2. CORPORATE UPDATE *(Continued)*

(c) Appeal against the sanctioning of the Schemes

Two appeals to the Hong Kong Court of Appeal were made against the sanctioning of the Scheme of the Company and certain of the Scheme Participating Companies. One appeal was presented by a disputed creditor who was a main contractor of certain construction contracts on which the subsidiaries of the Company were employed. The alleged claim was contingent in nature and was in the order of approximately HK$342 million. The origins of the alleged claim were due to alleged breaches of contracts and the liabilities assumed under parental guarantees of these subsidiaries of the Company. Another appeal was presented by a group of creditors being a number of ex-employees of certain of the Scheme Participating Companies. These appellants, prior to the hearing of the appeal for the sanctioning of the Schemes, also applied to the Court of First Instance and the Court of Appeal for an order to stay the implementation of the Schemes. They were heard on 13 June 2000 and 10 July 2000, respectively. On both counts, the court refused to grant an order to stay the implementation of the Schemes on the grounds put forward by the appellants. The two appeals were heard on 7 and 8 November 2000. The written judgement of the Court of Appeal will be handed down in due course. The directors, having consulted with their legal advisers, are of the opinion that the likelihood of the success of these appeals is remote.

In the event that the appellants succeed in their appeal against the sanctioning of the Company's Scheme (because the Schemes of the other 24 Scheme Participating Companies are conditional upon the Company's Scheme proceeding), the Group may be unable to continue operating as a going concern. If this situation should arise, further adjustments would have to be made to restate the values of the remaining assets held for continuing operations to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify any non-current assets and non-current liabilities as current assets and current liabilities, respectively.

(d) Discontinuance of business segments of contracting, structural steel and electrical and mechanical engineering

(i) The business segment of electrical and mechanical engineering was terminated due to the foreclosure of the Group's interest in KEL, as detailed in note 2(e) below. Pursuant to the Schemes, the Scheme Participating Companies transferred all of their Unencumbered Assets to the Newco for the purposes of their realisation and distribution to the scheme creditors. As a result, all of the Group's existing business segments were terminated, apart from its marine engineering operations which have been maintained subsequent to the acquisition of UMAHK and UMASPG. The financial effects of the Group's discontinued business segments on the current period's and prior year's consolidated profit and loss accounts have been separately disclosed as discontinued operations.

2. CORPORATE UPDATE *(Continued)*

(d) Discontinuance of business segments of contracting, structural steel and electrical and mechanical engineering *(Continued)*

(ii) The transfer of the Unencumbered Assets included, inter alia, shares of 36 subsidiaries and 3 associated companies held, directly or indirectly, by the Scheme Participating Companies (collectively the "Scheme Assets Companies"). As a result, the books and records of the Scheme Assets Companies were also transferred accordingly. The consolidated financial statements of the Group in respect of the period ended 31 July 2000 have been prepared based on the unaudited management accounts of the Scheme Assets Companies for the period from 1 April 1999 to the date of transfer of the interests.

(e) Foreclosure of Group's interest in KEL

On 1 April 1998, UDL E&M (BVI) Limited ("UDLE&M"), a wholly-owned subsidiary of the Company, entered into a loan agreement with Wonderland Development Limited ("Wonderland"), an independent third party, to obtain a loan of HK$30 million for working capital purposes. The loan was secured by, inter alia, a fixed charge over its entire holding of 300 million shares in KEL. On 15 March 2000, due to the failure of UDLE&M to repay the loan, Wonderland exercised its rights under the loan agreement to foreclose on the 300 million shares in KEL (the "Foreclosure"). Accordingly, the results of the KEL Group were consolidated into the Group's results up to 14 March 2000.

