THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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).

UDL 太元

UDL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 620)

PROPOSED MAJOR TRANSACTION
ACQUISITION OF THE ENTIRE INTEREST IN AND DEBTS DUE BY SILK ROAD DEVELOPMENT COMPANY LIMITED

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed “Definitions” of this circular.

A notice of the SGM to be held at Meeting Room 6, 7th Floor, Kowloonbay International Trade and Exhibition Centre, No. 1 Trademark Drive, Kowloon Bay, Kowloon, Hong Kong on 23 June 2011, at 10:00 a.m. is set out on pages 73 and 74 of this circular. Whether or not you are able to attend the SGM, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company’s branch share registrar and transfer office in Hong Kong, 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 fixed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the SGM or any adjournment thereof should you so wish.

8 June 2011

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

"Acquisition"	the proposed acquisition as contemplated under the Sale and Purchase Agreement
"Announcement"	the announcement of the Company dated 26 April 2011 made in relation to the Acquisition
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Board"	the board of Directors
"Company"	UDL Holdings Limited (Stock Code: 620), a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange
"Completion"	completion of the Sale and Purchase Agreement
"Completion Date"	the date of Completion
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Consideration"	approximately HK$205.21 million (subject to adjustment), being the consideration payable for the Acquisition
"Directors"	directors of the Company
"Group"	the Company and its subsidiaries
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Latest Practicable Date"	3 June 2011, being the latest practicable date for the inclusion of information in this circular prior to the printing of this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"PRC"	the People's Republic of China, and for the purpose of this circular, excluding Hong Kong, Macau Special Administrative Region and Taiwan
"Promissory Note"	the promissory note to be issued by the Purchaser to the Vendor to satisfy the payment of the Consideration pursuant to the Sale and Purchase Agreement

"Purchaser"	Sunfill Limited, a wholly-owned subsidiary of the Company
"Resultant Group"	the Company and its subsidiaries immediately after the completion of the Acquisition, assuming the transaction is completed in accordance with its terms
"Sale and Purchase Agreement"	the conditional sale and purchase agreement dated 26 April 2011 entered into between the Purchaser and the Vendor in relation to the sale and purchase of the Sale Shares and Sale Debts
"Sale Debts"	all obligations, liabilities and debts owing or incurred by Silk Road Development Company Limited to the Vendor or its other subsidiaries (whether being intermediate holding company or not) as at the Completion Date whether actual, contingent or deferred and irrespective of whether or not the same is due and payable on Completion
"Sale Shares"	2 ordinary shares of HK$1.00 each in the share capital of Silk Road Development Company Limited (representing the entire issued share capital of Silk Road Development Company Limited)
"Share(s)"	ordinary shares of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"Silk Road Group"	Silk Road Development Company Limited and The Dunhuang Lodge Hotel
"SGM"	a special general meeting of the Company to be held on 23 June 2011 at 10:00 a.m. at Meeting Room 6, 7th Floor, Kowloonbay International Trade and Exhibition Centre, No. 1 Trademart Drive, Kowloon Bay, Kowloon, Hong Kong
"The Dunhuang Lodge Hotel"	甘肅絲路敦煌山莊酒店有限公司(Gansu Dunhuang Lodge Hotel Co., Ltd.), a company incorporated in Dunhuang, Gansu, the PRC
"Vendor"	Culture Resources Development Company Limited
"HK$"	Hong Kong dollars
"RMB"	Renminbi
"%"	percentage

UDL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)
(Stock Code: 620)

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

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

Registered office:
Crawford House
4th Floor
50 Cedar Avenue
Hamilton HM11
Bermuda

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

8 June 2011

To the Shareholders

Dear Sir or Madam,

PROPOSED MAJOR TRANSACTION ACQUISITION OF THE ENTIRE INTEREST IN AND DEBTS DUE BY SILK ROAD DEVELOPMENT COMPANY LIMITED

1. INTRODUCTION

Reference is made to the Announcement with regard to the proposed acquisition of the entire interest in and debts due by Silk Road Development Company Limited.

The purpose of this circular is to provide you with, among other things, further details of (i) the Sale and Purchase Agreement and the transactions contemplated thereunder; (ii) other information required under the Listing Rules, and (iii) the notice of the SGM and the form of proxy.

2. THE SALE AND PURCHASE AGREEMENT

Date	:	26 April 2011
Purchaser	:	Sunfill Limited, a wholly-owned subsidiary of the Company
Vendor	:	Culture Resources Development Company Limited
Assets to be acquired	:	100% of Silk Road Development Company Limited (being the Sale Shares and Sale Debts)
Consideration	:	Approximately HK$205.21 million (subject to adjustment)

Culture Resources Development Company Limited is a company incorporated in Hong Kong with limited liability since 30 June 2000. It is principally engaged in investment holding. Apart from the interests held in Silk Road Development Company Limited, it holds interests in various operations, including but not limited to, holding and managing cultural hotels and resorts in the PRC. The ultimate beneficial owner of Culture Resources Development Company Limited is Mr. Wong Man Kong, Peter, BBS, JP.

