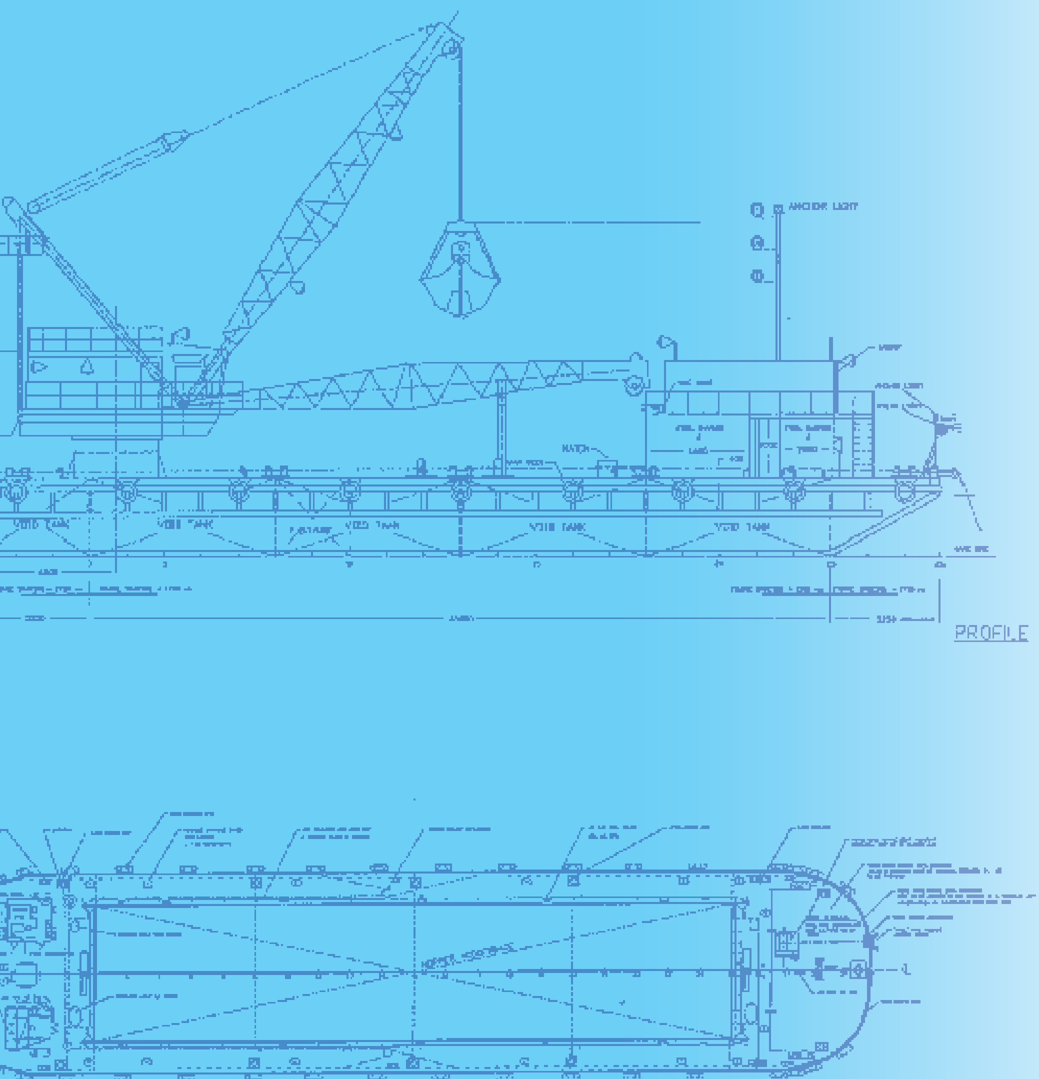
# UDL HOLDINGS LIMITED
# 太元集團有限公司

(incorporated in Bermuda with limited liability)

Stock Code: 00620




Annual Report

# 2010

# Contents

# Corporate Information

## BOARD OF DIRECTORS

**Executive Directors**
Mr. Leung Yat Tung
Mrs. Leung Yu Oi Ling, Irene
Miss Leung Chi Yin, Gillian
Mr. Leung Chi Hong, Jerry

**Independent Non-Executive Directors**
Mr. Pao Ping Wing, *JP*
Prof. Yuen Ming Fai, Matthew
Ms. Tse Mei Ha

## AUDIT COMMITTEE

Mr. Pao Ping Wing, *JP*
Prof. Yuen Ming Fai, Matthew
Ms. Tse Mei Ha

## REMUNERATION COMMITTEE

Mr. Pao Ping Wing, *JP*
Prof. Yuen Ming Fai, Matthew
Ms. Tse Mei Ha
Miss Leung Chi Yin, Gillian

## COMPANY SECRETARY

Ms. Yuen Wing Yan, Winnie

## REGISTERED OFFICE

Crawford House
4th Floor
50 Cedar Avenue
Hamilton HM11
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 702, 7th Floor
Aitken Vanson Centre
61 Hoi Yuen Road
Kwun Tong, Kowloon
Hong Kong

## REGISTRARS

**Hong Kong**
Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

**Bermuda**
HSBC Bank Bermuda Limited
6 Front Street
Hamilton HM11
Bermuda

## AUDITOR

CCIF CPA Limited

## LEGAL ADVISERS

*As to Hong Kong laws:*
Tsang & Lee, Solicitors
Chui & Partners

*As to Bermuda laws:*
Attride-Stirling & Woloniecki
Appleby Spurling & Kempe

## PRINCIPAL BANKERS

Industrial and Commercial Bank of China (Asia) Limited
Wing Lung Bank Limited

## WEBSITE

www.udl.com.hk

# Chairman's Statement

In 2010, we observe recovery in the global economy while facing perhaps an unprecedented inflation. In view of a rough global recovery process, UDL Holdings Limited ("UDL") and its subsidiaries (the "Group") is mindful with cost control measures and leveraging from its existing competitive advantages to ensure a satisfactory result is achieved.

With this, I am pleased to report that the total revenue for the financial year ended 31 July 2010 is HK$114.3 million. Loss before taxation in the year amounted to HK$46.9 million, which was mainly due to a full impairment made to the value of the Group's Licenses on port works and structural steel works, a prudent approach taken by the management in the light that no contracts were awarded over the year despite of various competitive tendering and the uncertainties in attainting contracts. Nevertheless, the Construction and Structural Steel Engineering unit of the Group generated a revenue of HK$14.4 million this year, a gradual increase of 37%. Revenue from the Sale of Vessels was HK$5 million while revenue from the Marine Engineering was HK$94.8 million.

Major infrastructure works in Hong Kong commenced in early 2010 and we may expect more related contracts to roll out in the near future. We will continue our effort in grasping these forthcoming opportunities. To ride through the bumpy recovery process of the economy and to sustain growth in the long term, we strive to strengthen our business fundamentals and fortifying our core competencies to provide a wider range of solutions that will address the market's evolving requirements. We will also continue to seek out good opportunities to strategically co-operate with like-minded partners in the market to create new synergies.

I would like to take this opportunity to thank all our customers, business partners, suppliers and contractors for their continuous support. I would also like to express my deepest appreciation to our shareholders for their confidence in UDL. Finally, I am grateful to all our staff and our Board of Directors (the "Board") for their invaluable contributions and dedication.

**Leung Yu Oi Ling, Irene**
*Chairman*

Hong Kong, 19 November 2010

# Management Discussion and Analysis

## BUSINESS REVIEW AND FUTURE PROSPECTS

The Group reports a revenue of HK$114.3 million for the financial year ended 31 July 2010 (2009: HK$117.4 million) and a loss of HK$48.3 million (2009: loss of HK$28.2 million). The basic loss per share was 0.48 cents (2009: 0.31 cents loss). The reported loss of the year majorly attributed to the impairment of the Group's Licences' value, details discussed below.

### Marine Engineering

Marine Engineering sector reports a revenue of HK$94.8 million (2009: HK$106.9 million) and a profit of HK$9.2 million (2009: loss of HK$15.0 million). Loss in 2009 had taken into account the full impairment made on the leasehold of the Group's shipyard in Singapore due to expire on 31 December 2010. Whilst the Group is in the process of considering alternative sites, performance in the marine engineering sector may be affected in the interim.

### Construction and Structural Steel Engineering

Construction and Structural Engineering sector reports a revenue of HK$14.4 million (2009: HK$10.5 million) with a loss of HK$37.1 million (2009: loss of HK$1.6 million) mainly attributed to the impairment of the Group's Licences. Since 2009, the Hong Kong Government has commenced various infrastructure projects. The Group continued its efforts in tendering contracts, bids submitted have been recognized by clients to be competitive but no contracts were awarded during the financial year of 2010. For prudence and in view of the uncertainties in acquiring new contracts, the value in relation to the licenses on the approved list of port works for Hong Kong Government and the license for structural steel engineering works in mainland China were impaired to nominal value.

### Sale of Vessels

Revenue from sale of vessels totalled to HK$5.0 million (2009: HK$Nil), generating a profit of of HK$0.7 million (2009: HK$Nil). Demand for engineering work vessels should continue in the light of various infrastructure projects underway.

## LIQUIDITY AND FINANCIAL RESOURCES

In order to utilise financial resources effectively and efficiently, the Group has secured shareholders loan facility to finance the working capital of the operation and business development.

As at 31 July 2010, total drawndown loan balance of the Group was HK$35.6 million (2009: HK$44.9 million) a decrease from previous financial year. Hence, the finance costs have decreased to HK$1.72 million (2009: HK$2.27 million). At the year end, bank and cash balances of the Group totalled to HK$37.6 million (2009: HK$65.1 million). The deposit in foreign currencies are mainly for the operation and projects in Singapore and China.

The gearing ratio of the Group as a result, calculated by dividing total liabilities by total asset value, increased to 21.7% (2009: 19.7%).

# Management Discussion and Analysis

## EXPOSURE OF FOREIGN EXCHANGE

The Group's assets and liabilities are mainly dominated in Hong Kong Dollars and Singapore Dollars. Income and expenses derived from the operations in China and Singapore are mainly dominated in Renminbi and Singapore Dollars respectively. There is no significant exposure to the fluctuation of foreign exchange rates, but the Group is closely monitoring the financial market and would consider appropriate measures if required. The Group has no hedging arrangement for foreign currencies and has not involved in the financial derivatives.

## CONTINGENT LIABILITIES

Save for those disclosed in note 33 to the financial statements, there are no other contingent liabilities as at 31 July 2010 that the Group is aware of.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 July 2010, other than outsourcing vendors but including contract workers, the Group has approximately 130 technical and working staff in Hong Kong, Singapore and China. Total staff costs, excluding contract workers, amounted to HK$22.5 million this year, as compared with HK$18.9 million last year.

There was no material change to the staff policy during the year under review. The Group encourages high productivity and remunerates its employees based on their qualification, work experiences, prevailing market prices and contribution to the Group. Incentives in the form of bonuses and share options may also be offered to eligible persons based on their individual contribution and performance. The emoluments of the directors and senior management of the Company are determined by the Remuneration Committee and approved by the Board, having regard to their individual duties and responsibility with the Company, remuneration benchmark in the industry and prevailing market condition.

# Directors' Biographies

## EXECUTIVE DIRECTORS

**Mr. Leung Yat Tung**, aged 57, was appointed as the Chief Executive Officer and Executive Director of the Company in May 2008. Mr. Leung has extensive experience in the development and management of marine offshore engineering, shipbuilding and structural steel portfolios. He holds a degree in law from the Polytechnic of Newcastle-upon-Tyne in England. He is the father of two other executive directors of the Company, Miss Leung Chi Yin, Gillian and Mr. Leung Chi Hong, Jerry; and the spouse of the other executive director of the Company, Mrs. Leung Yu Oi Ling, Irene. He is responsible for the management and operation of the Group.

**Mrs. Leung Yu Oi Ling, Irene**, aged 57, joined the Group in June 1991 and is currently an Executive Director and the Chairman of the Company. Mrs. Leung is a graduate of Leicester Polytechnic in UK and has had extensive experience in running her own interior design company prior to joining the Group. She is the spouse of Mr. Leung Yat Tung and the mother of Miss Leung Chi Yin, Gillian and Mr. Leung Chi Hong, Jerry. Mrs. Leung is responsible for the general management, business development and marketing of the Group.

**Miss Leung Chi Yin, Gillian**, aged 30, daughter of Mr. Leung Yat Tung and Mrs. Leung Yu Oi Ling, Irene, sister of Mr. Leung Chi Hong, Jerry, was redesignated in September 2002 as an Executive Director. Miss Leung graduated in Commerce from Queen's University, Canada and also completed MSc Law and Accounting from the London School of Economic and Political Science, London. Miss Leung is responsible for financial management and administration of the Group.

**Mr. Leung Chi Hong, Jerry**, aged 28, son of Mr. Leung Yat Tung and Mrs. Leung Yu Oi Ling, Irene, brother of Miss Leung Chi Yin, Gillian, was appointed as an Executive Director in October 2006. He possesses BSc in Physics and Computer from McGill University, Canada. He has over seven years of experience in ship management in mainland China and South East Asia. He is responsible for the operation of the Group's marine division.

All the executive directors' interest in the Company's shares are disclosed on page 14 of this report.

# Directors' Biographies

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Pao Ping Wing**, *JP*, aged 63, was appointed to the Board in August 1997, holds a Master of Science degree in human settlements planning and development. In the past 20 plus years, he has been actively serving on government policy and executive bodies, especially those of town planning, urban renewal, public housing and environment matters. He was elected as one of the Ten Outstanding Young Persons of Hong Kong in 1982 and one of the Ten Outstanding Young Persons of the World in 1983. Mr. Pao has been appointed as a Justice of the Peace for Hong Kong since 1987. He is also an independent non-executive director of Oriental Press Group Limited (stock code: 018), Sing Lee Software (Group) Limited (stock code: 8076), Zhuzhou CSR Times Electric Co., Limited (stock code: 3898), Maoye International Holdings Limited (stock Code: 848) and New Environmental Energy Holdings Limited (formerly "Hembly International Holdings Limited") (stock code: 3989), which are listed on the Hong Kong Stock Exchange. Mr. Pao has no personal interest in the shares of the Company.

**Prof. Yuen Ming Fai, Matthew**, aged 59, was appointed to the Board in April 2002. Prof. Yuen spent 4 years in United Kingdom's Industry before taking up a lecturing position at the University of Hong Kong in 1979. He is currently a Professor and Head of the Department of Mechanical Engineering at The Hong Kong University of Science and Technology. Prof. Yuen is a graduate of the University of Hong Kong and the University of Bristol. He is a Fellow of The Hong Kong Institution of Engineers and a Fellow of Institution of Mechanical Engineers, United Kingdom. Prof. Yuen has extensive research experience in design and manufacturing. He is also appointed as an independent non-executive director of Fong's Industries Company Limited (stock code: 641). Save as the spouse of Prof. Yuen having personal interest in 4,800 shares (0.00%) of the Company, Prof. Yuen has no personal interest in the shares of the Company.

**Ms. Tse Mei Ha**, aged 38, was appointed to the Board in September 2004. Ms. Tse is a Certified Public Accountant in Hong Kong. She has over ten years of experience in the accountancy profession including working with public accountants and auditor firms. Ms. Tse has no personal interest in the shares of the Company.

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The Company acknowledges the importance of good corporate governance practices and believes that maintaining high standard of corporate governance practices is crucial to the development of the Company.

Throughout the period ended 31 July 2010, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "CG code") as contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong (the "Listing Rules").

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors' securities transactions. The Company has made specific enquiry to all directors of the Company (the "Directors") regarding any non-compliance with the Model Code during the year under review and they all have confirmed that they have fully complied with the required standards set out in the Model Code.

## BOARD OF DIRECTORS

As at the date of this report, the board of directors (the "Board") of the Company comprised the following seven Directors:

*Executive Directors:*
Mr. Leung Yat Tung *(Chief Executive Officer)*
Mrs. Leung Yu Oi Ling, Irene *(Chairman)*
Miss Leung Chi Yin, Gillian
Mr. Leung Chi Hong, Jerry

*Independent Non-Executive Directors:*
Prof. Yuen Ming Fai, Matthew
Mr. Pao Ping Wing, *JP*
Ms. Tse Mei Ha

The composition of the Board is well balanced with each Director having sound knowledge, experience and expertise relevant to the business operations and development of the Group. Biographical details of the Directors are set out in the "Directors' Biographies" section on pages 6 to 7 of this annual report. In compliance with Rule 3.10(1) of the Listing Rules, the Company has appointed three Independent Non-Executive Directors. Ms. Tse Mei Ha is one of the Independent Non-Executive Directors having the appropriate professional qualifications with accounting and financial management expertise as required by Rule 3.10(2) of the Listing Rules. The three Independent Non-Executive Directors have no relationships with any members of the Board or senior management of the Company. The Company has received from each of the Independent Non-Executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and the Company considers that all of the Independent Non-Executive Directors are independent.

The Board is responsible to ensure the Company achieves its objectives, approve the business strategic plans, review management performance, maintain internal controls and monitor financial reporting process and business operations.

The Board has the responsibility to promote the Company by directing and supervising the Group's affairs in a responsible and effective manner. Each director has a duty to act in good faith and in the best interests of the Company. The Directors are aware of their collective and individual responsibilities to all shareholders of the Company for the manner which the affairs of the Company are managed, controlled and operated.

