

Notes to the Financial Statements

For the year ended 31 July 2005

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 and structural steel 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 followings:

- (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.

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.

Notes to the Financial Statements (Continued)

For the year ended 31 July 2005

2. CORPORATE UPDATE (Continued)

(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.

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.

Notes to the Financial Statements (Continued)

For the year ended 31 July 2005

2. CORPORATE UPDATE (Continued)

(b) The Schemes (Continued)

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\$4.9 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 2005.

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 of the Shortfall Undertaking as calculated by the Scheme Administrator (refer above) in its balance sheet at 31 July 2005.

In an effort to resolve the dispute with the Scheme Administrator concerning his quantification of the Disposal Proceeds and the Shortfall, the Company and the Scheme Administrator have had many discussions whether an alternative, more rapid and positive solution could be achieved for the Scheme Creditors (as defined in the Schemes). From this, a proposed solution (the "Global Solution") has emerged, recorded in a non-binding Memorandum of Understanding (the "MOU") dated 12 August 2005 and entered into by the Company, Harbour Front Limited ("Harbour Front"), and the Scheme Administrator. The goals under the "Global Solution" which are targeted to be achieved at the end of year 2005 are:

- The sale to Harbour Front of the Unencumbered Assets and Accounts Receivable for HK\$20 million in cash;
- The settlement of the Shortfall Undertaking for HK\$30 million in convertible notes issued by the Company and convertible (into the Company's shares)/redeemable in four tranches of HK\$7.5 million over two years; and
- An undertaking by Harbour Front to purchase from the Scheme Administrator all or such proportion as the Scheme Administrator may determine of such convertible notes at a price equal to 18/30ths of their nominal value, payable in cash, immediately.

Notes to the Financial Statements (Continued)

For the year ended 31 July 2005

2. CORPORATE UPDATE (Continued)

(b) The Schemes (Continued)

The Scheme Administrator has also advised the Company that he intends to propose certain modifications to the Schemes and the Trust Deed so as to achieve the following principal purposes:

- To permit a replacement of the Scheme Administrator/Trustee;
- To permit a sale or other disposal by the Scheme Administrator of Unencumbered Assets and of the benefit of recoveries of Accounts Receivables and/or a release of the Company and the Scheme Participating Subsidiaries (as defined in the Schemes) from their obligations in respect of Unencumbered Assets and Accounts Receivable. Such Unencumbered Assets do not comprise any Shares;
- To permit the Scheme Administrator/Trustee to approve a compromise or settlement of the Shortfall Undertaking;
- To require the Scheme Administrator/Trustee to obtain the sanction of the Committee of Inspection established for the purposes of the Schemes or the approval of the High Court of Hong Kong before exercising a number of important powers to be granted by such modifications; and
- To establish procedures to facilitate an efficient termination of the Schemes, including the setting of a limit on the extent to which arbitration costs are to be paid out of Scheme Funds (as defined in the Schemes).

If the above relevant Scheme and Trust Deed modifications are approved by the Scheme Creditors and the Scheme Administrator proceeds with the Global Solution, the result will be that the disputes concerning the quantification of the Disposal Proceeds and the Shortfall will be settled, leading to there being no further recourse against the Company in respect of the same by the Scheme Administrator/Trustee or the Scheme Creditors.

In the event of non-completion of the Global Solution, then the disputes concerning the Disposal Proceeds and the Shortfall previously raised by the Company in 2003 with the Scheme Administrator/Trustee will continue and may upon the failure of any settlement proposals, fall to the determined by the Courts. At the present time, it is not known whether or not the Global Solution will be completed.

(c) Legal proceedings

(i) *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 (Continued)

For the year ended 31 July 2005

2. CORPORATE UPDATE (Continued)

(c) Legal proceedings (Continued)

(i) *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.

Three new parties were joined as Petitioners, namely United People Assets Limited, 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.

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;

Notes to the Financial Statements (Continued)

For the year ended 31 July 2005

2. CORPORATE UPDATE (Continued)

(c) Legal proceedings (Continued)

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

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; and
 - (iii) the 30,111,520 Subscription Rights 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;
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; and
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.

Notes to the Financial Statements (Continued)

For the year ended 31 July 2005

2. CORPORATE UPDATE (Continued)

(c) Legal proceedings (Continued)

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

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. Subsequently, in the judgement dated 14 April 2004, the Court holds that the Joint Petitioners' prayers to wind up the Company and/or to appoint a liquidator are an abuse of the Court's process. The Court therefore considers it unreasonable to permit the Petitioners to pursue such prayers which should not be entertained. In May 2004, the joint petitioners applied to the Court for reamending the petition (the "Re-amended Petition"). In the event, the Bermuda Court made an order granting the Re-amended Petition leaving out the prayer for winding-up at the request of the petitioners' attorney during the court hearing. Moreover, in the Re-amended Petition, the petitioners no longer seek an order that a provisional liquidator be appointed pending the effective hearing of the Re-amended Petition. Given the above, the concerned Bermuda litigation is no longer of serious nature at present.

