i)*	–	17
Interest expenses paid to Windermere Pte Limited ("Windermere")	*(j)*	–	5,512
Interest expenses paid to Harbour Front Limited ("Harbour Front")	*(k)*	1,843	886
Consultancy fee income from Tonic Engineering & Construction Company Limited ("Tonic")	*(l)*	320	500
Ship management fee income from Exact Nice Limited ("Exact Nice")	*(m)*	20	35
Shipbuilding and repair income from Exact Nice	*(m)*	–	120
Ship management fee income from Jelanter Limited ("Jelanter")	*(n)*	46	46
Shipbuilding and repair income from Jelanter	*(n)*	–	124
Ship management fee income from Link Full International Limited ("Link Full")	*(o)*	172	375
Shipbuilding and repair income from Link Full	*(o)*	6	492
Agency fee income from Link Full	*(o)*	54	–
Handling fee income from Link Full	*(o)*	–	174
Ship management fee income from Possider Company Limited ("Possider")	*(p)*	46	46
Shipbuilding and repair income from Possider	*(p)*	–	244

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

* One of the Group's top five suppliers.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

39. AMOUNT DUE TO DIRECTORS

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

40. POST BALANCE SHEET EVENTS

(a) Modifications to schemes of arrangement

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

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

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

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

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

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

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

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

(b) Settlement Structure Agreement

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

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

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

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

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

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

41. APPROVAL OF THE FINANCIAL STATEMENTS

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

2. FINANCIAL AND TRADING PROSPECTS

With the proceeds from the Rights Issue, the Company and the Group could remove its financial burden for interest for borrowing and reliance on financial support from its controlling shareholders.

Given the lasting upsurge market demand in the offshore engineering and related shipbuilding activities, sales was enhanced in the Marine Engineering sector. The Group continues its effort in further developing this segment through aligning and utilising its building facilities from Singapore and the PRC.

Growth in sales was also observed in the Structural Steel Engineering division. Deck assembly work for the Stonecutters bridge as well as several other PRC highways related structural steel projects will continue in this and the coming financial period. The Group remains actively pursuing business for structural steel in the region in collaboration with its business partners.

With a view to further improve prices of vessel, efforts were spent to widen the customer base both in market spectrum and regional spread. The Group's marine division is in the process of negotiating with potential clients and expects returns in the near future.

3. STATEMENT OF INDEBTEDNESS

At the close of business on 31 May 2007, being the latest practicable date for ascertaining certain information relating to this indebtedness statement, the Group had outstanding unsecured loans from the ultimate holding company of the Company of approximately HK$67,732,000, from related companies of approximately HK$8,739,000, from associate companies of approximately HK$1,104,000 and from Directors of approximately HK$3,000.

Save as aforesaid and apart from intra-group liabilities, at the close of business on 31 May 2007, the Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

4. WORKING CAPITAL

As at the Latest Practicable Date, the Directors were of the opinion that, taking into account the Group's internal resources and the available credit facilities and the net proceeds to be raised under the Rights Issue, the Group has sufficient working capital for its present requirements.

5. MATERIAL ADVERSE CHANGE

The Directors confirm that as at the Latest Practicable Date, they were not aware of any material adverse changes in the financial or trading position of the Group since 31 July 2006, being the date the latest audited consolidated financial statements of the Group to which were made up.

(A) UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following is an illustrative unaudited pro forma statement of adjusted consolidated net tangible assets (the "unaudited Pro Forma Financial Information") of the Group which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Rights Issue as if it had taken place on 31 July 2006. The unaudited Pro Forma Financial Information of the Group is prepared based on the audited consolidated net tangible assets of the Group as at 31 July 2006.

The Unaudited Pro Forma Financial Information of the Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group following the Rights Issue.

	Audited consolidated net tangible assets of the Group as at 31-Jul-06	Estimated net proceeds from the Rights Issue	Unaudited pro forma adjusted consolidated net tangible assets of the Group after completion of the Rights Issue	Unaudited pro forma adjusted consolidated net tangible assets per Share immediately after completion of the Rights Issue
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*		*(Note 3)*
Based on 1,681,677,913 Rights Shares issued	12,011	148,000	160,011	0.032

1 Based on the audited consolidated balance sheet of the Group as at 31 July 2006, details of which were disclosed in the 2006 Annual Report.

