
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer or other registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in UDL Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or transferee(s) or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).



**(1) MAJOR AND CONNECTED TRANSACTION
IN RELATION TO THE FORMATION OF A JOINT VENTURE COMPANY
AND
(2) MAJOR DISPOSAL AND CONNECTED TRANSACTION
IN RELATION TO THE DISPOSAL OF
LEAD OCEAN ASSETS MANAGEMENT LIMITED**

**Independent financial adviser to the Independent Board Committee
and the Independent Shareholders**

Hercules
Hercules Capital Limited

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular. A letter from the Board is set out on pages 5 to 14 of this circular. A letter from the Independent Board Committee is set out on pages 15 to 16 of this circular. A letter from Hercules containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 17 to 32 of this circular.

A notice convening the SGM to be held at Lychee Garden, 1/F, Metropark Hotel Mongkok, 22 Lai Chi Kok Road, Mongkok, Kowloon, Hong Kong at 10:00 a.m. on 10 November 2011 is set out on page 52 of this circular. If you are not able to attend the SGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit it with the Company's branch share registrar and transfer office in Hong Kong, at Tricor Tengis Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof if you so wish.

25 October 2011

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	5
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	15
LETTER FROM HERCULES	17
APPENDIX I – FINANCIAL INFORMATION OF THE GROUP	33
APPENDIX II – PROPERTY VALUATION ON THE DISPOSAL GROUP	36
APPENDIX III – GENERAL INFORMATION	44
NOTICE OF SGM	52

DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“acting in concert”	has the meaning ascribed thereto in Takeovers Code
“Announcement”	the announcement of the Company dated 27 September 2011 in relation to, among others, the formation of the JV Company and the Disposal
“associate”	has the meaning ascribed thereto in the Listing Rules
“BMI”	BMI Appraisals Limited, an independent professional valuer appointed by the Company in connection with the Disposal
“Board”	board of Directors
“Business Day”	a day (other than a Saturday) on which banks are open for business in Hong Kong
“BVI”	the British Virgin Islands
“Company”	UDL Holdings Limited, a company incorporated in Bermuda with limited liability, whose Shares are listed on the Stock Exchange (Stock Code: 620)
“connected person(s)”	has the meaning(s) ascribed thereto in the Listing Rules
“controlling shareholder”	has the meaning ascribed thereto in the Listing Rules
“Director(s)”	director(s) of the Company
“Disposal”	the proposed disposal of the Disposal Sale Shares and the Disposal Shareholder Loan pursuant to the terms of the Disposal Agreement, which constitutes a major disposal and connected transaction for the Company under the Listing Rules
“Disposal Agreement”	the agreement dated 27 September 2011 entered into between the Vendor and the Purchaser relating to the Disposal
“Disposal Completion”	completion of the Disposal
“Disposal Completion Date”	the date of the Disposal Completion
“Disposal Consideration”	HK\$127,574,250 payable by the Purchaser to the Vendor for the Disposal Sale Shares and the Disposal Shareholder Loan under the Disposal Agreement

DEFINITIONS

“Disposal Group”	Lead Ocean and its subsidiaries
“Disposal Sale Shares”	the entire issued share capital of Lead Ocean
“Disposal Shareholder Loan”	the net amount of loans and indebtedness (if any) owing from the Disposal Group to the Vendor and its subsidiaries as at the Disposal Completion Date
“Group”	the Company and its subsidiaries before the Disposal Completion
“Harbour Front”	Harbour Front Limited, a company incorporated in the BVI and the controlling shareholder of the Company. Each of Mrs. Leung, Ms. Gillian Leung and Mr. Jerry Leung, each being an executive Director, holds one-third of the issued share capital of Harbour Front
“Hercules”	Hercules Capital Limited, a corporation licensed to conduct type 6 (advising on corporate finance) regulated activity under the SFO and the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the formation of the JV Company, the Disposal and the transactions contemplated thereunder
“HFI”	Harbour Front Assets Investments Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of Harbour Front which owns 50% of the shareholding in the JV Company
“Hong Kong” or “HKSAR”	The Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company, comprising all the independent non-executive Directors
“Independent Shareholder(s)”	Shareholder(s) other than (i) Harbour Front, its associates and parties acting in concert with any of them; (ii) any Shareholders who are involved in or interested in the formation of the JV Company or the Disposal or the transactions contemplated therein
“JV Company”	Universal Harbour Investment Limited (太港投資有限公司), a company incorporated in Hong Kong
“Latest Practicable Date”	20 October 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein

DEFINITIONS

“Lead Ocean”	Lead Ocean Assets Management Limited, a company incorporated in the BVI and an indirect wholly-owned subsidiary of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Ms. Gillian Leung”	Ms. Leung Chi Yin, Gillian, an executive Director
“Mr. Jerry Leung”	Mr. Leung Chi Hong, Jerry, an executive Director
“Mrs. Leung”	Mrs. Leung Yu Oi Ling, Irene, an executive Director
“PRC”	the People’s Republic of China
“Properties”	a shipyard located at Si Sheng Village, Du Xi, Shatian Town, Dongguan City, Guangdong Province, the PRC owned by the Disposal Group which consists of two parcels of land with a total site area of approximately 154,440 square metres, details of which are stated in Appendix II to this circular
“Purchaser”	the JV Company
“Remaining Group”	the Company and its subsidiaries immediately after the Disposal Completion
“SFO”	Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
“SGM”	special general meeting(s) to be convened by the Company on 10 November 2011 for the Independent Shareholders to consider and, if thought fit, approve, among other things, formation of the JV Company, the Shareholders’ Agreement and the Disposal and the transactions contemplated thereunder
“Share(s)”	ordinary share(s) of HK\$0.01 each in the issued share capital of the Company
“Shareholders’ Agreement”	the conditional agreement dated 27 September 2011 entered into between UDL Ventures and HFI in relation to the formation of the JV Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“UDL Ventures” or “Vendor”	UDL Ventures Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company which owns 50% of the shareholding in the JV Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

* *For identification purpose only*

LETTER FROM THE BOARD



Executive Directors:

Mr. Leung Yat Tung
Mrs. Leung Yu Oi Ling, Irene
Ms. Leung Chi Yin, Gillian
Mr. Leung Chi Hong, Jerry

Registered office:

Crawford House
4th Floor
50 Cedar Avenue
Hamilton HM 11
Bermuda

Independent non-executive Directors:

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

Principal place of business

in Hong Kong:
Room 702 7/F
Aitken Vanson Centre
61 Hoi Yuen Road
Kwun Tong
Kowloon
Hong Kong

25 October 2011

**(1) MAJOR AND CONNECTED TRANSACTION
IN RELATION TO THE FORMATION OF A JOINT VENTURE COMPANY
AND
(2) MAJOR DISPOSAL AND CONNECTED TRANSACTION
IN RELATION TO THE DISPOSAL OF
LEAD OCEAN ASSETS MANAGEMENT LIMITED**

To the Shareholders

Dear Sir or Madam,

INTRODUCTION

Reference is made to the Announcement in which the Company announced that, on 27 September 2011, UDL Ventures and HFI entered into the Shareholders' Agreement in relation to the formation of the JV Company. At the incorporation of the JV Company, the JV Company had an issued share capital of HK\$2 divided into two shares and each of UDL Ventures and HFI has subscribed for one share of the JV Company for cash at par (being HK\$1 for each share of the JV Company).

On 27 September 2011, UDL Ventures as vendor and the JV Company as purchaser entered into the Disposal Agreement in relation to the disposal of the Disposal Sale Shares and Disposal Shareholder Loan at the Disposal Consideration of HK\$127,574,250.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, amongst others, (i) further details of the formation of the JV Company, the Shareholders' Agreement, the Disposal and the transactions contemplated thereunder; (ii) the advice of the Independent Board Committee; (iii) the letter of advice from Hercules to the Independent Board Committee and the Independent Shareholders; (iv) the valuation reports on the Properties held by the Disposal Group; and (v) the notice of the SGM.

THE SHAREHOLDERS' AGREEMENT

Date

27 September 2011

Parties

- (1) UDL Ventures, a wholly-owned subsidiary of the Company; and
- (2) HFI, a wholly-owned subsidiary of Harbour Front

As at the Latest Practicable Date, Harbour Front and parties acting in concert with it were interested in approximately 62.13% of the issued share capital of the Company and therefore HFI, being a wholly-owned subsidiary of Harbour Front, is a connected person of the Company.

Capital contribution

The JV Company was incorporated in Hong Kong on 27 September 2011 with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1 each and before entering into the Shareholders' Agreement between the parties, the JV Company has an issued share capital of HK\$2 divided into two shares of HK\$1 each. The authorised share capital of the JV Company shall be, subject to the approval by UDL Ventures and HFI in shareholders' meeting of the JV Company, increased from time to time in order to satisfy the subscription requirements by UDL Ventures and HFI as set out below. UDL Ventures and HFI shall exercise all voting rights and other powers of control available to them in relation to the JV Company to procure and to ensure the passing of such resolution(s) as may be necessary or desirable for such subscription requirements.

Each of UDL Ventures and HFI shall, upon 14 days following the date of passing by the Independent Shareholders of a resolution approving the formation of the JV Company, the Shareholders' and the Disposal and the transactions contemplated thereunder or such other date as may be agreed between the parties thereto and at the same time with the Disposal Completion, subscribe for 31,999,999 newly issued shares of the JV Company for cash at par (being subscription price of HK\$31,999,999) for each of UDL Ventures and HFI in the manner as set out below:

Name of shareholder	Number and percentage of shares of the JV Company held	Subscription price payable
UDL Ventures	31,999,999 (50%)	HK\$31,999,999
HFI	31,999,999 (50%)	HK\$31,999,999
Total:	63,999,998 (100%)	HK\$63,999,998

LETTER FROM THE BOARD

Further, each of UDL Ventures and HFI shall:

- (i) within one year from the date of the Disposal Completion, subscribe for not less than 32,000,000 shares of the JV Company for cash at par (being HK\$1 for each share of the JV Company) or such agreed lesser number of shares of the JV Company to satisfy the balance payment of the Disposal Consideration after taking into account of the then financial position of the JV Company; and
- (ii) in addition to the subscription mentioned in (i) above, subscribe for 50% of any such newly issued shares of the JV Company according to timing and amount as determined by the management of the JV Company from time to time to suit its overall business needs,

provided that the aggregate number of shares of the JV Company to be subscribed for and held by each of UDL Ventures and HFI shall not exceed 100,000,000 shares (i.e. an aggregate subscription price of HK\$100,000,000) in any event.

The capital contribution was determined after arm's length negotiation between the parties to the Shareholders' Agreement with reference to the capital contribution intention of the parties. The JV Company intends to seek business development opportunities in structural steel engineering and/or shipbuilding directly or through cooperation with established market players so as to secure steady and substantial amount of building contracts without undue long marketing process. Considerable working capital will be required for financing both the building contracts and necessary facilities improvement works at the shipyard owned by the Disposal Group. The relevant portion of capital contribution to be paid by UDL Ventures will be funded by internal resources of the Company and the proceeds under the Disposal Agreement.

The Directors consider that the capital contribution is fair and reasonable.

Condition precedent

The capital contribution to the JV Company by the parties to the Shareholders' Agreement is conditional upon the passing by the Independent Shareholders of a resolution approving the Shareholders' Agreement and the Disposal Agreement and the transactions contemplated thereunder at a special general meeting of the Company.

Board composition of the JV Company

The board of directors of the JV Company shall consist of two directors. Each of UDL Ventures and HFI shall be entitled to appoint one director of the JV Company respectively. The director of the JV Company nominated by HFI shall be the first chairman of the board of directors of the JV Company. In the event of an equality of votes, the chairman of the board of directors of the JV Company shall be entitled to a second or casting vote.

Business scope of the JV Company

The purpose of incorporating the JV Company shall be (i) entering into the Disposal Agreement and acquiring the Disposal Group; and (ii) engaging in business development in structural steel engineering and shipbuilding or to carry on such other business which the board of directors of the JV Company may determine from time to time.

LETTER FROM THE BOARD

Transfer of interest

No shareholder of the JV Company may transfer its shares or any interest therein without the approval of the board of directors of the JV Company except in the event that Harbour Front ceases to be the controlling shareholder of the Company, HFI or other nominee appointed by Harbour Front shall have the right to purchase all of the shares of the JV Company held by UDL Ventures from UDL Ventures (i) at par; or (ii) at the audited net assets value per share of the JV Company (if applicable), whichever is higher.

THE DISPOSAL AGREEMENT

Date

27 September 2011

Parties

- (1) UDL Ventures Limited (as Vendor); and
- (2) The JV Company (as Purchaser)

As at the Latest Practicable Date, Harbour Front and parties acting in concert with it were interested in approximately 62.13% of the issued share capital of the Company and the JV Company was owned as to 50% of Harbour Front, therefore the JV Company is an associate of Harbour Front and a connected person of the Company.

Assets to be disposed of

The Disposal Sale Shares and the Disposal Shareholder Loan.

Disposal Consideration

The Disposal Consideration of approximately HK\$127,574,250 was determined after arm's length negotiation between the Vendor and the Purchaser with reference to the net asset value of the Disposal Group as at 31 July 2011 and the amount of the Disposal Shareholder Loan as at 31 July 2011. Such net asset value was calculated with reference to the net tangible asset value of the members of the Disposal Group which comprises mainly the Properties with a market value of approximately HK\$117 million as at 31 July 2011 as valued by an independent professional valuer, namely BMI (a valuation report on the Properties is set out in Appendix II to this circular).

