# Notes to the Financial Statements

For the year ended 31 July 2003

## 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 and 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.

## Notes to the Financial Statements

For the year ended 31 July 2003

**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 "Shortfall Undertaking").

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 Scheme, 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 Scheme, the Group will be reimbursed for such recovery costs upon the successful recovery of these assets. To date the Group has incurred approximately HK$5.2 million 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 2003.

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

**(b) The Schemes** *(Continued)*

By a letter dated 14 August 2003, the Scheme Administrator has informed the Company that the Disposal Proceeds as at 31 July 2003 are HK$5,971,000 and that as a consequence, the Shortfall is HK$170,029,000. Despite the Scheme Administrator setting out his view that the Shortfall has been liquidated, the Company notes that the Scheme Administrator has apparently failed to deal with the realisation of the Scheme Assets in accordance with the provision of Clause 17 of the Scheme. For this reason, the Company has on 18 August 2003 notified the Scheme Administrator that the Company disagrees with the Scheme Administrator's quantification of the Disposal Proceeds and the Shortfall. After consulting with the Company's legal advisors, the directors are of the view that the contingent liability under the Shortfall Undertaking has not crystallised because a substantial proportion of the Scheme Assets have not been dealt with or realised by the Scheme Administrator in accordance with the provisions of the Scheme. Accordingly the Company has not recognised a liability in respect the Shortfall Undertaking as calculated by the Scheme Administrator (refer above) in its balance sheet at 31 July 2003.

In an effort to resolve the dispute with the Scheme Administrator concerning his quantification of the Disposal Proceeds and the Shortfall, the Company has made an offer to the Scheme Administrator (acting on behalf of the Scheme Creditors) to purchase all the remaining Scheme Assets and to discharge its Undertaking in respect of the Shortfall. It is expected that a formal modification of the Scheme will be able to provide a vigorous settlement of all the outstanding matters under the Scheme. The Company is now working with its professional advisers to draft the documents for such proposals. The Directors aim to conclude and implement such proposals as soon as possible.

**(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. The two subsidiaries had counter-claimed against the plaintiff for outstanding plant hire charges and damages. During the year, UMAHK and UMASPG have succeeded in settling the proceedings with the plaintiff, resulting in a net recovery of trade receivable amounting to HK$6,500,000.

*(ii) Litigation against the Company in Bermuda*

As disclosed in the Company's circular dated 1 August 2003, on 16 May 2002, the Petitioners lodged a Petition under section 111 of the Companies Act with the Supreme Court of Bermuda against the Company as the first respondent and the Scheme Administrator as the second respondent. Details of the litigation can be found in the announcements of the Company dated 18 June 2002, 4 October 2002 and 20 November 2002 and in the circulars of the Company dated 11 November 2002 and 23 December 2002.

# Notes to the Financial Statements

For the year ended 31 July 2003

## 2. CORPORATE UPDATE *(Continued)*

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

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

On 31 July 2002, Charterbase Management Limited, one of the Petitioners, issued the Bermuda Writ against the Company and against Mrs. Leung, Mr. Chan Kim Leung, Miss Leung, Mr. Pao Ping Wing JP and Mr. Wong Pui Fai who were directors of the Company in April 2001, at the time of the Subscription SGM. Mr. Wong Pui Fai and Mr. Chan Kim Leung resigned as the directors of the Company on 28 April 2002 and on 27 September 2002 respectively. The Bermuda Writ recited the basis of the Petitioners' Complaint with respect of Charterbase Management Limited, namely, that the circular regarding the Subscription misdescribed the Scheme Administrator's voting capacity in respect of the Shares held by the Scheme Administrator under the Scheme. The Bermuda Writ alleged that the Company was negligent and its directors were negligent and/or in breach of their fiduciary duty in misdescribing the Scheme Administrator's voting capacity in the circular regarding the Subscription. The Bermuda Writ claimed HK$3,000,000 being Charterbase Management Limited's estimated costs of the Petitioners' Complaint. On 15 August 2002 the Company entered an appearance to the Bermuda Writ, and the Company filed its defence on 12 September 2002. The Company has been advised by its Bermuda lawyers that it has good grounds to resist the Bermuda Writ. Charterbase Management Limited has taken no further steps in the proceedings since the defence was filed.

With regard to the Petition, in August 2002 the Company issued a summons to strike out the entire Petition and in the alternative to strike out the claim for a winding-up order. As stated in the Company's announcement dated 20 November 2002 and circulars dated 11 November 2002 and 23 December 2002, the hearing date of the summons, originally fixed for 18 and 19 November 2002, was adjourned due to the unavailability of the Petitioners' counsel and the hearing was rescheduled for 16 and 17 December 2002. The Company's strike out application was then adjourned, on the basis of the Petitioners' indication that they intended to file an amended Petition (the "Amended Petition"). The Amended Petition was duly filed on 3 April 2003.

Two new parties were joined as Petitioners, namely Hung Ngai Holdings Limited and Value Partners Investment Limited.

In addition to the matters pleaded in the original Petition, the Amended Petition complained about the Company's non-acceptance of a conditional credit facility from Hung Ngai Holdings Limited and about the Rights Issue of November 2002 (the "2002 rights issue"), in particular the allocation of 2002 Rights Shares to Harbour Front, and other allegedly prejudicial conduct of the Company.

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

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

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

The relief sought by the Petitioners in the Amended Petition includes:

1. a declaration that the determination that the Scheme Administrator had zero voting rights and Harbour Front and all other Shareholders had double voting rights at the Subscription SGM held on 17 May 2001 is unlawful and invalid;

2. a declaration that all Shareholders including Harbour Front, the Scheme Administrator and Charterbase Management Limited should have the same percentage of voting rights as represented by the number of shares each owned at the Subscription SGM, and are entitled to vote in the same manner at all future general meetings of the Company;

3. declarations that the following were void and/or invalid:

   (i) the Subscription of the 100,922,478 Subscription Shares by Harbour Front which was purportedly approved at the Subscription SGM;

   (ii) the 50,641,239 Subscription Rights Shares taken up by Harbour Front pursuant to the 2002 Rights Issue;

   (iii) the 30,111,520 Harbour Front Shares taken up by Harbour Front pursuant to its application for excess 2002 Rights Shares.

