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.

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 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 and its subsidiaries, 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 2000 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 2000 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 2000 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 2000 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 then Scheme Administrator, 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. On 3 December 2001, the Court of Final Appeal handed down its judgment dismissing all the appeals against the sanction of the Scheme with costs awarded in favour of the subsidiaries. The Court also dismissed appeals against the petition dismissal. 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 approximately HK$7,399,000 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 2002.

2. CORPORATE UPDATE *(Continued)*

(c) Legal proceedings

(i) Legal proceedings commenced by a plant hire customer

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.

UMAHK and UMASPG also submitted counter claims 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 outstanding. Notwithstanding that appropriate provisions have been made to reflect the aging of the receivables and the uncertain outcome of the counter claims, the directors, having consulted their legal advisers, are confident their counter claims are valid and necessary steps are being made to pursue the counter claims.

(ii) Litigation against the Company in Bermuda

On 16 May 2002, Charterbase Management Limited and United People Assets Limited, which are minority shareholders of the Company ("the Petitioners") lodged a Petition under section 111 of the Company Act with the Supreme Court of Bermuda against the Company as the first respondent and the Scheme Administrator as the second respondent. For details of the litigation, please refer to the announcement of the Company dated 18 June 2002.

The relief sought from the Bermuda Court in the Petition includes:

1. a declaration that the determination that the Scheme Administrator had no right to vote at the Subscription Special General Meeting (the "Subscription SGM") is unlawful and invalid;

2. a declaration that the Scheme Administrator was entitled to vote at the Subscription SGM, and is entitled to vote at all future general meetings of the Company;

3. a declaration that the Subscription of the Shares by Harbour Front Limited ("Harbour Front") which was purportedly approved at the Subscription SGM was invalid;

4. an order restraining the Company from registering any transfer, whether direct or indirect, of the Shares issued to Harbour Front pursuant to the Subscription Agreement (the "Subscription Shares") pending the hearing of the present Petition;

2. **CORPORATE UPDATE** *(Continued)*

(c) **Legal proceedings** *(Continued)*

(ii) Litigation against the Company in Bermuda (Continued)

5. an order restraining the Company from recognizing the exercise of any rights attaching to the Subscription Shares, pending the hearing of the present Petition;

6. an order that the Company should hold a special general meeting of the Shareholders, including the Scheme Administrator, as soon as possible to reconsider the Subscription of Shares by Harbour Front;

7. alternatively, an Order that the Company make an open offer of new Shares to all Shareholders (apart from Harbour Front) who held Shares at the date of the Subscription at the same price as that offered to Harbour Front in the Subscription Agreement;

8. an order requiring the Scheme Administrator to take all steps necessary to protect the interests of all Shareholders and the interests of the Scheme creditors;

In the alternative the Petitioners seek:

9. an order that a provisional liquidator be appointed pending the effective hearing of the Petition;

10. an order that the Company be wound up.

The Directors are of the view that neither the Petition nor the Bermuda Writ will have any material impact on the Group and the Company.

(iii) Legal proceedings concerning a subsidiary, Universal Dockyard Limited ("Dockyard")

1. On 11 December 2001, Fonfair, as the registered owner, obtained a judgement under the High Court Action No. 1886 of 2001 against Dockyard, as the tenant, for possession of Yau Tong Property together with arrears of rent claimed by Fonfair, being HK$3,616,000 plus HK$226,000 per month from 1 May 2001 to 19 June 2002 and interest. A writ of possession was executed against the Yau Tong Property on 19 June 2002 pursuant to which Fonfair obtained possession of the Yau Tong Property.

2. **CORPORATE UPDATE** *(Continued)*

(c) **Legal proceedings** *(Continued)*

(iii) Legal proceedings concerning a subsidiary, Universal Dockyard Limited ("Dockyard") (Continued)

Fonfair is owned as to approximately 66.67% by Money Facts and the remaining approximately 33.33% is owned by Harbour Front. Money Facts is owned as to 50% by Harbour Front. Mr. Leung Yuet Keung, a former director of the Company who resigned on 18 January 2000 and brother-in-law of Mrs. Leung Yu Oi Ling, Irene ("Mrs. Leung"), is at present controlling the management and daily affairs of Fonfair. For avoidance of doubt, the disputes between shareholders of Fonfair had become sufficiently serious that Harbour Front has petitioned for the "just and equitable" winding-up of Fonfair in High Court Companies (Winding-UP) No. 246 of 2002 ("HCCW 246 of 2002") and for the "just and equitable" winding-up of Money Facts Limited in High Court Companies (Winding-Up) No. 880 of 2001 ("HCCW 880 of 2001").