# Corporate Governance Report

The Board met regularly during the year. The following table shows the attendance of all the Directors at meetings held during the year:

| | Meetings Attended/Held | | | |
|---|---|---|---|---|
| Directors | Board Meeting | Audit Committee Meeting | Remuneration Committee Meeting | Annual General Meeting |
| *Executive Directors* | | | | |
| Mr. Leung Yat Tung | 5/5 | – | – | 1/1 |
| Mrs. Leung Yu Oi Ling, Irene | 5/5 | – | – | 1/1 |
| Miss Leung Chi Yin, Gillian | 5/5 | 1/2 | 2/2 | 1/1 |
| Mr. Leung Chi Hong, Jerry | 5/5 | – | – | 1/1 |
| *Independent Non-Executive Directors* | | | | |
| Prof. Yuen Ming Fai, Matthew | 5/5 | 2/2 | 2/2 | 1/1 |
| Mr. Pao Ping Wing, *JP* | 5/5 | 2/2 | 2/2 | 1/1 |
| Ms. Tse Mei Ha | 5/5 | 2/2 | 2/2 | 0/1 |

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

To ensure a balance of power and authority, the Company fully supports the division of responsibility between the Chairman and the Chief Executive Officer ("CEO"). The roles of the Chairman and the CEO are segregated and performed by Mrs. Leung Yu Oi Ling, Irene and Mr. Leung Yat Tung respectively.

The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. With the support of the management, the Chairman is also responsible for ensuring that the directors receive adequate information and appropriate briefing on issues arising at Board meetings.

The CEO focuses on implementing objectives, policies and strategies approved and delegated by the Board. The CEO is in charge of the Group's day-to-day management and operations. The CEO is also responsible for developing strategic plans and formulating the organisational structure, control systems and internal procedures and processes for the Board's approval.

## REMUNERATION COMMITTEE

The Company has established the Remuneration Committee with adoption of written terms of reference in accordance with the requirements of the Listing Rules and the CG Code. The responsibility of the Remuneration Committee is to formulate, review and evaluate the remuneration packages and policies of the Directors and senior management of the Group, to make recommendations to the Board from time to time, including bonus and options granted under the share option scheme, to ensure that such remuneration is reasonable and not excessive, and to enable the Company to attract, retain and motivate quality personnel essential to the long-term development of the Company.

As at the date of this report, the Remuneration Committee comprised of four members, majority of which are Independent Non–Executive Directors, namely Prof. Yuen Ming Fai, Matthew, Mr. Pao Ping Wing, *JP*, Ms. Tse Mei Ha and Miss Leung Chi Yin, Gillian. Currently, Prof. Yuen Ming Fai, Matthew is the Chairman of the Remuneration Committee.

The Remuneration Committee held two meetings during the year with all the committee members attended.

# Corporate Governance Report

Appropriate remuneration policies are important to enable the Company to retain and motivate employees (including Directors and anyone who have contributed to the Group) to meet corporate objectives. A Director is not allowed to approve his/her own remuneration. The remuneration packages of Directors and senior management includes basic salary, housing allowance, performances bonus and share option. The remuneration of Independent Non–Executive Directors is subject to annual assessment.

## NOMINATION OF DIRECTORS

Appointment of new Directors is a matter for consideration by the Board. The Board will review the profiles of the candidates before considering the appointment, re-nomination and retirement of Directors.

According to the code provision of the CG Code, any Directors so appointed by the Board shall hold office, in the case of filling a casual vacancy, only until the next following general meeting CG Code of the Company, who shall then be eligible for re-election at such general meeting.

In compliance with Code Provision A.4.1 of the CG Code, non-executive directors are appointed for a specific term, subject to re-election. All Independent Non-Executive Directors will retire on 31 December 2011, subject to review by the Board and re-nomination.

In accordance with the Bye-laws and the code provision of the CG Code, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, the number nearest one third) shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. The Board considers that sufficient measures have been and will be taken to ensure the corporate governance practices of the Company are not less exacting than those in the CG Code.

Every newly appointed Director will be given an introduction of regulatory requirements. The Directors are continually updated on the latest development of the Listing Rules and other applicable statutory requirements to ensure compliance and upkeep of good corporate governance practices.

## EXTERNAL AUDITOR'S REMUNERATION

In this fiscal year, the total remuneration of the Company's auditor, CCIF CPA Limited is set out as follows:

| | *HK$'000* |
|---|---|
| Audit services | 660 |

In addition, fees of HK$92,000 were paid to other auditors for certain subsidiaries for the year.

The Audit Committee reviewed the independence of the external auditor, CCIF CPA Limited ("CCIF"), and has concluded that it is satisfied with the professional performance of CCIF, and therefore recommended to the Board that CCIF be re-appointed as the Company's auditor in the forthcoming annual general meeting.

## AUDIT COMMITTEE

The Company has established the Audit Committee with the adoption of written terms of reference in accordance with the requirements of the Listing Rules and the CG Code. The Audit Committee is mainly responsible for providing an independent review and supervision of the financial reporting process and the Group's internal control systems, including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programs and budget.

# Corporate Governance Report

The Audit Committee consists of three Independent Non-Executive Directors, namely Prof. Yuen Ming Fai, Matthew, Mr. Pao Ping Wing, *JP* and Ms. Tse Mei Ha, in which Ms. Tse Mei Ha is the chairman of the Audit Committee.

The Audit Committee held two meetings during the year with all the committee members attended for considering the independence and appointment of the external auditor, reviewing the Group's financial reporting and internal control processes, reviewing the interim and annual financial statements of the Group and making recommendations to the Board from time to time.

During the year, the financial statements of the Group for the year ended 31 July 2009 and for the six months ended 31 January 2010 have been reviewed and approved by the Audit Committee.

The Group's audited financial statements and the annual results announcement for the year ended 31 July 2010 have been duly reviewed by the Audit Committee on 19 November 2010. The members of the Audit Committee have unanimously recommended to the Board for approval.

## INTERNAL CONTROLS

The Board has the responsibility to maintain an effective internal control system in order to safeguard the Group's assets and protect the shareholders' interests. The Board assesses the effectiveness of the internal control system and procedures derived from discussions with the management of the Group and reviews conducted by the Audit Committee. The Board believes that the existing internal control system is adequate and effective.

## DIRECTORS' RESPONSIBILITY STATEMENT

The Directors acknowledge their responsibility to prepare the Group's consolidated financial statements in accordance with statutory requirements and applicable accounting standards, and to present a balanced, clear and understandable assessment of the Group's financial results and disclosures as required under the Listing Rules and statutory requirements. The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern. The financial statements have been prepared on a going concern basis. The responsibilities of the Directors for the financial statements are set out in the "Independent Auditor's Report" section on pages 17 to 18. The Directors also acknowledge that the publication of the consolidated financial statements shall be distributed to the shareholders of the Company in a timely manner.

## COMMUNICATION WITH SHAREHOLDERS

The CG Code stipulates that the chairman of the board should attend the annual general meeting and arrange for the chairman of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his or her duly appointed delegate, to be available to address any queries at the annual general meeting.

Except for Ms. Tse Mei Ha, all members of the Board, Audit Committee and Remuneration Committee attended the Company's annual general meeting and had addressed the queries from the shareholders on 24 December 2009.

The Company communicates with its shareholders through various channels, including annual general meetings, special general meetings, interim reports, annual reports, notices of general meetings, circulars, announcements, press releases and other corporate communications available on the Company's website.

# Directors' Report

The board of directors (the "Board") of UDL Holdings Limited (the "Company") are pleased to present the annual report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 July 2010.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 21 to the financial statements, which are mainly provision of marine engineering, construction and structural steel engineering and related services, and trading of vessels.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 July 2010 are set out in the Consolidated Income Statement on page 19 and the accompanying notes to the financial statements. As at 31 July 2010, the Company did not have any reserves available for cash distribution and distribution in specie, as calculated in accordance with the Companies Act 1981 of Bermuda (as amended).

Accordingly, the Directors do not recommend the payment of a dividend in respect of the year ended 31 July 2010 (2009: nil).

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's five largest customers in aggregate was about 71% (2009: 89%) of the total turnover of the Group and the largest customer included therein amount to approximately 33% (2009: 52%).

The percentage of purchases attributable to the Group's five largest suppliers in aggregate was about 74% (2009: 85%) of the total purchases of the Group and the largest suppliers include therein amount to 34% (2009: 52%).

Save as disclosed in note 34 to the financial statements, neither the directors, their associates nor those shareholders which to the knowledge of the directors own more than 5% of the Company's share capital, held any interest in the Group's five largest customers or suppliers.

## SEGMENTS INFORMATION

An analysis of the Group's turnover and contribution to results by business segments and geographical are set out in Note 6 to the financial statements.

## FINANCIAL SUMMARY FOR LAST FIVE YEAR

A financial summary of the published results of the Group and of its assets and liabilities for the last five financial years is set out on page 96. The summary does not form part of the audited financial statements.

## SHARE CAPITAL

Details of the Company's share capital are set out in note 29 to the financial statements.

## RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in the Consolidated Statement of Changes in Equity on page 23 and note 30 to the financial statements respectively.

# Directors' Report

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 16 to the financial statements.

## DIRECTORS AND SERVICE CONTRACTS

The Directors of the Company during the year and up to the date of this report were:

*Executive Directors:*
Mr. Leung Yat Tung
Mrs. Leung Yu Oi Ling, Irene
Miss Leung Chi Yin, Gillian
Mr. Leung Chi Hong, Jerry

*Independent Non-Executive Directors:*
Mr. Pao Ping Wing, *JP*
Prof. Yuen Ming Fai, Matthew
Ms. Tse Mei Ha

In accordance with clause 99(A) as amended by clause 182(vi) of the Company's Bye-Laws and the code provisions in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Listing Rules, Mrs. Leung Yu Oi Ling, Irene, Miss Leung Chi Yin, Gillian and Mr. Pao Ping Wing, *JP* will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

All Independent Non-executive Directors have been appointed, subject to retirement by rotation in accordance with the Company's Bye-Laws 99, for a specific term and they have reconfirmed their independence pursuant to Rule 3.13 of the Listing Rules.

## DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 34 to the financial statements, no other contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year, nor had there been any contracts or arrangements in which any of the Directors was materially interested and which was significant in relation to the Group's business as a whole.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed in the section "Emolument Policy and Share Option" on page 15, at no time during the year was the Company or any its subsidiaries a party to any arrangement to enable the Directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

# Directors' Report

## DIRECTORS' INTERESTS IN SHARES

As at 31 July 2010, the interests and short positions of the Directors and their associates in the shares and underlying shares, if any, of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be maintained by the Company pursuant to Section 352 of the SFO were as follows:

### Interests in the Company

| | | Number of Shares and nature of interest | | Total Shareholding |
|---|---|---|---|---|
| **Name of Directors** | *Notes* | **Personal** | **Other** | **Interest** |
| Mr. Leung Yat Tung | *1, 3, 4, 6* | 100,900,674 | 7,204,084,634 | 72.40% |
| Mrs. Leung Yu Oi Ling, Irene | *1, 3, 4, 6* | 800,000 | 7,304,185,308 | 72.40% |
| Miss Leung Chi Yin, Gillian | *1, 2, 3* | 22,239,200 | 7,203,004,634 | 71.61% |
| Mr. Leung Chi Hong, Jerry | *1, 2, 3* | 16,506,774 | 7,203,004,634 | 71.55% |
| Prof. Yuen Ming Fai, Matthew | *5* | – | 4,800 | 0.00% |

*Note 1*: 7,202,833,221 shares are held by Harbour Front Limited or its designated nominees, the trustee of a unit trust. All of the units in the unit trust are beneficially owned by a discretionary trust, the beneficiaries of which are Mrs. Leung Yu Oi Ling, Irene and her children, namely, Miss Leung Chi Yin, Gillian, Mr. Leung Chi Hong, Jerry and Mr. Leung Kai Hong, Kaiser. Mr. Leung Yat Tung is the founder of the discretionary trust.

*Note 2*: 120,000 shares are held by Y.T. Leung Trading Company Limited, which is beneficially owned by Miss Leung Chi Yin, Gillian and Mr. Leung Chi Hong, Jerry.

*Note 3*: 51,413 shares are held by Vital Strategic Corporate Consultancy Limited, which is beneficially owned by Harbour Front Limited, Mrs. Leung Yu Oi Ling, Irene, Miss Leung Chi Yin, Gillian, Mr. Leung Chi Hong, Jerry and Mr. Leung Kai Hong, Kaiser as to 18%, 20%, 22%, 20% and 20% respectively.

*Note 4*: 400,000 shares are held by Top Union Investments Limited, which is 100% beneficially owned by Mrs. Leung Yu Oi Ling, Irene.

*Note 5*: 4,800 shares are held by Mrs. Yuen Chiu Yin May, May. Mrs. Yuen is the spouse of Prof. Yuen Ming Fai, Matthew.

*Note 6*: The Company has granted 100,900,674 share options of the Company to Mr. Leung Yat Tung, the spouse of Mrs. Leung Yu Oi Ling, Irene.

Save as disclosed above, as at 31 July 2010, none of the Directors or chief executives of the Company or their respective associates had any interests or short positions in any shares, underlying shares or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Division 7 & 8 of Part XV of the SFO; or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code.

# Directors' Report

## SUBSTANTIAL SHAREHOLDERS

As at 31 July 2010, the interests and short positions of the substantial shareholders (other than the Directors of the Company) in the shares of the Company as recorded in the register as required to be kept by the Company under Section 336 of the SFO were as follows:

**Interests in Shares**

| Name of shareholder | Number of Shares held | Shareholding Percentage |
|---|---|---|
| Harbour Front Limited | 7,202,833,221 | 71.39% |

7,202,833,221 shares are held by Harbour Front Limited or its designated nominees, the trustee of a unit trust. All the units in the unit trust are beneficially owned by a discretionary trust, the beneficiaries of which are Mrs. Leung Yu Oi Ling, Irene and her children, namely, Miss Leung Chi Yin, Gillian, Mr. Leung Chi Hong, Jerry and Mr. Leung Kai Hong, Kaiser. Mr. Leung Yat Tung is the founder of the discretionary trust.

Other than as disclosed above, the Company has not been notified of any other interests or short positions in any shares, underlying shares or debt securities of the Company as required to be recorded in the register under Section 336 of the SFO as at 31 July 2010.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-Laws although there are no restrictions against such rights under the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## CORPORATE GOVERNANCE

The Company has complied with the CG Code. Information on the corporate governance practices adopted by the Company is set out in "Corporate Governance Report" section on pages 8 to 11.

## CONNECTED TRANSACTIONS

Details of the related party transactions and connected transactions of the Group are set out in note 34 to the financial statements.

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors at the date of this report, the Company has maintained the prescribed public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

## EMOLUMENT POLICY AND SHARE OPTION

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the Directors and senior management of the Group are reviewed by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

# Directors' Report

On 31 December 2002, the Company adopted a share option scheme (the "Share Option Scheme") for the purpose of attracting and retaining quality personnel and other persons who may contribute to the business and operation of the Group. Options may be granted to persons including directors, employees or consultants of the Group. Presently the maximum number of shares issuable under the Option Scheme is 908,106,073 shares (being 9% of the issued share capital of the Company at 24 December 2009). The maximum number of shares in respect of which options may be granted to any one person in any 12-month period is 1% of the issued share capital of the Company on the last date of such 12-month period unless with shareholders' approval. The option period shall not be more than 10 years from the date of grant of an option, and may include a minimum period an option must be held before it can be exercised. The exercise price is the highest of (i) the nominal value of one share of the Company; (ii) the closing price per share as stated in the Stock Exchange's daily quotations sheet on the date of the grant of the option; and (iii) the average closing price per share as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of the grant of the option. The Share Option Scheme will remain in force until 30 December 2012.

The status of the share options is set out in note 31 to the consolidated financial statements.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 July 2010.

## CONTINGENCES AND OUTSTANDING LITIGATIONS

Details of the outstanding litigations are set out in note 33 to the financial statements.

## AUDITOR

CCIF CPA Limited, Certified Public Accountants had been the auditor of the Company in the preceding seven years. A resolution will be submitted at the forthcoming annual general meeting to re-appoint CCIF CPA Limited as the auditor of the Company.

On behalf of the Board

**Leung Yu Oi Ling, Irene**
*Chairman*

Hong Kong
19 November 2010

# Independent Auditor's Report

CCIF

**CCIF CPA LIMITED**
陳葉馮會計師事務所有限公司
34/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

## TO THE SHAREHOLDERS OF UDL HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of UDL Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 19 to 95, which comprise the consolidated and Company statements of financial position as at 31 July 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Except as described in the basis for qualified opinion paragraph, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

# Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Basis for qualified opinion**

As set out in note 18 to the consolidated financial statements for the year ended 31 July 2010, the management has performed a detailed assessment on the recoverability of the carrying amount of the port work and structural steel licences ("Licences") of HK$30,912,000 as at 31 July 2010. On the basis of the assessment, a full provision for impairment of the Licences of HK$30,912,000 has been recognised and charged to the consolidated income statement for the year ended 31 July 2010. However, as set out in our report dated 27 November 2009, our opinion on the consolidated financial statements of the Group for the year ended 31 July 2009 was qualified because we had been unable to determine whether or not the carrying amount of those Licences of HK$30,912,000 was free from material misstatement as at 31 July 2009. Any adjustment to the carrying amount of the Licences brought forward from the year ended 31 July 2009 could have a significant consequential effect on the results of the Group for the year ended 31 July 2010.