4. Orders restraining the Company from registering the above shares or any transfer of them;

5. Orders restraining the Company from recognising the exercise of any rights attaching to any of the above shares;

6. an order that the method of allotment of excess 2002 Rights Shares in the prospectus issued by the Company on 11 November 2002 is advantageous to Harbour Front and unfairly prejudicial to other shareholders;

# Notes to the Financial Statements

For the year ended 31 July 2003

## 2. CORPORATE UPDATE *(Continued)*

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

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

7. an order that the 181,495,237 Shares being the sum of the Harbour Front shares be offered to all Shareholders apart from Harbour Front and its associates for unlimited subscription on fair and equitable terms;

8. an order that the Company should hold a special general meeting of the Shareholders as soon as possible to appoint new Directors who should be authorised to organise and implement the offer of 181,495,237 Shares in the manner and terms prescribed in the preceding paragraph;

9. an order that the Company should accept the Hung Ngai Offer;

10. an order restraining the Company from doing anything that would in any way increase the shareholding of Harbour Front and its associates;

11. an order restraining the Company from doing anything that would result in the dilution of the Shares held by any one or more of Shareholders without the approval granted by the general meeting of Shareholders in which Harbour Front and its associates should be excluded from voting.

In the alternative, the Joint Petitioners seek an order that a provisional liquidator be appointed pending the effective hearing of the Amended Petition and an order that the Company be wound up.

The Company has applied for security for costs, in relation to the Amended Petition. A court hearing was held on 28 August 2003 and the Court reserved its judgement. Pending the Court's judgement, there is no further progress of the court proceedings.

The resolutions for the proposed share consolidation and creation and issuance of Preference Shares (the "Proposal") have been passed in the Company's Special General Meeting held on 22 August 2003. The implementation of the Proposal is however subject to the ruling of the Supreme Court of Bermuda after the inter parte hearing on 28 October 2003 regarding an injunction application by the Joint Petitioners. The Court reserved its judgment and up-to-date the judgement has not yet been handed down.

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

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

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

As mentioned in the announcements of the Company dated 4 October 2002 and 11 November 2002 and the circulars of the Company dated 11 November 2002 and 23 December 2002, the legal proceedings concerning Dockyard are as follow:–

(i) 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 and a wholly-owned subsidiary of the Company, 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.

Fonfair is owned as to approximately 66% by Money Facts and another approximately 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 is the brother-in-law of Mrs. Leung, is at present controlling the management and daily affairs of Fonfair. For the 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 in High Court Companies (Winding-Up) No. 880 of 2001 ("HCCW 880 of 2001").

(ii) On 23 June 2002, the Winding-up Petition was filed by Fonfair.

(iii) A claim for the recovery of the Goods and Chattels was made by Dockyard (HCA3102/2002) against Fonfair and two injunction orders were granted under High Court Action No. 3102 of 2002 on 16 August 2002 and 6 September 2002 respectively for the collection of the Goods and Chattels by Dockyard and/or the Company. The value of the Goods and Chattels estimated by bailiff amounted to HK$250,000.

## Notes to the Financial Statements

For the year ended 31 July 2003

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

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

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

(iv) On 5 February 2003, a writ of summons was issued by Dockyard against Fonfair (HCA 485/2003) for recovering a debt of HK$6,350,695 assigned to Dockyard in August 2000 in consideration of a promissory note issued by Dockyard at the same time for an amount of HK$6,350,695 (the "Promissory Note"). The concerned debt was originally intended for setting off against rental payment from Dockyard to Fonfair (note) for the continued use of the Yau Tong Property for the Group's core marine engineering business under an agreed arrangement made in August 2000 but such an arrangement was subsequently refused to be recognised by the present management of Fonfair after 1 March 2001. The writ was issued nearly two years later because other legal proceedings relating to the same matter were in progress during the same period. It was considered by Dockyard that the pursuit of claim for the assigned debt via legal proceedings was not appropriate until early 2003.

*Note:* In August 2000, Fonfair had four directors, namely (i) Leung Yat Tung, the former chairman of the Company who resigned on 1 March 2001; (ii) Leung Yuet Keung; (iii) Fire Full Investment Limited, a corporate director related to Harbour Front; and (iv) Marcon Investment Limited, a corporate director related to Leung Yuet Keung. Presently, Fonfair has three directors, namely (i) Leung Yuet Keung; (ii) Fire Full Investment Limited; and (iii) Marcon Investment Limited

Under the said agreed arrangement, a new tenancy agreement was entered into between Fonfair and Dockyard on 31 August 2000 (the "New Tenancy Agreement") for a term of two years commencing from 1 September 2000 at a reduced rental of HK$150,000 per month (rental under previous tenancy agreement: HK$226,000 per month). The rent due under the New Tenancy Agreement was to be paid in full by way of set off against the abovementioned debt of HK$6,350,695 owed by Fonfair to YT Leung Trading Company Limited, which had assigned the debt to Dockyard in August 2000 in exchange of the Promissory Note.

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

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

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

Dockyard, due to the uncertainty of recovery of the debt after further review in early March 2003, issued a notice of discontinuance on 11 March 2003 and through a deed of reassignment dated 21 March 2003, reassigned the full amount of the aforesaid debt of HK$6,350,695 for the recovery of the Promissory Note. The rental payable for use of the Yau Tong Property, the assigned debt and the Promissory Note together form an integral arrangement. The agreed arrangement made in writing on 31 August 2000 between Dockyard and Fonfair has no effects onto the financial condition of the Group save for the net effect of the rental payable which has been properly allowed for in the relevant financial statements as operating lease rental and has been reported in the Company's annual reports of 2001 and 2002 accordingly.

(v) On 9 June 2003, a winding-up order was granted against Dockyard. The Directors consider that save for the litigation costs and expenses amounting to approximately HK$200,000 incurred, the winding-up order will not have any material adverse impact on the financial, business or operation of the Group and the Shareholders as before the winding-up, Dockyard has no business nor net tangible assets of substance and it had incurred substantial loss in the financial year ended 31 July 2002. Dockyard's business was originally hiring of marine vessels and contracting of marine engineering work. After the filing of the Winding-up Petition by Fonfair as mentioned in point (ii) above, Dockyard ran down its business and it has no active business thereafter. As a result of the winding-up order, the Company has taken Dockyard to have been disposed of from the Group, resulting in a net gain of HK$17,579,000 as explained in note 13 to the financial statements.

