

# NOTES TO

## FINANCIAL STATEMENTS

For the year ended 31 July 2001

### 1. GENERAL INFORMATION

The Company was incorporated in Bermuda on 31 May 1991 as an exempted company under the Companies Act 1981 of Bermuda (as amended) and its shares are listed on The Stock Exchange of Hong Kong Limited. The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are in the marine engineering business. The Group discontinued its business segments of contracting, structural steel and electrical and mechanical engineering in the previous period, as detailed in note 2 below.

### 2. CORPORATE UPDATE

#### (a) Restructuring agreement

As explained in the Group's previous annual report, the Group experienced significant financial difficulties during the period ended 31 July 2000. This forced the Group to enter into a restructuring arrangement with its creditors and to discontinue and/or dispose of its contracting, structural steel and electrical and mechanical engineering businesses.

In summary, the principal terms of the reorganisation proposal, which include the proposed schemes of arrangement (the "Reorganisation Proposal"), involved, inter alia, the following:

- (i) schemes of arrangement for the Company and 24 of its subsidiaries (collectively the "Scheme Participating Companies"), excluding KEL Holdings Limited ("KEL") and its subsidiaries (collectively the "KEL Group"), under Section 166 of the Hong Kong Companies Ordinance (individually the "Scheme" and collectively the "Schemes");
- (ii) a reduction and consolidation of the issued share capital of the Company, a reduction of its share-premium account (the "UDL Capital Reorganisation");
- (iii) a rights issue of approximately 210 million rights shares to the then existing shareholders on the basis of five rights shares for every share held by them upon the completion of the UDL Capital Reorganisation ("the Rights Issue");
- (iv) a new issue of approximately 252 million new shares of HK\$0.10 each in the capital of the Company after the UDL Capital Reorganisation to the non-preferential scheme creditors in proportion to their non-preferential scheme debts; and
- (v) the acquisition of UDL Marine Assets (Hong Kong) Limited ("UMAHK") and UDL Marine Assets (Singapore) Pte Limited ("UMASPG") by the Company from the proceeds of the Rights Issue.

**2. CORPORATE UPDATE** *(Continued)***(a) Restructuring agreement** *(Continued)*

Details of the Restructuring Agreement and the Reorganisation Proposal are set out in the Company's announcement dated 16 October 1999 and the Company's circular to shareholders dated 1 March 2000.

The UDL Capital Reorganisation and the Rights Issue were approved at a special general meeting of the Company held on 24 March 2000. The UDL Capital Reorganisation became effective on 28 April 2000 and the Rights Issue became unconditional on 25 May 2000.

**(b) The Schemes**

The implementation of the Schemes involved, inter alia, the following principal steps:

- (i) the transfer of the unencumbered assets of the Scheme Participating Companies (the "Unencumbered Assets") and the net proceeds from the recovery of their accounts receivable (the "Accounts Receivable"), other than those receivables which are intercompany debts and those charged to financial creditors as security, for no consideration to a company newly incorporated in Hong Kong with limited liability (the "Newco"), the shares of which are held by the administrator of the Schemes (the "Scheme Administrator") on trust for the scheme creditors;
- (ii) the distribution of the proceeds from the sale of the Unencumbered Assets and the recovery of the Accounts Receivable, after settlement of post-scheme costs and the preferential claims of the scheme creditors, to the scheme creditors in proportion to their scheme debts as cash dividends;
- (iii) the issue of 252,306,195 new shares of HK\$0.10 each to the scheme creditors in proportion to their non-preferential scheme debts, representing 50% of the enlarged issued share capital of the Company; and
- (iv) the acceptance by each non-preferential scheme creditor of (i) the payment of cash dividends and (ii) the issue and allotment of new shares of the Company to him, in each case in accordance with the provisions of the Scheme, in full satisfaction and discharge of his non-preferential scheme debt.

**2. CORPORATE UPDATE** (Continued)**(b) The Schemes** (Continued)

The Company has undertaken to the trustee, being the Scheme Administrator for the time being, by a trust deed dated 11 February 2000, made between the Company and the trustee for the benefit of the scheme creditors, that the aggregate disposal proceeds of the Unencumbered Assets and the Accounts Receivable realised under the Schemes shall not be less than HK\$176 million. In the event of a shortfall (the "Shortfall"), the Company is required to make up the Shortfall beginning in the fourth financial year after the financial year in which the Schemes became effective. The amount of payment for the Shortfall by the Company in every financial year is limited to a maximum of 60% of the consolidated net profit of the Company and its subsidiaries for that financial year. There are no payment obligations on the Company in respect of the Shortfall in respect of any financial year in which the Company does not make an audited consolidated net profit. The Company's obligation to make up the Shortfall shall not be discharged unless and until the Company has paid the Shortfall in full.

The Scheme was sanctioned by the Court of First Instance of Hong Kong and became effective on 28 April 2000. On 26 May 2000, the Rights Issue and the acquisition of the shares of UMAHK and UMASPG by the Company under the Restructuring Agreement were completed, the implementation of the Schemes became unconditional and the Company issued approximately 252 million new shares of HK\$0.10 each to the Scheme Administrator pending distribution to the non-preferential scheme creditors upon the implementation of the Schemes.

On 20 July 2000, appeals were made against dismissal of 5 of the winding-up petitions which were presented by ex-employees of certain of the Scheme Participating Companies. Those appeals were heard on 7 and 8 November 2000 and were dismissed pursuant to a judgement dated 7 December 2000. A further appeal was made and the hearing took place at the Court of Final Appeal on 12 and 13 November 2001. While the outcome is unknown, the directors, having consulted their legal advisers, are of the opinion that the likelihood of success of the appeal is remote.

Since the commencement of the Schemes, the Group has assisted the Scheme Administrator where possible, to pursue arbitration and/or legal proceedings to recover and preserve the value of the Unencumbered Assets and the Accounts Receivable. Under the terms of the Schemes, the Group will be reimbursed for such recovery costs upon the successful recovery of these assets. To date the Group has incurred HK\$6,674,000 in recovery action costs. The directors are confident that these costs will be reimbursed, and have accordingly included these amounts in other receivables in the balance sheet at 31 July 2001.

