THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

If you have sold or transferred all your shares in UDL Holdings Limited, you should at once hand this circular and the accompanying proxy 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.

UDL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 620)

PROPOSED RIGHTS ISSUE OF RIGHTS SHARES OF HK$0.01 EACH AT HK$0.035 PER RIGHTS SHARE, PAYABLE IN FULL ON ACCEPTANCE (IN THE PROPORTION OF ONE RIGHTS SHARE FOR EVERY ONE EXISTING SHARE HELD) AND VERY SUBSTANTIAL ACQUISITIONS AND CONNECTED TRANSACTIONS AND NOTICE OF SGM

Independent financial adviser to the Independent Board Committee and the Independent Shareholders

Hercules

Hercules Capital Limited

A letter from the Board is set out on pages 6 to 34 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders in connection with the various transactions as detailed in this circular is set out on page 35 of this circular. A letter from Hercules, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, containing its advice in connection with such transactions is set out on pages 36 to 65 of this circular.

A notice convening a special general meeting of the Company to be held at 9:30 a.m. on 20 September 2008 at The Chairman's Room I, The Kowloon Club, 15/F-16/F, East Wing, New World Office Building, 24 Salisbury Road, Tsimshatsui, Kowloon, Hong Kong is set out on pages SGM NOTICE-1 to SGM NOTICE-3 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's share registrar in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the special general meeting or any adjustment of it if you so wish.

Shareholders and prospective investors should note that the Underwriting Agreement contains provisions granting Taifook (on behalf of the Underwriters), by notice in writing, the ability to terminate its obligations thereunder on the occurrence of certain events prior to 4:00 p.m. on 13 October 2008. Such events are more particularly included in the paragraph headed "Termination of the Underwriting Agreement" set out in the Letter from the Board contained in this circular.

4 September 2008

CONTENTS

EXPECTED TIMETABLE

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

	2008
Despatch of this circular with the notice of SGM	Thursday, 4 September
Last day of dealings in Shares on a cum-rights basis	Tuesday, 16 September
First day of dealings in Shares on an ex-rights basis	Wednesday, 17 September
Latest time for lodging transfer of Shares in order to qualify for the Rights Issue	4:30 p.m. on Thursday, 18 September
Register of members of the Company closed	Friday, 19 September to Saturday, 20 September (both days inclusive)
Date of SGM	Saturday, 20 September
Record Date	Saturday, 20 September
Register of members re-opens	Monday, 22 September
Despatch of Rights Issue Documents	Monday, 22 September
First day of dealings in nil-paid Rights Shares	Wednesday, 24 September
Latest time for splitting of nil-paid Rights Shares	4:30 p.m. on Friday, 26 September
Last day of dealings in nil-paid Rights Shares	Thursday, 2 October
Latest Acceptance Date	4:00 p.m. on Wednesday, 8 October
Latest time for the Rights Shares to become unconditional	4:00 p.m. on Monday, 13 October
Announcement of results of acceptance of and excess applications for the Rights Issue	Tuesday, 14 October

	2008
Despatch of refund cheques in respect of unsuccessful or partially unsuccessful excess applications for excess Rights Shares on or before	Tuesday, 14 October
Despatch of certificates for fully-paid Rights Shares on or before	Tuesday, 14 October
Commencement of dealings in fully-paid Rights Shares	9:30 a.m. on Thursday, 16 October

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

EFFECT OF BAD WEATHER ON THE LATEST ACCEPTANCE DATE

The Latest Acceptance Date will not take place on 8 October 2008 if there is:

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

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

If the Latest Time for Acceptance does not take place on 8 October 2008, the dates mentioned in this section headed "Expected timetable" may be affected. Announcement will be made by the Company in such event.

DEFINITIONS

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

"Acquisitions"	collectively: (1) the acquisition of the Lead Ocean Shares and the Lead Ocean Debts pursuant to the Lead Ocean Agreement; (2) the acquisition of the Net Excel Shares and the Net Excel Debts pursuant to the Net Excel Agreement; and (3) the acquisition of the 10 vessels pursuant to the Vessel Agreement.
"associate(s)"	shall have the same meaning as 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 number 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
"BVI"	the British Virgin Islands
"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
"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 relevant place or the requirements of the relevant regulatory body or stock exchange in that place

"Finance Agreement"	the conditional agreement dated 1 August 2008 and entered into between Harbour Front as lender, and the Company as borrower for the loans to be given by Harbour Front to the Company for financing part payment of the consideration payable for the Acquisitions
"Group"	the Company and its subsidiaries from time to time
"Harbour Front"	Harbour Front Limited, a company incorporated in the British Virgin Islands, the controlling shareholder of the Company. Mrs. Leung Yu Oi Ling, Irene, Ms. Leung Chi Yin, Gillian and Mr. Leung Chi Hong, Jerry, each being an executive Director, holds one-third of the issued share capital of Harbour Front
"Harbour Front Concert Parties"	Harbour Front and parties acting in concert with it
"Harbour Front Finance"	the loans to be given by Harbour Front to the Company pursuant to the Finance Agreement
"Hercules"	Hercules Capital Limited, the independent financial adviser appointed by the Company to advise and give recommendation to the Independent Board Committee and the Independent Shareholders on the Rights Issue and the Acquisitions
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent committee of the Board comprising the three independent non-executive Directors, namely Mr. Pao Ping Wing, *JP*, Professor Yuen Ming Fai, Matthew and Ms. Tse Mei Ha, established to advise and give recommendation to the Independent Shareholders on the Rights Issue and the Acquisitions
"Independent Shareholders"	Shareholders other than Harbour Front and its associates
"Latest Acceptance Date"	8 October 2008, being the last date for acceptance of and payment for the Rights Shares and application for excess Rights Shares
"Latest Practicable Date"	29 August 2008 being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein

"Latest Time for Acceptance"	4:00 p.m. on 8 October 2008 or such later time as may be agreed between the Company and the Underwriters, being the latest time for acceptance of the offer of Rights Shares and if there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong on such day at any time between 12:00 noon and 4:00 p.m., the Latest Time for Acceptance will be postponed to 4:00 p.m. on the next Business Day which does not have either of those warnings in force in Hong Kong at any time between 12:00 noon and 4:00 p.m.
"Latest Time for Termination"	4:00 p.m. on 13 October 2008, being the third Business Day after the Latest Acceptance Date
"Last Trading Day"	1 August 2008, being the last full trading day of the Shares prior to the release of the announcement in relation to, among other matters, the Rights Issue and the Acquisitions
"Lead Ocean"	Lead Ocean Assets Management Limited, a company incorporated in the BVI
"Lead Ocean Agreement"	the conditional agreement dated 1 August 2008 and entered into between Harbour Front as vendor, and the Company as purchaser for the acquisition of the Lead Ocean Shares and the Lead Ocean Debts
"Lead Ocean Debts"	such amounts as equals 100% of the face value of the loans outstanding as at completion of the acquisition of Lead Ocean (which amount should be construed according to the terms and conditions of the Lead Ocean Agreement) made by or on behalf of Harbour Front to Lead Ocean
"Lead Ocean Group"	Lead Ocean and its subsidiaries
"Lead Ocean Shares"	the 100 issued shares of US$1.00 each in the capital of Lead Ocean, representing the entire issued share capital of Lead Ocean
"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange
"Net Excel"	Net Excel Management Limited, a company incorporated in the BVI
"Net Excel Agreement"	the conditional agreement dated 1 August 2008 and entered into between Harbour Front as vendor, and the Company as purchaser for the acquisition of the Net Excel Shares and the Net Excel Debts

"Net Excel Debts"	such amounts as equals 100% of the face value of the loans outstanding as at completion of the acquisition of Net Excel (which amount should be construed according to the terms and conditions of the Net Excel Agreement) made by or on behalf of Harbour Front to Net Excel
"Net Excel Group"	Net Excel and its subsidiaries
"Net Excel Shares"	the 100 issued shares of US$1.00 each in the capital of Net Excel, representing the entire issued share capital of Net Excel
"Overseas Shareholder(s)"	the Shareholder(s) whose name(s) appear(s) on the register of members of the Company on the Record Date and whose registered address(es) on that date is/are outside Hong Kong
"Percentage Ratios"	the percentage ratios (other than the equity ratio) under Rule 14.07 of the Listing Rules
"PRC"	the People's Republic of China, which, for the purpose of this circular, excludes, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Prospectus"	the prospectus to be issued by the Company in relation to the Rights Issue
"Qualifying Shareholder(s)"	the Shareholder(s), other than the Excluded Shareholders, whose name(s) appear(s) on the register of members of the Company on the Record Date
"Record Date"	20 September 2008 or such other date as may be agreed between the Company and the Underwriters in accordance with the relevant regulations or requirements
"Resultant Group"	the Company and its subsidiaries immediately after the completion of the Rights Issue and the Acquisitions, assuming each of such transactions is completed in accordance with its terms
"Rights Issue"	the proposed issue of Rights Shares on the basis of one Rights Share for every one existing Share 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 Rights Issue
"Rights Issue Documents"	the Prospectus, the provisional allotment letter and the form of application for excess Rights Shares

"Rights Share(s)"	5,045,033,739 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)
"SGM"	the special general meeting of the Company to be convened to be held at 9:30 a.m. on 20 September 2008 for the purpose of approving, among other matters, the Rights Issue and the Acquisitions
"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
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Price"	subscription price of HK$0.035 per Rights Share
"Taifook"	Taifook Securities Company Limited, a company incorporated in Hong Kong and a licensed corporation under the SFO to carry on Type 1 (dealing in securities), 3 (leveraged foreign exchange trading) and 4 (advising on securities) regulated activities
"Underwriters"	Taifook and Harbour Front
"Underwriting Agreement"	the underwriting agreement dated 1 August 2008 and entered into between the Company, Harbour Front and Taifook in relation to the Rights Issue
"Vessel Agreement"	the conditional agreement dated 1 August 2008 and entered into between Harbour Front as vendor, and the Company as purchaser for the acquisition of 10 vessels
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"US$"	United States dollars, the lawful currency of the United States of America
"%"	per cent.

* the English translation of the Chinese name of the relevant companies is for information purposes only, and should not be regarded as the official English translation of such name.

UDL HOLDINGS LIMITED

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

Executive Directors:
Mr. Leung Yat Tung
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 September 2008

To the Shareholders

Dear Sir or Madam

PROPOSED RIGHTS ISSUE OF RIGHTS SHARES OF HK$0.01 EACH AT HK$0.035 PER RIGHTS SHARE, PAYABLE IN FULL ON ACCEPTANCE (IN THE PROPORTION OF ONE RIGHTS SHARE FOR EVERY ONE EXISTING SHARE HELD) AND VERY SUBSTANTIAL ACQUISITIONS AND CONNECTED TRANSACTIONS

INTRODUCTION

Reference is made to the announcement of the Company dated 1 August 2008, in which the Company announced the Rights Issue and the Acquisitions.

PROPOSED RIGHTS ISSUE

Issue statistics

Basis of the Rights Issue:	One Rights Share for every one existing Share held on the Record Date
Number of existing Shares in issue:	5,045,033,739 Shares as at the Latest Practicable Date
Number of Rights Shares:	5,045,033,739 Rights Shares

The nil-paid Rights Shares proposed to be provisionally allotted pursuant to the terms of the Rights Issue represent 100% of the Company's existing issued share capital and 50% 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 are 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$0.035 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:

– represents a premium of approximately 2.94% over the closing price of HK$0.034 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

– represents a discount of approximately 10.26% to the closing price of HK$0.039 per Share as quoted on the Stock Exchange on 1 August 2008, being the Last Trading Day;

– represents a discount of approximately 12.94% to the average closing price of HK$0.0402 per Share for the five consecutive trading days up to and including 1 August 2008, being the Last Trading Day;

– represents a discount of approximately 14.84% to the average closing price of HK$0.0411 per Share for the 10 consecutive trading days up to and including 1 August 2008, being the Last Trading Day;

– represents a discount of approximately 5.41% to the theoretical ex-rights price of approximately HK$0.037 per Share based on the closing price as quoted on the Stock Exchange on 1 August 2008, being the Last Trading Day; and

– represents a premium of approximately 16.67% over the audited consolidated net tangible asset value of approximately HK$0.030 per Share as at 31 July 2007.

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 six consecutive months from January 2008 to June 2008 and most recently in July 2008. During the six consecutive months from January 2008 to June 2008, the lowest and highest closing prices of the Shares as quoted on the Stock Exchange was HK$0.039 per Share recorded on each of 27 June 2008 and 30 June 2008 and HK$0.089 per Share recorded on 29 February 2008 respectively. The Subscription Price represents a discount of approximately 44.36% to the average closing price in January 2008, while the Subscription Price represents a discount of approximately 30.14% and 16.27% to the average closing price in June and July 2008 respectively. In light of the recent volatility and generally downward trend of the prices of the Shares, the Company considers that the Subscription Price, representing a premium of approximately 16.67% over the audited consolidated net tangible asset value of approximately HK$0.030 per Share as at 31 July 2007, is reasonable. Each Qualifying 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 consider the Subscription Price fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Status of the Rights Shares

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

Application for excess Rights Shares

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

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

(1) preference shall 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;

(2) any excess Rights Shares remaining after satisfying the allocation under paragraph (1) above shall then be allocated to the remaining applicants of the excess Rights Shares in proportion to their "respective proportion" which is to be calculated with reference to the number of nil-paid Rights Shares provisionally allotted to a Qualifying Shareholder and the aggregate number of nil-paid Rights Shares provisionally allotted to all Qualifying Shareholders; and

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

The Shareholders with the Shares held by a nominee company should note that for the purposes of principle (1) above, the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, the Shareholders 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 Shareholders with their Shares held by a nominee company are advised to consider whether they would like to arrange registration of the relevant Shares in the name of the beneficial owner(s) prior to the Record Date.

Principle (1) is devised to facilitate Shareholders holding odd lot of Shares to top-up their Shares to a board lot and is thus considered as fair and equitable. In addition, it is fair to the Shareholders that, in accordance with principle (2), the remaining excess Rights Shares were allocated to the remaining applicants of the excess Rights Shares in proportion to (without involving any fraction of a Share) their "respective proportion" (which was calculated with reference to the number of nil-paid Rights Shares provisionally allotted to such Qualifying Shareholder and the aggregate number of nil paid Rights Shares provisionally allotted to all such Qualifying Shareholders) since the percentage shareholding of each Shareholder (except for those who did not take up their rights entitlements under the provisional allotment and/or apply for excess Right Shares) after the completion of the Rights Issue be largely maintained. The Board considers that the allocation of the excess Rights Shares based on the principles set out above is fair and equitable and such allocation mechanism is in line with the allocation basis adopted by the Company in its previous rights issue exercises.

Fractional entitlements

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

Share certificates for the Rights Shares

Subject to the fulfilment of the conditions of the Rights Issue, certificates for all fully paid Rights Shares are expected to be posted to Qualifying Shareholders who have accepted or 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 forms of application for excess Rights Shares) to the Excluded Shareholders for their information only.

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

Application for listing of the Right Shares on the Stock Exchange

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

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

Nil-paid Rights Shares are expected to be traded in board lots of 40,000 (Shares in issue are traded in board lots of 40,000). If the theoretical ex-rights price of HK$0.037 per Share calculated based on the closing price of the Shares as quoted on the Stock Exchange on the Last Trading Day is used as the basis, the expected market value of one board lot of 40,000 Shares is estimated to be HK$1,480. Dealings in nil-paid and fully-paid Rights Shares will be subject to the payment of stamp duty in Hong Kong.

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

The first day of dealings in the Rights Shares in their fully-paid form is expected to commence on 16 October 2008.

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 Taifook (on behalf of the Underwriters) in accordance with its terms.

None of the Company, Taifook 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. The Rights Issue will not become unconditional and complete if the Acquisitions do not proceed.

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, contracting, structural steel engineering and vessel sales.

Upon the full subscription of the Rights Shares, the Company will receive, net of expenses, approximately HK$172 million. The Directors intend to use the net proceeds of the Rights Issue as follow:

(a) Assuming all rights entitlements are taken up by the respective Shareholders:

- as to approximately HK$93 million to be applied towards payment for the consideration of the Acquisitions; and
- as to approximately HK$79 million to be applied towards the general working capital of the Group; or

(b) 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:

- as to approximately HK$159 million to be applied towards payment for the consideration of the Acquisitions; and
- as to approximately HK$13 million to be applied towards the general working capital of the Group.

During 12 months immediately preceding the announcement of the Company dated 1 August 2008, the Company had not carried out any fund raising exercise or issued any equity securities. In February 2006, in order to remove all the then uncertain factors affecting the going concern of the Group, 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) considered that it was in the best interest of the Company and the then Shareholders to raise further capital by way of another rights issue to strengthen its capital base and at the same time to allow all the then qualifying shareholders of the Company the opportunity to maintain their respective pro rata shareholding interests in the Company if they so wish.

Hence, in July 2007, the Company raised fund by way of another rights issue of 1,681,677,913 rights shares of HK$0.01 each at HK$0.09 per rights share (in the proportion of one rights share for every two then existing shares held). Around half of the net proceeds of such rights issue of approximately HK$148 million were applied towards repayment of HK$75 million interim finance provided to the Group by Harbour Front and the balance of the net proceeds of such rights issue has been applied as general working capital of the Group and would be utilised in line with the business development of the Group. Although the Company has conducted two rights issue in the last two consecutive years and it is now conducting the third rights issue, the Board considers that such frequent fund raising exercises necessary due to its corporate and business needs are reasonable and 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 further strengthen its capital base for the development of its business plan as detailed in the paragraph headed "Future prospects and outlook" under the section headed "Management discussion and analysis" in the Company's 2007 annual report 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 together with the Harbour Front Finance to finance the Acquisitions

Underwriting arrangements

Underwriting Agreement

Date:	1 August 2008. The Underwriting Agreement was entered into by the parties after the close of the trading hours on 1 August 2008.
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 53.97% of the existing issued share capital of the Company as at the Latest Practicable Date; and
	(3) Taifook, immediately before the signing of the Underwriting Agreement did not have any interest in any Shares.

Number of Shares underwritten:	5,045,033,739 Rights Shares (in which 500,000,000 Rights Shares are to be underwritten by Taifook and 4,545,033,739 Rights Shares are to be underwritten by Harbour Front) ("Underwritten Shares"). The basis for the allocation of 500,000,000 Rights Shares and 4,545,033,739 Rights Shares to Taifook and Harbour Front respectively is subject to the commercial decision of Taifook 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 2,722,753,320 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 Company despatching the Circular to the Shareholders containing, among other matters, details of the Rights Issue together with the proxy form and the notice of the SGM;

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

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

(4) 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);

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

(6) the posting of the Prospectus and the relevant documents to Qualifying Shareholders; and

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

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

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 30 October 2008 or such later date or dates as Taifook (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.

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

Termination of the Underwriting Agreement

The Underwriting Agreement contains provisions granting Taifook (on behalf of the Underwriters), by notice in writing, the ability to terminate its obligations thereunder on the occurrence of certain events. Taifook (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 Taifook (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 Taifook (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 Taifook (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 United States of America) occurs which in the reasonable opinion of the Underwriters makes it inexpedient or inadvisable to proceed with the Rights Issue; or

(3) the 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 Taifook (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 Taifook (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

The Shares will be dealt in on an ex-rights basis from 17 September 2008. Dealing in the Rights Shares in the nil-paid form will take place from 24 September 2008 to 2 October 2008 (both days inclusive). If the conditions of the Rights Issue are not fulfilled and/or waived, or the Underwriting Agreement is terminated by Taifook (on behalf of the Underwriters), the Rights Issue will not proceed and the Rights Issue will lapse.

Any persons contemplating buying or selling Shares from the date hereof 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.

CLOSURE OF REGISTER OF MEMBERS

To ascertain the entitlement of the Shareholders to the Rights Issue, the branch register of members of the Company in Hong Kong will be closed from 19 September 2008 to 20 September 2008 (both days inclusive), during which period no transfer of Shares will be registered. To qualify for the Rights Issue, Shareholders should ensure that all transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar, Tricor Tengis Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on 18 September 2008. The Record Date is 20 September 2008.

Shareholding structure of the Company before and after the Rights Issue

The following table illustrates 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 *(Note 1)*	2,722,753,320	53.97	5,445,506,640	53.97	7,267,787,059	72.03
Non-public *(Note 2)*	4,800	*Note 3*	9,600	*Note 3*	4,800	*Note 3*
Public Shareholders						
Other public	2,322,275,619	46.03	4,644,551,238	46.03	2,322,275,619	23.01
Taifook and sub-underwriter(s) (if any)	–	–	–	–	500,000,000	4.96
					2,822,275,619	27.97
	5,045,033,739	100%	10,090,067,478	100%	10,090,067,478	100%

Notes:

1. Mrs. Leung Yu Oi Ling, Irene, Ms. Leung Chi Yin, Gillian and Mr. Leung Chi Hong, Jerry, each being an executive Director, holds one-third of the issued share capital of Harbour Front. As at the date of the announcement of the Company dated 1 August 2008, Harbour Front Concert Parties were interested in 2,642,993,320 Shares, representing approximately 52.39% of the issued share capital of the Company. Subsequent to the date of the aforesaid announcement, and up to the Latest Practicable Date, Harbour Front Concert Parties acquired 79,760,000 Shares in the market.

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

3. The percentage shareholding is negligible.

Shareholders and public investors should note that the above shareholding changes are for illustration purposes only and the actual changes in the shareholding structure of the Company upon completion of the Rights Issue are subject to various factors, including the results of acceptance of the Rights Issue.

Expected timetable

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

RIGHTS ISSUE DOCUMENTS

The Prospectus containing, among other things, the proposed Rights Issue will be despatched to the Shareholders as soon as practicable after the SGM.

The Rights Issue Documents setting out details of the Rights Issue will be despatched to the Qualifying Shareholders as soon as practicable after the SGM, subject to the conditions set out under the paragraph headed "Conditions of the Rights Issue" above being satisfied.

VERY SUBSTANTIAL ACQUISITIONS AND CONNECTED TRANSACTIONS

The Directors are pleased to announce that three acquisition agreements, which are inter-conditional upon each other, were entered into between the Company and Harbour Front on 1 August 2008. Details of the Acquisitions, involving the Lead Ocean Agreement, the Net Excel Agreement and the Vessel Agreement are set out below.

(1) Lead Ocean Agreement

Date:	1 August 2008
Parties:	(i) Harbour Front, an investment holding company incorporated in the BVI (as vendor), the controlling Shareholder; and (ii) the Company (as purchaser).
Subject matter of the Lead Ocean Agreement:	the Lead Ocean Shares, being 100 issued shares of US$1.00 each in the capital of Lead Ocean, a company incorporated in the BVI and is engaged in investment holding of a shipbuilding and structural steel production yard in the PRC

Consideration

The consideration of HK$136,786,171.70 of which the amount of about HK$36,000,911.59 and about HK$100,785,260.11 are attributable to the Lead Ocean Shares and the Lead Ocean Debts respectively. The consideration was determined following arms' length negotiation between Harbour Front and the Company with reference to (i) the unaudited net asset value of Lead Ocean and its subsidiaries (approximately HK$26,000,911.50) and the unaudited book value of the Lead Ocean Debts (approximately HK$100,785,260.11) as at 31 March 2008; and (ii) the licence and approval obtained by 東莞振華建造工程有限公司 (Dongguan Chun Wah Engineering and Heavy Industry Co., Ltd.) to manufacture steel frames and products for both PRC internal sale and export business.

The portion of consideration payable under the Lead Ocean Agreement attributable to the Lead Ocean Shares is subject to pro tanto downward adjustments in the event that the audited net asset value of Lead Ocean and its subsidiaries as at 31 July 2008 or an agreed date being not more than three months before completion of the Lead Ocean Agreement, whichever the later, is less than HK$26,000,911.59.

The portion of consideration payable under the Lead Ocean Agreement attributable to the Lead Ocean Debts is subject to pro tanto downward adjustment in the event that the Lead Ocean Debts as at 31 July 2008 or an agreed date being not more than three months before completion of the Lead Ocean Agreement, whichever the later, is less than HK$100,785,260.11.

The consideration shall be paid by the Company to Harbour Front in cash at completion of the Lead Ocean Agreement.

Completion and conditions of the Lead Ocean Agreement

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

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

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

(3) the BVI and PRC legal opinions regarding, among others, the legality and validity of Lead Ocean's and its subsidiaries' incorporation and operations and subsistence and Lead Ocean's and its subsidiaries' interests in property to be issued before the completion of the Lead Ocean Agreement in such form and substance to the satisfaction of the Company having been obtained;

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

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

(6) the Company being satisfied that the Net Excel Agreement and the Vessel Agreement having been completed contemporaneously with or immediately after completion of the Lead Ocean Agreement in accordance with their respective terms.

The Company is entitled to waive the conditions specified above in whole or in part except for the conditions referred to in paragraphs (1) and (3). If any of the above conditions has not been satisfied (or, as the case may be, waived by the Company) at or before 12:00 noon on 30 October 2008, or such later date as the Company may agree, the Lead Ocean Agreement shall cease and determine and none of the parties shall have any obligations and liabilities thereunder save for any prior breaches. The Directors advise that the Company will only waive the condition referred to in paragraph (5) subject to the payment in advance of an amount representing the subscription proceeds by Harbour Front as agreed as if the Rights Issue were becoming unconditional and/or the availability of the Harbour Front Finance.

Information on Lead Ocean

Lead Ocean is a private company incorporated in the BVI and is the holding company of each of Argos Engineering (International) Company Limited and Cochrane Enterprises Limited, which pursuant to a Dong Guan Chunwah Engineering and Heavy Industry Co., Ltd. Joint-Venture Contract and another Dong Guan Hing Wah Shipbuilding Co., Ltd. Joint-Venture Contract both dated 18 October 1990, entered into between each of them respectively and Shatian Foreign Trade and Economic Development Company, have (1) established two PRC companies, 東莞振華建造工程有限公司 (Dongguan Chun Wah Engineering and Heavy Industry Co., Ltd.) and 東莞興華造船工程有限公司 (Dongguan Hing Wah Shipbuilding Co., Ltd.); and (2) obtained the allocation of the land use rights of certain collectively-owned land with a yard site area of approximately 154,000 sq.m. for a term of 50 years for manufacturing structural steel frames and fabrication of ships and other ancillary businesses. Lead Ocean has an authorised capital of US$50,000 divided into 50,000 shares of US$1.00 each and 100 fully paid shares of which have up to the Latest Practicable Date been issued and beneficially owned by Harbour Front.

The Dongguan yard abovementioned is situated along the bank of a branch of Dongjiang with deep water access channel. It has extensive steel fabrication and assembly capability over 15 years of track record in completing major fabrication and assembly projects of bridges, buildings and structures in the PRC, Hong Kong and Macau. 東莞振華建造工程有限公司 (Dongguan Chun Wah Engineering and Heavy Industry Co., Ltd.) has obtained a licence to manufacture steel frames and products for both PRC internal sale and export business and necessary approvals to operate a pier in the yard for exporting its products directly from Dongguan.

Referring to the paragraph headed "Proposed settlement agreement and issue of promissory notes – Background" in the "Letter from the Board" in the Company's circular dated 27 January 2006, upon implementation of the scheme of arrangement of the Company and its subsidiaries in mid-2000, Argos Engineering (International) Company Limited and Cochrane Enterprises Limited were transferred by the Company to the scheme administrator as part of the concerned unencumbered assets. According to the memorandum of understanding entered into between the scheme administrator, the Company and Harbour Front in 2005 outlining the global solution settling the outstanding issues of the scheme of arrangement of the Company and its subsidiaries as more particularised in that circular, Harbour Front acquired Argos Engineering (International) Company Limited and Cochrane Enterprises Limited as part of the acquisition of the concerned unencumbered assets from the scheme administrator in September 2006.

Ever since the entering into of the abovementioned memorandum of understanding, Harbour Front started to resolve issues related to the Dongguan yard facilities by paying outstanding annual licence fee and title fees, carrying out annual government licence audit and settling current liabilities of Argos Engineering (International) Company Limited and Cochrane Enterprises Limited. Significant improvements to the yard facilities have also been made to meet the current needs for efficient production.

Lead Ocean was incorporated on 2 May 2008 to hold Argos Engineering (International) Company Limited and Cochrane Enterprises Limited within the group of companies held by Harbour Front. Referring to the accountants' report on the Lead Ocean Group as set out in Appendix II to this circular, the net profit/(loss) of the Lead Ocean Group (prepared in accordance with Hong Kong Financial Reporting Standards) for the two years ended 31 March 2008 was approximately as follows:

	For the year ended 31 March 2007	**For the year ended 31 March 2008**
Net profit/(loss) (before taxation and extraordinary items)	(HK$5,985,000)	(HK$4,140,000)
Net profit/(loss) (after taxation and extraordinary items)	(HK$5,985,000)	(HK$4,140,000)

Referring to the accountants' report on the Lead Ocean Group as set out in Appendix II to this circular, the net asset value of the Lead Ocean Group (prepared in accordance with Hong Kong Financial Reporting Standards) as at 31 March 2007 and 31 March 2008 was approximately HK$28,413,000 and HK$33,294,000 respectively. Referring to the unaudited pro forma financial information on the Resultant Group as set out in Appendix IV to this circular, as at 31 March 2008 and as if Lead Ocean has been incorporated, the pro forma value of Lead Ocean Debts amounted to approximately HK$97,380,000 which is less than the unaudited book value of the Lead Ocean Debts of approximately HK$100,785,260.11 as at 31 March 2008 referred to in the paragraph headed "Consideration" on page 18 of this circular due to audit adjustments for current account made by the reporting accountants. The portion of consideration payable under the Lead Ocean Agreement attributable to the Lead Ocean Debts is subject to pro tanto downward adjustment as detailed in that paragraph.

Referring to the unaudited pro forma financial information on the Resultant Group as set out in Appendix IV to this circular, the aggregate effect of the Acquisitions of which the acquisition of the Lead Ocean Shares and the Lead Ocean Debts forms a part (including the effect of the use of Harbour Front Finance and/or the net proceeds from the Rights Issue), are as follows:

Non-current assets	: Increase from approximately HK$32.357 million to approximately HK$243.174 million
Current assets	: Increase from approximately HK$137.260 million to approximately HK$197.534 million
Total assets	: Increase from approximately HK$169.617 million to approximately HK$440.708 million
Current liabilities	: Increase from approximately HK$19.608 million to approximately HK$118.366 million
Non-current liabilities	: Increase from approximately HK$0 million to approximately HK$0.171 million
Total liabilities	: Increase from approximately HK$19.608 million to approximately HK$118.537 million
Earnings	: Loss increase from approximately HK4.341 million to approximately HK$5.313 million

Reasons for the acquisition of Lead Ocean

Given the enhanced capital base of the Group since mid-2007, upgrading works toits yard facilities in both Singapore and Zhongshan, the PRC, have gone underway so as to meet the surging demands in the shipbuilding and offshore engineering sector with the synergy from the combined capacity of these two yard facilities and the sound competitive edge in the market due to their independent advantages. The growth in global demand for oil has been strong and steady for over five years and operators are likely to continue investing in exploration and production to replace depleting reserves. This translates demand in the related shipbuilding and offshore engineering market. In addition to the existing yard facilities in Singapore and Zhongshan, the Group consider the longer term arrangement in taking up and utilise facilities in Dongguan, the PRC held by the group of companies of Lead Ocean could combine and consolidate the mutually matching and critical mass effect between the existing and additional facilities to promote the enhanced capabilities in the shipbuilding, marine and offshore engineering activities.

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

The Group's current combined production capacities from its Zhongshan and Singapore yards are 4 to 6 units of 5,000 DWT class vessels and annual steel fabrication projects of up to 20,000 tons. Intended integration of the additional Dongguan yard facilities could beef up total production capacities of up to 40,000 tons per year. The Dongguan yard with deep water access channel is suitable for the construction of vessels of up to 200 metres in length, oil rigs and semi-subs. A key element in this business plan is to leverage the Dongguan yard's extensive steel fabrication capability, low production cost and cheap supply of materials with the Group's image for quality and reliability, and Singapore's excellent supply chain, sub-contractors, and supporting infrastructure to provide the Group with a sustainable competitive edge. The Dongguan yard will undertake the construction of steel structures and vessel components. After which, the components fabricated and constructed in the PRC will be transported to the Singapore yard of the Group for assembly into complete product. With the promising prospect in the shipbuilding marine and offshore engineering sector, together with the anticipated increase in production capacities and synergies derived from integration of the yard facilities, the Directors expect to see overall performance of the Group improving at a multiple factor.

The Directors are of the view that the terms of the Lead Ocean Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Shareholders as a whole.

(2) Net Excel Agreement

Date:	1 August 2008
Parties:	(i) Harbour Front, an investment holding company incorporated in the BVI (as vendor), the controlling Shareholder; and (ii) the Company (as purchaser).
Subject matter of the Net Excel Agreement:	the Net Excel Shares, being 100 issued shares of US$1.00 each in the capital of Net Excel, a company incorporated in the BVI and is engaged in investment holding of contracting companies having licences for port works engineering and construction in both Hong Kong and PRC

Consideration

The consideration of HK$70,869,363.36 of which the amount of about HK$70,564,363.36 and about HK$305,000 are attributable to the Net Excel Shares and the Net Excel Debts respectively. The consideration was determined following arms' length negotiation between Harbour Front and the Company with reference to (i) the unaudited net asset value of Net Excel and its subsidiaries (approximately HK$51,898,778.75) and the unaudited book value of the Net Excel Debts (approximately HK$305,000) as at 31 March 2008; and (ii) the licences obtained by the subsidiaries of Net Excel for port works engineering and construction in Hong Kong and PRC which are more particularly set out in the paragraph headed "Information on Net Excel" below.

The portion of consideration payable under the Net Excel Agreement attributable to the Net Excel Shares is subject to pro tanto downward adjustments in the event that the audited net asset value of Net Excel and its subsidiaries as at 31 July 2008 or an agreed date being not more than three months before completion of the Net Excel Agreement, whichever the later, is less than HK$51,898,778.75.

The portion of consideration payable under the Net Excel Agreement attributable to the Net Excel Debts is subject to pro tanto downward adjustment in the event that the Net Excel Debts as at 31 July 2008 or an agreed date being not more than three months before completion of the Net Excel Agreement, whichever the later, is less than HK$305,000.

The consideration shall be paid by the Company to Harbour Front in cash at completion of the Net Excel Agreement.

Completion and conditions of the Net Excel Agreement

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

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

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

(3) the BVI and PRC legal opinions regarding, among others, the legality and validity of Net Excel's and its subsidiaries' incorporation and operations and subsistence to be issued before the completion of the Net Excel Agreement in such form and substance to the satisfaction of the Company having been obtained;

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

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

(6) the Company being satisfied that the Lead Ocean Agreement and the Vessel Agreement having been completed contemporaneously with or immediately after completion of the Net Excel Agreement in accordance with their respective terms.

The Company is entitled to waive the conditions specified above in whole or in part except for the conditions referred to in paragraphs (1) and (3). If any of the above conditions has not been satisfied (or, as the case may be, waived by the Company) at or before 12:00 noon on 30 October 2008, or such later date as the Company may agree, the Net Excel Agreement shall cease and determine and none of the parties shall have any obligations and liabilities thereunder save for any prior breaches. The Directors advise that the Company will only waive the condition referred to in paragraph (5) subject to the payment in advance of an amount representing the subscription proceeds by Harbour Front as agreed as if the Rights Issue were becoming unconditional and/or the availability of the Harbour Front Finance.

Information on Net Excel

Net Excel is a private company incorporated in the BVI and is holding company of each of Tonic Engineering & Construction Company Limited, Gitanes Engineering Company Limited and its PRC subsidiary, 廣東積達工程有限公司(Guangdong Gitanes Engineering Co., Limited), which collectively have obtained licence for port works engineering and construction in Hong Kong and PRC, and Chiu Hing Company Limited which has a track record in civil engineering public works projects in Hong Kong. Net Excel has an authorised capital of US$50,000 divided into 50,000 shares of US$1.00 each and 100 fully paid shares of which have up to the Latest Practicable Date been issued and beneficially owned by Harbour Front.

Tonic Engineering & Construction Company Limited and Gitanes Engineering Company Limited holds respectively a Hong Kong public works Group B (confirmed) and Group C (probationary) licence for port works engineering and construction. Group B (confirmed) licence represents a qualification for tendering of unlimited number of contracts of value up to HK$50,000,000 and Group C (probationary) licence represents a qualification for tendering of maximum of two contracts of value exceeding HK$50,000,000 provided the total value of contract works does not exceed HK$180,000,000. Confirmation to Group C licence is achievable after satisfactory completion of at least one public works Group C contract of value over HK$90,000,000 and Group C (confirmed) licence represents a qualification for tendering of unlimited number of contracts of value exceeding HK$50,000,000. 廣東積達工程有限公司 (Guangdong Gitanes Engineering Co., Limited) was established by Gitanes Engineering Company Limited in late 2004 pursuant to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) and has a licence for port works engineering and construction in the PRC.