**Qualified opinion arising from limitation of audit scope**

In our opinion, except for the effect on the consolidated financial statements arising from the matter described in the basis for qualified opinion paragraph, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 July 2010 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**CCIF CPA Limited**
*Certified Public Accountants*
Hong Kong, 19 November 2010

**Leung Chun Wa**
Practising Certificate Number P04963

# Consolidated Income Statement

For the year ended 31 July 2010

| | Note | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **Turnover** | *5* | **114,252** | 117,436 |
| Other revenue and income | *7* | **2,226** | 3,755 |
| Staff costs | *9(a)* | **(22,512)** | (18,854) |
| Marine, construction and structural steel engineering costs | *9(b)* | **(75,214)** | (79,958) |
| Depreciation and amortisation | *9(c)* | **(16,678)** | (12,643) |
| Provision for re-instatement cost for shipyard-Singapore | *16(c)* | **–** | (4,000) |
| Impairment on leasehold shipyard- Singapore | *16(c)* | **–** | (18,588) |
| Impairment on port work and structural steel licences | *18* | **(30,912)** | – |
| Other operating expenses | | **(20,203)** | (12,153) |
| **Loss from operations** | | **(49,041)** | (25,005) |
| Finance costs | *8* | **(1,721)** | (2,277) |
| Discount on step-up acquisition of interest in an associate | *36* | **–** | 48 |
| Share of profit of an associate | *20* | **3,834** | 50 |
| Loss before taxation | | **(46,928)** | (27,184) |
| Income tax | *10* | **(1,385)** | (1,053) |
| **Loss for the year attributable to owners of the Company** | | **(48,313)** | (28,237) |
| **Loss per share** | | | |
| – Basic | *14(a)* | **(0.48 cents)** | (0.31 cents) |
| – Diluted | *14(b)* | **(0.48 cents)** | (0.31 cents) |

The notes on pages 26 to 95 form part of these financial statements.

# Consolidated Statement of Comprehensive Income

For the year ended 31 July 2010

| | Note | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|---|
| **Loss for the year attributable to owners of the Company** | | **(48,313)** | (28,237) |
| **Other comprehensive income/(loss) for the year** | | | |
| Exchange differences on translation of financial statements of foreign operations | | **4,110** | (5,235) |
| Revaluation surplus on shipyard in Singapore written back | 16(c) | – | (1,718) |
| Revaluation surplus arising from property, plant and equipment | 16(d)(e) | – | 5,402 |
| **Total comprehensive loss for the year** | | **(44,203)** | (29,788) |

The notes on pages 26 to 95 form part of these financial statements.

# Consolidated Statement of Financial Position

As at 31 July 2010

| | Note | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | **106,509** | 113,962 |
| Lease prepayments | 17 | **56,401** | 57,768 |
| Intangible assets | 18 | **–** | 30,912 |
| Club membership | 19 | **200** | 200 |
| Interest in an associate | 20 | **5,334** | – |
| | | **168,444** | 202,842 |
| **Current assets** | | | |
| Inventories | 22 | **64,949** | 61,492 |
| Lease prepayments | 17 | **1,976** | 1,956 |
| Trade and other receivables | 23 | **29,648** | 27,888 |
| Amount due from an associate | 20 | **2,991** | – |
| Amounts due from customers for contract work | 24 | **16,226** | 9,549 |
| Amounts due from related parties | 34(b) | **2,083** | 2,183 |
| Cash and cash equivalents | 25 | **37,569** | 65,109 |
| | | **155,442** | 168,177 |
| **Current liabilities** | | | |
| Obligations under finance leases | 26 | **52** | 82 |
| Trade and other payables | 27 | **28,721** | 21,297 |
| Amounts due to related parties | 34(c) | **3,652** | 4,602 |
| Amounts due to directors | 34(d) | **180** | 214 |
| Current taxation | 28(a) | **1,860** | 1,861 |
| | | **34,465** | 28,056 |
| **Net current assets** | | **120,977** | 140,121 |
| **Total assets less current liabilities** | | **289,421** | 342,963 |
| **Non-current liabilities** | | | |
| Obligations under finance leases | 26 | **–** | 52 |
| Loan from a related company | 34(e) | **35,658** | 44,945 |
| | | **35,658** | 44,997 |
| **NET ASSETS** | | **253,763** | 297,966 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 29 | **100,900** | 100,900 |
| Reserves | 30 | **152,863** | 197,066 |
| **TOTAL EQUITY** | | **253,763** | 297,966 |

Approved and authorised for issue by the Board of Directors on 19 November 2010

**Leung Yu Oi Ling, Irene**
*Director*

**Leung Yat Tung**
*Director*

The notes on pages 26 to 95 form part of these financial statements.

# Statement of Financial Position

As at 31 July 2010

| | Note | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | **6** | 10 |
| Investments in subsidiaries | 21 | **143,790** | 322,310 |
| | | **143,796** | 322,320 |
| **Current assets** | | | |
| Trade and other receivables | 23 | **496** | 465 |
| Amounts due from subsidiaries | 21 | **149,214** | 48,272 |
| Cash and cash equivalents | 25 | **1,095** | 903 |
| | | **150,805** | 49,640 |
| **Current liabilities** | | | |
| Other payables and accruals | 27 | **5,015** | 2,030 |
| Amounts due to subsidiaries | 21 | **–** | 35,611 |
| Amounts due to related parties | 34(c) | **5** | 10 |
| Amounts due to directors | 34(d) | **162** | 166 |
| | | **5,182** | 37,817 |
| **Net current assets** | | **145,623** | 11,823 |
| **Total assets less current liabilities** | | **289,419** | 334,143 |
| **Non-current liabilities** | | | |
| Loan from a related company | 34(e) | **35,658** | 44,945 |
| **NET ASSETS** | | **253,761** | 289,198 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 29 | **100,900** | 100,900 |
| Reserves | 30 | **152,861** | 188,298 |
| **TOTAL EQUITY** | | **253,761** | 289,198 |

Approved and authorised for issue by the Board of Directors on 19 November 2010

**Leung Yu Oi Ling, Irene**
*Director*

**Leung Yat Tung**
*Director*

The notes on pages 26 to 95 form part of these financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 July 2010

| | Share capital HK$'000 Note 29 | Share premium HK$'000 Note 30(a) | Share option reserve HK$'000 Note 30(e) | Capital redemption reserve HK$'000 Note 30(a) | Exchange fluctuation reserve HK$'000 Note 30(d) | Scheme reserve HK$'000 Note 30(c) | Revaluation reserve HK$'000 (Note 30(f) | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| At 1 August 2008 | 50,450 | 185,810 | – | 1,264 | 5,306 | 1,054,095 | 3,297 | (1,147,578) | 152,644 |
| Issue of shares under rights issue | 50,450 | 126,126 | – | – | – | – | – | – | 176,576 |
| Expenses for rights issue | – | (2,796) | – | – | – | – | – | – | (2,796) |
| Equity settled share based transactions | – | – | 1,330 | – | – | – | – | – | 1,330 |
| Loss for the year | – | – | – | – | – | – | – | (28,237) | (28,237) |
| Exchange realignment arising from translation of foreign operations | – | – | – | – | (5,235) | – | – | – | (5,235) |
| Revaluation surplus on shipyard in Singapore written back | – | – | – | – | – | – | (1,718) | – | (1,718) |
| Revaluation surplus arising from other property, plant and equipment | – | – | – | – | – | – | 5,402 | – | 5,402 |
| Total comprehensive income/(loss) for the year | – | – | – | – | (5,235) | – | 3,684 | (28,237) | (29,788) |
| At 31 July 2009 and 1 August 2009 | 100,900 | 309,140 | 1,330 | 1,264 | 71 | 1,054,095 | 6,981 | (1,175,815) | 297,966 |
| Loss for the year | – | – | – | – | – | – | – | (48,313) | (48,313) |
| Exchange realignment arising from translation of foreign operations | – | – | – | – | 4,110 | – | – | – | 4,110 |
| Total comprehensive income/(loss) for the year | – | – | – | – | 4,110 | – | – | (48,313) | (44,203) |
| At 31 July 2010 | 100,900 | 309,140 | 1,330 | 1,264 | 4,181 | 1,054,095 | 6,981 | (1,224,128) | 253,763 |

The notes on pages 26 to 95 form part of these financial statements.

# Consolidated Statement of Cash Flows

For the year ended 31 July 2010

| | Note | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Loss before taxation | | **(46,928)** | (27,184) |
| Adjustments for: | | | |
| Depreciation and amortisation | | **16,678** | 12,643 |
| Impairment on doubtful debts | | **1,294** | 229 |
| Impairment on port work and structural steel licenses | | **30,912** | – |
| Write-down of inventories | | **2,154** | 1,245 |
| Interest expenses | | **1,721** | 2,277 |
| Interest income | | **(1,055)** | (1,776) |
| Loss/(gain) on disposal of property, plant and equipment | | **20** | (12) |
| Discount on step-up acquisition of interest in an associate | | **–** | (48) |
| Loss on disposal of available for sale financial assets | | **–** | 6 |
| Equity settled share-based payment | | **–** | 1,330 |
| Impairment on leasehold shipyard in Singapore | | **–** | 18,588 |
| Provision for re-instatement cost for leasehold shipyard in Singapore | | **–** | 4,000 |
| Share of profit of an associate | | **(3,834)** | (50) |
| **Operating profit before working capital changes** | | **962** | 11,248 |
| Increase in inventories | | **(5,611)** | (25,780) |
| Increase in trade and other receivables | | **(3,054)** | (3,752) |
| Increase in amounts due from customers for contract work | | **(6,677)** | (6,784) |
| Decrease in amounts due from related parties | | **100** | 47,370 |
| Increase in amount due from an associate | | **(2,991)** | – |
| Increase/(decrease) in trade and other payables | | **7,424** | (2,099) |
| Decrease in amounts due to related parties | | **(950)** | (15,550) |
| (Decrease)/increase in amounts due to directors | | **(34)** | 38 |
| **Cash (used in)/generated from operations** | | **(10,831)** | 4,691 |
| Overseas tax paid | | **(1,386)** | (310) |
| Interest received | | **1,055** | 1,776 |
| **Net cash (used in)/generated from operating activities** | | **(11,162)** | 6,157 |

# Consolidated Statement of Cash Flows

For the year ended 31 July 2010

| | Note | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **Investing activities** | | | |
| Investment in an associate | *20* | **(1,500)** | – |
| Acquisition of subsidiaries | *35* | **–** | (206,910) |
| Net cash inflow from step-up acquisition of interest in an associate | *36* | **–** | 8 |
| Proceeds from disposal of available for sale financial assets | | **–** | 13 |
| Proceeds from disposal of property, plant and equipment | | **627** | 272 |
| Purchase of property, plant and equipment | | **(7,037)** | (5,109) |
| **Net cash used in investing activities** | | **(7,910)** | (211,726) |
| **Financing activities** | | | |
| Proceeds from shares issued under rights issue | | **–** | 176,576 |
| Payment for rights issue expenses | | **–** | (2,796) |
| Repayment of loan from a related party | | **(9,287)** | – |
| Interest paid | | **(1,712)** | (2,259) |
| Loan from a related company | | **–** | 44,945 |
| Interest element on finance lease payments | | **(9)** | (18) |
| Capital element of finance lease payments | | **(82)** | (109) |
| **Net cash (used in)/generated from financing activities** | | **(11,090)** | 216,339 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(30,162)** | 10,770 |
| Cash and cash equivalents at 1 August | | **65,109** | 57,600 |
| Effect of foreign exchange rate changes | | **2,622** | (3,261) |
| **Cash and cash equivalents at 31 July** | | **37,569** | 65,109 |
| **Analysis of balances of cash and cash equivalents** | | | |
| Cash and bank balances | | **37,569** | 61,915 |
| Time deposits (with original maturities less than 3 months) | | **–** | 3,194 |
| | | **37,569** | 65,109 |

The notes on pages 26 to 95 form part of these financial statements.

# Notes to the Financial Statements

For the year ended 31 July 2010

## 1. GENERAL INFORMATION

UDL Holdings Limited ("the Company") was incorporated in Bermuda as an exempted company with limited liability on 31 May 1991 under the Companies Law of Bermuda and has its registered office at the Crawford House, 4th Floor, 50 Cedar Avenue, Hamilton HM11, Bermuda and principal place of business at Room 702, 7 Floor, Aitken Vanson Centre, 61 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are sales of vessels, marine engineering, construction and structural steel engineering and related services.

In the opinion of the directors, the ultimate holding company of the Company is Harbour Front Limited ("Harbour Front") which was incorporated in the British Virgin Islands.

These consolidated financial statements are presented in thousands of units of Hong Kong dollars ("HK$"), which is the functional currency of the Company.

## 2. PRINCIPAL ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

# Notes to the Financial Statements

For the year ended 31 July 2010

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

### (b) Application of new and revised HKFRSs

In the current year, the Group has applied the following new and revised Standards, Amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA.

| | |
|---|---|
| HKAS 1 (revised 2007) | Presentation of financial statements |
| HKAS 23 (revised 2007) | Borrowing costs |
| HKAS 27 (amendments) | Consolidated and separate financial statements |
| HKAS 32 & HKAS 1 (amendments) | Puttable financial instruments and obligations arising on liquidation |
| HKAS 39 (amendment) | Financial instruments: Recognition and measurement-eligible hedged items |
| HKFRS 1 & HKAS 27 (amendments) | Cost of an investment in a subsidiary, jointly controlled entity or associate |
| HKFRS 2 (amendment) | Share-base payments-vesting conditions and cancellations |
| HKFRS 3 (revised) | Business combinations |
| HKFRS 7 (amendment) | Improving disclosures about financial instruments |
| HKFRS 8 | Operating segments |
| HKFRSs (amendments) | Improvements to HKFRSs issued in 2008 |
| HK(IFRIC)-Int 9 & HKAS 39 (amendments) | Embedded derivatives |
| HK(IFRIC)-Int 15 | Agreements for the construction of real estate |
| HK(IFRIC)-Int 16 | Hedges of a net investment in a foreign operation |
| HK(IFRIC)-Int 17 | Distribution of non-cash assets to owners |
| HK(IFRIC)-Int 18 | Transfers of assets from customers |

The improvements to HKFRSs (2008), amendments to HKAS 23, HKAS 39, HKFRS 2, HKFRS 7 and HKFRS 8 and interpretations HK(IFRIC)-Int 15, HK(IFRIC)-Int 16 and HK(IFRIC)-Int 18 have had no material impact on the Group's financial statements as the amendments were consistent with policies already adopted by the Group or they are not relevant to the Group's and the Company's operations. The other developments resulted in changes in accounting policy and the impact of the remainder of these developments is as follows:

– As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

# Notes to the Financial Statements

For the year ended 31 July 2010

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

### (b) Application of new and revised HKFRSs *(Continued)*

- HKFRS 8 requires segment disclosure to be based on the way the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group' chief operating decision maker for the purposes of assessing segment performance and making decisions about reporting matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related services and on geographical areas. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management. Corresponding amounts have been provided on a basis consistent with the revised segment information.

- The impact of the majority of the revisions to HKFRS 3, HKAS 27 and HK(IFRIC) – Int 17 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.

- The impact of the amendments to HKFRS 3 (in respect of recognition of acquiree's deferred tax assets) and HKAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

Further details of these changes in accounting policy are as follows:

- As a result of the adoption of HKFRS 3 (revised 2008), transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.

- If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

# Notes to the Financial Statements

For the year ended 31 July 2010

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

### (b) Application of new and revised HKFRSs *(Continued)*

– Contingent consideration will be measured at fair value at the acquisition date. Any subsequent changes in the measurement of that contingent consideration will be recognised in profit or loss, unless they arise from obtaining additional information about facts and circumstances that existed at the acquisition date within 12 months from the date of acquisition (in which case they will be recognised as an adjustment to the cost of the business combination). Previously, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably. All subsequent changes in the measurement of contingent consideration and from its settlement were previously recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.

– If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.

– In addition to the Group's existing policy of measuring the non-controlling interests (previously known as the "minority interests") in the acquisition at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the Group may elect, on a transaction by transaction basis, to measure then non-controlling interests at fair values.

In accordance with the transitional provisions in HKFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations. No adjustments have been made to the carrying amounts of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

– HK(IFRIC)-Int 17 requires distributions of non-cash assets to owners to be measured at the fair value of the assets distributed. This will result in a gain or loss being recognised in profit or loss to the extent that the fair value of the assets is different from their carrying amount. Previously the Group measured such distributions at the carrying amount of the assets distributed. In accordance with the transitional provisions in HK(IFRIC)-Int 17, this new accounting policy will be applied prospectively to distributions in current or future periods and therefore previous periods have not been restated.

# Notes to the Financial Statements

For the year ended 31 July 2010

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

### (b) Application of new and revised HKFRSs *(Continued)*

– As a result of the amendments to HKAS 27, as from 1 August 2009 any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in HKAS 27, this new accounting policy is being applied prospectively and therefore previous periods have not been restated.

The Group has not early applied any of the following new and revised Standards, Amendments and Interpretations which have been issued but are not yet effective for annual periods beginning on 1 August 2009:

| | |
|---|---|
| HKFRSs (amendments) | Amendments to HKAS 1, HKAS 7, HKAS 17, HKAS 36, HKAK 39, HKFRS 5 and HKFRS 8 as part of improvements to HKFRSs 2009[1] |
| HKFRSs (amendments) | Improvements to HKFRSs 2010[2] |
| HKAS 24 (revised) | Related party disclosures[5] |
| HKAS 32 (amendment) | Classification of rights issues[3] |
| HKFRS 1 (amendment) | Additional exemptions for first-time adopters[1] |
| HKFRS 1 (amendment) | Limited exemption from comparative HKFRS 7 disclosures for first-time adopters[4] |
| HKFRS 2 (amendment) | Group cash-settled share-based payment transactions[1] |
| HKFRS 9 | Financial instruments[6] |
| HK(IFRIC) – Int 14 (amendment) | Prepayments of a minimum funding requirement[5] |
| HK(IFRIC) – Int 19 | Extinguishing financial liabilities with equity instruments[4] |

1 Effective for annual periods beginning on or after 1 January 2010

2 Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010 as appropriate

3 Effective for annual periods beginning on or after 1 February 2010

4 Effective for annual periods beginning on or after 1 July 2010

5 Effective for transfers on or after 1 January 2011

6 Effective for transfers on or after 1 January 2013

The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the financial statements.