2. On 23 June 2002, a Winding-up Petition was filed by Fonfair against Dockyard.

3. A claim for the recovery of the Goods and Chattels was made by Dockyard against Fonfair and an injunction order was granted under High Court Action No. 3102 of 2002 on 16 August 2002 for the collection of the Goods and Chattels by Dockyard and/or the Company. The value of the Goods and Chattels of the Group was estimated by the bailiff at approximately HK$250,000.

Dockyard is currently seeking legal advice with a view to oppose the Winding-up Petition. Further announcement will be made when there is any material development. The Directors do not consider that there will be any adverse impact on the Company or Group as a result of the Winding-up Petition, as Dockyard has at present no business nor net tangible assets of substance. Save for the estimated litigation costs and expenses amounting to approximately HK$200,000, the Directors are of the view that the legal proceeding concerning Dockyard will not have any material impact on the Group and the Shareholders.

Save as disclosed above, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

3. BASIS OF PREPARATION

The financial statements on pages 17 to 55 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 liquidity of the Group and its ability to meet its ongoing obligations in light of its adverse financial position as at 31 July 2002. At that date, the Group had consolidated net current liabilities of HK$128,458,000 and a deficiency of assets of HK$51,966,000.

The Group's net current liabilities include bank and other loans borrowed by two of the Company's main operating subsidiaries amounting to HK$107,285,000, 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. During the year the two subsidiaries were unable to meet their loan repayment obligations, and under the terms of the various loan agreements this constituted a default, which entitled the various financial institutions (the "secured lenders") to demand immediate repayment of the balances outstanding. These debt obligations have accordingly been reclassified as current liabilities. The Company has not provided any cross or corporate guarantees to the secured lenders in respect of these loans.

As explained in the Chairman's Statement, the Group's marine engineering business performed poorly owing to the slow recovery in the local and South East Asian markets, and made an operating loss of HK$64,588,000 for the year. As at the date of approval of these financial statements, a substantial proportion of the Group's fleet of vessels had not been committed to plant hire agreements, and the marine engineering business is not expected to contribute significantly to the Group's cash flows for the coming year.

In order to address the Group's working capital needs and to meet its debt servicing obligations, the directors have taken and/or intend to take the following actions:–

(i) The Company initiated a rights issue (the "Rights Issue") in November 2002, and the directors are confident this exercise will raise net proceeds of approximately HK$6,600,000. The directors believe that these funds will be sufficient to meet the Group's requirements for operation, administration and legal expenses to be incurred for litigations against the Group and amounts to be claimed (but excluding its debt servicing obligations).

3. **BASIS OF PREPARATION** *(Continued)*

(ii) The Group presently owns around 70 vessels and the directors intend to dispose of about 20 vessels to reduce its debt servicing obligations (the "Vessel Disposal"). The remaining 50 vessels will be used to carry on the Group's principal business of marine engineering.

(iii) The directors are in active negotiations with the secured lenders to seek their continued ongoing support and to restructure the outstanding secured loans (the "Debt Restructuring Negotiations"). Should the Debt Restructuring Negotiations not succeed, the directors are of the view that the proceeds from the Rights Issue and the Vessel Disposal would not be sufficient to fund the Group's working capital requirements after taking into account its debt servicing obligations.

In preparing these financial statements, the directors have given careful consideration to the Group's ability to fund its working capital requirements and meet its debt servicing obligations. On the basis that the Group will be successful in completing the Rights Issue and the Vessel Disposal and in securing a favourable outcome to the Debt Restructuring Negotiations, the directors are satisfied that the Group will then 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 as current assets.

4. **PRINCIPAL ACCOUNTING POLICIES**

(a) Adoption of new and revised Statements of Standard Accounting Practice

The Group adopted the following Statements of Standard Accounting Practice ("SSAPs") and related Interpretations issued by the Hong Kong Society of Accountants for the first time in the preparation of financial statements for the current year.