(d) **Secured borrowings**

As explained in the Company's previous annual report, the Company's two main operating subsidiaries, UMAHK and UMASPG had outstanding bank and other loans amounting to approximately HK$107,285,000 at 31 July 2002, which were secured against the Group's floating craft and vessels (the "vessels"). As at that date, 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.

# Notes to the Financial Statements

For the year ended 31 July 2003

## 2. CORPORATE UPDATE *(Continued)*

### (d) Secured borrowings *(Continued)*

During the year, under a refinancing arrangement, the secured lenders assigned their interests in these loans to three related companies of the Group (the "Related Party Lenders"). Subsequent to the assignment of these loans, the Related Party Lenders entered into loan agreements (the "Loan Agreements") with the two operating subsidiaries, under which repayment of the loans, together with the interest thereon, will not be required until 1 August 2006. Further details of the terms of the loans under the Loan Agreements are set out in note 15 to the financial statements.

One of the secured lenders is a bank based in Singapore (the "Singapore secured lender"), and under the terms of the assignment with the Related Party Lender who took over this loan, the Singapore secured lender retains its security over certain vessels and has recourse to UMASPG should the Related Party Lender default on the payment schedule agreed with the Singapore secured lender. Should such an event arise, UMASPG would be required to make a full and immediate repayment of that loan, which at 31 July 2003 amounted to HK$62,395,000. Further details of this arrangement are set out in note 15 to the financial statements.

As at the date on which these financial statements were approved, the Related Party Lender was in full compliance with the terms of the assignment of the loan with the Singapore secured lender. The directors are confident that the Related Party Lender has the financial ability to meet its obligations and this loan has accordingly been shown as a non-current liability. The other secured lenders have no recourse to the Group or the operating subsidiaries arising from the assignment of their loans to the Related Party Lenders.

In addition to the terms of the loans under the Loan Agreements set out above and in note 15, the Related Party Lenders have indicated that should the operating subsidiaries be unable to repay the loans plus accrued interest thereon on 1 August 2006, they would consider converting the amounts due into equity in the Company at a conversion rate to be determined and mutually agreed between them and the Company.

## 3. BASIS OF PREPARATION

The financial statements on pages 17 to 63 are prepared in accordance with and comply with all applicable Statements of Standard Accounting Practice ("SSAPs") and Interpretations issued by the Hong Kong Society of Accountants. The financial statements are prepared under the historical cost convention except for the Group's floating craft and vessels which are shown at valuation, further details of which are set out in note 4 (b) below.

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 2003. At that date, the Group had consolidated net current liabilities of HK$22,390,000 and a deficiency of assets of HK$3,946,000.

As explained in note 2(d) above, there was significant financial pressure of disposal and foreclosure against the Company's two main operating subsidiaries, UMAHK and UMASPG, arising from a default in their loan obligations. This pressure was significantly relieved as a result of a refinancing arrangement during the current year under which the loan obligations were assigned by the secured lenders to the Related Party Lenders. Under the Loan Agreements with the Related Party Lenders, repayment of these loans (together with accrued interest thereon) will not be required until 1 August 2006. The Related Party Lenders have indicated that should the operating subsidiaries be unable to repay the loans plus accrued interest thereon on 1 August 2006, they would consider converting their loans into equity in the Company at a conversion rate to be determined and mutually agreed between them and the Company. The continued support of the Related Party Lenders (the "Financial Support") is critical to the Group's ability to continue in business as a going concern.

Note 2(d) also explains that the Singapore secured lender has recourse to UMASPG should the Related Party Lender who took over the assignment of this loan default on the loan payment schedule agreed with the Singapore secured lender. Should such an event arise, UMASPG would be required to make full and immediate repayment of that loan, which at 31 July 2003 amounted to HK$62,395,000. As at the date on which these financial statements were approved, the Related Party Lender was in full compliance with the terms of the assignment of the loan with the Singapore secured lender. The directors are confident the Related Party Lender has the financial ability to meet its obligations (the "Assignment Payments").

# Notes to the Financial Statements

For the year ended 31 July 2003

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

As explained in note 2(b), the Group has a potential contingent liability arising from the Shortfall Undertaking. The Company's obligation to pay the Shortfall commences on 1 August 2003, although at the date on which these financial statements were approved, the Company and the Scheme Administrator were unable to agree on the amount of the Shortfall. The directors are hopeful the Shortfall will be agreed in the coming year, and once agreed the Company's payment in any year towards the Shortfall is limited to a maximum of 60% of the consolidated net profits of the Group for that year. This may have a significant impact on the Group's cash position, as the Group's accounting profits may not be matched by equivalent cash flows because of timing differences and would also adversely affect the funding of any new or existing business initiatives/ commitments the Group may enter into.

The Group's operating results for the year continue to show a loss, and the Group had net operating cash outflows for the year of HK$762,000 before finance charges. As explained in the Chairman's Statement, the market conditions for the Group's core business of marine engineering remain sluggish, although the directors believe the PRC market holds much more promise and are actively pursuing opportunities in that market. Owing to the poor outlook for the marine engineering business as a whole, the directors have diversified into the marine engineering related business of steel works, which they believe has good prospects. However there is no guarantee these areas will generate profits and/or positive cash flows. The directors consider that until the outlook for the marine engineering business picks up and because of the uncertainty of the success of the new business initiatives and the adverse effects on cash flows of any repayment due under the Shortfall Undertaking, the Group may need to raise additional equity funding from the Company's existing and/or new shareholders such as the Proposal for the issue of Preference Shares explained in note 2(c), to overcome any short term financing difficulties (the "Additional Equity Funding").

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 obtain the Financial Support and the Additional Equity Funding and the Related Party Lender is able to meet its Assignment Payments, 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 non-current liabilities as current assets and current liabilities respectively.

## 4. PRINCIPAL ACCOUNTING POLICIES

### (a) Adoption of new and revised SSAPs

In the current year, the Group has adopted for the first time, the following new and revised SSAPs.