# Notes to the Financial Statements

For the year ended 31 July 2010

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

### (c) Basis of preparation of the financial statements

The financial statements have been prepared under the historical cost convention except for the floating crafts and vessels and leasehold buildings which are stated at fair value.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 4.

### (d) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment losses (see note 2 (j)(ii)).

### (e) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control over its management, including participation in the financial and operating policy decisions.

# Notes to the Financial Statements

For the year ended 31 July 2010

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

### (e) Associates *(Continued)*

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale. Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the associate and any impairment loss relating to the investment (see note 2(j)(ii)). The Group's share of the post-acquisition, post-tax results of the associate and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the associates' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the Company's statement of financial position, investments in associates are stated at cost less impairment losses (see note 2 (j)(ii)).

### (f) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised directly in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a subsidiary with functional currency other than Hong Kong dollars, the cumulative amount of the exchange differences relating to that subsidiary is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

# Notes to the Financial Statements

For the year ended 31 July 2010

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

### (g) Property, plant and equipment

Property, plant and equipment, other than the leasehold buildings and floating craft and vessels, are stated at cost less accumulated depreciation and impairment losses.

Leasehold buildings and floating craft and vessels are stated at their revalued amount, being their fair 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 end of the reporting period.

Changes arising on the revaluation of leasehold buildings and floating craft and vessels are generally dealt with in other comprehensive income and are accumulated separately in equity in the revaluation reserve. The only exceptions are as follows:

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

– when a surplus arises on revaluation, it will be credited to profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to profit or loss.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to profit or loss.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

| | |
|---|---|
| Leasehold shipyard and buildings outside Hong Kong, in Singapore | Over the unexpired term of the lease |
| Leasehold shipyard and buildings outside Hong Kong, in the PRC | 20 years or over the lease term whichever is shorter |
| Leasehold improvements | $33^1/_3$ % |
| 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% |

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonableness basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

# Notes to the Financial Statements

For the year ended 31 July 2010

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

### (h) Intangible assets

Intangible assets represent port work and structural steel engineering work licences acquired through business combinations at fair value. After initial recognition, intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of asset and are recognised in the profit or loss when the asset is derecognised.

### (i) Lease prepayments

Lease prepayments represent payments made to acquire leasehold land. Lease prepayments are carried at cost less accumulated amortisation and impairment losses (see note (2)(j)(ii)). Amortisation is charged to profit or loss on a straight-line basis over the lease term, except when an alternative basis is more representative of the pattern of benefits to be derived from the leasehold land.

### (j) Impairment of assets

*(i) Impairment of trade and other receivables*

Trade and other receivables that are initially stated at fair value and thereafter stated at amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investments in associates recognised using the equity method (see note (2)(e)), the impairment loss is measured by comparing the recoverable amount of the recoverable amount of the investment as a whole with its carrying amount in accordance with note 2(j)(ii). The impairment is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(j)(ii).

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

### (j) Impairment of assets *(Continued)*

*(i) Impairment of trade and other receivables (Continued)*

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

– For other current receivables and other financial assets carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated recoverable amount.

If in a subsequent period, the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and other debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

*(ii) Impairment of other assets*

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;
– lease prepayments;
– intangible assets; and
– investments in subsidiaries and associate.

# Notes to the Financial Statements

For the year ended 31 July 2010

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

### (j) Impairment of assets *(Continued)*

*(ii) Impairment of other assets (Continued)*

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying amount of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

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

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

### (k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 2(j)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

# Notes to the Financial Statements

For the year ended 31 July 2010

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

### (l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. 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 statement of cash flows.

### (m) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (n) Construction contracts

Construction contracts are contracts specifically negotiated with a customer for the construction of an asset or a group of assets, where the customer is able to specify the major structural elements of the design. The accounting policy for contract revenue is set out in note 2(v)(i). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion at the date of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the end of the reporting period are recorded in the statement of financial position at the net amounts of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the statement of financial position as the "Amount due from customers for contract work" (as an asset), or the "Amount due to customers for contract work") (as a liability), as applicable. Progress billings not yet paid by the customer are included in the statement of financial position under "Trade debtors and other receivables". Amounts received before the related work is performed are included in the statement of financial position, as a liability, as "Advances received".

### (o) Inventories

Inventories, which represent the vessels held for sale, are stated at the lower of cost and net realisable value. Cost comprises the direct costs of merchandise and charges that incurred in bringing the inventories to their present location and condition. Net realisable value is the  estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

# Notes to the Financial Statements

For the year ended 31 July 2010

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

### (o) Inventories *(Continued)*

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### (p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

### (q) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceased when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

### (r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing and amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. When the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

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

### (s) Employee benefits

*(i) Short-term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

*(ii) Defined contribution pension plan obligations*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administrated fund. The Group's contributions vest fully with the employees when contributed into the MPF Scheme.

*(iii) Share-based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a share option reserve within equity. The fair value is measured at grant date after taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

*(iv) Termination benefits*

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

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

### (t) Income tax

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 profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

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 purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, 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. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary differences or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

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

### (t) Income tax *(Continued)*

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits 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 profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

### (u) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

*(i) Classification of assets leased to the Group*

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases except for land held for own use under operating leases.

# Notes to the Financial Statements

For the year ended 31 July 2010

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

### (u) Leased assets *(Continued)*

*(ii) Assets acquired under finance leases*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 2(g). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(j)(ii). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

*(iii) Operating lease charges*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting period covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease-incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

### (v) Recognition of revenue

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Revenue from marine engineering and construction and structural steel engineering contracts is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract. When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

(ii) Revenue from sale of vessels is recognised when the vessel is delivered and title has passed.

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

(iv) Interest income is recognised as it accrues using the effective interest method.

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

### (w) Related parties

For the purpose of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of the key management personnel of the Group or its parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of any individual referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

### (x) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

# Notes to the Financial Statements

For the year ended 31 July 2010

## 3. FINANCIAL RISK MANAGEMENT

Exposure to credit, liquidity, interest rate and currency risk arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

### (a) Credit risk

The Group's credit risk is primarily attributable to trade receivables and deposits with banks. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Trade receivables are presented net of the allowance for impairment of doubtful debts. Credit risks and exposures are controlled and monitored on an ongoing basis by performing credit evaluation on customers on case-by-case basis. These evaluations focus on the customers' past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are normally due within 120 days to 150 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk arising from trade receivables is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers.

At the end of the reporting period, the Group has a certain concentration of credit risk arising from trade receivables as 16% (2009: 44%) and 28% (2009: 82%) of the total receivables were due from the Group's largest customer and the five largest customers as at 31 July 2010.

The Group's bank deposits are placed with major financial institutions and the Group considers the credit risk to be insignificant. At the end of the reporting period, the Group has a certain concentration of credit risk arising from deposits with banks as 93 % of total cash and cash equivalents were deposited at one financial institution in Singapore (2009: 5%).

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance.

The Group does not provide any guarantees which would expose the Group to credit risk.

# Notes to the Financial Statements

For the year ended 31 July 2010

## 3. FINANCIAL RISK MANAGEMENT *(Continued)*

### (b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short-term investment of cash surpluses and the raising of loans from a related company to cover expected cash requirements, subject to the approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the end of the reporting period of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group and the Company can be required to pay.

**The Group**

| | **2010** | | | | |
|---|---|---|---|---|---|
| | **Carrying amount** *HK$'000* | **Total contractual undiscounted cash flow** *HK$'000* | **Within 1 year or on demand** *HK$'000* | **More than 1 year but less than 2 years** *HK$'000* | **More than 2 years but less than 5 years** *HK$'000* |
| Trade and other payables | **28,721** | **28,721** | **28,721** | **–** | **–** |
| Obligations under finance leases | **52** | **54** | **54** | **–** | **–** |
| Amounts due to related parties | **3,652** | **3,652** | **3,652** | **–** | **–** |
| Amounts due to directors | **180** | **180** | **180** | **–** | **–** |
| Loan from a related company | **35,658** | **38,778** | **1,783** | **36,995** | **–** |
| | **68,263** | **71,385** | **34,390** | **36,995** | **–** |

| | 2009 | | | | |
|---|---|---|---|---|---|
| | Carrying amount *HK$'000* | Total contractual undiscounted cash flow *HK$'000* | Within 1 year or on demand *HK$'000* | More than 1 year but less than 2 years *HK$'000* | More than 2 years but less than 5 years *HK$'000* |
| Trade and other payables | 21,297 | 21,297 | 21,297 | – | – |
| Obligations under finance leases | 134 | 145 | 91 | 54 | – |
| Amounts due to related parties | 4,602 | 4,602 | 4,602 | – | – |
| Amounts due to directors | 214 | 214 | 214 | – | – |
| Loan from a related company | 44,945 | 51,125 | 2,247 | 2,247 | 46,631 |
| | 71,192 | 77,383 | 28,451 | 2,301 | 46,631 |

# Notes to the Financial Statements

For the year ended 31 July 2010

## 3. FINANCIAL RISK MANAGEMENT *(Continued)*

### (b) Liquidity risk *(Continued)*

**The Company**

| | 2010 | | | | |
|---|---|---|---|---|---|
| | Carrying amount *HK$'000* | Total contractual undiscounted cash flow *HK$'000* | Within 1 year or on demand *HK$'000* | More than 1 year but less than 2 years *HK$'000* | More than 2 years but less than 5 years *HK$'000* |
| Trade and other payables | **5,015** | **5,015** | **5,015** | **–** | **–** |
| Amounts due to related parties | **5** | **5** | **5** | **–** | **–** |
| Amounts due to directors | **162** | **162** | **162** | **–** | **–** |
| Loan from a related company | **35,658** | **38,778** | **1,783** | **36,995** | **–** |
| | **40,840** | **43,960** | **6,965** | **36,995** | **–** |

| | 2009 | | | | |
|---|---|---|---|---|---|
| | Carrying amount *HK$'000* | Total contractual undiscounted cash flow *HK$'000* | Within 1 year or on demand *HK$'000* | More than 1 year but less than 2 years *HK$'000* | More than 2 years but less than 5 years *HK$'000* |
| Trade and other payables | 2,030 | 2,030 | 2,030 | – | – |
| Amounts due to related parties | 10 | 10 | 10 | – | – |
| Amounts due to subsidiaries | 35,611 | 35,611 | 35,611 | – | – |
| Amounts due to directors | 166 | 166 | 166 | – | – |
| Loan from a related company | 44,945 | 51,125 | 2,247 | 2,247 | 46,631 |
| | 82,762 | 88,942 | 40,064 | 2,247 | 46,631 |

### (c) Interest rate risk

The Group and the Company are exposed to cash flow interest rate risk through the impact of rate of changes on interest-bearing financial assets which are mainly short term bank deposits at market rates and on loan from a related company which bears interest at prevailing prime rates offered by The Hong Kong and Shanghai Banking Corporation Limited.

At 31 July 2010, it is estimated that a general increase/decrease of 100 basis points in interest rate, with all other variable were held constant, would increase/decrease the Group's loss after tax by approximately HK$19,000 (2009: HK$202,000).

The sensitive analysis above has been determined assuming that the change in interest rate had occurred at the end of the reporting period and had been applied to the exposure to interest rate or all non-derivative financial instruments in existence at that date. The analysis is performed on the same basis for 2009.

# Notes to the Financial Statements

For the year ended 31 July 2010

## 3. FINANCIAL RISK MANAGEMENT *(Continued)*

**(d) Currency risk**

The Group does not have a significant currency risk exposure arising from its sales and purchases transactions as these transactions are mainly carried out in the Group's entities' own functional currencies. Accordingly, no sensitivity analysis has been prepared.

**(e) Reliance on major customers**

For the year ended 31 July 2010, the largest and the five largest customers of the Group in aggregate approximately 33% (2009: 52%) and 71% (2009: 89%) respectively of the Group's total turnover, evidencing a significant reliance on the Group's largest customer for the year ended 31 July 2010. During the years ended 31 July 2010 and 2009, the Group had not encountered any material disruption of sales.

**(f) Fair values**

All financial instruments are carried out at amounts not materially different from their fair values as at 31 July 2010 and 2009.

**(g) Estimation of fair values**

*(i) Finance lease liabilities*

The fair value is estimated as the present value of future cash flows, discounted at current market interest rate for similar financial instruments.

*(ii) Interest rate used for determining fair value*

| | **2010** | 2009 |
|---|---|---|
| The market interest rate adopted for: | | |
| – Loan from a related company | **5%** | 5% |

## 4. ACCOUNTING ESTIMATES AND JUDGEMENTS

**Key sources of estimation uncertainty**

The Group makes estimates and assumptions about the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

**(a) Estimates of fair value of floating crafts and vessels**

The best estimate of fair value is current prices in an active market for similar asset and other contracts. In the absence of such information, the Group determines the amount with a range of reasonable fair value estimates. In making its judgement, the Group considers information from a variety of sources including:

- current prices in an active market for vessels of different nature, condition or location, adjusted to reflect those differences; and
- recent prices of similar vessels in less active markets, with adjustments to reflect any changes in economic conditions that occurred since the date of the transactions.

## 4. ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

**(b) Valuation of leasehold buildings**

As described in note 16, leasehold buildings are stated at fair value based on the valuation performed by an independent firm of professional valuers. In determining the fair value, the valuers have based on a method of valuation which involves, inter-alia, certain estimates including the condition of the property, the sales evidence available for similar properties and existing rent receivable. In relying on the valuation report, the management has exercised their judgment and are satisfied that the method of valuation is reflective of the current market condition.

**(c) Recognition of deferred tax assets**

Recognition of deferred tax assets, which principally relates to deductible temporary differences and tax losses, depends on whether it is probable that future taxable profits or taxable temporary differences will be available against which deferred tax assets can be utilised. In cases where the actual future taxable profits or taxable temporary differences generated are less than expected, a reversal of deferred tax assets may arise, which will be recognised in profit or loss for the period in which such a reversal takes place.

**(d) Impairment of property, plant and equipment, lease prepayments and intangible assets**

The Group assesses annually whether property, plant and equipment, lease prepayments and intangible assets have any indications of impairment in accordance with the relevant accounting policies. If such indication exists, the recoverable amounts of the assets would be determined by reference to value in use and net selling price. Value in use is determined using the discounted cash flow method. Owing to inherent risks associated with estimations in the timing and magnitude of the future cash flows and net selling prices, the estimated recoverable amount of the assets may be different from its actual recoverable amount and profit or loss could be affected by the accuracy of the estimations.

**(e) Impairment of trade and other receivables**

If circumstances indicate that the carrying amount of trade and other receivables may not be recoverable, an impairment loss may be recognised. The carrying amount of trade receivables is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. The Group estimates the future cash flows from the trade and other receivables with reference to the age of the trade receivable, debtors' credit-worthiness and repayment history.

**(f) Write-down of inventories**

The Group reviews the carrying amounts of the inventories at the end of each reporting period to determine whether the inventories are carried at the lower of cost and net realiseable value in accordance with the accounting policy as set out in note 2(o). Management estimates the net realizable value based on current market situation and historical experience on similar inventories. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down made in prior years and affect the Group's net asset value.

# Notes to the Financial Statements

For the year ended 31 July 2010

## 4. ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

**(g) Construction contract revenue recognition**

According to the accounting policies of construction contracts as stated in note 2(n), the Group uses the percentage of completion method to determine the appropriate revenue to be recognised in a given period. The stage of completion is measured by the total amount of work done certified by customers over total estimated contract sum.

Upon applying the percentage of completion method, the Group needs to estimate the gross profit margin of each construction contract, which was determined based on the estimated total contract costs and total contract sum, including variation orders and claims agreed in writing. If the actual gross profit margin of the contract differs from the management's estimates, the contract revenue to be recognised within the next accounting period will be adjusted accordingly.

**(h) Depreciation**

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives. The Group reviews the estimated useful lives and residual values of the assets annually in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

**(i) Outstanding litigations**

As detailed in note 33, the Group had contingent liabilities in respect of a number of legal proceedings in Hong Kong and Bermuda. The directors are of the opinion, after having sought the legal advice from the Company's legal counsels, that the claims can be successfully defended. As a result, no provision has been made in the financial statements.

**(j) Lease for shipyard – Singapore**

The existing lease of the shipyard in Singapore (note 16(c)) is due to expire in December 2010, and the Singapore shipyard had been fully written off. Re-instatement cost of approximately of HK$4,000,000 has also been provided based on the best estimates of the management for those re-instatement costs to be carried out upon expiration of the existing lease.

# Notes to the Financial Statements

For the year ended 31 July 2010

## 5. TURNOVER AND REVENUE

The Group's turnover represents revenue derived from sale of vessels, marine engineering work, construction and structural steel engineering work and related services. Revenue recognised during the year is as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Revenue from marine engineering work | **94,849** | 106,963 |
| Revenue from sale of vessels | **5,020** | – |
| Revenue from construction and structural steel engineering work | **14,383** | 10,473 |
| | **114,252** | 117,436 |

## 6. SEGMENT INFORMATION

The Group manages its businesses by divisions, which are organised by business line. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purpose of resource allocation and performance assessment, the Group has presented the following three reportable segments. The adoption of HKFRS 8 had no material effect on the presentation of segment information nor basis of measurement of segment profit or loss. No operating segments have been aggregated to form the following reportable segments.

– Marine engineering
– Construction and structural steel engineering
– Sale of vessels

### (a) Segment results, assets and liabilities

For the purpose of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of interest in an associate and other corporate assets. Segment liabilities include trade and other payables attributable to the individual segment.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and expenses incurred by those segments or which would otherwise arise from the depreciation or amortisation of assets attributable to those segments.