2 The estimated net proceeds from the Rights Issue of approximately HK$148 million are based on 1,681,677,913 Rights Shares to be issued at a subscription price of HK$0.09 per Rights Share and after deduction of estimated related expenses of approximately HK$3 million.

3 The calculation of the unaudited pro forma consoliated net tangible assets per Share is based on 5,045,033,739 shares which comprise 3,363,355,826 Shares in issue as at 31 July 2006 and 1,681,677,913 Rights Shares to be issued.

(B) REPORT ON THE UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following is the text of a report received from CCIF CPA Limited, Certified Public Accountants Hong Kong, the independent reporting accountants, for inclusion in this prospectus, in respect of the statement of unaudited pro forma adjusted consolidated net tangible assets of the Group set out in this appendix to this prospectus.

4 July 2007

The Board of Directors
UDL Holdings Limited
Room 702, 7th Floor
Aitken Vanson Centre
61 Hoi Yuen Road
Kwun Tong, Kowloon
Hong Kong

Dear Sirs,

UDL Holdings Limited
Unaudited pro forma statement of adjusted consolidated net tangible assets

We report on the unaudited pro forma statement of adjusted consolidated net tangible assets (the "unaudited pro forma financial information") of UDL Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information on how the Rights Issue might have affected the financial information presented therein. The basis of preparation of the unaudited pro forma financial information is set out on page 70 of this prospectus.

Respective responsibilities of directors of the Company and the reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on the of The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29 (7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, consisting the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29 (1) of the Listing Rules.

The unaudited pro forma financial information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of i) the financial position of the Group as at 31 July 2006 or any future date; or ii) the consolidated net assets per share of the Group as at 31 July 2006 or any future dates.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis as stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to 4.29 (1) of the Listing Rules.

Yours faithfully,
For and on behalf of
CCIF CPA Limited
Chan Wai Dune, Charles
Managing Director

Hong Kong
4 July 2007

1. RESPONSIBILITY STATEMENT

This prospectus includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts not contained herein the omission of which would make any statement contained in this prospectus misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and following completion of the Rights Issue were and will be as follows:

Authorised:		*HK$*
12,000,000,000	Shares	120,000,000.00
Issued and fully paid or credited as fully paid or to be issued under the Rights Issue:		
3,363,355,826	Shares as at the Latest Practicable Date	33,633,558.26
1,681,677,913	Rights Shares to be issued	16,816,779.13
5,045,033,739	Shares	50,450,337.39

All the Shares in issue and to be issued (when fully paid) rank and will rank pari passu in all respects with each other including rights to dividends, voting and return of capital.

No share or loan capital of the Company has been issued or is proposed to be issued for cash or otherwise and no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any such capital, except for the Right Shares.

The Shares are listed on the Stock Exchange. No part of the share or loan capital of the Company is listed or dealt in, nor is listing or permission to deal in the share or loan capital of the Company being, or proposed to be, sought on any other stock exchange.

3. DISCLOSURE OF INTERESTS

(a) As at the Latest Practicable Date, the interests and short positions of each Director in the shares or underlying shares of the Company and chief executive of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	The Company/ name of associated corporation	Capacity	Number of shares	Approximate percentage of interests
Leung Yu Oi Ling, Irene	The Company	Through controlled corporations	3,178,741,166 *(Note 1)*	94.51%
	Harbour Front *(Note 2)*	Beneficial owner	1	33.33%
Leung Chi Yin, Gillian	The Company	Beneficial owner	63,199,200	1.88%
		Through controlled corporations	3,178,741,166 *(Note 1)*	94.51%
	Harbour Front *(Note 2)*	Beneficial owner	1	33.33%
Leung Chi Hong, Jerry	The Company	Beneficial owner	16,506,774	0.49%
		Through controlled corporations	3,178,741,166 *(Note 1)*	94.51%
Yuen Ming Fai, Matthew	The Company	Interest of spouse	4,800	Negligible

Notes:

1. These Shares include (i) 1,719,276,275 Shares held by Harbour Front; (ii) 1,459,455,691 Right Shares which Harbour Front has agreed to underwrite pursuant to the Underwriting Agreement; (iii) 2,200 Shares held by Bugsy Development Company Limited, which is a wholly-owned subsidiary of Harbour Front; and (iv) 7,000 Shares held by Vital Strategic Corporate Consultancy Limited, which is beneficially owned by Harbour Front, Mrs. Leung Yu Oi Ling, Irene, Ms. Leung Chi Yin, Gillian, Mr. Leung Chi Hong, Jerry and Mr. Leung Kai Hong as to 18%, 20%, 22%, 20% and 20% respectively. Each of Mrs. Leung Yu Oi Ling, Irene, Ms. Leung Chi Yin, Gillian, Mr. Leung Chi Hong, Jerry holds one-third of the issued share capital of Harbour Front.

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

3. The above percentage of interest in the Company is calculated on the basis of 3,363,355,826 Shares in issue as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

(b) As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which have been, since 31 July 2006, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

(c) As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group since 31 July 2006, being the date to which the latest published audited financial statements of the Company were made up, and which was significant in relation to the business of the Group save for (i) the interim finance agreement dated 30 April 2007 and made between Harbour Front as the lender and the Company as the borrower in relation to an interim financing facility of HK$75,000,000; and (ii) the Underwriting Agreement. Harbour Front is a party to each of the aforesaid agreements. Each of Mrs. Leung Yu Oi Ling, Irene, Ms. Leung Chi Yin, Gillian and Mr. Leung Chi Hong, Jerry, all being the executive Directors, holds one-third of the issued share capital of Harbour Front. Accordingly, each of Mrs. Leung Yu Oi Ling, Ms. Leung Chi Yin, Gillian and Mr. Leung Chi Hong, Jerry is considered as interested in the transactions as contemplated under each of such agreements.

4. SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date, so far as was known to the Directors, the following are details of the persons (other than a Director or chief executive of the Company) who had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company were as follows:

Name of Shareholder	Capacity	Number of Shares held	Approximate percentage of interest
Harbour Front	Beneficial owner	3,178,731,966 *(Note 1)*	94.51%
	Through a controlled corporation	2,200 *(Note 2)*	Negligible
Sun Hung Kai International Limited	Beneficial owner	222,222,222	6.61%
Sun Hung Kai Securities Limited	Through a controlled corporation	222,222,222 *(Note 3)*	6.61%
Sun Hung Kai & Co. Limited	Through controlled corporations	222,222,222 *(Note 3)*	6.61%
AP Emerald Limited	Through controlled corporations	222,222,222 *(Note 3)*	6.61%
AP Jade Limited	Through controlled corporations	222,222,222 *(Note 3)*	6.61%
Allied Properties (H.K.) Limited	Through controlled corporations	222,222,222 *(Note 3)*	6.61%
Allied Group Limited	Through controlled corporations	222,222,222 *(Note 3)*	6.61%
Lee Seng Hui	Through controlled corporations	222,222,222 *(Note 3)*	6.61%
Lee Su Hwei	Through controlled corporations	222,222,222 *(Note 3)*	6.61%
Lee Seng Huang	Through controlled corporations	222,222,222 *(Note 3)*	6.61%

Notes:

1. These Shares include (i) 1,719,276,275 Shares held by Harbour Front; and (ii) 1,459,455,691 Right Shares which Harbour Front has agreed to underwrite pursuant to the Underwriting Agreement.

2. These Shares are held by Bugsy Development Company Limited, a wholly-owned subsidiary of Harbour Front.

3. These Shares are held by Sun Hung Kai International Limited, a wholly-owned subsidiary of Sun Hung Kai Securities Limited, which is wholly owned by Sun Hung Kai & Co. Limited. Sun Hung Kai & Co. Limited is owned by AP Emerald Limited as to 65.16%. AP Emerald Limited is wholly owned by AP Jade Limited. AP Jade Limited is wholly owned by Allied Properties (H.K.) Limited. Allied Properties (H.K.) Limited is owned by Allied Group Limited as to 74.93%. Allied Group Limited is owned by Lee Seng Hui, Lee Su Hwei and Lee Seng Huang jointly as to 42.07%.

4. The above percentage of interest in the Company is calculated on the basis of 3,363,355,826 Shares in issue as at the Latest Practicable Date.