**2. CORPORATE UPDATE** *(Continued)***(c) Appeals 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 two 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 two subsidiaries of the Company. The appeal was dismissed on 7 December 2000 and on 14 November 2001, the matter with the disputed creditor was settled by mutual agreement and all parties agreed to withdraw their claims against each other save for the parental guarantee claim by the disputed creditor against the Company due to an ex-subsidiary which will be subject to the provisions of the Schemes.

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 and were dismissed pursuant to the judgement dated 7 December 2000. The Director of Legal Aid appealed further to the Court of Final Appeal which heard the case on 12 and 13 November this year. While the outcome of the appeal is unknown, the directors are of the view that whatever the outcome, it will have a minimal impact in relation to the Scheme of the Company. This is because the Scheme provides that should any of the Scheme Participating Companies fail to proceed, the Scheme of the Company may still go ahead as all conditions precedent have been fulfilled. The 7 Scheme Participating Companies which Scheme is subject to appeal at the Court of Final Appeal have no assets nor operations of substance to the on-going operations of the Group.

**2. CORPORATE UPDATE** (Continued)**(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 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 prior period's consolidated income statement have been separately disclosed as discontinued operations.
- (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 in the previous period up to 14 March 2000.

**2. CORPORATE UPDATE** *(Continued)***(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 Yat Tung ("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"). Mr. Leung resigned as the Chairman and as a director of the Company on 1 March 2001. 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 income statement 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.

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.

**2. CORPORATE UPDATE** (Continued)**(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)
	<hr/>
	1,901
Other revenue	15,029
Administrative expenses	(26,512)
Other operating expenses	-
	<hr/>
Loss from operating activities	(9,582)
Finance costs	(875)
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Loss before taxation	(10,457)
Taxation	37
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Loss after taxation	<u>(10,420)</u>

**(h) Other legal proceedings**

On 19 October 2001, a plant hire customer of UMAHK and UMASPG ("the plaintiff") commenced proceedings against these two subsidiaries alleging claims for alleged breach of contract and damages. However, the plaintiff has so far failed to place any quantification on its alleged claims and has on 21 November 2001 obtained a 21 day extension of time for filing its statement of claim. UMAHK and UMASPG intend to counter claim against the plaintiff for outstanding plant hire charges and damages of approximately HK\$8,700,000 and HK\$15,000,000 respectively. The dispute is still at an early stage but, the directors, having consulted their legal advisors, are confident their intended counter claim will be successful.

### 3. BASIS OF PREPARATION

The financial statements on pages 18 to 59 are prepared in accordance with and comply with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants. The financial statements are prepared under the historical cost convention.

In preparing the financial statements the directors have given careful consideration to the future liquidity of the Group in light of its current financial position as at 31 July 2001. At that date, the Group had consolidated net current liabilities of approximately HK\$79,851,000 and net assets of approximately HK\$23,818,000.

The Group's net current liabilities include the current portion of its bank and other loans amounting to approximately HK\$81,045,000, further details of which are set out in note 15. These loans are secured against the Group's floating craft and vessels (the "vessels"), and repayments are by way of monthly instalment. The Group's ability to service these debt obligations is dependent on the income and cash flows generated from plant hire agreements and/or the proceeds from the disposal of its vessels.

Whilst the Group's marine engineering business has a profitable past track record, as at the date of approval of these financial statements a substantial proportion of its fleet of vessels has not been committed to plant hire agreements. As explained in the Chairman's Statement, due to the downturn in the regional and local economy, the Group has taken a very cautious approach to concluding new plant hire agreements to ensure the commercial and credit risk of such agreements meets the Group's needs. The Group has nevertheless been actively pursuing discussions with its major customers and various interested and reputable parties 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 mentioned above.

In preparing these financial statements, the directors have given careful consideration to the Group's ability to meet its current debt and ongoing obligations. On the basis that the Group will be successful in concluding plant hire agreements 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.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively.



#### 4. PRINCIPAL OF ACCOUNTING POLICIES

##### (a) Basis of consolidation

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

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

##### (b) Goodwill or capital reserve arising on consolidation

Goodwill or capital reserve arising on consolidation of subsidiaries and on the acquisition of associates represents the excess or shortfall of purchase consideration over the fair values ascribed to the separable net assets of the subsidiaries or associates acquired and is eliminated against or credited directly to reserves in the year of acquisition.

On disposal of a subsidiary or an associate, the relevant portion of attributable goodwill or capital reserve previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

##### (c) Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital, or controls the composition of its board of directors.

Interest in subsidiaries are stated at cost unless in the opinion of the directors, there have been permanent diminutions in value, when they are written down to the values determined by the directors.

##### (d) Associate

An associate is a company, other than a subsidiary, in which the Group has a long term equity interest and over which the Group is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any provisions for permanent diminutions in values deemed necessary by the directors.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are stated at cost less any provisions for permanent diminutions in values deemed necessary by the directors.

**4. PRINCIPAL OF ACCOUNTING POLICIES** (Continued)**(e) Property, plant and equipment***(i) Depreciation*

Depreciation is provided to write off the cost or carrying amount 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 <sup>1</sup> / <sub>3</sub> %
Plant, machinery and workshop equipment	10 – 33 <sup>1</sup> / <sub>3</sub> %
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.

Assets held under finance leases are depreciated over their estimated useful lives or where shorter the term of the lease using the same method as owned assets in the same category.

*(ii) Measurement bases*

Property, plant and equipment are stated at cost or carrying amount less accumulated depreciation. 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.

**4. PRINCIPAL OF ACCOUNTING POLICIES** (Continued)**(e) Property, plant and equipment** (Continued)*(ii) Measurement bases* (Continued)

When assets are sold or retired, any gain or loss resulting from their disposal, being the difference between the net disposal proceeds and the carrying amount of the assets, is included in the income statement.

The carrying amounts of property, plant and equipment are reviewed periodically in order to assess whether their recoverable amounts have declined below their carrying amounts. Where, in the opinion of the directors, the recoverable amounts of assets have declined below their carrying amounts, provisions are made to write down the carrying amounts of such assets to their recoverable amounts. The recoverable amount is the amount which the Group expects to recover from the future use of the asset, including its residual value on disposal. Recoverable amounts are not determined using discounted cash flows. Reductions of recoverable amounts are charged to the income statement as incurred.