# Notes to the Financial Statements

For the year ended 31 July 2010

## 6. SEGMENT INFORMATION *(Continued)*

### (a) Segment results, assets and liabilities *(Continued)*

Information regarding the Group's reportable segments as provided by the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 July 2010 and 2009 is set out below.

| | Marine engineering | | Construction and structural steel engineering | | Sale of vessels | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$000* | ***HK$'000*** | *HK$000* |
| Reportable segment revenue: | | | | | | | | |
| Revenue from external customers | **94,849** | 106,963 | **14,383** | 10,473 | **5,020** | – | **114,252** | 117,436 |
| Reportable segment results | **9,179** | (14,966) | **(37,126)** | (1,641) | **717** | – | **(27,230)** | (16,607) |
| Unallocated head office and corporate gains and income | | | | | | | **2,226** | 3,853 |
| Unallocated head office and corporate expenses | | | | | | | **(20,203)** | (12,153) |
| Finance costs | | | | | | | **(1,721)** | (2,277) |
| Loss before taxation | | | | | | | **(46,928)** | (27,184) |
| Income tax | | | | | | | **(1,385)** | (1,053) |
| Loss attributable to owners of the Company | | | | | | | **(48,313)** | (28,237) |
| ASSETS | | | | | | | | |
| Reportable segment assets | **108,400** | 128,168 | **134,970** | 166,572 | **73,643** | 69,657 | **317,013** | 364,397 |
| Unallocated head office and corporate assets | | – | | – | | – | **6,873** | 6,622 |
| Total consolidated assets | | | | | | | **323,886** | 371,019 |
| LIABILITIES | | | | | | | | |
| Reportable segment liabilities | **60,527** | 63,666 | **7,322** | 8,339 | **2,248** | 1,021 | **70,097** | 73,026 |
| Unallocated head office and corporate liabilities | **–** | – | **–** | – | **–** | – | **26** | 27 |
| Total consolidated liabilities | | | | | | | **70,123** | 73,053 |
| OTHER INFORMATION | | | | | | | | |
| Capital expenditure incurred during the year | **638** | 40,331 | **4,554** | 157,758 | **1,845** | 565 | **7,037** | 198,654 |
| Depreciation and amortisation | **9,276** | 4,731 | **6,374** | 6,387 | **1,028** | 1,525 | **16,678** | 12,643 |
| Provision for re-instatement cost for leasehold shipyard in Singapore | **–** | 4,000 | **–** | – | **–** | – | **–** | 4,000 |
| Impairment on leasehold shipyard in Singapore | **–** | 18,588 | **–** | – | **–** | – | **–** | 18,588 |
| Impairment on port works and structural steel licenses | **–** | – | **30,912** | – | **–** | – | **30,912** | – |
| Write-down of inventories | **–** | – | **–** | – | **2,154** | 1,245 | **2,154** | 1,245 |
| Impairment loss on doubtful debts | **1,108** | – | **186** | 229 | **–** | – | **1,294** | 229 |
| Share of results of an associate | | | | | | | | |
| – Marine engineering | **3,834** | – | **–** | – | **–** | – | **3,834** | – |
| – Other | **–** | – | **–** | – | **–** | – | **–** | 50 |

# Notes to the Financial Statements

For the year ended 31 July 2010

## 6. SEGMENT INFORMATION *(Continued)*

### (b) Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, lease prepayments, intangible assets ("specified non-current assets"). The geographical location of customers is based on the location at which services were provided. The geographical location of the specified non-current assets is based on the physical location of the asset.

| | Hong Kong | | Singapore | | PRC | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$000* | ***HK$'000*** | *HK$000* |
| Revenue from external customers | **35,535** | 25,751 | **76,963** | 89,110 | **1,754** | 2,575 | **114,252** | 117,436 |
| Specified non-current assets | **35,309** | 59,558 | **747** | 6,312 | **132,188** | 136,772 | **168,244** | 202,642 |

### (c) Information about major customers

Revenue from customers contributing 10% or more of the total sales of the Group is as follows:

| | **2010** ***HK$'000*** | 2009 *HK$'000* |
|---|---|---|
| Revenue from marine engineering work: | | |
| – Customer A | **26,917** | 52,708 |
| – Customer B | **19,550** | 20,536 |
| – Customer C | **17,479** | – |
| | **63,946** | 73,244 |

# Notes to the Financial Statements

For the year ended 31 July 2010

## 7. OTHER REVENUE AND NET INCOME

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Other revenue:** | | |
| Interest income | **1,055** | 1,776 |
| Total interest income on financial assets not at fair value through profit or loss | **1,055** | 1,776 |
| **Other net income:** | | |
| Net exchange gain | **–** | 1,960 |
| Gain on disposal of plant and equipment | **–** | 12 |
| Scrap sales | **871** | – |
| Others | **300** | 7 |
| | **1,171** | 1,979 |
| | **2,226** | 3,755 |

## 8. FINANCE COSTS

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest on loan from a related company | **1,712** | 2,259 |
| Interest on finance leases | **9** | 18 |
| Total interest expense on financial liabilities not at fair value through profit or loss | **1,721** | 2,277 |

# Notes to the Financial Statements

For the year ended 31 July 2010

## 9. LOSS BEFORE TAXATION

Loss before taxation has been arrived at after charging:

| | | 2010 | 2009 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| (a) | Staff costs | | |
| | Salaries, wages and other benefits | **22,082** | 16,968 |
| | Equity settled share-base expenses | **–** | 1,330 |
| | Contributions to defined contribution retirement plans | **430** | 556 |
| | | **22,512** | 18,854 |
| (b) | Marine, construction and structural steel engineering costs | | |
| | Subcontracting, direct engineering and material costs | **65,224** | 73,385 |
| | Cost of vessels | **4,303** | – |
| | Rental charges | **3,396** | 3,185 |
| | Plant and operational costs | **1,219** | 1,219 |
| | Direct overheads | **179** | 1,067 |
| | Repairs, maintenance and vessel security | **409** | 918 |
| | Consultancy fees | **484** | 184 |
| | | **75,214** | 79,958 |
| (c) | Depreciation and amortisation | | |
| | Depreciation | **14,712** | 10,682 |
| | Amortisation of lease prepayments | **1,966** | 1,961 |
| | | **16,678** | 12,643 |
| (d) | Other items | | |
| | Auditor's remuneration | | |
| | – Audit service | **752** | 843 |
| | Operating lease charges in respect of land and building | **5,112** | 11,095 |
| | Impairment on doubtful debts | **1,294** | 229 |
| | Write-down of inventories | **2,154** | 1,245 |

# Notes to the Financial Statements

For the year ended 31 July 2010

## 10. INCOME TAX

(a) Income tax in the consolidated income statement represents:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current tax-overseas | | |
| Provision for the year | **1,385** | 1,053 |
| Deferred taxation *(note 28)* | **–** | – |
| | **1,385** | 1,053 |

Pursuant to the rules and regulations of Bermuda, the Company is not subject to any income tax in Bermuda.

No provision has been made for Hong Kong Profit Tax as the Group did not derive any assessable profits subject to Hong Kong Profits Tax during both years.

Singapore income tax has been provided at the rate of 17% (2009: 17%) on the estimated assessable profit for the year.

Pursuant to the income tax rules and regulations in the PRC, provision for PRC corporate income tax is calculated based on a statutory rate of 25% (2009: 25%) of the assessable profits of the PRC subsidiaries. No provision for PRC corporate income tax has been made as the Group's PRC subsidiaries did not generate any assessable profits during both years.

(b) Reconciliation between tax expense and accounting loss at applicable tax rates:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Loss before income tax | **(46,928)** | (27,184) |
| Notional tax on loss before income tax, calculated at the rates applicable in the tax jurisdiction concerned | **(8,253)** | (5,209) |
| Tax effect of non-deductible expenses | **6,472** | 5,838 |
| Tax effect of non-taxable income | **(831)** | (634) |
| Tax effect of temporary difference in depreciation between accounting and tax losses | **187** | (108) |
| Tax effect of group relief | **–** | (39) |
| Tax effect of tax losses ultilised | **(615)** | (794) |
| Tax effect of unused tax losses not recognised | **4,425** | 1,999 |
| Actual tax charge | **1,385** | 1,053 |

The share of tax attributable to associate amounting to HK$757,000 (2009: HK$ Nil) is included in "Share of profit of an associate" in the consolidated income statement.

# Notes to the Financial Statements

For the year ended 31 July 2010

## 11. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Fees | Salary, allowances and benefits in kind | Discretionary bonuses | Share-based payments | Retirement benefit scheme contributions | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Executive Directors** | | | | | | |
| Leung Yat Tung | – | 2,604 | – | – | 12 | 2,616 |
| Leung Yu Oi Ling, Irene | – | 1,244 | – | – | 12 | 1,256 |
| Leung Chi Yin, Gillian | – | 780 | – | – | 12 | 792 |
| Leung Chi Hong, Jerry | – | 590 | – | – | 12 | 602 |
| **Independent non-executive Directors** | | | | | | |
| Pao Ping Wing, *JP* | 130 | – | – | – | – | 130 |
| Yuen Ming Fai | 120 | – | – | – | – | 120 |
| Tse Mei Ha | 120 | – | – | – | – | 120 |
| | 370 | 5,218 | – | – | 48 | 5,636 |

# Notes to the Financial Statements

For the year ended 31 July 2010

## 11. DIRECTORS' REMUNERATION *(Continued)*

2009

| | Fees | Salary, allowances and benefits in kind | Discretionary bonuses | Share-based payments | Retirement benefit scheme contributions | Total |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Executive Directors** | | | | | | |
| Leung Yat Tung | – | 2,456 | – | 1,330 | 12 | 3,798 |
| Leung Yu Oi Ling, Irene | – | 1,138 | – | – | 12 | 1,150 |
| Leung Chi Yin, Gillian | – | 676 | – | – | 12 | 688 |
| Leung Chi Hong, Jerry | – | 363 | – | – | 12 | 375 |
| **Independent non-executive Directors** | | | | | | |
| Pao Ping Wing, *JP* | 130 | – | – | – | – | 130 |
| Yuen Ming Fai | 120 | – | – | – | – | 120 |
| Tse Mei Ha | 140 | – | – | – | – | 140 |
| | 390 | 4,633 | – | 1,330 | 48 | 6,401 |

During the years ended 31 July 2010 and 2009, no amounts were paid or payable by the Group to any directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any remuneration during both years.

## 12. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four individuals (2009: four) were executive directors whose remuneration is disclosed in note 11 above. The emoluments in respect of the remaining one (2009: one) individual are as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries and other benefits | **1,230** | 1,212 |

The emoluments of the remaining individual is within the following band:

| **Emoluments bands** | **Number of individual** | |
|---|---|---|
| | **2010** | 2009 |
| HK$ Nil – HK$ 1,000,000 | **–** | – |
| HK$1,000,001 – HK$ 1,500,000 | **1** | 1 |

# Notes to the Financial Statements

For the year ended 31 July 2010

## 13. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the Company includes a loss of HK$35,437,000 (2009: loss of HK$11,559,000) which has been dealt with in the financial statements of the Company.

## 14. LOSS PER SHARE

### (a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to equity holders of the Company of HK$48,313,000 (2009: loss of HK$28,237,000) and the weighted average number of 10,090,067,478 (2009: 9,081,060,730) ordinary shares in issue during the year, calculated as follows:

**Weighted average number of ordinary shares**

| | **2010** | 2009 |
|---|---:|---:|
| Issued ordinary shares | **10,090,067,478** | 5,045,033,739 |
| Effect of rights issue | **–** | 4,036,026,991 |
| Weighted average number of ordinary shares | **10,090,067,478** | 9,081,060,730 |

### (b) Diluted loss per share

The Company had no dilutive potential ordinary shares in existence during the years ended 31 July 2010 and 2009 since the Company's share options are anti-dilutive. Therefore, the diluted loss per share is the same as the basic loss per share for both years.

The rights issue in 2009 did not give rise to a bonus element as the exercise price was higher than the average market price.

## 15. DIVIDENDS

No dividend has been paid or declared by the Company for both years.

# Notes to the Financial Statements

For the year ended 31 July 2010

## 16. PROPERTY, PLANT AND EQUIPMENT

### The Group

| | Shipyard and leasehold buildings HK$'000 | Leasehold improvements HK$'000 | Floating craft and vessels HK$'000 | Furniture, fixtures and office equipment HK$'000 | Plant, machinery and workshop equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | | |
| At 1 August 2008 | 25,669 | 376 | 5,740 | 2,043 | 3,246 | 317 | 37,391 |
| Acquisition of subsidiaries | 60,501 | – | 29,250 | 163 | 11,180 | 480 | 101,574 |
| Additions | – | – | 1,713 | 1,356 | 1,230 | 809 | 5,108 |
| Surplus on revaluation written back | (1,718) | – | – | – | – | – | (1,718) |
| Surplus on revaluation | 1,645 | – | 3,757 | – | – | – | 5,402 |
| Disposal | – | – | – | (66) | (40) | (231) | (337) |
| Elimination of depreciation on revaluation | (21,302) | – | (3,910) | – | – | – | (25,212) |
| Exchange realignments | (1,837) | – | – | (109) | (81) | (8) | (2,035) |
| At 31 July 2009 | 62,958 | 376 | 36,550 | 3,387 | 15,535 | 1,367 | 120,173 |
| Representing: | | | | | | | |
| Cost | – | 376 | – | 3,387 | 15,535 | 1,367 | 20,665 |
| Valuation -2009 | 58,758 | – | 36,550 | – | – | – | 95,308 |
| At director's valuation -2009 | 4,200 | – | – | – | – | – | 4,200 |
| | 62,958 | 376 | 36,550 | 3,387 | 15,535 | 1,367 | 120,173 |
| At 1 August 2009 | | | | | | | |
| Acquisition of subsidiaries | – | – | – | – | – | – | – |
| Additions | – | 396 | 6,359 | 126 | 156 | – | 7,037 |
| Disposals | – | – | – | (2,641) | – | (84) | (2,725) |
| Exchange realignments | 620 | – | – | 185 | 194 | 18 | 1,017 |
| At 31 July 2010 | 63,578 | 772 | 42,909 | 1,057 | 15,885 | 1,301 | 125,502 |
| Representing: | | | | | | | |
| Cost | – | 772 | 6,359 | 1,057 | 15,885 | 1,301 | 25,374 |
| Valuation -2009 | 59,378 | – | 36,550 | – | – | – | 95,928 |
| At director's valuation -2009 | 4,200 | – | – | – | – | – | 4,200 |
| | 63,578 | 772 | 42,909 | 1,057 | 15,885 | 1,301 | 125,502 |
| **Accumulated depreciation and impairment** | | | | | | | |
| At 1 August 2008 | – | 18 | – | 1,036 | 1,453 | 132 | 2,639 |
| Charge for the year | 3,015 | 37 | 3,910 | 969 | 2,454 | 297 | 10,682 |
| Written back on disposal | – | – | – | – | – | (78) | (78) |
| Impairment for the year *(note 16(d))* | 18,588 | – | – | – | – | – | 18,588 |
| Elimination on revaluation | (21,302) | – | (3,910) | – | – | – | (25,212) |
| Exchange realignments | (301) | – | – | (88) | (17) | (2) | (408) |
| At 31 July 2009 and 1 August 2009 | – | 55 | – | 1,917 | 3,890 | 349 | 6,211 |
| Charge for the year | 6,576 | 68 | 4,587 | 768 | 2,426 | 287 | 14,712 |
| Written back on disposals | – | – | – | (2,044) | – | (34) | (2,078) |
| Exchange realignments | 12 | – | – | 73 | 57 | 6 | 148 |
| At 31 July 2010 | 6,588 | 123 | 4,587 | 714 | 6,373 | 608 | 18,993 |
| **Carrying amount** | | | | | | | |
| At 31 July 2010 | 56,990 | 649 | 38,322 | 343 | 9,512 | 693 | 106,509 |
| At 31 July 2009 | 62,958 | 321 | 36,550 | 1,470 | 11,645 | 1,018 | 113,962 |

# Notes to the Financial Statements

For the year ended 31 July 2010

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

### The Company

| | **Office equipment** *HK$'000* |
|---|---|
| **Cost** | |
| At 1 August 2008 | 18 |
| Additions | – |
| At 31 July 2009 and 31 July 2010 | 18 |
| **Accumulated depreciation** | |
| At 1 August 2008 | 5 |
| Charge for the year | 3 |
| At 31 July 2009 and 1 August 2009 | 8 |
| Charge for the year | 4 |
| At 31 July 2010 | 12 |
| **Carrying amount** | |
| At 31 July 2010 | 6 |
| At 31 July 2009 | 10 |

(a) The analysis of carrying amount of properties is as follows:

| | **2010** *HK$'000* | 2009 *HK$'000* |
|---|---|---|
| Outside Hong Kong | | |
| – Medium-term leases, PRC | **56,990** | 58,758 |
| – Short leases, Singapore | **–** | 4,200 |
| | **56,990** | 62,958 |

(b) At 31 July 2010, the carrying amount of motor vehicles held under finance leases of the Group was HK84,000 (2009: HK$157,000). These assets are pledged to secure the Group's obligations under finance leases (note 26).