Referring to the paragraph headed "Proposed settlement agreement and issue of promissory note – Background" in the "Letter from the Board" in the Company's circular dated 27 January 2006, upon implementation of the scheme of arrangement of the Company and its subsidiaries in mid-2000, shareholding of the Group in Tonic Engineering & Construction Company Limited and Gitanes Engineering Company Limited were transferred by the Group to the scheme administrator as part of the concerned unencumbered assets. According to the memorandum of understanding entered into between the scheme administrator, the Company and Harbour Front in 2005 outlining the global solution settling the outstanding issues of the scheme of arrangement of the Company and its subsidiaries as more particularised in that circular, Harbour Front acquired the concerned shareholding in Tonic Engineering & Construction Company Limited and Gitanes Engineering Company Limited as part of the acquisition of the concerned unencumbered assets from the scheme administrator in September 2006. Both Tonic Engineering & Construction Company Limited and Gitanes Engineering Company Limited were not subsidiaries of the Company before implementation of the scheme of arrangement. Harbour Front has also completed acquisition of all the remaining shareholding in Tonic Engineering & Construction Company Limited and Gitanes Engineering Company Limited from the then shareholders of these companies.

Ever since the entering into of the abovementioned memorandum of understanding, Harbour Front started to resolve issues related to the these contracting companies including settling issue related to sufficiency of capital for maintenance of port works licence, injection of necessary additional capital and carrying out PRC annual government licence audit.

Net Excel was incorporated on 23 May 2008 to hold Tonic Engineering & Construction Company Limited, Gitanes Engineering Company Limited and Chui Hing Company Limited within the group of companies held by Harbour Front. Referring to the accountants' report on Net Excel Group as set out in Appendix III, the net profit/(loss) of the Net Excel Group (prepared in accordance with Hong Kong Financial Reporting Standards for the two years ended 31 March 2008 was approximately as follows:

	For the year ended 31 March 2007	For the year ended 31 March 2008
Net profit/(loss) (before taxation and extraordinary items)	HK$385,000	HK$3,168,000
Net profit/(loss) (after taxation and extraordinary items)	HK$385,000	HK$3,168,000

Referring to the accountants' report on Net Excel Group as set out in Appendix III to this circular, the net asset value of the Net Excel Group (prepared in accordance with Hong Kong Financial Reporting Standards as at 31 March 2007 and 31 March 2008 was approximately HK$25,729,000 and HK$50,160,000 respectively. Referring to the unaudited pro forma financial information on the Resultant Group as set out in Appendix IV to this circular, as at 31 March 2008 and as if Net Excel has been incorporated, the pro forma value of Net Excel Debts amounted to approximately HK$0 which is less than the unaudited book value of the Net Excel Debts of approximately HK$305,000 as at 31 March 2008 referred to in the paragraph headed "Consideration" on page 22 of this circular due to audit adjustments for current account made by the reporting accountants. The portion of consideration payable under the Net Excel Agreement attributable to the Net Excel Debts is subject to pro tanto downward adjustment as detailed in that paragraph.

Please refer to the section headed "Information on Lead Ocean" above for the aggregate effect of the Acquisitions of which the effect of the acquisition of the Net Excel Shares and the Net Excel Debts forms a part (including the effect of the use of Harbour Front Finance and/or the net proceeds from the Rights Issue).

Reasons for the acquisition of Net Excel

Given the enhanced capital base of the Group since mid-2007, the Group has succeeded in securing port works projects as sub-contractors including submarine pipelines for Permanent Aviation Fuel Facilities for the Hong Kong International Airport in Chek Lap Kok. Performance in the contracting divisions to improve can be foreseen. The Hong Kong government has committed to push forward 10-large scale infrastructure projects in the coming years. The Group is confident to harvest from the forthcoming opportunities.

With the Hong Kong public works licences possessed by Net Excel's subsidiaries, the Group would be able to re-access the main contractor market for port works which was one of the major activities of the Group before the implementation of the scheme of arrangement in 2000. With a better and direct control of engineering and construction projects and together with a complete fleet of marine engineering vessels, the Group would be able to improve its management and production efficiency and have a sustainable competitive edge.

With the continuous commitment by both government of the PRC and Hong Kong to improve the existing arrangement under CEPA, 廣東積達工程有限公司 (Guangdong Gitanes Engineering Co., Limited) would be able to provide a solid platform for the Group to access the PRC market for a sustainable growth of its port works business in the long term.

The Directors are of the view that the terms of the Net Excel Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Shareholders as a whole.

(3) Vessel Agreement

Date:	1 August 2008
Parties:	(i) Harbour Front, an investment holding company incorporated in the BVI (as vendor), the controlling Shareholder; and (ii) the Company (as purchaser).
Subject matter of the Vessel Agreement:	10 vessels

Consideration

The aggregate consideration of HK$21,800,000 for the 10 vessels were determined after arm's length negotiation between the Company and Harbour Front and on normal commercial terms with reference to the prevailing market price and valuations.

The 10 vessels agreed to be sold under the Vessel Agreement, are vessels held by the group of companies controlled by Harbour Front and will be sold by Harbour Front as beneficial owner and authorised agent of the registered owner.

Harbour Front and the Company has jointly instructed a valuer to carry out a valuation on the 10 vessels as at 31 July 2008 or at a date being not earlier than three months prior to completion of the Vessel Agreement, whichever the later. The consideration payable under the Vessel Agreement is subject to pro tanto downward adjustments if the aggregate valuation of the 10 vessels is less than HK$21,800,000.

The consideration of the 10 vessels shall be paid by the Company to Harbour Front in cash at completion of the Vessel Agreement.

Completion and conditions of the Vessel Agreement

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

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

(2) if necessary, all approvals, consents, authorisations and licences in relation to the change of beneficial ownership of the 10 vessels as contemplated by the Vessel Agreement having been obtained from the requisite government or regulatory authorities or any third parties;

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

(4) the Company being satisfied that the Lead Ocean Agreement and the Net Excel Agreement having been completed contemporaneously with or immediately after completion of the Vessel Agreement in accordance with their respective terms.

The Company is entitled to waive the conditions specified above in whole or in part except for the condition referred to in paragraph (1). If any of the above conditions has not been satisfied (or, as the case may be, waived by the Company) at or before 12:00 noon on 30 October 2008, or such later date as the Company may agree, the Vessel Agreement shall cease and determine and none of the parties shall have any obligations and liabilities thereunder save for any prior breaches. The Directors advise that the Company will only waive the condition referred to in paragraph (3) subject to the payment in advance of an amount representing the subscription proceeds by Harbour Front as agreed as if the Rights Issue were becoming unconditional and/or the availability of the Harbour Front Finance.

Information on the 10 vessels

The 10 vessels are crafts and vessels for marine construction works, general marine transportation and engineering supporting services. The original purchase cost of the 10 vessels is approximately HK$20,000,000 and the value of the 10 vessels as at 31 July 2008 based on a valuation conducted by an independent third party on an open market value for continued existing use approach was approximately HK$21,800,000.

Please refer to the section headed "Information on Lead Ocean" above for the aggregate effect of the Acquisitions of which the acquisition of the 10 vessels forms a part (including the effect of the use of Harbour Front Finance and/or the net proceeds from the Rights Issue).

Reasons for the acquisition of the 10 vessels

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

In view of the Group's past experience and operations with extensive customers and vendors network, which was built up in the 90s' in the shipbuilding industry which closely relates to the marine construction engineering industry, the Group has already resumed its shipbuilding business and has received considerable orders for the supply of various kinds of reconditioned second hand marine engineering vessels. Turnover attributable to shipbuilding business amounted to HK$9,624million and HK$13,980 million for the years ended 31 July 2006 and 31 July 2007, representing around 43% and 36% of the Group's total turnover for the respective year.

The Group intends to acquire the 10 unencumbered vessels for sale after reconditioning so as to further expand its operation in the supply of reconditioned second-hand marine engineering vessels. Subject to the marine engineering construction market conditions, the vessels could also be used in the Group's operations if not sold.

The acquisition of these 10 vessels will also provide the Group with a broadened base of resources to normalise and expand its existing principal businesses, in particular the marine construction engineering business. Turnover attributable to marine engineering business amounted to HK$8,894 million and HK$19,410 million for the years ended 31 July 2006 and 31 July 2007, representing around 40% and 51% of the Group's total turnover for the respective year. Furthermore, the acquisition will also enable the Company to maintain a complete fleet of vessels for general marine engineering operation in line with its development of business for port works engineering and construction.

With the 10 large scale infrastructure developments expected to be implemented in the coming years together with the increase in demand for marine construction engineering services in the adjacent areas like Macau and the Guangdong Province, the Group is actively pursuing marketing and tendering work in order to secure orders and contracts for marine construction works under these large scale developments and projects which will have a large demand for marine construction plant like those to be acquired by the Group under the Vessel Agreement. The Group's marine construction engineering operations are expected to be expanded accordingly and to make positive contribution to the Group's revenue for the financial year ended 31 July 2006 onwards.

The Directors are of the view that the terms of the Vessel Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Shareholders as a whole.

Relationship between the parties and implication of the Listing Rules

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

In view of the above relationship between parties, each of the Rights Issue, the transactions contemplated under the Lead Ocean Agreement, the Net Excel Agreement and the Vessel Agreement constitutes a connected transaction of the Company for the purposes of Chapter 14A of the Listing Rules.

Since the Rights Issue would increase the issued share capital of the Company by more than 50%, the Rights Issue must be made conditional on approval by the Independent Shareholders for the purposes of Rule 7.19(6) of the Listing Rules. As the aggregate consideration of the Acquisitions represent more than 100% in terms of two of the Percentage Ratios, the Acquisitions constitute a very substantial acquisition of the Company for the purposes of Chapter 14 of the Listing Rules.

Accordingly, the Rights Issue and the Acquisitions (as contemplated under the Lead Ocean Agreement, the Net Excel Agreement and the Vessel Agreement) are required to be approved, on a poll, by the Independent Shareholders pursuant to Rule 7.19(6), Rule 14.49 and Rule 14A.17 of the Listing Rules. Harbour Front, with a material interest in the Acquisitions and the Rights Issue, and its associates are required to abstain from voting at the SGM in respect of the relevant resolutions. The Acquisitions contemplated under the Lead Ocean Agreement, the Net Excel Agreement and the Vessel Agreement are inter-conditional upon each other and the Rights Issue is conditional upon the conditions precedent to the Acquisitions being fulfilled (or waived). The Rights Issue will not become unconditional and complete if the Acquisitions do not proceed. However, the Acquisitions may still proceed if the Rights Issue is not completed as the Company can waive such condition precedent.

FINANCE ARRANGEMENT WITH HARBOUR FRONT

To provide alternative source of funding for the Company to finance the Acquisitions in addition to utilising the proceeds of the Rights Issue, the Company has secured a financing facility from Harbour Front pursuant to the Finance Agreement and made between Harbour Front and the Company. The major terms of such facility are set out below:

Facility:	Facility, of which drawing shall be made in two tranches, up to HK$136,950,768.85 (the exact amount of the facility to be made available by Harbour Front to the Company under the Finance Agreement shall be determined by the Harbour Front and the Company in accordance with terms below on or before the drawdown of such facility). Unless otherwise agreed between Harbour Front and the Company prior to the drawdown of the facility (in the event conditions precedent (b) and/or (c) as referred to in the paragraph headed “Conditions precedent” below is waived by Harbour Front) and subject to the determination below, the aggregate amount of drawing by the Company shall not exceed HK$136,950,768.85.

Harbour Front and the Company agreed that the amount of the facility and amount of draw down under Tranche B shall be determined as follows:

Amount of the Facility:

F = A – B x C

where:

"F" is the amount of the facility (unless otherwise agreed between Harbour Front and the Company prior to the drawdown of the facility (in the event conditions precedent (b) and/or (c) as referred to in the paragraph headed "Conditions precedent" below is waived by Harbour Front)

"A" is the total consideration for the Acquisitions

"B" is the number of untaken Shares for which Harbour Front is obliged to subscribe or procure subscribers to subscribe pursuant to the Underwriting Agreement (and for the avoidance of doubt, shall include the number of excluded Shares and excess Rights Shares which have been accepted or taken up by Harbour Front and parties acting in concert with it in accordance with the provisions of the Underwriting Agreement)

"C" is HK$0.035, being the Subscription Price

In the event that condition precedent (b) as referred to in the paragraph headed "Conditions precedent" below is waived by Harbour Front, "F" will be equal to the total consideration for the Acquisitions.

Amount of draw down under Tranche B:

D = F – G

Where:

"D" is the amount of draw down under Tranche B

"F" is the amount of facility as determined above

"G" is HK$57,873,464.56, being the maximum amount of draw down under Tranche A

Tranche A: The maximum aggregate amount of draw down under this tranche is HK$57,873,464.56.

The draw down of Tranche A of the Facility shall be made by the Company to Harbour Front for settlement or set-off of part of the total consideration for the Acquisitions payable by the Company to Harbour Front.

Tranche B: Subject to the determination of the amount of the facility as set out above and unless otherwise agreed between Harbour Front and the Company prior to the drawdown of the facility (in the event conditions precedent (b) and/or (c) as referred to in the paragraph headed "Conditions precedent" below is waived by Harbour Front), the maximum aggregate amount of draw down under this tranche is HK$79,077,304.29.

The draw down of Tranche B of the Facility shall be made by the Company to Harbour Front for settlement or set-off of part of the total consideration for the Acquisitions payable by the Company to Harbour Front.

Interest: Hong Kong Dollars best lending rate as quoted by The Hongkong and Shanghai Banking Corporation Limited per annum on the amount of facility drawn down.

Repayment: The Company shall be obliged to repay the amount of the facility drawn down together with any interest accrued thereon ("**Loan**") in the following circumstances and manner:

Tranche A of the facility

Principal amount together with interest accrued thereon shall be repaid (in whole or in part) when:

(a) the Company or its subsidiaries generate surplus income from its/their operations; or

(b) termination of the Finance Agreement.

Tranche B of the facility

Tranche B of the facility shall be for a fixed term ("**Term**") of eighteen (18) months from the date of draw down of the relevant facility and shall be repaid together with interest accrued thereon (i) upon the expiry of the Term; or (ii) before the expiry of the Term when:

(c) the Company or its subsidiaries receives proceeds arising from equity fund raising (other than the Rights Issue), assets disposals or realisations;

(d) the Company or its subsidiaries generate surplus income from its/their operations (and Tranche A of the facility together with interest accrued thereon has been fully repaid);

(e) the Company or its subsidiaries receive any loan or finance proceeds by entering into a loan or finance agreement or arrangement with any parties other than Harbour Front or its nominees without the prior consent of Harbour Front; or

(f) termination of the Finance Agreement.

The above conditions are not interdependent and if the proceeds or funds received pursuant to any relevant repayment condition becoming operative are insufficient to repay the full amount of the Loan, the remaining amount of the Loan shall be repaid upon any other conditions becoming operative until the Loan is fully repaid.

Conditions precedent:

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

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

(c) the Lead Ocean Agreement, the Net Excel Agreement and the Vessel Agreement having been completed in accordance with their respective terms.

If any of the conditions set out above has not been satisfied(or, in the event conditions precedent (b) and/or (c) waived by Harbour Front) on or before 12:00 noon on 30 October 2008, or such later date as Harbour Front may agree, the Finance Agreement shall cease and determine and none of Harbour Front or the Company shall have any obligations and liabilities thereunder save for any prior breaches of the terms thereof.

Implication of the Listing Rules

Currently, Harbour Front is the controlling shareholder of the Company. In view of such relationship between Harbour Front and the Company, the transactions contemplated under the Finance Agreement constitute a connected transaction of the Company. Pursuant to Rule 14A.65(4) of the Listing

Rules, financial assistance provided by a connected person for the benefit of a listed issuer on normal commercial terms (or better to the listed issuer) where no security over the assets of the listed issuer is granted in respect of the financial assistance is exempted from the reporting, announcement and independent shareholders' approval requirements of Chapter 14A of the Listing Rules. The transactions contemplated by the Finance Agreement fall within Rule 14A.65(4) of the Listing Rules, and hence is exempted from the reporting, announcement and Independent Shareholders' approval requirements.

GENERAL

Independent Board Committee and independent financial adviser

For the purposes of advising and giving recommendation to the Independent Shareholders on the Rights Issue and the Acquisitions, the Independent Board Committee, comprising the three independent non-executive Directors namely Mr. Pao Ping Wing, *JP*, Professor Yuen Ming Fai, Matthew and Ms. Tse Mei Ha, has been formed by the Board. Your attention is drawn to the "Letter from the Independent Board Committee" on page 35 of this circular.

The Company has appointed Hercules as the independent financial adviser to advise the Independent Board Committee. Your attention is also drawn to the "Letter from Hercules" on pages 36 to 65 of this circular.

SGM

A notice of the SGM to be held at The Chairman's Room I, The Kowloon Club, 15/F-16/F, East Wing, New World Office Building, 24 Salisbury Road, Tsimshatsui, Kowloon, Hong Kong at 9:30 a.m. on 20 September 2008 is set out on pages SGM NOTICE-1 to SGM NOTICE-3 of this circular for the purpose to consider and, if thought fit, to approve the Rights Issue and the Acquisitions.

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

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

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.

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

RECOMMENDATION

The Directors consider that the Rights Issue and the Acquisitions are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole and therefore recommend the Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve these transactions.

You are advised to read carefully the letter from the Independent Board Committee on page 35 of this circular. The Independent Board Committee, having taken into account the advice of Hercules, the text of which is set out on pages 36 to 65 of this circular, consider that the terms of the Rights Issue and the Acquisitions are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to approve these transactions.

ADDITIONAL INFORMATION

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

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

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Transactions (as defined below):

UDL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 620)

4 September 2008

To the Independent Shareholders

Dear Sir or Madam

PROPOSED RIGHTS ISSUE OF RIGHTS SHARES OF HK$0.01 EACH AT HK$0.035 PER RIGHTS SHARE, PAYABLE IN FULL ON ACCEPTANCE (IN THE PROPORTION OF ONE RIGHTS SHARE FOR EVERY ONE EXISTING SHARE HELD) AND VERY SUBSTANTIAL ACQUISITIONS AND CONNECTED TRANSACTIONS

We refer to the circular of the Company dated 28 August 2008 ("**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

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

Having considered the terms of the Transactions and the advice of Hercules in relation thereto set out on pages 36 to 65 of the Circular, we are of the opinion that the Transactions are in the interests of the Company and the Shareholders as a whole and the terms of which are fair and reasonable so far as the Independent Shareholders are concerned, we therefore recommend that you vote in favour of each of the ordinary resolutions to be proposed at the SGM convened to approve the Transactions.

Yours faithfully,
Independent Board Committee

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

Independent non-executive Directors

The following is the text of a letter of advice from Hercules prepared for the purpose of inclusion in this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue and the Acquisitions.

Hercules
Hercules Capital Limited

1503 Ruttonjee House
11 Duddell Street
Central
Hong Kong

4 September 2008

To the Independent Board Committee and
the Independent Shareholders

Dear Sirs,

PROPOSED RIGHTS ISSUE OF RIGHTS SHARES OF HK$0.01 EACH AT HK$0.035 PER RIGHTS SHARE, PAYABLE IN FULL ON ACCEPTANCE (IN THE PROPORTION OF ONE RIGHTS SHARE FOR EVERY ONE EXISTING SHARE HELD) AND VERY SUBSTANTIAL ACQUISITIONS AND CONNECTED TRANSACTIONS

1. INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Rights Issue and the Acquisitions, details of which are set out in the "Letter from the Board" contained in the circular of the Company dated 4 September 2008 to the Shareholders (the "Circular"), of which this letter forms part. Terms used in this letter have the same meanings as defined elsewhere in the Circular unless the context requires otherwise.

On 1 August 2008, the Company and Harbour Front, the controlling Shareholder, entered into (i) the Lead Ocean Agreement pursuant to which Harbour Front has agreed to sell, and the Company has agreed to purchase, the Lead Ocean Shares and the Lead Ocean Debts for an aggregate cash consideration of HK$136,786,171.70; (ii) the Net Excel Agreement pursuant to which Harbour Front has agreed to sell, and the Company has agreed to purchase, the Net Excel Shares and the Net Excel Debts for an aggregate cash consideration of HK$70,869,363.36; and (iii) the Vessel Agreement pursuant to which Harbour Front has agreed to sell, and the Company has agreed to purchase, ten vessels for an aggregate cash consideration of HK$21,800,000.

As two of the Percentage Ratios in respect of the Acquisitions exceed 100%, the Acquisitions constitute very substantial acquisitions of the Company under Chapter 14 of the Listing Rules. Harbour Front is the controlling Shareholder and thus a connected person of the Company for the purpose of Chapter 14A of the Listing Rules. Accordingly, the Acquisitions also constitute connected transactions of the Company and are subject to the approval, on a poll, of the Independent Shareholders at the SGM pursuant to the Listing Rules. Harbour Front, which has a material interest in the Acquisitions, and its associates are required to abstain from voting at the SGM in respect of the relevant resolutions.

In order to finance the Acquisitions and to provide additional funding for the general working capital of the Group, the Company proposed to raise approximately HK$177 million before expenses by way of issuing 5,045,033,739 Rights Shares at the Subscription Price of HK$0.035 per Rights Share on the basis of one Rights Share for every one existing Share held by the Qualifying Shareholders on the Record Date.

Since the Rights Issue would increase the issued share capital of the Company by more than 50%, it is subject to the Independent Shareholders' approval pursuant to Rule 7.19(6) of the Listing Rules. Harbour Front, which has a material interest in the Rights Issue, and its associates are required to abstain from voting at the SGM in respect of the relevant resolution.

The Acquisitions contemplated under the Lead Ocean Agreement, the Net Excel Agreement and the Vessel Agreement are inter-conditional upon each other and the Rights Issue is conditional upon the conditions precedent to the Acquisitions being fulfilled or waived. Accordingly, the Rights Issue will not become unconditional and complete if the Acquisitions do not proceed. However, the Acquisitions may still proceed if the Rights Issue is not completed as the Company can waive such condition precedent.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Pao Ping Wing, *JP*, Professor Yuen Ming Fai, Matthew and Ms. Tse Mei Ha, has been established to advise the Independent Shareholders on the Rights Issue and the Acquisitions. We, Hercules Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in connection with the Rights Issue and the Acquisitions, in particular as to whether the terms of the Rights Issue and the Acquisitions are fair and reasonable and on normal commercial terms so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

2. BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have relied on the information and representations supplied, and the opinions expressed, by the Directors and management of the Company and have assumed that such information and statements, and representations made to us or referred to in the Circular are true, accurate and complete in all material respects as of the date hereof and will continue as such at the date of the SGM. The Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in the Circular. We have no reasons to suspect that any material information has been withheld by the Directors or management of the Company, or is misleading, untrue or inaccurate, and consider that they may be relied upon in formulating our opinion.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of the Group. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date.

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

3. INFORMATION OF THE GROUP

The Group started its shipbuilding business and structural steel engineering business well before the 90s' and in 1994 respectively but the former came into a halt in 1996 due to adverse market conditions and the latter was suspended when the scheme of arrangement of the Group was implemented in mid-2000 (details of the scheme of arrangement were set out in the Company's circular dated 1 March 2000). Subsequently, the Group resumed its structural steel engineering business in 2004 and commenced its engagement in vessel sales business in 2006. Currently, the principal activity of the Company is investment holding and the principal activities of its subsidiaries are sales of vessels, marine engineering and structural steel engineering business.

The consolidated financial information of the Group for the two years ended 31 July 2007 and the six months ended 31 January 2008 as extracted from Appendix I to the Circular is summarized as follows:

	For the six months ended 31 January		**For the year ended 31 July**	
	2008	**2007**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited)	(audited)	(audited)
Turnover				
– marine engineering	27,727	4,950	19,410	8,894
– structural steel engineering	521	4,323	4,751	3,595
– vessel sales	–	–	13,980	9,624
	28,248	9,273	38,141	22,113
Profit/(loss) from operation	1,641	884	(606)	(1,848)
Profit/(loss) before taxation	1,624	(756)	(4,291)	29,620
Net Profit/(loss) for the period/year	1,616	(756)	(4,341)	29,718

	As at 31 January	As at 31 July	
	2008	2007	2006
	HK$'000	*HK$'000*	*HK$'000*
	(unaudited)	(audited)	(audited)
Total assets	172,245	169,617	93,902
Total liabilities	(18,369)	(19,608)	(81,891)
Net assets	153,876	150,009	12,011

The turnover of the Group for the year ended 31 July 2007 was HK$38.1 million, representing an increase of 72.5% as compared to the previous year. The substantial increment was mainly attributable to the well performance in the marine engineering sector including shipbuilding and offshore engineering, which recorded an improvement of 118.2% over the last year and accounted for more than 50% of the total turnover of the Group for the year ended 31 July 2007. Due to the improved performance and better cost control, the loss from operations reduced by 67.2% from approximately HK$1.8 million in 2006 to HK$0.6 million in 2007. With the contribution of the gain on disposal of subsidiaries of approximately HK$38.1 million, the Group recorded a net profit of HK$29.6 million for the year ended 31 July 2006. In the absence of such non-recurring gain, a loss of HK$4.3 million was recorded for the year ended 31 July 2007.

Continued with the success in the previous financial year, the Group experienced a further expansion in its business during the six months ended 31 January 2008. The Group recorded a turnover of approximately HK$28.2 million for the six months ended 31 January 2008, representing a significant increase of more than 3 times of the turnover in the last corresponding period. The marine engineering section, particularly the offshore engineering projects, became the key driver for the growth of the Group for the review period. Its sales for the six months ended 31 January 2008 reached HK$27.7 million, which was 42.8% higher than the sales for the whole year of 2007. With the substantial rise in turnover, the Group recorded a profit from operations and net profit for the period of approximately HK$1.6 million.

As at 31 January 2008, the non-current assets of the Group amounted to approximately HK$34.3 million, of which approximately HK$33.4 million were property, plant and equipment, while the current assets of the Group amounted to approximately HK$138.0 million, which mainly consisted of inventories of HK$32.4 million, trade and other receivables of HK$21.3 million, amounts due from related companies of HK$13.5 million and cash and bank equivalents of approximately HK$69.4 million. The total liabilities of the Group amounted to HK$18.4 million, of which approximately HK$14.8 million were trade and other payables.

The Group has not conducted any fund raising exercise or issued any equity securities during the past twelve months immediately before the Latest Practicable Date.

4. THE ACQUISITIONS

On 1 August 2008, the Company entered into the Lead Ocean Agreement, the Net Excel Agreement and the Vessel Agreement with Harbour Front for the acquisitions of Lead Ocean, New Excel and ten vessels respectively, which are inter-conditional upon each other. The total consideration for the Acquisitions is HK$229,455,535.06, which will be satisfied by the net proceeds from the Rights Issue and the Harbour Front Finance.

I. Lead Ocean Agreement

(a) Overview

Pursuant to the Lead Ocean Agreement, the Company has conditionally agreed to acquire from Harbour Front the Lead Ocean Shares and the Lead Ocean Debts for a total cash consideration of HK$136,786,171.70, of which HK$36,000,911.59 and HK$100,785,260.11 are attributable to the Lead Ocean Shares and the Lead Ocean Debts respectively.

(b) Information on Lead Ocean

Lead Ocean is a private company incorporated in the BVI and is the holding company of Argos Engineering (International) Company Limited ("Argos") and Cochrane Enterprises Limited ("Cochrane"). Pursuant to a Dongguan Chunwah Engineering & Heavy Industry Co. Ltd. Joint-Venture Contract and the Dongguan Hingwah Shipbuilding Co. Ltd. Joint-Venture Contract both dated 18 October 1990 entered into between each of Argos and Cochrane respectively and Shatian Foreign Trade and Economic Development Company, Lead Ocean Group has established two PRC companies, namely 東莞振華建造工程有限公司 (Dongguan Chunwah Engineering & Heavy Industry Company Limited) ("Dongguan Chunwah") and 東莞興華造船工程有限公司 (Dongguan Hingwah Shipbuilding Company Limited), and obtained the allocation of the land use rights of certain collectively-owned land with a yard site area of approximately 154,000 square meter (the "Dongguan Yard") for a term of 50 years for manufacturing structural steel frames and fabrication of ships and other ancillary businesses.

The Dongguan Yard is situated along the bank of a branch of Dongjiang with deep water access channel. It has extensive steel fabrication and assembly capability and over 15 years of track record in completing major fabrication and assembly projects of bridges, buildings and structures in the PRC, Hong Kong and Macau. Dongguan Chunwah has obtained a licence to manufacture steel frames and products for both PRC internal sale and export business and necessary approvals to operate a pier in the yard for exporting its products directly from Dongguan.

The audited combined financial information of Lead Ocean Group for the three years ended 31 March 2008, extracted from the accountants' report on the Lead Ocean Group as set out in Appendix II to the Circular, is summarized as follows:

	For the year ended 31 March		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	1,734	–	–
Loss before taxation	(4,140)	(5,985)	(2,329)
Net loss for the year	(4,140)	(5,985)	(2,329)

	As at 31 March		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	131,625	120,527	43,674
Total liabilities	(98,331)	(92,114)	(27,555)
Net asset value	33,294	28,413	16,119

The turnover of Lead Ocean Group for the year ended 31 March 2008 represented rental income from sub-leasing of land of approximately HK$1.7 million. Lead Ocean Group recorded a net loss of approximately HK$4.1 million for the year ended 31 March 2008. The total assets of Lead Ocean Group as at 31 March 2008 comprised mainly property, plant and equipment of approximately HK$70.5 million and prepaid lease payments of approximately HK$60.0 million while the total liabilities comprised mainly amounts due to related companies of approximately HK$4.6 million, amount due to an immediate holding company of approximately HK$24.6 million and amount due to the ultimate holding company of approximately HK$68.1 million.

As stated in the "Letter from the Board", upon the implementation of the scheme of arrangement of the Group in the mid-2000, Argos and Cochrane were transferred by the Company to the scheme administrator as part of the concerned unencumbered assets. In 2005, the scheme administrator, the Company and Harbour Front entered into the memorandum of understanding outlining the global solution settling the outstanding issues of the scheme of arrangement of the Group. Subsequently, Harbour Front acquired Argos and Cochrane as part of the acquisition of the concerned unencumbered assets from the scheme administrator. Since then Harbour Front provides financial resources to these companies to resolve issues in relation to the Dongguan Yard, including paying the outstanding annual and licence fee and title fees, carrying out annual government licence audit and settling current liabilities of Argos and Cochrane. Significant improvements to the facilities of Dongguan Yard have also been made to meet the current needs for efficient production.

(c) Reasons for the acquisition of Lead Ocean

The principal activities of the Group are sale of vessels, marine engineering and structural steel engineering business.

As stated in the "Letter from the Board", the growth in global demand for oil has led to the continuous investment in oil exploration and production, which further boosted the demands in the shipbuilding, marine and offshore engineering sectors, especially the specialized buildings such as derricks and offshore support vessels. The ship repair and modification works in the regional market also have robust demand. In order to capture the increasing demands in the industry, the Group has carried out various upgrading works for its yard facilities in Singapore and Zhongshan, the PRC. The Group considers that the acquisition of Lead Ocean Group, which owns yard facilities in Dongguan, the PRC, could further strengthen the Group's capability and competitiveness in the shipbuilding, marine and offshore engineering market by combining and consolidating the mutually matching and critical mass effect between the existing and additional facilities.

Currently, the Group's combined production capacities of its yards in Zhongshan and Singapore are 4 to 6 units of 5,000 DWT class vessels and annual steel fabrication projects of up to 20,000 tones. It is expected that the production capacities of annual steel fabrication projects can increase to 40,000 tones after the integration of the Dongguan Yard facilities. In addition, as the Dongguan Yard has deep water access channel, it can construct vessels of up to 200 meters in length, oil rigs and semi-subs. By leveraging on the Dongguan Yard's extensive steel fabrication capability, low production cost and cheap supply of materials, the Group plans to construct and fabricate steel structures and vessel components in the PRC and then transport the fabricated components to the Singapore yard of the Group for assembly into complete product for sale. The Directors expect that with the promising prospect in the shipbuilding, marine and offshore engineering sectors, together with the anticipated increase in production capacities and synergies derived from integration of the yard facilities, the overall performance of the Group will improve.

According to the World Shipyard Monitor published by Clarkson Research Services Limited in June 2008, the worldwide total order book for all types of vessels were approximately 508.6 million deadweight tones in the year of 2007, representing an annual growth rate of 50.2%, which was 24.3% higher than the growth rate of 40.4% in 2006. The PRC, being one of the three major players in the world's shipbuilding industry in terms of order book, accounted for approximately 35% of the global shipbuilding orders in 2007. With reference to the "Medium and long term development plan for the PRC's shipbuilding industry between 2006 and 2015" co-published by the National Development and Reform Commission and the Commission of Science, Technology and Industry for National Defense, the PRC is expected to become the world's major shipbuilding country by 2015.

Due to the stagnant growth in the global economy, the growth in new order for shipbuilding slowed down in the first half of 2008. According to the latest statistics issued by Clarkson Research Services Limited, the global new order book for the six months ended 30 June 2008 amounted to approximately 86.1 million deadweight tones only, representing a decrease of 30.1% as compared to the last corresponding period of 123 million deadweight tones. Despite a lower growth rate is predicted in 2008, the market maintains a positive view on the development of the global shipbuilding industry. Clarkson Research Services Limited estimated that the global new order book will reach 172 million deadweight tones for the year ended 31 December 2008.

In view of the above, the Directors expect and we concur with its view that, in the absence of any unforeseeable adverse factors that may have a substantial negative impact on the global economy, the demand for marine engineering services such as shipbuilding, ship repairing and related services will continue to increase and the market outlook of the shipbuilding industry, particularly in the PRC shall remain positive in the foreseeable future.

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

(d) Consideration for the acquisition of Lead Ocean

The consideration for the acquisition is HK$136,786,171.70, of which approximately HK$36,000,911.59 and HK$100,785,260.11 are attributable to the Lead Ocean Shares and the Lead Ocean Debts respectively. The consideration was determined after arm's length negotiation between Harbour Front and the Company with reference to (i) the net asset value of Lead Ocean Group of approximately HK$26,000,911.50 and the book value of the Lead Ocean Debts of approximately HK$100,785,260.11 as at 31 March 2008; and (ii) the licence and approval obtained by Dongguan Chunwah to manufacture steel frame and products for both PRC internal sale and export business. The consideration shall be paid by the Company to Harbour Front in cash at completion of the Lead Ocean Agreement.

In the event that the audited net asset value of Lead Ocean Group as at 31 July 2008 or an agreed date being not more than three months before completion of the Lead Ocean Agreement, whichever the later, is less than HK$26,000,911.59, the portion of consideration payable under the Lead Ocean Agreement attributable to the Lead Ocean Shares is subject to pro tanto downward adjustment.

In the event that the Lead Ocean Debt as at 31 July 2008 or an agreed date being not more than three months before completion of the Lead Ocean Agreement, whichever the later, is less than HK$100,785,260.11, the portion of consideration payable under the Lead Ocean Agreement attributable to the Lead Ocean Debts is also subject to pro tanto downward adjustment.

Since the Lead Ocean Debt is an interest-free debt without any option right, the fair value of it should be fairly reflected by its face value. Therefore, we consider that the consideration for the Lead Ocean Debt, which will be equivalent to the face value of the Lead Ocean Debt as at 31 July 2008 or an agreed date being not more than three months before completion of the Lead Ocean Agreement, whichever is later, is fair and reasonable.

In forming our opinion on the consideration for the Lead Ocean Shares, we have considered the following comparable approaches, namely price-to-earnings approach, dividends approach and net assets approach, which are commonly adopted in evaluation of a company.

Price-to-earnings Approach

As Lead Ocean Group recorded net loss for the year ended 31 March 2008, we consider that the price-to-earnings approach is not applicable for assessing the value of Lead Ocean Group.

Dividends Approach

Lead Ocean did not declare any dividend to its shareholders during the three years ended 31 March 2008. As such, there is no basis to assess the consideration of the Lead Ocean Shares based on historical dividend yield of Lead Ocean, and the dividends approach would not be applicable.

Net Assets Approach

Based on the audited financial statements of Lead Ocean, the combined net asset value of Lead Ocean as at 31 March 2008 amounted to approximately HK$33,294,000. Accordingly, the price-to-book ratio (PBR) of Lead Ocean implied by the consideration of the Lead Ocean Shares of HK$36,000,911.59 is approximately 1.08 times.

We have, to our best knowledge, reviewed the PBR of eighteen companies listed in Asia-Pacific (the “Lead Ocean Comparables”), whose businesses include shipbuilding operations as at the Latest Practicable Date, as valuation benchmarks and set out in Table 1 below. In the absence of any public information on private companies which carry similar businesses as Lead Ocean, we consider the Lead Ocean Comparables running sufficiently similar businesses as Lead Ocean for the purpose of our analysis.