Mr. Wong, a graduate of the University of California at Berkeley and a Deputy of the 11th National People's Congress, is the Chairman of M.K. Corporation Ltd., North West Development Ltd., Culture Resources Development Company Limited, Silk Road Hotel Management Co. Ltd., and Silk Road Travel Management Limited.

Mr. Wong is a non-executive director of Hong Kong Ferry (Holdings) Company Limited (Stock Code: 50) and New Times Energy Corporation Limited (Stock Code: 166) and an independent non-executive director of Glorious Sun Enterprises Limited (Stock Code: 393), China Travel International Investment Hong Kong Limited (Stock Code: 308), Sun Hung Kai & Co., Limited (Stock Code: 86), Sino Hotels (Holdings) Limited (Stock Code: 1221), Chinney Investments, Limited (Stock Code: 216) and Far East Consortium International Limited (Stock Code: 35).

To the best of the Directors' knowledge, information and belief after having made all reasonable enquires, the Vendor and its ultimate beneficial owner are third parties independent of the Company and not connected with the Company or any of its connected persons.

The Consideration is approximately HK$205.21 million subject to adjustment, which will be satisfied by the issue of Promissory Note by the Purchaser.

The Consideration was arrived at after arm's length negotiations between the parties to the Sale and Purchase Agreement. The Consideration was determined with reference to (i) the unaudited net asset value of Silk Road Development Company Limited as at 31 December 2010 less non-controlling interest of Silk Road Development Company Limited (being approximately HK$32.34 million) (including the unaudited book value of the land use rights of The Dunhuang Lodge Hotel as at 31 December 2010); (ii) the unaudited book value of the Sale Debts as at 31 December 2010 (being approximately HK$82.90 million); and (iii) the value of the land use rights of The Dunhuang Lodge Hotel owned as to 80% by Silk Road Development Company Limited (being approximately HK$89.97 million over the unaudited book value of such land use rights of approximately HK$3.9 million as at 31 December 2010).

The Consideration payable under the Sale and Purchase Agreement is subject to downward adjustments in the event that, at 31 January 2011 or another agreed date being not more than four months before the Completion, the audited net asset value less non-controlling interest of Silk Road Development Company Limited is less than approximately HK$32.34 million or the value of the Sale Debts is less than approximately HK$82.90 million or the value of the land use rights of The Dunhuang Lodge Hotel owned as to 80% by Silk Road Development Company Limited is less than approximately HK$89.97 million over the audited book value of such land use rights.

Referring to the accountants' report and property valuation report as set out in appendicies II and IV to this circular, if the Sale and Purchase Agreement had been completed on 31 December 2010, there would be a downward adjustment to the Consideration. Accordingly, for illustration purpose, the Consideration payable would have been approximately HK$185.90 million as, (i) the audited net asset value less non-controlling interest of Silk Road Development Company Limited is approximately HK$13.03 million (refer to page 22, being HK$108.714 million (equity) minus HK$82.899 million (loan from intermediate holding company) and further minus HK$12.780 million (non-controlling interests)); (ii) the value of the Sale Debts is approximately HK$82.90 million (refer to page 22, being loan from intermediate holding company); and (iii) the value of the land use rights of The Dunhuang Lodge Hotel owned as to 80% by Silk Road Development Company Limited is approximately HK$89.97 million (refer to pages 64 and 22, being RMB98.660 million i.e. HK$116.369 million (market value of land) minus HK$3.902 million (lease prepayments) and further minus HK$22.493 million (being 20% non-controlling interests in net surplus land value)) over the audited book value of such land use rights. Shareholders should note that the Consideration payable is subject to further change (though cap at approximately HK$205.21 million) as it depends on the actual result of an audit of the Silk Road Group at Completion.

Conditions precedent

In the event during the review to be carried out by the Purchaser in accordance with the Sale and Purchase Agreement before Completion, it is revealed that the assets, liabilities, operations or affairs of Silk Road Development Company Limited is materially different from the information provided by the Vendor before entering into the Sale and Purchase Agreement, the Purchaser shall be entitled to terminate the Sale and Purchase Agreement and none of the parties to the Sale and Purchase Agreement shall have any claim of any nature or liabilities hereunder whatsoever against any of the other parties under the Sale and Purchase Agreement (save for any antecedent breaches of the terms hereof).

Completion of the Sale and Purchase Agreement is conditional upon the Shareholders approving the ordinary resolution in relation to the Sale and Purchase Agreement and the transactions contemplated therein at a special general meeting of the Company.

If the above condition with regard to the Sale and Purchase Agreement has not been fulfilled at or before 5:00 p.m. on or before 30 June 2011, the Sale and Purchase Agreement shall terminate with effect from that date.