- SSAP 1 (Revised) "Presentation of financial statements"
- SSAP 11 (Revised) "Foreign currency translation"
- SSAP 15 (Revised) "Cash flow statements"
- SSAP 34 "Employee benefits"

SSAP 1 (Revised) – Presentation of financial statements

In adopting SSAP 1 (Revised), the Group is required to present a statement of changes in equity instead of a statement of recognised gains and losses. Comparative amounts have been restated to achieve a consistent presentation.

SSAP 11 (Revised) – Foreign currency translation

SSAP 11 is revised to eliminate the option to translate the income statement of foreign subsidiaries at the closing rate when preparing consolidated financial statements. The revised SSAP requires the translation to be done at the average rate for the period. This is a change in accounting policy. However, the translation of the income statement of the Group's foreign subsidiaries in prior periods has not been restated as the effect of this change is not material to the current and prior periods.

SSAP 15 (Revised) – Cash Flow Statement

In adopting SSAP 15 (Revised), the Group is required to prepare a cash flow statement to report cash flows during the year classified by operating, investing and financing activities only. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, demand deposits, short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Comparative amounts have been restated to achieve a consistent presentation.

SSAP 34 – Employee benefits

In adopting SSAP 34, employee entitlements to annual leave and long service payments are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service payments as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

In the prior year, no provision was made for employee annual leave and long service payment entitlements. The adoption of SSAP 34 has not resulted in any significant changes to the prior year's net assets and results and accordingly, no prior year adjustment is required.

# Notes to the Financial Statements

For the year ended 31 July 2003

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

### (b) Floating craft and vessels stated at valuation

With effect from 31 January 2003, the Group has adopted the alternative treatment allowed under SSAP 17 "Property, plant and equipment" which allows the Group to state a class of assets, in this case its floating craft and vessels, at valuation subsequent to its initial recognition at cost.

The Directors have adopted this new policy for its floating craft and vessels because they consider the previous policy of stating these assets at cost less accumulated depreciation and impairment losses did not fairly reflect their true value to the Group. The Group's accounting policy for other property, plant and equipment remains unchanged and these continue to be carried at cost less accumulated depreciation and impairment losses.

As from 31 January 2003, floating craft and vessels are initially stated at cost and thereafter at valuation less accumulated depreciation and impairment losses. The cost of a vessel comprises its purchase price and any directly attributable costs of bringing the vessel to the working condition and location for its intended use. Subsequent expenditure relating to these vessels 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. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. Details of the new accounting policy for floating craft and vessels are set out in note 4(f) to the financial statements.

As a result of adopting this new accounting policy for floating craft and vessels, the Directors commissioned an independent professional valuer "Win Well Engineering & Surveyors Ltd." to value its floating craft and vessels at 31 January 2003 and 31 May 2003. Arising from these valuations, an amount of HK$19,505,000 has been credited to income for the year under review being the write-back of impairment losses previously recognised on these assets and the balance of the revaluation surplus amounting to HK$58,617,000 credited to revaluation reserve.

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

**(c) 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.

**(d) Goodwill**

Goodwill arising on the 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 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.

Prior to 1 August 2001, 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 acquisitions after this date is treated according to the accounting policy mentioned above.

# Notes to the Financial Statements

For the year ended 31 July 2003

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

### (d) Goodwill *(Continued)*

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.

### (e) 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.

### (f) Property, plant and equipment

*(i) Depreciation and amortisation*

Depreciation is provided to write off the cost or valuation 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$^1/_3$% |
| Plant, machinery and workshop equipment | 10 – 33$^1/_3$% |
| 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.

Land use right is amortised over the remaining unexpired period of the right.

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

**(f) Property, plant and equipment** *(Continued)*

*(ii) Measurement bases*

Property, plant and equipment, other than floating craft and vessels, 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.

Floating craft and vessels are stated at their revalued amount, being their open market value at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed by qualified valuers with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair value at the balance sheet date.

Changes arising on the revaluation of floating craft and vessels are generally dealt with in reserves. The only exceptions are as follows:–

– when a deficit arises on revaluation, it will be charged to the income statement, if and to the extent that it exceeds the amount held in the reserve in respect of the same asset, immediately prior to the revaluation; and

– when a surplus arises on revaluation, it will be credited to the income statement, if and to the extent that a deficit on revaluation in respect of the same asset, had previously been charged to the income statement.

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.

**(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.

# Notes to the Financial Statements

For the year ended 31 July 2003

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

### (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 balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date and the income statements are translated at an average rate for the year. The resulting translation differences are included in the exchange fluctuation reserve.

### (j) Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

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

**(k) 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.

**(l) Employee benefits**

*(i) Employee entitlements*

Employee entitlements to annual leave and long service payments are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service payments as a result of services rendered by employees up to the balance sheet date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

*(ii) Pension obligations*

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

**(m) 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.

# Notes to the Financial Statements

For the year ended 31 July 2003

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

### (m) Impairment *(Continued)*

*(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.

### (n) 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.

### (o) 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 marine engineering 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.

Management fee is recognised as revenue when the agreed services have been provided.

Interest income is recognised on a time proportion basis.

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

### (p) Cash and cash equivalents

Cash comprises cash on hand and demand deposits repayable on demand with any bank or other financial institution. Cash includes deposits denominated in foreign currencies.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

## 5. TURNOVER

The Group's turnover represents revenue derived from its marine engineering operations which comprise marine engineering works income and the gross rental income from its vessels and related services provided as a result thereof.

## 6. SEGMENT INFORMATION

### (a) Geographical segments

All of the activities of the Group are based in Hong Kong and all of the Group's turnover and loss before taxation are derived from Hong Kong. Accordingly, no geographical segment information is presented.