There has been no ruling yet on the application for security for costs. The court did stay Company's obligation to respond to the Amended Petition until after judgment of the security for costs application.

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 delayed by the litigation.

(ii) *Other litigation against the Group*

On 11 April 2005, 3 plaintiffs – Fonfair Company Limited ("Fonfair"), Money Facts Limited ("Money Facts") and Leung Yuet Keung issued the Writ of Summons against 10 defendants including the Company and its two subsidiaries, UDL Management Limited, UDL Ship Management Limited and Leung Yu Oi Ling Irene in respect of claim damages arising from the inability of Fonfair as landlord of "Yau Tong Property" to recover from the former tenant, Universal Dockyard Limited (which was a subsidiary of UDL Holdings Limited) rent and mesne profits for occupation of Yau Tong Property owing to the winding up of Universal Dockyard Limited through Fonfair's petition.

A Statement of Claim had thereafter been issued on 28 September 2005 and that the 3 plaintiffs made a claim as further particularized in note 26(c) to the financial statements against 10 defendants including the Company, UDL Management Limited, UDL Ship Management Limited and Leung Yu Oi Ling Irene.

In the opinions of the Group's solicitors, there is no need to join so many parties as co-defendants and this action might subject to further legal consideration show that Leung Yuet Keung's and his associates claim in this action against many of the parties concerned are oppressive and unmeritorious. Further, much of the contents of the Statement of Claim dated 28 September 2005 are vague and convoluted. The Statement of Claim does not contain full particulars concerning the alleged conspiracy and much is in essence, repetitive of the previous actions instituted by Leung Yuet Keung or Fonfair against UDL Group. To a certain extent, the action itself appears to be an escalation of what was initially a family dispute. The Plaintiffs' claims against the Company, UDL Management Limited and UDL Ship Management Limited for damages for conspiracy to defraud or conspiracy with the predominant intention to injure the plaintiffs are somewhat far-fetched. Subject to further advice from counsel, there may be a case for the Company, UDL Management Limited and UDL Ship Management Limited to apply for striking out of some or all claims made against them by the plaintiffs with a view to saving the costs of mounting a defence to a protracted action.

Notes to the Financial Statements (Continued)

For the year ended 31 July 2005

2. CORPORATE UPDATE (Continued)

(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.

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 16 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 2005 amounted to approximately HK\$82,273,000. Further details of this arrangement are set out in note 16 to the financial statements.

As at the date on which these financial statements were approved, the Related Party Lender who took over the interest of this loan did not strictly conform to the payment schedule under the agreement. However, the moratorium has been maintained due to on-going negotiation between the Related Party Lender and the Singapore secured lender on a revised payment schedule. There is uncertainty as to whether the Related Party Lender will arrive at agreement with the Singapore secured lender on the revised payment schedule. 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 16, 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 20 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 Institute of Certified Public Accountants ("HKICPA"), the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. 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(d) below.

Notes to the Financial Statements (Continued)

For the year ended 31 July 2005

3. BASIS OF PREPARATION (Continued)

Change in presentation of analysis of expenses

The presentation of analysis of expenses on the face of the consolidated income statement has been changed to the nature of the expenses method during the year. Previously, expenses were classified and presented on the face of the consolidated income statement based on the function of expenses method, whereby expenses are classified according to their function as cost of sales or operating expenses. In the opinion of the directors, the nature of expenses method can provide a more relevant and appropriate analysis of expenses in the consolidated income statement to the financial statements users than the function of expenses method. Prior year expenses analysis is restated for comparative purposes.

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 2005. At that date, the Group had consolidated net current liabilities of approximately HK\$34,347,000 and a deficiency of assets of approximately HK\$55,617,000.

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 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 2005 amounted to approximately HK\$82,273,000. As at the date on which these financial statements were approved, the Related Party lender who took over the interest of this loan did not strictly conform to the payment schedule under the agreement. However, the moratorium has been maintained due to on-going negotiation between the Related Party Lender and the Singapore secured lender on a revised payment schedule. There is uncertainty as to whether the Related Party Lender will arrive at agreement with the Singapore secured lender on the revised payment schedule. The directors are confident the Related Party Lender has the financial ability to meet its obligations (the "Assignment Payments").

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 became due on 1 August 2004, however 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 and no liabilities have been recognised in respect of this in its balance sheet at 31 July 2005. The directors are hopeful that the Shortfall undertaking will be discharged under the proposed new scheme of arrangement.

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 approximately HK\$4,572,000 before finance charges.

Notes to the Financial Statements (Continued)

For the year ended 31 July 2005

3. BASIS OF PREPARATION (Continued)

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 and Shortfall Undertaking. The Group has recently obtained a financing facility from a bank with conditions precedent including the completion of the Global Solution. This facility is to be used for the purchase of a fleet of vessels such that the Group can resume and enhance its marine engineering business. There is uncertainty however as to whether the conditions precedent will be met. On the basis that the Group will obtain the Financial Support and the additional funding and the Related Party Lender is able to meet its Assignment Payments and the feasibility to implement the new scheme of arrangement in discharging the Shortfall Undertaking and the fulfillment of the conditions precedent to the new financing facility, 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 and non-current liabilities as current assets and current liabilities respectively.