Upon Completion, Silk Road Development Company Limited will become a wholly-owned subsidiary of the Company and its consolidated accounts will be consolidated into that of the Group.

3. THE PROMISSORY NOTE

Date	:	the date on which Completion takes place
Issuer	:	the Purchaser
Recipient	:	the Vendor
Amount	:	the Consideration, subject to adjustment in accordance with the Sale and Purchase Agreement
Early repayment	:	the Purchaser may at its absolute discretion elect to repay all or parts of the outstanding principal amount before the repayment date (which is the date upon the expiry of the 13th month after the date of Completion), in which event, the principal amount of the Promissory Note shall be reduced by an amount to be determined in accordance with the following formula: R = P*(H+2%)*D/365 Where R = Reduced amount P = Early repayment amount H = being the overnight Hong Kong Interbank Offered Rate (HIBOR) as at 5:30 p.m. on the Completion Date D = being the number of calendar days between the early repayment date and the repayment date
Transferability	:	the Promissory Note is not transferable or assignable without the prior written consent from the Purchaser

4. INFORMATION OF SILK ROAD DEVELOPMENT COMPANY LIMITED

Silk Road Development Company Limited is a company incorporated in Hong Kong on 1 July 1993. Silk Road Development Company Limited is an investment holding company which owns 80% of the equity interest in The Dunhuang Lodge Hotel in Dunhuang, Gansu, the PRC.

The Dunhuang Lodge Hotel locates in the midst of the rolling sand dunes of Gobi desert. The hotel captures the spirit of the Tang Dynasty with its unique architectural design – the large rooftops and long corridors of the Han and Tang dynasties, the typical enclosed courtyard style design and mud walls of the northwestern part of China, and the replica of the late Tang, Ming and Qing dynasties furniture. All these work together to recapture the flavour of a bygone era with their simplicity and use of natural building materials. The hotel commenced business in 1995 and has 172 staff. The property comprises 8 single to 4-storey hotel buildings. The hotel comprises 269 guestrooms, a Chinese restaurant, a Western restaurant, a lounge, a business centre and some entertainment facilities. The hotel has a total gross floor area of approximately 32,712.76 square meters (352,120 square feet) erected on a parcel of land with a site area of approximately 200,000 square meters (2,152,800 square feet).

Referring to the accountants' report as set out in appendix II to this circular (which is prepared using accounting policies that are materially consistent with those of the Group), the audited consolidated profit/loss of the Silk Road Group (prepared in accordance with Hong Kong Financial Reporting Standards) for the three years ended 31 December 2010 were as follows:

	For the year ended 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	10,286	12,233	17,601
Gross profit	5,679	6,730	10,571
(Loss) before income tax	(4,525)	(3,577)	(1,463)
(Loss) for the year	(4,245)	(3,741)	(2,067)
Other comprehensive income:			
– Exchange differences arising on translation of financial statements of an overseas subsidiary	7,079	510	4,807
– Net surplus on revaluation of hotel properties	3,716	4,342	1,721
Total comprehensive income for the year	6,550	1,111	4,461

Referring to the accountants' report as set out in appendix II to this circular, the audited consolidated total assets and consolidated net assets of the Silk Road Group (prepared in accordance with Hong Kong Financial Reporting Standards) as at 31 December 2008, 2009 and 2010 respectively were as follows:

	As at 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	163,668	163,894	168,251
Total liabilities	60,526	59,641	59,537
Net assets	103,142	104,253	108,714
Cash and cash equivalents	220	255	179
Gearing ratio *(Note)*	22%	19%	16%

Note: The gearing ratio is defined as net borrowings divided by total equity. Please refer to note 5 to the Accountant's Report on the Silk Road Group set out in appendix II to this circular.

Below is the table to reconcile the market value of the property as at 31 March 2011 set out in appendix IV to this circular with the carrying amount as at 31 December 2010 set out in note 16 b) to appendix II to this circular.

	Amount in *RMB*	Approximate amount in *HK$*
Market value of property as at 31 March 2011 set out in appendix IV to this circular	212,900,000	251,116,000
Carrying amount of hotel property as at 31 December 2010 set out in note 16b) to appendix II to this circular		134,747,000
Carrying amount of lease prepayments as at 31 December 2010 set out in note 17 to appendix II to this circular		3,902,000
	Sub-total	138,649,000
Increase in fair value of the property		112,467,000
	Total:	251,116,000

Business review

For the year ended 31 December 2009

Based on the abovementioned accountants' report of the Silk Road Group, the Silk Road Group recorded an audited consolidated turnover of approximately HK$12.23 million for the year ended 31 December 2009, representing an increase of approximately 18.93% from approximately HK$10.29 million for the year ended 31 December 2008. Such increase was due to a slight improvement in the hotel operations.