**(f) Leased assets**

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the rewards and risks and ownership of the asset to the Group. Assets leased under finance leases are capitalised at their fair value at the date of acquisition. The corresponding lease commitments are shown as obligations to the lessor. The finance costs, which represent the difference between the total leasing commitment and the fair value of the assets acquired, are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

**(g) Operating leases**

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

**(h) Inventories**

Inventories of raw materials and accessories are stated at the lower of cost, on the weighted average basis, and net realisable value after making due allowances for any obsolete or slow-moving items. Net realisable value is based on estimated selling prices less any further completion and the estimated costs necessary to make the sale.

**4. PRINCIPAL OF ACCOUNTING POLICIES** (Continued)**(i) Construction contracts**

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract cost incurred comprises direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the lower of the gross billing value of contracting work to date as compared to the total contract sum receivable under the construction contract and the total costs attributable to work performed to date as compared to the estimated total contract costs.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

**(j) Deferred tax/Future tax benefit**

Deferred tax is provided, using the liability method, on all significant timing differences, other than those which are not expected to crystallise in the foreseeable future.

Future tax benefit is not carried forward as an asset unless the benefit can be regarded as being virtually certain of realisation.

**(k) Foreign currencies**

Transactions in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the rates of exchange ruling at that date. Gains and losses arising on exchange are dealt with in the income statement.

The financial statements of subsidiaries and associates denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

**4. PRINCIPAL OF ACCOUNTING POLICIES** (Continued)**(l) Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

**(m) Retirement benefit costs**

The Group operates a defined contribution provident fund scheme which the employees of the Group are entitled to join after fulfilling certain conditions. The amount of the Group's contributions is based on a fixed percentage of the basic salary of each participating employee. Forfeited contributions in respect of the unvested benefits of those employees who leave the scheme are used to reduce the Group's ongoing contributions. Net contributions are charged to the income statement in the period to which they relate.

**(n) Recognition of revenue**

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

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

Rental income is recognised on a time proportion basis over the lease terms.

Interest income is recognised on a time proportion basis.

**(o) Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and amounts repayable on demand with banks and short-term highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

## 5. TURNOVER AND PROFIT/(LOSS) BY OPERATING ACTIVITY AND GEOGRAPHICAL SEGMENT

The Group's turnover represents the net invoiced value of services rendered and gross rental income from its vessels. Turnover for the previous period in addition includes an appropriate proportion of the contract revenue of construction contracts during that period, after elimination of all significant intercompany transactions.

An analysis of turnover and profit/(loss) by operating activity and geographical segment is as follows:

	Turnover		Profit/(Loss) from operations	
	Year ended 31 July 2001 HK\$'000	Period from 1 April 1999 to 31 July 2000 HK\$'000	Year ended 31 July 2001 HK\$'000	Period from 1 April 1999 to 31 July 2000 HK\$'000
<b>By principal activities</b>				
<b>Continuing operations:</b>				
Marine engineering	100,110	32,870	17,211	45,882
<b>Discontinued operations:</b>				
Contracting	-	3,119	-	1,081
Structural steel	-	6,379	-	(45,758)
Electrical and mechanical engineering	-	28,957	-	(13,585)
	-	38,455	-	(58,262)
Gain on disposal of subsidiaries	-	-	-	735,889
	<b>100,110</b>	<b>71,325</b>	<b>17,211</b>	<b>723,509</b>
<b>By geographical markets:</b>				
The People's Republic of China:				
Hong Kong, S.A.R.	88,057	49,279	15,139	748,263
Elsewhere	-	4,966	-	(5,884)
Singapore	12,053	17,080	2,072	(18,955)
Others	-	-	-	85
	<b>100,110</b>	<b>71,325</b>	<b>17,211</b>	<b>723,509</b>

**6. PROFIT BEFORE TAXATION**

- a. The Group's profit from operating activities is arrived at after charging:

	<b>Year ended 31 July 2001 HK\$'000</b>	Period from 1 April 1999 to 31 July 2000 HK\$'000
Auditors' remuneration	<b>715</b>	1,494
Depreciation:		
Owned assets	<b>16,512</b>	19,533
Leased assets	<b>93</b>	64
Foreign exchange losses, net	<b>1,815</b>	2,790
Operating lease rentals in respect of:		
Land and buildings	<b>3,958</b>	7,884
Loss on disposal of property, plant and equipment	<b>2,623</b>	–
Staff costs	<b>5,654</b>	23,094
	<u><b>5,654</b></u>	<u>23,094</u>

- b. Included in other revenue:

Gain on deemed disposal of interest in an associate	–	348
Gain on disposal of property, plant and equipment	–	48,578
Gain on disposal of subsidiaries	–	735,889
Insurance claim	<b>945</b>	–
Interest income	<b>6</b>	341
Net rental income from the sub-letting of properties	<b>1,298</b>	1,845
	<u><b>1,298</b></u>	<u>1,845</u>

- c. Included in other operating expenses:

Provision for bad and doubtful debts	<b>16,599*</b>	–
Provision for impairment in value of vessels	<b>590</b>	–
Provision for liquidated damages claimed by main contractors	–	6,118
Provision for repair and maintenance of vessels	<b>4,900</b>	–
Write off of property, plant and equipment	–	206
	<u>–</u>	<u>206</u>

\* *Most of the provision for doubtful debts relates to a project in Malaysia, which has been severely affected by the difficult site conditions, shortfall in certification and the prevailing seasonal monsoon weather. In addition, the Group has experienced difficulties obtaining settlement of long outstanding amounts due from this customer, and, rather than expose the Group to further credit and commercial risk by continuing with the project, the directors demobilised and withdrawn its vessels from the project. The Group is preparing to commence proceedings to recover the amounts due, but owing to uncertainty of the success of such action, the directors consider it appropriate and prudent to provide for the amount due in full.*

**7. FINANCE COSTS**

	<b>Year ended 31 July 2001 HK\$'000</b>	Period from 1 April 1999 to 31 July 2000 HK\$'000
Interest charges on:		
Bank loans and other borrowings wholly repayable within five years	<b>13,555</b>	161,065
Finance charges on finance leases	<b>19</b>	80
	<u><b>13,574</b></u>	<u>161,145</u>

**8. TAXATION**

	<b>Year ended 31 July 2001 HK\$'000</b>	Period from 1 April 1999 to 31 July 2000 HK\$'000
The charge comprises:		
Company and subsidiaries		
Hong Kong profits tax		
– Over provision in prior years	<b>(86)</b>	(10,996)
Overseas tax		
– Provision for the year/period	–	89
Deferred tax ( <i>note 18</i> )	<b>(631)</b>	(30,455)
	<u><b>(717)</b></u>	<u>(41,362)</u>

Hong Kong profits tax is provided at the rate of 16% (2000: 16%) on the estimated assessable profit during the year/period.