4. PRINCIPAL ACCOUNTING POLICIES

HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 July 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(a) Basis of consolidation

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

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

(b) Goodwill

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.

Notes to the Financial Statements (Continued)

For the year ended 31 July 2005

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Goodwill (Continued)

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.

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.

(c) 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.

(d) Property, plant and equipment

(i) Depreciation

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 – 33⅓%
Plant, machinery and workshop equipment	10 – 33⅓%
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.

(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.

Notes to the Financial Statements (Continued)

For the year ended 31 July 2005

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(d) Property, plant and equipment (Continued)

(ii) Measurement bases (Continued)

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.

(e) Land use right

Land use right is stated at cost less accumulated amortisation and impairment losses. Cost represents consideration paid for the right to use the land on which various warehouse and office premises are situated. Amortisation of land use right is calculated on a straight-line basis over the period of the land use right of 20 years.

(f) 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.

(g) Income tax

- (i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Notes to the Financial Statements (Continued)

For the year ended 31 July 2005

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Income tax (Continued)

- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purpose and the tax bases respectively. Deferred tax assets also arise from unused tax losses and unused tax credits.

Generally all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The amount of deferred tax recognised is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

- (iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are normally not offset. The principle of offsetting usually applies to income taxes levied by the same tax authority on the same taxable entity.

(h) 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.

(i) 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.

Notes to the Financial Statements (Continued)

For the year ended 31 July 2005

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) 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.

(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.

Notes to the Financial Statements (Continued)

For the year ended 31 July 2005

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.

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

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

Interest income is recognised on a time proportion basis.

(o) 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 Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

5. TURNOVER

The Group's turnover represents revenue derived from its marine engineering and structural steel engineering operations which comprise engineering works income and the gross other income from its capacity and related services provided as a result thereof. Revenue recognised during the year are as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Marine engineering income	7,024	19,052
Structural steel engineering income	4,069	500
	11,093	19,552

Notes to the Financial Statements (Continued)

For the year ended 31 July 2005

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 and structural steel engineering operations.

7. LOSS FROM OPERATING ACTIVITIES

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

	2005 HK\$'000	2004 HK\$'000
Auditors' remuneration	480	555
Amortisation of land use right	57	57
Depreciation	19,364	20,275
Operating lease rentals in respect of:		
Land and buildings	1,287	1,130
Staff costs (including directors' emoluments)		
– salaries, wages and other benefits	5,394	5,663
– contributions to defined contribution scheme	170	185
	<u> </u>	<u> </u>

(b) Included in other revenue:

	2005 HK\$'000	2004 HK\$'000
Foreign exchange gain, net	2,796	1,990
Handling fee income	927	23
Reversal of provision for accrued interest	452	–
Reversal of provision for annual leave	95	–
Project management income	–	2,019
Provision for doubtful debts written back – related companies	–	75
Gain on disposal of property, plant and equipment	160	16,978
Others	2,144	407
	<u> </u>	<u> </u>

(c) Included in other operating expenses:

	2005 HK\$'000	2004 HK\$'000
Provision for bad and doubtful debts	1,196	536
Provision for impairment loss on property, plant and equipment	932	–
	<u> </u>	<u> </u>

Notes to the Financial Statements (Continued)

For the year ended 31 July 2005

8. FINANCE COSTS

Interest charges on:

Bank and other borrowings wholly repayable within five years

2005 HK\$'000	2004 <i>HK\$'000</i>
<u>8,999</u>	<u>9,359</u>

9. TAXATION

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 (2004: Nil). The tax (credit)/charge represents (over)/under-provision of Hong Kong profits tax in the previous year.

The amount of taxation (credited)/charged to the consolidated income statement represents:

Hong Kong profits tax

– (over)/under-provision in prior years

Deferred tax (*note 18*)

2005 HK\$'000	2004 <i>HK\$'000</i>
(279)	55
<u>–</u>	<u>–</u>
<u>(279)</u>	<u>55</u>

Notes to the Financial Statements (Continued)

For the year ended 31 July 2005

9. TAXATION (Continued)

The (credit)/charge for the year is reconciled to the loss before taxation per income statement as follows:

	2005 HK\$'000	2004 <i>HK\$'000</i>
Loss before taxation	(27,750)	(16,479)
Notional tax on loss before taxation	(4,856)	(2,884)
Effect of different tax rates in other countries	(612)	(212)
Tax effect of expense/(income) that are not deductible/(taxable) in determining taxable profit	4,061	1,397
Utilisation of unrecognised tax losses	(411)	(139)
Tax effect of unrecognised tax losses	1,818	6,203
Realisation of deferred tax assets previously not recognised (Over)/Under-provision in prior years	–	(4,365)
	(279)	55
Taxation (credit)/charge	(279)	55

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\$7,519,000 (2004: approximately HK\$7,911,000).

11. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31 July 2005 is based on the loss attributable to shareholders of approximately HK\$27,471,000 (2004: approximately HK\$16,534,000) and the weighted average number of 956,637,635 ordinary shares (2004: 935,551,302 ordinary shares) in issue during the year.

Diluted earnings per share for the years ended 31 July 2005 and 2004 have not been shown as there were no dilutive potential ordinary shares during those periods.

Notes to the Financial Statements (Continued)

For the year ended 31 July 2005

12. PROPERTY, PLANT AND EQUIPMENT The Group

	Floating craft and vessels <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Plant, machinery and workshop equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation					
At 1 August 2004	97,315	8	1,273	92	98,688
Additions	–	2	1,980	–	1,982
Revaluation (<i>note 4(d)</i>)	(21,454)	–	–	–	(21,454)
Disposals	(1,443)	–	–	–	(1,443)
Exchange realignments	1,901	–	31	2	1,934
At 31 July 2005	76,319	10	3,284	94	79,707
Accumulated depreciation and impairment					
At 1 August 2004	19,208	8	207	26	19,449
Charge for the year	19,057	–	288	19	19,364
Impairment loss	932	–	–	–	932
Written back on disposals	(953)	–	–	–	(953)
Revaluation (<i>note 4(d)</i>)	(37,142)	–	–	–	(37,142)
Exchange realignments	(183)	–	8	–	(175)
At 31 July 2005	919	8	503	45	1,475
Net book value					
At 31 July 2005	75,400	2	2,781	49	78,232
At 31 July 2004	78,107	–	1,066	66	79,239
The analysis of cost or valuation of the above assets is as follows:					
At cost	–	10	3,284	94	3,388
At professional valuation 2005	76,319	–	–	–	76,319
	76,319	10	3,284	94	79,707

Notes to the Financial Statements (Continued)

For the year ended 31 July 2005

12. PROPERTY, PLANT AND EQUIPMENT (Continued)
The Company

	Office equipment <i>HK\$'000</i>
Cost	
Addition and at 31 July 2005	2
Accumulated depreciation and impairment	
Charge for the year and at 31 July 2005	—
Net book value	
At 31 July 2005	2
At 31 July 2004	—

The Group's floating craft and vessels were revalued individually on 31 July 2005 by Win Well Engineering & Surveyors Limited, an independent professional valuer in Hong Kong, at their open market value. The revaluation surplus of approximately HK\$17,270,000 has been transferred to the revaluation reserve of the Group.

The Group's floating craft and vessels, with an aggregate net book value of approximately HK\$71,050,000 (2004: approximately HK\$72,725,000) were pledged to secure certain loans granted to two of the Company's subsidiaries (notes 16(a) and 16(b)).

Had the floating craft and vessels been carried at cost less accumulated depreciation, their carrying amount would have been approximately HK\$40,016,000 (2004: approximately HK\$49,745,000).

Notes to the Financial Statements (Continued)

For the year ended 31 July 2005

13. LAND USE RIGHT

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Cost		
At 1 August	1,132	1,132
Exchange realignments	<u>19</u>	<u>–</u>
At 31 July	<u>1,151</u>	<u>1,132</u>
Accumulated amortisation and impairment		
At 1 August	104	47
Amortisation for the year	57	57
Exchange realignments	<u>2</u>	<u>–</u>
At 31 July	<u>163</u>	<u>104</u>
Net carrying value	<u>988</u>	<u>1,028</u>

14. INTERESTS IN SUBSIDIARIES

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Unlisted shares, at cost	89,535	89,535
Amounts due from subsidiaries	<u>35,524</u>	<u>28,982</u>
	125,059	118,517
Less: Provisions	<u>(112,359)</u>	<u>(105,817)</u>
	12,700	12,700
Amounts due to subsidiaries	<u>(15,754)</u>	<u>(19,155)</u>
	<u>(3,054)</u>	<u>(6,455)</u>

Notes to the Financial Statements (Continued)

For the year ended 31 July 2005

14. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries as at 31 July 2005 are as follows:

Name	Place of incorporation/ operation	Particulars of issued/registered share capital	Percentage of issued/registered capital held by the		Principal activities
			Group	Company	
UDL Marine Assets (Hong Kong) Limited	Hong Kong	HK\$4,000,000	100%	100%	Marine engineering
* UDL Marine Assets (Singapore) Pte Limited	Singapore	S\$2,000,000	100%	100%	Marine engineering
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 and ship management services
UDL Argos Engineering & Heavy Industries Company Limited	Hong Kong	HK\$124,000,000	100%	100%	Investment holding, structural steel engineering works and management services
中山太元重工業有限公司	PRC	HK\$10,000,000	100%	–	Not yet commenced business
UDL Contracting Limited	Hong Kong	HK\$50,700,000	100%	100%	Engineering and contracting
UDL Employment Services Limited	Hong Kong	HK\$2	100%	100%	Provision of human resources management services

* *not audited by CCIF CPA Limited.*

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 financial position of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Notes to the Financial Statements (Continued)