Table 1 – Trading multiples of the Lead Ocean Comparables

Company name (stock code)	**Place of listing**	**Principal business activities**	**PBR as at the Latest Practicable Date** *Times*
ABG Shipyard Limited (ABGSHIP)	India	Build and repair a variety of ships for commercial & government customers and manufacture of marine ships	3.14
Asian Marine Services Public Company Limited (ASIMAR)	Thailand	Ship-repairing and shipbuilding, engineering construction and operation of warehouse and port	0.91
ASL Marine Holdings Limited (A04)	Singapore	Shipbuilding, ship-repairing, ship-chartering and other marine related services	2.00
Austal Limited (ASB)	Australia	Design and manufacture of high performance vessels	2.18
Bharati Shipyard Limited (BHARSHIP)	India	Design and construction of sea going, coastal, harbour, inland crafts and vessels	3.38
Boustead Heavy Industries Corporation Berhad (BHIC)	Malaysia	Shipbuilding, ship-repairing, oil and gas fabrication, hook up and commissioning and fabrication of steel structures	4.63
China State Shipbuilding Corporation (600150)	China	Design, manufacture, installation and sale of vessels, marine diesel engine, construction machineries, metallurgy equipment, set equipment, iron casting parts and equipment parts and producing various steel casting for vessels	4.06
Daewoo Shipbuilding & Marine Engineering Company Limited (042660)	Korea	Manufacture and build of marine transportation vessels	3.85

Company name (stock code)	Place of listing	Principal business activities	PBR as at the Latest Practicable Date *Times*
Guangzhou Shipyard International Company Limited (317)	Hong Kong	Shipbuilding and manufacture and trading of steel structures	2.52
Hyundai Heavy Industries Company Limited (009540)	Korea	Build, manufacture and construct of steel ships, offshore structures, industrial plant projects, marine diesel engine, electrical and machinery equipment and industrial vehicles	2.90
Hyundai Mipo Dockyard Company Limited (010620)	Korea	Manufacture of vessels, repair and conversion of ships	1.01
Mitsui Engineering & Shipbuilding Company Limited (7003)	Japan	Shipbuilding and manufacture of machinery	1.05
Namura Shipbuilding Company Limited (7014)	Japan	Manufacture and sell ships and stills	0.59
Samsung Heavy Industries Company (010140)	Korea	Manufacture and construct of vessels, steel and bridge structures and civil engineering	4.00
Sembcorp Marine Limited (S51)	Singapore	Shipbuilding, ship-repairing, ship conversion, rig building and offshore engineering solutions	4.61
SSTX Shipbuilding Company Limited (067250)	Korea	Building steel ship	2.17
Yangzijiang Shipbuilding (Holdings) Limited (BS6)	Singapore	Construction of vessels for customers in the shipping industry	2.24

Company name (stock code)	Place of listing	Principal business activities	PBR as at the Latest Practicable Date
			Times
The Company (620)	Hong Kong	Provision of marine engineering, ship management services, engineering works, sales of vessels and investment holding	1.11
Maximum			**4.63**
Minimum			**0.59**
Average			**2.58**
Lead Ocean		**Shipbuilding and structural steel production yard in the PRC**	**1.08**

Source: ThomsonONEBanker

As shown in Table 1, the PBR of the Lead Ocean Comparables ranged from approximately 0.59 times to 4.63 times, with an average of approximately 2.58 times. The implied PBR of Lead Ocean Shares of approximately 1.08 times falls within the range of the PBR of the Lead Ocean Comparables and it is lower than the average of the Lead Ocean Comparables of 2.58 times.

Based on the above, we consider the consideration for the Lead Ocean Shares is fair and reasonable to the Company and the Independent Shareholders as a whole and on normal commercial terms.

II. Net Excel Agreement

(a) Overview

Pursuant to the Net Excel Agreement, the Company has conditionally agreed to acquire from Harbour Front the Net Excel Shares and Net Excel Debts for a total cash consideration of HK$70,869,363.36, of which HK$70,564,363.36 and HK$305,000 are attributable to the Net Excel Shares and Net Excel Debts respectively.

(b) Information on Net Excel

Net Excel is a private company incorporated in the British Virgin Islands and is the holding company of Tonic Engineering & Construction Company Limited ("Tonic") and Gitanes Engineering Company Limited ("Gitanes"), which owns a subsidiary, namely 廣東積達工程有限公司 (Guangdong Gitanes Engineering Co., Limited) in the PRC. Tonic and Gitanes hold Hong Kong public works Group B (confirmed) and Group C (probationary) licences for port works engineering and construction respectively while Guangdong Gitanes Engineering Co., Limited has a licence for port works engineering and construction in the PRC.

The audited combined financial information of Net Excel Group for the three years ended 31 March 2008, extracted from the accountants' report on the Net Excel Group as set out in Appendix III to the Circular, is summarized as follows:

	For the year ended 31 March		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	13,052	2,431	–
Profit (loss) before taxation	3,168	385	(477)
Net profit (loss) for the year	3,168	385	(477)

	As at 31 March		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	55,422	32,811	30,257
Total liabilities	(5,262)	(7,082)	(4,821)
Net asset value	50,160	25,729	25,436

The turnover of Net Excel Group was mainly derived from the civil engineering projects performed in Hong Kong. The turnover of Net Excel Group for the year ended 31 March 2008 was approximately HK$13.1 million, representing an increase of over 5.3 times over the previous year. The gross profit and the net profit for the year ended 31 March 2008 were HK$3.5 million and HK$3.2 million respectively. The total assets of Net Excel Group as at 31 March 2008 was approximately HK$55.4 million, which consisted mainly property, plant and equipment of approximately HK$29.4 million, other receivables of approximately HK$4.2 million and amount due from the ultimate holding company of approximately HK$18.9 million. The total liabilities of Net Excel Group as at 31 March 2008 was approximately HK$5.3 million, which included other payables of approximately HK$5.0 million.

As stated in the "Letter from the Board", upon the implementation of the scheme of arrangement of the Group in the mid-2000, the shareholding of the Group in Tonic and Gitanes were transferred by the Group to the scheme administrator as part of the concerned unencumbered assets. In 2005, the scheme administrator, the Company and Harbour Front entered into the memorandum of understanding outlining the global solution settling the outstanding issues of the scheme of arrangement of the Group. Subsequently, Harbour Front acquired the concerned shareholding in Tonic and Gitanes as part of the acquisition of the concerned unencumbered assets from the scheme administrator and the remaining shareholding from the then shareholders of Tonic and Gitanes. Since then Harbour Front provides financial resources to these companies to maintain the port works licence, provide necessary additional capital and to carry out the PRC annual government licence audit.

(c) Reasons for the acquisition of Net Excel

As advised by the management of the Company, one of the major activities of the Group before the implementation of the scheme of arrangement in 2000 was participation as the main contractor for port works in Hong Kong. However, due to the limitation on capital resources, the port works operation of the Group had been suspended during the period from 2000 to 2007. In mid-2007, with the enhanced capital base, the Group succeeded in securing the sub-contracting works for several large-scale port works projects, including the submarine pipelines for Permanent Aviation Fuel Facilities for the Hong Kong International Airport in Chek Lap Kok. The Directors considered that the 10-large scale infrastructure projects to be pushed ahead by the Hong Kong government in the coming years shall create great business opportunities for the main contractors in Hong Kong and the obtaining of the public works licences through the acquisition of Net Excel Group will facilitate the Group in re-entering the potential lucrative main contractor market for port works in Hong Kong.

In view of the continuous commitment by the governments of the PRC and Hong Kong to improve the existing arrangement under the Mainland and Hong Kong Closer Economic Partnership Arrangement, the Directors also consider that Guangdong Gitanes Engineering Co., Limited can serve as a solid platform for the Group to access the PRC market for a sustainable growth of its port works business in the long run.

Having considered (i) the business nature of the Group; (ii) the fact that the acquisition of Net Excel presents an opportunity for the Group to re-access the main contractor market for port works in Hong Kong; (iii) the business opportunities for the port works business in the PRC through Guangdong Gitanes Engineering Co., Limited; and (iv) the potential synergistic value for the business development of the Group, we are of the view that the acquisition of Net Excel is in line with the Company's principal business and the Net Excel Agreement is on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

(d) Consideration for the acquisition of Net Excel

The consideration for the acquisition is HK$70,869,363.36, of which approximately HK$70,564,363.36 and HK$305,000 are attributable to the Net Excel Shares and the Net Excel Debts respectively. The consideration was determined after arm's length negotiation between Harbour Front and the Company with reference to (i) the net asset value of Net Excel Group of approximately HK$51,898,778.75 and the book value of the Net Excel Debts of approximately HK$305,000 as at 31 March 2008; and (ii) the licences obtained by the subsidiaries of Net Excel for port works engineering and construction in Hong Kong and the PRC. The consideration shall be paid by the Company to Harbour Front in cash at completion of the Net Excel Agreement.

In the event that the audited net asset value of Net Excel Group as at 31 July 2008 or an agreed date being not more than three months before completion of the Net Excel Agreement, whichever the later, is less than HK$51,898,778.75, the portion of consideration payable under the Net Excel Agreement attributable to the Net Excel Shares is subject to pro tanto downward adjustments.

In the event that the Net Excel Debt as at 31 July 2008 or an agreed date being not more than three months before completion of the Net Excel Agreement, whichever the later, is less than HK$305,000, the portion of consideration payable under the Net Excel Agreement attributable to the Net Excel Debts is also subject to pro tanto downward adjustment.

Since the Net Excel Debts are interest-free debts without any option right, the fair value of them should be fairly reflected by their face value. Therefore, we consider that the consideration for the Net Excel Debts, which will be equivalent to the face value of the Net Excel Debts as at 31 July 2008 or an agreed date being not more than three months before completion of the Net Excel Agreement, whichever is later, is fair and reasonable.

In forming our opinion on the consideration for the Net Excel Shares, we have considered the following comparable approaches, namely price-to-earnings approach, dividends approach and net assets approach, which are commonly adopted in evaluation of a company.

Price-to-earnings Approach

As Net Excel Group is operating an asset-based business, we consider that the price-to-earnings approach is not applicable for assessing the value of Net Excel Group.

Dividends Approach

Net Excel did not declare any dividend to its shareholders during the three years ended 31 March 2008. As such, there is no basis to assess the consideration of the Net Excel Shares based on historical dividend yield of Net Excel, and the dividends approach would not be applicable.

Net Assets Approach

Based on the audited financial statements of Net Excel, the combined net asset value of Net Excel as at 31 March 2008 amounted to approximately HK$50,160,000. Accordingly, the PBR of Net Excel implied by the consideration of HK$70,564,363.36 is approximately 1.41 times.

We have, to our best knowledge, reviewed the PBR of four companies listed in Asia-Pacific (the "Net Excel Comparables"), whose businesses include marine engineering operations as at the Latest Practicable Date, as valuation benchmarks and set out in Table 2 below. In the absence of any public information on private companies which carry similar businesses as Net Excel, we consider the Net Excel Comparables running sufficiently similar businesses as Net Excel for the purpose of our analysis.

Table 2 – Trading multiples of the Net Excel Comparables

Company name (stock code)	**Place of listing**	**Principal business activities**	**PBR as at the Latest Practicable Date** *Times*
Asian Marine Services Public Company Limited (ASIMAR)	Thailand	Ship-repairing and shipbuilding, engineering construction and operation of warehouse and port	0.91
Samsung Heavy Industries Company (010140)	Korea	Manufacture and construct of vessels, steel and bridge structures and civil engineering	4.00
Sembcorp Marine Limited (S51)	Singapore	Shipbuilding, ship-repairing, ship conversion, rig building and offshore engineering solutions	4.61
The Company (620)	Hong Kong	Provision of marine engineering, ship management services, engineering works, sales of vessels and investment holding	1.11
Maximum			**4.61**
Minimum			**0.91**
Average			**2.66**
Net Excel		**Marine engineering and construction**	**1.41**

Source: ThomsonONEBanker

As shown in Table 2, the PBR of the Net Excel Comparables ranged from approximately 0.91 times to 4.61 times, with an average of approximately 2.66 times. The implied PBR of Net Excel of approximately 1.41 times falls within the range of the PBR of the Net Excel Comparables and it is significantly lower than the average of the Net Excel Comparables of 2.66 times.

Based on the above, we consider that the consideration for the Net Excel Shares is fair and reasonable to the Company and the Independent Shareholders as a whole and on normal commercial terms.

III. Vessel Agreement

(a) Overview

Pursuant to the Vessel Agreement, the Company has conditionally agreed to acquire ten vessels from Harbour Front for a total cash consideration of HK$21,800,000. The ten vessels agreed to be sold under the Vessel Agreement are held by the group of companies controlled by Harbour Front and will be sold by Harbour Front as beneficial owner and authorised agent of the registered owner (i.e. these vessels are registered under the names of other parties but beneficially owned by Harbour Front). Pursuant to the Vessel Agreement, all title documents shall be properly executed to ensure legally effective transfers upon completion of the Vessel Agreement.

(b) Information on the vessels

The ten vessels are crafts and vessels for marine construction works, general marine transportation and engineering supporting services. The original purchase cost of the ten vessels was approximately HK$20 million while the market value of the ten vessels as at 31 July 2008 amounted to approximately HK$21.8 million, based on a valuation with open market value for continued existing use conducted by an independent valuer.

(c) Reasons for the acquisition of the ten vessels

The Group intends to acquire the ten unencumbered vessels for sale after reconditioning so as to further expand its operation in the supply of reconditioned second-hand marine engineering vessels. In the event that the vessels are not sold, the vessels could be used for the marine engineering construction operation of the Group subject to the marine engineering construction market conditions and licensing repair works to be carried out.

We have been advised by the management of the Company that the Group sold various similar vessels, including pug boat and flat top barge, to customers during the year ended 31 July 2007 and has received considerable orders for the supply of various kinds of reconditioned second-hand marine engineering vessels.

As shown in the "Letter from the Board", the acquisition of the ten vessels shall also provide the Group with a broadened base of resources to normalise and expand its existing principal businesses, in particular the marine construction engineering business. Furthermore, the acquisition of the ten vessels will enable the Group to maintain a complete fleet of vessels for general marine engineering operation in line with its development of business for port works engineering and construction.

In our discussion with the management of the Company, we understand that the Group is actively pursuing marketing and tendering work in order to secure orders and contracts for marine construction works in both Hong Kong and adjacent areas such as Macau and Guangdong Province. We also understand from the Company and the valuer that in the event the vessels are not sold or used in the Group's operations, the components of the vessels could also be dismantled for component sale or used for reconditioning of other vessels and the vessels could be leased out for project works.

In view of the above, and having considered the business nature of the Group, we are of the view that the transactions contemplated by the Vessel Agreement are in line with the Group's principal business and the Vessel Agreement is on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

(d) Consideration for the acquisition of the ten vessels

The aggregate consideration of the ten vessels is HK$21.8 million and was arrived at after arm's length negotiation between the Company and Harbour Front on normal commercial terms, by reference to the prevailing market price and the valuation of the ten vessels of HK$21.8 million as at 31 July 2008, valued by an independent valuer.

Harbour Front and the Company has jointly instructed a valuer to carry out a valuation of the ten vessels as at 31 July 2008 or at a date not being not earlier than three months prior to completion of the Vessel Agreement, whichever the later. The consideration payable under the Vessel Agreement is subject to pro tanto downward adjustments if the aggregate value of the ten vessels is less than HK$21.8 million. The consideration of the ten vessels shall be payable in cash by the Company to Harbour Front at the completion of the Vessel Agreement.

To assess the fairness and reasonableness of the consideration of the ten vessels, we have reviewed the valuation report of the ten vessels as set out in Appendix VII to the Circular.

As stated in the valuation report prepared by Win Well Engineering & Surveyors Limited (the "Valuer"), an independent third party not connected with the Group and Harbour Front, the open market value of the ten vessels was approximately HK$21.8 million as at 31 July 2008, which was the same as the consideration of the ten vessels.

We have discussed with the Valuer and reviewed the methodology, bases, considerations and key assumptions employed in the valuation and noted that "open market value for continued existing use" basis was used by the Valuer to arrive at the open market value estimates for the ten vessels by using the depreciation replacement cost approach and the market data approach. The former considers the cost to reproduce or replace in new condition the vessels in accordance with current market prices for similar vessels, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence present (physical, functional or economic), taking into consideration past and present maintenance policy and rebuilding history. The latter considers prices recently paid for similar vessels, with adjustments made to the indicated market price to reflect condition and utility of the vessels relative to the market comparative. We also understand from the Valuer that given the particulars of the ten vessels, the "open market value for continued existing use" basis is a common valuation method in arriving at the valuation and the methodology applied is consistent with market practice. Given the valuation methodology applied by the Valuer is normal and usual among professional asset valuers, we are of the opinion that the basis for determining the valuation of the ten vessels by the Valuer is appropriate and fair and reasonable and the basis for determining the consideration of the ten vessels is also fair and reasonable so far as the Company and its Independent Shareholders are concerned.

IV. Financial effects of the Acquisitions

(a) Earnings

As Lead Ocean Group and Net Excel Group will become wholly-owned subsidiaries of the Company after the completion of the Acquisitions, the results of Lead Ocean Group and Net Excel Group will be consolidated into the financial statements of the Group. The loss of the Resultant Group shall increase from HK$4.3 million to HK$5.3 million if the Acquisitions had been completed on 1 August 2006.

(b) Net Asset Value

As stated in the "Letter from the Board", in the event that Harbour Front waives the condition precedent of the Rights Issue becoming unconditional and being completed in accordance with the terms of the Underwriting Agreement, the amount of facility granted by Harbour Front to the Company shall be equal to the total consideration for the Acquisitions. If the Rights Issue does not proceed, the net asset value of the Resultant Group would remain at HK$150.0 million had the Acquisitions been completed on 31 July 2007.

(c) Cash Position

The total consideration of the Acquisitions of HK$229,455,535.06 is to be satisfied in cash. It is the intention of the Company to fund such cash payment wholly by the Harbour Front Finance if the Rights Issue does not proceed. The cash and bank balances of the Resultant Group shall increase from HK$83.6 million to HK$85.1 million if the Acquisitions had been completed on 31 July 2007 without carrying out the Rights Issue.

(d) Gearing

Taking into consideration of the increase in total assets of the Group resulted from the Acquisitions and the increase in total liabilities of the Group, the gearing of the Group, as expressed in the ratio of total liabilities to total assets, would have been increased from 0.12 to 0.61 after completion of the Acquisitions.

Concluding from the above, the Acquisitions will have a positive effect to the Group's cash position. On the other hand, earnings and gearing of the Group shall be adversely impacted if the Acquisitions are wholly financed by borrowings. As the adverse impact of the Acquisitions on the Group's leverage position would be significantly lessened if the Acquisitions are partially financed by the Rights Issue, we are of the view that the Acquisitions generally have a positive financial impact on the Group.

V. Conclusion for the Acquisitions

Having considered the abovementioned principal factors and reasons, we consider that the Acquisitions are conducted in the ordinary and usual course of business of the Group and on normal commercial terms and the terms of which are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

5. THE RIGHTS ISSUE

In arriving at our opinion regarding the Rights Issue, we have considered the following principal factors and reasons:

(a) Reasons for the Rights Issue and proposed use of proceeds

The purpose of the Rights Issue is to finance the Acquisitions and to provide additional working capital to the Group. The Rights Issue is subject to completion of the Acquisitions and it will not become unconditional and complete if the Acquisitions do not proceed.

If all rights entitlements are taken up by the respective Shareholders, the net proceeds of the Rights Issue of approximately HK$172 million upon full subscription of the Rights Shares are intended to be used (i) as to approximately HK$93 million to finance the payment for the consideration of the Acquisitions; and (ii) as to the balance of approximately HK$79 million for general working capital purposes. If 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, the proceeds from the Rights Issue shall be used (i) as to approximately HK$159 million to finance the payment for the consideration of the Acquisitions; and (ii) as to the balance of approximately HK$13 million for general working capital purposes.

As stated in the "Letter from the Board", the Company had conducted a rights issue in February 2006 and July 2007 respectively. An aggregate net proceeds of approximately HK$217.7 million was raised, of which HK$63.4 million was applied for the payment of the consideration for various acquisitions and HK$80.0 million was applied for repayment of interim finance provided to the Group by Harbour Front as proposed in the prospectus of the Company dated 15 February 2006. HK$25.8 million was applied as general working capital of the Group while the remaining HK$48.5 million, which is also intended to be used as general working capital of the Group, has not been utilized as at the Latest Practicable Date.

Taking into account the business development plan and funding needs of the Group, the Directors consider that it is necessary for the Group to raise additional capital to further strengthen its capital base for its corporate and business development. We were advised that apart from the Rights Issue, the Company has considered and attempted to obtain other ways of fund raising such as bank borrowings, share placement and issue of convertible securities. However, given the record of the previous scheme of arrangement of the Group and the recent tight credit market, the preliminary responses to the abovementioned fund raising activities were not satisfactory. The Directors are also of the view that bank borrowings may impose pressure on the Group's financial position and therefore it will be in the interest of the Company to raise equity capital so as to strengthen its capital base. On the other hand, placing of new Shares and issue of convertible securities would result in excessive dilution of shareholdings and value to the Shareholders. Given the above reasons, we concur with the view of the Directors that the Rights Issue is one of the very few if not the only available option for the Group to obtain the required funding. Moreover, the Rights Issue will be effected on a pro-rata basis, the Rights Issue offers all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company without diluting their corresponding shareholdings and to participate in the long-term growth of the Company at a price generally lower than the past 12 month market level from August 2007 to July 2008. Meanwhile, the Qualifying Shareholders who do not take up their entitlements in full are also given the opportunity to realize their nil-paid Rights Shares for monetary reward by trading them in the market. On this basis, we consider the Rights Issue is fair and reasonable and on normal commercial terms so far as the Independent Shareholders are concerned and it is in the interests of the Company and the Independent Shareholders as a whole despite two rights issues were conducted by the Company in prior years.

(b) Principal terms of the Rights Issue

(i) Issue Statistics

Basis of the Rights Issue:	one Rights Share for every one existing Share held on the Record Date
Number of existing Shares in issue:	5,045,033,739 Shares as at the Latest Practicable Date

Number of Rights Shares:	5,045,033,739 Rights Shares
Subscription price per Rights Share:	HK$0.035 per Rights Share

The nil-paid Rights Shares proposed to be provisionally allotted pursuant to the terms of the Rights Issue represents 100% of the Company's existing issued share capital and 50% of the Company's issued share capital as enlarged by the issue of the Rights Shares.

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

The Rights Issue is conditional upon, inter alia, the Underwriting Agreement becoming unconditional and not being terminated by Taifook (on behalf of the Underwriters) in accordance with its terms. In addition, the Rights Issue will not become unconditional and complete if the Acquisitions do not proceed.

(ii) Subscription Price

The Subscription Price represents:

(i) a premium of approximately 2.94% over the closing price of HK$0.034 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a discount of approximately 10.26% to the closing price of HK$0.039 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a discount of approximately 12.94% to the average closing price of HK$0.0402 per Share for the five consecutive trading days up to and including the Last Trading Day;

(iv) a discount of approximately 14.84% to the average closing price of HK$0.0411 per Share for the ten consecutive trading days up to and including the Last Trading Day;

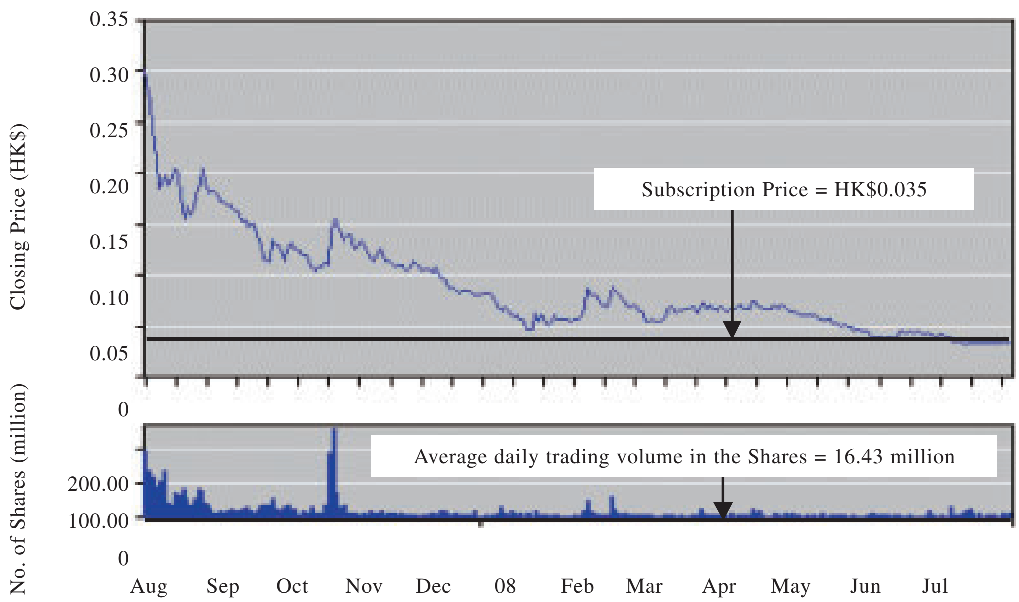
(v) a discount of approximately 5.41% to the theoretical ex-rights price of approximately HK$0.037 per Share based on the closing price as quoted on the Stock Exchange on the Last Trading Day; and

(vi) a premium of approximately 16.67% over the audited consolidated net tangible asset value of approximately HK$0.030 per Share as at 31 July 2007.

According to the Directors, the Subscription Price was arrived at after arm's length negotiations between the Company and the Underwriters with reference to the market price of the Shares in the seven consecutive months from January 2008 to July 2008 and under prevailing market conditions.

In order to assess the fairness and reasonableness of the Subscription Price, we have reviewed the movements in trading price of the Shares during the period from 31 July 2007, being 12 months immediately preceding the Last Trading Day, to the Latest Practicable Date (the "Review Period").

Chart 1 – Closing prices and trading volume of the Shares during the Review Period



Source: Datastream

As illustrated in the above chart, the Shares were traded above the Subscription Price almost throughout the Review Period. The closing price of the Shares was at the highest level of HK$0.300 on 31 July 2007 and gradually decreased to HK$0.104 on 17 October 2007 and rebounded to HK$0.156 on 25 October 2007. Since then, the trading price of the Shares decreased steadily in line with the Hang Seng Index to the short-term lowest level of HK$0.048 during 22-24 January 2008. Subsequently, the closing price of the Shares rebounded to HK$0.062 on 25 January 2008 and further rose to the short-term highest level of HK$0.089 on 29 February 2008. Since then, the closing price of the Shares reduced steadily to the lowest level of HK$0.037 on 3 July 2008 and then fluctuated in the range of HK$0.037 and HK$0.046 and was HK$0.039 on the Last Trading Day. After the publication of the announcement regarding the Rights Issue (the "Announcement") on 1 August 2008, the closing price of the Shares decreased further to HK$0.035 on 4 August 2008 and was HK$0.034 on the Latest Practicable Date. We were informed by the Directors that they were not aware of any conclusive reason for the fluctuations in the trading price of the Shares throughout the Review Period except the change in general market sentiment in the Hong Kong stock market.

We also noted that the average daily trading volume in the Shares during the Review Period was 16,429,238 Shares, which represents only approximately 0.33% of the entire issued share capital of the Company as at the Latest Practicable Date. The low percentage demonstrated that the liquidity of the Shares under the Review Period is very thin.

Based on the information available from the Stock Exchange's website, we have reviewed, so far as we are aware, all the rights issues announced by the companies listed on the main board or GEM of the Stock Exchange (the "Rights Issue Comparables") during the period from 1 February 2008 to the Last Trading Day for comparison purposes. We noted that the principal businesses of the Rights Issue Comparable are not directly comparable to those carried on by the Company. However, we consider that an industry comparison would not be relevant as terms of rights issue are generally determined by reference to, inter alia, market condition, share price, financial condition, size of fund raised and are specific to each company. Details of the trading statistics of the Rights Issue Comparables are summarized in Table 3 below:

Table 3 – Trading statistics of the Rights Issue Comparables

			Premium/(discount) of subscription price over/(to)			
Company name (stock code)	Date of announcement (DD/MM/YYYY)	Basis of entitlement	the closing price on the last trading day	the theoretical ex-rights price	net asset value	Commission rate
			%	%	%	%
Golife Concepts Holdings Limited (8172)	04/02/2008	4 for 5	(5.00)	(3.39)	185.00	2.00
Harbour Centre Development Limited (51)	05/02/2008	1 for 2	(21.50)	(15.40)	(20.50)	1.25
eSun Holdings Limited (571)	07/03/2008	1 for 2	(29.18)	(21.63)	(51.55)	N/A *(Note 1)*
Shun Cheong Holdings Limited (650)	08/04/2008	3 for 2	(64.03)	(41.59)	4.07	2.00
Midas International Holdings Limited (1172)	29/04/2008	1 for 2	(37.50)	(28.57)	(71.60)	2.50
Hong Kong Chinese Limited (655)	17/05/2008	7 for 20	(32.00)	(22.00)	(71.00)	2.50
Lippo Limited (226)	17/05/2008	1 for 4	(28.00)	(21.00)	(65.00)	1.50
Wing On Travel (Holdings) Limited (1189)	20/05/2008	4 for 1	(71.80)	(33.80)	(95.70)	2.50

Company name (stock code)	Date of announcement (DD/MM/YYYY)	Basis of entitlement	Premium/(discount) of subscription price over/(to) the closing price on the last trading day	the theoretical ex-rights price	net asset value	Commission rate
			%	%	%	%
Citic Resources Holdings Limited (1205)	30/05/2008	3 for 20	(27.77)	(25.06)	170.25	0.00
Sino Katalytics Investment Corporation (2324)	03/06/2008	1 for 2	(27.54)	(20.21)	(68.33)	2.50
ITC Properties Group Limited (199)	06/06/2008	3 for 1	(62.80)	(29.60)	(88.50)	2.50
Mascottee Holdings Limited (136)	13/06/2008	1 for 2	(52.38)	(42.31)	2.70	2.50
Green Global Resources Limited (61)	17/06/2008	1 for 1	(30.30)	(18.20)	(15.86)	2.50
Willie International Holdings Limited (273)	19/06/2008	5 for 2	(63.86)	(33.63)	23.60	2.50
Guangzhou Shipyard International Company Limited (317)	30/06/2008	3 for 10	N/A *(Note 2)*	N/A *(Note 2)*	N/A *(Note 2)*	N/A *(Note 1)*
Maximum			**(5.00)**	**(3.39)**	**185.00**	**2.50**
Minimum			**(71.80)**	**(42.31)**	**(95.70)**	**0.00**
Average			**(39.55)**	**(25.46)**	**(11.60)**	**2.10**
The Company (620)	**01/08/2008**	**1 for 1**	**(10.26)**	**(5.41)**	**16.67**	**2.50**

Source: the website of the Stock Exchange

Notes:

1. The commission rate of these companies was not mentioned in their respective announcement.

2. The subscription price, which is subject to the approval by China Securities and Regulatory Commission, has not been determined as at the date of the announcement.

We noted from Table 3 that all Rights Issue Comparables had set their subscription prices of their rights issues at a discount to the prevailing market prices of the relevant shares before the relevant announcement in respect of the rights issue was made. We consider, therefore, it is a normal market practice for companies to set their subscription prices at a discount to the prevailing market prices of the relevant shares to increase the attractiveness of a rights issue.

As illustrated in Table 3, the subscription prices of the Rights Issue Comparables were set at a range from discount of approximately 5.00% to 71.80% to their respective closing prices as quoted on the last trading day prior to the date of the relevant rights issue announcements. The discount of approximately of 10.26% of the Subscription Price to the closing price of the Shares on the Last Trading Day falls within the range of those of the Rights issue Comparables although it is lower than the average discount of the Rights Issue Comparables of approximately 39.55%.

The subscription prices of the Rights Issue Comparables represent a range from discount of approximately 3.39% to 42.31% to their respective theoretical ex-rights prices as quoted on the last trading day prior to the date of the relevant right issue announcements. The discount of approximately of 5.41% of the Subscription Price to the theoretical ex-rights prices of the Shares on the Last Trading Day falls within the range of those of the Rights Issue Comparables although it is lower than the average discount of the Rights Issue Comparables of approximately 25.46%.

The subscription prices of the Rights Issue Comparables ranged from a discount of approximately 95.70% to a premium of approximately 185.00% over their respective net asset value per share. The premium of approximately of 16.67% of the Subscription Price to the net asset value per Share falls within the range of those of the Rights Issue Comparables and it is higher than the average discount of the Rights Issue Comparables of approximately 11.60%.

Based on the above analysis and the facts that (i) the Shares were traded above the Subscription Price almost throughout the Review Period; (ii) the liquidity in trading of the Shares was thin under the Review Period; and (iii) the discount of Subscription Price to the closing price on the Last Trading Day and to the theoretical ex-rights price and the premium of Subscription Price over the net asset value was within the range of the Rights Issue Comparables, we consider that the Subscription Price is on normal commercial term and is fair and reasonable so far as the Independent Shareholders are concerned.

(iii) Application for excess Rights Shares

As stated in the "Letter from the Board", Qualifying Shareholders are entitled to apply for any unsold entitlements of the Excluded Shareholders, any unsold Rights Shares created by adding together fractions of the Rights Shares and any nil-paid Rights Shares provisionally allotted but not accepted. The Directors will allocate the excess Rights Shares at their discretion on a fair and equitable basis, but will give preference to (1) topping-up odd lots to whole board lots of Shares; (2) the remaining applicants of the excess Rights Shares in proportion to their respective proportion, which is to be calculated with reference to the number of nil-paid Rights Shares provisionally allotted to a Qualifying Shareholder and the aggregate number of nil-paid Rights Shares provisionally allotted to all Qualifying Shareholders; and (3) remaining excess Rights Shares will be allocated to applicants in proportion to the excess Rights Shares applied.

Since the allocation basis adopted by the Company is the same as the previous rights issue of the Company and the shareholding of each Qualifying Shareholder, except for those who do not take up their rights entitlements under the provisional allotment and/or apply for excess Rights Shares, after the completion of the Rights Issue be largely maintained, we concur with the Directors that the allocation of the excess Rights Shares is fair and equitable so far as the Independent Shareholders are concerned.

(c) Underwriting arrangement

Pursuant to the Underwriting Agreement, in aggregate of 5,045,033,739 Rights Shares are to be underwritten by the Underwriters, in which 500,000,000 Rights Shares are to be underwritten by Taifook and 4,545,033,739 Rights Shares are to be underwritten by Harbour Front.

Subject to fulfillment of the conditions set out in the Underwriting Agreement, the Underwriters shall be entitled to an underwriting commission in amount equivalent to 2.5% 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) underwritten by the Underwriters. As at the Latest Practicable Date, Harbour Front Concert Parties held 2,722,753,320 Shares. As illustrated in Table 1, the underwriting commission of 2.5% to be charged by the Underwriters under the Underwriting Agreement is within the range of the Rights Issue Comparables of nil to 2.5% although it is slightly higher than the average underwriting commissions paid by the Rights Issue Comparable of 2.1%. In view of the above, we are of the view that the underwriting commission rate of 2.5% is under normal commercial terms and is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

It should be noted that the Rights Issue will not proceed if Taifook (on behalf of the Underwriters) exercise its termination rights under the Underwriting Agreement. Details of the provisions granting Taifook (on behalf of the Underwriters) such termination rights are included in the "Letter from the Board". We have reviewed the announcement of the Rights Issue Comparables and consider the termination rights given to the Underwriters under the Underwriting Agreement are on normal commercial terms and in line with the market practice.

(d) Dilution effect of the Rights Issue on shareholding interests

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

For those Qualifying Shareholders who do not subscribe for their full entitlements under the Rights Issue, depending on the extent to which they subscribe for the Rights Shares, their shareholding interests in the Company upon completion of the Rights Issue will be diluted by up to a maximum of 50%. However, such Shareholders will have the opportunity to realize their nil-paid rights to subscribe for the Rights Shares in the market during the dealing of nil-paid Rights Shares on the Stock Exchange in board lots of 40,000, subject to the then prevailing market conditions. Meanwhile, the Qualifying Shareholders who wish to increase their shareholdings in the Company through the Rights Issue may, subject to availability, acquire additional nil-paid Rights Shares in the market or apply for excess Rights Shares.

We would like to draw the Independent Shareholders' attention to the fact that, in case all the Qualifying Shareholders (other that the Underwriters) decide not to take up the provisional allotments of the Rights Issue and the Underwriters have taken up all the provisional allotments in their capacity as the Underwriters, the percentage of shareholding of the public Shareholders will be reduced from approximately 46.03% as at the Latest Practicable Date to 27.97%.

