

REPORT OF THE AUDITORS



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

We have audited the financial statements on pages 20 to 76 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants, except that the scope of our work was limited as explained below.

An audit includes an 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 Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned 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. However, the evidence available to us was limited as follows:

1. *Scope limitations*

- (a) In our audit of the Group's financial statements for the year ended 31 March 1999, we did not receive sufficient replies to confirmations requested from the Group's creditors on the balances outstanding as at 31 March 1999, further unreconciled discrepancies were noted in certain of the replies received, and there were no other satisfactory procedures which we could adopt to confirm that all liabilities as at 31 March 1999 were properly recorded. We disclaimed our audit opinion on the financial

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1. *Scope limitations (Continued)*

(a) *(Continued)*

statements in respect of the year ended 31 March 1999 on account of, inter alia, this scope limitation. Consequently, in view of the impracticability of performing additional procedures in respect thereof during the current period's audit, we have been unable to ascertain whether the opening balances of trade payables, retention money payable, other payables, deposits received and accruals, gross amounts due to contract customers and accumulated losses are fairly stated. Any adjustments found to be necessary to any of the above balances at 31 March 1999 would have a consequential effect on the profit of the Group for the period from 1 April 1999 to 31 July 2000 and the related opening balances and accumulated losses at 1 April 1999.

- (b) As further detailed in note 2(d)(ii) and 2(f) to the financial statements, the books and records of certain subsidiaries which were transferred by the Group (the "Scheme Assets Companies") upon implementation of the schemes of arrangement of the Company and certain of its subsidiaries, and certain disposed subsidiaries (the "Disposal Companies") were not retained by the Company. The consolidated profit and loss account of the Group has consolidated the profit and loss accounts of the Scheme Assets Companies and the Disposal Companies for the period from 1 April 1999 to the dates of their transfer of interest and disposal date, respectively (the "Period") under the classification of "discontinued operations". We were unable to obtain sufficient information to satisfy ourselves that the profit and loss accounts of the Scheme Assets Companies and the Disposal Companies for the Period so consolidated are fairly stated. Any adjustments to the profit and loss accounts of the Scheme Assets Companies and the Disposal Companies would affect the amounts reported in the profit and loss account under the classification of "discontinued operations", with a corresponding effect to the scheme reserve included in reserves as at 31 July 2000 and the gain on disposal of the Disposal Companies included in other revenue for the period from 1 April 1999 to 31 July 2000, respectively. (See our comments below on disagreement with accounting treatment for scheme reserve.) Similarly, we have been unable to satisfy ourselves that the other disclosures, including amounts, in the consolidated profit and loss account and consolidated cash flow statement relating to the Scheme Assets Companies and the Disposal Companies are fairly stated.

Because of the absence of satisfactory evidence relating to the foregoing, we have not been able to satisfy ourselves as to whether the consolidated profit attributable to shareholders of HK\$603,699,000 for the period from 1 April 1999 to 31 July 2000 is fairly stated.

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2. Disagreement about accounting treatment

As set out in note 29 to the financial statements, the Company and the Group accounted for the net liabilities of the Company and the Group discharged under the schemes of arrangement of the Company and certain of its subsidiaries (the "Schemes") as scheme reserve and recorded it as part of the shareholders' equity for the period. We consider that any gain arising in respect of the net liabilities discharged should be accounted for in the profit and loss account for the period as required by HKSA statement 2.01 "Framework for the preparation and presentation of financial statements" and statement 2.102 "Net profit or loss for the period, fundamental errors and changes in accounting policies". If this accounting treatment had been followed, the profit for the period ended 31 July 2000 of the Company and the Group would have been increased by approximately HK\$324,964,000 and HK\$1,096,502,000 respectively, and the accumulated losses of the Company and the Group as at 31 July 2000 would have been reduced by the same amounts, respectively, being the amounts accounted for by the directors through reserves.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Fundamental uncertainties relating to the going concern basis

In forming our opinion we have considered the adequacy of the disclosures made in notes 2 and 3 to the financial statements which explain the circumstances giving rise to the fundamental uncertainties relating to (1) the possible outcome of the discussions with potential customers with a view to concluding plant hire agreements for the hiring of a substantial proportion of the Group's vessels (the "Plant Hire Discussions"); and (2) the successful disposal of certain of the Group's vessels to reduce its debt servicing obligations (the "Vessel Disposal"), after the Group had undergone various schemes of arrangement and a capital restructuring subsequent to 31 March 1999, pursuant to which the Group restructured all of its borrowings and undertook a rights issue. The financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the Plant Hire Discussions and the Vessel Disposal. The financial statements do not include any adjustments that would result from the failure of the Plant Hire Discussions and the Vessel Disposal. We consider appropriate disclosures have been made, but the fundamental uncertainties relating to whether the going concern basis is appropriate are so extreme that we have disclaimed our opinion.

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DISCLAIMER OF OPINION

We are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 July 2000 and of the profit and cash flows of the Group for the period from 1 April 1999 to 31 July 2000 and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance on account of each of the following matters:

- (i) the significance of the possible effect of the limitation of scope in respect of evidence available to us as set out in the basis of opinion section of this report; and
- (ii) the fundamental uncertainties relating to the appropriateness of the going concern basis.

In respect alone of the limitation on our work as set out in the basis of opinion section of this report, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit, and we were not able to determine whether proper books and records of account relating to the Scheme Assets Companies and the Disposal Companies had been kept.

Had we not disclaimed our opinion, we would have qualified our report with respect to a disagreement over the accounting treatment of the net liabilities discharged under the Schemes set out in paragraph 2 under the basis of opinion.

Ernst & Young

Certified Public Accountants

Hong Kong
29 November 2000