For the year ended 31 July 2005

15. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Trade receivables (note (a))	1,627	2,038	–	192
Retention money receivable	1,098	1,098	–	–
Prepayments, deposits and other receivables	7,372	12,947	1,048	9,582
	<u>10,097</u>	<u>16,083</u>	<u>1,048</u>	<u>9,774</u>

- (a) As at 31 July 2005, the Group's aged analysis of trade receivables net of provisions for doubtful debts was as follows:

	2005 HK\$'000	2004 HK\$'000
Current	393	301
1 – 3 months	707	383
4 – 6 months	291	58
7 – 12 months	72	894
Over 1 year	164	402
	<u>1,627</u>	<u>2,038</u>

Trading terms with customers are largely on credit, where trade deposits, advances and payment in advance are normally required. Invoices are normally payable within 30 days of issuance, except for certain well established customers, where the terms are extended beyond 30 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are regularly reviewed by senior management.

Notes to the Financial Statements (Continued)

For the year ended 31 July 2005

16. BANK AND OTHER BORROWINGS**Group**

Bank and other borrowings comprise:

Bank overdrafts

Other loans

2005
HK\$'0002004
HK\$'000**574**

433

115,975

99,058

116,549

99,491

Analysed as:

Secured – notes (a) and (b)

Unsecured – loan

– bank overdrafts

100,490

94,201

15,485

4,857

574

433

116,549

99,491

Bank and other borrowings are repayable as follows:

Within one year or on demand

More than one year, but not exceeding two years

More than two years, but not exceeding five years

16,059

2,833

100,490

2,457

–

94,201

116,549

99,491

Less: Amount due within one year and shown under current liabilities

(16,059)

(2,833)

Amount due after one year

100,490

96,658

Company

Other loan – unsecured – note (c)

12,522

2,400

Other loan is repayable as follows:

Within one year or on demand and shown under current liabilities

12,522

2,400

Notes to the Financial Statements (Continued)

For the year ended 31 July 2005

16. BANK AND OTHER BORROWINGS (Continued)

Notes:

- (a) As at 31 July 2005, the Group's other loans of approximately HK\$71,448,000, assigned from a Singapore secured lender to a Related Party Lender were secured by a legal charge on the Group's floating craft and vessels with net book value of approximately HK\$54,500,000, 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.

As at the date on which these financial statements were approved, the Related Party Lender who took over the interest of this loan did not strictly conform to the payment schedule under the agreement. However, the moratorium has been maintained due to on-going negotiation between the Related Party Lender and the Singapore secured lender on a revised payment schedule. There is uncertainty as to whether the Related Party Lender will arrive at agreement with the Singapore secured lender on the revised payment schedule. 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.

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 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 2005 amounted to approximately HK\$82,273,000.

- (b) As at 31 July 2005, the Group's other loans of approximately HK\$29,042,000 which was assigned from a Hong Kong secured lender to a Related Party Lender were secured by the Group's floating craft and vessels with net book value of approximately HK\$16,550,000, 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 2005, the Group's other loan of approximately HK\$12,522,000 was borrowed from third parties which was used to finance the Group's operations. The loan is unsecured, repayable on demand and bears interest at prime rate to prime rate+2% per annum.

17. TRADE AND OTHER PAYABLES

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Trade payables (note (a))	5,575	5,570	–	–
Advances received	1,056	1,437	–	–
Other payables and accruals	11,233	8,067	2,387	3,300
	17,864	15,074	2,387	3,300

Notes to the Financial Statements (Continued)

For the year ended 31 July 2005

17. TRADE AND OTHER PAYABLES (Continued)

(a) As at 31 July 2005, the aged analysis of trade payables was as follows:

	2005 HK\$'000	2004 <i>HK\$'000</i>
Current	185	80
1 – 3 months	21	34
4 – 6 months	18	15
7 – 12 months	29	526
Over 1 year	5,322	4,915
	5,575	5,570

18. DEFERRED TAX

The following are the movements of major deferred tax assets and liabilities recognised by the Group during the current and prior years:

	Accelerated depreciation allowance <i>HK\$'000</i>	Revaluation reserve <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
Deferred tax arising from:				
At 31 July 2003				
– As previously reported	–	–	–	–
– Effect of adoption of SSAP 12 (revised)	1,038	2,298	(3,336)	–
– As restated	1,038	2,298	(3,336)	–
(Credited)/charged to income statement (note 9)	(322)	(1,014)	1,336	–
At 31 July 2004	716	1,284	(2,000)	–
At 1 August 2004	716	1,284	(2,000)	–
(Credited)/charged to income statement (note 9)	2,941	545	(3,486)	–
At 31 July 2005	3,657	1,829	(5,486)	–

Notes to the Financial Statements (Continued)

For the year ended 31 July 2005

18. DEFERRED TAX (Continued)

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset in accordance with the conditions set out in SSAP 12. The following is the analysis of the deferred tax balances for financial reporting purposes:

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Deferred tax liabilities	5,486	2,000	–	–
Deferred tax assets	(5,486)	(2,000)	–	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

At 31 July 2005, the Group has unused tax losses of HK\$267,957,743 (2004: HK\$183,895,019) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$31,353,138 (2004: HK\$11,430,776) of such losses. No deferred tax assets in respect of the remaining HK\$236,604,605 (2004: HK\$172,464,243) due to the unpredictability of future taxable profits streams. This amount of unused tax losses could be carried forward indefinitely.