# Notes to the Financial Statements

For the year ended 31 July 2010

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

(c) On 25 November 2009, UDL Marine (Singapore) Pte Limited, a direct wholly-owned subsidiary of the Company, received a fax letter dated 20 November 2009 from Jurong Town Corporation of Singapore ("JTC"). JTC turned down the lease renewal application for the land at No. 3 Benoi Road, Singapore 629877 on which the Group's leasehold shipyard buildings are erected in Singapore. The existing lease will expire on 31 December 2010. The carrying amount of the leasehold shipyard building in Singapore at 31 July 2009 had been written down, by HK$20,306,000, of which, HK$1,718,000 was charged to write off previous revaluation reserve and HK$18,588,00 was recognised as impairment loss charged to the income statement for the year ended 31 July 2009. The expected recoverable amount of HK$4,200,000 at 31 July 2009 was determined by the directors of the Company with reference to the independent professional valuation prepared by an independent qualified valuer, Vantage Valuers & Property Consultants Pte Ltd, with recent experience in the location and category of properties being valued.

In addition, the cost for re-instatement of the shipyard in Singapore has been estimated by the directors of the Company to be approximately HK$4,000,000 which was fully charged to the income statement for the year ended 31 July 2009.

(d) The Group's shipyard and leasehold buildings in the PRC held for own use were revalued as at 31 July 2009 at their open market value by reference to recent market transactions in comparable properties. The valuation was performed by independent professional valuer, BMI Appraisals Limited, with recent experience in the location and category of properties being valued. The revaluation surplus of HK$1,645,000 had been transferred to the revaluation reserve.

(e) The Group's floating craft and vessels were revalued individually on 31 July 2009 by Win Well Engineering & Surveyors Limited, an independent professional valuer in Hong Kong, with recent experience in the location and category of assets being valued, at their open market value. The revaluation surplus of HK$3,757,000 had been transferred to the revaluation reserve.

(f) Had the floating craft and vessels and shipyard and leasehold buildings been carried at cost less accumulated depreciation, their carrying amounts would have been HK$32,129,000 and HK$54,739,000 (2009: HK$30,357,000 and HK$61,315,000), respectively.

(g) The Group has engaged independent professional valuers to assess the estimated recoverable amount of shipyard and shipyard and leasehold buildings and float craft and vessels at 31 July 2010. Based on the assessment, the directors of the Company are of the opinion that there was no impairment on these assets at 31 July 2010.

# Notes to the Financial Statements

For the year ended 31 July 2010

## 17. LEASE PREPAYMENTS

**The Group**

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Leasehold land in the PRC | | |
| Medium-term lease | **58,377** | 59,724 |
| Analysed for reporting purposes as: | | |
| Current portion | **1,976** | 1,956 |
| Non-current portion | **56,401** | 57,768 |
| | **58,377** | 59,724 |

The movements in the Group's lease prepayments during the year:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| At 1 August | **59,724** | 969 |
| Acquisition of subsidiaries | **–** | 61,060 |
| Amortisation | **(1,966)** | (1,961) |
| Exchange realignment | **619** | (344) |
| | **58,377** | 59,724 |

Lease prepayments represent payments for land use rights located in the PRC with expiry through 2022 and 2040.

# Notes to the Financial Statements

For the year ended 31 July 2010

## 18. INTANGIBLE ASSETS

**The Group**

| | *Note* | **Port work and structural steel licenses** *HK$'000* |
|---|---|---|
| At 1 August 2008 | | |
| Acquisition of subsidiaries | | 30,912 |
| At 31 July 2009 and 1 August 2009 | | 30,912 |
| Less: Impairment loss | | (30,912) |
| At 31 July 2010 | | – |

The amount represents the initial fair value of the port work and structural steel licences ("the Licences") held by Gitanes Engineering Company Limited, Tonic Engineering & Construction Company Limited, 廣東積達工程有限公司 and 東莞振華建造工程有限公司 (the "acquired subsidiaries"). The port work and structural steel licences are granted by the Works Branch, Development Bureau of the HKSAR and the PRC Government through which the acquired subsidiaries are eligible to undertake government port work construction contracts and PRC structural steel construction. The Licences basically have no legal lives but are renewable every year so long as the acquired subsidiaries are able to comply with certain provisions and requirements set out by the Works Branch, Development Bureau of the HKSAR and the PRC Government throughout the relevant period. The directors of the Company are of the opinion that the Group would maintain/renew the Licences continuously and has the ability to do so. Various studies including market trends have been performed by management of the Group, which support that the Licences have no foreseeable limit to the period over which they are expected to generate net cash inflows to the Group. As a result, the Licences are considered by the management of the Group as having indefinite useful lives. They will not be amortised until the useful lives are determined to be finite. Instead they will be tested for impairment annually and whenever there is an indication that they may be impaired.

**Impairment test on intangible assets**

For the purposes of impairment test, intangible assets with indefinite lives have been allocated to a CGU, subsidiaries acquired in 2008, which are included in construction and structural steel engineering segment. Since no contract works were awarded in the past two years, the directors of the Company considered that the Licences should be fully impaired as at 31 July 2010. A valuation was performed by an independent valuer, on a cash flow projections basis. The recoverable amount of the Licences has been determined based on value in use calculation. That calculation uses cash flow projections covering a 10-year period based on financial forecasts approved by management, and discount rate of 10.85%. Key assumptions for the value in use calculations relate to estimate cash inflows/outflows, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the Licences to exceed the aggregate recoverable amount of the Licences. According to the above, an amount of HK$30,912,000 was recognised as impairment loss in profit or loss during the year.

# Notes to the Financial Statements

For the year ended 31 July 2010

## 19. CLUB MEMBERSHIP

**The Group**

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Acquisition of subsidiaries | **200** | 200 |

At 31 July 2010, the directors carried out a review of the carrying amount of the club membership. Based on their review, no impairment less provision is required. The estimates of the recoverable amount were based on recent observable market prices.

## 20. INTEREST IN AN ASSOCIATE

**The Group**

| | | **2010** | 2009 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| (a) | Share of net assets of an associate | | |
| | Unlisted shares, at cost | **1,500** | – |
| | Share of post-acquisition profit, net | **3,834** | – |
| | | **5,334** | – |
| (b) | Amount due from an associate | **2,991** | – |

The amount due from an associate is unsecured, interest-free and with no fixed term of repayment.

# Notes to the Financial Statements

For the year ended 31 July 2010

## 20. INTEREST IN AN ASSOCIATE

**The Group** *(Continued)*

(c) Details of the associate as 31 July 2010 are as follows:

| Name of associate | Form of business structure | Place of incorporation/ operation | Particulars of issued share capital | Proportion of ownership interest: Group's effective interest | Proportion of ownership interest: Held by a Subsidiary | Principal activities |
|---|---|---|---|---|---|---|
| Crown Asia Engineering Limited | Incorporated | Hong Kong | HK$3,000,000 | 50% | 50% | Marine engineering |

(d) Summary of the financial information of an associate is as follows:

| | **2010** **HK$'000** | 2009 *HK$'000* |
|---|---|---|
| Assets | **20,215** | – |
| Liabilities | **(9,547)** | – |
| Group's share of net assets of associate | **5,334** | – |
| Revenue | **57,905** | – |
| Profit after tax | **7,668** | – |
| Group's share of profit of associate for the year | **3,834** | – |

# Notes to the Financial Statements

For the year ended 31 July 2010

## 21. INVESTMENTS IN SUBSIDIARIES

| | **2010** <br> ***HK$'000*** | 2009 <br> *HK$'000* |
|---|---|---|
| Unlisted shares, at cost *(note (a))* | **257,988** | 257,988 |
| Loans to subsidiaries *(note (b))* | **–** | 159,166 |
| Less: Impairment loss | **(114,198)** | (94,844) |
| | **143,790** | 322,310 |
| Amounts due from subsidiaries *(note (a) and (c))* | **179,355** | 65,116 |
| Less: Impairment loss | **(30,141)** | (16,844) |
| | **149,214** | 48,272 |
| Amounts due to subsidiaries *(note c)* | **–** | 35,611 |

*Notes:*

(a) During the year, the Group underwent an internal reorganisation, inter alia, the Company transferred the entire equity interest of all of its directly owned subsidiaries to a wholly-owned subsidiary, UDL Venture Limited. UDL Venture Limited became the holding company of all of the subsidiaries upon completion of the internal reorganisation. As part of the reorganisation, the loans to subsidiaries of HK$159,166,000 less recognised impairment loss of HK$13,297,000 were also transferred to UDL Venture Limited at the consideration same as the carrying amounts and were included under amounts due from subsidiaries as at 31 July 2010.

(b) The loans to subsidiaries were unsecured, interest-free and would not be demanded for repayment, and in substance formed part of the Company's interests in subsidiaries as quasi-equity contributions.

(c) The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

(d) Aggregate allowance for loans to subsidiaries and amounts due from subsidiaries of HK$144,339,000 (2009: HK$111,688,000) was recognised as at 31 July 2010 because the related recoverable amounts of the individual balance of loans to subsidiaries and amounts due from subsidiaries were estimated to be less than their carrying amounts.

# Notes to the Financial Statements

For the year ended 31 July 2010

## 21. INVESTMENTS IN SUBSIDIARIES *(Continued)*

*Notes: (Continued)*

(e) Particulars of the principal subsidiaries as at 31 July 2010 are as follows:

| Name | Place of incorporation/ operation | Particulars of issued/registered share capital | Proportion of ownership interest: Group's effective interest | Held by the Company | Held by a Subsidiary | Principal activities |
|---|---|---|---|---|---|---|
| UDL Ventures Limited | Hong Kong | HK$1 | 100% | 100% | – | Investment holding |
| China Famous Limited | Hong Kong | HK$1 | 100% | – | 100% | Trading of vessels |
| UDL Marine (Singapore) Pte Limited* | Singapore | S$10,000,000 | 100% | – | 100% | Marine engineering work and ship management services |
| UDL Marine Shares Pte Limited* | Singapore | S$3,150,000 | 100% | – | 100% | Dormant |
| UDL Offshore Engineering Pte Limited* | Singapore | S$1,000 | 100% | – | 100% | Dormant |
| Denlane offshore Engineering Pte Limited* | Singapore | S$1,000 | 100% | – | 100% | Dormant |
| East Coast Towing Limited | Hong Kong | HK$2 | 100% | – | 100% | Dormant |
| Econo Plant Hire Company Limited | Hong Kong | HK$2,000,000 | 100% | – | 100% | Dormant |
| Everpoint Company Limited | Hong Kong | HK$13,720,480 | 100% | – | 100% | Dormant |
| Exact Profit Limited | Hong Kong | HK$20 | 100% | – | 100% | Dormant |
| Fairking Transportation Limited | Hong Kong | HK$100 | 100% | – | 100% | Dormant |
| Faith On International Limited | Hong Kong | HK$2 | 100% | – | 100% | Dormant |
| Full Keen Investment Limited | Hong Kong | HK$2 | 100% | – | 100% | Dormant |
| Graceful Ease Investment Limited | Hong Kong | HK$2 | 100% | – | 100% | Dormant |
| Keen Yield Investment Limited | Hong Kong | HK$2 | 100% | – | 100% | Dormant |
| S.K. Luk Construction Company Limited | Hong Kong | HK$500,000 | 100% | – | 100% | Dormant |
| UDL Argos Engineering & Heavy Industries Company Limited | Hong Kong | HK$124,000,000 | 100% | – | 100% | Investment holding, structural steel engineering work and management services |

# Notes to the Financial Statements

For the year ended 31 July 2010

## 21. INVESTMENTS IN SUBSIDIARIES *(Continued)*

*Notes: (Continued)*

(e) Particulars of the principal subsidiaries as at 31 July 2010 are as follows: *(Continued)*

| Name | Place of incorporation/ operation | Particulars of issued/registered share capital | Proportion of ownership interest: Group's effective interest | Held by the Company | Held by a Subsidiary | Principal activities |
|---|---|---|---|---|---|---|
| UDL Civil Contractors Limited | Hong Kong | HK$6,800,000 | 100% | – | 100% | Dormant |
| UDL Contracting Limited | Hong Kong | HK$50,700,000 | 100% | – | 100% | Engineering and contracting work |
| UDL Dredging Limited | Hong Kong | HK$2 | 100% | – | 100% | Engineering work |
| UDL E & M (BVI) Limited | British Virgin Islands | US$1 | 100% | – | 100% | Dormant |
| UDL Employment Services Limited | Hong Kong | HK$2 | 100% | – | 100% | Provision of human resources management services |
| UDL Investment Limited | Hong Kong | HK$550,000 | 100% | – | 100% | Dormant |
| UDL Management Limited | Hong Kong | HK$2 | 100% | – | 100% | Dormant |
| UDL Marine Operation Limited | Hong Kong | HK$2 | 100% | – | 100% | Dormant |
| UDL Ship Management Limited | Hong Kong | HK$2 | 100% | – | 100% | Marine engineering work and ship management services |
| UDL Steel Fabricators & Shipbuilders Company Limited | Hong Kong | HK$2 | 100% | – | 100% | Dormant |
| Wellfull Time Limited | Hong Kong | HK$2 | 100% | – | 100% | Dormant |
| 中山太元重工業有限公司 *(Note)* | PRC | HK$10,700,000 | 100% | – | 100% | Dormant |
| Press United Logistics Limited | Hong Kong | HK$2,500,000 | 100% | – | 100% | Dormant |
| Net Excel Management Limited | British Virgin Islands | US$100 | 100% | – | 100% | Investment holding |
| Chui Hing Construction Company Limited | Hong Kong | HK$1,820,000 | 100% | – | 100% | Rental of motor vehicles |
| Tonic Engineering and Construction Company Limited | Hong Kong | HK$8,325,317 | 100% | – | 100% | Civil engineering work and contracting services |

# Notes to the Financial Statements

For the year ended 31 July 2010

## 21. INVESTMENTS IN SUBSIDIARIES *(Continued)*

*Notes: (Continued)*

(e) Particulars of the principal subsidiaries as at 31 July 2010 are as follows: *(Continued)*

| | | | Proportion of ownership interest | | | |
|---|---|---|---|---|---|---|
| Name | Place of incorporation/ operation | Particulars of issued/registered share capital | Group's effective interest | Held by the Company | Held by a Subsidiary | Principal activities |
| Gitanes Engineering Company Limited | Hong Kong | HK$63,711,772 | 100% | – | 100% | Plant hire and contracting services |
| 廣東積達工程有限公司 *(Note)* | PRC | HK$2,000,000 | 100% | – | 100% | Dormant |
| Lead Ocean Assets Management Limited | British Virgin Islands | US$100 | 100% | – | 100% | Investment holding |
| Argos Engineering (International) Company Limited | Hong Kong | HK$2 | 100% | – | 100% | Investment holding |
| 東莞振華建造工程有限公司*(Note)* | PRC | HK$25,614,117 | 100% | – | 100% | Property holding |
| Cochrane Enterprises Limited | Hong Kong | HK$10,000 | 100% | – | 100% | Investment holding |
| 東莞興華造船有限公司*(Note)* | PRC | HK$74,891,783 | 100% | – | 100% | Property holding |
| Wealthy King Holdings Ltd | British Virgin Islands | US$1 | 100% | – | 100% | Investment holdings |

* Companies not audited by CCIF CPA Limited. The financial statements of the subsidiaries not audited by CCIF CPA Limited reflect total net assets and total turnover constituting approximately 12% (2009: 30%) and 67% (2009: 51%) respectively of the related consolidated totals.

*Note:* These subsidiaries are wholly foreign owned enterprises established in the PRC.

# Notes to the Financial Statements

For the year ended 31 July 2010

## 22. INVENTORIES

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Vessels held for sale | **61,295** | 60,733 |
| Raw materials | **3,654** | 759 |
| | **64,949** | 61,492 |

The analysis of the amount of inventories recognised as an expense is as follows:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Cost of inventories sold | **4,303** | – |
| Write-down of inventories | **2,154** | 1,245 |
| | **6,457** | 1,245 |

## 23. TRADE AND OTHER RECEIVABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Trade debtors | **9,725** | 9,198 | **–** | – |
| Retention money receivable | **1,475** | 1,536 | **–** | – |
| Prepayments, deposits and other receivables | **18,448** | 17,154 | **496** | 465 |
| | **29,648** | 27,888 | **496** | 465 |

Included in other receivables at 31 July 2010 is the aggregate amount of HK$10,618,000 (2009: HK$10,485,000) incurred by the Group to pursue arbitration and/or legal proceedings to recover the assets under a Scheme of Arrangement (the "Scheme") as referred to note 30(c). Pursuant to the Scheme, the Group shall act as nominee of Harbour Front to recover these Scheme Assets and the Group will be reimbursed for such recovery costs upon the successful recovery of these Scheme Assets. The modifications of the Scheme were sanctioned by the High Court of Hong Kong in June and July 2006, respectively, under which the Scheme Assets were transferred to Harbour Front in September 2006. Based on an undertaking letter dated 23 October 2008 issued by Harbour Front, the Group is entitled to the reimbursement of these recovery costs.

## 23. TRADE AND OTHER RECEIVABLES *(Continued)*

### (a) Ageing analysis

The following is an aged analysis of trade debtors, net of allowance for doubtful debts presented based on the invoice date as at the end of the reporting period:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 – 30 days | **3,526** | 4,953 |
| 31 – 90 days | **2,433** | 1,100 |
| 91 – 180 days | **1,969** | 890 |
| 181 – 360 days | **1,514** | 1,938 |
| Over 360 days | **2,483** | 1,843 |
| | **11,925** | 10,724 |
| Less: Allowance for doubtful debts | **(2,200)** | (1,526) |
| | **9,725** | 9,198 |

Credit terms granted by the Group to customers generally range from 120 to 150 days. Further details on the Group's credit policy are set out in note 3(a).

### (b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

The movements in the allowance for doubtful debts during the year are as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| At 1 August | **1,526** | 1,297 |
| Impairment loss recognised | **674** | 229 |
| At 31 July | **2,200** | 1,526 |

As at 31 July 2010, the Group's trade receivables of HK$674,000 (2009: HK$229,000) were individually determined to be impaired. The individually impaired receivables related to customers that were past due and slow-paying or in financial difficulties and management assessed that these receivables are irrecoverable. The Group does not hold any collateral over these balances.