(f) Disposal of intermediate holding companies and dormant companies

Pursuant to the Schemes and, further as detailed in the Company's circular to shareholders dated 1 March 2000, the Group entered into a conditional sale and purchase agreement on 17 July 2000 with Y.T. Leung Development Company Limited ("YTL Co"), a company wholly-owned by Mr Leung, for the disposal of the entire interest of 42 subsidiaries and 2 associates (collectively the "Disposal Companies"), held directly or indirectly, by the Company, at a nominal consideration of HK$1 (the "Disposal"). The Disposal Companies were mostly intermediate holding companies and dormant companies engaged in miscellaneous supporting operations of the Group before its restructuring commenced and had significant deficiencies in assets. The Disposal was undertaken for the purposes of rationalising the structure of the Group and avoiding the unnecessary costs relating to the liquidation of the Disposal Companies, which were anticipated to be unrecoverable. The Disposal was approved at a special general meeting of the Company held on 25 August 2000. Subsequent to the special general meeting, the Company received a notification from YTL Co regarding an assignment of its interest in the Disposal Companies to a third party. The Disposal became effective on 17 July 2000 as the consideration was settled immediately and all conditions precedent were subsequently fulfilled. Accordingly, the books and records of the Disposal Companies were handed over and are therefore outwith the control of the Company. The consolidated profit and loss account of the Group in respect of the period ended 31 July 2000 have been prepared using the unaudited management accounts of the Disposal Companies for the period from 1 April 1999 to 17 July 2000.

2. CORPORATE UPDATE *(Continued)*

(f) Disposal of intermediate holding companies and dormant companies *(Continued)*

The financial effects of the Disposal on the Group and further details of the Disposal are set out in the Company's announcement dated 17 July 2000 and the Company's circular to shareholders dated 8 August 2000.

(g) Unaudited combined profit and loss account information of the Scheme Assets Companies and the Disposal Companies

The combined profit and loss account information of the Scheme Assets Companies and the Disposal Companies for the period from 1 April 1999 to the date of transfer of the interests and the disposal date, respectively, was as follows:

	HK$'000
Turnover	**12,289**
Cost of sales	**(10,388)**
Other revenue	**15,029**
Administrative expenses	**(26,512)**
Other operating expenses	**–**
Loss from operating activities	**(9,582)**
Finance costs	**(875)**
Loss before tax	**(10,457)**
Tax	**37**
Loss after tax	**(10,420)**

3. BASIS OF PRESENTATION

As at 31 July 2000, the Group had consolidated net current liabilities of approximately HK$43 million and net assets of approximately HK$16 million.

3. BASIS OF PRESENTATION *(Continued)*

During the period, as further described above, the Group underwent the Schemes and capital restructuring, pursuant to which the Group has restructured all of its debts, and undertook a rights issue for, inter alia, implementing the Reorganisation Proposal and financing the acquisition of UMAHK and UMASPG. After the discontinuance of its business segments of contracting, structural steel and electrical and mechanical engineering, the Group is currently concentrating on its marine engineering business which has had a profitable track record in the past. As at the date of approval of these financial statements, the Group is holding discussions with potential customers with a view to concluding plant hire agreements for the hiring of a substantial proportion of its vessels. The Group is also actively pursuing the disposal of certain of the Group's vessels to reduce its debt servicing obligations.

In preparing these financial statements, the directors have given careful consideration to the future liquidity of the Group. On the basis that the Group will be successful in concluding plant hire agreements with the aforesaid major customers and concluding agreements with interested parties for the disposal of the Group's vessels, the directors are satisfied that the Group will be able to meet its financial obligations as and when they fall due in the foreseeable future. Accordingly, these financial statements have been prepared on a going concern basis.

4. IMPACT OF REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following revised SSAPs have been adopted for the first time in the preparation of the current period's consolidated financial statements, together with a summary of their major effects.

- SSAP 1: Presentation of Financial Statements
- SSAP 2: Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies
- SSAP 10: Accounting for Investments in Associates

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The formats of the profit and loss account and the balance sheets, as set out on pages 20, 22, 23 and 26 respectively, have been revised in accordance with the SSAP, and a statement of recognised gains and losses, not previously required, is included on page 21. Additional disclosures as required are included in the supporting notes to the financial statements.