19. SHARE CAPITAL

	Number of shares	HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each at 1 August 2004 and 31 July 2005	<u>12,000,000,000</u>	<u>120,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.01 each at 1 August 2004	935,551,302	9,356
Issue of shares by exercise of options	<u>36,148,000</u>	<u>361</u>
Ordinary shares of HK\$0.01 each at 31 July 2005	<u>971,699,302</u>	<u>9,717</u>

Note:

During the year, options were exercised to subscribe for 36,148,000 shares in the Company at subscription price of HK\$0.024 – HK\$0.04 per share. The consideration was HK\$1,316,592 of which HK\$361,480 was credited to share capital and the balance of HK\$955,112 was credited to the share premium account.

Notes to the Financial Statements (Continued)

For the year ended 31 July 2005

20. RESERVES Group

	2005 HK\$'000	2004 HK\$'000
Share premium	8,179	7,224
Capital redemption reserve	1,264	1,264
Exchange fluctuation reserve	(4,444)	(2,661)
Capital reserve	717	717
Accumulated losses	(1,220,142)	(1,192,671)
Revaluation reserve	52,590	35,619
Scheme reserve	1,096,502	1,096,502
	<u>(65,334)</u>	<u>(54,006)</u>

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

Company

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Scheme reserve HK\$'000	Total HK\$'000
At 1 August 2003	7,224	1,264	21,689	(378,451)	324,964	(23,310)
Loss for the year	–	–	–	(7,911)	–	(7,911)
At 31 July 2004	<u>7,224</u>	<u>1,264</u>	<u>21,689</u>	<u>(386,362)</u>	<u>324,964</u>	<u>(31,221)</u>
At 1 August 2004	7,224	1,264	21,689	(386,362)	324,964	(31,221)
Issue of shares by exercise of options	955	–	–	–	–	955
Loss for the year	–	–	–	(7,519)	–	(7,519)
At 31 July 2005	<u>8,179</u>	<u>1,264</u>	<u>21,689</u>	<u>(393,881)</u>	<u>324,964</u>	<u>(37,785)</u>

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. 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.

Notes to the Financial Statements (Continued)

For the year ended 31 July 2005

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:

	2005 HK\$'000	2004 HK\$'000
Fees		
Executive directors	32	40
Independent non-executive directors	115	80
	<u>147</u>	<u>120</u>
Other emoluments		
Executive directors	2,545	2,160
Independent non-executive directors	120	160
	<u>2,665</u>	<u>2,320</u>
	<u>2,812</u>	<u>2,440</u>

The emoluments of the directors were within the following bands:

Emoluments bands

	Number of directors	
	2005	2004
Nil – HK\$1,000,000	5	3
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
	<u>–</u>	<u>1</u>

During the year, the Company granted 18,710,000 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.

Notes to the Financial Statements (Continued)

For the year ended 31 July 2005

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

The five highest paid individuals of the Group for the year included three (2004: one) executive directors, details of whose emoluments are set out above. The emoluments of the remaining two (2004: four) employees were as follows:

	2005 HK\$'000	2004 HK\$'000
Salaries and other benefits	<u>1,444</u>	<u>2,240</u>

The emoluments were within the following bands:

Emoluments bands	Number of individuals	
	2005	2004
Nil – HK\$1,000,000	2	3
HK\$1,000,001 – HK\$1,500,000	<u>–</u>	<u>1</u>

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.

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 2005, the Group made contributions of approximately HK\$170,000 (2004: approximately HK\$185,000) towards the MPF Scheme and CPF.

Notes to the Financial Statements (Continued)

For the year ended 31 July 2005

23. 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.

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

	2005 Number ('000)	2004 <i>Number</i> <i>('000)</i>
Outstanding as at 1 August	18,159	18,159
Granted during the year	37,420	–
Exercised during the year	(36,148)	–
	<hr/> 19,431	<hr/> 18,159
Outstanding as at 31 July	19,431	18,159
Options vested at 31 July	19,431	18,159

Notes to the Financial Statements (Continued)

For the year ended 31 July 2005

23. EQUITY COMPENSATION BENEFITS (Continued)

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

Date granted	Exercise period	Exercise price	2005 Number (‘000)	2004 Number (‘000)
15 April 2003	16 April 2003 – 30 December 2012	HK\$0.024	10,076	18,159
2 December 2004	3 December 2004 – 30 December 2012	HK\$0.04	9,355	–
			<u>19,431</u>	<u>18,159</u>

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

Date granted	Exercise period	Exercise price	2005 Number (‘000)	2004 Number (‘000)
2 December 2004	3 December 2004 – 30 December 2012	HK\$0.04	37,420	–

(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)
28 December 2004	0.024	0.022	194	8,083
28 December 2004	0.040	0.022	<u>1,122</u>	<u>28,065</u>
			<u>1,316</u>	<u>36,148</u>