### (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.

# Notes to the Financial Statements

For the year ended 31 July 2003

## 7. LOSS FROM OPERATING ACTIVITIES

### a. The Group's loss from operating activities is arrived at after charging:

| | 2003 | 2002 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Auditors' remuneration | 708 | 732 |
| Amortisation of land use right | 47 | – |
| Amount recognised as expense for defined contribution plan | 200 | 251 |
| Depreciation: | | |
| Owned assets | 16,621 | 14,706 |
| Leased assets | – | 31 |
| Operating lease rentals in respect of: | | |
| Land and buildings | 2,610 | 2,475 |
| Loss on disposal of property, plant and equipment | 784 | 7,104 |
| Staff costs (including directors' emoluments) | 6,737 | 7,458 |

### b. Included in other revenue:

| | 2003 | 2002 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Foreign exchange gain, net | 402 | 1,977 |
| Insurance claim | 2,688 | 575 |
| Interest income | – | 1 |
| Gain on deemed disposal of a subsidiary *(note 13 and 27(a))* | 17,579 | – |
| Recovery of legal costs | – | 4,560 |
| Reversal of impairment losses *(note 4(b))* | 19,505 | – |

### c. Included in other operating expenses:

| | 2003 | 2002 |
|---|---|---|
| Provision for bad and doubtful debts | 17,762* | 21,946 |
| Provision for impairment in value of vessels | – | 25,759 |
| Reversal for claim for repair and maintenance of vessels | – | (4,900) |

* *Approximately HK$10,785,000 of provision for bad and doubtful debts relates to Dockyard.*

## 8. FINANCE COSTS

| | **2003** | 2002 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest charges on: | | |
| Bank loans and other borrowings wholly repayable within five years | **13,474** | 13,806 |
| Finance charges on finance leases | **–** | 3 |
| | **13,474** | 13,809 |

## 9. TAXATION

| | **2003** | 2002 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| The (charge)/credit comprises: | | |
| Hong Kong profits tax | | |
| – under provision in prior years | **(240)** | – |
| Deferred tax *(note 17)* | **–** | 2,424 |
| | **(240)** | 2,424 |

No Hong Kong profits tax has been provided in the financial statements for the current year as the Group did not derive any assessable profit for the year (2002: Nil). The tax charge represents under-provision of Hong Kong profits tax in the previous year.

## 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$13,421,000 (2002: loss of HK$20,700,000).

## 11. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31 July 2003 is based on the loss attributable to shareholders of HK$18,256,000 (2002: loss of HK$75,973,000) and the adjusted weighted average number of 822,125,572 ordinary shares (2002: 605,534,868 ordinary shares) in issue during the year as adjusted to reflect the right issue completed during the year.

Diluted earnings per share for the year ended 31 July 2003 and 2002 has not been shown as there were no dilutive potential ordinary shares during those periods.

## Notes to the Financial Statements

For the year ended 31 July 2003

### 12. PROPERTY, PLANT AND EQUIPMENT

| | Land use right | 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$'000* | *HK$'000* |
| **Cost or valuation** | | | | | | |
| At 1st August 2002 | – | 143,658 | 54 | 600 | 91 | 144,403 |
| Additions | 1,132 | – | – | 524 | 92 | 1,748 |
| Revaluation *(note 4(b))* | – | 8,381 | – | – | – | 8,381 |
| Disposal | – | (15,689) | (46) | (11) | (91) | (15,837) |
| Exchange realignments | – | – | – | 7 | – | 7 |
| **At 31 July 2003** | **1,132** | **136,350** | **8** | **1,120** | **92** | **138,702** |
| **Accumulated depreciation** | | | | | | |
| At 1 August 2002 | – | 67,796 | 15 | 78 | 22 | 67,911 |
| Charge for the year | 47 | 16,553 | 8 | 49 | 11 | 16,668 |
| Reversal of impairment losses *(note 4(b) and 7b)* | – | (19,505) | – | – | – | (19,505) |
| Written back on disposal | – | (9,950) | (15) | (11) | (26) | (10,002) |
| Revaluation *(note 4(b))* | – | (50,236) | – | – | – | (50,236) |
| Exchange realignments | – | (564) | – | 1 | – | (563) |
| **At 31 July 2003** | **47** | **4,094** | **8** | **117** | **7** | **4,273** |
| **Net book value** | | | | | | |
| **At 31 July 2003** | **1,085** | **132,256** | **–** | **1,003** | **85** | **134,429** |
| At 31 July 2002 | – | 75,862 | 39 | 522 | 69 | 76,492 |
| **The analysis of cost or valuation of the above assets is as follows:** | | | | | | |
| At cost | 1,132 | – | 8 | 1,120 | 92 | 2,352 |
| At professional valuation 2003 | – | 136,350 | – | – | – | 136,350 |
| | **1,132** | **136,350** | **8** | **1,120** | **92** | **138,702** |

## 12. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group's floating craft and vessels were revalued at 31 January 2003 and 31 May 2003 by Win Well Engineering & Surveyors Limited, an independent professional valuer in Hong Kong, at their open market value. The revaluation surplus of HK$58,617,000 has been transferred to the revaluation reserve of the Group.

The Group's floating craft and vessels, with an aggregate net book value of HK$132,256,000 (2002: HK$75,862,000) were pledged to secure certain loans granted to two of the Company's subsidiaries (note 15(a) and 15(b)).

Had the floating craft and vessels been carried at cost less accumulated depreciation, their carrying amount would have been HK$56,952,000.

## 13. INTERESTS IN SUBSIDIARIES

| | **2003** | 2002 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Unlisted shares, at cost | **89,535** | 135,822 |
| Amounts due from subsidiaries | **23,507** | 15,801 |
| | **113,042** | 151,623 |
| *Less:* Provisions | **(100,342)** | (151,518) |
| | **12,700** | 105 |
| Amounts due to subsidiaries | **(20,806)** | (8,662) |
| | **(8,106)** | (8,557) |

# Notes to the Financial Statements

For the year ended 31 July 2003

## 13. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the principal subsidiaries as at 31 July 2003 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 |
| S.K. Luk Construction Company Limited | Hong Kong | HK$500,000 | 100% | 100% | Marine engineering |
| UDL Dredging Limited | Hong Kong | HK$2 | 100% | 100% | Marine engineering |
| UDL Ship Management Limited | Hong Kong | HK$2 | 100% | 100% | Marine engineering |
| UDL Argos Engineering & Heavy Industries Company Limited | Hong Kong | HK$124,000,000 | 100% | 100% | Investment holding and engineering works |

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.

On 9 June 2003, Universal Dockyard Limited ("Dockyard"), a 98.75% owned subsidiary of the Company, was wound up. The Group consolidated the results and net assets/liabilities of Dockyard into its Group accounts upto that date. From the date of winding up, Dockyard's net liabilities were deconsolidated from the Group's balance sheet, resulting in a net gain to the Group of HK$17,579,000. No security nor guarantee has been given by the Group in support of Dockyard's liabilities due to third parties.