Overseas tax was provided in accordance with the legislation and tax rates prevailing in the respective overseas countries.

**9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS**

The profit attributable to shareholders for the year (period) dealt with in the financial statements of the Company is a loss of approximately \$6,934,000 (2000: loss of HK\$14,666,000).



**10. EARNINGS PER SHARE**

The calculation of basic earnings per share for the year ended 31 July 2001 is based on the profit attributable to shareholders of HK\$4,372,000 (2000: HK\$603,699,000) and the adjusted weighted average number of 525,626,385 ordinary shares (2000: 119,078,012 ordinary shares) in issue during the year/period.

A diluted earnings per share for the year ended 31 July 2001 has not been shown as there were no Share options outstanding at the year end date. A diluted earnings per share for the period ended 31 July 2000 has not been shown because the share options outstanding during the period had an anti-dilutive effect on the basic earnings per share for that period.

**11. PROPERTY, PLANT AND EQUIPMENT**

	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
<b>Cost/carrying amount</b>					
At 1 August 2000	157,999	8	252	511	158,770
Additions	14,390	9	351	–	14,750
Disposal	(5,217)	–	–	–	(5,217)
Exchange realignments	(4,593)	–	(10)	(20)	(4,623)
<b>At 31 July 2001</b>	<b>162,579</b>	<b>17</b>	<b>593</b>	<b>491</b>	<b>163,680</b>
<b>Accumulated depreciation</b>					
At 1 August 2000	15,658	3	30	116	15,807
Charge for the year	16,480	4	25	96	16,605
Impairment in value	590	–	–	–	590
Written back on disposal	(765)	–	–	–	(765)
Exchange realignments	(458)	–	(1)	(4)	(463)
<b>At 31 July 2001</b>	<b>31,505</b>	<b>7</b>	<b>54</b>	<b>208</b>	<b>31,774</b>
<b>Net book value</b>					
<b>At 31 July 2001</b>	<b>131,074</b>	<b>10</b>	<b>539</b>	<b>283</b>	<b>131,906</b>
At 31 July 2000	142,341	5	222	395	142,963

The net book value of the Group's property, plant and equipment held under finance leases is as follows:

	2001 HK\$'000	2000 HK\$'000
Motor vehicles	<b>270</b>	<b>378</b>

**12. INTERESTS IN SUBSIDIARIES**

	<b>2001</b> <b>HK\$'000</b>	2000 <b>HK\$'000</b>
Unlisted shares, at cost	<b>135,822</b>	135,822
Amounts due from subsidiaries	<b>8,873</b>	4,505
	<b>144,695</b>	140,327
Less: Provisions	<b>(122,007)</b>	(122,007)
	<b>22,688</b>	18,320
Amounts due to subsidiaries	<b>(8,057)</b>	(858)
	<b>14,631</b>	17,462

Particulars of the principal subsidiaries as at 31 July 2001 are as follows:

Name	Place of incorporation/ operation	Particulars of issued/ registered share capital	Percentage of issued/registered capital held by the		Principal activities
			Group	Company	
UDL Marine Assets (Hong Kong) Limited	Hong Kong	HK\$4,000,000	100%	100%	Marine engineering
UDL Marine Assets (Singapore) Pte Limited*	Singapore	S\$2,000,000	100%	100%	Marine engineering

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

\* *not audited by Grant Thornton, Hong Kong or other Grant Thornton member firms.*

**13. INVENTORIES**

	<b>2001</b> <b>HK\$'000</b>	2000 <b>HK\$'000</b>
Accessories, at cost	—	1,128

For the year ended 31 July 2001

**14. TRADE AND OTHER RECEIVABLES**

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Trade receivables (note (a))	<b>11,397</b>	11,726	–	–
Retention money receivable	<b>755</b>	–	–	–
Prepayments, deposits and other receivables	<b>16,732</b>	3,845	<b>563</b>	400
	<b><u>28,884</u></b>	<u>15,571</u>	<b><u>563</u></b>	<u>400</u>

*Note:*

- (a) As at 31 July 2001, the aged analysis of trade receivables net of provisions for doubtful debts was as follows:

	2001 HK\$'000	2000 HK\$'000
Current	<b>10,119</b>	3,266
1-3 months	–	5,282
4-6 months	–	1,990
7-12 months	<b>1,128</b>	692
Over 1 year	<b>150</b>	496
	<b><u>11,397</u></b>	<u>11,726</u>

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.

**15. BANK AND OTHER BORROWINGS**

	<b>2001</b> <b>HK\$'000</b>	2000 <b>HK\$'000</b>
Bank and other borrowings comprise:		
Bank loans	<b>74,144</b>	92,893
Bank overdrafts	<b>303</b>	–
Other loans	<b>32,529</b>	39,865
	<b>106,976</b>	132,758
Analysed as:		
Secured – <i>Notes (a) and (b)</i>	<b>106,673</b>	131,378
Unsecured	<b>303</b>	1,380
	<b>106,976</b>	132,758
Bank and other borrowings are repayable as follows:		
Within one year or on demand	<b>81,348</b>	52,356
More than one year, but not exceeding two years	<b>25,628</b>	46,546
More than two years, but not exceeding five years	–	33,856
	<b>106,976</b>	132,758
Less: Amount due within one year and shown under current liabilities	<b>(81,348)</b>	(52,356)
Amount due after one year	<b>25,628</b>	80,402

*Notes:*

- (a) As at 31 July 2001, the Group's bank loans were secured by a legal charge on the Group's floating craft and vessels with net book value of HK\$86,108,000 (2000: HK\$101,573,000), fixed and floating charges over the assets of the Company's subsidiary, UDL Marine Assets (Singapore) Pte Limited, a joint and several guarantee from Mr. Leung and Mrs. Leung Yu Oi Ling, Irene ("Mrs. Leung"), assignment of insurances and income for certain vessels, and subordination of loan from Mr. Leung and Mrs. Leung.