Notes to the Financial Statements (Continued)

For the year ended 31 July 2005

24. OPERATING LEASE COMMITMENTS

(a) As lessee

At 31 July 2005, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Land and buildings				
Within one year	348	1,022	107	384
In the second to fifth years inclusive	1,231	1,279	–	64
More than five years	4,748	4,853	–	–
	<u>6,327</u>	<u>7,154</u>	<u>107</u>	<u>448</u>

(b) As lessor

At 31 July 2005, the total future minimum lease receipts under non-cancellable operating leases were receivable as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Plant and factory		
Within one year	2,550	876
In the second to fifth years inclusive	3,613	–
	<u>6,163</u>	<u>876</u>

The Company has no significant operating lease receipts commitment at the balance sheet date.

Notes to the Financial Statements (Continued)

For the year ended 31 July 2005

25. OTHER COMMITMENTS

	Group	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Contracted but not provided for in respect of acquisition of vessels	1,244	–
Commitments in respect of capital contribution to a subsidiary in the People's Republic of China	<u>4,810</u>	<u>6,820</u>
	<u>6,054</u>	<u>6,820</u>

The Company has no significant other commitment at the balance sheet date.

26. CONTINGENT LIABILITIES

- (a) At 31 July 2005, 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 (2004: HK\$176 million), further details of which are set out in note 2(b).
- (b) An amount of SGD358,982 (equivalent to HK\$1,680,233) (2004: HK\$1,609,699) relating to interest payable on banking facilities of a subsidiary. The directors of the subsidiary are disputing this amount and no provision has been made in the financial statements.
- (c) The Company and the Group had pending litigation in respect of the Statement of Claim for HCA 624 of 2005 dated 28 September 2005, the Group's solicitor is of the view that there are three claims which duplicate partly with each others. Fonfair claims against the defendants for the amount of HK\$19,568,644.66 together with interest and costs, Money Facts claims the amount of HK\$13,334,211.42 (HK\$12,874,121.48 of which is pleaded by Money Facts as part of its loss and damage suffered by virtue of its 7,900/12,008th interest held in Fonfair) together with interest and costs, and Leung Yuet Keung claims the amount of HK\$15,190,409.54 (HK\$6,667,105.71 of which is pleaded by Leung Yuet Keung as part of his loss and damage suffered by virtue of his 3,950/7,900th interest held in Money Facts) together with interest and costs. As pleaded by the plaintiffs, (a) Harbour Front Limited, which is the majority shareholder of the Company, holds 3,958 out of the 12,008 issued ordinary shares of Fonfair and 3,950 out of the 7,900 issued ordinary shares of Money Facts; (b) Money Facts holds 7,900 out of the 12,008 issued ordinary shares of Fonfair; and (c) Leung Yuet Keung holds 3,950 out of the 7,900 issued ordinary shares of Money Facts, further details of which are set out in note 2(c)(ii).

Notes to the Financial Statements (Continued)

For the year ended 31 July 2005

27. RELATED PARTY TRANSACTIONS

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

	Note	2005 HK\$'000	2004 HK\$'000
Handling fee income from Bussy Development Company Limited ("Bussy") #	(a)	203	–
Agency fee income from Bussy #	(a)	282	–
Ship management fee income from Bussy #	(a)	693	986
Plant hire cost paid to Bussy #	(a)	–	1,618
Handling charges paid to Bussy #	(a)	–	18
Management fee paid to Bussy #	(a)	–	726
Rental charges paid to Capital Hope Investments Limited ("Capital Hope")	(b)	384	351
Sales of vessel to Capital Hope	(b)	–	1,300
Rental charges paid to Denlane Shipbuilding Pte Limited ("Denlane") #	(c)	83	81
Management service fee income from Denlane #	(c)	1,659	1,614
Subcontracting fee paid to United Colours Development Limited ("United Colours")	(d)	65	–
Ship management income from Giant Lead Enterprises Limited ("Giant Lead")	(e)	7	–
Plant hire cost paid to Gitanes Engineering Company Limited ("Gitanes")	(f)	–	24
Ship management fee income from Gitanes	(f)	132	66
Handling fee income from Gitanes	(f)	9	–
Rental charges paid to Decorling Limited ("Decorling")	(g)	1,017	892
Interest charged by Universal Grade Limited ("Universal Grade")	(h)	1,680	2,432
Agency fee income from Universal Grade	(h)	114	92
Ship management fee income from Universal Grade	(h)	422	175
Handling fee income from Universal Grade	(h)	199	–
Interest charged by Hong Hay Pte Limited ("Hong Hay")	(i)	–	474
Agency fee income from Hong Hay	(i)	–	47
Ship management fee income from Hong Hay	(i)	178	103
Handling fee income from Hong Hay	(i)	17	–
Interest charged by Windermere Pte Limited ("Windermere")	(j)	5,512	4,695
Interest charged by Harbour Front Limited ("Harbour Front")	(k)	886	1,115
Consultancy fee income from Tonic Engineering & Construction Company Limited ("Tonic")	(l)	500	–
Provision for doubtful debts from Tonic	(l)	–	80