The Disposal Consideration shall be payable by the Purchaser or its nominee by cheque in favour of the Vendor or its nominee or in other mutually agreed form in the following manner:

- (a) the first instalment, being an amount of HK\$63,787,125, to be paid on the Disposal Completion Date; and

LETTER FROM THE BOARD

- (b) the second instalment, being the remaining amount of HK\$63,787,125, shall be payable in part or in full by the Purchaser upon the availability of sufficient internally generated cash flow of the Purchaser, but in any event shall be paid in full within one year after the Disposal Completion Date. There is no security charges related to the deferred payment of the Disposal Consideration.

The Directors consider that the Disposal Consideration is fair and reasonable. Upon Disposal Completion, the Disposal Group will be owned by the JV Company which is in turn owned indirectly as to 50% of each the Company and Harbour Front (being a controlling shareholder of the Company) respectively. Therefore, despite the fact that the second instalment of the Disposal Consideration can be repaid the latest one year after the Disposal Completion Date, the Disposal Group is controlled by Harbour Front (whose shareholders are also the executive Directors) at all times before and after the Disposal Completion. As such, the Directors consider that the above payment arrangement of the Disposal Consideration is fair and reasonable and in the interest of the Company and the Shareholders.

Condition precedent of the Disposal

Disposal Completion is conditional upon the passing by the Independent Shareholders of a resolution approving the Disposal Agreement and the transactions contemplated thereunder.

In the event that the condition precedent to the Disposal Agreement is not fulfilled on or before 31 December 2011 (or such other date as the parties may agree in writing), the rights and obligations of the parties under the Disposal Agreement shall lapse and the Disposal Agreement shall be of no further effect and the parties shall be released from such obligations without any liability save in respect of any antecedent breach or any accrued right or remedies, which shall not be prejudiced or affected.

Disposal Completion

Disposal Completion shall take place 14 days following the date of the fulfillment of the above condition precedent or such other date as may be agreed between the parties thereto.

Upon the Disposal Completion, members of the Disposal Group will cease to be subsidiaries of the Company.

INFORMATION ON THE GROUP

The principal activities of the Group are mainly involved in the provision of marine engineering, construction and structural steel engineering and related services, and trading of vessels.

For the year ended 31 July 2010, the Group reported an audited consolidated revenue of approximately HK\$114.3 million, representing a slight decline of approximately HK\$3 million from the previous financial year. During the same period, the Group reported an audited loss of approximately HK\$48.3 million, representing an increase of approximately 71.3% from an audited loss of approximately HK\$28.2 million for the year ended 31 July 2009. The Group attributed the consecutive loss to the Group due to the impairment of the Group's leasehold shipyard in Singapore and the licenses for approved list of port works for the Government of the HKSAR and for structural steel engineering works in the PRC.

LETTER FROM THE BOARD

For the six months ended 31 January 2011, the Group continued to report a shrinking revenue of approximately HK\$45.6 million (31 January 2010: approximately HK\$67.6 million) with an unaudited consolidated loss of approximately HK\$11.8 million (31 January 2010: approximately HK\$5.4 million). The Group attributed the continued decline in revenue and consequential widening of the loss for the period as a result of the effect from the transition of the Group's operations.

INFORMATION ON THE JV COMPANY AND HARBOUR FRONT

The JV Company is a limited liability company incorporated in Hong Kong with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1 each and before entering into the Shareholders' Agreement between the parties, the JV Company has an issued share capital of HK\$2 divided into two shares of HK\$1 each. The JV Company is owned as to 50% by each of UDL Ventures (a wholly-owned subsidiary of the Company) and HFI (a wholly-owned subsidiary of Harbour Front) respectively. The purpose of incorporating the JV Company shall be (i) entering into the Disposal Agreement and acquiring the Disposal Group; and (ii) engaging in business development in structural steel engineering and shipbuilding or to carry on such other business which the board of directors of the JV Company may determine from time to time. The authorised share capital of the JV Company shall be, subject to the approval by shareholders in the shareholders' meeting of the JV Company, increased from time to time in order to satisfy the capital contribution requirements by UDL Ventures and HFI in accordance with the Shareholders' Agreement. UDL Ventures and HFI shall exercise all voting rights and other powers of control available to them in relation to the JV Company to procure and to ensure the passing of such resolution(s) as may be necessary or desirable for such subscription requirements.

HFI is an investment holding company incorporated in Hong Kong which is a wholly-owned subsidiary of Harbour Front.

Harbour Front is an investment holding company incorporated in the BVI and the controlling shareholder of the Company. Each of Mrs. Leung, Ms. Gillian Leung and Mr. Jerry Leung, each being an executive Director, holds one-third of the issued share capital of Harbour Front. Harbour Front and parties acting in concert with it were interested in 6,343,851,282 Shares, representing approximately 62.13% of the issued share capital of the Company as at the Latest Practicable Date. Harbour Front is a connected person of the Company.

INFORMATION ON THE DISPOSAL GROUP

The Disposal Group is consisted of Lead Ocean and its subsidiaries, which are principally engaged in structural steel engineering and shipbuilding.

The Disposal Group has obtained the allocation of the land use rights of certain collectively-owned land in Dongguan, the PRC, along the bank of a branch of Dongjiang with deep water access channel, with a yard site area of approximately 154,000 square metres for a term of 50 years for manufacturing structural steel frames and fabrication of ships and other ancillary businesses. The Disposal Group has also obtained a licence to manufacture steel frames and products for both PRC internal sale and export business and necessary approvals to operate a pier in the yard for exporting its products directly from Dongguan.

Based on the unaudited consolidated financial statements of the Disposal Group made as at 31 July 2011, the net asset value of the Disposal Group was HK\$16,175,504.92 and that of the Disposal Shareholder Loan was HK\$111,398,744.62.

LETTER FROM THE BOARD

Based on the audited/unaudited consolidated financial statements of the Disposal Group, the loss on ordinary activities before tax for the year ended 31 July 2010 (audited) and 31 July 2011 (unaudited) were approximately HK\$4.619 million (audited) and HK\$2.216 million (unaudited) respectively, while the loss on ordinary activities after tax of Disposal Group for the year ended 31 July 2010 (audited) and 31 July 2011 (unaudited) were approximately HK\$4.619 million and HK\$2.216 million respectively.

REASONS FOR AND BENEFITS OF THE FORMATION OF THE JV COMPANY AND THE DISPOSAL

The purpose of forming the JV Company is to acquire the Disposal Group from the Company and to be engaged in business development in structural steel engineering and shipbuilding or to carry on such other business which the board of directors of the JV Company may determine from time to time. After the Disposal Completion, the JV Company will explore opportunities of cooperating in the future with other independent third parties such as established market players in structural steel engineering and shipbuilding business. For illustration purposes only, a loss of approximately HK\$1.5 million (subject to audit) is expected to arise from the Disposal, being the Disposal Consideration of approximately HK\$127.5 million after deducting (i) the unaudited consolidated net asset value of the Disposal Group and loans owed by the Disposal Group to the Vendor and its subsidiaries as at 31 July 2011 of approximately HK\$127.5 million; and (ii) transactions costs directly attributable to the Disposal including professional and other related expenses of approximately HK\$1.5 million. Shareholders and investors should note that the actual loss on the Disposal will be different from the above as the then net asset value of the Disposal Group will be different on the Disposal Completion Date.

Having considered that the Disposal Group has been operating at a loss for the last two financial years and the Disposal Consideration has been made with reference to the net asset value of the Disposal Group as at 31 July 2011 and the amount of the Disposal Shareholder Loan as at 31 July 2011, the Directors are of the view that the Disposal would enable the Group to realise its investments in the Disposal Group at a fair price.

For a substantive business development in structural steel engineering and shipbuilding, a substantial amount of working capital will be required for financing both the building contracts and necessary facilities improvement works at the shipyard owned by the Disposal Group. Under the current proposed structure of the transaction, the formation of the JV Company and the Disposal will allow the Company to participate in such business development without the need to contribute a considerable amount of working capital save and except a part of the net proceeds from the Disposal to be applied for the capital contribution required under the Shareholders' Agreement.

In view of the above, the Directors consider the entering of the Shareholders' Agreement and the Disposal Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

USE OF PROCEEDS FROM THE DISPOSAL

The net proceeds of the Disposal after deducting all relevant expenses is estimated to be approximately HK\$126 million. Such net proceeds will be used for (1) capital contribution in the JV Company; and (2) general working capital of the Remaining Group.

LETTER FROM THE BOARD

POSSIBLE FINANCIAL EFFECTS OF THE DISPOSAL ON THE COMPANY

Upon the Disposal Completion, members of the Disposal Group will cease to be subsidiaries of the Company and the results of the Disposal Group will no longer be consolidated into the financial statements of the Company but accounted for in the financial statements of the Company using proportionate consolidation method or equity method.

(i) *Earnings*

Given the continuous loss of the Disposal Group, the Group's earnings may improve as a result of the Disposal and the formation of the JV Company. Further, after deducting all relevant expenses, the Group will receive net cash proceeds of approximately HK\$126 million from the Disposal. Subscription for 50% of the shareholding of the JV Company will require HK\$64 million to HK\$100 million giving a balance of approximately HK\$26 million to HK\$62 million. This will provide the Remaining Group with working capital for its business operation and development.

(ii) *Assets and liabilities*

As at 31 July 2011, the unaudited consolidated asset value of the Group was approximately HK\$607 million whereas the unaudited asset value of the Disposal Group was approximately HK\$132 million (which consists of non-current asset value and current asset value of approximately HK\$120 million and HK\$12 million respectively). Upon the Disposal Completion and assuming full payment of the Disposal Consideration on the Disposal Completion Date, and taking into account the estimated net proceeds of the Disposal after deducting the relevant expenses (i.e. approximately HK\$126 million), it is estimated that the total assets of the Group will be decreased from approximately HK\$607 million to approximately HK\$601 million as a result of the Disposal.

As at 31 July 2011, the unaudited consolidated liabilities of the Group was approximately HK\$367 million whereas the unaudited current liabilities of the Disposal Group net the Disposal Shareholder Loan was approximately HK\$4 million. Upon the Disposal Completion and assuming full payment of the Disposal Consideration, it is estimated that the liabilities of the Group will be decreased from approximately HK\$367 million to approximately HK\$363 million as a result of the Disposal.

In addition, as no material gains or losses are expected from the Disposal except for the transaction expenses, the net asset value of the Group shall not be materially affected upon the Disposal Completion and the capital contribution to the JV Company. Given the continuous loss of the Disposal Group, although the Group's net asset value may continue to be adversely affected after the Disposal and the formation of the JV Company under proportionate consolidation method or equity method if the business of the Disposal Group could not be turned around, such adverse effect to the Group's net asset value may be to a smaller extent after the Disposal Completion as thereafter the Group will only own 50% of the JV Company and thus the Disposal Group.

LETTER FROM THE BOARD

LISTING RULE IMPLICATIONS

Major and connected transaction

As at the Latest Practicable Date, Harbour Front and parties acting in concert with it were interested in approximately 62.13% of the issued share capital of the Company and therefore HFI, being a wholly-owned subsidiary of Harbour Front, is a connected person of the Company. Also, the applicable percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the formation of the JV Company exceed 25% but less than 100%. Accordingly, formation of the JV Company and the entering into the Shareholders' Agreement constitutes a major and connected transaction for the Company pursuant to Rule 14.06(3) and Rule 14A.13(1) of the Listing Rules respectively, which is therefore subject to reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

Major disposal and connected transaction

As at the Latest Practicable Date, Harbour Front and parties acting in concert with it were interested in approximately 62.13% of the issued share capital of the Company and the JV Company was owned as to 50% of Harbour Front, therefore the JV Company is an associate of Harbour Front and a connected person of the Company. Also, the applicable percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the Disposal exceed 25% but less than 75%. Accordingly, the Disposal constitutes a major disposal and connected transaction for the Company pursuant to Rule 14.06(3) and Rule 14A.13(1) of the Listing Rules respectively and is therefore subject to reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

Each of Mrs. Leung, Mr. Leung Yat Tung (being the spouse of Mrs. Leung), Ms. Gillian Leung and Mr. Jerry Leung (collectively the "**Interested Directors**"), each being an executive Director, was directly or indirectly interested in the Shareholders' Agreement and the Disposal Agreement, as each of Mrs. Leung, Ms. Gillian Leung and Mr. Jerry Leung was interested in the issued share capital of Harbour Front. The Interested Directors have abstained from voting on the board resolutions to approve the Shareholders' Agreement, the Disposal Agreement and the transactions contemplated thereunder.