Mrs. Leung is a director and acting chairman of the Company and is the spouse of Mr. Leung. Mrs. Leung has a significant indirect interest in the Company, as set out in the Directors' Report on page 10.

- (b) As at 31 July 2001, the other loans were secured by certain of the Group's floating craft and vessels with net book value amounting to approximately \$40,814,000 (2000: \$40,191,000), a first floating charge on all the undertaking, property, assets and rights of the Company's subsidiary, UDL Marine Assets (Hong Kong) Limited, and a personal guarantee from Mr. Leung, and bears interest at 11% per annum.

**16. OBLIGATIONS UNDER FINANCE LEASES**

The capital amounts due under finance leases at the balance sheet date were as follows:

	<b>2001</b> <b>HK\$'000</b>	2000 <i>HK\$'000</i>
The maturity of obligations under finance leases is as follows:		
Within one year or on demand	<b>55</b>	57
More than one year, but not exceeding five years	<b>222</b>	284
	<b>277</b>	341
Future finance charges on finance leases	<b>(46)</b>	(67)
	<b>231</b>	274
Less: Amounts due within one year shown under current liabilities	<b>(46)</b>	(48)
Amount due after one year	<b>185</b>	226

**17. TRADE AND OTHER PAYABLES**

	<b>Group</b>		<b>Company</b>	
	<b>2001</b> <b>HK\$'000</b>	2000 <i>HK\$'000</i>	<b>2001</b> <b>HK\$'000</b>	2000 <i>HK\$'000</i>
Trade payables ( <i>note (a)</i> )	<b>14,763</b>	8,314	-	-
Retention money payable	<b>381</b>	-	-	-
Advances received	<b>1,641</b>	-	-	-
Other payables and accruals	<b>14,479</b>	7,251	<b>2,499</b>	2,384
	<b>31,264</b>	15,565	<b>2,499</b>	2,384

*Note:*

(a) As at 31 July 2001, the aged analysis of the trade payables was as follows:

	<b>2001</b> <b>HK\$'000</b>	2000 <i>HK\$'000</i>
Current	<b>1,459</b>	4,964
1-3 months	<b>5,903</b>	1,179
4-6 months	<b>1,709</b>	672
7-12 months	<b>2,750</b>	1,263
Over 1 year	<b>2,942</b>	236
	<b>14,763</b>	8,314

**18. DEFERRED TAX**

The movements in the deferred tax account are as follows:

	<b>2001</b> <b>HK\$'000</b>	2000 <i>HK\$'000</i>
Balance at 1 August 2000	<b>3,141</b>	32,352
Transfer to income statement ( <i>note 8</i> )	<b>(631)</b>	(30,455)
Exchange realignments	<b>(86)</b>	45
Acquisition of subsidiaries	-	3,141
Discharged under the Schemes	-	(1,942)
	<hr/>	<hr/>
Balance at 31 July 2001	<b><u>2,424</u></b>	<u>3,141</u>

At 31 July 2001, the amount of unprovided deferred tax assets is as follows:

	<b>2001</b> <b>HK\$'000</b>	2000 <i>HK\$'000</i>
Tax effect of timing differences attributable to:		
Accelerated depreciation allowance	<b>(2,929)</b>	485
Other timing differences	<b>4,913</b>	(8)
Tax losses	-	2,822
	<hr/>	<hr/>
	<b><u>1,984</u></b>	<u>3,299</u>

**19. SHARE CAPITAL**

	<i>Note</i>	<b>Number of shares</b>	<i>HK\$'000</i>
Authorised:			
Ordinary shares of HK\$0.10 each at 1 August 2000		<b>1,200,000,000</b>	120,000
Sub-division of shares	<i>(ii)</i>	<b><u>10,800,000,000</u></b>	<u>–</u>
Ordinary shares of HK\$0.01 each at 31 July 2001		<b><u>12,000,000,000</u></b>	<u>120,000</u>
Issued and fully paid:			
Ordinary shares of HK\$0.10 each at 1 August 2000		<b>504,612,390</b>	50,461
Shares cancelled	<i>(i)</i>	–	(45,415)
Issue of shares	<i>(iii)</i>	<b><u>100,922,478</u></b>	<u>1,009</u>
Ordinary shares of HK\$0.01 each at 31 July 2001		<b><u>605,534,868</u></b>	<u>6,055</u>

*Note:*

- (i) On 17 May 2001, the issued share capital of the Company was reduced from 504,612,390 ordinary shares of HK\$0.10 each to 504,612,390 ordinary shares of HK\$0.01 each by cancelling the paid-up capital to the extent of HK\$0.09 on each issued share capital. The credit of HK\$45,415,000 arising from cancellation of paid-up capital was charged against accumulated losses account as set out in note 20.
- (ii) On the same date, the authorised share capital of the Company of 1,200,000,000 ordinary shares of HK\$0.10 each was subdivided into 12,000,000,000 ordinary shares of HK\$0.01 each.
- (iii) Pursuant to a conditional subscription agreement dated 30 March 2001 and approved at a special general meeting on 17 May 2001, Harbour Front Limited, a substantial shareholder of the Company, subscribed for 100,922,478 new shares of HK\$0.01 each in the Company at a price of HK\$0.04 per share. These new shares were issued under the general mandate granted to the directors at the same special general meeting of the Company held on 17 May 2001 and rank pari passu with the existing shares in all respects.

**19. SHARE CAPITAL** (Continued)**(a) Share option scheme**

On 6 September 1991, the Company adopted a share option scheme (the "Option Scheme") under which the directors may, at their discretion, grant to directors and employees of the Group the rights, at the consideration of HK\$1 per grant, to subscribe for shares in the capital of the Company. The maximum number of shares in respect of which share options may be granted under the scheme may not exceed 10 per cent of the issued share capital of the Company from time to time. The Option Scheme will remain in force for a period of ten years from the date of its adoption.

Details of the movements of the number of share options during the year are as follows:

Date of grant	Exercisable period	*Subscription price	Unexercised options at 1 August 2000	Options lapsed during the year	Unexercised options at 31 July 2001
22 Aug 1997	20 Mar 1998 to 19 Sep 2000	HK\$15.2	1,728,727	(1,728,727)	-

\* Adjusted for share consolidation in May 2000.