Loss for the year amounted to approximately HK$3.74 million for the year ended 31 December 2009 as compared to the loss of approximately HK$4.25 million for the year ended 31 December 2008.

Due to the exchange differences arising on translation of financial statements of an overseas subsidiary, it has recorded a positive difference of approximately HK$0.51 million for the year ended 31 December 2009 as compared to a positive difference of approximately HK$7.08 million for the year ended 31 December 2008. Due to the net revaluation surplus on hotel properties, it has recorded a surplus of approximately HK$4.34 million for the year ended 31 December 2009 as compared to a surplus of approximately HK$3.72 million for the year ended 31 December 2008. As a result of such differences, the total comprehensive income for the year ended 31 December 2009 was approximately HK$1.11 million; whilst for the year ended 31 December 2008, the Silk Road Group recorded a total comprehensive income of approximately HK$6.55 million.

The Silk Road Group's cash and cash equivalents as at 31 December 2009 were approximately HK$0.26 million (31 December 2008: approximately HK$0.22 million).

As at 31 December 2009, the Silk Road Group's gearing ratio was approximately 19% (2008: approximately 22%), based on net debt of approximately HK$19.96 million (2008: approximately HK$23.07 million) and total equity of the Silk Road Group of approximately HK$104.25 million (2008: approximately HK$103.14 million).

For the year ended 31 December 2010

Based on the abovementioned accountants' report of the Silk Road Group, the Silk Road Group recorded an audited consolidated turnover of approximately HK$17.60 million for the year ended 31 December 2010, representing an increase of approximately 43.88% from approximately HK$12.23 million for the year ended 31 December 2009. Such increase was due to a continued improvement in the hotel operations.

Loss for the year amounted to approximately HK$2.07 million for the year ended 31 December 2010 as compared to the loss of approximately HK$3.74 million for the year ended 31 December 2009. The narrowed loss was due to the improved revenue generated from the hotel operations.

Due to the exchange differences arising on translation of financial statements of an overseas subsidiary, it has recorded a positive difference of approximately HK$4.81 million for the year ended 31 December 2010 as compared to a positive difference of approximately HK$0.51 million for the year ended 31 December 2009. Due to the net revaluation surplus on hotel properties, it has recorded a surplus of approximately HK$1.72 million for the year ended 31 December 2010 as compared to a surplus of approximately HK$4.34 million for the year ended 31 December 2009. As a result of such differences, the Silk Road Group recorded a total comprehensive income of approximately HK$4.46 million for the year ended 31 December 2010; whilst for the year ended 31 December 2009, the Silk Road Group recorded a total comprehensive income of approximately HK$1.11 million.

The Silk Road Group's cash and cash equivalents as at 31 December 2010 were approximately HK$0.18 million (31 December 2009: approximately HK$0.26 million).

As as 31 December 2010, the Silk Road Group's gearing ratio was approximately 16% (2009: approximately 19%), based on net debt of approximately HK$17.51 million (2009: approximately HK$19.96 million) and total equity of the Silk Road Group of approximately HK$108.71 million (2009: approximately HK$104.25 million).

Liquidity and financial resources

The carrying amount of interest-bearing borrowing of the Silk Road Group as at 31 December 2008, 2009 and 2010 were HK$23.29 million, HK$20.21 million and HK$17.69 million respectively. As at 31 December 2008, 2009 and 2010, the Silk Road Group's borrowings of approximately HK$21.26 million, approximately HK$18.51 million and approximately HK$17.69 million respectively were secured by its hotel properties and land use rights and guaranteed by a director of Silk Road Development Company Limited, Mr. Wong Man Kong, Peter. These were secured bank loans due for repayment (i) within one year or on demand and (ii) after one year but within five years. Detail breakdown of the bank borrowings are set out in note 22 to the accountants' report on the Silk Road Group set out in appendix II to this circular. As at 31 December 2008 and 2009, the Silk Road Group's borrowings of approximately HK$2.0 million and approximately HK$1.7 million were secured by its machinery and equipment and were fully repaid in May 2009 and May 2010 respectively. There were no other contingent liabilities and capital expenditure commitment as at the respective balance sheet date.

Capital structure

Silk Road Development Company Limited has an authorised capital of HK$10,000 divided into 10,000 shares of HK$1.00 each and 2 fully paid shares of which have been issued since its incorporation on 1 July 1993 and up to the date of this circular.

The Silk Road Group's primary objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for its shareholders, by products commensurately with the level of risk and by securing access to a reasonable cost.

Saved for the bank borrowings mentioned above, the Silk Road Group financed its operations primarily with internally generated cash flow whereas its long term investment was financed by current account with shareholder and related parties.

The bank borrowings are made in Renminbi. The effective interest rates (which are also equal to contracted interest rates) on the Silk Road Group's bank borrowings were 8.83% to 9.48%, 6.94% to 7.43% and 6.94% per annum as at 31 December 2008, 2009 and 2010 respectively.