- SSAP 9 (Revised) "Events after the balance sheet date"
- SSAP 14 (Revised) "Leases"
- SSAP 18 (Revised) "Revenue"
- SSAP 26 "Segment reporting"
- SSAP 28 "Provisions, contingent liabilities and contingent assets"
- SSAP 30 "Business combinations"
- SSAP 31 "Impairment of assets"
- SSAP 32 "Consolidated financial statements and accounting for investments in subsidiaries"

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Adoption of new and revised Statements of Standard Accounting Practice *(Continued)*

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements arising from those SSAPs which have had significant effects on these financial statements are summarised as follows:

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements and accordingly no prior year adjustment was required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for finance leases and operating leases, which are further detailed in note 16 and note 23 to the financial statements, respectively. Comparative amounts have been restated where necessary to achieve a consistent presentation.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 6 to the financial statements.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. The adoption of this SSAP and the required additional disclosures have no significant effect on the financial statements.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill in the non-current assets section of the balance sheet. It requires that goodwill to be amortised to the income statement over its estimated useful life. The adoption of SSAP 30 has not resulted in a prior year adjustment, for the reasons detailed in note 4(c) to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairment of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year's financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no impact on the preparation of these financial statements.

4. **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

(b) 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.

(c) Goodwill or capital reserve arising on consolidation

Goodwill arising on an acquisition of subsidiaries, associates or jointly-controlled entities represents the excess of the cost of the acquisition over the fair value of the identifiable assets and liabilities acquired. Goodwill is stated at cost less any accumulated amortisation and impairment.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

Negative goodwill

Negative goodwill arising on an acquisition of subsidiaries, associates or jointly-controlled entities represents the excess of the fair value of the identifiable assets and liabilities acquired over the cost of acquisition.

To the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair value of the non-monetary assets acquired, is recognised as income on a systematic basis over the remaining weighted average useful life of those acquired depreciable/amortisable assets. Negative goodwill in excess of the fair value of the non-monetary assets acquired is recognised immediately in the income statement.

In prior years, negative goodwill arising on acquisitions was credited to capital reserve in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits negative goodwill on acquisitions which occurred prior to 1 August 2001, to remain credited to this reserve. Negative goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated income statement and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to reserves at the time of acquisition is written back and included in the calculation of gain or loss on disposal.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Subsidiaries

Subsidiaries are those enterprises controlled by the company.

Control exists when the company has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

Subsidiaries are carried at cost less impairment loss.

(e) Property, plant and equipment

(i) Depreciation

Depreciation is provided to write off the cost 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 – $33\frac{1}{3}$%
Plant, machinery and workshop equipment	10 – $33\frac{1}{3}$%
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.

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 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.

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.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(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) 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.

(i) 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 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 ACCOUNTING POLICIES** *(Continued)*

(j) 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.

(k) Retirement benefit costs

The Group operates a defined contribution Mandatory Provident Fund ("MPF") retirement benefits scheme 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.

Prior to the MPF scheme becoming effective, the Group operated a defined contribution retirement benefits scheme (the "ORSO scheme") for those employees eligible to participate. The ORSO scheme operated in a similar way to the MPF scheme.

(l) 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. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(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 largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

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

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation 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.

(n) Recognition of revenue

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

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.

(p) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen geographical segment information based on the location of assets as the primary reporting format.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(p) Segment reporting *(Continued)*

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include trade receivables and fixed assets. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses.

5. TURNOVER

The Group's turnover represents the gross rental income from its vessels and income from related services provided as a result thereof.