# Notes to the Financial Statements

For the year ended 31 July 2010

## 23. TRADE AND OTHER RECEIVABLES *(Continued)*

### (b) Impairment of trade receivables *(Continued)*

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Neither past due nor impaired | | |
| 0 – 30 days | **3,526** | 4,953 |
| 31 – 90 days | **2,433** | 1,100 |
| 91 – 180 days | **1,969** | 890 |
| 181 – 360 days | **1,514** | 1,938 |
| Over 360 days | **283** | 317 |
| | **9,725** | 9,198 |

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

## 24. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Contract costs incurred plus recognised profits less recognised losses to date | **63,457** | 36,202 |
| Less: Progress billings | **(47,231)** | (26,653) |
| | **16,226** | 9,549 |
| Amounts due from customers for contract work | **16,226** | 9,549 |
| Amounts due to customers for contract work | **–** | – |
| | **16,226** | 9,549 |

At 31 July 2010, retentions held by customers for contract work amounted to HK$1,475,000 (2009: HK$1,536,000). Advances received from customers for contract work amounted to HK$5,130,000 (2009: HK$3,989,000).

# Notes to the Financial Statements

For the year ended 31 July 2010

## 25. CASH AND CASH EQUIVALENTS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Cash and bank balances | **37,569** | 61,915 | **1,095** | 903 |
| Time deposits with banks (with original maturities less than 3 months) | **–** | 3,194 | **–** | – |
| | **37,569** | 65,109 | **1,095** | 903 |

Bank balances carry interest at market rates which range from 0.03% to 0.07% (2009: 1% to 1.5%) per annum.

## 26. OBLIGATIONS UNDER FINANCE LEASES

At 31 July 2010, the Group had the following obligations under finance leases:

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Present value of the minimum lease payments** | **Total minimum lease payments** | Present value of the minimum lease payments | Total minimum lease payments |
| | ***HK$'000*** | ***HK$'000*** | *HK$'000* | *HK$'000* |
| Within 1 year | **52** | **54** | 82 | 90 |
| After 1 year but within 2 years | **–** | **–** | 52 | 54 |
| | **–** | **–** | 52 | 54 |
| | **52** | **54** | 134 | 144 |
| Less: Total future finance charges | | **(2)** | | (10) |
| Present value of lease obligations | | **52** | | 134 |

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets (note 16).

# Notes to the Financial Statements

For the year ended 31 July 2010

## 27. TRADE AND OTHER PAYABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Trade creditors | **5,340** | 5,428 | **–** | – |
| Advanced received from customers | **5,130** | 3,989 | **–** | – |
| Cost of re-instatement of leasehold shipyard in Singapore | **4,000** | 4,000 | **–** | – |
| Accruals | **8,607** | 2,451 | | |
| Other payables | **5,644** | 5,429 | **5,015** | 2,030 |
| | **28,721** | 21,297 | **5,015** | 2,030 |

The following is an aged analysis of trade creditors presented based on the invoice date as at the end of the reporting period:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 – 30 days | **3,069** | 4,616 |
| 31 – 90 days | **388** | 55 |
| 91 – 180 days | **188** | 47 |
| 181 – 360 days | **944** | 575 |
| Over 360 days | **751** | 135 |
| | **5,340** | 5,428 |

## 28. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

| | **2010** **HK$'000** | 2009 HK$'000 |
|---|---|---|
| Provision for Singapore income tax | **1,860** | 1,861 |

(b) Deferred tax assets/(liabilities) recognised:

| | **Accelerated depreciation allowance** ***HK$'000*** | **Revaluation reserve** ***HK$'000*** | **Tax losses** ***HK$'000*** | **Total** ***HK$'000*** |
|---|---|---|---|---|
| At 1 August 2008 | 714 | 492 | (1,206) | – |
| Credited/(charged) to income statement *(note 10)* | 66 | 187 | (253) | – |
| At 31 July 2009 and 1 August 2009 | 780 | 679 | (1,459) | – |
| Credited/(charged) to income statement *(note 10)* | 253 | – | (253) | – |
| At 31 July 2010 | 1,033 | 679 | (1,712) | – |

(c) Deferred tax assets not recognised

At 31 July 2010, no deferred tax asset has been recognised in respect of tax losses of HK$230,503,000 (2009: HK$223,618,000) due to the unpredictability of future profits streams against which these tax losses can be utilized in the foreseeable future. The tax losses do not expire under the current tax legislation.

# Notes to the Financial Statements

For the year ended 31 July 2010

## 29. SHARE CAPITAL

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Number of ordinary shares** | | Number of ordinary shares | |
| | ***'000*** | ***HK$'000*** | *'000* | *HK$'000* |
| Authorised: | | | | |
| Ordinary shares of HK$0.01 each | **12,000,000** | **120,000** | 12,000,000 | 120,000 |
| Increase in authorised share capital *(note a)* | **12,000,000** | **120,000** | – | – |
| Ordinary shares of HK$0.01 each | **24,000,000** | **240,000** | 12,000,000 | 120,000 |
| Issued and fully paid: | | | | |
| Ordinary shares of HK$0.01 each | **10,090,068** | **100,900** | 5,045,034 | 50,450 |
| Issue of ordinary shares under rights issue *(note b)* | **–** | **–** | 5,045,034 | 50,450 |
| Ordinary shares of HK$0.01 each at 31 July | **10,090,068** | **100,900** | 10,090,068 | 100,900 |

**(a) Increase in authorised share capital**

By an ordinary resolution passed on 24 December 2009, the authorised share capital of the Company was increased from HK$120,000,000 to HK$240,000,000 by the creation of 12,000,000,000 new shares of HK$0.01 each.

**(b) Issue of ordinary shares under rights issue**

On 13 October 2008, 5,045,033,739 ordinary shares of HK$0.01 each were issued at a price of HK$0.035 per share by way of a rights issue for a total cash consideration of HK$176,576,000, before issue expenses of HK$2,796,000, on the basis of one rights share for every one existing share held on the record date. These shares rank pari passu in all respects with the then existing ordinary shares of the Company. The net proceeds of the rights issue were applied towards payment for the acquisition of subsidiaries and business as detailed in note 35 and as working capital of the Group.

**(c) Capital management**

The Group's objective for capital management is to safeguard the Group's ability to continue as a going concern, to enhance shareholder value and to meet the business funding needs. The Group manages its capital structure and makes adjustments to it in line with the changes in economic conditions and business strategies by adjusting the dividend payout ratio, returning capital to shareholders or issuing new shares. During the years ended 31 July 2010 and 2009, the Group consistently followed the objectives and applied the policies and process on managing capital. The Company or its subsidiaries are not subject to externally imposed capital requirements.

# Notes to the Financial Statements

For the year ended 31 July 2010

## 29. SHARE CAPITAL *(Continued)*

### (b) Capital management *(Continued)*

The Group sets the amount of shareholders' equity in proportion to its overall financing structure. Debts include obligations under finance leases, trade and other payables, amounts due to directors and amounts due to related parties. Shareholders' equity comprises all components of equity attributable to the equity shareholders of the Company. The net debt-to-capital ratio at 31 July 2010 and 2009 was as follows:

**The Group**

| | **2010** *HK$'000* | 2009 *HK$'000* |
|---|---|---|
| Obligations under finance leases | **52** | 134 |
| Loan from a related company | **35,658** | 44,945 |
| Trade and other payables | **28,721** | 21,297 |
| Amounts due to related parties | **3,652** | 4,602 |
| Amounts due to directors | **180** | 214 |
| Total debt | **68,263** | 71,192 |
| Less: Cash and cash equivalents | **(37,569)** | (65,109) |
| Net debt | **30,694** | 6,083 |
| Total equity | **253,763** | 297,966 |
| Net debt-to-capital ratio | **12%** | 2% |

**The Company**

| | **2010** *HK$'000* | 2009 *HK$'000* |
|---|---|---|
| Loan from a related company | **35,658** | 44,945 |
| Other payables | **5,015** | 2,030 |
| Amounts due to related parties | **5** | 10 |
| Amounts due to directors | **162** | 166 |
| Amounts due to subsidiaries | **–** | 35,611 |
| Total debts | **40,840** | 82,762 |
| Less: Cash and cash equivalents | **(1,095)** | (903) |
| Net debt | **39,745** | 81,859 |
| Total equity | **253,761** | 289,198 |
| Net debt-to-capital ratio | **16%** | 28% |

# Notes to the Financial Statements

For the year ended 31 July 2010

## 30. RESERVES

### The Group

| | Share premium HK$'000 Note 30(a) | Share option reserve HK$'000 Note 30(e) | Capital redemption reserve HK$'000 Note 30(a) | Exchange fluctuation reserve HK$'000 Note 30(d) | Scheme reserve HK$'000 Note 30(c) | Revaluation reserve HK$'000 Note 30(f) | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 August 2008 | 185,810 | – | 1,264 | 5,306 | 1,054,095 | 3,297 | (1,147,578) | 102,194 |
| Issue of shares under rights issue | 126,126 | – | – | – | – | – | – | 126,126 |
| Expenses for rights issue | (2,796) | – | – | – | – | – | – | (2,796) |
| Equity settled share based transactions | – | 1,330 | – | – | – | – | – | 1,330 |
| Loss for the year | – | – | – | – | – | – | (28,237) | (28,237) |
| Exchange realignment arising from translation of foreign operations | – | – | – | (5,235) | – | – | – | (5,235) |
| Revaluation surplus on leasehold shipyard in Singapore written back | – | – | – | – | – | (1,718) | – | (1,718) |
| Revaluation surplus arising from other property, plant and equipment | – | – | – | – | – | 5,402 | – | 5,402 |
| Total comprehensive income/(loss) for the year | – | – | – | (5,235) | – | 3,684 | (28,237) | (29,788) |
| At 31 July 2009 and 1 August 2009 | 309,140 | 1,330 | 1,264 | 71 | 1,054,095 | 6,981 | (1,175,815) | 197,066 |
| Loss for the year | – | – | – | – | – | – | (48,313) | (48,313) |
| Other comprehensive income | | | | | | | | |
| Exchange realignment arising from translation of foreign operations | – | – | – | 4,110 | – | – | – | 4,110 |
| Total comprehensive income/(loss) for the year | – | – | – | 4,110 | – | – | (48,313) | (44,203) |
| At 31 July 2010 | 309,140 | 1,330 | 1,264 | 4,181 | 1,054,095 | 6,981 | (1,224,128) | 152,863 |

# Notes to the Financial Statements

For the year ended 31 July 2010

## 30. RESERVES *(Continued)*

### The Company

| | Share premium HK$'000 Note 30(a) | Capital redemption reserve HK$'000 Note 30(a) | Contributed surplus HK$'000 Note 30(b) | Share option reserve HK$'000 Note 30(e) | Scheme reserve HK$'000 Note 30(c) | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| At 1 August 2008 | 185,810 | 1,264 | 21,689 | – | 287,524 | (421,090) | 75,197 |
| Issue of shares under rights issue | 126,126 | – | – | – | – | – | 126,126 |
| Expenses for rights issue | (2,796) | – | – | – | – | – | (2,796) |
| Equity settled share based transactions | – | – | – | 1,330 | – | – | 1,330 |
| Loss for the year | – | – | – | – | – | (11,559) | (11,559) |
| At 31 July 2009 and 1 August 2009 | 309,140 | 1,264 | 21,689 | 1,330 | 287,524 | (432,649) | 188,298 |
| Loss for the year | – | – | – | – | – | (35,437) | (35,437) |
| At 31 July 2010 | 309,140 | 1,264 | 21,689 | 1,330 | 287,524 | (468,086) | 152,861 |

**(a) Share premium and capital redemption reserve**

The application of share premium account and the capital redemption reserve is governed by Section 40 of the Companies Act 1981 of Bermuda.

**(b) Contributed surplus**

The contributed surplus of the Company represents the excess of the net assets of the subsidiaries acquired pursuant to the Group Reorganisation in prior years, over the nominal value of the Company's shares issued in exchange. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders under certain circumstances which the Company cannot currently be met.

**(c) Scheme reserve**

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 of Arrangement as detailed below, less the promissory notes of HK$30 million issued to the Scheme Administrator as consideration to release the Company's Shortfall Undertaking pursuant to the Settlement Structure Agreement dated 1 September 2006 and the related scheme expenses incurred for the recovery of the Scheme Assets.

## 30. RESERVES *(Continued)*

**(c) Scheme reserve** *(Continued)*

Scheme of Arrangement

The Company and 24 of its subsidiaries (the "Scheme Participating Companies") entered into a restructuring scheme of arrangement with its creditors (the "Scheme"). The Scheme was duly approved by the Scheme creditors and sanctioned by the court on 18 April 2000 and became effective on 28 April 2000. The Scheme Participating Companies transferred the unencumbered assets and the net proceeds from the recovery of their accounts receivable (collectively the "Scheme Assets") for no consideration to the scheme company, the shares of which are held by the Scheme Administrator in trust for the Scheme creditors. The Company had undertaken to the Scheme Administrator that the aggregate disposal proceeds of the Scheme Assets shall not be less than HK$176 million ("Scheme Undertaking"). In the event of a shortfall, the Company was required to make up the shortfall.

The modification of the Scheme was sanctioned by the High Court of Hong Kong on 7 June 2006 and 21 July 2006, under which, the Scheme Administrator was authorised to enter into a settlement of the shortfall of Scheme Undertaking with the Company.

On 1 September 2006, the Company entered into a Settlement Structure Agreement with the Scheme Administrator and Trustee under the Scheme, in consideration of the issue of HK$30,000,000 of promissory notes to the Scheme Administrator, the Company was fully released and discharged from each and every obligation and liability of the Company, including the obligations in the Scheme Undertaking. The promissory notes were fully settled in May 2007.

**(d) Exchange fluctuation reserve**

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy in note 2(f).

**(e) Share option reserve**

The share option reserve represents the fair value of the actual or estimated number of unexercised share options granted to a director of the Company recognised in accordance with the accounting policy adopted for share-based payments in note 2 (s)(iii).

**(f) Revaluation reserve**

This reserve has been set up and is dealt with in accordance with accounting policy adopted for property, plant and equipment in note 2(g).

**(g) Distributable reserves**

At 31 July 2010, in the opinion of the directors, the Company did not have any reserve available for distribution to shareholders (2009: HK$Nil).

# Notes to the Financial Statements

For the year ended 31 July 2010

## 31. 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 shall be determined by the Board and shall 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 1,009,006,747 shares, representing 10% of the then issued share capital of the Company as at the date of adoption of the share option scheme. Options for a total number of 100,900,674 shares options were granted to Mr. Leung Yat Tung, a director of the Company, on 23 March 2009 and the exercise price for each share was HK$0.024.

(a) The terms and condition of the grants that existed during the year are as follows, whereby all options are settled by physical delivery of shares:

| | **Number of shares issuable under options** | **Vesting conditions** | **Contractual life of option** |
|---|---|---|---|
| Options granted to a director: | | | |
| Mr Leung Yat Tung | | | |
| – on 23 March 2009 | 100,900,674 | – | 10 years |

(b) The number and weighted average exercise prices of share options are as follows:

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Weighted average exercise price** | **Number of options** | Weighted average exercise price | Number of options |
| | ***HK$*** | ***'000*** | *HK$* | *'000* |
| Outstanding at the beginning of the year | **0.024** | **100,900,674** | | – |
| Granted during the year | | **–** | 0.024 | 100,900,674 |
| Lapsed during the year | | **–** | | – |
| Outstanding at the end of the year | **0.024** | **100,900,674** | 0.024 | 100,900,674 |
| Exercisable at the end of the year | **0.024** | **100,900,674** | 0.024 | 100,900,674 |

The options outstanding at 31 July 2010 had an exercise price of HK$0.024 and a weighted average remaining contractual life of 8.33 years (2009: 9.33 years).

None of these options were exercised subsequent to the end of the reporting period.

# Notes to the Financial Statements

For the year ended 31 July 2010

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

### (c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the Binomial Option Pricing Model (the "Model"). The contractual life of the share options is used as an input into this model. Expectations of early exercise are incorporated into the Model.

Fair value of share options and assumptions are as follows:

| | |
|---|---|
| Date granted | 23 March 2009 |
| Fair value at measurement date | HK$1,330,000 |
| Share price | HK$0.02377 |
| Exercise price | HK$0.024 |
| Expected volatility | 140.65% |
| Option life | 10 years |
| Expected dividend yield | – |
| Risk-free interest rate | 1.937% |

The expected volatility was based on the historic volatility (the Company's share price over one year prior to the grant date and in contrast to companies with similar businesses), adjusted for any expected changes to future volatility due to publicly available information.

### (d) Employee retirement benefits

The Group operates a Mandatory Provident Fund Scheme ("the MPF Scheme") under the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the plan vest immediately. The Group has no other material obligation for the payment of pension benefits associated with the MPF Scheme beyond the annual contributions described above.

## 32. OPERATING LEASE COMMITMENTS

At 31 July 2010, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Land and buildings | | | | |
| Within one year | **3,740** | 3,634 | **–** | 64 |
| In the second to fifth year inclusive | **2,330** | 3,128 | **–** | – |
| More than five years | **3,859** | 4,273 | **–** | – |
| | **9,929** | 11,035 | **–** | 64 |

## 33. CONTINGENCIES AND LITIGATIONS

(a) On 31 July 2002, Charterbase Management Limited, one of the Petitioners, issued the Bermuda Writ against the Company and against Mrs. Leung Yu Oi Ling, Irene, Mr. Chan Kim Leung, Miss Leung Chi Yin, Gillian, 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.