In conclusion, we are of the view that the arrangement for the Rights Issue is in line with the recent market practice for rights issue and the dilution effect is not prejudicial as all Qualifying Shareholders are offered an equal opportunity to participate in the enlargement of the capital base of the Company and Independent Shareholders' interests in the Company will not be diluted if they elect to exercise their full entitlements under the Rights Issue.

(e) Financial effects of the Acquisitions and the Rights Issue

The unaudited pro forma financial information on the Resultant Group as set out in Appendix IV to the Circular is summarized as follows:

	Before the Acquisitions and the Rights Issue	**After the Acquisitions and the Rights Issue**
Loss for the year	(HK$4,341,000)	(HK$5,313,000)
Net asset value	HK$150,009,000	HK$322,171,000
Cash and cash equivalent	HK$83,606,000	HK$98,127,000
Gearing ratio	0.12	0.27

(i) Earnings

As Lead Ocean Group and Net Excel Group will become wholly-owned subsidiaries of the Company after the completion of the Acquisitions, the results of Lead Ocean Group and Net Excel Group will be consolidated into the financial statements of the Group. Based on the unaudited pro forma combined income statement of the Resultant Group as set out in Appendix IV to the Circular, the loss of the Resultant Group shall increase from HK$4.3 million to HK$5.3 million if the Acquisitions and the Rights Issue had been completed on 1 August 2006.

(ii) Net Asset Value

Based on the unaudited pro forma combined balance sheet of the Resultant Group as set out in Appendix IV to the Circular, the net asset value of the Resultant Group as at 31 July 2007 shall increase from HK$150.0 million to HK$322.2 million if the Acquisitions and the Rights Issue had been completed on 31 July 2007.

(iii) Cashflow

The total consideration of the Acquisitions of HK$229,455,535.06 is to be satisfied in cash. It is the intention of the Company to fund such cash payment by the Rights Issue and Harbour Front Finance. Based on the unaudited pro forma combined cash flow statement of the Resultant Group as set out in Appendix IV to the Circular, the Group shall have a net cash inflow of approximately HK$14.5 million upon completion of the Acquisitions and the Rights Issue.

(iv) Gearing

Taking into consideration the increase in total assets of the Group resulted from the Acquisitions and the Rights Issue and the increase in total liabilities of the Group, the gearing of the Group, as expressed in the ratio of total liabilities to total assets, would have been increased from 0.12 to 0.27 after completion of the Acquisitions and the Rights Issue.

Based on the above, the Acquisitions and the Rights Issue will have a positive effect to the Group's net asset value and cash position and have a slightly negative effect to the Group's earnings and gearing. Having considered the aforementioned overall benefits which the Acquisitions and the Rights Issue would likely to bring to the Group, we consider the slightly adverse impact on the Group's earnings and leverage position of the Acquisitions and the Rights Issue is justifiable.

(f) Conclusion for the Rights Issue

In light of the above analysis, we consider that the Rights Issue are on normal commercial terms and the terms of which are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

6. RECOMMENDATION

Having considered the abovementioned principal factors and reasons, we consider that the Acquisitions are conducted in ordinary and usual course of business of the Group and the Rights Issue and the Acquisitions are on normal commercial terms and the terms of the Rights Issue and the Acquisitions are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, as well as the Independent Shareholders, to vote in favour of the resolutions to approve the Rights Issue and the Acquisitions at the SGM.

Yours faithfully,
For and on behalf of
Hercules Capital Limited

Louis Koo	**Amilia Tsang**
Managing Director	*Director*

1. FINANCIAL SUMMARY

Set out below is the summary of the financial information extracted from the relevant annual reports of the Company and the auditors' reports contained in the annual reports of the Company for the audited financial statements of the Group for the three years ended 31 July 2007. Please refer below to the qualifications as stated in the report of the auditors for the financial statements of the Group for the year ended 31 July 2005. There are no qualifications in the audited financial statements of the company for the two years ended 31 July 2007.

(i) Consolidated Income Statement

	Year ended 31 July		
	2007	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	38,141	22,113	11,093
Profit/(Loss) before taxation	(4,291)	29,620	(27,750)
Tax	(50)	98	279
Profit/(Loss) attributable to Shareholders	(4,341)	29,718	(27,471)
Dividends	0	0	0
Earning/(Loss) per Share	(HK$0.0010)	HK$0.0116	HK$(0.0200)
		(restated)	(restated)

Note: For each of the three years ended 31 July 2007, no extraordinary item, exceptional item or minority interest is applicable to be disclosed in the audited financial statements of the Group of the relevant periods.

(ii) Consolidated Assets and liabilities

	As at 31 July		
	2007	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets	32,357	29,366	79,162
Current assets	137,260	64,536	17,881
Total assets	169,617	93,902	97,043
Non-current liabilities	0	(22,500)	(100,490)
Current liabilities	(19,608)	(59,391)	(52,170)
Total liabilities	(19,608)	(81,891)	(152,660)
Net assets/(liabilities)	150,009	12,011	(55,617)

(iii) Reports of the auditors for the financial statements of the Group for the three years ended 31 July 2007

A. Report of the auditors for the financial statements of the Group for the year ended 31 July 2005

The following is the full text of the reproduced report of CCIF CPA Limited, the auditors of the Company, for the year ended 31 July 2005 extracted from pages 17 to 19 of the annual report of the Company for the year ended 31 July 2005 ("**2005 Annual Report**"). The page references in this reproduced report are the same as those in the 2005 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 20 to 63 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

BASIS OF OPINION

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

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

Fundamental uncertainty relating to going concern of the Group

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

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

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

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

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

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

QUALIFIED OPINION: DISCLAIMER ON VIEW GIVEN BY FINANCIAL STATEMENTS

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

CCIF CPA Limited
Certified Public Accountants
Chan Wai Dune, Charles
Practising Certificate Number P00712

Hong Kong, 5 October 2005

B. Report of the auditors for the financial statements of the Group for the year ended 31 July 2006

The following is the full text of the reproduced report of CCIF CPA Limited, the auditors of the Company, for the year ended 31 July 2006 extracted from pages 21 to 22 of the annual report of the Company for the year ended 31 July 2006 ("**2006 Annual Report**"). The page references in this reproduced report are the same as those in 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

C. Reports of the auditors for the financial statements of the Group for the year ended 31 July 2007

The following is the full text of the reproduced report of CCIF CPA Limited, the auditors of the Company, for the year ended 31 July 2007 extracted from pages 21 to 22 of the annual report of the Company for the year ended 31 July 2007 ("**2007 Annual Report**"). The page references in this reproduced report are the same as those in the 2007 Annual Report.

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

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

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

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of the report.

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

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

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

OPINION

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

CCIF CPA Limited
Certified Public Accountants
Leung Chun Wa
Practising Certificate Number P04963

Hong Kong, 23 November 2007

2. SUMMARY OF AUDITED FINANCIAL STATEMENTS

Set out below is the audited financial statements together with the relevant notes to the financial statements of the Group as extracted from the 2007 Annual Report of the Company for the year ended 31 July 2007.

Consolidated Income Statement
For the year ended 31 July 2007

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

Consolidated Balance Sheet
As at 31 July 2007

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

Balance Sheet

As at 31 July 2007

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

Consolidated Statement of Changes in Equity

For the year ended 31 July 2007

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

Consolidated Cash Flow Statement
For the year ended 31 July 2007

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

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

Notes to the Financial Statements

For the year ended 31 July 2007

1. GENERAL INFORMATION

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

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

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

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

(e) Scheme of Arrangement

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

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

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

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

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

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

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

(b) Consolidation

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

(i) Subsidiaries

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

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

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

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

(ii) Associates

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

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

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

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

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

(c) Goodwill

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

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

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

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

(d) Segment reporting

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

(e) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

(iii) Group companies

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

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

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

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

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

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

(f) Property, plant and equipment

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

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

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

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

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

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

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

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

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

(g) Prepaid lease payments

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

(h) Impairment

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

(i) Calculation of recoverable amount

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

(ii) Recognition of impairment losses

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

(iii) Reversals of impairment losses

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

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

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

(i) Trade and other receivables

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

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, deemed deposits with banks and other financial institutes and short term highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(k) Trade and other payables

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

(l) Construction contracts

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

(m) Inventories

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

(n) Interest-bearing borrowings

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

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

(o) Borrowing costs

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

(p) Provisions and contingent liabilities

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

(q) Employee benefits

(i) Employee entitlements

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

(ii) Pension obligations

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

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

(iii) Share-based payment

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

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

(r) Taxation

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised in equity, in which case they are recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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

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

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

(s) Leases

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

The Group as lessor

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

The Group as lessee

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

(t) Recognition of revenue

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

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

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

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

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

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

(u) Related parties

Parties are considered to be related to the Group if:

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

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

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

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

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

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

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

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

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

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

(i) Credit risk

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

(ii) Liquidity risk

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

(iii) *Fair value or cash flow interest rate risk*

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

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

(iv) *Foreign exchange risk*

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

(b) Fair value estimation

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

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

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

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

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

(b) Valuation of leasehold buildings

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

(c) Recognition of deferred tax

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

(d) Impairment of trade receivables

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

(e) Outstanding litigations

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

5. TURNOVER

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

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

6. SEGMENT INFORMATION

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

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

(a) Business segments

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

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

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

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

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

(b) Geographical segments

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

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

7. OTHER REVENUE AND INCOME

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

8. GAIN ON DISPOSAL OF SUBSIDIARIES

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

9. (LOSS)/PROFIT BEFORE TAXATION

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

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

10. FINANCE COSTS

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

11. TAXATION

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

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

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

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

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

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

12. DIRECTORS' REMUNERATION

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

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

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

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

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

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

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

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

13. INDIVIDUALS WITH HIGHEST EMOLUMENTS

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

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

The emoluments were within the following bands:

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

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

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

15. (LOSS)/EARNINGS PER SHARE

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

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

16. PROPERTY, PLANT AND EQUIPMENT

The Group

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

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

	Leasehold buildings HK$'000	Floating craft and vessels HK$'000	Furniture, fixtures and office equipment HK$'000	Plant, machinery and workshop equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At cost	–	–	1,045	2,889	182	4,116
At professional valuation 2007	23,235	5,540	–	–	–	28,775
	23,235	5,540	1,045	2,889	182	32,891

The Company

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

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

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

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

17. PREPAID LEASE PAYMENTS

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

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

18. INVESTMENTS IN ASSOCIATES

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

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

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

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

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

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

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

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

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

19. INVESTMENTS IN SUBSIDIARIES

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

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

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

Name	Place of incorporation/ operation	Particulars of issued/registered share capital	Percentage of issued/registered capital held by the Group	Company	Principal activities
China Famous Limited	Hong Kong	HK$1	100%	100%	Trading of vessels
Denlane Offshore Engineering Pte Limited*	Singapore	S$1,000	100%	–	Dormant
Denlane Shipbuilding Pte Limited*	Singapore	S$700,000	100%	100%	Marine engineering and services ship management
East Coast Towing Limited	Hong Kong	HK$2	100%	100%	Dormant
Econo Plant Hire Company Limited	Hong Kong	HK$2,000,000	100%	100%	Dormant
Everpoint Company Limited	Hong Kong	HK$13,720,480	100%	100%	Dormant
Exact Profit Limited	Hong Kong	HK$20	100%	100%	Dormant
Fairking Transportation Limited	Hong Kong	HK$100	100%	100%	Dormant
Faith On International Limited	Hong Kong	HK$2	100%	100%	Dormant
Full Keen Investment Limited	Hong Kong	HK$2	100%	100%	Dormant
Graceful Ease Investment Limited	Hong Kong	HK$2	100%	100%	Dormant
Keen Yield Investment Limited	Hong Kong	HK$2	100%	100%	Dormant
S.K. Luk Construction Company Limited	Hong Kong	HK$500,000	100%	100%	Dormant
UDL Argos Engineering & Heavy Industries Company Limited	Hong Kong	HK$124,000,000	100%	100%	Investment holding, structural steel engineering works and management services
UDL Civil Contractors Limited	Hong Kong	HK$6,800,000	100%	100%	Dormant
UDL Contracting Limited	Hong Kong	HK$50,700,000	100%	100%	Engineering and contracting
UDL Dredging Limited	Hong Kong	HK$2	100%	100%	Inactive
UDL E & M (BVI) Limited	BVI	US$1	100%	100%	Dormant
UDL Employment Services Limited	Hong Kong	HK$2	100%	100%	Provision of human resources management services
UDL Investment Limited	Hong Kong	HK$550,000	100%	100%	Dormant
UDL Management Limited	Hong Kong	HK$2	100%	100%	Dormant

Name	Place of incorporation/ operation	Particulars of issued/registered share capital	Percentage of issued/registered capital held by the Group	Company	Principal activities
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%	–	Inactive

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

20. INVENTORIES

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

21. TRADE AND OTHER RECEIVABLES

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

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

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

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

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

22. CASH AND CASH EQUIVALENTS

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

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

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

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

23. OTHER LOANS FROM A RELATED COMPANY

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

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

24. TRADE AND OTHER PAYABLES

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

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

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

25. PROMISSORY NOTES

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

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

26. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

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

27. AMOUNTS DUE TO DIRECTORS

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

28. DEFERRED TAXATION

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

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

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

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

29. SHARE CAPITAL

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

Notes:

a) Issue of shares by rights issue

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

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

b) Issue of shares by exercise of options

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

30. RESERVES

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

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

The Company

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

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

The scheme reserve of the Group and the Company represents the net liabilities of the Scheme Participating Companies and the Company as at 28 April 2000, which were discharged pursuant to the Scheme, less the promissory notes of HK$30 million issued to the Scheme Administrator as consideration to release the Company's Shortfall Undertaking pursuant to the Settlement Structure Agreement dated 1 September, 2006, and related scheme expenses for the recovery of Scheme Assets.

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

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

Details of net assets acquired were as follows:

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

(b) Disposal of subsidiaries

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

Details of net assets disposed of were as follows:

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

32. RETIREMENT BENEFITS SCHEME

Defined contribution scheme

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

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

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

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

For the year ended 31 July 2007, the Group made contributions of approximately HK$130,000 (2006: approximately HK$146,000) towards the MPF Scheme and CPF.

33. EQUITY COMPENSATION BENEFITS

The Company has a share option scheme which was adopted on 31 December 2002 whereby the directors of the Company are authorised, at their discretion, to invite eligible participants as described in definitions of the circular dated 6 December 2002 issued by the Company, including employees and directors of the Group, to take up options to subscribe for shares of the Company (the "Shares"). The exercise price of the options was determined by the Board and will not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealings in securities; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Share. Under the share option scheme, the total number of shares in respect of which options may be granted shall be 90,830,230 shares, representing 10% of the total issued share capital of the Company as at 31 December 2002. Since the adoption of the share option scheme, the Company has granted options carrying rights to subscribe for 82,828,000 shares, of which 80,920,000 has been exercised and the remaining option for 1,908,000 shares has been cancelled and expired. As at 31 July 2007, there were no outstanding options in issue.

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

34. OPERATING LEASE COMMITMENTS

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

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

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

35. CONTINGENCIES AND LITIGATIONS

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

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

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

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") had been passed in the Company's Special General Meeting held on 22 August 2003. However, such proposals had not been implemented in result of the Company's intention not to proceed with any of such proposals. The details of which are set out in the Company's Circular dated 27 January 2006.

(b) An amount of SGD358,982 (equivalent to HK$1,766,335) (2006: HK$1,680,233) relating to interest payable on banking facilities was charged to UDL Marine Pte Limited, a subsidiary of the Company. The directors of the subsidiary are disputing this amount and no provision has been made in the financial statements.

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

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

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

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

36. RELATED PARTY TRANSACTIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes:

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

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

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

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

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

37. APPROVAL OF THE FINANCIAL STATEMENTS

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

3. MANAGEMENT DISCUSSION AND ANALYSIS

3.1 The Group

(i) For the year ended 31 July 2005

The following is the management discussion and analysis extracted from the 2005 Annual Report together with additional information as appropriate. The page references in the reproduced information are the same as those in the 2005 Annual Report.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

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

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

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

Operating Review

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

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

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

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

Liquidity and Financial Resources

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

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

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

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

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

Employees

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

Significant investments held, their performance during the financial year and their future prospects

There were no significant investments held by the Group.

Investment, material acquisition and disposal of subsidiaries and affiliated companies

There was no investment, material acquisition and disposal of subsidiaries and affiliated companies for the year ended 31 July 2005

Segment comments

As turnover was generated from its principal line of business, no segment information was required to be disclosed.

Details of remuneration policies, bonus and share option schemes and training schemes

There was no material change to the staff policy during the year ended 31 July 2005. The Group encourages high productivity and remunerates its employees based on their qualification, work experience, prevailing market prices and contribution to the group. There are no bonus and training schemes. The Company has a share option scheme which was adopted on 31 December 2002 whereby the directors of the Company are authorised to invite eligible participants including employees and directors of the Group, to take up options to subscribe shares of the Company. For further details, refer to Note 23 to the Financial Statements in the Annual Report 2005.

Charge on group assets

As at 31 July 2005, approximately HK71.0 million of the Group assets which include floating crafts and vessels were charged as security for outstanding secured loans.

Gearing ratio

As at 31 July 2005, the gearing ratio of the Group, calculated by dividing total liabilities by total asset value, was approximately 157.3%.

Exposure to fluctuation in exchange rates

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

Prospect and Future Plans

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

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

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

Contingent Liabilities

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

(ii) For the year ended 31 July 2006

The following is the management discussion and analysis extracted from the 2006 Annual Report together with additional information as appropriate. The page references in the reproduced information are the same as those in the 2006 Annual Report.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating review

Efforts were spent during the year in developing our marine engineering business including shipbuilding and repair as well as structural steel engineering. Through various successful major corporate transactions, including the reacquisition of ownership of the Singapore yard and completion of the Global Solution with the Scheme Administrator, the Group has prepared itself to further expand and take up many opportunities offered in the offshore engineering sector which is poised to benefit from the surging global oil and gas exploration and production spending.

For the Financial Year ended 31st July 2006, the Group reported a turnover of HK$22.1 million (2005: HK$11.1 million), gross profit of HK$8.6 million (2005: HK$7.4 million) and profit attributable to shareholders of HK$29.7 million (2005: loss of HK$27.5 million).

Increase in turnover attributed to the sale of reconditioned marine engineering vessels which amounted to HK$9.6 million, 43% of the total turnover.

Loss from operating activities has been reduced significantly to HK$1.8 million this year (2005: loss of HK$18.8 million) due to reduction in depreciation expense as a result of the disposal of the two subsidiaries with substantial non-core fixed assets during the period.

Marine Engineering

Turnover of the marine engineering business has increased to HK$8.9 million this year (2005: HK$7.0 million). A significant portion was contributed by the new income base from the yard holding company in Singapore. Given the booming market in offshore engineering and related shipbuilding activities, together with the Singapore and China building facilities which provide the Group a competitive edge, continuous growth in this segment is foreseeable.

Structural Steel Engineering

The structural steel engineering division has experienced a lower turnover of HK$3.6 million this year (2005: HK$4.0 million) as the new structural steel projects have yet to take place after completion of a major project earlier this year. After completing the deck assembly work for the Shenzhen Western Corridor, the Group concentrated on the deck assembly work for the stonecutters bridge and has also participated in several China highways related structural steel projects in Guangdong through co-operation with active contractors in China. The Group is actively pursuing business for structural steel in the region in collaboration with its business partners.

Vessel Sales

The regional market is in great demand of the type of vessels the Group has to offer. The acquisition of the fleet of vessels this year allows the Group to meet such demand. The Group has reported a turnover of HK$9.6 million this year (2005: nil) in vessel sales. The Group is handling a considerable volume of enquiries and potential orders for the supply of reconditioned engineering vessels which are expected to contribute positively to the Group's revenue.

Corporate Development

During this period, the Group has restructured its income base and capital structure in accordance to the circular (the "Circular") dated 27 January 2006 through the following transactions (the "Corporate Restructuring") :

– The rights issues of HK$71.2 million;

– The acquisition of a yard holding company in Singapore for HK$23 million;

– Acquisition of a fleet of vessels for HK$40.4 million; and

– Disposal of two subsidiaries for HK$2.

A total of 2,374,133,524 of rights shares were allotted for the subscription price of HK$0.03 per rights share, which increased the Company's issued shares capital to 3,363,355,826 shares (2005: 971,699,302 shares) and raised HK$71.2 million.

The disposal of the two subsidiaries has removed the borrowings substantially and resulted in a gain on disposal of HK$38.1 million during the year under review.

The Company and the Scheme Administrator/Trustee entered into a settlement agreement on 1 September 2006 and the promissory notes, in the principal amount of HK$30 million, were issued to the Scheme Administrator/Trustee on the same date as part of the settlement arrangement. The principal terms of the settlement agreement and the promissory notes are consistent with those as set out in the paragraph headed "Proposed Settlement Agreement and issue of Promissory Notes" in the Letter from the Board in the Circular. The effects of such settlement is disclosed in the consolidated balance sheet on pages 24-25 and note 24 to the financial statements.

Financial Review

Financial performance has improved this year as resulted from the Corporate Restructuring. The Group reported a total net assets of HK$12.0 million (2005: deficiency of assets of HK$55.6 million). Liabilities have lowered significantly and thus reduced finance cost.

Liquidity and Financial Resources

Bank and other borrowings of the Group as at the year ended 31st July 2006 have been reduced to a total of HK$5.6 million (2005: HK$116.5 million). The Group's gearing ratio (total liabilities over total assets) was 87.2% (2005: 157.3%). The lower the ratio, the lower the degree of financial leverage and financial risk. The gearing ratio has been improved as a result of the disposal of the two subsidiaries with high gearing.

Currently, the Group's operations are principally funded by (1) normal commercial credit terms granted by suppliers and vendors; and (2) short-term financing by the substantial shareholder.

Employees and Remuneration Policies

As at 31 July 2006, other than the outsourcing vendors but including contract workers, the Group has an aggregate of 48 technical and working staff and recorded staff costs of HK$4.1 million (2005: HK$5.6 million). Total staff costs has decreased as compared to previous financial year as the Group has streamlined its marine engineering operation.

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

Charge on group assets

As at 31 July 2006, no asset of the Group was pledged.

Gearing ratio

As at 31 July 2006, the gearing ratio of the Group, calculated by dividing total liabilities by total asset value, was approximately 87.2%.

Exposure to fluctuation in exchange rates

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

Contingent Liabilities

Save for the contingent liabilities as disclosed in note 37 to the financial statements, there are no other contingent liabilities that the Group aware of.

Future Prospect

The Group continues to expand its marine engineering business. Through the integration of operation of the building facilities in Singapore and China, the Group is positioned with a competitive edge to benefit from opportunities flooded in the offshore engineering sector, which is now in high demand of shipbuilding capacity.

Building on the Group's track record in structural steel engineering and shipbuilding with valuable extensive customers and vendors network in the industry established over the past several decades, the Group envisage to move into the offshore sector by offering higher value-added offshore engineering and construction and offshore support vessel services. Given the industry dynamics, contract flows are to be remained strong underpinned by high oil prices, energy demand, and the rising asset replacement cycle.

(iii) For the year ended 31 July 2007

The following is the management discussion and analysis extracted from the 2007 Annual Report together with additional information as appropriate. The page references in the reproduced information are the same as those in the 2007 Annual Report.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Review

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

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

Marine Engineering

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

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

Structural Steel Engineering

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

Vessel Sales

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

Future Prospects and Outlook

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

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

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

Financial Review

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

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

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

Liquidity and Financial Resources

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

Exposure of Foreign Exchange

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

Charge on group assets

As at 31 July 2007, no asset of the Group was pledged.

Contingent Liabilities

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

Employees and Remuneration Policies

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

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

3.2 Lead Ocean Group – For the three years ended 31 March 2008

Operational review

Lead Ocean was incorporated in the BVI with limited liability on 2 May 2008 and is the holding company of each of Argos Engineering (International) Company Limited and Cochrane Enterprises Limited, which pursuant to a Dong Guan Chunwah Engineering And Heavy Industry Co. Ltd. Joint-Venture Contract and another Dong Guan Hing Wah Shipbuilding Co. Ltd. Joint-Venture Contract both dated 18 October 1990, entered into between each of them respectively and Shatian Foreign Trade and Economic Development Company, have (1) established two PRC companies, 東莞振華建造工程有限公司 (Dongguan Chun Wah Engineering & Heavy Industry Company Limited) and 東莞興華造船工程有限公司 (Dongguan Hing Wah Shipbuilding Company Limited); and (2) obtained the allocation of the land use rights of certain collectively-owned land with a yard site area of approximately 154,000 sq.m. for a term of 50 years for manufacturing structural steel frames and fabrication of ships and other ancillary businesses.

In the past three years, the group concentrated on resolving issues related to the Dongguan yard facilities by paying outstanding annual and licence fee and title fees, carrying out annual government licence audit and settling current liabilities of Argos Engineering (International) Company Limited and Cochrane Enterprises Limited. Significant improvements to the yard facilities have also been made to meet the current needs for efficient production.

The profits/(loss) of the Lead Ocean Group for the years ended 31 March 2006, 2007 and 2008 are (HK$2.329 million), (HK$5.985 million) and (HK$4.140 million) respectively.

Financial review

Liquidity and financial resources

The principal activity of Lead Ocean is investment holding and it financed the operations of its group primarily with internally generated cash flow whereas its long term investment was financed by current account with shareholder and related parties. As at 31 March of 2006, 2007 and 2008, the Lead Ocean Group had cash and cash equivalents of approximately HK$0.301 million, HK$0.236 million and HK$0.041 million respectively.

Capital structure

Lead Ocean has an authorised capital of US$50,000 divided into 50,000 shares of US$1.00 each and 100 fully paid shares of which have been issued since its incorporation on 2 May 2008 and up to the date of this Circular.

Investment, material acquisition and disposal of subsidiaries and affiliated companies

There is no investment, material acquisition and disposal of subsidiaries and affiliated companies in each of the year ended 31 March 2006, 2007 and 2008.

Segment comments

As there is no turnover generated from ordinary activities of the Lead Ocean Group, no segment information is required to be disclosed.

Employee information

As at 31 March of 2006, 2007 and 2008, other than outsourcing vendors and contract workers, the Lead Ocean Group has an aggregate of 17, 16 and 16 staff respectively. For the years ended 31 March of 2006, 2007 and 2008, staff costs amounted to approximately HK$0.382 million, HK$0.394 million and HK$0.438 million respectively.

Details of remuneration policies, bonus and share option schemes and training schemes

There was no material change to the staff policy during these three years. The Lead Ocean Group encourages high productivity and remunerates its employees based on their qualification, work experience, prevailing market prices and contribution to the group. There are no bonus and share option schemes and training schemes.

Charge on group assets

As at 31 March of 2006, 2007 and 2008, no asset of the Lead Ocean Group was pledged.

Future plans for material investments or capital assets

There were no plans for material investments or capital assets save for improvements to the yard facilities necessary to meet the current needs for efficient production.

Gearing ratio

As at 31 March of 2006, 2007 and 2008, the gearing ratio of the Lead Ocean Group, calculated by dividing total liabilities by total asset value, are approximately 63.1%, 76.4% and 74.7% respectively.

Exposure to fluctuation in exchange rates

The Lead Ocean Group has no significant foreign exchange rate risk due to limited foreign currency transactions.

Contingent Liabilities

Save for those disclosed in the Accountants' report on Lead Ocean Group if any, there are no other contingent liabilities that the Lead Ocean Group is aware of.

3.3 Net Excel Group - For the three years ended 31 March 2008

Operational review

Net Excel was incorporated in the BVI with limited liability on 23 May 2008 and is the holding company of each of Tonic Engineering & Construction Company Limited, Gitanes Engineering Company Limited and its PRC subsidiary,廣東積達工程有限公司 (Guangdong Gitanes Engineering Company Limited), which collectively have obtained licence for port works engineering and construction in Hong Kong and PRC, and Chiu Hing Company Limited which has a track record in civil engineering public works projects in Hong Kong

In the past three years, the group concentrated on resolving issues related to the these contracting companies including settling issue related to sufficiency of capital for maintenance of port works licence, injection of necessary additional capital and carrying out PRC annual government licence audit.

The profits/(loss) of the Net Excel Group for the years ended 31 March 2006, 2007 and 2008 are (HK$0.477 million), HK$0.385 million and HK$3.168 million respectively.

Financial review

Liquidity and financial resources

The principal activity of Net Excel is investment holding and it financed the operations of its group primarily with internally generated cash flow. As at 31 March of 2006, 2007 and 2008, the Net Excel Group had cash and cash equivalents of approximately HK$2.439 million, HK$0.188 million and HK$1.480 million respectively.

Capital structure

Net Excel has an authorised capital of US$50,000 divided into 50,000 shares of US$1.00 each and 100 fully paid shares of which have been issued since its incorporation on 23 May 2008 and up to the date of this Circular.

Investment, material acquisition and disposal of subsidiaries and affiliated companies

There is no investment, material acquisition and disposal of subsidiaries and affiliated companies in each of the year ended 31 March 2006, 2007 and 2008.

Segment comments

As for the three years ended 31 March 2008, turnover of the net Excel Group is principally generated from its ordinary activities being construction contracts for public works in Hong Kong, no segment information is required to be disclosed.

Employee information

As at 31 March of 2006, 2007 and 2008, other than outsourcing vendors and contract workers, the Net Excel Group has an aggregate of 6, 6, and 17 technical and working staff respectively. For the years ended 31 March of 2006, 2007 and 2008, staff costs amounted to approximately HK$0.839 million, HK$0.886 million and HK$2,217 million respectively.

Details of remuneration policies, bonus and share option schemes and training schemes

There was no material change to the staff policy during these three years. The Net Excel Group encourages high productivity and remunerates its employees based on their qualification, work experience, prevailing market prices and contribution to the group. There are no bonus and share option schemes and training schemes.

Charge on group assets

As at 31 March of 2006, 2007 and 2008, no asset of the Net Excel Group was pledged.

Future plans for material investments or capital assets

There is no plan for material investments or capital assets.

Gearing ratio

As at 31 March of 2006, 2007 and 2008, the gearing ratio of the Net Excel Group, calculated by dividing total liabilities by total asset value, are approximately 15.9%, 21.6% and 9.5% respectively.

Exposure to fluctuation in exchange rates

The Net Excel Group has no significant foreign exchange rate risk due to limited foreign currency transactions.

Contingent Liabilities

Save for those disclosed in the Accountants' report on Net Excel Group if any, there are no other contingent liabilities that the Net Excel Group is aware of.

4. STATEMENT OF INDEBTEDNESS FOR THE RESULTANT GROUP

Borrowings

As at the close of business on 31 July 2008 and as if the Acquisitions were completed on this date, being the latest practicable date for this indebtedness statement, the Resultant Group had no borrowings or indebtedness in the nature of borrowing or mortgages or charges *(Note (i) and (ii))* save for a borrowings of HK$0.271 million under finance lease of which HK$0.126 million is repayable within one year and HK$0.145 million is repayable after one year.

Note:

(i) The effects of the Acquisitions have been taken into account.

(ii) For the financing facility from Harbour Front to the Company to finance the Acquisitions in addition to utilizing the proceeds of the Rights Issue, refer section head "Finance Arrangement with Harbour Front" in the Letter from the Board in this Circular for further details.

As detailed in Note 2.1 to Appendix IV to this Circular, assuming that there was no shareholder taking up the Rights Shares and that HK$13,000,000 would be applied to general working capital and therefore the payment for balance of the total consideration for the Acquisitions after the use of the Rights Issue proceeds is to be financed by the Harbour Front Finance, the loan advanced from Harbour Front for this purpose is approximately HK$70.294 million of which HK$57.873 million is repayable within one year and HK$12.421 million is repayable after one year.

Debt securities

As at 31 July 2008, the Resultant Group had no debt securities outstanding.

Contingent liabilities

Save as disclosed in the 2007 audited accounts (a copy of which is set out in Section 2 in this Appendix above), the interim report of the Company for the six months ended 31 January 2008 and Appendices II and III to this circular, as at 31 July 2008, the Resultant Group had no significant contingent liabilities.

Disclaimers

Save as aforesaid or otherwise disclosed herein and apart from intra-group liabilities, the Resultant Group did not have outstanding indebtedness at the close of business on 31 July 2008 or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees or other contingent liabilities.

5. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material changes in the financial or trading position or prospects of the Group since 31 July 2007, being the date the latest audited consolidated financial statements of the Group to which was made up.

6. WORKING CAPITAL

As at the Latest Practicable Date, after taking into account the available credit facilities as described in more detail in the above section headed "Statement of indebtedness of the Resultant Group", internal resources (for example, cash generated from operating activities) of the Group, the Harbour Front Finance and the estimated net proceeds of the Rights Issue, the Directors are of the opinion that the Resultant Group has sufficient working capital for at least twelve months from the date of this circular, including financing the Acquisitions.

7. BUSINESS PROSPECTS

Trend of the business of the Group

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

The growth in global demand for oil has been strong and steady for over five years and operators are likely to continue investing in exploration and production to replace depleting reserves. This translates demand in the related shipbuilding and offshore engineering market and we are prepared to take up the forthcoming opportunities. The Group intends to develop its Singapore yard in phases to upgrade its existing building berth, procure and install jib cranes and gantry crane, construct/upgrade new open fabrication areas and workshops. The current direction is the full re-activation of the Singapore yard for shipbuilding, offshore structures and modules and afloat repairs. Marine engineering sector has maintained a strong growth momentum with significant contribution from offshore engineering business. The Group has actively expanded its operation of Hong Kong and Singapore and secured several marine and offshore engineering projects.

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

The combined production capacities today from the Group's Zhongshan and Singapore yards are of 4 to 6 units of 5,000 DWT class vessels and annual steel fabrication projects of up to 20,000 tons. Positive outlook in the shipbuilding marine and offshore engineering sector, together with the anticipated increase in production capacities by yard upgrading works and synergies derived from integration of the yard facilities, we can expect to see overall performance of the Group improving at a multiple factor.

The Group has completed its structural steel engineering contracts on hand and is actively pursuing new business opportunities in collaboration with its business partners and also its own offshore engineering business. Efforts have also been put in reviving the contracting division. This year, despite the relatively inactive market in Hong Kong, the Company has succeeded in breaking back into the main stream play by securing major contracting projects which include dredging related work.

Performance in the structural steel engineering and contracting divisions to improve can be foreseen. The Hong Kong government has indicated to push forward 10 large scale infrastructure projects in the coming years. We are confident to harvest from the forthcoming opportunities. Level of enquiries for the type of vessels offered by the Group remains strong and the regional market is still in great demand for these vessels. The Group is carefully pursuing potential orders for sale of reconditioned engineering vessels and control of costs for the best possible return.

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

Trend of the business of the Resultant Group

Marine engineering

The growth in global demand for oil has been strong and steady for over five years and operators are likely to continue investing in exploration and production to replace depleting reserves. This translates demand in the related shipbuilding and offshore engineering market. Further, the greater Asia industrialisation has created a demand for the shipbuilding and ship repairing services to support the transportation needs of the rapidly growing trade and equipment for offshore exploration and production. The outlook for the industry remains rosy as the offshore boom is likely to continue for the next few years.

With oil and gas exploration and production activities moving into deeper waters, harsher environments and further frontiers, there is strong demand for more deepwater drilling rigs and floating production systems suitable for these conditions as well as for offshore support vessels. As global exploration activities and offshore field development work continue un-bated, new rigs orders are expected to stream in for the major shipyards. The Singapore marine industry has geared up its infrastructure and resources, and is well positioned to increase its market share for new semi-submersible orders. It is also well poised to meet the boost in demand for the conversion and reactivation of drillships. There have been strong orders for floating production solutions in recent years and the market for FPSO/FSO conversion remains strong.

Going forward, the Singapore marine industry will continue to position itself as a global centre for ship repair, ship conversion, offshore construction and specialised shipbuilding. It will leverage on Singapore's good infrastructure and critical mass already built up by the shipyards and supporting companies to further entrench its position as a global leader. The industry will continue to focus on more complex and high value jobs and enhance its capability as a solution provider. Investments in both human resource development and new state-of-art facilities will provide the foundations to bring the industry to a new competitive level that will allow it to be relevant in the coming decades. The offshore boom has also benefited the medium and smaller shipyards of Singapore as well as non-shipyard players in the industry. Demand has filtered down to companies in the marine and offshore supporting industries which supply equipment to the shipyards, and rig and ship owners. Shipyards repairing and building offshore supply tugs and support vessels have seen their order books swelling during the last few years. Overall, the industry is expected to continue its robust performance given its full order books and the strong global market conditions with double-digit growth for the marine and offshore industry.