Save as disclosed above, there was no person known to the Directors, who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

5. SERVICE AGREEMENTS

As at the Latest Practicable Date, there was no existing or proposed service contract, excluding contract expiring or terminable by the employer within one year, without payment of compensation (other than statutory compensation) between any of the Directors with any member of the Group.

6. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business of the Company) have been entered into by the Company and/or member(s) of the Group within two years immediately preceding the date of this prospectus which are or may be material:

(a) the interim finance agreement dated 5 October 2005 and made between Harbour Front as the lender and the Company as the borrower in relation to an interim financing facility of HK$20,000,000;

(b) the underwriting agreement dated 29 December 2005 and entered into between the Company, Harbour Front Limited and Emperor Securities Limited in relation to the proposed issue of 2,374,133,524 new shares by the Company on the basis of 12 Rights Shares for every five existing shares to the shareholders, other than the overseas shareholders (the shareholders whose names appear on the register of members of the Company on a record date specified in the prospectus dated 15 February 2006 of the Company and whose registered addresses on that date are outside Hong Kong), whose names appear on the register of members of the Company on such record date by way of rights or to holders of nil-paid rights shares at HK$0.03 per rights share, pursuant to the terms and conditions of the then rights issue;

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

(d) the conditional agreement dated 29 December 2005 and entered into between Multi-Ventures Limited as vendor and the Company as purchaser for the acquisition of 13 marine engineering vessels;

(e) the agreement dated 29 December 2005 entered into between Bugsy Development Company Limited as vendor and the Company as purchaser for the acquisition of 20 marine engineering vessels;

(f) the conditional agreement dated 29 December 2005 entered into between the Company as vendor and Harbour Front Limited as purchaser for the sale and purchase of the entire issued shares in UDL Marine Assets (Hong Kong) Limited ("**UDLHK**") and UDL Marine Assets (Singapore) Pte Limited ("**UDLS**") and such amount as equals 100% of the face value of the loans outstanding as at completion of such agreement made by or on behalf of the Company or any other members of the Group (other than UDLS and UDLHK) immediately after completion of this agreement to any of UDLHK and UDLS;

(g) the conditional agreement dated 29 December 2005 entered into between Harbour Front Limited as vendor and the Company as purchaser for the sale and purchase of certain core vessels owned by UDLS;

(h) the settlement agreement dated 1 September 2006 and entered into between the Company and the scheme administrator of the schemes of arrangement in respect of the Company and 24 of its subsidiaries, the explanatory statement for which was dated 11 February 2000, which were sanctioned by Order of the Court on 18 April 2000 and became effective on 28 April 2000;

(i) the deed poll dated 1 September 2006 executed by the Company in relation to the promissory notes in the principal amount of HK$30,000,000;

(j) the finance agreement dated 30 April 2007 and made between Harbour Front Limited as the lender and the Company as the borrower in relation to a financing facility of HK$75,000,000; and

(k) the Underwriting Agreement.

7. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors and their respective associates was interested in any business apart from the business of the Group, which competed or was likely to compete, either directly or indirectly, with that of the Group.

8. LITIGATION

Litigation against the Company in Bermuda

As disclosed in the Company's circular dated 1 August 2003, on 16 May 2002, the petitioners lodged a petition ("**Petition**") under section 111 of the Companies Act with the Supreme Court of Bermuda against the Company as the first respondent and the scheme administrator of the schemes of arrangement in respect of the Company and 24 of its subsidiaries ("**Scheme Administrator**") as the second respondent. Details of the litigation can be found in the announcements of the Company dated 18 June 2002, 4 October 2002 and 20 November 2002 and in the circulars of the Company dated 11 November 2002 and 23 December 2002.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other litigation against the Group

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

A statement of claim had thereafter been issued on 28 September 2005 and that the three plaintiffs made a claim against 10 defendants including the Company, UDL Management Limited, UDL Ship Management Limited and Mrs. Leung Yu Oi Ling, Irene.

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

As at the Latest Practicable Date, the above legal proceedings, which had also been disclosed in Note 2(e) to the section headed "Notes to the Financial Statements" in the 2006 Annual Report, had not had any further material developments. Save as disclosed above, no member of the Group was engaged in any litigation or claim of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any members of the Group.