# Notes to the Financial Statements

For the year ended 31 July 2010

## 33. CONTINGENCIES AND LITIGATIONS *(Continued)*

(a) *(Continued)*

Three new parties 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 in 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;

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;

## 33. CONTINGENCIES AND LITIGATIONS *(Continued)*

(a) *(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; 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.

As an alternative, the Joint Petitioners sought 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 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 judgment. Subsequently, in the judgment 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 re-amending 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.

There has been no ruling yet on the application for security for costs. The court did stay the 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. However, such proposals had not been implemented as a result of the Company's intention not to proceed with any of such proposals.

# Notes to the Financial Statements

For the year ended 31 July 2010

## 33. CONTINGENCIES AND LITIGATIONS *(Continued)*

(b) 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 other: the Fronfair Company Limited ("Fonfair") claim against the defendants for the amount of HK$19,568,644.66 together with interest and costs, the Money Facts Limited ("Money Facts") claim for 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 the Leung Yuet Keung claim for 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, 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 Limited; (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. Based on legal advice, the directors of the Company do not believe it probable that the court will place judgement against the Company and the Group, and therefore, no provision has therefore been made in respect of these claims.

(c) UDL Contracting Limited ("UDL Contracting"), a wholly-owned subsidiary of the Company commenced legal action under HCA 1209 of 2007 against two defendants on 8 June 2007 to claim damages in relation to the construction of a printing workshop carried out by UDL Contracting. Default judgement in the sum of approximately HK$162 million was awarded by the court in favour of UDL Contracting on 27 June 2007. However, one defendant took out a Summons to apply to set aside the default judgement which has been consented by UDL Contracting. The legal counsels are of the opinion that UDL Contracting is unlikely to incur any liability save for legal costs. The legal costs of the first defendant have been settled amicably upon the claim against the first defendant having been stayed to arbitration. No substantial action has been taken by the second defendant. UDL Contracting is considering further actions on the case. No asset is recognised in respect of this claim, and the recovery of this claim is a Scheme Asset. Based on an irrecoverable letter of undertaking dated 23 October 2008 provided by Harbour Front, UDL Contracting is entitled to the reimbursement of the scheme asset recovery costs.

(d) UDL Dredging Limited ("UDL Dredging"), a wholly-owned subsidiary of the Company, has on 17 March 2010 filed a claim against a contractor, Leighton Contractors (Asia) Limited under arbitration to recover a sum of approximately HK$14.6 million in respect of construction works services rendered relating to an aviation fuel facility in Hong Kong. UDL Dredging has also filed a claim under HCCT 54 of 2010 against this contractor to recover a sum of approximately HK$4.8 million in respect of other services rendered on the same project. This action has subsequently been stayed to arbitration by consent. UDL Dredging is currently formulating further action on both claims.

# Notes to the Financial Statements

For the year ended 31 July 2010

## 34. RELATED PARTY TRANSACTIONS

During the year, the Company entered into the following transactions with the related parties:

(i) Harbour Front Assets Investments Limited is a wholly-owned subsidiary of Harbour Front, the ultimate holding company of the Company.

(ii) Capital Hope Investments Limited is a company in which Miss Leung Chi Yin, Gillian and Mr. Leung Chi Hong, Jerry are directors and shareholders.

(iii) Harbour Front Limited is the ultimate holding company of the Company. Mrs. Leung Yu Oi Ling, Irene, Miss Leung Chi Yin, Gillian and Mr. Leung Chi Hong, Jerry are directors and shareholders of Harbour Front.

(iv) Vital Strategic Corporate Consultancy Limited is a company in which Miss Leung Chi Yin, Gillian and Mr. Leung Chi Hong, Jerry are directors and Mrs. Leung Yu Oi Ling, Irene, Miss Leung Chi Yin, Gillian and Mr. Leung Chi Hong, Jerry are shareholders.

(v) Crown Asia Engineering Limited is an associate of the Group.

Mrs. Leung Yu Oi Ling, Irene, Miss Leung Chi Yin, Gillian and Mr. Leung Chi Hong, Jerry are the directors of the Company.

# Notes to the Financial Statements

For the year ended 31 July 2010

## 34. RELATED PARTY TRANSACTIONS *(Continued)*

### (a) Transactions with related parties

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Ship management fee income from Harbour Front Assets Investments Limited | **2** | 2 |
| Ship management fee income from Capital Hope Investments Limited | **40** | – |
| Interest expenses paid to Harbour Front Assets Investments Limited | **(1,712)** | (2,259) |
| Rental charges paid to Capital Hope Investments Limited | **(274)** | (384) |
| Ship management fee income from Capital Hope Investments Limited | **–** | 36 |
| Repair income from Capital Hope Investments Limited | **45** | – |
| Purchases of fixed assets from Capital Hope Investments Limited | **–** | (240) |
| Rental charges paid to Brilliant Guide Limited | **(4)** | (24) |
| Cost of contract work in progress paid to Bugsy Development Company Limited | **–** | (495) |
| Cost of contract work in progress paid to Vital Strategic Corporate Consultancy Limited | **–** | (301) |
| Non-executive management service costs paid to Vital Strategic Corporate Consultancy Limited | **(60)** | (35) |
| Interest income from Crown Asia Engineering Limited | **933** | – |
| Vessel rental income from Crown Asia Engineering Limited | **3,549** | – |
| Sales of vessels to Crown Asia Engineering Limited | **6,800** | – |
| Sub-contracting fee from Crown Asia Engineering Limited | **8,405** | – |

The directors of the Company are of the opinion that the above related party transactions were conducted in accordance with the underlying agreements entered into with the related parties in the ordinary course of business of the Group.

# Notes to the Financial Statements

For the year ended 31 July 2010

## 34. RELATED PARTY TRANSACTIONS *(Continued)*

### (b) Amounts due from related parties - non-trade

**The Group**

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Maximum amounts** | **Balance** | Maximum amounts | Balance |
| | ***HK$'000*** | ***HK$'000*** | *HK$'000* | *HK$'000* |
| Beaver Marine SDN BHD | **514** | **514** | 484 | 484 |
| Best Year (Asia) Limited | **–** | **–** | 31 | 29 |
| Capital Hope Investments Limited | **126** | **126** | 39 | 39 |
| Exact Nice Limited | **117** | **117** | 117 | 117 |
| Ferret Marine Pte Ltd | **–** | **–** | 50 | 50 |
| 廣州市太元工程船舶租賃有限公司 | **138** | **138** | 137 | 137 |
| Goldfit Engineering Limited | **4** | **4** | 4 | 4 |
| Harbour Front Assets Investments Limited | **518** | **518** | 485 | 485 |
| Hong Hay Pte Limited | **37** | **37** | 37 | 37 |
| Jelanter Limited | **382** | **382** | 484 | 382 |
| Libellus Limited | **19** | **19** | 19 | 19 |
| Link Full International Limited | **231** | **231** | 237 | 231 |
| Possider Company Limited | **632** | **632** | 724 | 632 |
| Tonic Engineering Technical Limited | **–** | **–** | 156 | 156 |
| UDL Assets Management Pte Limited | **42** | **42** | 42 | 40 |
| UDL Construction Pte Limited | **27** | **27** | 27 | 25 |
| UDL Dredging (Singapore) Pte Limited | **12** | **12** | 12 | 12 |
| UDL Marine Assets (Singapore) Pte Limited | **67** | **67** | – | – |
| UDL Offshore Pte Limited | **–** | **–** | 28 | 28 |
| Vital Strategic Corporate Consultancy Limited | **–** | **–** | 100 | 100 |
| Windermere Pte Limited | **–** | **–** | 37 | 37 |
| | | **2,866** | | 3,044 |
| Less: Impairment losses recognised | | **(783)** | | (861) |
| | | **2,083** | | 2,183 |

# Notes to the Financial Statements

For the year ended 31 July 2010

## 34. RELATED PARTY TRANSACTIONS *(Continued)*

### (b) Amounts due from related parties - non-trade *(Continued)*

Amounts due from the above related parties are all unsecured, interest-free and repayable on demand. All of these related parties are ultimately owned by Harbour Front Limited. Mrs. Leung Yu Oi Ling, Irene, Miss Leung Chi Yin, Gillian and Mr. Leung Chi Hong, Jerry, each being an executive director of the Company, holds one-third of the issued share capital of Harbour Front Limited.

### (c) Amounts due to related parties - non-trade

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Best Year (Asia) Limited | **1,844** | 2,587 |
| Brilliant Guide Limited | **81** | 2 |
| Bugsy Development Company Limited | **–** | 495 |
| Harbour Front Assets Investment Limited | **1,417** | 1,417 |
| UDL Engineering Pte Limited | **9** | 9 |
| UDL Marine Assets (Singapore) Pte Limited | **296** | 82 |
| Vital Strategic Corporate Consultancy Limited | **5** | 10 |
| | **3,652** | 4,602 |

| | The Company | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Vital Strategic Corporate Consultancy Limited | **5** | 10 |

Amounts due to the above related parties are all unsecured, interest-free and repayable on demand. All these related parties are ultimately owned by Harbour Front Limited. Mrs. Leung Yu Oi Ling, Irene, Ms Leung Chi Yin, Gillian and Mr. Leung Chi Hong, Jerry, each being an executive director of the Company, holds one-third of the issued share capital of Harbour Front Limited.

# Notes to the Financial Statements

For the year ended 31 July 2010

## 34. RELATED PARTY TRANSACTIONS *(Continued)*

### (d) Amounts due to directors

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Leung Yat Tung | **32** | 29 | **29** | 29 |
| Leung Yu Oi Ling, Irene | **16** | 33 | **9** | 15 |
| Leung Chi Yin, Gillian | **16** | 11 | **11** | 11 |
| Leung Chi Hong, Jerry | **11** | 40 | **12** | 10 |
| Yuen Ming Fai, Matthew | **40** | 40 | **40** | 40 |
| Tse Mei Ha | **21** | 21 | **21** | 21 |
| Pao Ping Wing, *JP* | **40** | 40 | **40** | 40 |
| Li Kam Wa, Ian | **4** | – | **–** | – |
| | **180** | 214 | **162** | 166 |

Amounts due to directors are interest free, unsecured and have no fixed terms of repayment.

### (e) Loan from a related company

| | The Group and the Company | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Harbour Front Assets Investments Limited | **35,658** | 44,945 |

The loan is unsecured, bears interest at prevailing prime rate offered by Hong Kong and Shanghai Banking Corporation and repayable on 30 May 2012. The actual weighted average interest rate charged for the year is 5% per annum (2009: 5%). Interest paid and payable to the related company, amounted to HK$1,712,000 (2009: HK$2,259,000) for the year ended 31 July 2010.

On 1 August 2008, the Company and the ultimate holding company, Harbour Front entered into a finance agreement, under which the ultimate holding company had agreed to provide the Company facilities up to HK$136,950,768.85 (the "Debt"). The facility was unsecured bearing interest at prime rate per annum on the amount of the facility drawn down.

# Notes to the Financial Statements

For the year ended 31 July 2010

## 34. RELATED PARTY TRANSACTIONS *(Continued)*

### (e) Loan from a related company *(Continued)*

On 30 November 2008, Harbour Front and the related company, Harbour Front Assets Investments Limited ("HFAI") have entered into an agreement of assignment, whereby Harbour Front transferred and assigned all its rights, title and benefits of the outstanding loan of HK$65,385,964.66 together with the interest accrued to HFAI in respect of the finance agreement dated 1 August 2008.

On 30 May 2009, the Company together with a wholly-owned subsidiary, UDL Ventures Limited (the "companies") and HFAI have entered into a revolving finance agreement, whereby HFAI has agreed to provide a total revolving credit facility of up to HK$45,000,000 to the companies. The facility is unsecured and bears interest at prime rate per annum on the amount of the facility drawn down. The revolving credit facility shall expire in three years from the date of the agreement, subject to further extension if required.

### (f) Recovery of Scheme Assets for Harbour Front

Included in the other receivables at 31 July 2010 as referred to in note 23 is an aggregate amount of HK$10,618,000 (2009: HK$10,485,000 incurred by the Group to pursue arbitration and/or legal proceedings to recover value of the Scheme Assets. Under the terms of the Scheme as referred to note 30(c), the Group shall act as nominee of Harbour Front to recover the Scheme Assets and will be reimbursed for such recovery costs upon the successful recovery of these Scheme Assets. The modifications of the Scheme were sanctioned by the High Court of Hong Kong in June and July 2006, respectively, under which the Scheme Assets were transferred to Harbour Front in September 2006. Based on an undertaking letter dated 23 October 2008 issued by Harbour Front, the Group is entitled to the reimbursement of these recovery costs.

### (g) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 11 is as follows:

| | **2010**<br>***HK$'000*** | 2009<br>*HK$'000* |
|---|---|---|
| Salaries and allowances | **6,917** | 6,919 |
| Retirement scheme contributions | **60** | 60 |
| Share-based payments | **–** | 1,330 |
| | **6,977** | 8,309 |

# Notes to the Financial Statements

For the year ended 31 July 2010

## 35. ACQUISITION OF SUBSIDIARIES AND BUSINESS – 2009

On 1 August 2008, the Company acquired, from Harbour Front, 100% of equity interest of Lead Ocean Assets Management Limited and Net Excel Management Limited, together with the equity loan from Harbour Front to them of HK$101,090,000, at an aggregate consideration of HK$207,656,000.

Details of net assets acquired and goodwill are as follows:

| | *HK$'000* |
|---|---|
| Total purchase consideration | |
| Direct costs relating to the acquisition | 207,656 |
| Fair value of net assets acquired | 2,308 |
| | (209,964) |
| Goodwill | – |

The assets and liabilities arising from the acquisition are as follows:

| | **Acquiree's carrying amount** *HK$'000* | **Fair value** *HK$'000* |
|---|---|---|
| Property, plant and equipment | 101,574 | 101,574 |
| Prepaid lease payments | 61,060 | 61,060 |
| Port works and structural steel licences | – | 30,912 |
| Club membership | 200 | 200 |
| Available-for-sale investment | 19 | 19 |
| Amounts due from related companies | 33,205 | 33,205 |
| Trade and other receivables | 4,105 | 4,105 |
| Cash and bank balances | 3,054 | 3,054 |
| Trade and other payables | (8,608) | (8,608) |
| Amounts due to related parties | (15,557) | (15,557) |
| Net assets acquired | 179,052 | 209,964 |
| Bank and cash balances in subsidiaries acquired | | 3,054 |
| Direct costs relating to the acquisition | | (2,308) |
| Cash consideration | | (207,656) |
| Net outflow | | (206,910) |

Since the acquisition, Net Excel and Lead Ocean contributed revenue of HK$7,898,000 and net loss of HK$2,478,000 to the Group for the period from 1 August 2008 to 31 July 2009.

# Notes to the Financial Statements

For the year ended 31 July 2010

## 36. STEP-UP ACQUISITION OF INTEREST IN AN ASSOCIATE – 2009

On 30 September 2008, the Group acquired the remaining 50% issued share capital of an associate, Press United Logistics Limited, from Ying Kee Newspaper Agency Limited, an independent third party. Upon completion of the acquisition, Press United Logistics Limited became a wholly-owned subsidiary of the Group.

| | *HK$'000* |
|---|---|
| Purchase consideration | |
| Cash paid | 2 |
| Cash consideration payable | 1,081 |
| Fair value of net assets acquired | (1,131) |
| Discount on step-up acquisition of interest in an associate | (48) |

# Notes to the Financial Statements

For the year ended 31 July 2010

## 36. STEP-UP ACQUISITION OF INTEREST IN AN ASSOCIATE – 2009 *(Continued)*

Details of net assets acquired are as follows:

| | Fair value *HK$'000* | Carrying amount *HK$'000* |
|---|---|---|
| Property, plant and equipment | 3 | 3 |
| Bank balances and cash | 10 | 10 |
| Amounts due from shareholders | 2,156 | 2,156 |
| Amounts due from related companies | 100 | 100 |
| Other payables | (8) | (8) |
| Net assets acquired | 2,261 | 2,261 |
| Equity interest acquired | 50% | |
| Total fair value of net assets acquired | 1,131 | |
| Net cash outflow arising from the acquisition: | | |
| Purchase consideration settled in cash | | (2) |
| Bank balances and cash acquired | | 10 |
| Net cash outflow | | 8 |

The subsidiary acquired did not contribute significantly to the Group's reserves and results between the date of acquisition and at the end of the reporting period in 2009.

## 37. COMPARATIVE FIGURES

As a result of the application of HKAS 1 (revised 2007), Presentation of financial statements, and HKFRS 8, Operating segments, certain comparative figures have been adjusted to conform to current year's presentation.

# Five year Summary

For the year ended 31 July 2010

A summary of the results of the Group and of its assets and liabilities for the last five financial years as extracted from the audited financial statements is set out below:

| | Year ended 31 July | | | | |
|---|---|---|---|---|---|
| | **2010** | 2009 | 2008 | 2007 | 2006 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Results** | | | | | |
| Turnover | **114,252** | 117,436 | 69,797 | 38,141 | 22,113 |
| (Loss)/profit before taxation | **(46,928)** | (27,184) | (975) | (4,291) | 29,620 |
| Income tax | **(1,385)** | (1,053) | (1,013) | (50) | 98 |
| (Loss)/profit attributable to equity holders of the company | **(48,313)** | (28,237) | (1,988) | (4,341) | 29,718 |

| | As at 31 July | | | | |
|---|---|---|---|---|---|
| | **2010** | 2009 | 2008 | 2007 | 2006 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Assets and liabilities** | | | | | |
| Total assets | **323,886** | 371,019 | 170,632 | 170,693 | 93,902 |
| Total liabilities | **(70,123)** | (73,053) | (17,988) | (20,684) | (81,891) |
| Net assets/(liabilities) | **253,763** | 297,966 | 152,644 | 150,009 | 12,011 |