This is therefore a very good opportunity for the Group to further re-activate and expand its marine operations headed by its Singapore subsidiaries and yard facilities. This can be achieved by leveraging on the competitive pricing and capacity for the production of steel fabrications and materials of the Dongguan yard of the Lead Ocean Group so as to combine and consolidate the mutually matching and critical mass effect to promote the enhanced capabilities in the shipbuilding, marine and offshore engineering activities. This integration with the Dongguan yard facilities of the Lead Ocean Group could beef up total production capacities of up to 40,000 tons per year. The Dongguan yard with deep water access channel is suitable for the construction of vessels of up to 200 metres in length, oil rigs and semi-subs. A key element in this business plan is to leverage the Dongguan yard's extensive steel fabrication capability, low production cost and cheap supply of materials with the Group's image for quality and reliability, and Singapore's excellent supply chain, sub-contractors, and supporting infrastructure to provide the Group with a sustainable competitive edge.

The formula for creating a sustainable competitive edge would see the Group's Singapore operation and yard undertaking the construction of the machinery components of the vessels or structures to enjoy the advantage of the Singapore local infrastructure and support. On the other hand, the newly acquired Dongguan yard and its operations will undertake the construction of steel structures and vessel components. After which, the components fabricated and constructed in the PRC will be transported to the Singapore yard of the Group for assembly into complete product. With the promising prospect in the shipbuilding marine and offshore engineering sector, together with the anticipated increase in production capacities and synergies derived from integration of the yard facilities, the Directors expect to see overall performance of the Group improving at a multiple factor.

Contracting

Given the enhanced capital base of the Group since mid-2007, the Group has succeeded in securing prestiged port works projects as dredging and pipe protection capping sub-contractors including submarine pipelines for Permanent Aviation Fuel Facilities for the Hong Kong International Airport in Chek Lap Kok. Performance in the contracting divisions to improve can be foreseen. The Hong Kong government has committed to push forward 10 large scale infrastructure projects and Container Terminal 10 in the coming years. The Group is confident to harvest from the forthcoming opportunities.

In the 2007-08 policy address of the Chief Executive of the HKSAR and further in the budget speech 2008 of the Financial Secretary, undertaking was made towards 10 Major Infrastructure Projects for economic growth. He also commits to push ahead with 10 large-scale infrastructure projects and also the Container Terminal 10 development within his term of office. A rough estimate of the added value to Hong Kong economy brought about by these projects, from commissioning to a mature stage, would be more than $100 billion annually, amounting to some 7% of our GDP in 2006. In addition, some 250 000 additional jobs would be created. There are significant amount of port works in these projects in particular (1) Hong Kong-Zhuhai-Macao Bridge which is a priority project. As a major strategic cross-boundary project, it is unprecedented in terms of scope, scale and complexity involving extensive port works including construction of the two islands for the main tunnel approach and bridge pier construction across the open sea; (2) the Sha Tin to Central Link which will connect the Northeast New Territories and Hong Kong Island across the harbour with submerged tunnel via East Kowloon; (3) the Tuen Mun-Chek Lap Kok Link crossing the busy navigation channel with major bridge or submerged tunnel at a cost of over $20 billion; (4) Hong Kong-Shenzhen Joint Development of the Lok Ma Chau Loop which will require reclamation of the extensive low lying areas in concern; (5) Kai Tak Development with the construction of a new cruise terminal and approach navigation approach; (6) Container Terminal 10 at Southwest Tsing Yi which will require significant reclamation in deep water and many associated port works facilities alteration, relocation and construction.

In the immediate short term, the Financial Secretary has also committed to continue increasing the number and value of approved infrastructure projects and public works contracts awarded generally for the Public Works and associated programme. He has instructed Controlling Officers and heads of works departments to closely monitor the planning progress of the already approved projects. The Development Bureau and the Transport and Housing Bureau will play a coordinating role to ensure that these projects will commence as soon as possible.

Through acquisition of the Hong Kong public works licences possessed by Net Excel's subsidiaries, the Group would be able to re-access the main contractor market for port works which was one of the major activities of the Group before the implementation of the scheme of arrangement in 2000. With a better and direct control of engineering and construction projects and together with a complete fleet of marine engineering vessels, the Group would be able to improve its management and production efficiency and have a sustainable competitive edge. With the continuous commitment by both government of the PRC and Hong Kong to further improve the existing arrangement under CEPA, 廣東積達工程有限公司 (Guangdong Gitanes Engineering Company Limited) would be able to provide a solid platform for the Group to access the PRC market for a sustainable growth of its port works business in the long term.

Vessel sales and marine construction business

The Group's vessel sale and dredging business started well before the 90s' and in 1991 when the Company became listed on the Stock Exchange. Vessel sale and dredging business then remained the important business segments of the Group in the subsequent years. Dredging operation was very important logistic support for the Group's contracting business.

In view of the Group's past experience and operations with extensive customers and vendors network, which was built up in the 90s' in the shipbuilding industry which closely relates to the marine construction engineering industry, the Group has already resumed its vessel sale business and has received considerable orders for the supply of various kinds of reconditioned second hand marine engineering vessels.

The Group intends to acquire the 10 unencumbered vessels for sale after reconditioning so as to further expand its operation in the supply of reconditioned second-hand marine engineering vessels. Subject to the marine engineering construction market conditions, the vessels could also be used in the Group's dredging and marine construction operations if not sold.

The acquisition of these 10 vessels will also provide the Group with a broadened base of resources to normalise and expand its existing principal businesses, in particular the marine construction engineering business. Furthermore, the acquisition will also enable the Company to maintain a complete fleet of vessels for general marine engineering operation in line with its development of business for port works engineering and construction.

With the 10 Major Infrastructure Projects and Container Terminal 10 development expected to be implemented in the coming years together with the increase in demand for marine construction engineering services in the adjacent areas like Macao and the Guangdong Province, the Group is actively pursuing marketing and tendering work in order to secure orders and contracts for marine construction works under these large scale developments and projects which will have a large demand for marine construction plant like those to be acquired by the Group under the Vessel Agreement. The Group's marine construction engineering operations are expected to be expanded accordingly and to make positive contribution to the Group's revenue for the coming financial year.

Financial and trading prospects of the Resultant Group for the current financial year

The Rights Issue, Acquisition and the finance facility provided under the Finance Agreement are expected to complete in the financial year 2008-09 and their effects will not be reflected in the financial and trading results of the Group for the current financial year 2007-08. In the coming financial year 2008-09, it is expected that these transactions will (1) further strengthen the capital base of the Company; (2) allow the Resultant Group to expand its marine engineering, contracting, vessel sale and marine construction business; (3) provide additional resources for its business development including upgrading work of its yard facilities; and (4) provide additional working capital for the Resultant Group's operations in the future. Given the further enhanced capital base of the Company, the Resultant Group will be in a better position to secure additional financial resources for its long term development through other alternative means including attracting investment from strategic investors or debt finance.

8. STATEMENT OF UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The statement of unaudited pro forma adjusted consolidated net tangible assets prepared in accordance with paragraph 13 of Appendix 1B of the Listing Rules is set out below to illustrate the effect of the Rights Issue on the net tangible assets of the Group as if the Rights Issue and the Acquisitions had taken place on 31 July 2007.

The statement of unaudited pro forma adjusted consolidated net tangible assets has been prepared for illustrative purposes only, and because of its nature, it may not give a true picture of the financial position of the Group following the Rights Issue and the Acquisitions.

The following statement of unaudited pro forma adjusted consolidated net tangible assets of the Group is based on the audited consolidated net assets of the Group as at 31 July 2007, adjusted as described below:

	Audited consolidated net tangible assets of the Group as at 31 July 2007	**Estimated net proceeds from the Rights Issue**	**Estimated increase in net tangible assets of the Group arising from the Acquisitions**	**Unaudited pro forma adjusted consolidated net tangible assets of the Group after the Rights Issue and the Acquisitions**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 1)	*(Note 2)*	
Based on the Subscription price of HK$0.035 per Rights Share	150,009	172,162	–	322,171

	Audited consolidated net tangible assets of the Group per Share as at 31 July 2007	Unaudited pro forma adjusted consolidated net tangible assets of the Group per Share after the Rights Issue and the Acquisitions
	(Note 3)	*(Note 3)*
	HK$	*HK$*
Based on the Subscription price of HK$0.035 per Rights Share	0.03	0.032

Notes:

1. The estimated net proceeds from the Rights Issue is based on the subscription price of HK$0.035 per Rights Share with 5,045,033,739 Rights Shares issued, after deduction of the estimated share issue and related espenses of approximately HK$4,414,000. The estimated net proceeds from the Rights Issue is approximately HK$172,162,000.

2. The estimated increase in net tangible assets of the Group arising from the Acquisitions represents the estimated surplus of the fair values of the tangible assets of the Group arising from the Acquisitions over the consideration paid. Referring to the unaudited pro forma consolidated balance sheet of the Resultant Group as set out in Appendix IV to this circular, the fair value of the tangible assets of the Group arising from the Acquisition is the aggregate amount of the fair values of (1) the net assets of Lead Ocean and Net Excel of approximately HK$83,454,000; (2) the 10 vessels of approximately HK$21,800,000; (3) the assignment of the amount due to ultimate holding company of approximately HK$93,502,000; and (4) the fair value of the port works and structural steel licences of approximately HK$30,700,000 which together amount to approximately HK$229,456,000.

	HK$'000
Fair value of the tangible assets of the Group arising from the Acquisition	229,456
Less: Total consideration of the Acquisitions	(229,456)
Increase in net tangible assets of the Group	–

3. The calculation of the audited consolidated net tangible assets of the Group per Share as at 31 July 2007 is based on the audited consolidated net tangible assets of the Group as at 31 July 2007 of approximately HK$159,009,000 and 5,045,033,739 Shares in issue as at the Latest Practicable Date. The unaudited pro forma adjusted consolidated net tangible assets per Share of the Group after the Rights Issue and the Acquisitions are based on the unaudited pro forma adjusted consolidated net tangible assets of the Group of approximately HK$322,171,000 and 10,090,067,478 Shares in issue immediately following the completion of the Rights Issue, assuming the completion of the Rights Issue with 5,045,033,739 Rights Shares issued.

The following is the text of an accountant's report of the Lead Ocean Group received from the independent reporting accountants of the Company, CCIF CPA Limited, Certified Public Accountants, Hong Kong, for inclusion in this circular.

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

4 September 2008

The Directors
UDL Holdings Limited

Dear Sirs,

We set out below our report on the combined financial information (the "Financial Information") of Lead Ocean Assets Management Limited ("Lead Ocean") and its subsidiaries (hereinafter collectively referred to as the Lead Ocean Group"), including the combined balance sheets as at 31 March 2006, 2007 and 2008, the combined income statements, the combined cash flow statements and the combined statements of changes in equity for each of the three years ended 31 March 2006, 2007 and 2008 (the "Relevant Periods") together with a summary of significant accounting policies and other explanatory notes thereto for inclusion in the circular (the "Circular") dated 28 August 2008 issued by UDL Holdings Limited (the "Company") in connection with the proposed acquisition of the entire equity interest in Lead Ocean by the Company.

Lead Ocean was incorporated on 2 May 2008 in the British Virgin Islands (the "BVI") as a limited liability company under the BVI Business Companies Act 2004 with an authorised share capital of US$50,000 divided into 50,000 ordinary shares of US$1 each. The registered office is located P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, the British Virgin Islands. The principal activity of Lead Ocean during the Relevant Periods was investment holding.

Pursuant to a reorganisation as detailed in note 1.2 of section II below, Lead Ocean became the holding company of the subsidiaries now comprising the Lead Ocean Group on 2 May 2008. The particulars of these subsidiaries as at the date of this report are set out below.

At the date of this report, Lead Ocean has the direct and indirect interests in the following subsidiaries:

Name of subsidiary	Legal structure	Registered capital	Paid up/ issued capital	Date and place of establishment	Percentage of equity attributable to Lead Ocean		Principal activities
					Direct	Indirect	
Argos Engineering (International) Company Limited	Corporate	HK$10,000	HK$2	18 December 1984 Hong Kong	100%	–	Investment holding
Cochrane Enterprises Limited	Corporate	HK$10,000	HK$10,000	20 October 1977 Hong Kong	100%	–	Investment holding
Dongguan Chun Wah Engineering and Heavy Industry Co., Ltd.	Corporate	HK$20,000,000	HK$20,000,000	13 November 1990 PRC	–	100%	Property holding
Dongguan Hing Wah Shipbuilding Co., Ltd	Corporate	HK$57,720,000	HK$27,523,826	13 November 1990 PRC	–	100%	Property holding

All the companies comprising the Lead Ocean Group have adopted 31 March other than the two PRC subsidiaries as their financial year end. The financial year end of the two PRC subsidiaries is 31 December.

No audited financial statements have been prepared for Lead Ocean since its date of incorporation as there are no statutory requirements for it to prepare audited financial statements. We have, however, reviewed all transactions of Lead Ocean from the date of incorporation to 31 March 2008 for the purpose of this report.

The statutory financial statements of Dongguan Chun Wah Engineering and Heavy Industry Co., Ltd, which were prepared in accordance with the relevant rules and regulations applicable to enterprises with foreign investment in the PRC, were audited by 東莞市協誠會計師事務所 during the Relevant Periods.

The statutory financial statements of the subsidiaries, which were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), were audited by CCIF CPA Limited during the Relevant Periods.

For the purpose of this report, the directors of Lead Ocean have prepared the combined financial statements of the Lead Ocean Group (the "HKFRS Financial Statements") for each of the years ended 31 March 2006, 2007 and 2008 in accordance with HKFRSs and on the basis set out in note 1.2 of section II below.

We have carried out appropriate audit procedures in respect of the HKFRS Financial Statements for the Relevant Periods in accordance with the Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information has been prepared based on the audited HKFRS Financial Statements and unaudited combined financial statements of the Lead Ocean Group for the Relevant Periods prepared in accordance with HKFRSs with no adjustments made thereon.

Directors' responsibility

The directors of Lead Ocean are responsible for the preparation and the true and fair presentation of the combined financial statements of the Lead Ocean Group for the Relevant Periods in accordance with HKFRSs. The directors of the Company are responsible for the true and fair presentation in the Financial Information in accordance with HKFRSs. Their responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the combined financial statements and the true and fair presentation of Financial Information that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Reporting accountant's responsibility

For the Financial Information for each of the years ended 31 March 2006, 2007 and 2008, our responsibility is to express an opinion on the Financial Information based on our examination and to report our opinion to you. We examined the audited HKFRS Financial Statements of the Lead Ocean Group and carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

Opinion

In our opinion, the Financial Information for each of the years ended 31 March 2006, 2007 and 2008, for the purpose of this report, gives a true and fair view of the combined state of affairs of the Lead Ocean Group as at 31 March 2006, 2007 and 2008 and of the Lead Ocean Group's combined results and cash flows for the years then ended.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 2.1 of section II below which discloses that as at 31 March 2006, 2007 and 2008, the Lead Ocean Group had net current liabilities of approximately HK$27,071,000, HK$89,993,000 and HK$95,351,000, respectively. This condition, along with other matters as disclosed in note 2.1 of section II to the Financial Information, indicates the existence of a fundamental uncertainty which may cast significant about the Lead Ocean Group's ability to continue as a going concern. The going concern basis has been adopted in preparing the Financial Information on the basis that the ultimate holding company and immediate holding company will continue to provide financial support to the Lead Ocean Group so as to enable it to meet its debts as and when they fall due in the foreseeable future.

I FINANCIAL INFORMATION

The following is the Financial Information of the Lead Ocean Group as at 31 March 2006, 2007 and 2008 and for each of the years ended 31 March 2006, 2007 and 2008.

(a) Combined income statements

		Year ended 31 March		
		2006	**2007**	**2008**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	5	–	–	1,734
Other revenue	6	701	615	496
Administrative expenses	7	(3,030)	(6,600)	(6,370)
Loss before income tax		(2,329)	(5,985)	(4,140)
Income tax expense	10	–	–	–
Loss for the year		(2,329)	(5,985)	(4,140)
Dividends	11	–	–	–

(b) Combined balance sheets

		As at 31 March		
		2006	**2007**	**2008**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment	12	34,571	60,971	70,475
Prepaid lease payments	13	–	54,711	58,170
Deferred tax asset, net	21	8,619	2,724	–
		43,190	118,406	128,645
Current assets				
Prepaid lease payments	13	–	1,683	1,846
Other receivables	14	87	202	1,093
Amount due from a related company	15	96	–	–
Cash and bank balances	16	301	236	41
		484	2,121	2,980
Current liabilities				
Trade and other payables	18	2,101	2,688	951
Amounts due to related companies	15	25,450	2,697	4,622
Amount due to a director	17	4	4	4
Amount due to immediate holding company	17	–	24,604	24,609
Amount due to ultimate holding company	17	–	62,121	68,145
		27,555	92,114	98,331
Net current liabilities		(27,071)	(89,993)	(95,351)
Net assets		16,119	28,413	33,294
Capital and reserves				
Share capital	19	–	–	–
Reserves	20	16,119	28,413	33,294
Total equity		16,119	28,413	33,294

(c) Combined cash flow statements

	Year ended 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Operating activities			
Loss before taxation	(2,329)	(5,985)	(4,140)
Adjustments for:			
Interest income	(1)	(1)	(1)
Depreciation	2,081	2,698	3,306
Amortisation of land use rights	–	961	1,765
Operating profit/(loss) before changes in working capital	(249)	(2,327)	930
Decrease/(increase) in other receivables	7	(115)	(891)
Increase/(decrease) in trade and other payables	422	587	(1,737)
Increase in amount due to a director	3	–	–
Net cash generated from/(used in) operating activities	183	(1,855)	(1,698)
Investing activities			
Acquisition of property, plant and equipment	(85)	(4,745)	–
Acquisition of land use rights	–	(57,376)	–
Interest received	1	1	1
Net cash used in investing activities	(84)	(62,120)	1
Financing activities			
Increase in amount due to ultimate holding company	–	62,121	6,024
Increase in amount due to immediate holding company	–	24,604	5
Net balances with related companies	115	(22,657)	1,925
Net cash generated from financing activities	115	64,068	7,954
Increase in cash and cash equivalents	214	93	6,257
Cash and cash equivalents at beginning of the year	145	301	236
Effect of foreign exchange rate changes	(58)	(158)	(6,452)
Cash and cash equivalents at end of the year	301	236	41

(d) Combined statements of changes in equity

	Attributable to equity holders of Lead Ocean					
	Share capital *HK$'000*	Merger reserve *HK$'000*	Exchange fluctuation reserve *HK$'000*	Revaluation reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 April 2005	–	10	(11,767)	10,505	17,654	16,402
Loss for the year	–	–	–	–	(2,329)	(2,329)
Revaluation deficit on property, plant and equipment	–	–	–	1,739	–	1,739
Deferred tax liability arising from revaluation of property, plant and equipment	–	–	–	(530)	–	(530)
Exchange realignment	–	–	837	–	–	837
At 31 March 2006 and 1 April 2006	–	10	(10,930)	11,714	15,325	16,119
Loss for the year	–	–	–	–	(5,985)	(5,985)
Revaluation surplus on property, plant and equipment	–	–	–	22,848	–	22,848
Deferred tax liability arising from revaluation of property, plant and equipment	–	–	–	(5,895)	–	(5,895)
Exchange realignment	–	–	1,326	–	–	1,326
At 31 March 2007 and 1 April 2007	–	10	(9,604)	28,667	9,340	28,413
Loss for the year	–	–	–	–	(4,140)	(4,140)
Revaluation surplus on property, plant and equipment	–	–	–	7,050	–	7,050
Deferred tax liability arising from revaluation of property, plant and equipment	–	–	–	(2,724)	–	(2,724)
Exchange realignment	–	–	4,695	–	–	4,695
At 31 March 2008	–	10	(4,909)	32,993	5,200	33,294

II NOTES TO THE FINANCIAL INFORMATION

1. General information

1.1 Lead Ocean was incorporated on 2 May 2008 in the British Virgin Islands (the "BVI") as a limited liability company under the BVI Business Companies Act 2004 with an authorised share capital of US$50,000 divided into 50,000 ordinary shares of US$1 each. The registered office is located P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, the British Virgin Islands.

1.2 Basis of presentation

As Lead Ocean and its subsidiaries are ultimately controlled by the same ultimate group of parties, who also owns Harbour Front Limited ("Harbour Front") (together "Harbour Front Concert Parties") before and after Lead Ocean has become the immediate holding company of the Lead Ocean Subsidiaries in May 2008, there is a continuation of the risks and benefits to the Harbour Front Concert Parties that existed before Lead Ocean had become the immediate holding company of the Lead Ocean Subsidiaries. Lead Ocean is regarded as a continuing entity and consequently the reorganisation has been accounted for as a reorganisation under common control in a manner similar to pooling of interests. The Financial Information has been prepared in accordance with the principles of merger accounting as set out in Accounting Guideline 5 "Merger accounting for common control combinations" issued by HKICPA, under which Lead Ocean is considered as the holding company of the Lead Ocean Group at the beginning of the Relevant Periods, as if the current group structure had been in existence throughout the Relevant Periods.

The Financial Information presents the results, cash flows and financial position of the Lead Ocean Group for the years ended 31 March 2006, 2007 and 2008 on the basis that the Lead Ocean Group, for the purpose of this report, is regarded as a continuing entity and that the reorganisation had been completed as at the beginning of the Relevant Periods.

All material intra-group transactions and balances have been eliminated on combination.

The Financial Information is presented in Hong Kong dollars ("HK$"), unless otherwise stated.

1.3 The directors of Lead Ocean consider that the ultimate holding company is Harbour Front.

2. Summary of significant accounting policies

2.1 Basis of preparation

As at 31 March 2006, 2007 and 2008, the Lead Ocean Group had net current liabilities of approximately HK$27,071,000, HK$89,993,000 and HK$95,351,000, respectively. Notwithstanding this, the Financial Information has been prepared on a going concern basis on the assumption that the Lead Ocean Group will continue to operate as a going concern in the forseeable future. The going concern has been adopted on the basis that the ultimate holding company and the immediate holding company will continue to provide financial support to the Lead Ocean Group to meet its debts as and when they fall due in the foreseeable future. The ultimate holding company and the immediate holding company have undertaken not to demand repayment of debts due from the Lead Ocean Group until such time when repayment will not significantly affect the Lead Ocean Group's ability to repay other creditors in the normal course of business.

The Financial Information does not include any adjustments that would result from a failure for the Lead Ocean Group to operate as a going concern. Should the Lead Ocean Group be unable to continue as a going concern, adjustments would have to be made to reduce the value of assets to their recoverable amounts, to provide for any further liabilities which might arise, to reclassify non-current assets as current assets and liabilities.

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"). It has been prepared under the historical cost convention as modified by the revaluation of buildings.

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to the Relevant Periods presented, unless otherwise stated.

The preparation of Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Lead Ocean Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4 below. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the Relevant Periods. Although these estimates are based on management's best knowledge or event and actions, actual results ultimately may differ from these estimates.

The Lead Ocean Group has not early adopted the following revised standards and interpretations that have been issued but not yet effective. The directors of Lead Ocean anticipate that the application of these standards and interpretations will have no material impact on the results and financial positions of the Lead Ocean Group.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[5]
HKFRS 2 (Amended)	Share-Base Payment- Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[5]
HKFRS 8	Operating Segments[1]
HK (IFRIC) – Int 11	HKFRS 2-Group and Treasury Share Transactions[2]
HK (IFRIC) – Int 12	Service Concession Arrangements[3]
HK (IFRIC) – Int 13	Customer Loyalty Programmes[4]
HK (IFRIC) – Int 14	HKAS 19- The Limited on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction[3]

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

2.2 Merger accounting for common control combination

The combined financial information incorporate the financial statements of the combining entities or businesses for which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognized in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The combined income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period.

The comparative amounts in the combined financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealized gains on transactions between combining entities or businesses are eliminated on combination.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting is recognized as an expense in the period in which it is incurred.

2.3 *Subsidiaries*

Subsidiaries are those entities over which Lead Ocean has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights that are currently exercisable or convertible are considered when assessing whether Lead Ocean controls another entity.

Subsidiaries (other than those acquired in business combination under common control) are fully consolidated from the date on which control is transferred to the Lead Ocean Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by Lead Ocean, other than business combination under common control in accordance with note 2.2 above. The cost of an acquisition is measured as the fair value of assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identified assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Lead Ocean Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Lead Ocean Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence 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 Lead Ocean Group.

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

2.4 *Segment reporting*

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

2.5 *Foreign currency translation*

(i) Functional and presentation currency

Items included in the financial statements of each of the Lead Ocean Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency"). The combined financial statements are presented in Hong Kong dollars ("HK$"), which is the Lead Ocean Group's 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) Lead Ocean Group companies

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

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

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

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

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

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

2.6 Property, plant and equipment

Property, plant and equipment other than the buildings (which are stated at their revalued amounts, being their open market value at the date of valuation) are stated at historical cost less accumulated depreciation and impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economics benefit associated with the item will flow to the Lead Ocean Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment less their estimated residue value, using the straight-line method over their estimated useful lives as follows:

Buildings	20 years
Plant and machinery	10 years
Office equipment, furniture and fixture	5 years
Other equipment	5 years

Revaluations on buildings are performed annually to ensure that the carrying amount of the buildings does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of buildings is credited to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease of the same expense previously recognised as an expense, in which case the increase is credited to the combined income statement to the extent of the decrease previously charged. A decrease in 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 properties revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits as a movement in equity.

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.

2.7 Construction in progress

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is sated at cost less impairment loss. Cost comprises direct costs of construction. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are complete. No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

2.8 Impairment on investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life or have not been available for use are not subject to amortisation and are tested annually for impairment. Assets that subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment of trade and other receivables is established when there is objective evidence that the Lead Ocean Group will not be able to collect all amounts due according to the original terms of the 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.

2.10 Impairment of assets

(i) Impairment of trade and other receivables

Trade and other receivables are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment, if any such evidence exists, any impairment loss is determined and recognized as follows:

- a significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganization; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognized as follows:

- For trade receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

  If in a subsequent period, the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in case of goodwill, may have decreased.

- property, plant and equipment;
- construction in progress; and
- prepaid lease payments.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. cash-generating unit).

- Recognition of impairment losses

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

- Reversals of impairment losses

  An impairment loss is reversed if there has been a favourable change in the estimates 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 had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized.

2.11 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, deemed deposits with banks and other financial institutions and short term highly liquid investments that readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Lead Ocean Group's cash management are also included as a component of cash and cash equivalents for the purpose of the combined cash flow statement.

2.12 Trade and other payables

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

2.13 *Borrowings*

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

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

2.14 *Taxation*

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised in equity, in which case they are recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the combined 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, except where the timing of the reversal of the temporary difference is controlled by the Lead Ocean Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.15 *Borrowing costs*

Borrowing costs are expensed in income statement in the period in which they are incurred, except to the extent that they are capitalized as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for it intended use or sale.

The capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

2.16 *Provisions and contingent liabilities*

Provisions are recognised for other liabilities of uncertain timing or amount when the Lead Ocean Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability or outflow of economic benefit is remote.

2.17 *Employee retirement benefits*

Lead Ocean Group has arranged for its Hong Kong Employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). The Lead Ocean Group's contributions to the MPF Scheme are expensed as incurred. Both the Lead Ocean Group and its employees in Hong Kong are required to contribute 5% of each individual's relevant income with a maximum amount of HK$1,000 per month as a mandatory contribution. Employees may also elect to contribute more than the minimum as a voluntary contribution. The assets of the scheme are held in separate trustee-administered funds.

For employees in the PRC, the Lead Ocean Group contributes on a monthly basis to various defined contribution plans organized by the relevant municipal and provincial governments in the PRC based on certain percentage of the relevant employees' monthly salaries and are charged to the income statement as they become payable, in accordance with the rules of the pension schemes.

2.18 *Recognition of revenue*

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Lead Ocean Group's activities.

Rental income and plant hire income are recognised on a time proportion basis over the lease terms.

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

2.19 *Operating leases*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

2.20 *Related parties*

Parties are considered to be related to the Lead Ocean Group if:

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

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

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

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

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

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

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

3. Financial risk management

3.1 Financial risk factors

The Lead Ocean Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and interest rate risk, arises in the normal course of the Lead Ocean Group's business.

Management regularly monitors the financial risks of the Lead Ocean Group. Because of the simplicity of the financial structure and the current operations of the Lead Ocean Group, no hedging activities are undertaken by management.

(i) Foreign currency risk

Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through the People's Bank of China or other institutions authorised to buy and sell foreign exchange. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China that would be subject to a managed float against an unspecified basket of currencies.

Foreign currency receipts and payments, including the remittance of earnings outside the PRC, are subject to the availability of foreign currency (which depends on the foreign currency denominated earnings of the Lead Ocean Group) or must be arranged through the People's Bank of China with governmental approval.

Foreign currency sensitivity analysis

Currently, the Lead Ocean Group is mainly exposed to the foreign currency of Renminbi (RMB). The following table details the Lead Ocean Group's sensitivity to a 5% changes in the HK$ against Renminbi. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis includes bank balances. A positive number indicates an increase in loss for the Relevant Periods where the RMB strengthens against the relevant currency. If there is 5% increase/decrease in RMB against the relevant foreign currencies, the increase/(decrease) in the profit for the year is shown as below:

		31 March	
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
RMB			
Loss for the year			
5% increase	41	70	156
5% decrease	(41)	(70)	(156)

(ii) Credit risk

The Lead Ocean Group has no significant concentrations of credit risk. Credit risk arises from other receivables and cash and cash equivalents and due from related companies. All cash and cash equivalents are deposited with the major banks located in the PRC.

For other receivables and due from related companies, the credit quality of the counterparties is assessed by taking into account their financial position, credit history and other factors. Given the constant repayment history, the directors are of the opinion that the risk of default by these counterparties is low.

(iii) Liquidity risk

The Lead Ocean Group had net current liabilities of approximately HK$27,071,000, HK$89,993,000 and HK$95,351,000 as at 31 March 2006, 2007 and 2008.

The Lead Ocean Group's liquidity is dependent upon the continuing financial support from the ultimate holding company and the immediate holding company to provide financial support to the Lead Ocean Group to meet the Lead Ocean Group's debts as and when they fall due. The ultimate holding company and immediate holding company have also undertaken not to demand repayment of debts due from the Lead Ocean Group until such time when repayment will not significantly affect the Lead Ocean Group's ability to repay other creditors in the normal course of business. Management of the Lead Ocean Group are satisfied that the Lead Ocean Group will be able to meet in full their financial obligations as and when they fall due in the foreseeable future.

The following table shows the financial liabilities of the Lead Ocean Group at the respective balance sheet dates. The contractual undiscounted cash flows balances equal their carrying balances, as the impact of discounting is not significant.

	Carrying value	**Total contractual undiscounted cash flow**	**Within 1 year or on demand**
	HK$'000	*HK$'000*	*HK$'000*
At 31 March 2006			
Trade and other payables	2,101	2,101	2,101
Amounts due to related companies	25,450	25,450	25,450
Amount due to a director	4	4	4
Amount due to immediate holding company	–	–	–
Amount due to ultimate holding company	–	–	–
	27,555	27,555	27,555
At 31 March 2007			
Trade and other payables	2,688	2,688	2,688
Amounts due to related companies	2,697	2,697	2,697
Amount due to a director	4	4	4
Amount due to immediate holding company	24,604	24,604	24,604
Amount due to ultimate holding company	62,121	62,121	62,121
	92,114	92,114	92,114
At 31 March 2008			
Trade and other payables	951	951	951
Amount due to a director	4	4	4
Amounts due to related companies	4,622	4,622	4,622
Amount due to immediate holding company	24,609	24,609	24,609
Amount due to ultimate holding company	68,145	68,145	68,145
	98,331	98,331	98,331

(iv) Interest rate risk

The Lead Ocean Group's income and operating cash flows are substantially independent of changes in market interest rates and the Lead Ocean Group has no significant interest-bearing assets. The cash flow interest rate risk is considered low.

3.2 Fair value estimation

At the balance sheet dates, the fair values of the Lead Ocean Group's following current financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short-term maturity: other receivables, amounts due from/to related companies, amounts due to immediate holding company/ultimate holding company, cash and cash equivalents and trade and other payables.

3.3 Capital risk management

The primarily objective of the Lead Ocean Group's capital management is to safeguard the Lead Ocean Group to continue as a going concern while maximising the return to shareholders through the optimization of the debt and equity balance. The Lead Ocean Group's overall strategy remains unchanged during the Relevant Periods.

The Lead Ocean Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debts divided by adjusted capital. Net debts is calculated as trade and other payables, amounts due to immediate holding company, ultimate holding company and related companies, less cash and cash equivalents. Adjusted capital comprises all components of equity. The debt-to-adjusted capital ratios as at 31 March 2006, 2007 and 2008 were as follows:

		As at 31 March	
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Amount due to immediate holding company	–	24,604	24,609
Amount due to ultimate holding company	–	62,121	68,145
Amounts due to related companies	25,450	2,697	4,622
Amounts due to a director	4	4	4
Trade and other payables	2,101	2,688	951
Total borrowings	27,555	92,114	98,331
Less: Cash and cash equivalents	(301)	(236)	(41)
Net debts	27,254	91,878	98,290
Total equity	16,119	28,413	33,294
Gearing ratio	59%	232%	295%

The entities within the Lead Ocean Group are not subject to externally-imposed capital requirements.

As set out in note 2.1 above, the ultimate holding company and immediate holding company have agreed to provide continuing financial support to be Lead Ocean Group so as to meet it debts as and when they fall due and to carry on its business as a going concern for the foreseeable future.

4. Critical accounting estimates and judgements

Estimates and judgements used in preparing the Financial Information are evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Lead Ocean Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

(i) Useful lives of the property, plant and equipment

The Lead Ocean Group's management determines the estimated useful lives and the related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charges where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(ii) Impairment of property, plant and equipment and prepaid lease payments

Property, plant and equipment and prepaid lease payments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts are determined based on value-in-use calculations or market valuations. These calculations require the use of judgements and estimates.

(iii) Impairment of trade and other receivables

The Lead Ocean Group makes provision for impairment of trade and other receivables based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Lead Ocean Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(iv) Income taxes

There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Lead Ocean Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. In addition, the realisation of future income tax assets is dependent on the Lead Ocean Group's ability to generate sufficient taxable income in future years to utilize income tax benefits and income tax loss carry-forwards. Deviations of future profitability from estimates would result in adjustments to the value of future income tax assets and liabilities that could have a significant effect on earnings.

5. Turnover

	Year ended 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Rental income from sub-leasing of land	–	–	1,734

6. Other revenue

	Year ended 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Bank interest income	1	1	1
Plant hire income	677	608	487
Sundry income	23	6	8
	701	615	496

7. Expenses by nature

	Year ended 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Amortization	–	961	1,765
Depreciation	2,081	2,698	3,306
Sales tax	37	43	75
Property tax	20	20	22
License and permit fee	6	6	6
Staff costs *(note 8)*	382	394	438
Sundry expenses	164	116	196
Land parcel	330	2,351	551
Telephone	10	11	11
Total administrative expenses	3,030	6,600	6,370

8. Staff costs (including directors' remuneration)

	Year ended 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Wages and salaries	347	354	390
Pension costs-statutory pensions	23	28	31
Staff welfare and benefits	12	12	17
	382	394	438

9. Director' and senior management's emoluments

(a) Directors' emoluments

The directors of Lead Ocean do not receive directors' fee or emoluments from the Lead Ocean Group for the Relevant Periods.

(b) *Five highest paid individuals*

During the Relevant Periods, none of the five highest paid individuals is a director of Lead Ocean.

	Year ended 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Wages and salaries	135	143	155
Pension costs-statutory pensions	15	19	19
	150	162	174

The emoluments paid to each of the above non-director individual throughout the Relevant Periods fell within the banding of nil to HK$1,000,000.

(c) During the Relevant Periods, no emoluments were paid by the Lead Ocean Group to a director or any of the five highest paid individuals as an inducement to join or upon joining the Lead Ocean Group or as compensation for loss of office.

10. Income tax expenses

No Hong Kong Profits Tax has been provided as the Lead Ocean Group had no assessable profits derived from Hong Kong during the Relevant Periods.

PRC foreign enterprise income tax ("FEIT") is provided on the estimated taxable profits of the subsidiaries established in the PRC for the Relevant Periods, calculated in accordance with the relevant tax rules and regulations. The applicable FEIT rate for the PRC subsidiaries is 24%. No provision for FEIT has been made for the PRC subsidiaries as these PRC subsidiaries did not have any assessable profits for the Relevant Periods.

Effective from 1 January 2008, the PRC subsidiaries shall determine and pay the FEIT in accordance with the Corporate Income Tax Law of the PRC (hereinafter "the new CIT Law") approved by the National People's Congress on 16 March 2007. Under the new CIT Law, the FEIT rate applicable to the PRC subsidiaries will be 25%.

The income tax expenses for the Relevant Periods can be reconciled to the loss before income tax per income statements as follows:

	Year ended 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Loss before income tax	(2,329)	(5,985)	(4,140)
Notional tax on profit before income tax, calculated at rate applicable to profit in the countries concerned	(699)	(1,795)	(1,137)
Tax effect of non-deductible expenses	699	1,795	1,137
Income tax expense	–	–	–

11. Dividends

No dividend was declared or paid during the Relevant Periods.

