

Certified Public Accountants
Hong Kong Member Firm of
Grant Thornton International

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均富會計師行

To the members

UDL Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 18 to 59 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. 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 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 note 3 to the financial statements which explain the circumstances giving rise to the fundamental uncertainties relating to (i) 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 (ii) the successful disposal of certain of the Group's vessels to reduce its debt servicing obligations (the "Vessel Disposal"). 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.

DISCLAIMER OF OPINION

Because 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 affairs of the Company and of the Group as at 31 July 2001 or of the profit of the Group for the year then ended. In our opinion the financial statements give a true and fair view of the cash flows of the Group for the year ended 31 July 2001. 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.

We were appointed as auditors of the Company on 17 October 2001, and did not report on the financial statements for the previous period ended 31 July 2000. Without further qualifying our opinion above, we draw your attention to the fact that the previous auditors (the "auditors") disclaimed their opinion on the Company's and Group's financial statements for the period ended 31 July 2000 because of the significance of the possible effect of the limitation in evidence available to them as well as disagreement about an accounting treatment as follows:

- i. The auditors were 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 at 1 April 1999 were fairly stated. Any adjustments found to be necessary to any of the above balances at 1 April 1999 would have had a consequential effect on the profit of the Group for the period ended 31 July 2000.

DISCLAIMER OF OPINION (Continued)

- ii. As further detailed in note 2d(ii) and 2(f), in respect of the previous period's 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 subsidiaries, and certain disposed subsidiaries (the "Disposal Companies"), were not retained by the Company. The auditors were unable to obtain sufficient information to satisfy themselves that the income statements of the Scheme Assets Companies and Disposal Companies so consolidated up to dates of their transfer of interest and disposal date respectively, which were included in the Group results under the classification "discontinued operations", were fairly stated. The auditors were also unable to satisfy themselves that related disclosures, including amounts, in the consolidated income statement and cash flow statement relating to the Scheme Assets Companies and the Disposal Companies were fairly stated.
- iii. The Company and Group accounted for the net liabilities discharged under the schemes of arrangement of the Company and certain of its subsidiaries as scheme reserve and recorded it as part of shareholders' equity for the period. The auditors disagreed with this treatment and considered that any gain arising from the net liabilities discharged should be accounted for in the income statement for the period as required by HKSA statement 2.01 "Framework for the preparation and presentation of financial statements" and 2.102 "Net profit or loss for the period, fundamental errors and changes in accounting policies". Had this accounting treatment been followed, the profit for the period ended 31 July 2000 for the Company and Group would have increased by approximately HK\$324,964,000 and HK\$1,096,502,000 respectively and the accumulated losses reduced by the same amounts respectively. We concur with the auditors' view on the disagreement about this accounting treatment.

In respect of the limitation on the work of the auditors in the prior period described above, the comparative figures for the consolidated income statement, the consolidated cash flow statement and the notes thereon included in the financial statements, which are derived from the audited financial statements for the period ended 31 July 2000, may not be comparable with the figures for the current year.

Grant Thornton
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Hong Kong
26 November 2001