9. PARTICULARS OF DIRECTORS

(a) Name / Address

Name	Address
Mrs. Leung Yu Oi Ling, Irene	8/F., 1C Austin Road, Tsimshatsui, Kowloon, Hong Kong
Ms. Leung Chi Yin, Gillian	8/F., 1C Austin Road, Tsimshatsui, Kowloon, Hong Kong
Mr. Leung Chi Hong, Jerry	8/F., 1C Austin Road, Tsimshatsui, Kowloon, Hong Kong
Mr. Pao Ping Wing, *JP*	Room No. 3, 15/F., King Wing Building, Whampoa Estate, Hunghom, Kowloon, Hong Kong
Professor Yuen Ming Fai, Matthew	4A, Tower 18, Senior Staff Quarters, Hong Kong University of Science & Technology, Clear Water Bay, New Territories, Hong Kong
Ms. Tse Mei Ha	Flat A, 22/F., Block 7, Park Central, Tseung Kwan O, Hong Kong

(b) Qualifications and experience

Executive Directors

Mrs. Leung Yu Oi Ling, Irene, aged 53, joined the Group in June 1991 and is currently the Chairman of the Group. Mrs. Leung is at present responsible for the general management, business development and marketing of the Group. Mrs. Leung is a graduate of Leicester Polytechnic in UK and has had extensive experience prior to joining the Group in running her own interior design company. Mrs. Leung is the mother of Ms. Leung Chi Yin, Gillian, and Mr. Leung Chi Hong, Jerry, each being an executive Director.

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

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

Independent non-executive Directors

Mr. Pao Ping Wing, *JP*, aged 59, was appointed to the Board in August 1997. Mr. Pao 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 a director of Oriental Press Group Limited (stock code: 018), Sing Lee Software (Group) Limited (stock code: 8076) and Hembly International Holdings Limited (stock code: 3989), which are listed on the Stock Exchange. He was elected as one of the Ten Outstanding Young Persons of Hong Kong in 1982 and one of the Ten Outstanding Young Persons of the World in 1983. Mr. Pao has been appointed as a Justice of the Peace for Hong Kong since 1987.

Professor Yuen Ming Fai, Matthew, aged 56, was appointed to the Board in April 2002. Professor Yuen spent approximately four years in United Kingdom's Industry before taking up a lecturing position at the University of Hong Kong in 1979. He is currently the Director of Technology Transfer Centre at The Hong Kong University of Science and Technology and a Professor in Mechanical Engineering. Professor Yuen is a graduate of the University of Hong Kong and the University of Bristol. He is a fellows of The Hong Kong Institution of Engineers and a Fellow of Institution of Mechanical Engineers, United Kingdom. Professor Yuen has extensive research experience in design and manufacturing.

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

10. CORPORATE INFORMATION

Registered office	Crawford House 4th Floor 50 Cedar Avenue Hamilton HM11 Bermuda
Head office and principal place of business	Room 702, 7th Floor Aitken Vanson Centre 61 Hoi Yuen Road Kwun Tong Kowloon Hong Kong
Company secretary and qualified accountant	Mr. Pang Kee Chau Member of Hong Kong Institute of Certified Public Accountants and Certified Practising Accountant of Australia
Authorised representatives	Mrs. Leung Yu Oi Ling, Irene Executive Director 8/F., 1C Austin Road Tsimshatsui Kowloon Hong Kong Ms. Leung Chi Yin, Gillian Executive Director 8/F., 1C Austin Road Tsimshatsui Kowloon Hong Kong
Principal share registrar and transfer office	The Bank of Bermuda Limited 6 Front Street Hamilton HM11 Bermuda
Hong Kong branch share registrar and transfer office	Tengis Limited 26th Floor, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong

Principal banker	Industrial and Commercial Bank of China (Asia) Limited Central Branch ICBC Asia Building 122-126 Queen's Road Central Hong Kong
Auditors and reporting accountants	CCIF CPA Limited Certified Public Accountants 20/F., Sunning Plaza 10 Hysan Avenue Causeway Bay Hong Kong
Legal advisers of the Company	*As to Hong Kong laws in general:* Tsang & Lee, Solicitors 1510-12, 15th Floor Nan Fung Tower 173 Des Voeux Road Central Hong Kong *As to Hong Kong laws on the Rights Issue:* Chiu & Partners 41st Floor, Jardine House 1 Connaught Place Central Hong Kong

11. EXPERTS

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

As at the Latest Practicable Date, CCIF did not have any shareholding, directly or indirectly, in the Company or any of its members or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in the Company or any of its members.