12. Property, plant and equipment

	Buildings	Plant and machinery	Office equipment furniture and fixture	Construction in progress ("CIP")	Other equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation						
At 1 April 2005	33,631	27,121	2,093	303	381	63,529
Additions	–	–	7	78	–	85
Deficit on revaluation	(368)	–	–	–	–	(368)
Exchange realignment	914	737	57	8	10	1,726
Transfer from CIP	389	–	–	(389)	–	–
At 31 March 2006	34,566	27,858	2,157	–	391	64,972
Exchange realignment	1,564	1,261	97	–	18	2,940
Additions	–	4,745	–	–	–	4,745
Surplus on revaluation	20,645	–	–	–	–	20,645
At 31 March 2007	56,775	33,864	2,254	–	409	93,302
Surplus on revaluation	4,634	–	–	–	–	4,634
Exchange realignment	5,505	3,283	219	–	40	9,047
At 31 March 2008	66,914	37,147	2,473	–	449	106,983
Accumulated depreciation and impairment losses						
At 1 April 2005	–	27,121	2,093	–	381	29,595
Exchange realignment	27	737	58	–	10	832
Charge for the year	2,080	–	1	–	–	2,081
Elimination of revaluation	(2,107)	–	–	–	–	(2,107)
At 31 March 2006	–	27,858	2,152	–	391	30,401
Elimination of revaluation	(2,203)	–	–	–	–	(2,203)
Exchange realignment	48	1,273	96	–	18	1,435
Charge for the year	2,155	542	1	–	–	2,698
At 31 March 2007	–	29,673	2,249	–	409	32,331
Elimination of revaluation	(2,416)	–	–	–	–	(2,416)
Exchange realignment	106	2,923	218	–	40	3,287
Charge for the year	2,310	995	1	–	–	3,306
At 31 March 2008	–	33,591	2,468	–	449	36,508
Net book value						
At 31 March 2006	34,566	–	5	–	–	34,571
At 31 March 2007	56,775	4,191	5	–	–	60,971
At 31 March 2008	66,914	3,556	5	–	–	70,475

The Lead Ocean Group's buildings and shipyard workshop auxiliaries, erected on the land as referred to note 13, were appraised by BMI Appraisals Limited and Win Well Engineering & Surveyors Limited, independent professional valuers in Hong Kong, using the depreciated replacement cost approach and open market approach, on existing use basis at HK$34,566,000, HK$56,775,000 and HK$66,914,000 as at 31 March 2006, 2007 and 2008, respectively. Had the buildings been carried at cost less accumulated depreciation, the carrying amounts of the buildings would have been HK$18,440,000, HK$17,072,000 and HK$16,311,000, respectively.

13. Prepaid lease payments

	2006	2007	2008
	HK$'000	*HK$'000*	*HK$'000*
Cost			
At 1 April	–	–	57,376
Additions	–	57,376	–
Exchange realignment	–	–	5,564
At 31 March	–	57,376	62,940
Accumulated amortisation			
At 1 April	–	–	982
Exchange realignment	–	21	177
Charge of the year	–	961	1,765
At 31 March	–	982	2,924
Net book Value			
At 31 March	–	56,394	60,016
Analysed into			
Current portion	–	1,683	1,846
Non-current portion	–	54,711	58,170
	–	56,394	60,016

Prepaid lease payments represent payments for land use rights for the medium-term leasehold land in the PRC, which have remaining terms ranging from 31 to 32 years as at 31 March 2008. The cost for the Land was paid by Harbour Front Limited on behalf of the Lead Ocean Group on actual cost basis. The Lead Ocean Group is in the process of obtaining land use rights certificate.

According to the legal opinion from the PRC legal advisor of the Lead Ocean Group, Allbright Law Offices (Shenzhen) issued on 20 August 2008, the two PRC subsidiaries have the legal rights to use the collective-owned construction land and they will not be jeopardised in obtaining land use rights certificate under the relevant rules and regulations in the PRC.

14. Other receivables

	As at 31 March		
	2006	2007	2008
	HK$'000	*HK$'000*	*HK$'000*
Rental income receivable	–	–	766
Plant hire income receivable	73	138	287
Other receivables	14	64	40
	87	202	1,093

The maximum exposure to credit risk at each of the balance sheet dates is the fair value of other receivables mentioned above.

15. Amounts due from/(to) related companies

	As at 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Amount due from:			
– 中山太元重工業有限公司	96	–	–
Amounts due to:			
– UDL Holdings Limited	25,450	787	862
– UDL Argos Engineering & Heavy Industrial Co. Ltd	–	1,910	3,760
	25,450	2,697	4,622

Amounts due are all unsecured, interest-free and repayable on demand. All related companies are ultimately owned by Harbour Front Limited, Mrs Leung Yu Oi Ling, Ms Leung Chi Yin and Mr Leung Chi Hong, each being an executive director, holds one-third of the issued share capital of Harbour Front Limited.

16. Cash and bank balances

	As at 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Cash at banks and in hand	301	236	41

All of cash and bank balance of the Lead Ocean Group as at 31 March 2006, 2007 and 2008 were denominated in HK$. The effective annual interest rate on bank deposits ranged between 3% and 3.33% per annum.

The carrying amounts of the cash and cash equivalents approximate to their fair values.

17. Amounts due to immediate holding company/ultimate holding company/a director

The amount due to immediate holding company, Harbour Front Assets Management Limited, is unsecured, interest-free and repayable on demand.

The amount due to ultimate holding company, Harbour Front Limited, is unsecured, interest-free and repayable on demand.

The amount due to a director of the Company, Mrs Leung Yu Oi Ling, is unsecured, interest-free and repayable on demand. She was appointed as a director of Argos Engineering (International) Company Limited and Cochrane Enterprises Limited since 1993.

18. Trade and other payables

	As at 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Other payables	2,016	2,603	866
Accruals	85	85	85
	2,101	2,688	951

The carrying amounts of other payables approximated their fair values at each of the balance sheet dates.

19. Share capital

	As at 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Authorised:			
50,000 ordinary shares of US$1 each	390	390	390
Issued and fully paid:			
100 ordinary shares of US$1 each	–	–	–

Lead Ocean was incorporated on 2 May 2008 with an authorized capital of US$50,000 of 50,000 ordinary shares of US$1 each. Upon its incorporation, 100 ordinary shares of US$1 each of Lead Ocean was issued at par to Harbour Front in exchange for the equity interests in all the subsidiaries in Lead Ocean.

20. Reserves

	Merger reserve	**Exchange reserve**	**Revaluation Reserve**	**Retained earnings**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2005	10	(11,767)	10,505	17,654	16,402
Loss for the year	–	–	–	(2,329)	(2,329)
Revaluation deficit on property, plant and equipment	–	–	1,739	–	1,739
Deferred tax liability arising from revaluation of property, plant and equipment	–	–	(530)	–	(530)
Exchange realignment	–	837	–	–	837
At 31 March 2006	10	(10,930)	11,714	15,325	16,119
Loss for the year	–	–	–	(5,985)	(5,985)
Revaluation surplus on property, plant and equipment	–	–	22,848	–	22,848
Deferred tax liability arising from revaluation of property, plant and equipment	–	–	(5,895)	–	(5,895)
Exchange realignment	–	1,326	–	–	1,326
At 31 March 2007	10	(9,604)	28,667	9,340	28,413
Loss for the year	–	–	–	(4,140)	(4,140)
Revaluation surplus on property, plant and equipment	–	–	7,050	–	7,050
Deferred tax liability arising from revaluation of property, plant and equipment	–	–	(2,724)	–	(2,724)
Exchange realignment	–	4,695	–	–	4,695
At 31 March 2008	10	(4,909)	32,993	5,200	33,294

21. Deferred taxation

Deferred tax assets and liabilities recognised

	As at March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Deferred tax assets recognised			
– tax losses	12,650	12,650	12,650
Deferred tax liabilities recognised			
– revaluation surplus on property, plant and equipment	(4,031)	(9,926)	(12,650)
	8,619	2,724	–

Deferred tax assets not recognised

The Lead Ocean Group has not recognised deferred tax assets in respect of cumulative unused tax losses of HK$41,293,000, HK$26,425,000, and HK$26,264,000 as at 31 March 2006, 2007 and 2008, respectively, as it is not probable that the future taxable profits against, which these losses can be utilised will be available in the relevant tax jurisdiction and entity in the future.

22. Related party disclosures

Other than the financial support given by the ultimate holding company, the transactions and balances with related parties as disclosed in notes 15 and 17 of this section, respectively, the Lead Ocean Group had no outstanding balances and other transactions with related parties during the Relevant Periods.

In the opinion of the directors of Lead Ocean, the directors of Lead Ocean represented the key management personnel of the Lean Ocean Group and details of the compensation of which are set out in note 9 of this section.

III BALANCE SHEET OF LEAD OCEAN

Lead Ocean was incorporation on 2 May 2008 with an authorised share capital of US$50,000. Lead Ocean has not carried on any business since its date of incorporation.

IV SUBSEQUENT FINANCIAL STATEMENTS

No audited HKFRS financial statements have been prepared for the Lead Ocean Group in respect of any period subsequent to 31 March 2008.

Yours faithfully,

CCIF CPA Limited
Certified Public Accountants
Hong Kong

Leung Chun Wa
Practising Certificate Number P04963

The following is the text of an accountant's report of the Net Excel Group received from the independent reporting accountants of the Company, CCIF CPA Limited, Certified Public Accountants, Hong Kong, for inclusion in this circular.

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

4 September 2008

The Directors
UDL Holdings Limited

Dear Sirs,

We set out below our report on the combined financial information (the "Financial Information") of Net Excel Management Limited ("Net Excel") and its subsidiaries (hereinafter collectively referred to as the Net Excel Group"), including the combined balance sheets as at 31 March 2006, 2007 and 2008, the combined income statements, the combined cash flow statements and the combined statements of changes in equity for each of the three years ended 31 March 2006, 2007 and 2008 (the "Relevant Periods") together with a summary of significant accounting policies and other explanatory notes thereto for inclusion in the circular (the "Circular") dated 28 August 2008 issued by UDL Holdings Limited (the "Company") in connection with the proposed acquisition of the entire equity interest in Net Excel by the Company.

Net Excel was incorporated on 23 May 2008 in the British Virgin Islands (the "BVI") as a limited liability company under the BVI Business Companies Act 2004 with an authorised share capital of US$50,000 divided into 50,000 ordinary shares of US$1 each. The registered office is located P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, the British Virgin Islands. The principal activity of Net Excel during the Relevant Periods was investment holding.

Pursuant to a reorganisation as detailed in note 1.2 of section II below, Net Excel became the holding company of the subsidiaries now comprising the Net Excel Group on 23 May 2008. The particulars of these subsidiaries as at the date of this report are set out below.

At the date of this report, Net Excel had direct and indirect interests in the following subsidiaries:

Name of subsidiary	Legal structure	Registered capital	Paid up/ issued capital	Date and place of establishment	Percentage of equity attributable to Net Excel Direct	Indirect	Principal activities
Tonic Engineering & Construction Company Limited	Corporate	HK$8,325,317	HK$8,325,317	28 September 1979 Hong Kong	100%	–	Provision of civil engineering and contracting services
Gitanes Engineering Company Limited	Corporate	HK$80,711,893	HK$63,711,772	6 April 1979 Hong Kong	100%	–	Plant hire and civil engineering
Guangdong Gitanes Engineering Co., Limited	Corporate	RMB$20,000,000	RMB$2,000,000	25 November 2004 PRC	–	100%	Inactive
Chiu Hing Company Limited	Corporate	HK$18,200,000	HK$18,200,000	22 November 1966 Hong Kong	100%	–	Rental of motor vehicles

All the companies, except Guangdong Gitanes Engineering Co., Limited comprising the Net Excel Group have adopted 31 March as their financial year end. The financial year end of Guangdong Gitanes Engineering Co., Limited is 31 December.

No audited financial statements have been prepared for Net Excel since its date of incorporation as there are no statutory requirements for it to prepare audited financial statements. We have, however, reviewed all transactions of Net Excel from the date of incorporation to 31 March 2008 for the purpose of this report.

The statutory financial statements of Guangdong Gitanes Engineering Co., Limited, which were prepared in accordance with the relevant rules and regulations applicable to enterprises with foreign investment in the PRC, were audited by 廣州藍濤會計師事務所有限公司 for the Relevant Periods.

The financial statements of the subsidiaries, as set out below, which were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), were audited during the Relevant Periods by the respective auditors as indicated below:

Name of company	Financial period	Auditors
Tonic Engineering & Construction Company Limited	31 March 2006 and 2007 31 March 2008	Y.L. Ngan & Company CCIF CPA Limited
Gitanes Engineering Company Limited	31 March 2006 and 2007 31 March 2008	Y.L. Ngan & Company CCIF CPA Limited
Guangdong Gitanes Engineering Co., Limited	31 March 2006 and 2007 31 March 2008	Y.L. Ngan & Company CCIF CPA Limited
Chiu Hing Company Limited	31 March 2006, 2007 and 2008	CCIF CPA Limited

For the purpose of this report, the directors of Net Excel have prepared the combined financial statements of the Net Excel Group (the "HKFRS Financial Statements") for each of the years ended 31 March 2006, 2007 and 2008 in accordance with HKFRSs and on the basis set out in note 1.2 section II below. We have carried out appropriate audit procedures in respect of the HKFRS Financial Statements for the Relevant Periods in accordance with the Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information has been prepared based on the audited HKFRS Financial Statements and unaudited combined financial statements of the Net Excel Group for the Relevant Periods prepared in accordance with HKFRSs with no adjustments made thereon.

Directors' responsibility

The directors of Net Excel are responsible for the preparation and the true and fair presentation of the combined financial statements of the Net Excel Group for the Relevant Periods in accordance with HKFRSs. The directors of the Company are responsible for the true and fair presentation in the Financial Information in accordance with HKFRSs. Their responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the combined financial statements and the true and fair presentation of Financial Information that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Reporting accountant's responsibility

For the Financial Information for each of the years ended 31 March 2006, 2007 and 2008, our responsibility is to express an opinion on the Financial Information based on our examination and to report our opinion to you. We examined the audited HKFRS Financial Statements of the Net Excel Group and carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

Opinion

In our opinion, the Financial Information for each of the years ended 31 March 2006, 2007 and 2008, for the purpose of this report, gives a true and fair view of the combined state of affairs of the Net Excel Group as at 31 March 2006, 2007 and 2008 and of the Net Excel Group's combined results and cash flows for the years then ended.

I FINANCIAL INFORMATION

The following is the Financial Information of the Net Excel Group as at 31 March 2006, 2007 and 2008 and for each of the years ended 31 March 2006, 2007 and 2008.

(a) Combined income statements

		Year ended 31 March		
		2006	**2007**	**2008**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	5	–	2,431	13,052
Cost of sales		(223)	(2,216)	(9,531)
Gross (loss)/profit		(223)	215	3,521
Other revenue	6	1,405	1,702	1,677
Administrative expenses	7	(1,638)	(1,513)	(2,002)
Finance costs	10	(21)	(19)	(28)
(Loss)/profit before income tax		(477)	385	3,168
Income tax expense	11	–	–	–
(Loss)/profit for the year		(477)	385	3,168
Dividends	12	–	–	–

(b) Combined balance sheets

		As at 31 March		
		2006	**2007**	**2008**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment	13	274	200	29,442
Club debenture	14	200	200	200
Available-for-sale investment	15	–	–	30
Deferred tax asset	21	742	742	–
		1,216	1,142	29,672
Current assets				
Amounts due from customers for contract work	16	–	2,302	1,029
Other receivables	17	355	7,168	4,249
Amounts due from related companies	18	13,267	18,302	137
Amount due from ultimate holding company	19	12,980	3,709	18,855
Cash and bank balances	20	2,439	188	1,480
		29,041	31,669	25,750
Current liabilities				
Other payables	22	1,775	4,106	4,975
Amounts due to related companies	18	2,769	2,772	–
Amount due to a director	18	11	11	11
Obligations under finance leases	23	73	79	105
		4,628	6,968	5,091
Net current assets		24,413	24,701	20,659
Total assets less current liabilities		25,629	25,843	50,331
Non-current liabilities				
Obligations under finance leases	23	193	114	171
Net assets		25,436	25,729	50,160
Capital and reserves				
Share capital	24	–	–	–
Reserves	25	25,436	25,729	50,160
Total equity		25,436	25,729	50,160

(c) Combined cash flow statements

	Year ended 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Operating activities			
(Loss)/profit before taxation	(477)	385	3,168
Adjustments for:			
Finance lease charges	21	19	28
Interest income	(148)	(278)	(13)
Depreciation	410	74	1,161
Gain on disposal of property, plant and equipment	(987)	–	(9)
Operating (loss)/profit before changes in working capital	(1,181)	200	4,335
(Increase)/decrease in amounts due from customers for contract work	–	(2,302)	1,273
(Decrease)/increase in trade and other payables	(1,456)	2,331	869
Decrease/(increase) in other receivables	10,048	(6,813)	2,919
Net cash generated from/(used in) operating activities	7,411	(6,584)	9,396

	Year ended 31 March		
	2006	2007	2008
	HK$'000	*HK$'000*	*HK$'000*
Investing activities			
Acquisition of property, plant and equipment	–	–	(7,929)
Purchase of available-for-sale investment	–	–	(98)
Proceeds from disposal of property, plant and equipment	5,227	–	77
Interest income	148	278	13
Net cash generated from/(used in) investing activities	5,375	278	(7,937)
Financing activities			
Proceed on issue of ordinary shares	2,441	–	–
Capital element of finance leases repaid	(77)	(73)	(156)
Finance lease charges	(21)	(19)	(28)
Decrease/(increase) in amount due from ultimate holding company	–	9,271	(15,146)
Increase in amount due from immediate holding company	(12,980)	–	–
Net balance with related companies	(1,585)	(5,032)	15,393
Net cash (used in)/generated from financing activities	(12,222)	4,147	63
Increase/(decrease) in cash and cash equivalents	564	(2,159)	1,522
Cash and cash equivalents at beginning of the year	1,824	2,439	188
Effect of foreign exchange rate changes	51	(92)	(230)
Cash and cash equivalents at end of the year	2,439	188	1,480

Major non-cash item

During the Relevant Periods, the Net Excel Group entered into finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the lease of HK$219,000, Nil and HK$239,000 for the year ended 31 March 2006, 2007 and 2008, respectively.

(d) Combined statements of changes in equity

	Attributable to equity holders of Net Excel							
	Share capital	Merger reserve	Share premium	Exchange fluctuation reserve	Revaluation reserve	Investment revaluation reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2005	–	90,237	24,483	–	–	–	(88,858)	25,862
Loss for the year	–	–	–	–	–	–	(477)	(477)
Exchange realignment	–	–	–	51	–	–	–	51
At 31 March 2006 and 1 April 2006	–	90,237	24,483	51	–	–	(89,335)	25,436
Profit for the year	–	–	–	–	–	–	385	385
Exchange realignment	–	–	–	(92)	–	–	–	(92)
At 31 March 2007 and 1 April 2007	–	90,237	24,483	(41)	–	–	(88,950)	25,729
Change in fair value of available-for-sale investment	–	–	–	–	–	(68)	–	(68)
Revaluation surplus on property, plant and equipment	–	–	–	–	22,303	–	–	22,303
Deferred tax arising from revaluation	–	–	–	–	(742)	–	–	(742)
Profit for the year	–	–	–	–	–	–	3,168	3,168
Exchange realignment	–	–	–	(230)	–	–	–	(230)
At 31 March 2008	–	90,237	24,483	(271)	21,561	(68)	(85,782)	50,160

II NOTES TO THE FINANCIAL INFORMATION

1. General information

1.1 Net Excel was incorporated on 23 May 2008 in the British Virgin Islands (the "BVI") as a limited liability company under the BVI Business Companies Act 2004 with an authorised share capital of US$50,000 divided into 50,000 ordinary shares of US$1 each. The registered office is located P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, the British Virgin Islands.

1.2 Basis of preparation

As Net Excel and its subsidiaries are ultimately controlled by the same ultimate group of parties, who also owns Harbour Front Limited ("Harbour Front") (together "Harbour Front Concert Parties") before and after Net Excel has become the immediate holding company of the Net Excel Subsidiaries in May 2008, there is a continuation of the risks and benefits to the Harbour Front Concert Parties that existed before Net Excel had become the immediate holding company of the Net Excel Subsidiaries. Net Excel is regarded as a continuing entity and consequently the reorganisation has been accounted for as a reorganisation under common control in a manner similar to pooling of interests. The Financial Information has been prepared in accordance with the principles of merger accounting as set out in Accounting Guideline 5 "Merger accounting for common control combinations" issued by HKICPA, under which Net Excel is considered as the holding company of the Net Excel Group at the beginning of the Relevant Periods, as if the current group structure had been in existence throughout the Relevant Periods.

The Financial Information presents the results, cash flows and financial position of the Net Excel Group for the years ended 31 March 2006, 2007 and 2008 on the basis that the Net Excel Group, for the purpose of this report, is regarded as a continuing entity and that the reorganisation had been completed as at the beginning of the Relevant Periods.

All material intra-group transactions and balances have been eliminated on consolidation.

The Financial Information is presented in Hong Kong dollars ("HK$"), unless otherwise stated.

1.3 The directors of Net Excel consider that the ultimate holding company is Harbour Front.

2. Summary of significant accounting policies

2.1 Basis of preparation

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"). It has been prepared under the historical cost convention as modified by the revaluation of marine crafts.

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to the Relevant Periods presented, unless otherwise stated.

The preparation of Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Net Excel Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4 below. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the Relevant Periods. Although these estimates are based on management's best knowledge or event and actions, actual results ultimately may differ from these estimates.

The Net Excel Group has not early adopted the following revised standards and interpretations that have been issued but not yet effective. The directors of Net Excel anticipate that the application of these standards and interpretations will have no material impact on the results and financial positions of the Net Excel Group.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[5]
HKFRS 2 (Amended)	Share-Base Payment- Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[5]
HKFRS 8	Operating Segments[1]
HK (IFRIC) – Int 11	HKFRS 2-Group and Treasury Share Transactions[2]
HK (IFRIC) – Int 12	Service Concession Arrangements[3]
HK (IFRIC) – Int 13	Customer Loyalty Programmes[4]
HK (IFRIC) – Int 14	HKAS 19- The Limited on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction[3]

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

2.2 *Merger accounting for common control combination*

The combined financial information incorporate the financial statements of the combining entities or businesses for which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognized in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The combined income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period.

The comparative amounts in the combined financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealized gains on transactions between combining entities or businesses are eliminated on combination.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting is recognized as an expense in the period in which it is incurred.

2.3 *Subsidiaries*

Subsidiaries are those entities over which Net Excel has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights that are currently exercisable or convertible are considered when assessing whether Net Excel controls another entity.

Subsidiaries (other than those acquired in business combination under common control) are fully consolidated from the date on which control is transferred to the Net Excel Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by Net Excel, other than business combination under common control in accordance with note 2.2 above. The cost of an acquisition is measured as the fair value of assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identified assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Net Excel Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Net Excel Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence 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 Net Excel Group.

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

2.4 *Segment reporting*

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

2.5 *Foreign currency translation*

(i) Functional and presentation currency

Items included in the financial statements of each of the Net Excel Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency"). The combined financial statements are presented in Hong Kong dollars ("HK$"), which is the Net Excel Group's 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) Net Excel Group companies

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

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

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

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

On combination, 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.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity (other than those acquired in business combination under common control) are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.6 Property, plant and equipment

Property, plant and equipment (other than marine crafts) are stated at historical cost less accumulated depreciation and impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Marine crafts are stated at revalued amount, being its 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 this asset does not materially from that which would be determined using fair value at the balance sheet date.

Any revaluation increase arising from revaluation of marine crafts 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, of any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits as a movement in equity.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economics benefit associated with the item will flow to the Net Excel Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residue value, using the straight-line method over their estimated useful lives as follows:

Office equipment	3 years
Plant and machinery	3 years
Motor vehicles	5 years
Marine crafts	10 years

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.

2.7 *Construction contracts*

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

2.8 *Impairment on non-financial assets*

Assets that have an indefinite useful life or have not been available for use are not subject to amortisation and are tested annually for impairment. Assets that subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 *Investments and other financial assets*

The Net Excel Group classified its financial assets in the following categories: other financial assets at fair value through profit or loss, loans and receivables, held-to maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determined the classification of its financial assets at initial recognition and re-evaluated this designation at every reporting date.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives were categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either for trading or are expected to be realized within 12 months of the balance sheet date.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as long-term receivables and account receivables in the balance sheet.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designed in this category or not classified in any of the other categories. They are included in non-current assets unless the management intends to dispose of the investment with 12 months of the balance sheet date.

Regular purchases and sales of investments are recognised on trade-date, the date on which the Net Excel Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognised at fair value and transaction costs are expensed in the income statement. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Net Excel Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

The fair values of quoted investment are based on current bid prices. For unlisted securities are determined by using valuation technique. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing model refined to reflect the issuer's specific circumstances.

The Net Excel Group reassesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case equity securities classified as available-for-sale financial assets, the cumulative loss-measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2.10 Assets acquired under finance assets

Where Net Excel Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased assets, or, if lower, the present value of the minimum lease payments, of such assets is included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the company will obtain ownership of the asset, the life of the asset, as set out in note 2.6. Impairment losses are accounted for in accordance with the accounting policy as set out in note 2.12. Finance charges implicit in the lease payments are charged to income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

2.11 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment of trade and other receivables is established when there is objective evidence that the Net Excel Group will not be able to collect all amounts due according to the original terms of the 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.

2.12 Impairment of assets

(i) Impairment of investment in equity securities

Investments in equity securities that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognized as follows:

For unquoted equity securities and current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases. Impairment losses for equity securities are not reversed.

For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

For available-for-sale securities, the cumulative loss that had been recognized directly in equity is removed from equity and is recognized in profit or loss. The amount of the cumulative loss that is recognized in profit or loss is the difference between the acquisition cost (net of any principal repayments and amortization) and current fair value, less any impairment loss on the asset previously recognized in profit or loss.

Impairment losses recognized in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognized directly in equity.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognized. Reversals of impairment losses in such circumstances are recognized in profit or loss.

(ii) Impairment of trade and other receivables

Trade and other receivables are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment, if any such evidence exists, any impairment loss is determined and recognized as follows:

– a significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganization; and

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognized as follows:

– For trade receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

  If in a subsequent period, the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

(iii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that property, plant and equipment may be impaired or, except in case of goodwill, may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. cash-generating unit).

– Recognition of impairment losses

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

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates 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 had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized.

2.13 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, deemed deposits with banks and other financial institutions and short term highly liquid investments that readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Net Excel Group's cash management are also included as a component of cash and cash equivalents for the purpose of the combined cash flow statement.

2.14 Trade and other payables

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

2.15 Borrowings

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

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

2.16 Taxation

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised in equity, in which case they are recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the combined 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, except where the timing of the reversal of the temporary difference is controlled by the Net Excel Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.17 *Borrowing costs*

Borrowing costs are expensed in income statement in the period in which they are incurred, except to the extent that they are capitalized as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for it intended use or sale.

The capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

2.18 *Provisions and contingent liabilities*

Provisions are recognised for other liabilities of uncertain timing or amount when the Net Excel Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability or outflow of economic benefit is remote.

2.19 *Employee retirement benefits*

Net Excel Group has arranged for its Hong Kong Employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). The Net Excel Group's contributions to the MPF Scheme are expensed as incurred. Both the Net Excel Group and its employees in Hong Kong are required to contribute 5% of each individual's relevant income with a maximum amount of HK$1,000 per month as a mandatory contribution. Employees may also elect to contribute more than the minimum as a voluntary contribution. The assets of the scheme are held in separate trustee-administered funds.

For employees in the PRC, the Net Excel Group contributes on a monthly basis to various defined contribution plans organized by the relevant municipal and provincial governments in the PRC based on certain percentage of the relevant employees' monthly salaries and are charged to the income statement as they become payable, in accordance with the rules of the pension schemes.

2.20 *Recognition of revenue*

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Net Excel Group's activities. Revenue is recognised as follows:

Revenue from 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.

Rental and hire income is recognised on a time proportion basis over the lease terms.

Consultant fee income is recognised when the services have been rendered.

Interest income is recognised as it accrues using the effective interest method.

2.21 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

2.22 Related parties

Parties are considered to be related to the Net Excel Group if:

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

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

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

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

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

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

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

3. Financial risk management

3.1 Financial risk factors

The Net Excel Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and interest rate risk, arises in the normal course of the Net Excel Group's business.

Management regularly monitors the financial risks of the Net Excel Group. Because of the simplicity of the financial structure and the current operations of the Net Excel Group, no hedging activities are undertaken by management.

(i) Foreign currency risk

The Net Excel Group's mainly operated in Hong Kong and most of the transactions settled in Hong Kong dollars, its functional currency. The exposure to exchange rate risks is minimal. The Net Excel Group does not have hedging policy in respect of the foreign currency risk. However, management monitors the related foreign currency risk exposure closely.

(ii) Credit risk

The Net Excel Group's credit risk does not have any significant risk as credit given to any individual or corporate entity is not significant. The main credit risk exposure to the Net Excel Group arises from default in amounts due from customers for contract work. In respect of amounts due from contract works, the Net Excel Group mainly trades with municipal government which do not have significant credit risk. In addition, amounts due from contract work are monitoring on an ongoing basis, in the opinion of the directors, the credit risk is not significant.

With respect to credit risk arising from the other major financial assets of the Net Excel Group, which comprise other receivables, amounts due from other receivables and cash and cash equivalents, the Net Excel Group's exposure to credit risk arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

(iii) Liquidity risk

As at 31 March 2008, the Net Excel Group had net current assets and net assets of HK$20,659,000 and HK$50,160,000, respectively. Management considered the liquidity risk is minimal.

The Net Excel Group manages its liquidity needs by carefully monitoring expected payments for potential investments as well as cash-outflows due in day-to-day business. Liquidity needs are monitored on a day-to-day basis. Long term liquidity needs for an annual period are identified on a monthly basis.

The following table details the remaining contractual maturities at the balance sheet dates of non-derivative financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Net Excel Group can be required to pay:

	Carrying value	Total contractual undiscounted cash flow	Within 1 year or on demand	1 to 5 year
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31 March 2006				
Other payables	1,775	1,775	1,775	–
Amounts due to related companies	2,769	2,769	2,769	–
Amount due to a director	11	11	11	–
Obligations under finance leases	266	266	73	193
	4,821	4,821	4,628	193
At 31 March 2007				
Other payables	4,106	4,106	4,106	–
Amounts due to related companies	2,772	2,772	2,772	–
Amount due to a director	11	11	11	–
Obligations under finance leases	193	193	79	114
	7,082	7,082	6,968	114
At 31 March 2008				
Other payables	4,975	4,975	4,975	–
Amounts due to related companies	–	–	–	–
Amount due to a director	11	11	11	–
Obligations under finance leases	276	276	105	171
	5,262	5,262	5,091	171

(iv) Interest rate risk

Other than the bank balances, obligations under finance leases and amounts due from group companies and related companies, the Net Excel Group has no significant interest-bearing assets and liabilities, the Net Excel Group's income and operation cash flows are substantially independent of changes in market interest rates. In the opinion of the directors, the exposure to cash flow and fair value interest rate risk is considered as low.

3.2 Fair value estimation

At the balance sheet dates, the fair values of the Net Excel Group's following current financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short-term maturity: trade and other receivables, amounts due from related companies, amount due from ultimate holding company, cash and cash equivalents, other payables, amounts due to related companies, amount due to a director and obligations under finance leases.

The following summarizes the major methods and assumptions used in estimating the fair values of financial instruments.

(i) Securities

Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

(ii) Interest-bearing loans and borrowings

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

3.3 Capital risk management

The Net Excel Group's primary objectives when managing capital are to safeguard the Net Excel Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Net Excel Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Net Excel Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debts divided by adjusted capital. Net debts is calculated as other payables, amount due to a director, amounts due to related companies and obligations under finance leases less cash and cash equivalents. Adjusted capital comprises all components of equity. The debt-to-adjusted capital ratios as at 31 March 2006, 2007 and 2008 were as follows:

		As at 31 March	
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Amount due to a director	11	11	11
Amounts due to related companies	2,769	2,772	–
Obligations under finance leases	266	193	276
Other payables	1,775	4,106	4,975
Total borrowings	4,821	7,082	5,262
Less: Cash and cash equivalents	(2,439)	(188)	(1,480)
Net debt	2,382	6,894	3,782
Total equity	25,436	25,729	50,160
Gearing ratio	9%	27%	7.5%

The Net Excel Group is not subject to any externally imposed capital requirements.

4. Critical accounting estimates and judgements

Estimates and judgements used in preparing the Financial Information are evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Net Excel Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

(i) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account of the estimated residue value. The Net Excel Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expenses to be recorded during any reporting period. The useful lives are based on the Net Excel Group's historic experience with similar assets and taking up into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(ii) Impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts are determined based on value-in-use calculations or market valuations. These calculations require the use of judgements and estimates.

(iii) Impairment of trade receivables and other receivables

The Net Excel Group makes provision for impairment of trade and other receivables based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Net Excel Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(iv) Income taxes

There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Net Excel Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. In addition, the realisation of future income tax assets is dependent on the Net Excel Group's ability to generate sufficient taxable income in future years to utilize income tax benefits and income tax loss carry-forwards. Deviations of future profitability from estimates would result in adjustments to the value of future income tax assets and liabilities that could have a significant effect on earnings.

(v) Impairment of available-for sale investments

The Net Excel Group follows the guidance of HKAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Net Excel Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

5. Turnover

The principal activities of the Net Excel Group are the provision of civil engineering and contracting services.

	Year ended 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Revenue from contract work performed	–	2,431	13,052

6. Other revenue

	Year ended 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Plant hire income	–	–	1,164
Consultancy fee income	100	240	180
Accrued interest income from a related company	148	277	–
Gain on disposal of property, plant and equipment	987	–	9
Recovery of bad debts	21	1,019	138
Car hire income	82	91	127
Exchange gain	–	14	46
Sundry income	67	61	13
	1,405	1,702	1,677

7. Expenses by nature

	Year ended 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Depreciation	410	74	581
Licence and permit fee	21	55	30
Staff costs *(note 8)*	839	886	898
Audit fee and secretarial fee	51	29	1
Telephone	13	10	12
Travelling expenses	29	18	31
Legal and professional fee	45	161	173
Rent and rates	82	85	43
Office supplies	5	7	12
Sundry expenses	143	188	221
Total administrative expenses	1,638	1,513	2,002

8. Staff costs (including directors' remuneration)

	Year ended 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Wages and salaries	839	886	2,171
Pension costs-statutory pensions	–	–	46
	839	886	2,217

9. Director' and senior management's emoluments

(a) Directors' emoluments

The directors of Net Excel do not receive directors' fee or emoluments from the Net Excel Group for the Relevant Periods.

(b) Five highest paid individuals

During the Relevant Periods, none of the five highest paid individuals is a director of Net Excel.

	Year ended 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Wages and salaries	839	886	1,320
Pension costs-statutory pensions	–	–	36
	839	886	1,356

The emoluments paid to each of the above non-director individual throughout the Relevant Periods fell within the banding of nil to HK$1,000,000.

(c) During the Relevant Periods, no emoluments were paid by the Net Excel Group to a directors or any of the five highest paid individuals as an inducement to join or upon joining the Net Excel Group or as compensation for loss of office.

10. Finance costs

	Year ended 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Finance charges on obligations under finance leases	21	19	28

11. Income tax expenses

No Hong Kong Profits Tax has been provided as the Net Excel Group had no assessable profits derived from Hong Kong during the Relevant Periods.

PRC foreign enterprise income tax ("FEIT") is provided on the estimated taxable profits of the subsidiary established in the PRC for the Relevant Periods, calculated in accordance with the relevant tax rules and regulations. The applicable FEIT rate for the PRC subsidiaries is 24%. No provision for FEIT has been made for the PRC subsidiaries as these PRC subsidiaries did not have any assessable profits for the Relevant Periods.

Effective from 1 January 2008, the PRC subsidiaries shall determine and pay the FEIT in accordance with the Corporate Income Tax Law of the PRC (hereinafter "the new CIT Law") approved by the National People's Congress on 16 March 2007. Under the new CIT Law, the FEIT rate applicable to the PRC subsidiary will be 25%.