As at 31 December of 2008, 2009 and 2010, the Silk Road Group had cash and cash equivalents of approximately HK$0.22 million, approximately HK$0.26 million and approximately HK$0.18 million respectively denominated in Renminbi.

The Silk Road Group does not use derivative financial instruments for hedging purpose.

Investment, material acquisition and disposal of subsidiaries and affiliated companies

Save as (i) its interests in Silk Road Hotel Management Company Limited and Bright Future (HK) Limited which have been disposed of before the execution of the Sale and Purchase Agreement and not form part of the Acquisition; and (ii) the 54% equity interest in 新疆吐魯番絲路綠洲賓館有限公司 (Xinjiang Turpan Silk Road Oasis Hotel Co., Ltd.) holding by Silk Road Development Company Limited on trust for the Vendor and not form part of the Acquisition, the Silk Road Group has no acquisition or disposal of subsidiary or associated company during the three years period ended 31 December 2010.

Segment comments

For the three years ended 31 December 2010, turnover of the Silk Road Group is principally generated from its ordinary activities being hotel business, no segment information is required to be disclosed. Saved for the hotel business, the Silk Road Group has not introduced or announced any new products or services during the three years period ended 31 December 2010.

Employees and staff policy

The remuneration of employees were approximately HK$3.0 million, approximately HK$3.7 million and approximately HK$4.8 million for the year ended 31 December 2008, 2009 and 2010 respectively. For the three years ended 31 December 2010, the Silk Road Group had 158, 157 and 172 full-time employees respectively, who were based in the Dunhuang Lodge Hotel in Dunhuang, Gansu, the PRC. The remuneration policy and package of the Silk Road Group's employees are periodically reviewed. More staff may be recruited in the future to meet the expansion of the Silk Road Group's business. Apart from fixed salaries, employees are entitled to social insurance. The Silk Road Group did not operate any share option scheme and training scheme during the three years ended 31 December 2010.

Charges on the assets

As at 31 December 2010, the land and property of The Dunhuang Lodge Hotel was pledged with the Bank of East Asia Limited, Xian Branch. The outstanding amount of the loan as at 31 December 2010 was approximately HK$17.69 million. The loan contract will be expired by the end of 2013.

Future plans for material investments or capital assets

There is no plan for material investments or capital assets.

Exposure to fluctuation in exchange rates

The Silk Road Group operates in the PRC and the majority of the Silk Road Group's revenues, expenses and cashflows are denominated in Renminbi. Assets and liabilities of the Silk Road Group are mostly denominated in Renminbi. Hong Kong dollar is the Silk Road Group's financial report presentation currency. Any significant exchange rate fluctuations of Renminbi against Hong Kong dollar may have impact on the Silk Road Group's financial report presentation. Such fluctuations however would have little effect on the business operations of the Silk Road Group.

Contingent liabilities

Save for those disclosed in the accountants' report of the Silk Road Group if any, there are no other contingent liabilities that the Silk Road Group is aware of.

5. REASONS FOR AND BENEFITS OF THE ACQUISITION AND PROSPECT OF THE RESULTANT 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.

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.

In order to capture the forthcoming infrastructural and marine engineering projects in Hong Kong and the neighboring region, such as the Hong Kong-Zhuhai-Macao Bridge project, as well as to adopt to various new/specialized engineering methods/equipments required by these projects, the Group will continue its efforts (i) to search for alternative site in the region to replace the expired Singapore leasehold shipyard and leveraging from its existing operations in the yards in the PRC and (ii) to source specialized engineering equipments and/or unique type of vessels to meet clients' demand. In addition, the Group will explore opportunities to enhance its business scope and/or income stream from time to time.

With major infrastructure works in Hong Kong commenced since 2010, it is expected that more related contracts to roll out now and in the near future. Given the Group's experience in marine engineering projects and the competitive pricing scheme, it is believed to be in a good position to tender for more projects in the near future.

In order to utilise financial resources effectively and efficiently, the Group has secured shareholders loan facility to finance the working capital of the operation and business development. As at 31 January 2011 (the latest published financial information of the Group), the Group has cash and cash equivalents of approximately HK$12.4 million and the gearing ratio calculated by dividing total liabilities by total assets value was approximately 21.3%. Taking into account the growing business opportunities, for infrastructural works as well as others, the Group will, from time to time, review the loan balance, the finance costs, the cash position and gearing ratio with the objective to strengthen/expand its financing source.

In the 12th Five-Year-Plan for 2011 to 2015, the Government of the PRC has laid out measures to rebalance economic growth drivers by putting more emphasis on domestic consumption and services. Also to support an inclusive and sustainable growth in the economy, the Government of the PRC undertakes broad policy to promote, among other things, cultural related activities and environmental friendly living.