6. SEGMENT INFORMATION

(a) Geographical segments

The following tables presents revenue, profit/(loss) and certain assets, liabilities and capital expenditure information for the Group's geographical segments by location of assets for the year ended 31 July 2002:

	Hong Kong		Singapore		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:						
Sales to external customers	**31,173**	88,057	**–**	12,053	**31,173**	100,110
Segment results	**(42,251)**	34,464	**–**	4,717	**(42,251)**	39,181
Unallocated expenses					**(22,337)**	(21,970)
Finance costs					**(13,809)**	(13,574)
(Loss)/Profit before taxation					**(78,397)**	3,637
Taxation					**2,424**	717
(Loss)/Profit before minority interests					**(75,973)**	4,354
Minority interests					**–**	18
(Loss)/Profit attributable to shareholders					**(75,973)**	4,372
Segment assets	**105,593**	135,945	**–**	24,845	**105,593**	160,790
Unallocated corporate assets					**7,150**	6,847
Total assets					**112,743**	167,637
Segment liabilities	**30,861**	17,045	**–**	13,183	**30,861**	30,228
Unallocated corporate liabilities					**133,848**	113,591
Total liabilities					**164,709**	143,819
Other information:						
Depreciation for the year	**14,737**	4,913	**–**	11,692	**14,737**	16,605
Impairment of assets for the year	**25,759**	–	**–**	590	**25,759**	590
Significant non-cash expenses (other than depreciation and amortisation)	**21,946**	989	**–**	15,610	**21,946**	16,599
Capital expenditure incurred during the year	**115**	5,512	**–**	9,238	**115**	14,750

6. SEGMENT INFORMATION *(Continued)*

(b) Business segments

No separate analysis of financial information by business segments is presented as the Group's revenue, results, assets and liabilities were all derived from its principal line of business of marine engineering.

7. (LOSS)/PROFIT FROM OPERATING ACTIVITIES

a. The Group's (loss)/profit from operating activities is arrived at after charging:

	2002	2001
	HK$'000	*HK$'000*
Auditors' remuneration	**732**	715
Depreciation:		
Owned assets	**14,706**	16,512
Leased assets	**31**	93
Foreign exchange losses, net	**–**	1,815
Operating lease rentals in respect of:		
Land and buildings	**2,475**	3,958
Loss on disposal of property, plant and equipment	**7,104**	2,623
Staff costs (excluding directors' emoluments)	**4,770**	5,654

b. Included in other revenue:

	2002	2001
	HK$'000	*HK$'000*
Foreign exchange gain, net	**1,977**	–
Insurance claim	**575**	945
Interest income	**1**	6
Recovery of legal costs	**4,560**	–
Net rental income from the sub-letting of properties	**–**	1,298

c. Included in other operating expenses:

Provision for bad and doubtful debts	**21,946***	16,599
Provision for impairment in value of vessels	**25,759**	590
(Reversal)/Provision for claim for repair and maintenance of vessels	**(4,900)**	4,900

* *Includes a provision of HK$11,000,000 in respect of one customer involved in the Theme Park at Penny's Bay, the Lamma Power Station Extension project and certain government maintenance dredging work.*

8. FINANCE COSTS

	2002 HK$'000	2001 HK$'000
Interest charges on:		
Bank loans and other borrowings wholly repayable within five years	**13,806**	13,555
Finance charges on finance leases	**3**	19
	13,809	13,574

9. TAXATION

	2002 HK$'000	2001 HK$'000
The charge comprises:		
Hong Kong profits tax		
– over provision in prior years	**–**	(86)
Overseas tax	**–**	–
Deferred tax *(note 18)*	**2,424**	(631)
	2,424	(717)

No Hong Kong profits tax has been provided in the financial statements as the Group did not derive any assessable profit for the year (2001: Nil).

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

10. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders for the year dealt with in the financial statements of the Company is a loss of approximately HK$20,700,000 (2001: loss of HK$6,934,000).

11. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share for the year ended 31 July 2002 is based on the loss attributable to shareholders of HK$75,973,000 (2001: profit of HK$4,372,000) and the adjusted weighted average number of 605,534,868 ordinary shares (2001: 525,626,385 ordinary shares) in issue during the year.

Diluted earnings per share for the year ended 31 July 2002 and 31 July 2001 has not been shown as there were no share options outstanding at those dates.