## 14. TRADE AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Trade receivables *(note (a))* | **4,663** | 12,126 | **299** | – |
| Net amount due from a customer for contract work | **1,347** | – | **–** | – |
| Retention money receivable | **218** | 902 | **–** | – |
| Prepayments, deposits and other receivables | **17,848** | 12,447 | **14,083** | 7,684 |
| | **24,076** | 25,475 | **14,382** | 7,684 |

(a) As at 31 July 2003, the Group's aged analysis of trade receivables net of provisions for doubtful debts was as follows:

| | **2003** | 2002 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current | **1,716** | 2,341 |
| 1 – 3 months | **144** | 1,811 |
| 4 – 6 months | **155** | 4,715 |
| 7 – 12 months | **875** | 1,565 |
| Over 1 year | **1,773** | 1,694 |
| | **4,663** | 12,126 |

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.

# Notes to the Financial Statements

For the year ended 31 July 2003

## 15. BANK AND OTHER BORROWINGS

| | 2003 | 2002 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Group** | | |
| Bank and other borrowings comprise: | | |
| Bank loans | – | 77,446 |
| Bank overdrafts | 231 | 207 |
| Other loans | 115,985 | 38,569 |
| | 116,216 | 116,222 |
| Analysed as: | | |
| Secured – Notes (a), (b) and (c) | 113,968 | 114,848 |
| Unsecured – loan | 2,017 | 1,167 |
| – bank overdraft | 231 | 207 |
| | 116,216 | 116,222 |
| Bank and other borrowings are repayable as follows: | | |
| Within one year or on demand | 231 | 116,222 |
| More than one year, but not exceeding two years | 4,417 | – |
| More than two years, but not exceeding five years | 111,568 | – |
| | 116,216 | 116,222 |
| *Less:* Amount due within one year and shown under current liabilities | (231) | (116,222) |
| Amount due after one year | 115,985 | – |
| **Company** | | |
| Other loan (secured) – note (c) | 2,400 | 3,000 |

## 15. BANK AND OTHER BORROWINGS *(Continued)*

*Notes:*

(a) As at 31 July 2003, the Group's other loans of HK$77,010,000, assigned from two Singapore secured lenders to two Related Party Lenders during the year, were secured by a legal charge on the Group's floating craft and vessels with net book value of HK$98,361,000, fixed and floating charges over the assets of UMASPG, 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. The loans bear interest at prime rate+2% per annum. The loans, together with the interest thereon, will not be required to be repaid until 1 August 2006.

Under the terms of the assignment with one of the Related Party Lenders who took over these loans, a Singapore secured lender retains its security over certain vessels and has recourse to UMASPG should this Related Party Lender default on the payment schedule agreed with the Singapore secured lender. Should such an event arise, UMASPG would be required to make a full and immediate repayment of that loan, which at 31 July 2003 amounted to HK$62,395,000.

(b) As at 31 July 2003, the Group's other loans of HK$34,558,000 which was assigned from a Hong Kong secured lender to a Related Party Lender during the year, were secured by the Group's floating craft and vessels with net book value of HK$33,895,000, a first floating charge on all the undertaking, property, assets and rights of UMAHK and a personal guarantee from Mr. Leung. The loan bears interest at prime rate+2% per annum. The loan, together with the interest thereon, will not be required to be repaid until 1 August 2006.

(c) As at 31 July 2003, the Group's other loan of HK$2,400,000 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, bears interest at prime rate+2% per annum and not repayable within 12 months.

## 16. TRADE AND OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Trade payables *(note (a))* | **9,945** | 12,090 | **–** | – |
| Retention money payables | **–** | 449 | **–** | – |
| Advances received | **8,298** | 5,653 | **–** | – |
| Other payables and accruals | **7,566** | 12,669 | **2,897** | 1,613 |
| | **25,809** | 30,861 | **2,897** | 1,613 |

# Notes to the Financial Statements

For the year ended 31 July 2003

## 16. TRADE AND OTHER PAYABLES *(Continued)*

(a) As at 31 July 2003, the aged analysis of trade payables was as follows:

| | **2003** | 2002 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current | **493** | 276 |
| 1 – 3 months | **268** | 1,535 |
| 4 – 6 months | **61** | 37 |
| 7 – 12 months | **246** | 2,064 |
| Over 1 year | **8,877** | 8,178 |
| | **9,945** | 12,090 |

## 17. DEFERRED TAX

The movements in the deferred tax account are as follows:

**Group**

| | **2003** | 2002 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Balance at 1 August 2002 | **–** | 2,424 |
| Transfer to income statement *(note 9)* | **–** | (2,424) |
| Balance at 31 July 2003 | **–** | – |

## 17. DEFERRED TAX *(Continued)*

At 31 July 2003, the amount of unprovided deferred tax assets/(liabilities) is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Tax effect of timing differences attributable to: | | | | |
| Accelerated depreciation allowances | **(9,394)** | (7,887) | **–** | – |
| Tax losses and other | **24,448** | 20,304 | **831** | 665 |
| | **15,054** | 12,417 | **831** | 665 |

## 18. SHARE CAPITAL

| | *Notes* | **Number of shares** | *HK$'000* |
|---|---|---|---|
| Authorised: | | | |
| Ordinary shares of HK$0.01 each at 1 August 2002 and 31 July 2003 | | 12,000,000,000 | 120,000 |
| Issued and fully paid: | | | |
| Ordinary shares of HK$0.01 each at 1 August 2002 | | 605,534,868 | 6,055 |
| Issue of shares by right issue | *(i)* | 302,767,434 | 3,028 |
| Issue of shares by exercise of options | *(ii)* | 27,249,000 | 273 |
| Ordinary shares of HK$0.01 each at 31 July 2003 | | 935,551,302 | 9,356 |

*Note:*

(i) On 29 November 2002, 302,767,434 shares of HK$0.01 each were issued at a price of HK$0.025 per share by way of rights issue for a total cash consideration, before expenses, of HK$7,569,000, on the basis of one rights share for every two existing shares held on 25 October 2002. These shares rank pari passu in all respect with the existing share capital of the Company. The net proceeds of the rights issue were used as working capital of the Group.

(ii) During the year, options were exercised to subscribe for 27,249,000 shares in the Company at subscription price of HK$0.024 per share. The net consideration was HK$654,000 of which HK$273,000 was credited to share capital and the balance of HK$381,000 was credited to the share premium account.