SGM

The Company will convene the SGM at 10:00 a.m. on 10 November 2011 at Lychee Garden, 1/F, Metropark Hotel Mongkok, 22 Lai Chi Kok Road, Mongkok, Kowloon, Hong Kong to approve the Shareholders' Agreement and the Disposal Agreement and the transactions contemplated thereunder. The resolution will be put to the vote at the SGM by poll as required by the Listing Rules. A notice of the SGM is set out on page 52 of this circular. Harbour Front, which together with parties acting in concert with it were interested in approximately 62.13% of the issued share capital of the Company and which is the controlling shareholder of the Company as at the Latest Practicable Date, and its associates and any Shareholder with a material interest in the Shareholders' Agreement and the Disposal Agreement will abstain from voting on the resolutions approving the Shareholders' Agreement and the Disposal Agreement and the transactions contemplated thereunder which will be proposed at the SGM. Each of Mr. Leung Yat Tung, Mrs. Leung, Ms. Gillian Leung and Mr. Jerry Leung, each being an executive Director, was directly or indirectly interested in the issued share capital of Harbour Front and will therefore abstain from voting on the resolutions approving the Shareholders' Agreement and the Disposal Agreement and the transactions contemplated thereunder at the SGM. To the best knowledge, information and belief of the Directors, save as disclosed above, none of the persons who are required to abstain from voting at the SGM is holding any Shares as at the Latest Practicable Date. Save as disclosed above, none of the Directors have any material interest in the Shareholders' Agreement and the Disposal Agreement.

LETTER FROM THE BOARD

A form of proxy for use at the SGM is also enclosed. Whether or not you intend to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar and transfer office in Hong Kong, at Tricor Tengis Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof if you so wish.

RECOMMENDATION

The Independent Board Committee, comprising all independent non-executive Directors, namely, Mr. Pao Ping Wing, *JP*, Professor Yuen Ming Fai, Matthew, Ms., Tse Mei Ha, has been established by the Board for the purpose of advising the Independent Shareholders in relation to the formation of the JV Company, the Shareholders' Agreement, the Disposal and the transactions contemplated thereunder. Your attention is drawn to the letter from the Independent Board Committee set out on pages 15 to 16 of this circular and the letter of advice from Hercules to the Independent Board Committee and the Independent Shareholders in connection with the Shareholders' Agreement and the Disposal Agreement, and the principal factors and reasons considered by them in arriving at such advice set out on page 17 to page 32 in this circular.

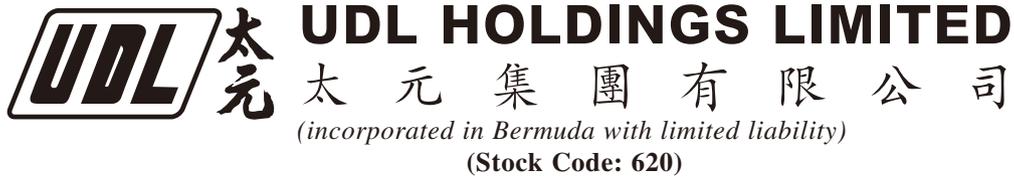
The Independent Board Committee, having taken into account the advice of Hercules, considers that the formation of the JV Company, the Disposal and the transactions contemplated thereunder are in the ordinary and usual course of business of the Company, the formation of the JV Company, the Shareholders' Agreement, the Disposal and the transactions contemplated thereunder are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned and the formation of the JV Company, the Shareholders' Agreement, the Disposal and the transactions contemplated thereunder are in the interest of the Company and the Shareholders as a whole and recommends the Independent Shareholders to vote in favour of the ordinary resolution approving the formation of the JV Company, the Shareholders' Agreement, the Disposal and the transactions contemplated thereunder at the SGM.

Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the ordinary resolution as set out in the notice of SGM to approve the formation of the JV Company, the Shareholders' Agreement, the Disposal and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

Your attention is drawn to the information set out in the appendices to this circular.

Yours faithfully,
By order of the Board
UDL Holdings Limited
Leung Chi Yin, Gillian
Executive Director



25 October 2011

To the Independent Shareholders

Dear Sir or Madam,

**(1) MAJOR AND CONNECTED TRANSACTION
IN RELATION TO THE FORMATION OF A JOINT VENTURE COMPANY
AND
(2) MAJOR DISPOSAL AND CONNECTED TRANSACTION
IN RELATION TO THE DISPOSAL OF
LEAD OCEAN ASSETS MANAGEMENT LIMITED**

We refer to the circular issued by the Company to the Shareholders and dated 25 October 2011 (the “Circular”) of which this letter forms part. Terms defined in the Circular have the same meanings when used in this letter unless the context otherwise requires.

As at the Latest Practicable Date, Harbour Front and parties acting in concert with it were interested in approximately 62.13% of the issued share capital of the Company and therefore HFI, being a wholly-owned subsidiary of Harbour Front, is a connected person of the Company. Also, the applicable percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the formation of the JV Company exceed 25% but less than 100%. Accordingly, entering into the Shareholders’ Agreement constitutes a major and connected transaction for the Company pursuant to Rule 14.06(3) and Rule 14A.13(1) of the Listing Rules respectively, which is therefore subject to reporting, announcement and Independent Shareholders’ approval requirements under the Listing Rules.

As at the Latest Practicable Date, Harbour Front and parties acting in concert with it were interested in approximately 62.13% of the issued share capital of the Company and the JV Company was owned as to 50% of Harbour Front, therefore the JV Company is an associate of Harbour Front and a connected person of the Company. Also, the applicable percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the Disposal exceed 25% but less than 75%. Accordingly, the Disposal constitutes a major disposal and connected transaction for the Company pursuant to Rule 14.06(3) and Rule 14A.13(1) of the Listing Rules respectively and is therefore subject to reporting, announcement and Independent Shareholders’ approval requirements under the Listing Rules.

We have been appointed by the Board to advise the Independent Shareholders as to whether, in our opinion, the formation of the JV Company, the Shareholders’ Agreement, the Disposal and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned. Hercules has been appointed as the independent financial adviser to advise us and the Independent Shareholders in this respect.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We wish to draw your attention to the letter from the Board and the letter from Hercules as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of Hercules as set out in its letter of advice, we consider that the formation of the JV Company, the Shareholders' Agreement, the Disposal and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to approve the formation of the JV Company, the Disposal and the transactions contemplated thereunder at the SGM.

Yours faithfully,

For and on behalf of

Independent Board Committee

Pao Ping Wing, JP

Yuen Ming Fai, Matthew

Tse Mei Ha

Independent non-executive Directors

LETTER FROM HERCULES

The following is the text of a letter of advice in connection with the formation of the JV Company and the Disposal from Hercules to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.

Hercules

Hercules Capital Limited

1503 Ruttonjee House
11 Duddell Street
Central
Hong Kong

25 October 2011

*To the Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

**MAJOR AND CONNECTED TRANSACTION
IN RELATION TO THE FORMATION OF A JOINT VENTURE COMPANY
AND
MAJOR DISPOSAL AND CONNECTED TRANSACTION
IN RELATION TO THE DISPOSAL OF
LEAD OCEAN ASSETS MANAGEMENT LIMITED**

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders with respect to the terms of the formation of the JV Company and the Disposal, details of which are set out in the letter from the Board contained in the circular dated 25 October 2011 to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter have the same meanings as defined elsewhere in the Circular unless the context requires otherwise.

On 27 September 2011, UDL Ventures, a wholly-owned subsidiary of the Company, and HFI entered into the Shareholders’ Agreement in relation to the formation of the JV Company, pursuant to which each of UDL Ventures and HFI conditionally agreed to subscribe for 31,999,999 newly issued shares of the JV Company for cash at par of HK\$1 each in accordance with the Shareholders’ Agreement.

As the applicable percentage ratios in respect of the formation of the JV Company exceed 25% but less than 100%, the formation of the JV Company constitutes a major transaction of the Company under Chapter 14 of the Listing Rules. Harbour Front and parties acting in concert with it were interested in approximately 62.13% of the total issued share capital of the Company as at the Latest Practicable

LETTER FROM HERCULES

Date and therefore HFI, being a wholly-owned subsidiary of Harbour Front, is a connected person of the Company for the purpose of Chapter 14A of the Listing Rules. Accordingly, the formation of the JV Company also constitutes a connected transaction of the Company and is subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

On 27 September 2011, UDL Ventures also entered into the Disposal Agreement with the JV Company, pursuant to which UDL Ventures has conditionally agreed to sell, and the JV Company has conditionally agreed to acquire, the Disposal Sale Shares and the Disposal Shareholder Loan at a consideration of HK\$127,574,250. Subsequent to completion of the Disposal Agreement, Lead Ocean will cease to be a subsidiary of the Company.

As the applicable percentage ratios in respect of the Disposal exceed 25% but less than 75%, the Disposal constitutes a major transaction of the Company under Chapter 14 of the Listing Rules. Harbour Front is the controlling Shareholder and the JV Company was owned as to 50% by Harbour Front as at the Latest Practicable Date and therefore the JV Company is an associate of Harbour Front and a connected person of the Company for the purpose of Chapter 14A of the Listing Rules. Accordingly, the Disposal also constitutes a connected transaction of the Company and is subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

The formation of the JV Company and the Disposal are subject to the approval, by way of poll, of the Independent Shareholders at the SGM. Harbour Front, the controlling Shareholder beneficially holding approximately 62.13% of the issued share capital of the Company as at the Latest Practicable Date, and its associates and any Shareholder with a material interest in the Shareholders' Agreement and the Disposal Agreement are required to abstain from voting at the SGM to approve the resolution proposed in respect of the formation of the JV Company and the Disposal. Each of Mr. Leung Yat Tung, Mrs. Leung, Ms. Gillian Leung and Mr. Jerry Leung, each being an executive Director, are directly or indirectly interested in the issued share capital of Harbour Front and will therefore abstain from voting on the resolution approving the Shareholders' Agreement and the Disposal Agreement and the transactions contemplated thereunder at the SGM.

The Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Pao Ping Wing, *JP*, Professor Yuen Ming Fai Matthew and Ms. Tse Mei Ha, has been established to advise the Independent Shareholders on the formation of the JV Company and the Disposal. We, Hercules Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in connection with the formation of the JV Company and the Disposal, in particular as to whether the terms of the formation of the JV Company and the Disposal are fair and reasonable and on normal commercial terms so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have relied on the information and representations supplied, and the opinions expressed, by the Directors and management of the Company and have assumed that such information and statements, and representations made to us or referred to in the Circular are true, accurate and complete in all material respects as of the date hereof and will continue as such at the date of the SGM. The Directors have collectively and individually accepted full

LETTER FROM HERCULES

responsibility for the Circular, including particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group and having made all reasonable enquiries have confirmed that, to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular misleading.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have no reasons to suspect that any material information has been withheld by the Directors or management of the Company, or is misleading, untrue or inaccurate, and consider that they may be relied upon in formulating our opinion. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of the Group and the related subject of, and parties to, the Shareholders' Agreement and the Disposal Agreement. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change this opinion and that we do not have any obligation to update, revise or reaffirm this opinion.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the formation of the JV Company and the Disposal, we have considered the following principal factors and reasons:

1. INFORMATION ON THE GROUP

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of marine engineering, construction and structural steel engineering and related services and trading of vessels.

LETTER FROM HERCULES

The consolidated financial information of the Group for the two years ended 31 July 2010 and the six months ended 31 January 2011, which were extracted from the 2010 annual report and 2011 interim report of the Company respectively, are summarized as follows:

	For the six months ended		For the year ended	
	31 January		31 July	
	2011	2010	2010	2009
	(unaudited)	(unaudited)	(audited)	(audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover				
– Marine engineering work	37,066	47,396	94,849	106,963
– Construction and structural steel engineering work	7,303	13,369	14,383	10,473
– Sale of vessels	1,250	6,800	5,020	–
	<u>45,619</u>	<u>67,565</u>	<u>114,252</u>	<u>117,436</u>
Loss from operations	(12,355)	(4,577)	(49,041)	(25,005)
Loss attributable to owners of the Company for the period/year	<u>(11,802)</u>	<u>(5,396)</u>	<u>(48,313)</u>	<u>(28,237)</u>
	As at 31 January	As at 31 July		
	2011	2010	2010	2009
	(unaudited)	(unaudited)	(audited)	(audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	318,082	323,886	323,886	371,019
Total liabilities	(67,886)	(70,123)	(70,123)	(73,053)
	<u>250,196</u>	<u>253,763</u>	<u>253,763</u>	<u>297,966</u>
Net assets				

The turnover of the Group for the year ended 31 July 2010 was approximately HK\$114.3 million, representing a slight decrease of approximately 2.7% as compared to the previous year. Owing to the impairment recognized on port work and structural steel licences amounted to approximately HK\$30.9 million, the loss from operations increased by approximately 96.1% from approximately HK\$25.0 million for the year ended 31 July 2009 to approximately HK\$49.0 million for the year ended 31 July 2010 and the loss attributable to owners of the Company also increased by approximately 71.1% to approximately HK\$48.3 million for the year ended 31 July 2010. For prudence of sake, an impairment on port work and structural steel licences was recognized because no contracts were awarded during the year ended 31 July 2010 and there were uncertainties in acquiring new contracts. As a result, the value of licences on the approved list of port works for the government of Hong Kong and the licence for structural steel engineering works in the PRC were written down to their nominal values.