12. PROPERTY, PLANT AND EQUIPMENT

	Floating craft and vessels	Furniture, fixtures and office equipment	Plant, machinery and workshop equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost/carrying amount					
At 1 August 2001	162,579	17	593	491	163,680
Additions	–	37	–	78	115
Disposal	(20,228)	–	–	(483)	(20,711)
Exchange realignments	1,307	–	7	5	1,319
At 31 July 2002	**143,658**	**54**	**600**	**91**	**144,403**
Accumulated depreciation					
At 1 August 2001	31,505	7	54	208	31,774
Charge for the year	14,658	8	24	47	14,737
Impairment *(note 7c)*	25,759	–	–	–	25,759
Written back on disposal	(4,384)	–	–	(235)	(4,619)
Exchange realignments	258	–	–	2	260
At 31 July 2002	**67,796**	**15**	**78**	**22**	**67,911**
Net book value					
At 31 July 2002	**75,862**	**39**	**522**	**69**	**76,492**
At 31 July 2001	131,074	10	539	283	131,906

The Group's floating craft and vessels, with an aggregate net book value of HK$75,862,000 (2001: HK$131,074,000) were pledged to secure certain loans granted to two of the Company's subsidiaries (note 15(a) and 15(b)).

At 31 July 2002, the Group had no property, plant and equipment under finance lease (2001: motor vehicles with net book value of HK$270,000).

13. INTERESTS IN SUBSIDIARIES

	2002	2001
	HK$'000	*HK$'000*
Unlisted shares, at cost	**135,822**	135,822
Amounts due from subsidiaries	**15,801**	8,873
	151,623	144,695
Less: Provisions	**(151,518)**	(122,007)
	105	22,688
Amounts due to subsidiaries	**(8,662)**	(8,057)
	(8,557)	14,631

Particulars of the principal subsidiaries as at 31 July 2002 are as follows:

Name	**Place of incorporation/ operation**	**Particulars of issued/registered share capital**	**Percentage of issued/registered capital held by the Group**	**Percentage of issued/registered capital held by the Company**	**Principal activities**
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
Universal Dockyard Limited	Hong Kong	Ordinary HK$120 Non-voting deferred HK$12,008,000	98.75%	98.75%	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.

14. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade receivables *(note (a))*	**12,126**	11,397	**–**	–
Retention money receivable	**902**	755	**–**	–
Prepayments, deposits and other receivables	**12,447**	16,732	**7,684**	563
	25,475	28,884	**7,684**	563

(a) As at 31 July 2002, the aged analysis of trade receivables net of provisions for doubtful debts was as follows:

	2002	2001
	HK$'000	*HK$'000*
Current	**2,341**	10,119
1 – 3 months	**1,811**	–
4 – 6 months	**4,715**	–
7 – 12 months	**1,565**	1,128
Over 1 year	**1,694**	150
	12,126	11,397

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

	2002	2001
	HK$'000	*HK$'000*
Group		
Bank and other borrowings comprise:		
Bank loans	**77,446**	74,144
Bank overdrafts	**207**	303
Other loans	**38,569**	33,522
	116,222	107,969
Analysed as:		
Secured – Notes (a), (b) and (c)	**114,848**	107,666
Unsecured – loan	**1,167**	–
– bank overdraft	**207**	303
	116,222	107,969
Bank and other borrowings are repayable as follows:		
Within one year or on demand	**116,222**	82,341
More than one year, but not exceeding two years	**–**	25,628
	116,222	107,969
Less: Amount due within one year and shown under current liabilities	**(116,222)**	(82,341)
Amount due after one year	**–**	25,628
Company		
Other loans (secured) – note (c)	**3,000**	–

Notes:

(a) As at 31 July 2002, the Group's bank loans of HK$77,446,000 were secured by a legal charge on the Group's floating craft and vessels with net book value of HK$56,049,000 (2001: HK$86,108,000), fixed and floating charges over the assets of the Company's subsidiary, UDL Marine Assets (Singapore) Pte Limited, a joint and several guarantee from Mrs. Leung and the spouse of Mrs. Leung, Mr. Leung Yat Tung ("Mr. Leung"), assignment of insurance and income for certain vessels, and subordination of loan from Mr. Leung and Mrs. Leung.

Mrs. Leung is a director and chairman of the Company. Mrs. Leung has a significant indirect interest in the Company, as set out in the Directors' Report on pages 8 and 13.

15. BANK AND OTHER BORROWINGS *(Continued)*

Notes: (Continued)

(b) As at 31 July 2002, other loans of approximately HK$34,402,000 were secured by certain of the Group's floating craft and vessels with net book value amounting to approximately HK$19,813,000 (2001: HK$40,814,000), a first floating charge on all the undertaking, property, assets and rights of the Company's subsidiary, UDL Marine Assets (Hong Kong) Limited, a personal guarantee from Mr. Leung, and bear interest at 11% per annum.