The income tax expenses for the Relevant Periods can be reconciled to the (loss)/profit before income tax per income statements as follows:

	Year ended 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
(Loss)/profit before income tax	(477)	385	3,168
Notional tax on profit before income tax, calculated at rate applicable to profit in the countries concerned	(94)	49	527
Tax effect of non-taxable revenue	(203)	(226)	(28)
Tax effect of non-deductible expenses	40	63	91
Tax effect of temporary difference	784	(18)	(837)
Tax loss utilized	(543)	46	(92)
Tax effect of unrecognised tax loss	16	86	339
Income tax expense	–	–	–

12. Dividends

No dividend was declared or paid during the Relevant Periods.

13. Property, plant and equipment

	Plant & machinery *HK$'000*	Office equipment *HK$'000*	Marine crafts *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Cost or revaluation					
At 1 April 2005	964	90	5,400	257	6,711
Additions	–	–	–	219	219
Disposals	(923)	(38)	(5,400)	(105)	(6,466)
At 1 April 2006 and 31 March 2007	41	52	–	371	464
Additions	835	267	6,441	625	8,168
Disposals	–	–	–	(152)	(152)
Revaluation surplus	–	–	21,659	–	21,659
At 31 March 2008	876	319	28,100	844	30,139
Accumulated depreciation and impairment losses					
At 1 April 2005	947	76	900	83	2,006
Disposals	(907)	(38)	(1,221)	(60)	(2,226)
Charge for the year	1	14	321	74	410
At 31 March 2006 and 1 April 2006	41	52	–	97	190
Charge for the year	–	–	–	74	74
At 31 March 2007 and 1 April 2007	41	52	–	171	264
Elimination of depreciation on revaluation	–	–	(644)	–	(644)
Disposals	–	–	–	(84)	(84)
Charge for the year	216	81	644	220	1,161
At 31 March 2008	257	133	–	307	697
Net book value					
At 31 March 2006	–	–	–	274	274
At 31 March 2007	–	–	–	200	200
At 31 March 2008	619	186	28,100	537	29,442

The Net Excel Group's marine crafts were revalued on 31 March 2008, by Win Well Engineering & Surveyors Limited, an independent professional valuer in Hong Kong, on an open market value basis. The revaluation surplus of approximately HK$22,303,000 has been transferred to the revaluation reserve.

Had the marine crafts been carried at cost less accumulated depreciation, the carry amount would have been HK$5,797,000 as at 31 March 2008.

At 31 March 2006, 2007 and 2008, the net book value of property, plant and equipment held under finance leases of the Net Excel Group was HK$274,000, HK$200,000 and HK$537,000, respectively.

14. Club debenture

	As at 31 March		
	2006 *HK$'000*	**2007** *HK$'000*	**2008** *HK$'000*
Club debenture, cost less impairment	200	200	200

The carrying value of the club debenture approximates to its fair value.

15. Available-for-sale investment

	As at 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Listed equity investment in Hong Kong			
At market value	–	–	30

The fair value of listed equity investment is based on quoted market price.

16. Amounts due from customers for contract work

	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Contract costs incurred plus recognised profits			
less recognised losses	–	2,431	13,052
Less: progress billings	–	(129)	(12.023)
	–	2,302	1,029
Amounts due from customers for contract work	–	2,302	1,029
Amounts due to customers for contract work	–	–	–
	–	2,302	1,029

Included on other receivables are retention monies held by customers for contract work amounted to Nil, HK$23,000 and HK$186,000 as at 31 March 2006, 2007 and 2008.

All debtors are denominated in Hong Kong dollars, and their fair values approximate their carrying values.

At 31 March 2007 and 2008, the ageing analysis of debtors, based on the due date of invoices, which is past due but not considered impaired.

	As at 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
1 to 90 days	–	2,302	1,029

The maximum exposure to credit risk at each of the balance dates is the fair value of the receivables mentioned above.

17. Other receivables

	As at 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Loans receivable	–	5,841	2,780
Trade deposit	148	141	66
Prepayments	47	1,020	1,029
Advance to staff	35	35	107
Rentention money receivables	–	23	186
Others	125	108	81
	355	7,168	4,249

The maximum exposure to credit risk at each of the balance dates is the fair value of other receivables.

Loan receivables from Ease Harbour Development Limited and Kingspeed Limited were unsecured, interest free and had no fixed repayment terms. These loans were subsequently settled in full after balance sheet date.

As at 31 March 2006, 2007 and 2008, the carrying value of other receivables of the Net Excel Group approximated their fair values.

18. Amounts due from/(to) related companies/ a director

	As at 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Amounts due from:			
Bugsy Development Company Limited	3,165	–	–
Marine Lord Systems Limited	4,700	–	–
Pine Concept Limited	3,600	–	–
Best Year (Asia) Limited	930	8,491	95
Capital Hope Investments Limited	–	8,655	–
Marine Lord Systems Ltd.	872	1,149	–
UDL Ship Management Ltd	–	3	–
UDL Argos Engineering & Heavy Industrial Co. Ltd.	–	4	42
	13,267	18,302	137

	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Amounts due to:			
Bugsy Development Company Limited	–	85	–
UDL Holdings Ltd	850	850	–
Capital Hope Investments Ltd	67	–	–
Vital Strategic Corporate Consultancy Co Ltd	22	–	–
廣州太元工程船務公司	98	103	–
中山太元重工業有限公司	548	573	–
North Lantau Dredging Ltd	5	–	–
Harbour Front Limited	–	34	–
Fonture Co Ltd	23	22	–
Surely Contractors Ltd	1	2	–
Success Rich Ltd	1	1	–
Tonic Engineering Technology Limited	–	29	–
UDL Marine Assets (Hong Kong) Limited	–	–	–
UDL Contracting Ltd	500	640	–
UDL Management Ltd	128	128	–
UDL Ship Management Ltd	221	–	–
Centaur Gold Enterprises Ltd	305	305	–
	2,769	2,772	–

Amounts due are all unsecured, interest-free and repayable on demand. All related companies above are ultimately owned by Harbour Front Limited. Mrs Leung Yu Oi Ling, Ms Leung Chi Yin and Mr Leung Chi Hong, each being an executive director, holds one-third of the issued share capital of Harbour Front Limited.

The amount due to a director, Mrs Leung Yu Oi Ling is unsecured, interest-free and repayable on demand.

19. Amount due from ultimate holding company

Amount due is unsecured, interest-free and repayable on demand.

20. Cash and bank balances

	As at 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Cash at banks and in hand	2,439	188	1,480

The cash at banks and in hand are denominated in Hong Kong dollars. The effective annual interest rate on bank deposits ranged between 3% and 3.33% per annum.

21. Deferred taxation

Deferred tax assets and liabilities recognised

	As at March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Deferred tax assets recognised – tax losses	742	742	742
Deferred tax liabilities recognised – revaluation surplus on marine crafts	–	–	(742)
	742	742	–

Deferred tax assets not recognised

The Net Excel Group has not recognised deferred tax assets in respect of cumulative unused tax losses of HK$43,899,000, HK$44,400,000, and HK$40,569,000 as at 31 March 2006, 2007 and 2008 respectively, as it is not probable that the future taxable profits, against which the losses can be utilised, will be available in the relevant tax jurisdiction and entity in the foreseeable future.

22. Other payables

	As at 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Other payables and accruals	1,624	2,991	4,743
Project insurance payable	–	946	–
Accrued wages	–	41	117
Retention money payables	111	80	–
Others	40	48	115
	1,775	4,106	4,975

The carrying amounts of other payables approximated their fair values at each of the balance sheet dates.

23. Obligations under finance leases

The Net Excel Group had obligations under finance leases repayable as follows:

	As at 31 March					
	2006		2007		2008	
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 year	73	92	79	88	105	122
After 1 year but within 5 years	193	213	114	125	171	191
After 5 years	–	–	–	–	–	–
	193	305	114	125	171	191
	266		193	213	276	313
Less: Total future interest expenses		38		20		37
Present value of lease obligations		267		193		276

24. Share capital

	As at 31 March		
	2006	2007	2008
	HK$'000	*HK$'000*	*HK$'000*
Authorised:			
50,000 ordinary shares of US$1 each	390	390	390
Issued and fully paid:			
100 ordinary shares of US$1 each	–	–	–

Net Excel was incorporated on 23 May 2008 with an authorized capital of US$50,000 of 50,000 ordinary shares of US$1 each. Upon its incorporation, 100 ordinary shares of US$1 each of Net Excel was issued at par to Harbour Front in exchange for all the equity interests in Net Excel subsidiaries.

25. Reserves

	Merger reserve HK$'000	Share premium HK$'000	Revaluation reserve HK$'000	Investment reserve HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2005	90,237	24,483	–	–	–	(88,858)	25,862
Loss for the year	–	–	–	–	–	(477)	(477)
Exchange realignment	–	–	–	–	51	–	51
At 31 March 2006 and 1 April 2006	90,237	24,483	–	–	51	(89,335)	25,436
Profit for the year	–	–	–	–	–	385	385
Exchange realignment	–	–	–	–	(92)	–	(92)
At 31 March 2007 and 1 April 2007	90,237	24,483	–	–	(41)	(88,950)	25,729
Profit for the year	–	–	–	–	–	3,168	3,168
Change in fair value of available-for sale investment	–	–	–	(68)	–	–	(68)
Revaluation surplus on property, plant and equipment	–	–	22,303	–	–		22,303
Deferred tax arising from revaluation	–	–	(742)	–	–	–	(742)
Exchange realignment	–	–	–	–	(230)	–	(230)
At 31 March 2008	90,237	24,483	21,561	(68)	(271)	(85,782)	50,160

26. Related party transactions

Apart from those related party transactions disclosed elsewhere in the Financial Information during the Relevant Periods, the Net Excel Group had the following significant transactions with related parties in accordance with the terms mutually agreed by the respective parties.

		As at 31 March		
	Notes	**2006** *HK$'000*	**2007** *HK$'000*	**2008** *HK$'000*
UDL Ship Management Limited				
Management fee paid	(i)	–	–	80
Hire charge of vessel	(i)	–	–	573
Car hire income received	(ii)	–	(21)	(75)
UDL Argos Engineering & Heavy Industries Company Limited				
Consultancy fee received	(iii)	(100)	(240)	(180)
Car hire income received	(ii)	–	(32)	(55)
UDL Dredging Limited				
Plant Hire income received	(i)	–	–	(1,164)
Tonic Engineering Technical Limited				
Consultancy fee paid	(iii)	46	70	–
Marine Lord systems Limited				
Loan interest income received	(iv)	148	277	–
UDL Contracting Limited				
Consultancy fee paid	(iii)	–	320	320
Gitanes Engineering Company Limited				
Consultancy fee paid	(iii)	–	–	1,200
UDL Holdings Limited				
Car hire income received	(ii)	(59)	(38)	–

Notes:

(i) Management fee and plant hire charges were based on relevant agreements and at terms mutually agreed by both parties.

(ii) Car hire income was determined based on relevant agreement and at terms mutually agreed by both parties.

(iii) Consultancy fee paid was based on relevant agreements and at terms mutually agreed by both parties.

(iv) Loan interest income was calculated at Hong Kong Prime rate plus 2% on loans to Marine Lord Systems Limited, the loans were fully settled during the Relevant Periods.

In the opinion of the directors of Net Excel, the remuneration paid to key management personnel of the Net Excel Group and details of the compensation of which are set out in note 9 of this section.

III BALANCE SHEET OF NET EXCEL

Net Excel was incorporation on 23 May 2008 with an authorised share capital of US$50,000. Net Excel has not carried on any business since its date of incorporation.

IV SUBSEQUENT FINANCIAL STATEMENTS

No audited HKFRS financial statements have been prepared for the Net Excel Group in respect of any period subsequent to 31 March 2008.

Yours faithfully,

CCIF CPA Limited
Certified Public Accountants
Hong Kong

Leung Chun Wa
Practising Certificate Number P04963

1. Introduction

The accompanying unaudited pro forma financial information of the Resultant Group after the Acquisition prepared in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of illustrating the effect of the Acquisition, including the unaudited pro forma combined income statement and unaudited pro forma combined cash flow statement for the year ended 31 July 2007, which gives effect to the Acquisition as if the Acquisition had been completed on 1 August 2006, and the unaudited pro forma combined balance sheet prepared based on the consolidated balance sheet of the Group as at 31 July 2007 and the audited combined balance sheets of the Lead Ocean Group and the Net Excel Group as at 31 March 2008, which give effect to the Acquisition as if the Acquisition had been completed on 31 July 2007.

The unaudited pro forma combined income statement and unaudited pro forma combined cash flow statement of the Resultant Group have been prepared based upon the audited consolidated income statement and audited consolidated cash flow statement of the Group for the year ended 31 July 2007 as set out in Appendix I to this Circular and the audited combined income statements and audited combined cash flow statements of the Lead Ocean Group and the Net Excel Group as set out in Appendices II and III to the Circular, after incorporating the unaudited pro forma adjustments described in the accompanying notes. The unaudited pro forma combined balance sheet of the Resultant Group is prepared based on the audited consolidated balance sheet of the Group as at 31 July 2007 as set out in Appendix I to this Circular and the audited combined balance sheets of the Lead Ocean Group and the Net Excel Group as at 31 March 2008 set out in Appendices II and III to this Circular, after incorporating the unaudited pro forma adjustments described in the accompanying notes. A narrative description of the unaudited pro forma adjustments of the Acquisition that are (i) directly attributable to the transactions concerned and not relating to future events or decisions; (ii) expected to have a continuing impact on the Resultant Group; and (iii) factually supportable, are summarised in the accompanying notes.

The unaudited pro forma financial information of the Resultant Group is based on a number of assumptions, estimates, uncertainties and currently available information. As a result of these assumptions, estimates and uncertainties, the accompanying Unaudited Pro Forma Financial Information of the Resultant Group does not purport to describe the actual financial position of the Resultant Group that would have been attained had the Acquisition been completed on 31 July 2007, or the results and cash flows of the Resultant Group that would have been attained had the Acquisition been completed on 1 August 2006. Further, the accompanying unaudited pro forma financial information of the Resultant Group does not purport to predict the Resultant Group's future financial position, results or cash flows.

The unaudited pro forma financial information of the Resultant Group should be read in conjunction with the financial information of the Group as set out in Appendix I to this Circular, the financial information of the Lead Ocean Group and the Net Excel Group as set out in Appendices II and III to this Circular and other financial information included elsewhere in this Circular.

2. Unaudited pro forma combined balance sheet of the Resultant Group

	The Group as at 31 July 2007 Audited	Lead Ocean Group as at 31 March 2008 Audited	Net Excel Group as at 31 March 2008 Audited	Pro forma combined	Pro forma adjustments *Note 2.1 to Note 2.4* Unaudited	*Note 2.5* Unaudited	*Note 2.6* Unaudited	Pro forma combined balance sheet of the Resultant Group Unaudited
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets								
Property, plant and equipment	31,468	70,475	29,442	131,385				131,385
Vessels	–	–	–	–	21,800			21,800
Prepaid lease payments	879	58,170	–	59,049				59,049
Available-for-sale investment	–	–	30	30				30
Club debenture	–	–	200	200				200
Investments in subsidiaries	–	–	–	–	83,454		(83,454)	–
Investments in associates	10	–	–	10				10
Port works and structural steel licences	–	–	–	–	30,700			30,700
	32,357	128,645	29,672	190,674				243,174
Current assets								
Inventories	31,500	–	–	31,500				31,500
Trade and other receivables	8,590	1,093	5,278	14,961				14,961
Prepaid lease payments	62	1,846	–	1,908				1,908
Amount due from ultimate holding company	–	–	18,855	18,855	93,502	(70,294)		42,063
Amounts due from related companies	13,502	–	137	13,639		(4,664)		8,975
Cash and bank balances	83,606	41	1,480	85,127	13,000			98,127
	137,260	2,980	25,750	165,990				197,534

	The Group as at 31 July 2007 Audited *HK$'000*	Lead Ocean Group as at 31 March 2008 Audited *HK$'000*	Net Excel Group as at 31 March 2008 Audited *HK$'000*	Pro forma combined *HK$'000*	Pro forma adjustments *Note 2.1 to Note 2.4* Unaudited *HK$'000*	*Note 2.5* Unaudited *HK$'000*	*Note 2.6* Unaudited *HK$'000*	Pro forma combined balance sheet of the Resultant Group Unaudited *HK$'000*
Current liabilities								
Trade and other payable	11,167	951	4,975	17,093				17,093
Obligations under finance leases	–	–	105	105				105
Other loan from ultimate holding company	–	–	–	–	70,294	(70,294)		–
Other loan from a related company	3,832	–	–	3,832				3,832
Amount due to ultimate holding company	102	68,145	–	68,247				68,247
Amount due to immediate holding company	–	24,609	–	24,609				24,609
Amount due to a director	964	4	11	979				979
Amounts due to related companies	3,486	4,622	–	8,108		(4,664)		3,444
Provision for taxation	57	–	–	57				57
	19,608	98,331	5,091	123,030				118,366
Net current assets/(liabilities)	117,652	(95,351)	20,659	42,960				79,168
Total assets less current liabilities	150,009	33,294	50,331	233,634				322,342
Non-current liabilities								
Obligations under finance leases	–	–	171	171				171
Net assets	150,009	33,294	50,160	233,463	172,162	–	(83,454)	322,171
Capital and reserves								
Share capital	50,450	–	–	50,450	50,450			100,900
Reserves	99,559	33,294	50,160	183,013	121,712		(83,454)	221,271
Total equity	150,009	33,294	50,160	233,463	172,162	–	(83,454)	322,171

Notes to the unaudited pro forma combined balance sheet and cash flow statement of the Resultant Group:

2.1 On 1 August 2008, the Company entered into agreements with Harbour Front, to acquire the sale shares and sale debts of Lead Ocean and Net Excel and 10 vessels as follows:

Sale shares: the entire issued shares of Lead Ocean and Net Excel comprising:

(i) 100 shares of US$1 each in the issued share capital of Lead Ocean, being the entire issued share capital of Lead Ocean;

(ii) 100 shares of US$1 each in the issued share capital of Net Excel, being the entire issued share capital of Net Excel.

Sale debts:

(i) total outstanding Lead Ocean Debts amounted to approximately HK$97,380,000.

(ii) total outstanding Net Excel Debts amounts to approximately HK$0.

10 vessels at aggregate consideration of HK$21,800,000

The fair value of total consideration for the Acquisitions is HK$229,456,000 (being HK$207,656,000 for the sale shares and sale debts of Lead Ocean and Net Excel and HK$21,800,000 for the 10 vessels) which is to be satisfied in the following manners:

	HK$'000
Net proceeds arising from issue and allotment of 5,045,033,739 rights shares at HK$0.035 per rights share	172,162
Less: proceeds retained for working capital	(13,000)
Cash – loan advanced from Harbour Front	70,294
Total consideration	229,456

The Rights Issue results in the increase of share capital and share premium account by approximately HK$50,450,000 and HK$126,126,000 respectively. The amount of full proceeds arising from the Rights Issue is approximately HK$176,576,000. Out of the net proceeds (after deducting share issue expenses of HK$4,414,000) of approximately HK$172,162,000, HK$159,126,000 and HK$13,000,000 will be applied towards payment for the total consideration for the Acquisitions and working capital of the Group, respectively and the loan advanced from Harbour Front for financing part payment of the consideration payable for the Acquisitions is approximately HK$70,294,000 (both based on the assumption that there was no shareholder taking up the Rights Shares and that HK$13,000,000 would be applied to general working capital and therefore the payment for balance of the total consideration for the Acquisitions after the use of the Rights Issue proceeds is to be financed by the Harbour Front Finance).

2.2 As the consideration includes all sale debts, amount due to ultimate holding company (including the amount due to intermediate holding company) of Lead Ocean and Net Excel is to be assigned to amount due to the Group and hence the adjustment amount becomes receivable balance of the Resultant Groups upon completion. The adjustment to reflect this assignment and the other related effects is approximately HK$93,502,000. Consequently, the cost of investments are thus as follows:

	HK$'000
Total consideration of Lead Ocean and Net Excel (the "Target Group")	207,656
Less: amount due from ultimate holding company *(Note)*	(93,502)
Cost of investments	114,154

Note: Subsequent to 31 March 2008, Harbour Front Limited has settled HK$24,609,000 and HK$74,800 on behalf of Lead Ocean Group to the immediate holding company, and a related company, respectively, and therefore the aggregate balance with Harbour Front Limited amounted to HK$93,502,000.

2.3 The adjustments are to reflect the effect of the Acquisitions on the consolidated balance sheet of the Group as if the Acquisitions had taken place on 31 July 2007.

Details of net assets arising on the acquisition of the Target Group are as follows:

	HK$'000
Cost of investments at completion of the acquisition of the Target Group	114,154
Less: Fair value of net identified assets of the subsidiaries to be acquired *(Note 2.6)*	(83,454)
Fair value of Port works and structural steel licences *(Note 2.4)*	30,700

2.4 There is no goodwill arising from the acquisition of the Target Group. Based on the assumption that the cost of investments equal to the aggregate fair value of net assets to be acquired, the fair value of the port works and structural steel licences is the balancing figure between the costs of investment and fair value of net identified assets of the subsidiaries to be acquired and equals to HK$30,700,000 *(Note 2.3)*

2.5 This adjustment is to eliminate (1) the effect of intra-group current accounts of approximately HK$4,664,000 due to consolidation; and (2) the amount of other loan from ultimate holding company of approximately HK$70,294,000 (Note 2.1) by corresponding adjustment in the amount due from ultimate holding company by approximately HK$70,294,000.

2.6 This reflects the adjustments on the elimination of interests in subsidiaries and the respective pre-acquisition fair value of net identified assets of the subsidiaries to be acquired of approximately HK$83,454,000 (being the sum of the net assets value of Lead Ocean Group and Net Excel Group of approximately HK$33,294,000 and HK$50,160,000 respectively.

3. Unaudited pro forma combined income statement of the Resultant Group

	The Group year ended 31 July 2007 Audited	**Lead Ocean Group year ended 31 March 2008 Audited**	**Net Excel Group year ended 31 March 2008 Audited**	**Pro forma combined**	**Pro forma adjustment** *Note 3.1* **Unaudited**	**Pro forma combined income statement of the Resultant Group Unaudited**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	38,141	1,734	13,052	52,927	(130)	52,797
Cost of sales	(24,198)	–	(9,531)	(33,729)		(33,729)
Gross profits	13,943	1,734	3,521	19,198		19,068
Other income	1,191	496	1,677	3,364	(370)	2,994
Other operating expenses	(10,501)	–	–	(10,501)		(10,501)
Administrative expenses	(5,239)	(6,370)	(2,002)	(13,611)	500	(13,111)
(Loss)/profit from operation	(606)	(4,140)	3,196	(1,550)		(1,550)
Finance costs	(3,586)	–	(28)	(3,614)		(3,614)
Share of losses of associate	(99)	–	–	(99)		(99)
(Loss)/profit before income tax	(4,291)	(4,140)	3,168	(5,263)		(5,263)
Income tax	(50)	–	–	(50)		(50)
(Loss)/profit for the year	(4,341)	(4,140)	3,168	(5,313)	–	(5,313)

Notes to the unaudited pro forma combined income statement of the Resultant Group:

3.1 This adjustment is to reflect the elimination of inter-company transaction amongst the Net Excel Group and Lead Ocean Group for the year ended 31 July 2007 upon consolidation as these groups are considered as companies within the Group from 1 August 2006.

4. Unaudited pro forma combined cash flow statement of the Resultant Group

	The Group year ended 31 July 2007 Audited *HK$'000*	Lead Ocean Group year ended 31 March 2008 Audited *HK$'000*	Net Excel Group year ended 31 March 2008 Audited *HK$'000*	Pro forma combined *HK$'000*	Pro forma adjustments *Note 2.1 to Note 2.4* Unaudited *HK$'000*	*Note 2.5* Unaudited *HK$'000*	Pro forma combined cash flow of the Resultant Group Unaudited *HK$'000*
Operating activities							
(Loss)/profit before income tax	(4,291)	(4,140)	3,168	(5,263)			(5,263)
Adjustments for:							
Interest income	(174)	(1)	(13)	(188)			(188)
Depreciation	1,686	3,306	1,161	6,153			6,153
Impairment on doubtful debts	1,195	–	–	1,195			1,195
Finance leases charges	–	–	28	28			28
Gain on disposal of property, plant and equipment	–	–	(9)	(9)			(9)
Provision for stock obsolescence	200	–	–	200			200
Interest expenses	3,586	–	–	3,586			3,586
Reversal of impairment on leasehold buildings	(631)	–	–	(631)			(631)
Share of losses of associate	99	–	–	99			99
Amortisation of land lease premium	–	1,765	–	1,765			1,765
Operating profit before changes in working capital	1,670	930	4,335	6,935			6,935
Increase/(decrease) in trade receivable and other receivable	(3,833)	(891)	2,919	(1,805)			(1,805)
Decrease in amounts due from customers for contract work	–	–	1,273	1,273			1,273
(Decrease)/increase in trade payable and other payable	(2,304)	(1,737)	869	(3,172)			(3,172)
Decrease in inventories	3,208	–	–	3,208			3,208
Increase in amount due to a director	44	–	–	44			44
Cash (used in)/ generated from operating activities	(1,215)	(1,698)	9,396	6,483			6,483
Hong Kong profits tax paid	(84)	–	–	(84)			(84)
Net cash (used in)/ generated from operating activities	(1,299)	(1,698)	9,396	6,399			6,399

	The Group year ended 31 July 2007 Audited *HK$'000*	Lead Ocean Group year ended 31 March 2008 Audited *HK$'000*	Net Excel Group year ended 31 March 2008 Audited *HK$'000*	Pro forma combined *HK$'000*	Pro forma adjustments *Note 2.1 to Note 2.4* Unaudited *HK$'000*	*Note 2.5* Unaudited *HK$'000*	Pro forma combined cash flow of the Resultant Group Unaudited *HK$'000*
Investing activities							
Acquisitions of property, plant and equipment	(1,078)	–	(7,929)	(9,007)	(21,800)		(30,807)
Decrease in amount due to associate	(23)	–	–	(23)			(23)
Interest received	174	1	13	188			188
Acquisitions of subsidiaries	–	–	–	–	(83,454)		(83,454)
Purchase of port works and structural steel licenses	–	–	–	–	(30,700)		(30,700)
Purchase of available-for-sale investment	–	–	(98)	(98)			(98)
Proceeds from disposal of property, plant and equipment	–	–	77	77			77
Net cash used in investing activities	(927)	1	(7,937)	(8,863)			(144,817)
Financing activities							
Net balance with related companies	(976)	1,925	15,393	16,342			16,342
Decrease/(increase) in amount due from ultimate holding company	(25,590)	–	(15,146)	(40,736)	(93,502)	70,294	(63,944)
Increase in amount due to ultimate holding company	–	6,024	–	6,024			6,024
Increase in amount due to immediate holding company	–	5	–	5			5
Interest paid	(3,586)	–	–	(3,586)			(3,586)
Proceeds from shares issued under rights issue	146,570	–	–	146,570	172,162		318,732
Repayment of other loans from a related company	(1,801)	–	–	(1,801)			(1,801)
Proceeds from new loan from ultimate holding company	–	–	–	–	70,294	(70,294)	–
Repayment of promissory note	(30,000)	–	–	(30,000)			(30,000)
Capital elements of finance lease repaid	–	–	(156)	(156)			(156)
Finance leases charges	–	–	(28)	(28)			(28)
Net cash generated from financing activities	84,617	7,954	63	92,634			241,588
Net increase in cash & cash equivalents	82,391	6,257	1,522	90,170			103,170
Cash & cash equivalents b/f	1,038	236	188	1,462			1,462
Effect of foreign exchange rate changes	177	(6,452)	(230)	(6,505)			(6,505)
Cash & cash equivalents c/f	83,606	41	1,480	85,127	13,000	–	98,127
Analysis of cash & cash equivalents							
Cash & bank balances	83,606	41	1,480	85,127	13,000		98,127

Please refer to App IV 4-5 for the notes to the unaudited pro forma combined cash flow statement.

The following is the text of a report, prepared for the sole purposed of inclusion in this circular, received from the independent reporting accountants, CCIF CPA Limited, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma combined income statement, balance sheet and cash flow statement of the Resultant Group for the purpose of inclusion in this circular.

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

4 September 2008

The Directors
UDL Holdings Limited

Dear Sirs,

We report on the statement of unaudited pro forma adjusted combined net tangible assets and the unaudited pro forma financial information (collectively, the "Unaudited Pro Forma Financial Information") of UDL Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), Lead Ocean Assets Management Limited ("Lead Ocean") and its subsidiaries (the "Lead Ocean Group") and Net Excel Management Limited ("Net Excel") and its subsidiaries (the "Net Excel Group"), together with the Group hereinafter referred to as the "Resultant Group"), which has been prepared by the directors of the Company, for illustration purposes only, to provide information about how the proposed acquisition of the entire issued share capital of Lead Ocean and Net Excel, might have affected the financial information presented therein. The basis of presentation of the Unaudited Pro Forma Financial Information of the Resultant Group is set out in the section under the heading of "Unaudited pro forma financial information on the Resultant Group" in Appendix IV to the Circular.

RESPECTIVE RESPONSIBILITY OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information of the Resultant Group in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") 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 (the "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 of the Resultant Group 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 of the Resultant Group beyond that owed to those to whom those reports were addressed by us at the dates of their issues.

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 unaudited financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information of the Resultant Group 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 of the Resultant Group had 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 that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information of the Resultant Group as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we did not express any such assurance on the Unaudited Pro Forma Financial Information of the Resultant Group.

The Unaudited Pro Forma Financial Information of the Resultant Group 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 give any assurance or indication that any event will take place in the future and may not be indicative of:

– the financial position of the Resultant Group as at 31 March 2008 or any future date; or

– the results and cash flows of the Resultant Group for the year ended 31 March 2008 or any future periods.

OPINION

In our opinion:

(a) the Unaudited Pro Forma Financial Information of the Resultant Group has been properly compiled by the directors of the Company on the basis stated;

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

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information of the Resultant Group as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully

CCIF CPA Limited
Certified Public Accountants
Leung Chun Wa
Practising Certificate Number P04963

1. In respect of property interest held indirectly by Lead Ocean, the shares of which are to be acquired by the Company under the Lead Ocean Agreement

The following is the text of a letter, summary of value and valuation certificate, prepared for the purpose of incorporation in this circular received from BMI Appraisals Limited, an independent valuer, in connection with its valuation as at 31 July 2008 of the property held indirectly by Lean Ocean, the shares of which are to be acquired by the Company.

BMI APPRAISALS
BMI Appraisals Limited 中和邦盟評估有限公司
Suite 11-18, 31/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong
香港灣仔港灣道6-8號瑞安中心3111-18室
Tel電話：(852) 2802 2191 Fax傳真：(852) 2802 0863
Email電郵：info@bmintelligence.com Website網址：www.bmintelligence.com

4 September 2008

UDL Holdings Limited
7th Floor, Aitken Vanson Centre
No. 61 Hoi Yuen Road
Kwun Tong, Kowloon
Hong Kong

Dear Sirs,

INSTRUCTIONS

We refer to the instructions from UDL Holdings Limited (the "Company") for us to value the property located in the People's Republic of China (the "PRC"). We confirm that we have carried out an inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property as at 31 July 2008 (the "date of valuation").

BASIS OF VALUATION

Our valuation of the property has been based on the Market Value, which is defined as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

VALUATION METHODOLOGY

In valuing the property, owing to the inherent nature of usage and lack of market sale comparables for the buildings and structures constructed upon the property, this property has been valued by the Depreciated Replacement Cost Approach. This approach requires an estimate of the market value of the land parcel in the existing state by the comparison approach and an estimate of the new replacement cost of the buildings and other site works, from which deductions are then made to allow for the age, condition, economic or functional obsolescence and environmental factors, etc; all of these might result in the existing property being worth less than a new replacement. This opinion of value does not necessarily represent the amount that might be realized from the disposition of the subject asset in the open market, and this basis has been used due to the lack of an established market upon which to base comparable transactions. However, this approach generally furnishes the most reliable indication of value for assets without a known used market.

We have also adopted the Investment Approach where appropriate by taking into account the current rents passing of the property being held under existing tenancies and the reversionary potential of the tenancies if it has been or would be let to tenants.

TITLE INVESTIGATION

We have been provided with extracts of title documents and have been advised by the Company that no further relevant documents have been produced. Moreover, due to the nature of the land registration system in the PRC, we have not been able to examine the original documents to verify ownership or to ascertain the existence of any amendment documents, which may not appear on the copies handed to us. Therefore, in the course of our valuation, we have relied on the advice and information given by the Company and Allbright Law Offices (錦天城律師事務所), its PRC legal advisor regarding the title of such PRC property. All documents have been used for reference only.

VALUATION ASSUMPTIONS

Our valuation has been made on the assumption that the property is sold in the open market without the benefit of deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect the value of the property.

In addition, no account has been taken of any option or right of pre-emption concerning or effecting the sale of the property and no forced sale situation in any manner is assumed in our valuation.

VALUATION CONSIDERATIONS

We have inspected the exterior and wherever possible, the interior of the property. During the course of our inspection, we did not note any serious defects. However, no structural surveys have been made and we are therefore unable to report as to whether the property is free from rot, infestation or other defects. No tests were carried out on any of the services.

In the course of our valuation, we have relied to a considerable extent on the information provided by the Company and have accepted advice given to us by the Company on such matters as approvals or statutory notices, easements, tenure, particulars of occupancy, site areas, floor areas, identification of the property and other relevant information.

We have not carried out detailed on-site measurements to verify the correctness of the site areas and floor areas in respect of the property but have assumed that the site/floor areas shown on the documents handed to us are correct.

Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us by the Company and are therefore only approximations.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company and the Company has also advised us that no material facts have been omitted from the information so supplied. We consider that we have been provided with sufficient information for us to reach an informed view.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property or for any expenses or taxation, which may be incurred in effecting a sale or purchase.

Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value.

In valuing the property, we have complied with the requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Appraisal and Valuation Standards (5th Edition) published by The Royal Institution of Chartered Surveyors effective from May 2003; and the HKIS Valuation Standards on Properties (First Edition) published by The Hong Kong Institute of Surveyors effective from 1 January 2005.

REMARKS

Unless otherwise stated, all money amounts stated herein are in Renminbi (RMB).

Our Summary of Value and the Valuation Certificate are attached herewith.

Yours faithfully,
For and on behalf of
BMI APPRAISALS LIMITED

Dr. Tony C.H. Cheng
BSc, MUD, MBA (Finance), MSc (Eng), PhD (Econ),
MHKIS, MCIArb, AFA, SIFM, FCIM, MASCE, MIET, MIEEE,
MASME, MIIE
Director

Joannau W.F. Chan
BSc. MSc. MRICS MHKIS RPS(GP)
Director

Notes:

Dr. Tony C.H. Cheng is a member of the Hong Kong Institute of Surveyors who has over 15 years' experience in valuations of properties in Hong Kong and the People's Republic of China.

Ms. Joannau W.F. Chan is a Chartered Surveyor who has over 15 years' experience in valuations of properties in Hong Kong and over 9 years' experience in valuations of properties in the People's Republic of China.

SUMMARY OF VALUE

Property	Market Value in existing state as at 31 July 2008 *RMB*
A Shipyard and a Structural Steel Manufacturing Workplace located at Si Sheng Village, Du Xi, Shatian Town, Dongguan City, Guangdong Province, the PRC	No Commercial Value (Refer to Note 16)
Total :	**Nil**

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 July 2008 *RMB*
A Shipyard and a Structural Steel Manufacturing Workplace located at Si Sheng Village, Du Xi, Shatian Town, Dongguan City, Guangdong Province, the PRC	The property comprises 2 land parcels with a total site area of approximately 153,333.34 sq.m. (or about 1,650,480.08 sq.ft.). The major structures comprise three single-storey workshops, a 3-storey warehouse, a 3-storey office building and a single-storey electrical room completed in between 1992 and 2005 with a total gross floor area of approximately 11,429.10 sq.m. 3 movable workshops, 10 manufacturing platforms and 1 pier were also constructed herein. The land use rights of collective-owned construction lands of the property have been allocated for industrial use. (Refer to Notes 1 and 5)	Portions of the property are subject to two tenancies (Refer to Notes 11 and 12) and are utilized as a shipyard and a structural steel manufacturing workplace. The remaining portion of the property is vacant.	No Commercial Value (Refer to Note 16)

Notes:

1. Pursuant to a Dong Guan Hing Wah Shipbuilding Co. Ltd. Joint-Venture Contract (合作經營東莞興華造船有限公司合同) ("Hing Wah JV Contract") dated 18 October 1990, entered into between Shatian Foreign Trade and Economic Development Company (東莞市沙田對外經濟開發總公司) ("Shatian Company") and Cochrane Enterprises Ltd. ((香港)高堅實業有限公司) ("Cochrane"), the former party agreed to allocate the land use rights of collective-owned construction land with a site area of approximately 77,000 sq.m. to the latter party for a term of 50 years commencing on 13 November 1990 for the uses of fabrication, repairs of ships and other ancillary businesses.