LETTER FROM HERCULES

For the six months ended 31 January 2011, the turnover of the Group was approximately HK\$45.6 million, representing a drop of approximately 32.5% as compared to the previous year. All segments of the Group recorded decreases in turnover during the period under review. Resulted from the decrease in gross profit of the Group for the six months ended 31 January 2011 by approximately 86.1%, the loss from operation and loss attributable to owners of the Company for the six months ended 31 January 2011 increased significantly by approximately 169.9% and 118.7% respectively to approximately HK\$12.4 million and HK\$11.8 million respectively. The decline in turnover and widening of the loss for the six months ended 31 January 2011 was mainly attributable to transition of the operations of the Group. During the period under review, the leasehold of the Group's shipyard in Singapore was ended and the Group only leveraged its marine engineering business in the yards in the PRC. As a result, the turnover of marine engineering section decreased by approximately 21.8%. Furthermore, in order to equip itself for the forthcoming infrastructural projects and marine engineering works, such as the Hong Kong-Zhuhai-Macao Bridge project, in Hong Kong and the neighboring region which require the adoption of new engineering methods and specialized equipments, the Group has begun to source specialized engineering equipments and unique type of vessels to meet customers' demand.

As at 31 January 2011, the non-current assets of the Group amounted to approximately HK\$183.9 million, of which approximately HK\$119.8 million were property, plant and equipment and approximately HK\$57.0 million were lease prepayments, while the current assets of the Group amounted to approximately HK\$134.2 million, which mainly consisted of inventories of HK\$62.1 million, trade and other receivables of HK\$35.7 million, amounts due from customers for contract work of HK\$17.7 million and cash and bank balances of approximately HK\$12.4 million. The total liabilities of the Group amounted to HK\$67.9 million, of which approximately HK\$21.8 million were trade and other payables and HK\$40.1 million were loan from a related company. As at 31 January 2011, the net assets attributable to owners of the Company were approximately HK\$250.2 million.

On 26 April 2011, a wholly-owned subsidiary of the Company entered into an agreement with an independent third party to acquire the entire equity interest in Silk Road Development Company Limited, an investment holding company which owns 80% equity interest of The Dunhuang Lodge Hotel in Dunhuang, Gansu, the PRC, at a consideration of approximately HK\$205.21 million. Details of the acquisition were set out in the Company's announcement and circular dated 26 April 2011 and 8 June 2011 respectively. The acquisition was completed in July 2011 and the Group has diversified its business into the hotel business in the Western part of the PRC upon completion of the acquisition.

2. INFORMATION OF HARBOUR FRONT AND HFI

Harbour Front, the controlling Shareholder, is an investment holding company incorporated in the BVI with limited liability. Mrs. Leung, Ms. Gillian Leung and Mr. Jerry Leung, each being a Director, holds one-third of the issued share capital of Harbour Front. As at the Latest Practicable Date, Harbour Front and parties acting in concert with it were interested in 6,343,851,282 Shares, representing approximately 62.13% of the issued share capital of the Company.

HFI, a wholly-owned subsidiary of Harbour Front, is an investment holding company incorporated in Hong Kong with limited liability.

LETTER FROM HERCULES

3. INFORMATION OF THE JV COMPANY

The JV Company is a company incorporated in Hong Kong with limited liability on 27 September 2011 with an authorized share capital of HK\$10,000 divided into 10,000 shares of HK\$1 each. As at the Latest Practicable Date, the JV Company had an issued share capital of HK\$2 divided into two shares of HK\$1 each and was owned as to 50% by UDL Ventures, a wholly-owned subsidiary of the Company, and 50% by HFI, a wholly-owned subsidiary of Harbour Front. The purpose of incorporating the JV Company is to enter into the Disposal Agreement to acquire the Disposal Group. Subsequent to the Disposal Completion, the JV Company shall engage in business development in structural steel engineering and shipbuilding or to carry on such other business which the board of directors of the JV Company may determine from time to time.

4. INFORMATION ON THE DISPOSAL GROUP

The Disposal Group is consisted of Lead Ocean and its subsidiaries, which are principally engaged in the structural steel engineering and shipbuilding businesses.

The Disposal Group was granted with the land use rights of certain collectively-owned land for a term of 50 years for manufacturing structural steel frames and fabrication of ships and other ancillary businesses in Dongguan. The land is located along the bank of a branch of Dongjiang with deep water access channel and has an area of approximately 154,000 square meter. The Disposal Group has also obtained a licence to manufacture steel frames and products for both PRC internal sale and export business and the necessary approvals for operating a pier in the yard for exporting its products directly from Dongguan.

The consolidated financial information of the Disposal Group for the two years ended 31 July 2011 is summarized as follows:

	For the year ended 31 July	
	2011 (unaudited) <i>HK\$'000</i>	2010 (audited) <i>HK\$'000</i>
Turnover	2,776	5,302
Loss before tax	(2,216)	(4,619)
Net loss for the year	<u>(2,216)</u>	<u>(4,619)</u>
	As at 31 July	
	2011 (unaudited) <i>HK\$'000</i>	2010 (audited) <i>HK\$'000</i>
Total assets	131,786	124,771
Total liabilities	<u>(115,611)</u>	<u>(109,108)</u>
Net assets	<u>16,175</u>	<u>15,663</u>

LETTER FROM HERCULES

During the year ended 31 July 2011, the structural steel engineering business of the Disposal Group was suspended temporarily due to lack of order for engineering contracts under the market condition with keen competition. Therefore, the revenue of the Disposal Group for the year ended 31 July 2011, which was contributed solely by the rental income received from the lease of shipyard in Dongguan, decreased by approximately 47.6% as compared to that of last year to approximately HK\$2.8 million. However, owing to the increase in exchange gain recognized during the year, which amounted to approximately HK\$2.7 million, the Disposal Group's net loss for the year ended 31 July 2011 decreased by approximately 52.0% from approximately HK\$4.6 million to HK\$2.2 million.

As at 31 July 2011, the non-current assets of the Disposal Group amounted to approximately HK\$120.3 million, of which approximately HK\$63.6 million were property, plant and equipment and approximately HK\$56.7 million were land use rights, while the current assets of the Disposal Group amounted to approximately HK\$11.5 million, mainly comprised trade receivables of approximately HK\$0.5 million, land use rights of HK\$2.0 million and cash and bank balances of approximately HK\$8.8 million. The total liabilities of the Disposal Group amounted to HK\$115.6 million, which mainly consisted of other payables and accruals of approximately HK\$0.8 million, receipt in advance of approximately HK\$2.7 million, provision for taxation of approximately HK\$0.7 million and net amounts due to related companies of approximately HK\$111.4 million. As at 31 July 2011, the net assets value of the Disposal Group was approximately HK\$16.2 million.

5. REASONS FOR THE ENTERING INTO OF THE SHAREHOLDERS' AGREEMENT AND THE DISPOSAL AGREEMENT

As disclosed in the Letter from the Board, the purpose of forming the JV Company is to acquire the Disposal Group from the Company and to engage in structural steel engineering and shipbuilding businesses or to carry on such other business which the board of directors of the JV Company may determine from time to time. After the Disposal Completion, the JV Company will explore opportunities for cooperation with other independent third parties such as established market players in structural steel engineering and shipbuilding business.

We noted that continuous losses have been incurred by the Disposal Group during the past years and understand from the management of the Company that in order to turnaround the Disposal Group's performance, substantial developments in the structural steel engineering and shipbuilding businesses by the Disposal Group are needed. In light of the past performance and financial position of the Disposal Group, which had net current liabilities of approximately HK\$104.1 million as at 31 July 2011, the Company expected that it would be difficult, even if not impossible, for the Disposal Group to raise fund from external sources on its own for development of the structural steel engineering and shipbuilding businesses and to secure substantial amount of building contracts which would require considerable working capital for financing its building contracts and facilities improvement works at the shipyard owned by the Disposal Group.

According to the Global Shipbuilding Market Report (2011 Edition) published by Konzept Analytics, an independent market research company, in August 2011, the global shipbuilding market suffered steep decline in new shipbuilding orders for two consecutive years spanning 2008 to 2009 and a remarkable revival in new orders was noted in 2010 following the global economic recovery. With the increase in oil demand, stronger availability of financial support and continuously improving economic

LETTER FROM HERCULES

fundamentals, the market for shipbuilding is forecasted to increase at a compound annual growth rate of 22.7%, in terms of deadweight tonnage during 2011 to 2013. The report also indicated that, currently, the PRC had taken over Korea and accounts for the largest market share in all major global shipbuilding activities.

In view of the above, the Directors expect, and we concur with their view that, in the absence of any unforeseeable adverse factors that may have a substantial negative impact on the global economy, the demand for marine engineering services such as shipbuilding, ship repairing and related services will continue to increase and the market outlook of the shipbuilding industry, particularly in the PRC shall remain positive in the foreseeable future.

Taking into account the positive future prospects of the shipbuilding industry and the considerable working capital required by the Disposal Group to further develop its business, the Directors consider, and we concur with their view, that it is appropriate and in the interests of the Company and the Shareholders as a whole to enter into the Shareholders' Agreement and the Disposal Agreement as the formation of the JV Company and the Disposal shall enable the Company to continue its participation in the structural steel engineering and shipbuilding industries without the need to invest considerable amount of working capital, except for applying part of the net proceeds of the Disposal as capital contribution, to the JV Company. Furthermore, the Disposal also allows the Company to realize part of its investment in the Disposal Group at a fair price and provide additional general working capital to the Group. Meanwhile, the Group can focus its resources on the marine engineering business, which accounted for over 80% of the Group's turnover for the year ended 31 July 2010.

6. PRINCIPAL TERMS OF THE SHAREHOLDERS' AGREEMENT

Capital contribution

Pursuant to the Shareholders' Agreement, each of UDL Ventures and HFI shall subscribe for 31,999,999 newly issued shares of the JV Company for cash at par value of HK\$1 each upon 14 days following the date of passing, by the Independent Shareholders, the resolution(s) approving the Shareholders' Agreement and the Disposal Agreement or such other date as may be agreed between the parties to the agreements and at the same time with the Disposal Completion, with details as follows:

Name of shareholders	Number of shares of the JV Company to be subscribed	Percentage of shares of the JV Company to be held %	Subscription price payable HK\$
UDL Ventures	31,999,999	50	31,999,999
HFI	31,999,999	50	31,999,999
	<u>63,999,998</u>	<u>100</u>	<u>63,999,998</u>

LETTER FROM HERCULES

Each of UDL Ventures and HFI shall:

- (a) within one year from the Disposal Completion Date, subscribe for not less than 32,000,000 shares of the JV Company for cash at par value of HK\$1 each or such agreed lesser number of shares of the JV Company to satisfy the balance payment of the Disposal Consideration after taking into account the then financial position of the JV Company; and
- (b) in addition to the subscription mentioned in (a) above, subscribe for 50% of any such newly issued shares of the JV Company according to timing and amount as determined by the management of the JV Company from time to time to suit its overall business needs,

provided that the aggregate number of shares of the JV Company to be subscribed for and held by each of UDL Ventures and HFI shall not exceed 100,000,000 shares of the JV Company (i.e. an aggregate subscription price of HK\$100,000,000) in any event.

The authorized share capital of the JV Company shall be, subject to the approval by UDL Ventures and HFI in the shareholders' meeting of the JV Company, increased from time to time in order to satisfy the capital contribution requirements by UDL Ventures and HFI in accordance with the Shareholders' Agreement. UDL Ventures and HFI shall exercise all voting rights and other powers of control available to them in relation to the JV Company to procure and to ensure the passing of such resolution(s) as may be necessary or desirable for such subscription requirements.

The capital contribution to the JV Company was determined after arm's length negotiation between the parties to the Shareholders' Agreement with reference to the capital contribution intention of the parties. The JV Company intends to seek business development opportunities in structural steel engineering and/or shipbuilding directly or through cooperation with established market players so as to secure steady and substantial amount of building contracts without undue long marketing process. Considerable working capital will be required for financing both the building contracts and necessary facilities improvement works at the yard owned by Lead Ocean. The relevant portion of capital contribution to be paid by UDL Ventures will be funded by internal resources of the Company and the proceeds under the Disposal Agreement.

Board composition of the JV Company

The board of directors of the JV Company shall consist of two directors. Each of UDL Ventures and HFI shall be entitled to nominate a person to be a director of the JV Company. The director of the JV Company nominated by HFI shall be the first chairman of the board of directors of the JV Company. In the event of an equality of votes, the chairman of the board of directors of the JV Company shall be entitled to a second or casting vote.

LETTER FROM HERCULES

Shareholders' meeting of the JV Company

Material matters in relation to the JV Company as set out in the Shareholders' Agreement, such as material changes in business scopes and corporate structure of the JV Company, provision of loans or credit which occurs other than in the ordinary and usual course of business, entering into contract or arrangement involving payment over predetermined amount, appointment and removal of the employment, or material variation to engagement terms, of the directors or senior management of the JV Company are required to be approved unanimously by all shareholders of the JV Company, either in person or by proxy, at the general meeting of the JV Company.

Transfer of interest

None of the shareholders of the JV Company may transfer its shares or any interest therein without the approval of the board of directors of the JV Company, except in the event that Harbour Front ceases to be the controlling shareholder of the Company, HFI or other nominee appointed by Harbour Front shall have the right to purchase all of the shares of the JV Company held by UDL Ventures (i) at par; or (ii) at the audited net assets value per share of the JV Company, if applicable, whichever is higher.