(c) As at 31 July 2002, other loan of HK$3,000,000 was borrowed from a third party to put down as a deposit towards the purchase of new vessels. The loan is secured against the deposits for the new vessels, repayable on demand and bears interest at prime rate plus 2% per annum.

16. OBLIGATIONS UNDER FINANCE LEASES

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

	2002	2001
	HK$'000	*HK$'000*
The maturity of obligations under finance leases is as follows:		
Within one year or on demand	**–**	55
More than one year, but not exceeding five years	**–**	222
	–	277
Future finance charges on finance leases	**–**	(46)
	–	231
Less: Amounts due within one year shown under current liabilities	**–**	(46)
Amount due after one year	**–**	185

17. TRADE AND OTHER PAYABLES

	Group		**Company**	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables *(note (a))*	**12,090**	14,763	**–**	–
Retention money payables	**449**	381	**–**	–
Advances received	**5,653**	1,641	**–**	–
Other payables and accruals	**12,669**	13,486	**1,613**	2,499
	30,861	30,271	**1,613**	2,499

17. TRADE AND OTHER PAYABLES *(Continued)*

(a) As at 31 July 2002, the aged analysis of trade payables was as follows:

	2002	2001
	HK$'000	*HK$'000*
Current	**276**	1,459
1 – 3 months	**1,535**	5,903
4 – 6 months	**37**	1,709
7 – 12 months	**2,064**	2,750
Over 1 year	**8,178**	2,942
	12,090	14,763

18. DEFERRED TAX

The movements in the deferred tax account are as follows:

	2002	2001
	HK$'000	*HK$'000*
Balance at 1 August 2001	**2,424**	3,141
Transfer to income statement *(note 9)*	**(2,424)**	(631)
Exchange realignments	**–**	(86)
Balance at 31 July 2002	**–**	2,424

At 31 July 2002, the amount of unprovided deferred tax assets is as follows:

	2002	2001
	HK$'000	*HK$'000*
Tax effect of timing differences attributable to:		
Accelerated depreciation allowances	**7,666**	(2,929)
Tax losses and other	**9,365**	4,913
	17,031	1,984

19. SHARE CAPITAL

	Note	Number of shares	HK$'000
Authorised:			
Ordinary shares of HK$0.10 each at 1 August 2000		**1,200,000,000**	120,000
Sub-division of shares	*(ii)*	**10,800,000,000**	–
Ordinary shares of HK$0.01 each at 31 July 2001		**12,000,000,000**	120,000
Ordinary shares of HK$0.01 each at 1 August 2001 and 31 July 2002		**12,000,000,000**	120,000
Issued and fully paid:			
Ordinary shares of HK$0.10 each at 1 August 2000		**504,612,390**	50,461
Shares cancelled	*(i)*	**–**	(45,415)
Issue of shares	*(iii)*	**100,922,478**	1,009
Ordinary shares of HK$0.01 each at 31 July 2001		**605,534,868**	6,055
Ordinary shares of HK$0.01 each at 1 August 2001 and 31 July 2002		**605,534,868**	6,055

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.

20. RESERVES

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	3,028	–	–	–	–	–	3,028
Capital reduction applied against accumulated losses	–	–	–	–	45,415	–	45,415
Exchange realignment – Subsidiaries	–	–	(488)	–	–	–	(488)
Profit for the year	–	–	–	–	4,372	–	4,372
At 31 July 2001	3,028	1,264	(1,840)	717	(1,081,908)	1,096,502	17,763
At 1 August 2001	3,028	1,264	(1,840)	717	(1,081,908)	1,096,502	17,763
Exchange realignment – Subsidiaries	–	–	189	–	–	–	189
Loss for the year	–	–	–	–	(75,973)	–	(75,973)
At 31 July 2002	3,028	1,264	(1,651)	717	(1,157,881)	1,096,502	(58,021)