Notes to the Financial Statements (Continued)

For the year ended 31 July 2005

27. RELATED PARTY TRANSACTIONS (Continued)

	Note	2005 HK\$'000	2004 HK\$'000
Ship management fee income from Exact Nice Limited ("Exact Nice")	(m)	35	17
Shipbuilding and repair income from Exact Nice	(m)	120	131
Ship management fee income from Jelanter Limited ("Jelanter")	(n)	46	23
Shipbuilding and repair income from Jelanter	(n)	124	140
Ship management fee income from Link Full International Limited ("Link Full") #	(o)	375	187
Shipbuilding and repair income from Link Full #	(o)	492	558
Handling fee income from Link Full #	(o)	174	–
Ship management fee income from Possider Company Limited ("Possider")	(p)	46	23
Shipbuilding and repair income from Possider	(p)	244	270
Ship management fee income from Top Union Investments Limited ("Top Union")	(q)	143	73
Agency fee income from Top Union	(q)	13	–
Handling fee income from Top union	(q)	55	–
Ship management fee income from UDL Offshore Pte Limited ("UDL Offshore")	(r)	68	34
Handling fee income from UDL Offshore	(r)	8	–
Plant hire cost paid to Dongguan Chun Wah Engineering & Heavy Industries Company Limited ("DG Chun Wah") *	(s)	283	118
Consultant service fee paid to YTL Strategic Corporate Consultancy Limited ("YTL")	(t)	671	330
Provision for doubtful debts written back from Chui Hing Construction Limited ("Chui Hing")	(u)	–	75
Rental charges paid to Chui Hing	(u)	33	–

* One of the Group's top five suppliers.

One of the Group's top five customers.

Notes to the Financial Statements (Continued)

For the year ended 31 July 2005

27. RELATED PARTY TRANSACTIONS (Continued)

- (a) Buggy is a company in which Ms. Leung Chi Yin, Gillian ("Ms. Leung") is a director and shareholder.
- (b) Capital Hope is a company in which Ms. Leung is a director and shareholder.
- (c) Denlane is a company in which Mrs. Leung and Ms. Leung are directors.
- (d) United Colours is a company in which Mrs. Leung is a director and shareholder.
- (e) Giant Lead is a company in which Mrs. Leung and Ms. Leung are directors.
- (f) Gitanes is a company in which Mrs. Leung is a director and Ms. Leung is a shareholder.
- (g) Decorling is a company in which Mrs. Leung is a shareholder. Mrs. Leung and Ms. Leung are directors of Decorling.
- (h) Universal Grade is a company in which Harbour Front Limited, a major shareholder of the Company, has the ability to exercise significant influence in making its financial and operating decisions.**
- (i) Hong Hay is a company in which Harbour Front Limited, a major shareholder of the Company, has the ability to exercise significant influence in making its financial and operating decisions.**
- (j) Windermere is a company in which Harbour Front Limited, a major shareholder of the Company, has the ability to exercise significant influence in making financial and operating decisions.**
- (k) Harbour Front is a major shareholder of the Company. Mrs. Leung and Ms. Leung are directors and shareholders of Harbour Front. ##
- (l) Tonic is a company in which Mrs. Leung is a director and Ms. Leung is a shareholder.
- (m) Exact Nice is a company in which Mrs. Leung is a director.
- (n) Jelanter is a company in which Mrs. Leung is a director.
- (o) Link Full is a company in which Mrs. Leung is a director.
- (p) Possider is a company in which Mrs. Leung is a director.
- (q) Top Union is a company in which Mrs. Leung is a director.
- (r) UDL Offshore is a company in which Mrs. Leung and Ms. Leung are directors.
- (s) DG Chun Wah is a company in which Mrs. Leung is a director.
- (t) YTL is a company in which Ms. Leung is a director and shareholder and Mrs. Leung and Harbour Front are shareholders.
- (u) Chui Hing is a company in which Mrs. Leung is a director.

** *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 16 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 (Continued)

For the year ended 31 July 2005

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transaction

During the year, the Group disposed its vessels at a consideration of HK\$650,000, in which HK\$615,500 was settled directly to the Related Party Lenders (Note 2(d)) and HK\$34,500 was settled by debiting a related company's current account.

29. POST BALANCE SHEET EVENTS

- (a) Subsequent to the balance sheet date, the Group disposed two vessels to a third party at its net book value for a consideration of HK\$300,000.
- (b) A non-binding Memorandum of Understanding dated 12 August 2005 in relation to a proposed solution, the Global Solution, was entered into by the Company, Harbour Front Limited and the Scheme Administrator. Further details of which are set out in note 2(b) to the financial statements.
- (c) The Company and the Group had pending litigation in respect of the Statement of Claim dated 28 September 2005 for HCA 624 of 2005, further details of which are set out in notes 2(c)(ii) and 26(c) to the financial statements.

30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements on pages 20 to 63 were approved by the Board of Directors on 5 October 2005.