Having considered that (i) the capital contribution to be made by all shareholders of the JV Company shall be in proportion to their respective shareholding in the JV Company and their equity interest in the JV Company shall remain unchanged after the capital contribution; (ii) each of UDL Ventures and HFI shall have the right to nominate an equal number of representative to the board of directors of the JV Company; (iii) a casting vote in the meetings of the board of directors of the JV Company is necessary to avoid deadlock as the JV Company shall have only two directors; and (iv) material matters in relation to the JV Company shall be approved by all shareholders of the JV Company unanimously at the general meeting of the JV Company, where the interest of the Company in the JV Company can be materially protected despite the director nominated by HFI shall be entitled to a casting vote in the meetings of the board of directors of the JV Company, we are of the view that the terms of the Shareholders' Agreement are, as a whole, on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

7. CONSIDERATION OF THE DISPOSAL

The consideration of the Disposal is HK\$127,574,250, which shall be payable by the Purchaser or its nominee by cheque in favour of UDL Ventures or its nominee or in other mutually agreed form in the following manner:

- (i) HK\$63,787,125, shall be paid on the Disposal Completion Date; and
- (ii) the remaining balance of HK\$63,787,125, shall be payable in part or in full by the Purchaser upon the availability of sufficient internally generated cash flow of the Purchaser, but in any event shall be paid in full within one year after the Disposal Completion Date.

LETTER FROM HERCULES

The Disposal Consideration was determined after arm's length negotiations between the parties to the Disposal Agreement with reference to the net asset value of the Disposal Group as at 31 July 2011 of HK\$16,175,505 and the amount of the Disposal Shareholder Loan as at 31 July 2011 of HK\$111,398,745. The net asset value of the Disposal Group as at 31 July 2011 was calculated with reference to the net tangible asset value of the members of the Disposal Group which comprises mainly the Properties with a market value of Renminbi 96.8 million (equivalent to approximately HK\$117 million) as at 31 July 2011 as valued by BMI, an independent professional valuer. There are no security charges for the deferred payment of the Disposal Consideration.

Consideration of the Disposal Sale Shares

In forming our opinion on the consideration for the Disposal Sale Shares, we have considered the commonly adopted comparable approaches in evaluation a company, namely price-to-earnings approach, dividends approach and net assets approach. However, as the Disposal Group recorded net loss for the year ended 31 July 2011 and Lead Ocean had not declared any dividend to its shareholders during the two years ended 31 July 2011, we consider that the price-to-earnings approach and the dividends approach are not applicable for assessing the value of the Disposal Group.

Based on the unaudited financial statements of Lead Ocean, the consolidated net asset value of the Disposal Group as at 31 July 2011 amounted to HK\$16,175,505. Accordingly, the price-to-book ratio ("PBR") of Lead Ocean implied by the consideration of the Disposal Sale Shares of HK\$16,175,505 is 1 times.

In assessing the fairness and reasonableness of the consideration of the Disposal Sale Shares, we have compared the PBR of the Disposal Group implied by the consideration of the Disposal Sale Shares with those of other comparables which are (a) currently listed on the Stock Exchange; and (b) principally engaged in shipbuilding and/or structural steel engineering as at the Latest Practicable Date. Based on the above-mentioned criteria, we have, to our best knowledge, identified four comparable companies (the "Comparables") as valuation benchmarks. Set out in Table 1 is a comparison of the valuation statistics of the Disposal Group implied by the consideration of the Disposal Sale Shares as at the Latest Practicable Date.

LETTER FROM HERCULES

Table 1 – PBR of the Comparables and the Disposal Group

Company name (stock code)	Principal business activities	PBR as at the Latest Practicable Date (times)
China Ocean Shipbuilding Industry Group Limited (651)	Shipbuilding and metal trading	(Note) N/A
China Rongsheng Heavy Industries Group Holdings Limited (1101)	Heavy industries for shipbuilding, marine engine building, offshore engineering, oil and gas related customers and markets	0.90
Guangzhou Shipyard International Company Limited (317)	Construction and trading of vessels, manufacturing and trading of steel structure and mechanical and electrical equipment	0.25
The Company (620)	Sales of vessels, marine engineering, construction and structural steel engineering work and related services, including leasing of plant and equipment	1.39
Maximum		1.39
Minimum		0.25
Average		0.85
Disposal Group	Shipbuilding and structural steel engineering	1.00

Source: the website of the Stock Exchange

Note: China Ocean Shipbuilding Industry Group Limited had a net liability as at 30 June 2011, being the date to which its latest published financial statements were made up.

As shown in Table 1, the PBR of the Comparables ranged from approximately 0.25 times to 1.39 times, with an average of approximately 0.85 times. The implied PBR of the Disposal Sale Shares of 1 times falls within the range of the PBR of the Comparables and is higher than the average of the Comparables of 0.85.

The above comparison with the Comparables is for illustrative purposes only as each of the Comparables may not be entirely comparable to the Disposal Group in terms of the market capitalization, geographical spread of activities, scale of operations, asset base, cash position, debt structure, minority interest, risk profile, track record, composition of their business activities, future prospects and other relevant criteria. All these factors may affect the valuation of a company as indicated by the varied range of result in our comparison. Therefore, in forming our opinion, we have considered the results of the above comparison together with all other factors stated in this letter as a whole.

LETTER FROM HERCULES

In assessing the fairness and reasonableness of the consideration of the Disposal Sale Shares, we have also reviewed the valuation report of the Properties as set out in Appendix II to the Circular.

As stated in the valuation report prepared by BMI, as the Properties are collectively-owned lands which are not freely transferrable unless certain government approvals were obtained and requisite land premiums were paid so as to convert the collectively-owned construction lands to granted lands, BMI is unable to attribute any commercial value to the Properties. However, for reference purpose, the market value of the Properties as at 31 July 2011 was Renminbi 96.8 million (equivalent to approximately HK\$117 million).

We have discussed with BMI and reviewed the methodology, basis, considerations and key assumptions employed in the valuation and noted that the Properties have been valued on market basis by the comparison approach, which assuming sale in their existing state with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant market. Appropriate adjustments have then been made to account for the differences between the property and the comparables in terms of age, time, location, floor level and other relevant factors. In addition, investment approach has also been adopted, where appropriate, by taking into account the current rents passing of the property being held under existing tenancies and the reversionary potential of the tenancies if it has been or would be let to tenants.

We also understand from BMI that the abovementioned approaches are common valuation method in arriving at the valuation, the methodology applied is consistent with market practice and the valuation of the Properties has been prepared under the generally accepted valuation procedures. Given the valuation methodology applied by BMI is normal and usual among professional asset valuers and in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors, we are of the opinion that the basis for determining the valuation of the Properties by BMI is appropriate and fair and reasonable.

Having considered that (i) the Disposal Group was suffering from continuous losses for the two years ended 31 July 2011; (ii) the implied PBR of the Disposal Sale Shares falls within the range of the PBR of the Comparables and is higher than the average of the Comparables; (iii) the consideration of the Disposal Sale Shares is equal to the consolidated net asset value of the Disposal Group as at 31 July 2011; and (iv) the basis for determining the valuation of the Properties is fair and reasonable, we consider that the consideration for the Disposal Sale Shares is fair and reasonable so far as the Independent Shareholders are concerned and it is on normal commercial terms.

Consideration of the Disposal Shareholder Loan

As at 31 July 2011, the unaudited net current liabilities and the Disposal Shareholder Loan of the Disposal Group amounted to approximately HK\$104.1 million and HK\$111.4 million respectively. Given the unsatisfactory financial performance and financial position, the Directors considered that it would be difficult for the Disposal Group to repay the Disposal Shareholder Loan if no additional funding is obtained. Therefore, the Directors considered that the possibility of

LETTER FROM HERCULES

recovering the Disposal Shareholder Loan from the Disposal Group was remote and the Company would have to recognize further impairment loss for the Disposal Shareholder Loan even if the Disposal Shareholder Loan was not disposed of to the JV Company. Having considered that the Disposal Shareholder Loan is an interest-free loan without any option right, the fair value of it should be fairly reflected by its face value, we consider that the consideration for the Disposal Shareholder Loan, which is equal to the face value of the Disposal Shareholder Loan as at 31 July 2011, is fair and reasonable.

Deferred payment of the Disposal Consideration

According to the Disposal Agreement, 50% of the Disposal Consideration (i.e. HK\$63,787,125) shall be payable in part or in full by the Purchaser upon the availability of sufficient internally generated cash flow of the Purchaser, but in any event shall be paid in full within one year after the Disposal Completion Date. The deferred payment is interest-free and not subject to security charge.

The above arrangement is more favourable to the Purchaser. However, given that (i) the Purchaser is owned as to 50% by the Group and more capital contribution will have to be made by the Group if the whole amount of the Disposal Consideration is paid upon completion; (ii) the shipbuilding industry is capital intensive and it may be difficult for the JV Company to arrange debt financing due to short history of operation in its first year of operation while the arrangement of deferred payment can lessen the pressure on working capital of the JV Company in its first year of operation; (iii) based on the prevailing best lending rate of Hongkong & Shanghai Banking Corporation as at the Latest Practicable Date of 5%, the maximum amount of interest that will be forfeited by the Group due to the arrangement of deferred payment shall be approximately HK\$1.6 million only (as calculated as the amount of deferred payment of HK\$63,787,125 x the interest rate of 5% x the proportion of interest to be shared by the Group of 50%), which is relatively immaterial as compared to the investment of the Group in the JV Company; and (iv) the Purchaser is jointly controlled by the Group and thus the possibility of default in payment is relatively low, we consider that the arrangement of deferred payment of the Disposal Consideration is on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

8. FINANCIAL EFFECTS OF THE DISPOSAL AND THE FORMATION OF THE JV COMPANY

Earnings

Upon the Disposal Completion, Lean Ocean will cease to be a subsidiary of the Company and the results of the Disposal Group will no longer be consolidated into the financial statements of the Company but accounted for in the financial statement of the Company using proportionate consolidation method or equity method. Given the continuous loss of the Disposal Group, the Group's earnings may improve as a result of the Disposal and the formation of the JV Company.

LETTER FROM HERCULES

Net asset value

As no material gains or losses are expected from the disposal of the Disposal Group except for the transaction expenses, the net asset value of the Disposal Group shall not be materially affected upon the Disposal Completion and the capital contribution to the JV Company. Given the continuous loss of the Disposal Group in the past, the Group's net asset value may continue to be adversely affected after the Disposal and the formation of the JV Company even under proportionate consolidation method or equity method if the business of the Disposal Group could not be turned around.

Cashflow

The Group will receive, after deducting all relevant expenses, net cash proceeds of approximately HK\$126.0 million from the Disposal. The capital contribution to the JV Company would require a minimum of HK\$64.0 million, of which HK\$32.0 million shall be paid upon the Disposal Completion and the remaining balance of HK\$32.0 million shall be paid within one year from the Disposal Completion Date, and a maximum of HK\$100.0 million, and resulted in a net cash inflow in the range of HK\$26 million and HK\$62 million.

Gearing and working capital

The Disposal and formation of the JV Company would slightly improve the gearing of the Group (as expressed as total liabilities over total assets) as the change in assets will be similar to the change in liabilities as a result of the Disposal and the formation of the JV Company. On the other hand, the Company intends to use the net proceeds from the Disposal, after deducting the amount used in capital contribution to the JV Company, as general working capital of the Group. Hence, the working capital of the Group would be enhanced.

In conclusion, the Disposal and the formation of the JV Company will have a positive effect on the Group's earnings, cash position, gearing ratio and working capital and have no material immediate effect on the Group's net assets value. Having considered the aforementioned overall benefits which the Disposal and the formation of the JV Company would likely to bring to the Group, we consider that the insignificant adverse impact on the Group's net assets value due to the Disposal and the formation of the JV Company is justifiable.

LETTER FROM HERCULES

RECOMMENDATION

Having considered the principal factors and reasons stated above, we are of the view that the terms of the Shareholders' Agreement and the Disposal Agreement are on normal commercial terms and the formation of the JV Company and the Disposal are in the ordinary and usual course of business of the Group and fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. As such, we recommend the Independent Board Committee to advise the Independent Shareholders, and recommend the Independent Shareholders, to vote in favor of the resolution to be proposed at the SGM to approve the Shareholders' Agreement and the Disposal Agreement and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of

Hercules Capital Limited

Louis Koo

Amilia Tsang

Managing Director

Director

1. FINANCIAL SUMMARY

Financial information of the Group for the six months ended 31 January 2011 and each of the three years ended 31 July 2010, 2009 and 2008 are disclosed in pages 1 to 20 of interim report 2011, pages 19 to 95 of annual report 2010, pages 21 to 97 of annual report 2009 and pages 23 to 89 of annual report 2008 of the Company respectively, which are published on both the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.udl.com.hk).

The Company's auditors, CCIF CPA Limited, have not qualified the Company's financial statements for the year ended 31 July 2008. However, they have issued qualified audit opinion on the Company's financial statements for the year ended 31 July 2009. Due to the qualified amount 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, the income statement of the Group for the year ended 31 July 2010 was also qualified by the auditors.

In short, the qualified audit opinions were related to the auditors having been unable to determine whether the carrying value of the licenses on the approved list of work of the port work for the Hong Kong Government and one licence for structural steel engineering work in the PRC (the "Licences") were fairly stated as at 31 July 2009 and whether any adjustment to such carrying value 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.