20. RESERVES *(Continued)*

Company

	Share premium	Capital redemption reserve	Contributed surplus	Accumulated losses	Scheme reserve	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 August 2000	–	1,264	21,689	(382,811)	324,964	(34,894)
Issue of shares, net of expenses	3,028	–	–	–	–	3,028
Capital reduction applied against accumulated losses	–	–	–	45,415	–	45,415
Loss for the year	–	–	–	(6,934)	–	(6,934)
At 31 July 2001	3,028	1,264	21,689	(344,330)	324,964	6,615
At 1 August 2001	3,028	1,264	21,689	(344,330)	324,964	6,615
Loss for the year	–	–	–	(20,700)	–	(20,700)
At 31 July 2002	3,028	1,264	21,689	(365,030)	324,964	(14,085)

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 28 April 2000, 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:

	2002	2001
	HK$'000	*HK$'000*
Fees		
Executive directors	**–**	–
Non-executive director	**40**	13
Independent non-executive directors	**80**	70
	120	83
Other emoluments		
Executive directors	**2,558**	3,464
Independent non-executive directors	**10**	40
	2,568	3,504
	2,688	3,587

The emoluments of the directors were within the following bands:

Emoluments bands

	Number of directors	
	2002	2001
Nil – HK$1,000,000	**5**	5
HK$1,000,001 – HK$1,500,000	**–**	1
HK$1,500,001 – HK$2,000,000	**1**	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 two (2001: three) executive directors, details of whose emoluments are set out above. The emoluments of the remaining three (2001: two) employees were as follows:

	2002	2001
	HK$'000	*HK$'000*
Salaries and other benefits	**1,828**	1,816

The emoluments were within the following bands:

Emoluments bands	**Number of individuals**	
	2002	2001
Nil – HK$1,000,000	**2**	1
HK$1,000,001 – HK$1,500,000	**1**	1
HK$1,500,001 – HK$2,000,000	**–**	–

22. 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.

22. RETIREMENT BENEFITS SCHEME *(Continued)*

Defined contribution scheme *(Continued)*

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.

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 2002, the Group made contributions of HK$251,000 towards the MPF Scheme and CPF (2001: HK$131,000).

23. OPERATING LEASE COMMITMENTS

At 31 July 2002, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Land and buildings		
Within one year	**535**	581
In the second to fifth years inclusive	**119**	470
	654	1,051

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

24. CONTINGENT LIABILITIES

At 31 July 2002, 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 (2001: HK$176 million), further details of which are set out in note 2(b).

25. RELATED PARTY TRANSACTIONS

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

	Note	**2002** **HK$'000**	2001 HK$'000
Berthing and security expenses paid to Keenrich Company Limited ("Keenrich")	*(a)*	**–**	1,144
Plant hire income from Bugsy Development Company Limited ("Bugsy")*#	*(b)*	**715**	–
Berthing and security expenses paid to Bugsy*#	*(b)*	**1,088**	–
Direct overhead expenses paid to Bugsy*#	*(b)*	**635**	–
Plant hire cost paid to Bugsy*#	*(b)*	**12,057**	3,815
Rental charges paid to Capital Hope Investments Limited ("Capital Hope")	*(c)*	**342**	–
Rental charges paid to Denlane Shipbuilding Pte Limited ("Denlane")	*(d)*	**131**	146
Management service fee income from Denlane	*(d)*	**1,624**	–
Rental charged by Fonfair Company Limited ("Fonfair")	*(e)*	**1,800**	1,876
Rental charges paid to Giant Lead Enterprises Limited ("Giant Lead")	*(f)*	**87**	496
Rental charges paid to Sincere Place Limited ("Sincere")	*(g)*	**–**	680
Rental charges paid to UDL Engineering Pte Limited ("UEPL")	*(h)*	**–**	437
Repair and maintenance expenses paid to Gitanes Engineering Company Limited ("Gitanes")	*(i)*	**200**	–
Rental charges paid to Decorling Limited ("Decorling")	*(j)*	**440**	–
Secondment of staff paid to UDL Offshore Pte Limited ("UOPL")	*(k)*	**–**	531
Berthing and security income from UOPL	*(k)*	**–**	136
Berthing and security income from North Lantau Dredging Company Limited ("North Lantau")	*(l)*	**–**	957
Management fee income from North Lantau	*(l)*	**–**	10,917
Provision against amount due from North Lantau	*(l)*	**5,082**	–
Berthing and security income from UDL Assets Management Pte Limited ("UAMP")	*(m)*	**–**	179
Berthing and security income from UDL Salvage Company Limited ("USCL")	*(n)*	**–**	168

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

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

25. RELATED PARTY TRANSACTIONS *(Continued)*

(a) Keenrich is a company in which Mr. Leung is a director until 1 March 2001.