CCIF did not have any direct or indirect interest in any assets which have, since 31 July 2006, being the date of the latest published audited accounts of the Company, been acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to, any member of the Company.

CCIF is not materially interested in any contract or arrangement entered into by any member of the Company which contract or arrangement is subsisting as at the date of this prospectus and which is significant in relation to the business of the Company taken as a whole.

12. CONSENT

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

13. DOCUMENTS DELIVERED TO THE REGISTRARS OF COMPANIES

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

14. LEGAL EFFECT

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

15. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Room 702, 7th Floor, Aitken Vanson Centre, 61 Hoi Yuen Road, Kwun Tong, Hong Kong during normal business hours from the date of this prospectus up to and including the Latest Time for Acceptance:

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

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

(c) the annual report of the Group for each of the two financial years ended 31 July 2006;

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

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

16. MISCELLANEOUS

(a) The authorised representatives of the Company are:

(i) Mrs. Leung Yu Oi Ling, Irene

Mrs. Leung Yu Oi Ling, Irene, aged 53, joined the Group in June 1991 and is currently the Chairman of the Group. Mrs. Leung is at present responsible for the general management, business development and marketing of the Group. Mrs. Leung is a graduate of Leicester Polytechnic in the United Kingdom and has had extensive experience prior to joining the Group in running her own interior design company.

(ii) Ms. Leung Chi Yin, Gillian

Ms. Leung Chi Yin, Gillian, aged 27, was redesignated in September 2002 as an executive Director. Ms. Leung graduated in Commerce from Queen's University, Kingston, Ontario, Canada and also completed MSc Law and Accounting from the London School of Economics and Political Science, London. Ms. Leung is responsible for financial management and administration of the Group.

(b) The secretary of the Company is Mr. Pang Kee Chau who is also the qualified accountant of the Company. Mr. Pang is a member of Hong Kong Institute of Certified Public Accountants and a Certified Practising Accountant of Australia.

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

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

1. NOTICE TO PERSONS RESIDENT IN THE PRC

The Rights Issue Documents do not constitute a public offering of the Rights Shares or any other shares of the Company in the PRC. The Rights Issue Documents may not be circulated or distributed in the PRC and the Rights Shares may not be offered or sold directly or indirectly to any natural person or legal person of the PRC, or offered or sold to any natural person or legal person of the PRC for re-offering or re-sale directly or indirectly except for being despatched to the Qualifying Shareholder with its registered address in the PRC solely for the purpose of this Rights Issue, subject to the compliance by the Qualifying Shareholder with all applicable laws and regulations of the PRC.

2. NOTICE TO PERSONS RESIDENT IN SINGAPORE

This prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Rights Shares may not be issued, circulated or distributed, in Singapore nor may any Rights Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Singapore Securities and Futures Act; (ii) to a relevant person pursuant to Section 275(1) of the Singapore Securities and Futures Act, or any person pursuant to Section 275(1A) of the Singapore Securities and Futures Act, and in accordance with the conditions of specified in Section 275 of Singapore Securities and Futures Act; or (ii) otherwise pursuant to, and in accordance with, the conditions of, any other applicable provision of the Securities and Futures Act.

3. NOTICE TO PERSONS RESIDENT IN UNITED KINGDOM

This prospectus has been prepared on the basis that any offer of Rights Shares in any Member State of the European Economic Area which has implemented the Prospectus Directive (2003/71/EC) (each, a **Relevant Member State**) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Rights Shares. Accordingly any person making or intending to make an offer in that Relevant Member State of Rights Shares which are the subject of the offering contemplated in this prospectus may only do so in circumstances in which no obligation arises for the Company or any one of the Underwriters or any other parties involved in the Rights Issue to publish a prospectus pursuant to Article 3 of the Prospectus Directive, in each case, in relation to such offer. None of the Company, the Underwriters and any other parties involved in the Rights Issue have authorised, nor do they authorise, the making of any offer of Rights Shares in circumstances in which an obligation arises for the Company or the Underwriters or any other parties involved in the Rights Issue to publish a prospectus for such offer.