For details of the qualified audit opinion, please refer to pages 19 and 20 of the annual report of the Company for the year ended 31 July 2009 and pages 17 and 18 of the annual report of the Company for the year ended 31 July 2010. Since the Licences mentioned above have already been fully impaired in the financial year ended 31 July 2010, the Directors do not expect the formation of the JV Company and the Disposal would have any impact on the subject matters of the aforesaid qualified audit opinion.

2. STATEMENT OF INDEBTEDNESS OF THE GROUP**Borrowings**

As at the close of business on 31 August 2011, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding borrowings of approximately HK\$99,861,000, comprising secured short-term bank loans of approximately HK\$12,224,000 secured by the Group's hotel properties and land use rights with a total carrying amount of approximately HK\$260,200,000 and personal guarantee executed by Mr. Wong Man Kong, Peter of the Silk Road Development Company Limited and Gansu Dunhuang Lodge Hotel Co., Ltd, unsecured short-term bank loans of approximately HK\$1,223,000 and loans from related companies of approximately HK\$86,414,000.

Debt instruments

As at 31 August 2011, the Group had promissory notes with principal amount of approximately HK\$188,270,000.

Debt securities

As at 31 August 2011, the Group had no debt securities outstanding.

Contingent liabilities

Save as the contingent liabilities in respect of a number of legal proceedings in Hong Kong and Bermuda as disclosed in the paragraphs headed “Contingent Liabilities”, “Accounting Estates and Judgements” and “Contingencies and Litigations” on pages 5, 49, 83 to 86 respectively in the annual report 2010 and the paragraph headed “Contingencies and Litigations” on pages 19 to 20 in the interim report of the Company for the six months ended 31 January 2011 referred to in Section 1 in this Appendix above and the paragraph headed “Litigation” in Appendix III to this circular, as at the close of business on 31 August 2011, the Group did not have any significant contingent liabilities.

Further to the above and as additional information, on 29 September 2011 a vessel owned by the Group was stranded due to typhoon. The carrying value of this vessel was approximately HK\$5 million. No injury or death was caused by the accident. The Group has taken out protection and indemnity insurance coverage at international standard for the vessel concerned in respect of its legal liability to third parties. The exact amount of damage to the vessel has yet to be ascertained after completion of salvage.

Disclaimers

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have any outstanding indebtedness at the close of business on 31 August 2011 or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptance (other than normal trade bills), acceptance credits, mortgages, charges, debentures, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities and any guarantees or other material contingent liabilities.

3. WORKING CAPITAL

The Directors are of the opinion that taking into account the available credit facilities as described in more detail in the above section headed “Statement of indebtedness of the Group”, and the Group’s existing cash and bank balances and other financial resources available and the estimated net proceeds from the Disposal, after the completion of the Disposal, the Remaining Group has sufficient working capital for its present requirements and for at least twelve months from the date of publication of this circular.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group will continue to focus on developing its current business in marine engineering, construction and related services, trading of vessels and hotel business in the Western part of the PRC whereas its structural steel engineering will start to be pursued through the JV Company. The Group considers that the proceeds from the Disposal will further strengthen the Group's financial and cash position and facilitate the Group's operations. The Group is one of the few companies specialised in marine engineering projects in Hong Kong. In order to capture the forthcoming infrastructural and marine engineering projects in Hong Kong and the neighbouring region, such as the Hong Kong-Zhuhai Macao Bridge ("HZMB") project, the Group have already started to form strategic joint venture with major contractors for participation in tendering of key projects like the reclamation work of the Hong Kong Boundary Cross Facilities ("HKBCF") for the HZMB. It will continue to strive to strengthen its business fundamentals and fortify the core competencies to provide a wider range of solutions that will address the market's evolving requirements. It will also continue to seek for good opportunities to strategically co-operate with like-minded partners in the market to create new synergies like what it has done for the HKBCF reclamation project of the HZMB as just mentioned. The revenue of the Group's hotel business in the Western part of the PRC was growing on a year to year basis. With the implementation of co-marketing and promotion events, it is expected to further improve the performance of its hotel business.

With the gradual implementation of the major infrastructural projects in Hong Kong, the Group has recently received new orders for construction works and also trading of vessels. It is expected that this trend will continue in this current financial year to give a steady stream of income for the Group.

The hotel business in the past few months has shown material improvements over same period in previous years, it is expected that this trend will continue in this current financial year to give a steady stream of income for the Group.

After the Disposal, the Group is expected to have sufficient working capital to develop its business in this current financial year.

Up to the Latest Practicable Date, save as disclosed in this circular, the Board did not have any agreement, arrangement, understanding or intention and was not in negotiation (concluded or otherwise) in relation to any disposal, termination or scaling-down of its existing businesses in marine construction and related services, trading of vessels and hotel business in the Western part of the PRC.

The following is the text of a letter, summary of value and valuation certificate, prepared for the purpose of incorporation in this in this circular received from BMI Appraisals Limited, an independent valuer, in connection with its valuation as at 31 July 2011 of the property held by the Group in the PRC.

BMI APPRAISALS

BMI Appraisals Limited 中和邦盟評估有限公司

33/F, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong

香港灣仔港灣道6-8號瑞安中心33樓

Tel電話：(852) 2802 2191 Fax傳真：(852) 2802 0863

Email電郵：info@bmintelligence.com Website網址：www.bmi-appraisals.com

25 October 2011

The Directors

UDL Holdings Limited

7th Floor, Aitken Vanson Centre

No. 61 Hoi Yuen Road

Kwun Tong, Kowloon

Hong Kong

Dear Sirs,

INSTRUCTIONS

We refer to the instructions from UDL Holdings Limited (the “Company”) for us to value the property held by the Company and/or its subsidiaries (together referred to as the “Group”) located in the People’s Republic of China (the “PRC”). We confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property as at 31 July 2011 (the “date of valuation”).

BASIS OF VALUATION

Our valuation of the concerned property has been based on the Market Value, which is defined as “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

VALUATION METHODOLOGY

In valuing the property held by the Group, we have valued it on market basis by the Comparison Approach assuming sale in its existing state with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant market. Appropriate adjustments have then been made to account for the differences between the property and the comparables in terms of age, time, location, floor level and other relevant factors.

We have also adopted the Investment Approach where appropriate by taking into account the current rents passing of the property being held under existing tenancies and the reversionary potential of the tenancies if it has been or would be let to tenants.

TITLE INVESTIGATION

For the property located in the PRC, we have been provided with copies of title documents/tenancy agreements. Where possible, we have examined the original documents to verify ownership or to ascertain the existence of any amendment documents. In the course of our valuation of property in the PRC, we have also relied upon the advice and information given by the Group's PRC legal adviser – Allbright Law Offices (錦天城律師事務所) regarding the title of the property. All documents have been used for reference only.

VALUATION ASSUMPTIONS

Our valuation has been made on the assumption that the property is sold in the market in its existing state without the benefit of deferred term contract, leaseback, joint venture, management agreement or any other similar arrangement which could serve to affect the value of the property.

In addition, no account has been taken of any option or right of pre-emption concerning or effecting sale of the property and no forced sale situation in any manner is assumed in our valuation.

We have relied on the advice given by the Group's PRC legal adviser – Allbright Law Offices (錦天城律師事務所) that the Group has valid and enforceable title to the property which is freely transferable, and have free and uninterrupted right to use the same, for the whole of the unexpired term granted subject to the payment of annual government rent/land use fees and all requisite land premium/purchase consideration payable have been fully settled.

VALUATION CONSIDERATIONS

We have inspected the property externally and where possible, the interior of the property. In the course of our inspection, we did not note any serious defects. However, no structural survey has been made. We are, therefore, unable to report whether the property is free from rot, infestation or any other structural defects. No tests were carried out on any of its services.

In the course of our valuation, we have relied to a considerable extent on the information given by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenures, particulars of occupancy, site/floor areas, identification of the property and other relevant information.

We have not carried out detailed on-site measurements to verify the correctness of the site/floor areas in respect of the property but have assumed that the site/floor areas shown on the documents handed to us are correct. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the leases and other documents provided to us and are therefore only approximations.

We have no reason to doubt the truth and accuracy of the information provided to us by the Group and we have relied on the Group's confirmation that no material facts have been omitted from the information so supplied. We consider that we have been provided with sufficient information to reach an informed view.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property or for any expenses or taxation, which may be incurred in effecting a sale.

Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value.

Our valuations have been prepared in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors.

Our valuations have been prepared under the generally accepted valuation procedures and are in compliance with the requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

REMARKS

Unless otherwise stated, all money amounts stated herein are in Renminbi (RMB) and no allowances have been made for any exchange transfers.

Our Summary of Value and the Valuation Certificate are attached herewith.

Yours faithfully,
For and on behalf of
BMI APPRAISALS LIMITED

Dr. Tony C.H. Cheng
*BSc., MUD, MBA(Finance), MSc.(Eng), PhD(Econ),
MHKIS, MCI Arb, AFA, SIFM, FCIM,
MASCE, MIET, MIEEE, MASME, MIIE
Managing Director*

Joannau W.F. Chan
*BSc., MSc., MRICS, MHKIS, RPS(GP)
Senior Director*

Notes:

Dr. Tony C.H. Cheng is a member of the Hong Kong Institute of Surveyors (General Practice) who has over 18 years' experience in valuations of properties in Hong Kong and the PRC.

Ms. Joannau W.F. Chan is a member of the Hong Kong Institute of Surveyors (General Practice) who has over 18 years' experience in valuations of properties in Hong Kong and over 12 years' experience in valuations of properties in the PRC.

SUMMARY OF VALUES

Property	Market Value in existing state as at 31 July 2011 RMB
Group I – Property held by the Group in the PRC	
A shipyard and a structural steel manufacturing workplace located at Sisheng Village, Duxi, Shatian Town, Dongguan City, Guangdong Province, the PRC	No commercial value (please refer to Note 16)
	<hr/>
Total:	<u>Nil</u>

VALUATION CERTIFICATE

Group I – Property held by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 July 2011 <i>RMB</i>												
A shipyard and a structural steel manufacturing workplace located at Sisheng Village, Duxi, Shatian Town, Dongguan City, Guangdong Province, the PRC	<p>The property comprises two land parcels with a total site area of approximately 153,333.34 sq.m. (or about 1,650,480 sq.ft.) and various buildings and structures erected thereon completed in between 1992 and 2005.</p> <p>The buildings include 3 single-storey workshops, a 3-storey warehouse, a 3-storey office building and a single-storey electrical room with a total gross floor area (“GFA”) of the buildings is approximately 11,429.1 sq.m. (or about 123,023 sq.ft.). The details are set out as follows:</p> <table style="margin-left: 20px;"> <thead> <tr> <th style="text-align: left;">Buildings</th> <th style="text-align: right;">GFA (<i>sq.m.</i>)</th> </tr> </thead> <tbody> <tr> <td>Workshop (3 nos.)</td> <td style="text-align: right;">8,848.5</td> </tr> <tr> <td>Warehouse</td> <td style="text-align: right;">1,655.1</td> </tr> <tr> <td>Office</td> <td style="text-align: right;">693.9</td> </tr> <tr> <td>Electrical Room</td> <td style="text-align: right;">231.6</td> </tr> <tr> <td>Total:</td> <td style="text-align: right;"><u>11,429.1</u></td> </tr> </tbody> </table> <p>The major ancillary structures include 10 manufacturing platforms, 3 movable workshops and a pier.</p> <p>The land use rights of the collective-owned construction lands of the property have been allocated for industrial use. (Refer to Notes 3 and 7)</p>	Buildings	GFA (<i>sq.m.</i>)	Workshop (3 nos.)	8,848.5	Warehouse	1,655.1	Office	693.9	Electrical Room	231.6	Total:	<u>11,429.1</u>	<p>As at the date of valuation, portion of the property is subject to a tenancy and occupied for industrial use. (Refer to Note 12)</p> <p>The remaining portion of the property is vacant.</p>	<p>No Commercial Value (Please refer to Note 16)</p>
Buildings	GFA (<i>sq.m.</i>)														
Workshop (3 nos.)	8,848.5														
Warehouse	1,655.1														
Office	693.9														
Electrical Room	231.6														
Total:	<u>11,429.1</u>														

Notes:

1. Pursuant to a Dong Guan Hing Wah Shipbuilding Co. Ltd. Joint-Venture Contract (合作經營東莞興華造船有限公司合同) (“Hing Wah JV Contract”), entered into between Shatian Foreign Trade and Economic Development Company (東莞市沙田對外經濟開發總公司) (“Shatian Company”) which is an independent third party of the Company and its connected persons and Cochrane Enterprises Ltd. ((香港)高堅實業有限公司) (“Cochrane”) dated 18 October 1990, the former agreed to allocate the land use rights of collectively-owned construction land for industrial use with a site area of approximately 77,000 sq.m. to the latter for a term of 50 years commencing on 13 November 1990 for the uses of fabrication, repairs of ships and other ancillary businesses. Collectively-owned construction land is a land collectively-owned by rural collective economic organisation.
2. According to the Hing Wah JV Contract, Cochrane is entitled to get back 10% of the costs of its provided fixed assets annually for ten years from the annual profits of Dong Guan Hing Wah Shipbuilding Co. Ltd. (東莞興華造船有限公司) (“Hing Wah”). Besides, Cochrane and Shatian Company are entitled to 90% and 10% of the annual net earnings of Hing Wah respectively. Annual net earnings mean annual earnings before tax minus the 10% payback of the costs of fixed assets. If Hing Wah loses money, it should be borne solely by Cochrane.
3. Pursuant to a Collectively-owned Construction Land Use Rights Certificate (集體土地建設用地使用證), Dong Fu Ji Jian Zong Zi Di No. 0002531 Zi (1990) Di No.19001400005, issued by The People’s Government of Dongguan City dated 18 October 1990, the land use rights of the collectively-owned construction land with a site area of approximately 77,220 sq.m. have been allocated to Hing Wah for industrial use.
4. Pursuant to a Real Estate Search Report (房地產結果報告), issued by the Beijing Guo Tu Lian Real Estate Appraising Center Co., Ltd. (北京國土聯房地產評估中心有限公司) dated 4 November 2009, 1) there was no formal land registration requirement of the Collectively-owned Construction Land Use Rights Certificate as stated in Note 3; 2) investigation from the Land Resources Bureau of Dongguan City has been carried out and Hing Wah was the owner of the land of the property as stated in the Collectively-owned Construction Land Use Rights Certificate of Note 3.
5. Pursuant to a Dong Guan Hing Wah Shipbuilding Co. Ltd. Joint-Venture Contract Supplementary Agreement (合作經營東莞興華造船有限公司合同補充協議), entered into between Shatian Company and Cochrane dated 19 December 1991, the former agreed to allocate the land use rights of collective-owned construction land with a site area of approximately 115 mu (or about 76,666.67 sq.m.) to the latter for a term of 50 years at a consideration of RMB5,084,000. Pursuant to the terms stated in an invoice dated 2 January 2008 issued by Shatian Company, the annual land rent of the land parcel is RMB172,800 as at the report date subject to an increase of 20% for every five years from 1 January 2007.
6. Pursuant to a Dong Guan Chunwah Engineering and Heavy Industry Co. Ltd. Joint-Venture Contract (合作經營東莞振華建造工程有限公司合同) (“Chunwah JV Contract”), entered into between Shatian Company and Argos Engineering (International) Co. Ltd. ((香港)中華實業(國際)有限公司) (“Argos”) dated 18 October 1990, the former agreed to allocate the land use rights of collective-owned construction land with a site area of approximately 77,000 sq.m. to the latter for a term of 50 years commencing on 13 November 1990 for the use of manufacturing and installing structural steel frames.
7. According to the Chunwah JV Contract, Argos is entitled to get back 10% of the costs of its provided fixed assets annually for ten years from the annual profits of Dong Guan Chunwah Engineering And Heavy Industry Co. Ltd. (東莞振華建造工程有限公司) (“Chunwah”). Besides, Argos and Shatian Company are entitled to 90% and 10% of the annual net earnings of Chunwah respectively. Annual net earnings mean annual earnings before tax minus the 10% payback of the costs of fixed assets. If Chunwah loses money, it should be borne solely by Argos.
8. Pursuant to a Collectively-owned Construction Land Use Rights Certificate (集體土地建設用地使用證), Dong Fu Ji Jian Zong Zi Di No. 0002533 Zi (1990) Di No.19001400006 issued by the People’s Government of Dongguan City dated 18 October 1990, the land use rights of the collectively-owned construction land with a site area of approximately 77,220 sq.m. have been allocated to Chunwah for industrial use.
9. Pursuant to a Real Estate Search Report (房地產結果報告), issued by the Beijing Guo Tu Lian Real Estate Appraising Center Co., Ltd. (北京國土聯房地產評估中心有限公司) dated 20 October 2009, 1) there was no formal land registration requirement of the Collectively-owned Construction Land Use Right Certificate as stated in Note 8; 2) investigation from the Land Resources Bureau of Dongguan City has been carried out and Chunwah was the owner of the land of the property as stated in the Collectively-owned Construction Land Use Rights Certificate of Note 8.

10. Pursuant to a Chunwah Engineering And Heavy Industry Co. Ltd. Joint-Venture Contract Supplementary Agreement (合作經營東莞振華建造工程有限公司合同補充協議), entered into between Shatian Company and Argos dated 19 December 1991, the former agreed to allocate the land use rights of collective-owned construction land with a site area of approximately 115 mu (or about 76,666.67 sq.m.) to the latter for a term of 50 years at a consideration of RMB5,084,000. Pursuant to the terms stated in the invoice in Note 5, the annual land rent of the land parcel is RMB172,800 as at the report date subject to an increase of 20% for every five years from 1 January 2007.
11. Pursuant to the terms stated in the invoice in Note 5, the property is subject to an annual management fee of RMB18,000. Besides, pursuant to the terms stated in another invoice dated 2 January 2008 issued by Shatian Company, each of Hing Wah and Chunwah has to pay annual management fees of RMB80,000 to Shatian Company for the management of the pier.
12. Pursuant to a tenancy agreement (the “tenancy”) and its supplementary agreement entered into between 中鐵九橋工程有限公司 (China Railway Jiu Jiang Bridge Engineering Co., Ltd), 中鐵大橋局集團第三工程有限公司 (Zhong Tie Da Qiao Ju Ji Tuan Di San Gong Cheng You Xian Gong Si) (穗莞深城際軌道交通工程SZH-1標項目部) (Siu Guan Shen Cheng Ji Gui Dao Jiao Tong Gong Cheng SZH-1 Biao Xiang Mu Bu) and Chunwah dated 10 June 2011 and 19 August 2011 respectively, Chunwah agreed to continue to lease portion of the property with a site area of approximately 1,000 sq.m. (including ancillary facilities) to 中鐵大橋局集團第三工程有限公司 for a term commencing on 10 June 2011 and expiring on 25 August 2011, which has been extended to 25 October 2011 at a monthly rent of RMB255,000 plus transformer charges of RMB36,800 per month. There is no negotiation for further extension for the said tenancy as the Group is considering an alternative use of the subject land for other business development.
13. Pursuant to a Business License (企業法人營業執照), Registration No. 441900400095676, issued by Dongguan Administration for Industry and Commerce (東莞市工商行政管理局) dated 2 June 2011, Chunwah was incorporated with a registered capital of HK\$32,000,000 and the operation period is effective from 13 November 1990 to 12 November 2040 for the business of manufacturing and installing structural steel frames for export and local sale.
14. The status of title and grant of major approvals and licences in accordance with the information provided by the Group are as follows:
- | | |
|--|-----|
| Collective-owned Construction Land Use Rights Certificates | Yes |
| Joint-Venture Contracts and Supplementary Agreements | Yes |
| Business License | Yes |
15. The opinion (together with a supplemental opinion thereto) dated 20 October 2011 given by the PRC legal advisor to Cochrane and Argos contains, inter alia, the following:
- a. Hing Wah has the legal rights to use the collective-owned construction land with Collective-owned Construction Land Use Rights Certificate, Dong Fu Ji Jian Zong Zi Di No. 0002531 Zi (1990) Di No.19001400005 for the term as stated in the Hing Wah JV Contract;
 - b. Chunwah has the legal rights to use the collective-owned construction land with Collective-owned Construction Land Use Rights Certificate, Dong Fu Ji Jian Zong Zi Di No. 0002533 Zi (1990) Di No.19001400006 for the term as stated in the Chunwah JV Contract;
 - c. Hing Wah was incorporated with a registered capital of HK\$30,000,000 and the operation period is effective from 13 November 1990 to 12 November 2040 for the business of manufacturing, repairing of vessels and manufacturing of off-shore exploitation equipments for export and local sale. The business license of Hing Wah has been suspended since 2 January 2001 due to non-participation in the annual government audit. Nevertheless, the PRC legal advisor opined that up to the date of the opinion the suspension of Hing Wah’s business license did not affect the legality and validity of the land use right in the relevant land parcel which has been allocated to Hing Wah. As advised by the PRC legal advisor, the business license of Hing Wah can be resumed by paying up the required registered capital of Hing Wah, verification of such payment and re-filing to the relevant PRC authorities. Cochrane will seek resumption of Hing Wah’s business license when there is solid business development of shipbuilding opportunity available, or alternatively Cochrane will seek to consolidate the business scope and land use rights of Hing Wah with that of Chunwah;

- d. Argos and Cochrane are entitled to 90% of the profit of Hing Wah and Chunwah respectively whereas the Shatian Company will be entitled to the remaining 10% profit of Hing Wah and Chunwah respectively. As Hing Wah and Chunwah are cooperative companies, equity sharing arrangement is not applicable; and
 - e. Chunwah has obtained the necessary license to operate in relevant land parcel in Shatian Town.
16. As the subject lands are collectively-owned lands which are not freely transferrable unless Cochrane and Argos have obtained certain government approvals and pay the requisite land premiums so as to convert the collectively-owned construction lands to granted lands, we are unable to attribute any commercial value to it. However, for your reference purpose, the market value of the property as at the date of valuation is RMB96,800,000. We have prepared our valuation based on the following assumptions:
- a. The business license of Hing Wah has been renewed and all premiums and other related fees have been settled in full;
 - b. The business license of Chunwah has been renewed and all premium and other related fees have been settled in full;
 - c. We have assumed that all the buildings and structures had been completed on or before 31 March 2005;
 - d. In our valuations, we have not taken into account the paybacks of the costs of fixed assets, the earnings and losses distribution arrangements as stated in Notes 2 and 7;
 - e. Cochrane and Argos have obtained the relevant title documents which confirm the conversion to granted lands and have no need to pay the annual land rents as stated in Notes 5 & 10 and the management fees as stated in Note 11. Such conversion is not necessary unless Hing Wah and/or Chunwah intend to transfer the subject lands;
 - f. Cochrane and Argos are in possession of a proper legal title to the property and are entitled to transfer the property with its residual term of land use rights at no extra land premium or other onerous payment payable to the government;
 - g. Hing Wah has the legal rights to use the collective-owned construction land with Collective-owned Construction Land Use Rights Certificate, Dong Fu Ji Jian Zong Zi Di No. 0002531 Zi (1990) Di No.19001400005 for the term as stated in the Hing Wah JV Contract;
 - h. Chunwah has the legal rights to use the collective-owned construction land with Collective-owned Construction Land Use Rights Certificate, Dong Fu Ji Jian Zong Zi Di No. 0002533 Zi (1990) Di No.19001400006 for the term as stated in the Chunwah JV Contract;
 - i. All land premium and other costs of ancillary utility services have been settled in full;
 - j. The property is not subject to mortgage or any other material encumbrances;
 - k. The existing uses of the property are in compliance with the local planning regulations and have been approved by the relevant government authorities;
 - l. The property may be disposed of freely in the market; and
 - m. The tenancy is legally valid and enforceable under the applicable PRC Laws.
17. Hing Wah is a cooperative joint venture company whose entire paid-up registered capital is contributed by Cochrane and the Shatian Company contributes the land use right in the relevant land parcel in Shatian Town during the 50-year term of the joint venture. Chunwah is a cooperative joint venture company whose entire paid-up registered capital is contributed by Argos and the Shatian Company contributes the land use right in the relevant land parcel in Shatian Town during the 50-year term of the joint venture. Cochrane and Argos are wholly-owned subsidiaries of Lead Ocean Assets Management Limited which is in turn an indirect wholly-owned subsidiary of the Company.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were deemed or taken to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Long position in the Shares and underlying Shares

Number of Shares and underlying Shares held, capacity and nature of interest

Name of Director/ chief executive	Notes	Number of Shares and nature of interest		Approximate percentage of the Company's issued share capital
		Personal	Other	
Leung Yat Tung	1, 3, 4, 6	100,900,674	6,204,084,634	61.75%
Leung Yu Oi Ling, Irene	1, 3, 4, 6	800,000	6,304,185,308	61.75%
Leung Chi Yin, Gillian	1, 2, 3	22,239,200	6,203,004,634	60.97%
Leung Chi Hong, Jerry	1, 2, 3	16,506,774	6,203,004,634	60.91%
Yuen Ming Fai, Matthew	5	–	4,800	0.00%

Notes:

- 6,202,833,221 shares are held by Harbour Front Limited, the trustee of a unit trust. All of the units in the unit trust are held by Infiniti Trust (Asia) Limited, the trustee of a discretionary trust, the beneficiaries of which are Mrs. Leung and her children, namely, Ms. Gillian Leung, Mr. Jerry Leung and Mr. Leung Kai Hong, Kaiser. Mr. Leung Yat Tung is the founder of the discretionary trust.
- 120,000 shares are held by Y. T. Leung Trading Company Limited, which is beneficially owned by Ms. Gillian Leung and Mr. Jerry Leung.