According to the World Tourism Organization, international tourism recovered strongly in 2010 according to the Advance Release of the UNWTO World Tourism Barometer. International tourist arrivals were increased by 6.7% to 935 million compared to 2009, and Asia was the first region to recover and the strongest growing region in 2010, with international tourist arrivals rose by around 13%. In 2011, UNWTO forecasts international tourist arrivals worldwide to grow at between 4% and 5% and emerging destinations, especially in Asia and the Pacific, are expected to continue leading the growth.

Cultural hotel development and culture property development in key locations in the PRC such as Dunhuang is the important element for the success of such business. Given the pace of growth of the tourism industry and the local economy, the outlook of developing hotels in key locations in the PRC remains attractive.

Taking into account (i) the potential growth giving rise from the abovementioned policy under the 12th Five-Year-Plan for 2011 to 2015 of the Government of the PRC, (ii) the abovementioned tourist arrivals statistics, the history/reputation/location of the underlying businesses of the Acquisition, and (iii) the already developed transport infrastructure and related cultural tourism activities in Dunhuang (since the Government of the PRC has in 2000 embarked on the Great Western Region Development by placing extra effort and emphasis on the local infrastructure, economy and ecological environment), the Directors believe that tourism is a fast growing industry and cultural tourism and related activities in the PRC (in particular, in location with historical background like Dunhuang) has particular attraction and growth potential.

Following the Completion, the existing management team and staff of the Silk Road Group will be retained to manage the day-to-day operation of the hotel business. In addition, subject to the performance of the hotel operation, the Group will either promote the existing management team or recruit more experienced hotel management staff to grow the business.

Although the Group's existing management team does not have particular expertise in hotel business, they are either professionals (engineers or accountants) or seasoned businessmen (as described in their respective biographies set out in the latest published annual report of the Group for the year ended 31 July 2010), who are capable and used to manage people. In addition, they are able to define a business strategy to manage the new business after Completion. Upon Completion, in the short run, the Group intends to revamp market awareness of The Dunhuang Lodge Hotel and promote cultural tourism in the Western part of the PRC through co-marketing campaigne with the tourism authorities in the PRC or travel agencies.

By means of the Acquisition, the Directors are of the view that it provides the Group with an unique opportunity to own and operate this cultural tourism related project; which in turn, enables the Group to diversify into property development, cultural and tourism-related businesses in the Western part of the PRC, and leverage opportunities brought from the rapid growth of this industry. 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 neighboring region, such as the Hong Kong-Zhuhai-Macao Bridge project, the Group will continue to carry out its existing development in provision of marine engineering, construction and structural steel engineering and related services, and trading of vessels. The Group is always mindful with cost control measures while leveraging from its existing competitive advantages to ensure a satisfactory result is achieved. 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. Up to the Latest Practicable Date, the Board has no agreement, arrangement, understanding, intention or negotiation (concluded or otherwise) about any disposal/termination/scaling-down of its existing business.

Although the Silk Road Group recorded recurring loss for the three years ended 31 December 2010, its revenues were growing on a year to year basis and the losses were reducing with increasing business (please refer to the "Business review" under the section headed "4. Information of Silk Road Development Company Limited" above). With the implementation of co-marketing and promotion events as mentioned above, it is expected to further improve the performance of The Dunhuang Lodge Hotel (which in turn, will enhance the results of the Silk Road Group).

Shareholders are suggested to draw their attention to the Accountant's Report on the Silk Road Group in appendix II to this circular, where the reporting accountant has issued an emphasis of matter relating to the record of a net current liabilities position as at the balance sheet date for each of the three years ended 31 December 2010, which in turn, indicated the existence of a material uncertainty which may cast significant doubt about the Silk Road Group's ability to continue as a going concern. Shareholders are also suggested to draw their attention to note 22 to the Accountant's Report on the Silk Road Group in appendix II to this circular, the net current liabilities position was arisen as a result of the accounting treatment/classification of certain secured bank loans due for repayment **after one year but contain a repayment on demand clause** *(a term exists more and more often nowadays in the loan documents)*. Notwithstanding certain secured bank loans due for repayment after one year but contain a repayment on demand clause, the Directors, having taken into account the financial position of the Silk Road Group and the loans had been repaid on scheduled in the past, do not consider probable that the bank will exercise its discretion to demand immediate repayment.

Taking into account the reasons and factors mentioned above, the Directors are of the view that the terms of the Sale and Purchase Agreement are fair and reasonable and with the potential benefits to be derived from the underlying business of the Acquisition, it is in the interests of the Company and the Shareholders as a whole.