## Notes to the Financial Statements

For the year ended 31 July 2003

### 19. RESERVES

**Group**

| | **2003** | 2002 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Share premium | **7,224** | 3,028 |
| Capital redemption reserve | **1,264** | 1,264 |
| Exchange fluctuation reserve | **(1,489)** | (1,651) |
| Capital reserve | **717** | 717 |
| Accumulated losses | **(1,176,137)** | (1,157,881) |
| Revaluation reserve | **58,617** | – |
| Scheme reserve | **1,096,502** | 1,096,502 |
| | **(13,302)** | (58,021) |

Details of the movements in the above reserves during the year are set out in the consolidated statement of changes in equity on page 21.

**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 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) |
| At 1 August 2002 | 3,028 | 1,264 | 21,689 | (365,030) | 324,964 | (14,085) |
| Issue of shares by rights issue *(note 18)* | 4,541 | – | – | – | – | 4,541 |
| Issue of shares by exercise of options *(note 18)* | 381 | – | – | – | – | 381 |
| Share issue expenses | (726) | – | – | – | – | (726) |
| Loss for the year | – | – | – | (13,421) | – | (13,421) |
| At 31 July 2003 | 7,224 | 1,264 | 21,689 | (378,451) | 324,964 | (23,310) |

## 19. 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 28 April 2000, which were discharged pursuant to the Scheme.

## 20. 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:

| | **2003** | 2002 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Fees | | |
| Executive directors | **40** | – |
| Non-executive director | **–** | 40 |
| Independent non-executive directors | **80** | 80 |
| | **120** | 120 |
| Other emoluments | | |
| Executive directors | **2,406** | 2,558 |
| Independent non-executive directors | **80** | 10 |
| | **2,486** | 2,568 |
| | **2,606** | 2,688 |

# Notes to the Financial Statements

For the year ended 31 July 2003

## 20. DIRECTORS' AND MANAGEMENT'S EMOLUMENTS *(Continued)*

### (a) Directors' emoluments *(Continued)*

The emoluments of the directors were within the following bands:

| Emoluments bands | Number of directors | |
|---|---|---|
| | **2003** | 2002 |
| Nil – HK$1,000,000 | **4** | 5 |
| HK$1,000,001 – HK$1,500,000 | **–** | – |
| HK$1,500,001 – HK$2,000,000 | **–** | 1 |
| HK$2,000,001 – HK$2,500,000 | **1** | – |

During the year, the Company granted 18,166,000 share options to the directors. Details of share options granted to the directors are set out in the directors' report.

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.

### (b) Five highest paid individuals

The five highest paid individuals of the Group for the year included three (2002: two) executive directors, details of whose emoluments are set out above. The emoluments of the remaining two (2002: three ) employees were as follows:

| | **2003** | 2002 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries and other benefits | **1,394** | 1,828 |

The emoluments were within the following bands:

| Emoluments bands | Number of individuals | |
|---|---|---|
| | **2003** | 2002 |
| Nil – HK$1,000,000 | **1** | 2 |
| HK$1,000,001 – HK$1,500,000 | **1** | 1 |

## 21. 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.

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 2003, the Group made contributions of HK$200,000 towards the MPF Scheme and CPF (2002: HK$251,000).

## 22. EQUITY COMPENSATION BENEFITS

The Company has a share option scheme which was adopted on 31 December 2002 whereby the directors of the Company are authorised, at their discretion, to invite eligible participants as described in definitions of the circular dated 6 December 2002 issued by the Company, including employees and directors of the Group, to take up options to subscribe for shares of the Company (the "Shares"). The exercise price of the options was determined by the Board and will not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealings in securities; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Share. Under the share option scheme, the total number of shares in respect of which options may be granted shall be 90,830,230 shares, representing 10% of the total issued share capital of the Company as at 31 December 2002.

# Notes to the Financial Statements

For the year ended 31 July 2003

## 22. EQUITY COMPENSATION BENEFITS *(Continued)*

Options under the share option scheme are exercisable during such period as determined by the Directors provided that such period shall not be more than 10 years from the date of grant of the option. Each option gives the holder the right to subscribe for one share.

### (a) Movement in share options

| | **2003** **Numbers ('000)** | 2002 *Numbers ('000)* |
|---|---|---|
| Granted during the year | **45,408** | – |
| Exercised during the year | **(27,249)** | – |
| Outstanding as at 31 July 2003 | **18,159** | – |
| Options vested at 31 July 2003 | **18,159** | – |

### (b) Terms of unexpired and unexercised share options at balance sheet date

| **Date granted** | **Exercise period** | **Exercise price** | **2003** **Number ('000)** | 2002 *Number ('000)* |
|---|---|---|---|---|
| 15 April 2003 | 16 April 2003 – 30 December 2012 | HK$0.024 | **18,159** | – |

### (c) Details of share options granted during the year, all of which were granted at a consideration of HK$1 per grant

| **Exercise period** | **Exercise price** | **2003** **Number ('000)** | 2002 *Number ('000)* |
|---|---|---|---|
| 16 April 2003 – 30 December 2012 | HK$0.024 | **45,408** | – |

### (d) Details of share options exercised during the year

| **Exercise date** | **Exercise price** *HK$* | **Market value per share at exercise date** *HK$* | **Proceeds received** *HK$'000* | **Number of shares** *('000)* |
|---|---|---|---|---|
| 17 June 2003 | 0.024 | 0.022 | 218 | 9,083 |
| 26 June 2003 | 0.024 | 0.022 | 218 | 9,083 |
| 26 June 2003 | 0.024 | 0.022 | 218 | 9,083 |
| | | | | 27,249 |

## 23. OPERATING LEASE COMMITMENTS

At 31 July 2003, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

| | Group | |
|---|---|---|
| | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* |
| Land and buildings | | |
| Within one year | **382** | 535 |
| In the second to fifth years inclusive | **840** | 119 |
| More than five years | **5,425** | – |
| | **6,647** | 654 |

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

## 24. OTHER COMMITMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Contracted but not provided for | **48,386*** | – | **48,386*** | – |
| Commitments in respect of capital contribution to a subsidiary in the People's Republic of China | **8,800** | – | **–** | – |
| | **57,186** | – | **48,386** | – |

* *The Company entered into contracts with a third party to purchase several vessels.*

## 25. CONTINGENT LIABILITIES

(a) At 31 July 2003, 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 (2002: HK$176 million), further details of which are set out in note 2(b).