3. 51,413 shares are held by Vital Strategic Corporate Consultancy Limited, which is beneficially owned by Harbour Front Limited, Mrs. Leung, Ms. Gillian Leung, Mr. Jerry Leung and Mr. Leung Kai Hong, Kaiser as to 18%, 20%, 22%, 20% and 20% respectively.
4. 400,000 shares are held by Top Union Investments Limited, which is 100% beneficially owned by Mrs. Leung.
5. 4,800 shares are held by Mrs. Yuen Chiu Yin May, May. Mrs. Yuen is the spouse of Professor Yuen Ming Fai, Matthew.
6. 100,900,674 shares are held by Mr. Leung Yat Tung, spouse of Mrs. Leung.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any of its interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions in which they were deemed or taken to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

(b) Substantial Shareholders

As at the Latest Practicable Date, so far as is known to, or can be ascertained after reasonable enquiry by, the Directors, the persons (not being a Director or chief executive of the Company) who had an interest or short position in the Shares and/or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meetings of any other member of the Group were as follows:

Long position in the Shares and underlying Shares

Name	Number of Shares held	Approximate percentage of the Company's issued share capital
Harbour Front Limited	6,202,833,221	60.75%

Note:

6,202,833,221 shares are held by Harbour Front Limited, the trustee of a unit trust. All of the units in the unit trust are held by Infiniti Trust (Asia) Limited, the trustee of a discretionary trust, the beneficiaries of which are Mrs. Leung and her children, namely, Ms. Gillian Leung, Mr. Jerry Leung and Mr. Leung Kai Hong, Kaiser. Mr. Leung Yat Tung is the founder of the discretionary trust.

Save as disclosed above, so far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, no other person (who is not a Director or chief executive of the Company) had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register kept by the Company under section 336 of the SFO or, who were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or held any option in respect of such capital.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors was a director or employee of a company (or its subsidiary) which has an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. SERVICE AGREEMENTS

As at the Latest Practicable Date, none of the Directors has entered into or proposed to enter into a service contract with any member of the Group which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 July 2010, being the date to which the latest published audited financial statements of the Group were made up.

5. QUALIFICATIONS AND CONSENTS OF EXPERTS

Name	Qualification
Hercules	corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO
BMI	professional valuer

Each of Hercules and BMI has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its opinions or letters and/or reference to its name and its letter in the form and context in which it appears.

As at the Latest Practicable Date, Hercules and BMI did not have any shareholding, directly or indirectly, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group.

As at the Latest Practicable Date, Hercules and BMI did not have any interest, direct or indirect, in any assets which since 31 July 2010, the date to which the latest published audited financial statements of the Group were made up, have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

6. COMPETING INTEREST

As at the Latest Practicable Date, save as disclosed herein, none of the Directors or their respective associates was interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with that of the Group.

7. INTEREST IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, save as disclosed herein, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group, which was subsisting and significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which have been since 31 July 2010, the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

8. MATERIAL CONTRACTS

The following material contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Group within two years immediately preceding the date of this circular:

- (a) the Shareholders' Agreement;
- (b) the Disposal Agreement; and
- (c) a sale and purchase agreement dated 26 April 2011 entered into between Sunfill Limited, (a wholly-owned subsidiary of the Company) as purchaser and Culture Resources Development Company Limited ("**Culture Resources**") as vendor in relation to the sale and purchase of (i) the entire issued share capital of Silk Road Development Company Limited ("**Silk Road**") and (ii) all obligations, liabilities and debts owing or incurred by Silk Road to Culture Resources or its other subsidiaries at a consideration of approximately HK\$205.21 million, details of which are disclosed in the announcement and circular of the Company dated 26 April 2011 and 8 June 2011 respectively.

9. LITIGATION

- (a) On 31 July 2002, Charterbase Management Limited, one of the two petitioners (the other being United People Assets Limited) (the “Petitioners”) who lodged a petition on 16 May 2002 under section 111 of the Companies Act 1981 of Bermuda (as amended) with the Supreme Court of Bermuda against the Company as the first respondent and the Scheme Administrator (as defined in the circular of the Company dated 1 August 2003 (the “2003 Circular”)) as the second respondent (the “Petition”), issued a writ in the Supreme Court of Bermuda (the “Bermuda Writ”) against the Company and against Mrs. Leung, Mr. Chan Kim Leung, Ms. Gillian Leung, Mr. Pao Ping Wing, *JP* and Mr. Wong Pui Fai who were directors of the Company in April 2001, at the time of the special general meeting of the Company dated 17 May 2001 in relation to the subscription of new shares by Harbour Front pursuant to the subscription agreement dated 30 March 2001 (the “Subscription”) as detailed in the Company’s circular dated 23 April 2001 (the “2001 Circular”). 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 the complaint lodged by the Petitioners with the Securities and Futures Commission of Hong Kong (“Petitioners Complaint”) with respect of Charterbase Management Limited, namely, that the 2001 Circular misdescribed the Scheme Administrator’s voting capacity in respect of the Shares held by the Scheme Administrator under the scheme of arrangement of the Company and scheme participating subsidiaries of the Company as stated in the 2003 Circular effective on 28 April 2000 (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 mis-describing the Scheme Administrator’s voting capacity in the circular regarding the Subscription. The Bermuda Writ claimed HK\$3,000,000 being Charterbase Management Limited’s estimated costs of the Petitioners’ Complaint. On 15 August 2002 the Company entered an appearance to the Bermuda Writ, and the Company filed its defence on 12 September 2002. The Company has been advised by its Bermuda lawyers that it has good grounds to resist the Bermuda Writ. Charterbase Management Limited has taken no further steps in the proceedings since the defence was filed.

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

Two new parties joined as petitioners, namely Hung Ngai Holdings Limited and Value Partners Investment Limited (together with the Petitioners, the “Joint Petitioners”). 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. 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 held that the Joint Petitioners' prayers to wind up the Company and/or to appoint a liquidator was an abuse of the Court's process. The Court therefore considered 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 sought 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.

- (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 duplicated partly with each others: the Fonfair 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 Mr. Leung Yuet Keung as part of his loss and damage suffered by virtue of his 3,950/7,900th interest held in Money Facts) together with interest and costs. As pleaded by the plaintiffs, (a) Harbour Front Limited, which is the majority shareholder of the Company, holds 3,958 out of the 12,008 issued ordinary shares of Fonfair and 3,950 out of the 7,900 issued ordinary shares of Money Facts; (b) Money Facts holds 7,900 out of the 12,008 issued ordinary shares of Fonfair; and (c) Leung Yuet Keung holds 3,950 out of the 7,900 issued ordinary shares of Money Facts. Based on legal advice, the directors of the Company do not believe it probable that the court will place judgment 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 judgment 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 judgment 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 (as defined in the 2003 Circular). Based on terms of the Scheme and an undertaking provided by Harbour Front Limited, 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 (“Leighton”) 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. Pleadings have been served by both sides and Leighton is now proposing to settle the case amicably through mediation. The Company is now considering such proposal.
- (e) UDL Marine (Singapore) Pte Limited (“UMSG”), an indirect wholly-owned subsidiary of the Company, commenced proceedings against Jurong Town Corporation (“JTC”) in relation to an application for renewal of the lease at 3 Benoi Road, Singapore 629877, Civil Suit 502 of 2010. This claim against JTC seeks for, among other things, that a renewal of the lease be granted or an equitable compensation or damages be awarded. JTC has also commenced proceedings against UMSG, Suit No 98 of 2011, for repossession of the land and double value of the rent for the period of holding over. As JTC has acknowledged the handover of the subject land in March 2011, the potential damages payable to JTC is immaterial. The trials of both Suits 502 of 2010 and Suit 98 of 2011 have been fixed to be heard together with dates yet to be fixed.

10. GENERAL

- (a) The registered office of the Company is located at Crawford House, 4th Floor, 50 Cedar Avenue, Hamilton HM11, Bermuda.
- (b) The head office and principal place of business of the Company in Hong Kong is located at Room 702, 7th Floor, Aitken Vanson Centre, 61 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong.

(c) The authorised representatives of the Company are:

(i) Mrs. Leung Yu Oi Ling, Irene

Mrs. Leung Yu Oi Ling, Irene, aged 58, joined the Group in June 1991 and is currently the Chairman of the Group. Mrs. Leung is at present responsible for the general management, business development and marketing of the Group. Mrs. Leung is a graduate of Leicester Polytechnic in the United Kingdom and has had extensive experience prior to joining the Group in running her own interior design company.

(ii) Ms. Leung Chi Yin, Gillian

Ms. Leung Chi Yin, Gillian, aged 31, was designated in September 2002 as an executive Director. Ms. Gillian Leung graduated in Commerce from Queen's University, Kingston, Ontario, Canada and also completed MSc Law and Accounting from the London School of Economics and Political Science, London. Ms. Gillian Leung is responsible for financial management and administration of the Group.

(d) The company secretary of the Company is Ms. Yuen Wing Yan, Winnie, who is an Associate of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators.

(e) The Company's branch share registrar and transfer office in Hong Kong is Tricor Tengis Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(f) The English text of this circular prevails over its Chinese translation in the case of discrepancy.

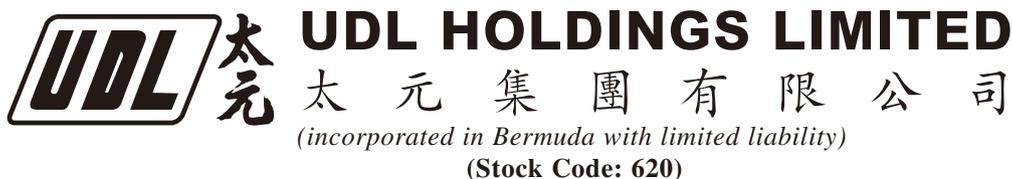
11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Room 702, 7th Floor, Aitken Vanson Centre, 61 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong, during normal business hours on any weekday (except public holidays) from the date of this circular up to and including the date of the SGM:

- (a) the memorandum of association and the bye-laws of the Company;
- (b) the annual reports of the Company for the two years ended 31 July 2009 and 2010;
- (c) the interim report of the Company for the six months ended 31 January 2011;
- (d) the written consent(s) referred to in the paragraph headed "Qualifications and consents of experts";
- (e) the material contract(s) referred to in the paragraph headed "Material contracts" in this appendix;

- (f) the letter from the Independent Board Committee, the text of which is set out on pages 15 to 16 of this circular;
- (g) the letter from Hercules, the text of which is set out on pages 17 to 32 of this circular;
- (h) the property valuation report issued by BMI as set out in Appendix II to this circular; and
- (i) this circular.

NOTICE OF SGM



NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT a special general meeting (the “**Meeting**”) of UDL Holdings Limited (the “**Company**”) will be held at 10:00 a.m. on 10 November 2011 at Lychee Garden, 1/F, Metropark Hotel Mongkok, 22 Lai Chi Kok Road, Mongkok, Kowloon, Hong Kong for the purpose of considering and, if thought fit, passing with or without modification the following resolution of the Company:

ORDINARY RESOLUTION

“**THAT:**

- (a) the conditional shareholders’ agreement (“**Shareholders’ Agreement**”) dated 27 September 2011 entered into between (i) UDL Ventures Limited (“**UDL Ventures**”), a wholly-owned subsidiary of the Company; and (ii) Harbour Front Assets Investments Limited in relation to the formation of Universal Harbour Investment Limited (a copy of which has been produced to the meeting and marked “A” and initialled by the chairman of the meeting for the purpose of identification) and all the transactions contemplated thereby, be and are hereby approved;
- (b) the conditional sale and purchase agreement (“**Disposal Agreement**”) dated 27 September 2011 entered into between (i) Universal Harbour Investment Limited as purchaser; and (ii) UDL Ventures as vendor, in relation to the disposal of the entire issued share capital of Lead Ocean Assets Management Limited (“**Lead Ocean**”), an indirect wholly-owned subsidiary of the Company, and the net amount of loans and indebtedness owing from Lead Ocean and its subsidiaries to UDL Ventures and its subsidiaries, at the consideration of HK\$127,574,250 (a copy of which has been produced to the meeting and marked “B” and initialled by the chairman of the meeting for the purpose of identification) and all the transactions contemplated thereby, be and are hereby approved; and
- (c) the directors of the Company (“**Directors**”) be and are hereby authorised to do all such acts and things, to sign and execute all such further documents and to take such steps as the Directors may in their absolute discretion consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Shareholders’ Agreement, the Disposal Agreement and all the transactions contemplated thereby.”

By order of the Board
UDL Holdings Limited
Leung Chi Yin, Gillian
Executive Director

Hong Kong, 25 October 2011

NOTICE OF SGM

Registered office:

Crawford House
4th Floor
50 Cedar Avenue
Hamilton HM 11
Bermuda

Principal place of business

in Hong Kong:
Room 702 7/F
Aitken Vanson Centre
61 Hoi Yuen Road
Kwun Tong Kowloon
Hong Kong

Notes:

1. A member entitled to attend and vote at the Meeting may appoint a proxy to attend and, on a poll, vote on his behalf and such proxy need not be a member of the Company. A form of proxy for use at the Meeting is enclosed.
2. In order to be valid, the form of proxy, together with any power of attorney or authority under which it is signed or a notarially certified copy of that power of attorney or authority, must be deposited with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof.
3. Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the Meeting convened or any adjournment thereof and in such event, the authority of the proxy shall be deemed to be revoked.
4. In the case of joint holders of a share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she/it were solely entitled thereto. If more than one of such joint holders are present at the Meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
5. As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Leung Yat Tung, Mrs. Leung Yu Oi Ling, Irene, Ms. Leung Chi Yin, Gillian, and Mr. Leung Chi Hong, Jerry; and three independent non-executive Directors, namely Mr. Pao Ping Wing, *JP*, Professor Yuen Ming Fai, Matthew and Ms. Tse Mei Ha.