6. FINANCIAL EFFECTS OF THE ACQUISITION

Set out in appendix III to this circular is the unaudited pro forma financial information on the Resultant Group which illustrates the financial effects of the Acquisition on the assets and liabilities of the Group assuming completion of the Sale and Purchase Agreement had taken place on 31 January 2011. A summary is set out below:

	The Group as at 31 January 2011	**The Resultant Group (assuming Completion on 31 January 2011)**	**Increase/ (Decrease) by percentage**
	HK$'000	*HK$'000*	
Non-current assets	185,941	441,059	137.20%
Current assets	132,141	157,741	19.37%
Total assets	318,082	598,800	88.25%
Cash and cash equivalents	12,366	12,545	1.45%
Current liabilities	67,886	110,870	63.33%
Non-current liabilities	0	231,378	N/A
Total liabilities	67,886	342,248	404.15%
Net assets	250,196	256,552	2.54%
Gearing ratio *(Note)*	12.68%	99.83%	

Note: The gearing ratio is defined as the total borrowings divided by total equity. Please refer to the information set out in appendix III to this circular.

The gearing ratios as at 31 January 2011 of the Group and the Resultant Group were as follows:

	The Group as at 31 January 2011	**The Resultant Group (assuming Completion on 31 January 2011)**
	HK$'000	*HK$'000*
Bank loans	0	17,693
Promissory Note	0	185,908
Obligations under finance lease	18	18
Amounts due to related companies	3,717	3,717
Amounts due to intermediate holding company	0	20,974
Loan from a related company	40,099	40,099
Amount due to an associate	198	198
Amount due to directors	60	60
Total debt	44,092	268,667
Less: Cash and cash equivalents	12,366	12,545
Net debt	31,726	256,122
Total equity	250,196	256,552
Gearing ratio	12.68%	99.83%

As shown in the above table, the resultant increase by percentage illustrates that the Acquisition (upon Completion) enhances the financial position of the Group as well as heightens the gearing level of the Group. Taking into account the abovementioned reasons for and benefits of the Acquisition and prospects of the Resultant Group, the Directors are of the view that the gearing level of the Resultant Group, though higher than before Completion, is acceptable for a group which is expected to grow and further develop its businesses. Following the Completion, the management of the Company will closely monitor the performance of the Resultant Group, including Silk Road Development Company Limited and diligently review/consider various means to lower the gearing level.

Following the Completion, the results of the Silk Road Group will be consolidated into the Group. Given the Silk Road Group's revenue was growing on a year to year basis and the loss was reducing with increasing business, it is expected to enhance the revenue and earnings potential of the Resultant Group in the future.

7. LISTING RULES IMPLICATION

The Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is therefore subject to the approval of the Shareholders at a general meeting of the Company.

As no Shareholder would have a material interest in the Acquisition which is different from the interests of the other Shareholders, no Shareholder would be required to abstain from voting at the general meeting to be convened for the purpose of approving the Acquisition.

8. SGM

The SGM will be held at Meeting Room 6, 7th Floor, Kowloonbay International Trade and Exhibition Centre, No. 1 Trademark Drive, Kowloon Bay, Kowloon, Hong Kong on 23 June 2011 at 10:00 a.m. to consider and, if thought fit, approve, among other things, the Acquisition.

The notice of the SGM is set out on pages 73 of this circular. Whether or not you are able to attend the SGM, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, 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 fixed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the SGM or any adjournment thereof should you so wish.

9. RECOMMENDATION

Taking into account the factors stated above as a whole, the Directors are of the view that the entering into of the Sale and Purchase Agreement and the transaction contemplated thereunder are in the ordinary course of business of the Company, the terms of the Sale and Purchase Agreement are fair and reasonable, and that the entering into of the Sale and Purchase Agreement is in the interests of the Company and the Shareholders as a whole. As such, the Directors recommend the Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Sale and Purchase Agreement and the transaction contemplated thereunder.

10. ADDITIONAL INFORMATION

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

Yours faithfully,
By order of the Board
UDL Holdings Limited
Leung Yu Oi Ling, Irene
Chairman

1. THREE YEARS 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 (http://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 statement 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 unable to determine 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 Acquisition would have any impact on the subject matters of the aforesaid qualified audit opinion.

2. STATEMENT OF INDEBTEDNESS OF THE RESULTANT GROUP

Borrowings

At the close of business on 30 April 2011, being the latest practicable date for the purpose of preparing this indebtedness statement prior to the printing of this circular, the Resultant Group had outstanding borrowings of approximately HK$60,108,000, comprising secured short-term bank loans of approximately HK$13,596,000 secured by the Resultant Group's hotel properties and land use rights with a total carrying amount of approximately HK$138,649,000 and personal guarantee executed by Mr. Wong Man Kong, Peter of the Silk Road Group and loans from related companies of approximately HK$46,512,000.

Debt securities

As at 30 April 2011, the Resultant Group had no debt securities outstanding.

Contingent liabilities

Save as disclosed in the 2010 annual report and the interim report of the Company for the six months ended 31 January 2011 referred to in Section 1 in this appendix above, and appendices II and V to this circular, as at the close of business on 30 April 2011, the Resultant Group did not have any significant contingent liabilities.