**(b) Repurchases of shares**

No shares were repurchased during the year ended 31 July 2001.



**20. RESERVES****Group**

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Reserve funds HK\$'000	Capital reserve HK\$'000	Accumulated losses HK\$'000	Scheme reserve HK\$'000	Total HK\$'000
Company and subsidiaries	484,082	1,264	9,758	-	-	(2,309,630)	-	(1,814,526)
Associates	-	-	(58)	174	-	(1,751)	-	(1,635)
At 1 April 1999	484,082	1,264	9,700	174	-	(2,311,381)	-	(1,816,161)
Capital reduction against share capital	-	-	-	-	-	79,897	-	79,897
Capital reduction against share premium	(484,082)	-	-	-	-	484,082	-	-
Exchange realignments:								
Subsidiaries	-	-	(6,211)	-	-	-	-	(6,211)
Associates	-	-	122	-	-	-	-	122
Acquisition of subsidiaries	-	-	-	-	717	-	-	717
Disposal of subsidiaries	-	-	93	-	-	-	-	93
Profit for the period	-	-	-	-	-	603,699	-	603,699
Goodwill released upon transfer of interest in an associate to the Newco	-	-	-	-	-	12,008	-	12,008
Arising from the effect of the Schemes	-	-	(5,056)	(174)	-	-	1,096,502	1,091,272
At 31 July 2000	-	1,264	(1,352)	-	717	(1,131,695)	1,096,502	(34,564)
Company and subsidiaries	-	1,264	(1,352)	-	717	(1,131,695)	1,096,502	(34,564)
Associates	-	-	-	-	-	-	-	-
At 31 July 2000	-	1,264	(1,352)	-	717	(1,131,695)	1,096,502	(34,564)

**20. RESERVES (Continued)****Group**

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Capital reserve HK\$'000	Accumulated losses HK\$'000	Scheme reserve HK\$'000	Total HK\$'000
At 1 August 2000	-	1,264	(1,352)	717	(1,131,695)	1,096,502	(34,564)
Issue of shares, net of expenses (note 19(iii))	3,028	-	-	-	-	-	3,028
Capital reduction applied against accumulated losses (note 19(i))	-	-	-	-	45,415	-	45,415
Exchange realignment - Subsidiaries	-	-	(488)	-	-	-	(488)
Profit for the year	-	-	-	-	4,372	-	4,372
<b>At 31 July 2001</b>	<b>3,028</b>	<b>1,264</b>	<b>(1,840)</b>	<b>717</b>	<b>(1,081,908)</b>	<b>1,096,502</b>	<b>17,763</b>

**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 April 1999	484,082	1,264	21,689	(932,124)	-	(425,089)
Capital reduction against share capital	-	-	-	79,897	-	79,897
Capital reduction against share premium	(484,082)	-	-	484,082	-	-
Loss for the period Arising from the effect of the Scheme	-	-	-	(14,666)	-	(14,666)
	-	-	-	-	324,964	324,964
<b>At 31 July 2000</b>	<b>-</b>	<b>1,264</b>	<b>21,689</b>	<b>(382,811)</b>	<b>324,964</b>	<b>(34,894)</b>
At 1 August 2000	-	1,264	21,689	(382,811)	324,964	(34,894)
Issue of shares, net of expenses (note 19(iii))	3,028	-	-	-	-	3,028
Capital reduction applied against accumulated losses (note 19(i))	-	-	-	45,415	-	45,415
Loss for the year	-	-	-	(6,934)	-	(6,934)
<b>At 31 July 2001</b>	<b>3,028</b>	<b>1,264</b>	<b>21,689</b>	<b>(344,330)</b>	<b>324,964</b>	<b>6,615</b>

**20. RESERVES** *(Continued)*

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, and the nominal value of the Company's shares in exchange therefor. 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 the Effective Date, which were discharged pursuant to the Schemes.

**21. DIRECTORS' AND MANAGEMENT'S EMOLUMENTS****(a) Directors' emoluments**

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	<b>Year ended 31 July 2001 HK\$'000</b>	Period from 1 April 1999 to 31 July 2000 HK\$'000
Fees		
Executive directors	–	–
Non-executive director	<b>13</b>	–
Independent non-executive director	<b>70</b>	83
	<b>83</b>	83
Other emoluments		
Executive directors	<b>3,464</b>	4,773
Independent non-executive directors	<b>40</b>	13
	<b>3,504</b>	4,786
	<b>3,587</b>	4,869

The emoluments of the directors were within the following bands:

<b>Emoluments bands</b>	<b>Number of directors</b>	
	<b>Year ended 31 July 2001</b>	Period from 1 April 1999 to 31 July 2000
HK\$Nil – HK\$1,000,000	<b>5</b>	6
HK\$1,000,001 – HK\$1,500,000	<b>1</b>	–
HK\$1,500,001 – HK\$2,000,000	<b>1</b>	–
HK\$2,500,001 – HK\$3,000,000	<b>–</b>	1

During the year, no share options were granted to the directors.

During the year, no directors waived remuneration and no emolument of the directors was incurred as inducement to join or upon joining the Group or as compensation for loss of office.

**21. DIRECTORS' AND MANAGEMENT'S EMOLUMENTS** (Continued)**(b) Five highest paid individuals**

The five highest paid individuals of the Group for the year included three (2000: four) executive directors, details of whose emoluments are set out above. The emoluments of the remaining two (2000: one) employees were as follows:

	<b>Year ended 31 July 2001 HK\$'000</b>	Period from 1 April 1999 to 31 July 2000 HK\$'000
Salaries and other benefits	<u>1,816</u>	<u>1,668</u>

The emoluments were within the following bands:

**Emoluments bands**

	<b>Year ended 31 July 2001</b>	Period from 1 April 1999 to 31 July 2000
HK\$Nil – HK\$1,000,000	<b>1</b>	–
HK\$1,000,001 – HK\$1,500,000	<b>1</b>	–
HK\$1,500,001 – HK\$2,000,000	<u>–</u>	<u>1</u>

**22. RETIREMENT BENEFITS SCHEME**

	<b>Year ended 31 July 2001 HK\$'000</b>	Period from 1 April 1999 to 31 July 2000 HK\$'000
Retirement benefits scheme contributions to the Group's defined contribution scheme	<b>195</b>	331
Less: Forfeited contributions	<u>(64)</u>	<u>(331)</u>
	<u><b>131</b></u>	<u>–</u>

**22. RETIREMENT BENEFITS SCHEME** (Continued)**Defined contribution scheme**

The Group operates 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.