2. According to the Hing Wah JV Contract, Cochrane is entitled to get back 10% of the costs of its provided fixed assets annually for ten years from the annual profits of Dong Guan Hing Wah Shipbuilding Co. Ltd. (東莞興華造船有限公司) ("Hing Wah"). Besides, Cochrane and Shatian Company are entitled to 90% and 10% of the annual net earnings of Hing Wah respectively. Annual net earnings mean annual earnings before tax minus the 10% payback of the costs of fixed assets. If Hing Wah loses money, it should be borne solely by Cochrane.

3. Pursuant to a Collective-owned Construction Land Use Rights Certificate (集體土地建設用地使用證), Dong Fu Ji Jian Zong Zi Di No. 0002531 Zi (1990) Di No.19001400005 issued by the People's Government of Dongguan City dated 18 October 1990, the land use rights of collective-owned construction land with a site area of approximately 77,220 sq.m. have been allocated to Hing Wah for industrial use.

4. Pursuant to a Dong Guan Hing Wah Shipbuilding Co. Ltd. Joint-Venture Contract Supplementary Agreement (合作經營東莞興華造船有限公司合同補充協議) dated 19 December 1991, entered into between Shatian Company and Cochrane, the former party agreed to allocate the land use rights of collective-owned construction land with a site area of approximately 115 mu (or about 76,666.67 sq.m.) to the latter party for a term of 50 years at a consideration of RMB5,084,000. Pursuant to the terms stated in an invoice dated 2 January 2008 issued by Shatian Company, the annual land rent of the land parcel is RMB172,800 as at the date of valuation subject to an increase of 20% for every five years from 1 January 2007.

5. Pursuant to a Dong Guan Chunwah Engineering and Heavy Industry Co. Ltd. Joint-Venture Contract (合作經營東莞振華建造工程有限公司合同) ("Chunwah JV Contract") dated 18 October 1990, entered into between Shatian Company and Argos Engineering (International) Co. Ltd. ((香港)中華實業(國際)有限公司) ("Argos"), the former party agreed to allocate the land use rights of collective-owned construction land with a site area of approximately 77,000 sq.m. to the latter party for a term of 50 years commencing on 13 November 1990 for the use of manufacturing and installing structural steel frames.

6. According to the Chunwah JV Contract, Argos is entitled to get back 10% of the costs of its provided fixed assets annually for ten years from the annual profits of Dongguan Chunwah Engineering And Heavy Industry Co. Ltd. (東莞振華建造工程有限公司) ("Chunwah"). Besides, Argos and Shatian Company are entitled to 90% and 10% of the annual net earnings of Chunwah respectively. Annual net earnings mean annual earnings before tax minus the 10% payback of the costs of fixed assets. If Chunwah loses money, it should be borne solely by Argos.

7. Pursuant to a Collective-owned Construction Land Use Rights Certificate (集體土地建設用地使用證), Dong Fu Ji Jian Zong Zi Di No. 0002533 Zi (1990) Di No.19001400006 issued by the People's Government of Dongguan City dated 18 October 1990, the land use rights of collective-owned construction land with a site area of approximately 77,220 sq.m. have been allocated to Chunwah for industrial use.

8. Pursuant to a Chunwah Engineering And Heavy Industry Co. Ltd. Joint-Venture Contract Supplementary Agreement (合作經營東莞振華建造工程有限公司合同補充協議) dated 19 December 1991, entered into between Shatian Company and Argos, the former party agreed to allocate the land use rights of collective-owned construction land with a site area of approximately 115 mu (or about 76,666.67 sq.m.) to the latter party for a term of 50 years at a consideration of RMB5,084,000. Pursuant to the terms stated in the invoice in Note 4, the annual land rent of the land parcel is RMB172,800 as at the date of valuation subject to an increase of 20% for every five years from 1 January 2007.

9. The property is held for investment purpose and is now occupied for industrial uses of fabrication, repairs of ships and manufacturing of structural steel frames.

10. Pursuant to the terms stated in the invoice in Note 4, the property is subject to an annual management fee of RMB18,000. Besides, pursuant to the terms stated in another invoice dated 2 January 2008 issued by Shatian Company, each of Hing Wah and Chunwah has to pay annual management fees of RMB80,000 to Shatian Company for the management of the pier.

11. Pursuant to a tenancy contract (the "tenancy") entered into between 東莞市銳新重鋼工程有限公司 and Chunwah dated 31 December 2007, the latter party agreed to lease level 2 of the 3-storey warehouse with an area of approximately 340 sq.m. for office use and portion of the property with a site area of approximately 29,350 sq.m. to the former party for a term commencing on 1 January 2008 to 31 December 2008 at a monthly rent of RMB144,989.

12. Pursuant to a memorandum (the "memorandum") issued by China CMIIC Engineering Corporation (中國機械工業建設總公司) ("CMIIC") to Chunwah dated 6 July 2008, Chunwah agreed to lease portion of the property with a site area of approximately 80,972 sq.m. to CMIIC for a term commencing retrospectively from 1 January 2008 to 31 December 2008 at a monthly rent of RMB400,000.

13. Pursuant to a Business License (企業法人營業執照), Registration No. Qi Zuo Yue Guan Zong Zi Di No. 003248 issued by State Administration for Industry and Commerce (國家工商行政管理局) dated 5 December 1995, Chunwah was incorporated with a registered capital of HK$20,000,000 and the operation period is effective from 13 November 1990 to 12 November 2040 for the business of manufacturing and installing structural steel frames for export and local sale.

14. The status of title and grant of major approvals and licences in accordance with the information provided by the Group are as follows:

Collective-owned Construction Land Use Rights Certificates	Yes
Joint-Venture Contracts and Supplementary Agreements	Yes
Business Licenses	Yes

15. The opinion given by the PRC legal advisor to Cochrane and Argos contains, inter alia, the following:

    a. Hing Wah has the legal rights to use the collective-owned construction land with Collective-owned Construction Land Use Rights Certificate, Dong Fu Ji Jian Zong Zi Di No. 0002531 Zi (1990) Di No.19001400005 for the term as stated in the Hing Wah JV Contract;

    b. Chunwah has the legal rights to use the collective-owned construction land with Collective-owned Construction Land Use Rights Certificate, Dong Fu Ji Jian Zong Zi Di No. 0002533 Zi (1990) Di No.19001400006 for the term as stated in the Chunwah JV Contract;

    c. The Business License of Hing Wah has been suspended since 2 January 2001; and

    d. Chunwah has not yet settled portion of the registered capital in the sum of HK$12,000,000.

16. As we have not been provided with proper title documents for the property, we are unable to attribute any commercial value to it. However, for your accounting reference purpose, the market value of the property as at the date of valuation is RMB107,400,000. We have prepared our valuation based on the following assumptions:

    a. The Business License of Hing Wah has been renewed and all premiums and other related fees have been settled in full;

    b. Chunwah has settled the remaining portion of the registered capital in the sum of HK$12,000,000;

    c. In our valuation, we have not taken into account the paybacks of the costs of fixed assets, the earnings and losses distribution arrangements as stated in Notes 2 and 6;

    d. Cochrane and Argos have obtained government approvals and have paid the requisite land premiums for the conversions of the collective-owned construction lands into granted lands. Cochrane and Argos no longer need to pay the annual land rents as stated in Notes 4, 8 and the management fees as stated in Note 10;

    e. Cochrane and Argos are in possession of a proper legal title to the property and are entitled to transfer the property with its residual term of land use rights at no extra land premium or other onerous payment payable to the government;

    f. All land premium and other costs of ancillary utility services have been settled in full;

    g. The property is not subject to mortgage or any other material encumbrances;

    h. The designs, uses and constructions of the property are in compliance with the local planning regulations and have been approved by the relevant government authorities;

    i. The property may be disposed of freely to both local and overseas purchasers; and

    j. The tenancy and the memorandum are legally valid and enforceable under the applicable PRC Laws.

17. Cochrane will be an indirect wholly-owned subsidiary of the Company upon completion of the acquisition.

18. Argos will be an indirect wholly-owned subsidiary of the Company upon completion of the acquisition.

2. In respect of property interest held by the Group

The following is the text of the report prepared by Shenzhen Tianzexinglian Real Estate Assessment Limited, an independent valuer, in connection with the valuation of the property interest held by the Group.

Shenzhen Tianzexinglian Real Estate Assessment Limited
Room 1617, Huatong Building
Sungangdonglu, Luohu District
Shenzhen

4 September 2008

The Directors
UDL Holdings Limited

Dear Sirs,

We have accepted the engagement of UDL Holdings Limited (the "Company") to value the usage rights to the industrial land and factory property situated outside Xigiang Zhongshun Daweidi, Henglan County, Zhongshan City, Guangdong Province rented by a subsidiary of the Company, namely UDL Argos Engineering and Heavy Industries Company Limited. We have physically visited the location, made the relevant enquiries and obtained such legal documents as we considered necessary for the purpose of providing you with our opinion of the property valuation as at 31st July, 2008.

We have conducted our analysis in accordance with the national standard of the People's Republic of China on "The Rules of Town Land Valuation"（「城鎮土地估價規程」）to form opinions and conclusions for the preparation of this valuation consultation report. The facts stated in this valuation consultation report are true and accurate.

The information provided in this valuation consultation report represents our professional analyses, opinions and conclusions, which are subject to by the assumptions and limiting conditions as stated herein. We are not interested in the subject property of this report, nor do we have any interest in or conflict with or prejudice against the parties concerned.

We have physically inspected the subject property of this valuation consultation report.

In this consultation report is our valuation of the open market value of real estates, which is intended to the best price at which the sale of an interest in a property would have been reasonably completed at the date of valuation, assuming that:

a. prior to the date of valuation, there have been a reasonable period of time for both parties to the transaction to fully understand the nature of the property and the state of the real estates market as well as for negotiation of transaction.

b. both parties are at a fair state of transaction with sufficient bargaining rights in the real estates dealings.

c. no account is taken of any additional bid by a purchaser with a special interest.

d. we have defined the property interest of the subject property with the relevant information provided by the instructing party. Regarding the gross floor area of the subject property, the valuation is based on the relevant information provided by the instructing party, and we have not conducted any on-site measurement.

e. we have only carried out a general inspection on the exterior of the property and have not made any survey on the structure or the service. Therefore, we are unable to confirm whether the building structure and service have material defects. This report has been prepared with an assumption that the property's interior structure and equipment are free of material defects.

f. the validity of the usage fees of industrial land and factory property represents the remaining term of the leasing contract, which is equivalent to about 14 years starting from 1 August 2008.

Based on the actual state of the above land and property, we have adopted the replacement cost approach to carry out this valuation in accordance with the legal principle, highest and best use principle, replacement principle and valuation date principle:

Cost approach means the calculation of the replacement or reproduction costs of building the subject property at the valuation date, net of depreciation, in order to appraize an objective and reasonable price or value of the subject property.

In the course of this asset valuation, the scope of asset valuation, appraised value and valuation parameters were determined and selected in accordance with the internal financial statements of the asset owner, external economic environment and market conditions on this date.

Price standards (information) adopted in this asset valuation are prevailing market prices in the open market on the valuation date.

Rental industrial and factory premises with identical use value that can replace each other may have impact on and result in competition to each other, thus affecting their prices and leading to similar price movements. This is the valuation principle of value parameter modification to land and factory premises on rental basis.

No allowance has been made in our report for any charges, guarantees or indebtedness on the subject property nor for any expenses or taxation that may be incurred in effecting the sale.

This report contains all material details of the basis of valuation which follow "The RICS Appraisal and Valuation Standards" (5th Edition) published by The Royal Institution of Chartered Surveyors effective from May 2003; and "The HKIS Valuation Standards on Properties" (First Edition) published by The Hong Kong Institute of Surveyors effective from 1 January 2005.

Our summary of value and valuation certificate are attached herewith.

Yours faithfully,
Shenzhen Tianzexinglian Real Estate Assessment Limited
PRC Real Estate Assessment Organization Qualification
Certificant No (「房地產價格評估機構資格証書」)：2047
Fengyufeng
Executive Director
Shenzhen Real Estate Appraiser
Qualification Certificate No. 96190081

Fengyufeng is a qualified PRC Real Estate Appraiser holding a Qualification Certificate of Real Estate Appraiser (土地估價師資格証書) granted by Shenzhen Institution of Real Estate Appraisers (深圳市不動產估價學會), who has around 9 years of experience within the real estate assessment profession and has extensive knowledge and experience in residential, commercial and industrial property assessment in PRC.

VALUATION SUMMARY

	Property	Open market value as at 31st July, 2008
1.	A piece of industrial land and factory property situated outside Xigiang Zhongshun Daweidi, Henglan County, Zhongshan City, Guangdong Province	RMB962,000 (approximately HK$1,097,449.00)

VALUATION CERTIFICATE

Property	Description and Tenure	Open market value as at 31st July, 2008
A piece of industrial land and factory property situated outside Xigiang Zhongshun Daweidi, Henglan County, Zhongshan City, Guangdong Province	The property has a land area of 33,662.10 square meters and the factory area of 1,358 square meters. The rights to use the subject property were acquired on 1st October, 2002 with the payment of RMB1,200,000 (approximately HK$1,165,048) leasing fees by UDL Argos Engineering and Heavy Industries Company Limited ("UDL Argos") which has the legal rights of use for 20 years. The rights to use the above property was obtained from Zhongshan Henglan Town Industrial Development Co Ltd through a leasing contract. The title of the above property is vested with Zhongshan Henglan Town Industrial Development Co Ltd. There are no other material conditions affecting the legal rights of use of the property by UDL Argos.	RMB962,000 (approximately HK$1,097,449.00)

The following is the text of a letter from Win Well Engineering and Surveyors Ltd., an independent professional valuer, prepared for the purpose of incorporation in this circular in connection with its valuation of the vessels under the Vessel Agreement.

WIN WELL ENGINEERING
& SURVEYORS LIMITED
Win Well Engineering and Surveyors Ltd
Blk. 4, 8/F., Flat B,
Golden Dragon Ind. Centre,
182-190 Tai Lin Pai Rd.,
Kwai Chung,
N.T., Hong Kong

4 September, 2008

The Directors
UDL Holdings Limited
7/F Aitken Vanson Centre
61 Hoi Yuen Road
Kwun Tong, Kowloon
Hong Kong

Dear Sirs

VALUATION OF MARINE VESSELS UNDER THE VESSEL AGREEMENT

1.0 SUMMARY

1.01 Instructions

Win Well Engineering & Surveyors Limited has been retained jointly by UDL Holdings Limited and Harbour Front Limited to conduct and prepare valuations of the marine vessels (hereinafter referred to as the "Vessels) under the Vessel Agreement. In accordance with your instruction, this letter has been prepared for inclusion in a circular to the shareholders of UDL Holdings Limited relating to its acquisition of the Vessels.

We confirm that we have undertaken inspections, made relevant enquiries and obtained such further information as is available, for the purpose of providing you with our opinion on the value of the Vessels.

1.02 Purpose of valuation

The purpose of this valuation is to formulate and express an opinion of open market value for continued existing use of the subject Vessels. It is our understanding that the valuation is required for accounting/financial purposes.

1.03 Valuation date

Our valuation is our opinion of the open market value for continued existing use of the subject Vessels as at 31st July 2008 as inspected during the period of 28th July 2008 to 29th July 2008 and on the assumption that the condition is the same as at inspection dates.

1.04 Opinion of value

Premised on the accompanying assumptions, considerations and details, our opinion of the open market value for continued existing use of the Vessels as at valuation date is fairly represented in the amount of:

HK$21,800,000 (Hong Kong Dollars Twenty One Million and Eight Hundred Thousand Only.)

We hereby certify that we have neither any present nor any prospective interest in the any of the concerned companies or the appraised Vessels or the value reported.

2.0 DESCRIPTIVE INFORMATION

2.01 Vessels evaluated

Harbour Front Limited is the beneficial owner and authorized agent of the ten Vessels, consist of:

- Flat Top Barge (Working Barge) – 1 no.
- Floating Crane – 2 nos.
- Split Hopper Barge – 1 no.
- Motor Tug – 6 nos.

2.02 Location

The subject Vessels were inspected in Hong Kong.

2.03 Observation

At the time of our inspection, the subject Vessels were observed to be generally in fair & idling condition. Although the Vessels are not used, it is our opinion that they are capable of operating the purpose for which they were designed and built for, subject to licensing repair works to be carried out on some of the vessels.

3.0 BASIS OF VALUE

We have valued the subject Vessels on the basis of:

Open market value for continued existing use which is defined as the estimated amount at which the subject asset in its continued use might be expected to be purchased and sold between a willing buyer and a willing seller, neither being under compulsion, each having a reasonable knowledge of all relevant facts, with equity to both, and contemplating the retention of the asset in its present existing use as part of an on-going business.

The opinion of open market value for continued existing use is not necessarily intended to represent the amount that might be realized from piecemeal disposition of the subject asset in the open market or from an alternative use of the asset, and is expressed as subject to adequate profitability of the undertaking.

4.0 VALUATION METHODOLOGY

4.1 Approaches to value

In arriving at our opinion of value, we have considered the two generally accepted approaches to value, namely the depreciated replacement cost approach and market data approach.

Depreciated Replacement Cost Approach – considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence present (physical, functional or economic), taking into consideration past and present maintenance policy and rebuilding history. This approach generally furnishes the most reliable indication of the value of assets in the absence of a known market based on comparable sales.

Market Data Approach – considers prices recently paid for similar assets, with adjustments made to the indicated market price to reflect condition and utility of the appraised assets relative to the market comparative. Assets for which there is established used market comparable may be appraised by this approach.

4.2 Scope of investigation

We have conducted a listing and inspection of the subject Vessels, obtained further information, investigated market conditions and interviewed personnel to establish condition, utility and history of the Vessels.

During our inspection conducted from 28th July 2008 to 29th July 2008, we observed that all the vessels are safely moored. Any deferred maintenance, physical wear and tear, operating malfunctions, lack of utility, or any observable conditions distinguishing the appraised Vessels from vessel of like kind in new conditions were noted and made part of our judgment in arriving at the values.

We did not attempt to operate the Vessels. Our inspection was superficial only. We did not undertake any tests of equipment and did not undertake any survey of the hull, hoists and engine.

We have relied to a considerable extent on information such as records, listings and specifications provided by the Company. We have not investigated the title or any liabilities affecting the Vessels appraised.

We have not made any deduction in respect of any grant either available or received, neither has any adjustment been made for any outstanding amounts owing under financing agreement (if applicable).

4.3 Considerations and assumptions

In forming our opinion of value, the following considerations and assumptions were made:

- Cost of replacement or reproduction, defined as the estimated amount of money needed to acquire in like kind and in new condition an asset or group of assets taking into consideration current prices for materials, manufactured equipment, labour, contractor's overhead, profit and fees and all other attendant costs associated with its acquisition and installation in place, but without provision for financing charges.

- Cost of engineering, supervision and commissioning for those plant items which are deemed appropriate.

- Accrued depreciation which was based on the observed condition and present and prospective serviceability in comparison with new units of like kind.

- Maintenance policy, character, level of use of the vessels, and to all other factors which were deemed to have an influence in their value.

- The Vessels will continue in their present existing use in business subject to adequate potential profitability of the business.

- Estimated prices from and to a dealer for similar used vessels in the secondhand market, if available.

Yours faithfully,
For and on behalf of
Win Well Engineering
and
Surveyors Limited

Tam Chi Yung
B.Eng., C.Eng., M.I. MarE., MHKIE., RPE
Director

Tam Chi Yung has over 10 years of experience within the marine equipment survey and appraisal profession and has extensive knowledge and experience in valuation of marine vessels.

1. RESPONSIBILITY STATEMENT

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

2. SHARE CAPITAL

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

Authorised:		*HK$*
12,000,000,000	Shares	120,000,000.00
Issued and fully paid or credited as fully paid or to be issued under the Rights Issue:		
5,045,033,739	Shares as at the Latest Practicable Date	50,450,337.39
5,045,033,739	Rights Shares to be issued	50,450,337.39
10,090,067,478	Shares	100,900,674.78

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

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

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

3. DISCLOSURE OF INTERESTS

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

Name of Director	The Company/ name of associated corporation	Capacity	Number of shares	Approximate percentage of interests
Leung Yu Oi Ling, Irene	The Company	Beneficial owner	800,000	0.02%
		Through controlled corporations	7,187,645,521 *(Notes 1 and 2)*	142.47%
	Harbour Front *(Note 3)*	Beneficial owner	1	33.33%
Leung Yat Tung	The Company	Interest of spouse	7,188,445,521 *(Notes 1, 2 and 4)*	142.49%
Leung Chi Yin, Gillian	The Company	Beneficial owner	63,199,200	1.25%
		Through controlled corporations	7,187,365,521 *(Notes 1 and 5)*	142.46%
	Harbour Front *(Note 3)*	Beneficial owner	1	33.33%
Leung Chi Hong, Jerry	The Company	Beneficial owner	16,506,774	0.33%
		Through controlled corporations	7,187,365,521 *(Notes 1 and 5)*	142.46%
	Harbour Front *(Note 3)*	Beneficial owner	1 *(Note 1)*	33.33%
Yuen Ming Fai, Matthew	The Company	Interest of spouse	4,800	Negligible

Notes:

1. These Shares include (i) 2,641,715,933 Shares held by Harbour Front; (ii) 4,545,033,739 Right Shares which Harbour Front has agreed to underwrite pursuant to the Underwriting Agreement; (iii) 4,436 Shares held by Bugsy Development Company Limited, which is a wholly-owned subsidiary of Harbour Front; (iv) 11,413 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; and (v) 480,000 Shares held by Gitanes Engineering Company Limited, which is a subsidiary of Harbour Front Assets Investments Limited (a wholly owned subsidiary of Harbour Front).

2. These Shares also include 400,000 Shares held by Top Union Investments Limited which is wholly owned by Mrs. Leung Yu Oi Ling, Irene.

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

4. Mr. Leung Yat Tung is the husband of Mrs. Leung Yu Oi Ling, Irene.

5. These Shares also include 120,000 Shares held by Y.T. Leung Trading Company Limited, a company held by each of Ms. Leung Chi Yin, Gillian and Mr. Leung Chi Hong, Jerry as to 48.75%.

6. The above percentage of interest in the Company is calculated on the basis of 5,045,033,739 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 2007, 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 Resultant Group or are proposed to be acquired or disposed of by or leased to any member of the Resultant Group save for the Acquisitions, particulars of which are set out in the "Letter from the Board" contained in this circular.

(c) As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Resultant Group since 31 July 2007, 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 Resultant Group save for (i) the Finance Agreement, (ii) the Underwriting Agreement; (iii) the Lead Ocean Agreement; (iv) the Net Excel Agreement; and (v) the Vessel Agreement. The counterparty to each of the said agreements is Harbour Front, Mrs. Leung Yu Oi Ling, Irene, Ms. Leung Chi Yin, Gillian and Mr. Leung Chi Hong, Jerry, each being an executive director, holds one-third of the issued share capital of Harbour Front. Accordingly, each of Mrs. Leung Yu Oi Ling, Irene, Ms. Leung Chi Yin, Gillian and Mr. Leung Chi Hong, Jerry is considered as interested in each of the transactions as contemplated under (i) the Finance Agreement, (ii) the Underwriting Agreement; (iii) the Lead Ocean Agreement; (iv) the Net Excel Agreement; and (v) the Vessel Agreement.

4. SUBSTANTIAL SHAREHOLDERS' INTERESTS

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

Name of Shareholder	Capacity	Number of Shares held	Approximate percentage of interest
Harbour Front	Beneficial owner	7,186,749,672 *(Note 1)*	142.45%
	Through a controlled corporation	484,436 *(Note 2)*	0.01%

Notes:

1. These Shares include (i) 2,641,715,933 Shares held by Harbour Front; and (ii) 4,545,033,739 Right Shares which Harbour Front has agreed to underwrite pursuant to the Underwriting Agreement.

2. These Shares include: (i) 4,436 Shares held by Bugsy Development Company Limited, a wholly-owned subsidiary of Harbour Front; and (ii) 480,000 Shares held by Gitanes Engineering Company Limited, which is a subsidiary of Harbour Front Assets Investments Limited (a wholly owned subsidiary of Harbour Front).

3. The above percentage of interest in the Company is calculated on the basis of 5,045,033,739 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 Resultant Group within two years immediately preceding the date of this circular which are or may be material:

(a) 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;

(b) 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;

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

(d) the underwriting agreement dated 14 June 2007 entered into between the Company, Harbour Front and Sun Hung Kai International Limited in relation to the rights issue of 1,681,677,913 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 of HK$0.09 per rights share;

(e) the Finance Agreement;

(f) the Underwriting Agreement;

(g) the Lead Ocean Agreement;

(h) the Net Excel Agreement; and

(i) the Vessel 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

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

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

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

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 special general meeting 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 special general meeting, 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 special general meeting;

   (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") had been passed in the Company's special general meeting held on 22 August 2003. However, such proposals had not been implemented in result of the Company's intention not to proceed with any of such proposals. The details of which are set out in the Company's circular dated 27 January 2006.

(b) An amount of SGD358,982 (equivalent to HK$1,766,335) (2006: HK$1,680,233) relating to interest payable on banking facilities was charged to UDL Marine Pte Limited, a subsidiary of the Company. The directors of the subsidiary are disputing this amount and no provision has been made in the financial statements.

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

(d) UDL Contracting Limited ("UDL Contracting"), a wholly-owned subsidiary of the Company, commenced legal action against two defendants on 8 June 2007 to claim damages in relation to the construction of a printing workshop carried out by UDL Contracting. Default judgement in the sum of approximately HK$162 million was awarded by the court in favour of UDL Contracting on 27 June 2007. However, one of the two defendants took out a summons to apply to set aside the default judgment and stay the action against it to arbitration. Consent was given to the two applications of that defendant and the legal costs incurred by that defendant have been settled amicably. There is no counterclaim against the UDL Contracting under this action.

(e) UDL Argos Engineering & Heavy Industries Co., Ltd ("UDL Argos"), a wholly-owned subsidiary of the Company, has commenced legal action against a contractor to recover the unsettled balance of approximately HK$2.9 million from the contractor. This contractor applied for a stay of the proceedings to arbitration. By a judgement delivered on 29 August 2007, the court ordered a stay of the action to arbitration and also made an order that UDL Argos do bear the costs of the application. The legal costs incurred by the defendant have been settled amicably. There is no counterclaim against UDL Argos under this action.

(f) UDL Argos has filed a claim against a contractor to recover the sum of approximately HK$6.9 million in respect of services rendered. This contractor also counterclaimed for liquidated damages of HK$4.2 million. Arbitration hearing was held in November 2007. Arbitration proceedings are complete and awards have been made by arbitrator with a net amount of entitlement to UDL Argos. Subsequently, UDL Argos's application for leave to appeal part of the awards with a view to secure further entitlements has been dismissed. The only liability from this appeal action is the payment of UDL Argos' own costs and the costs of the contractor estimated to be not exceeding the net entitlement of UDL Argos under the arbitration.

As at the Latest Practicable Date, the above legal proceedings had not had any further material developments. Save as disclosed above, no member of the Resultant Group was engaged in any litigation or claim of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any members of the Resultant Group.

9. CORPORATE INFORMATION

Registered office	Crawford House 4th Floor 50 Cedar Avenue Hamilton HM11 Bermuda
Head office and principal place of business	Room 702, 7th Floor Aitken Vanson Centre 61 Hoi Yuen Road Kwun Tong Kowloon Hong Kong
Company secretary	Mr. Pang Kee Chau *Member of Hong Kong Institute of Certified Public Accountants and Certified Practising Accountant of Australia*
Qualified accountant	Mr. Pang Kee Chau *Member of Hong Kong Institute of Certified Public Accountants and Certified Practising Accountant of Australia*
Authorised representatives	Mrs. Leung Yu Oi Ling, Irene *Executive Director* Ms. Leung Chi Yin, Gillian *Executive Director*
Principal share registrar and transfer office	The Bank of Bermuda Limited 6 Front Street Hamilton HM11 Bermuda
Hong Kong branch share registrar and transfer office	Tricor Tengis Limited 26th Floor, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Principal bankers	Industrial and Commercial Bank of China (Asia) Limited 33/F., ICBC Tower 3 Garden Road Central Hong Kong Wing Lung Bank Limited 45 Des Voeux Road Central Hong Kong

Auditors	CCIF CPA Limited Certified Public Accountants 37/F, Hennessy Centre 500 Hennessy Road Causeway Bay Hong Kong
Legal advisers of the Company	*As to Hong Kong laws in general:* Tsang & Lee, Solicitors 1510-12, 15th Floor Nan Fung Tower 173 Des Voeux Road Central Hong Kong *As to Hong Kong laws on the Rights Issue and the Acquisitions:* Chiu & Partners 41st Floor, Jardine House 1 Connaught Place Central Hong Kong

10. EXPERTS

The following are the qualifications of the experts who have given opinion or advice contained in this circular:

Name	**Qualification**
Hercules	a corporation licensed to carry on type 6 regulated activity (advising on corporate finance) under the SFO
CCIF CPA Limited ("**CCIF**")	Certified Public Accountants
Win Well Engineering and Surveyors Limited ("**WWES**")	A firm of chartered engineers and marine vessel surveyors, Hong Kong
BMI Apprisals Limited ("**BMI**")	A firm of licensed valuers
Shenzhen Tianzexinglian Real Estate Assessment Limited ("**STRE**")	A firm of licensed valuers

As at the Latest Practicable Date, none of Hercules, CCIF, WWES, BMI or STRE has any shareholding, directly or indirectly, in the Company or any of its members or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in the Company or any of its members.

Hercules, CCIF, WWES, BMI and STRE did not have any direct or indirect interest in any assets which have, since 31 July 2007, 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 Resultant Group.

Hercules, CCIF, WWES, BMI and STRE were not materially interested in any contract or arrangement entered into by any member of the Resultant Group which contract or arrangement is subsisting as at the date of this circular and which is significant in relation to the business of the Resultant Group.

11. CONSENTS

Hercules, CCIF, WWES, BMI and STRE have given and have not withdrawn their written consent as to the issue of this circular with the inclusion herein of their respective opinions or letters and/or reference to their names, opinions or letters in the form and context in which they respectively appear.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Room 702, 7th Floor, Aitken Vanson Centre, 61 Hoi Yuen Road, Kwun Tong, Hong Kong during normal business hours from 4 September 2008 up to and including the date of the SGM:

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

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

(c) the annual report of the Group for each of the two financial years ended 31 July 2007;

(d) the letter from the Independent Board Committee, the text of which is set out on page 35 of this circular;

(e) the letter from Hercules, the text of which is set out on pages 36 to 65 of this circular;

(f) the letters of consent referred to in paragraph 11 of this appendix;

(g) the accountants' report of the Group for the three years ended 31 July 2007 as set out in section 1 of Appendix I to this circular;

(h) the accountants' report on the Lead Ocean Group prepared by CCIF for the three years ended 31 March 2008 as set out in Appendix II to this circular;

(i) the accountants' report on the Net Excel Group prepared by CCIF for the three years ended 31 March 2008 as set out in Appendix III to this circular;

(j) the report issued by CCIF in connection with the unaudited pro forma financial information of the Resultant Group set out in Appendix I to this circular and the unaudited pro forma financial information on the Resultant Group as set out in Appendix IV to this circular;

(k) the accountants' report on the unaudited pro forma financial information of the Resultant Group.

(l) the property valuation reports issued by BMI and STRE as set out in Appendix VI to this circular;

(m) the valuation report on vessels issued by WWES as set out in Appendix VII to this circular; and

(n) this circular.

13. MISCELLANEOUS

(a) The authorised representatives of the Company are

(i) Mrs. Leung Yu Oi Ling, Irene

Mrs. Leung Yu Oi Ling, Irene, aged 54, joined the Group in June 1991 and is currently the Chairman of the Group. Mrs. Leung is at present responsible for the general management, business development and marketing of the Group. Mrs. Leung is a graduate of Leicester Polytechnic in 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 28, 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) The English text of this circular shall prevail over the Chinese text in case of inconsistency.

UDL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 620)

NOTICE IS HEREBY GIVEN that the special general meeting of UDL Holdings Limited ("**Company**") will be held on 20 September 2008 at 9:30 a.m. at The Chairman's Room I, The Kowloon Club, 15/F-16/F, East Wing, New World Office Building, 24 Salisbury Road, Tsimshatsui, Kowloon, Hong Kong for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

(1) "**THAT** conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting or agreeing to grant on or before 13 October 2008 the listing of, and permission to deal in, the Rights Shares (as defined below), in both nil-paid and fully paid forms; and (ii) subject to and conditional upon the obligations of Harbour Front Limited ("**Harbour Front**") and Tai Fook Securities Company Limited ("**Underwriter**") under the underwriting agreement dated 1 August 2008 made between the Company, Harbour Front and the Underwriter ("**Underwriting Agreement**"), a copy of which has been produced to this meeting and marked "**A**" and initialled by the chairman of the meeting for identification purpose, becoming unconditional:

(a) the Underwriting Agreement be and is hereby confirmed, approved and ratified;

(b) the issue of 5,045,033,739 shares of HK$0.01 each in the Company (each, a "**Rights Share**") pursuant to an offer by way of rights to holders of shares of HK$0.01 each of the Company (each, a "**Share**") at HK$0.035 per Rights Share ("**Rights Issue**") in the proportion of one Rights Share for every one Share held by holders of Shares ("**Shareholders**") whose names appear on the register of members of the Company on 20 September 2008 (or such other date as the Company may agree with the Underwriters) ("**Record Date**") other than those Shareholders whose addresses on the register of members of the Company are outside Hong Kong on the Record Date and whom the directors of the Company ("**Directors**"), after taking into account the legal opinions provided by legal advisers if the Directors consider it necessary, consider their exclusion from the Rights Issue to be necessary or expedient on and otherwise subject to the terms and conditions set out in the circular to the Shareholders dated 4 September 2008 ("**Circular**"), a copy of which has been produced to this meeting and marked "**B**" and initialled by the chairman of the meeting for identification purpose, and on such other terms and conditions as may be determined by the Directors be and is hereby approved; and

(c) the Directors be and are hereby authorised to allot and issue the Rights Shares on terms and conditions as set out in the Circular and on such other terms and conditions as may be determined by the Directors and to do all such acts and things, to sign and execute all such further documents and to take such steps as the Directors may in their absolute discretion consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Rights Issue and the Underwriting Agreement or any of the transactions contemplated thereunder."

(2) "**THAT**

(a) the conditional sale and purchase agreement dated 1 August 2008 made between the Company as purchaser and Harbour Front Limited as vendor in respect of the sale and purchase of the entire issued share capital of, and shareholder's loans to, Lead Ocean Assets Management Limited ("**Lead Ocean Agreement**"), a copy of which has been produced to the meeting and marked "**C**" and initialled by the chairman of the meeting for identification purpose, be and is hereby approved;

(b) the conditional sale and purchase agreement dated 1 August 2008 made between the Company as purchaser and Harbour Front Limited as vendor in respect of the sale and purchase of the entire issued share capital of, and shareholder's loans to, Net Excel Management Limited ("**Net Excel Agreement**"), a copy of which has been produced to the meeting and marked "**D**" and initialled by the chairman of the meeting for identification purpose, be and is hereby approved;

(c) the conditional sale and purchase agreement dated 1 August 2008 made between the Company as purchaser and Harbour Front Limited as vendor in respect of the acquisition of 10 vessels more particularly described in that agreement ("**Vessel Agreement**"), a copy of which has been produced to the meeting and marked "**E**" and initialled by the chairman of the meeting for identification purpose, be and is hereby approved;

(d) the Directors be and are hereby authorised to do all such acts and things, to sign and execute all such further documents and to take such steps as the Directors may in their absolute discretion consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Lead Ocean Agreement, the Net Excel Agreement and the Vessel Agreement or any of them or any of the transactions contemplated under any of such agreements."

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

Hong Kong, 4 September 2008

Principal place of business in Hong Kong:
Room 702, 7th Floor
Aitken Vanson Centre
61 Hoi Yuen Road
Kwun Tong
Hong Kong

Notes:

(1) A member entitled to attend and vote at the above meeting may appoint a proxy to attend and on a poll vote on his behalf and such proxy need not be a member of the Company. A form of proxy for use at the meeting is enclosed.

(2) In order to be valid, the form of proxy, together with any power of attorney or authority under which it is signed or a notarially certified copy of that power of attorney or authority, must be deposited at the Company's registrar in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

(3) Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the meeting convened or any adjournment thereof and in such event, the authority of the proxy shall be deemed to be revoked.

As at the date hereof, the board of directors of the Company comprises Mr. Leung Yat Tung, Mrs. Leung Yu Oi Ling, Irene, Ms. Leung Chi Yin, Gillian and Mr. Leung Chi Hong, Jerry as executive Directors and Mr. Pao Ping Wing, JP, Professor Yuen Ming Fai, Matthew and Ms. Tse Mei Ha as independent non-executive Directors.