(b) Bugsy is a company in which Mrs. Leung and Ms. Leung have indirect beneficial interests. Mrs. Leung and Ms. Leung Chi Yin, Gillian ("Ms. Leung") are directors of Bugsy.

(c) Capital Hope is a company in which Ms. Leung has a direct equity interest. Ms. Leung is a director of Capital Hope.

(d) Denlane is a company in which Mrs. Leung is a director.

(e) Fonfair is a company in which Mr. Leung is a director until 1 March 2001. Mrs. Leung and Ms. Leung have indirect beneficial interests.

(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 served as a director until 1 March 2001.

(g) Sincere is a company in which Mr. Leung and Mrs. Leung are directors. Mr. Leung served 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) Mr. Leung and Mrs. Leung are directors of Gitanes. Mr. Leung served as a director until 1 March 2001.

(j) Decorling is a company in which Mrs. Leung and Ms. Leung have indirect beneficial interests. Mrs. Leung and Ms. Leung are directors of Decorling.

(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 a direct beneficial interest. Mr. Leung and Mrs. Leung are directors of North Lantau. Mr. Leung served 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 (loss)/profit before taxation to net cash inflow from operating activities

	2002	2001
	HK$'000	*HK$'000*
(Loss)/profit before taxation	**(78,397)**	3,637
Provision for impairment in value of vessels	**25,759**	590
Operating lease rentals	**–**	1,876
Interest income	**(1)**	(6)
Interest expenses	**13,806**	13,555
Finance charges on finance leases	**3**	19
Depreciation	**14,737**	16,605
Provision for bad and doubtful debts	**21,946**	16,599
(Reversal)/Provision for claim for repair and maintenance of vessels	**(4,900)**	4,900
Loss on disposal of property, plant and equipment	**7,104**	2,623
Increase in trade and other receivables	**(13,165)**	(31,468)
Decrease in inventories	**–**	1,128
(Increase)/Decrease in amounts due from related companies	**(5,675)**	6,104
(Decrease)/Increase in trade and other payables	**5,490**	14,946
Increase/(Decrease) in amounts due to related companies	**14,653**	(7,977)
Decrease in an amount due to a director	**–**	(802)
Net cash inflow from operating activities	**1,360**	42,329

(b) Analysis of changes in financing during the year

	Share capital (including share premium)	**Bank loans**	**Other loans**	**Finance lease obligation**	**Minority interests**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
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)	–	–	–	–
Interest	–	–	993	–	–
Share of loss for the year	–	–	–	–	(2)
Exchange realignments	–	(3,782)	–	(11)	(16)
Balance at 31 July 2001	9,083	74,144	33,522	231	–

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Analysis of changes in financing during the year *(Continued)*

	Share capital (including share premium)	Bank loans	Other loans	Finance lease obligation	Minority interests
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 August 2001	9,083	74,144	33,522	231	–
New other loans raised	–	–	3,000	–	–
Repayment of loans	–	–	(3,800)	–	–
Repayment of finance lease obligations	–	–	–	(234)	–
Interest charges	–	7,874	5,847	3	–
Interest paid	–	(3,260)	–	(3)	–
Exchange realignments	–	(1,312)	–	3	–
Balance at 31 July 2002	**9,083**	**77,446**	**38,569**	**–**	**–**

27. POST BALANCE SHEET EVENT

On 11 November 2002, the Company issued a prospectus for a proposed rights issue to raise approximately HK$6.6 million, after expenses, by way of the issue of 302,767,434 rights shares, on the basis of one rights share for every two existing shares held by the qualifying shareholders at the subscription price of HK$0.025 per rights share payable in full on acceptance by the qualifying shareholders (the "Rights Issue"). Net proceeds arising from the Rights Issue will be used as working capital of the Group in order to operate its principal business.

28. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements on pages 17 to 55 were approved by the Board of Directors on 29 November 2002.