(b) During the year, a subsidiary has guaranteed a payment of subcontracting fee payable on a back-to-back basis by a subcontractor to a sub-subcontractor for a steel work project undertaken by the subsidiary which subcontracted the project to the subcontractor on a back-to-back basis. The amount attributable to the Group is HK$66,831,000 (2002: Nil).

## Notes to the Financial Statements

For the year ended 31 July 2003

### 26. RELATED PARTY TRANSACTIONS

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

| | Notes | **2003** **HK$'000** | 2002 HK$'000 |
|---|---|---|---|
| Plant hire income from Bugsy Development Company Limited ("Bugsy")* | (a) | **17** | 715 |
| Berthing and security expenses paid to Bugsy* | (a) | **406** | 1,088 |
| Direct overhead expenses paid to Bugsy* | (a) | **634** | 635 |
| Plant hire cost paid to Bugsy* | (a) | **5,119** | 12,057 |
| Agency fee paid to Bugsy* | (a) | **140** | – |
| Sale of a vessel to Bugsy* | (a) | **705** | – |
| Rental charges paid to Capital Hope Investments Limited ("Capital Hope") | (b) | **456** | 342 |
| Rental charges paid to Denlane Shipbuilding Pte Limited ("Denlane")# | (c) | **73** | 131 |
| Management service fee income from Denlane# | (c) | **1,586** | 1,624 |
| Rental charged by Fonfair Company Limited ("Fonfair") | (d) | **1,093** | 1,800 |
| Provision against amount due from Fonfair | (d) | **5,009** | – |
| Rental charges paid to Giant Lead Enterprises Limited ("Giant Lead") | (e) | **77** | 87 |
| Repair and maintenance expenses paid to Gitanes Engineering Company Limited ("Gitanes") | (f) | **–** | 200 |
| Plant hire cost paid to Gitanes | (f) | **69** | – |
| Rental charges paid to Decorling Limited ("Decorling") | (g) | **721** | 440 |
| Provision against amount due from North Lantau | (h) | **–** | 5,082 |
| Interest charged by Universal Grade Limited ("Universal Grade") | (i) | **2,641** | – |
| Interest charged by Hong Hay Pte Limited ("Hong Hay") | (j) | **1,047** | – |
| Interest charged by Windermere Pte Limited ("Windermere") | (k) | **1,477** | – |
| Interest charged by Harbour Front Limited ("Harbour Front") | (l) | **445** | – |
| Plant hire income from Tonic Engineering & Construction Co., Ltd. ("Tonic") | (m) | **401** | – |

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

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

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

(a) 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.

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

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

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

(e) 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.

(f) Mr. Leung and Mrs. Leung are directors of Gitanes and Ms. Leung has a direct equity interest in Gitanes. Mr. Leung served as a director until 1 March 2001.

(g) Decorling is a company in which Mrs. Leung has a direct equity interest. Mrs. Leung and Ms. Leung are directors of Decorling.

(h) 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.

(i) Universal Grade is a company in which Harbour Front Limited, a major shareholder of the Company, has the ability to exercise significant influence over Universal Grade in making financial and operating decisions.**

(j) Hong Hay is a company in which Harbour Front Limited, a major shareholder of the Company, has the ability to exercise significant influence over Hong Hay in making financial and operating decisions.**

(k) Windermere is a company in which Harbour Front Limited, a major shareholder of the Company, has the ability to exercise significant influence over Windermere in making financial and operating decisions.**

(l) Harbour Front is a major shareholder of the Company.##

(m) Mr. Leung and Mrs. Leung are directors of Tonic and Ms. Leung has a direct equity interest in Tonic. Mr. Leung served as a director until 1 March 2001.

** *The amounts due to Universal Grade, Hong Hay and Windermere are secured by floating craft and vessels, bearing interest at prime rate+2% p.a. and will be repayable on 1 August 2006. Details about the terms of the amounts due to these three companies are set out in note 15 to the financial statements.*

## *The amount due to Harbour Front is unsecured, repayable on demand and bearing interest at prime rate+2% p.a.*

The amount due from/ to related companies except Universal Grade, Hong Hay, Windermere and Harbour Front, are unsecured, interest free and repayable on demand.

# Notes to the Financial Statements

For the year ended 31 July 2003

## 27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Deemed disposal of a subsidiary

| | 2003 |
|---|---|
| | *HK$'000* |
| Net liabilities disposed of: | |
| Property, plant and equipment | 32 |
| Trade and other receivables | 2,511 |
| Amounts due from related companies | 22 |
| Cash and bank balances | 13 |
| Trade and other payables | (7,083) |
| Amounts due to related companies | (13,074) |
| | (17,579) |
| Gain on deemed disposal of a subsidiary | 17,579 |
| | – |
| Analysis of the net cash outflow in respect of deemed disposal of a subsidiary is as follows: | |
| Cash consideration | – |
| Cash and bank balances disposed of | (13) |
| Net cash outflow in respect of deemed disposal of a subsidiary | (13) |

There was no consideration for the deemed disposal of a subsidiary.

### (b) Major non-cash transaction

(i) During the year, the Group disposed its vessels at a consideration of HK$3,450,000, in which HK$2,731,000 was settled directly to the Related Party Lenders (Note 2(d)) and HK$719,000 was settled by debiting a related company's current account.

## 28. POST BALANCE SHEET EVENT

On 22 August 2003, the Company held a special general meeting and the shareholders of the Company passed the resolution of the proposal of the consolidation of every ten shares of HK$0.01 each into one new share of HK$0.10 each, the creation of a new class of non-voting convertible preference shares with an authorised share capital of HK$176 million divided into 176 million preference shares of HK$1.00 each in the share capital of the Company and increase in authorised share capital, and the granting of an authority to the directors of the Company for the issuance of 90 million preference shares. The implementation of the proposal is however subject to the ruling of the Supreme Court of Bermuda after the inter parte hearing on 28 October 2003 regarding an injunction application by the Joint Petitioners (as defined in the Company's Circular date 1 August 2003).

## 29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements on pages 17 to 63 were approved by the Board of Directors on 27 November 2003.