At 31 July 2001, there were no forfeited contributions available to offset future contributions payable by the Group (2000: Nil).

From 1 December 2000, the Group has arranged for 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.

**23. OPERATING LEASE COMMITMENTS**

At 31 July 2001, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	<b>Group</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Land and buildings		
Within one year	<b>581</b>	1,218
In the second to fifth years inclusive	<b>470</b>	1,069
	<b>1,051</b>	2,287

The Company had no significant operating lease commitments at the balance sheet date.

**24. CONTINGENT LIABILITIES**

At 31 July 2001, the Company and the Group had contingent liabilities in respect of the Company's undertaking to the trustee of the Schemes that the aggregate proceeds of the Unencumbered Assets and the Accounts Receivables realised under the Schemes shall not be less than HK\$176 million (2000: HK\$176 million), further details of which are set out in note 2(b). Due to the pending appeals as detailed in note 2(b) and (c), the recovery and realisation work under the Schemes has not made much progress. However, the directors are confident that once the outcome of the appeals to the Court of Final Appeal is known, the realisation work will progress at a much faster pace.

**25. RELATED PARTY TRANSACTIONS**

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

	Notes	Year ended 31 July 2001 HK\$'000	Period from 1 April 1999 to 31 July 2000 HK\$'000
Transactions with UMAHK and UMASPG	(a)	–	3,362
Berthing and security expenses paid to Keenrich Company Limited ("Keenrich")	(b)	<b>1,144</b>	–
Plant hire cost paid to Buggy Development Limited ("Buggy")*	(c)	<b>3,815</b>	–
Sales of property, Plant and equipment to Buggy	(c)	–	6,176
Rental charges paid to Denlane Shipbuilding Pte Limited ("Denlane")	(d)	<b>146</b>	–
Rental charges paid to Fonfair Company Limited ("Fonfair")	(e)	<b>1,876</b>	3,702
Rental charges paid to Giant Lead Enterprises Limited ("Giant Lead")	(f)	<b>496</b>	–
Rental charges paid to Sincere Place Limited ("Sincere")	(g)	<b>680</b>	1,392
Rental charges paid to UDL Engineering Pte Limited ("UEPL")	(h)	<b>437</b>	–
Sales of property, plant and equipment to Gitanes Engineering Company Limited ("Gitanes")	(i)	–	1,769
Management service fee paid to Goldfit Engineering Limited ("Goldfit")	(j)	–	1,845
Secondment of staff paid to UDL Offshore Pte Limited ("UOPL")	(k)	<b>531</b>	–
Berthing and security income from UOPL	(k)	<b>136</b>	–
Berthing and security income from North Lantau Dredging Company Limited ("North Lantau")	(l)	<b>957</b>	–
Management fee income from North Lantau**	(l)	<b>10,917</b>	–
Plant hire income from North Lantau	(l)	–	6,371
Berthing and security income from UDL Assets Management Pte Limited ("UAMP")	(m)	<b>179</b>	–
Berthing and security income from UDL Salvage Company Limited ("USCL")	(n)	<b>168</b>	–

\* One of the Group's top five suppliers.

\*\* One of the Group's top five customers.

**25. RELATED PARTY TRANSACTIONS (Continued)**

- (a) Prior to the acquisition of UMAHK and UMASPG by the Group, UMAHK and UMASPG were shipping agents of the Group in Hong Kong and Singapore, respectively, appointed under standard terms of shipping agent agreement. An analysis of the transactions between the Group and UMAHK and UMASPG are as follows:

	<b>Year ended 31 July 2001 HK\$'000</b>	Period from 1 April 1999 to 31 July 2000 HK\$'000
Plant hire income from UMAHK and UMASPG	-	8,982
Sale of property, plant and equipment to UMAHK and UMASPG	-	2,173
Rental income from UMASPG	-	356
Management service fee paid to UMAHK and UMASPG	-	(442)
Sales of spare parts to UMAHK	-	520
Berthing, security, repairs and maintenance charges paid to UMAHK and UMASPG	-	(8,227)
	<u>-</u>	<u>(8,227)</u>
	<u>-</u>	<u>3,362</u>

- (b) Keenrich is a company in which Mr. Leung is a director until 1 March 2001.
- (c) Bugsy is a company in which Mrs. Leung has an indirect beneficial interest. Mrs. Leung and Ms. Leung Chi Yin, Gillian ("Ms. Leung") are directors of Bugsy.
- (d) Denlane is a company in which Mr. Leung and Mrs. Leung are directors.
- (e) Fonfair is a company in which Mr. Leung is a director until 1 March 2001.
- (f) Giant Lead is a company in which Mr. Leung, Mrs. Leung and Ms. Leung have indirect beneficial interests. Mr. Leung, Mrs. Leung and Ms. Leung are directors of Giant Lead. Mr. Leung continues to serve as a director until 1 March 2001.
- (g) Sincere is a company in which Mr. Leung and Mrs. Leung are directors. Mr. Leung continues to serve as a director until 1 March 2001.
- (h) UEPL is a company in which Mr. Leung, Mrs. Leung and Chan Kim Leung ("Mr. Chan") are directors.
- (i) Gitanes was a former associate of the Group and had been transferred to the Newco by the Group as at the previous balance sheet date. Mr. Leung continues to serve as a director until 1 March 2001.
- (j) Goldfit is a company, of which Mr. Leung and Mrs. Leung are directors. Mr. Leung continues to serve as a director until 1 March 2001.



**25. RELATED PARTY TRANSACTIONS (Continued)**

- (k) UOPL is a company in which Mr. Leung, Mrs. Leung and Mr. Chan are directors.
- (l) North Lantau is a company in which Mr. Leung has direct beneficial interest. Mr. Leung and Mrs. Leung are directors of North Lantau. Mr. Leung continues to serve as a director until 1 March 2001.
- (m) UAMP is a company in which Mr. Leung, Mrs. Leung and Mr. Chan are directors.
- (n) USCL is a company in which Mrs. Leung is a director.

The balances with the related companies are unsecured, interest-free and repayable on demand.

**26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT****(a) Reconciliation of profit before taxation to net cash inflow/(outflow) from operating activities**

	<b>Year ended 31 July 2001 HK\$'000</b>	Period from 1 April 1999 to 31 July 2000 HK\$'000
Profit before taxation	<b>3,637</b>	562,364
Provision for liquidated damages claimed by main contractors	-	6,118
Write off of property, plant and equipment	-	206
Provision for impairment in value of vessels	<b>590</b>	-
Gain on disposal of subsidiaries	-	(735,889)
Operating lease rentals	<b>1,876</b>	-
Interest income	<b>(6)</b>	(341)
Interest expenses	<b>13,555</b>	161,065
Finance charges on finance leases	<b>19</b>	80
Depreciation	<b>16,605</b>	19,597
Provision for bad and doubtful debts	<b>16,599</b>	-
Provision for repair and maintenance of vessels	<b>4,900</b>	-
Gain on deemed disposal of interest in an associate	-	(348)
Loss/(Gain) on disposal of property, plant and equipment ( <i>Note 6</i> )	<b>2,623</b>	(48,578)
(Increase)/Decrease in trade and receivables	<b>(31,468)</b>	7,560
Decrease in inventories	<b>1,128</b>	292
Decrease in amounts due from related companies	<b>6,104</b>	9,109
Increase in trade and other payables	<b>14,946</b>	12,406
Decrease in an amount due to a related company	<b>(7,977)</b>	(10,892)
(Decrease)/Increase in an amount due to a director	<b>(802)</b>	802
Net cash inflow/(outflow) from operating activities	<b>42,329</b>	(16,449)

**26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)****(b) Analysis of changes in financing during the year/period**

	<b>Share capital (including share premium)</b> <i>HK\$'000</i>	<b>Bank loans</b> <i>HK\$'000</i>	<b>Other loans</b> <i>HK\$'000</i>	<b>Finance lease obligations</b> <i>HK\$'000</i>	<b>Minority interests</b> <i>HK\$'000</i>
Balance at 1 April 1999	568,184	1,152,929	155,754	31,140	10,191
Cash inflow/(outflow) from financing, net	21,025	(117,891)	(46,030)	96	-
Capital reduction	(563,979)	-	-	-	-
Effect of the Schemes	25,231	(736,107)	(103,035)	(31,140)	(10,143)
Acquisition of subsidiaries	-	99,083	38,485	289	-
Disposal of subsidiaries	-	(305,106)	(5,309)	(110)	(51)
Share of profit for the period	-	-	-	-	395
Exchange realignments	-	(15)	-	(1)	(374)
	<u>50,461</u>	<u>92,893</u>	<u>39,865</u>	<u>274</u>	<u>18</u>
Balance at 31 July 2000	<u>50,461</u>	<u>92,893</u>	<u>39,865</u>	<u>274</u>	<u>18</u>
	<b>Share capital (including share premium)</b> <i>HK\$'000</i>	<b>Bank loans</b> <i>HK\$'000</i>	<b>Other loans</b> <i>HK\$'000</i>	<b>Finance lease obligations</b> <i>HK\$'000</i>	<b>Minority interests</b> <i>HK\$'000</i>
Balance at 1 August 2000	50,461	92,893	39,865	274	18
Cash inflow/(outflow) from financing, net	4,037	(14,967)	(7,336)	(32)	-
Capital reduction	(45,415)	-	-	-	-
Share of loss for the year	-	-	-	-	(2)
Exchange realignments	-	(3,782)	-	(11)	(16)
	<u>9,083</u>	<u>74,144</u>	<u>32,529</u>	<u>231</u>	<u>-</u>
<b>Balance at 31 July 2001</b>	<u><b>9,083</b></u>	<u><b>74,144</b></u>	<u><b>32,529</b></u>	<u><b>231</b></u>	<u><b>-</b></u>

**(c) Major non-cash transactions**

- (i) During the year, the contract employers of the Group made direct payments to the trade creditors of the Group in the amount of approximately HK\$3,506,000 (2000: HK\$17,064,000) in lieu of direct settlement of trade receivables otherwise due by them to the Group.
- (ii) During the year, the Company settled office rental charges amounting to HK\$1,876,000 due to a related company by way of set off against amounts due by that company.

**26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT** (Continued)**(d) Disposals and deemed disposal of subsidiaries**

	<b>Year ended 31 July 2001 HK\$'000</b>	Period from 1 April 1999 to 31 July 2000 HK\$'000
Net assets disposed of:		
Property, plant and equipment	-	6,693
Interests in unconsolidated subsidiaries	-	(5,900)
Gross amounts due from contract customers	-	1,897
Trade and other receivables	-	8,552
Cash and bank balances	-	9,409
Trade and other payables	-	(324,776)
Gross amounts due to contract customer	-	(49,452)
Provision for settlement of performance bonds	-	(56,000)
Bank overdrafts	-	(15,792)
Bank loans	-	(305,106)
Finance lease payables	-	(110)
Tax payable	-	(37)
Other loans	-	(5,309)
Minority interests	-	(51)
Exchange fluctuation reserve	-	93
	-	(735,889)
Gain on disposal	-	735,889
	-	-

**(e) Disposals and deemed disposal of subsidiaries**

Analysis of the net inflow of cash and cash equivalents in respect of the disposals and deemed disposal of subsidiaries:

	<b>Year ended 31 July 2001 HK\$'000</b>	Period from 1 April 1999 to 31 July 2000 HK\$'000
Cash and cash balances disposed of	-	(9,409)
Bank overdrafts disposal of	-	15,792
	-	6,383

**27. POST BALANCE SHEET EVENT**

Subsequent to the financial year end, a subsidiary has entered into contracts for dispose of several vessels with net book value of about HK\$22,573,000 for a consideration of HK\$21,983,000. These sales contracts are subject to approval by the subsidiary's banker. An impairment loss of HK\$590,000 thereon has been provided for in the financial statements.

**28. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements on pages 18 to 59 were approved by the Board of Directors on 26 November 2001.