Disclaimers

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Resultant Group did not have any outstanding indebtedness at the close of business on 30 April 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 under 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 Resultant Group", and the Group's existing cash and bank balances and other internal financial resources available, after the issuance of the Promissory Note for the Consideration, the Resultant Group has sufficient working capital for its present requirements and for at least twelve months from the date of publication of this circular.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are 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.

The following is the text of a report, prepared for the sole purpose of incorporation in this circular, received from the independent reporting accountants, CCIF CPA Limited, Certified Public Accountants, Hong Kong.

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

8 June 2011

The Board of Directors
UDL Holdings Limited
Room 702, 7 Floor, Aitken Vanson Centre
61 Hoi Yuen Road, Kwun Tong
Kowloon

Dear Sirs,

We set out below our report on the financial information relating to Silk Road Development Company Limited ("Silk Road") and it subsidiary (hereinafter collectively referred to as the "Silk Road Group") including the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Silk Road Group for each of the three years ended 31 December 2008, 2009 and 2010 (the "Relevant Periods") and the consolidated and company statements of financial position as at 31 December 2008, 2009 and 2010, together with notes thereto (the "Financial Information"), for inclusion in the circular of UDL Holdings Limited dated 8 June 2011 (the "Circular") in connection with the proposed acquisition of the entire equity interest in Silk Road. Silk Road was incorporated in Hong Kong with limited liability on 1 July 1993 and is an investment holding company. After the restructuring of Silk Road which was completed on 21 April 2011 (the "Restructuring") as detailed in note 1 of Section II, the restructured Silk Road principally has the investment in the following subsidiary:

Name of subsidiary	Place of establishment /form of entity	Registered and paid-up capital	Percentage of equity directly attributable to Silk Road	Principal activities
Gansu Dunhuang Lodge Hotel Co., Ltd ("Gansu Dunhuang")	The People's Republic of China (the "PRC") /Sino-foreign equity joint venture	RMB25,000,000	80%	Hotel and restaurant operations

As at the date of this report, Silk Road had no other direct and indirect interests in the subsidiaries, jointly-controlled entities and associates.

Silk Road and Gansu Dunhuang, now comprising the Silk Road Group, have adopted 31 December as their financial year end date. The statutory financial statements of Silk Road which were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the two years ended 31 December 2008, and 2009 were audited by Li, Tang, Chen & Co, Certified Public Accountants. The audit opinion of Silk Road for the two years ended 31 December 2008 and 2009 was qualified because the consolidated financial statements of Silk Road Group were not prepared and provision on Silk Road's interest in a jointly control entity, which has been excluded from the Silk Road Group after the Restructuring as detailed in note 1 of Section II, was not made. The audited financial statements for the year ended 31 December 2010 of Silk Road has not yet been issued at the date of this report. We have, however, reviewed all the transactions of Silk Road for the period from 1 January 2010 to 31 December 2010 for the purpose of this report. The qualifications on the financial statements of Silk Road for the two years ended 31 December

2008 and 2009, have no material impacts on the results and financial position of Silk Road Group for the Relevant Periods as if the Restructuring was completed immediately prior to the Relevant Periods. As set out in the "Basis of Preparation and Presentation" below, the directors of Silk Road have now prepared the consolidation financial statements of Silk Road Group for the Relevant Periods in accordance with HKFRSs issued by the HKICPA for the purpose of this report.

Gansu Dunhuang was established as a sino-foreign equity joint venture in the PRC on 22 January 1994. The statutory financial statements of Gansu Dunhuang for the three years ended 31 December 2008, 2009 and 2010 were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises established in the PRC and were audited by 東莞市正德會計師事務所有限公司 (Dongguan City Diligent Certified Public Accountants Limited) in the PRC.

BASIS OF PREPARATION AND PRESENTATION

The directors of Silk Road have prepared the consolidated financial statements of the Silk Road Group for the Relevant Periods in accordance with the accounting policies set out in note 3 of Section II which conform with HKFRSs issued by the HKICPA, the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") (the "Underlying Financial Statements"). The Underlying Financial Statements for each of the three years ended 31 December 2008, 2009 and 2010 were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information set out in this report has been prepared by the directors of the Company from the Underlying Financial Statements, that has been prepared on a carve-out basis reflecting the results and financial position of the Silk Road Group as if the Restructuring was completed immediately prior to the beginning of the Relevant Periods. Further details of the basis of presentation are included in note 2(b) of Section II.

DIRECTORS' RESPONSIBILITY

The directors of Silk Road are responsible for the preparation of the Underlying Financial Statements for the Relevant Periods that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules. This responsibility includes internal control as the directors of Silk Road determine is necessary to enable the preparation of the Underlying Financial Statements that are free from material misstatement, whether due to fraud or error.

The directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with HKFRSs issued by the HKICPA and accounting policies presently adopted by the Group for the Relevant Periods and the contents of the Circular in which this report is included.

REPORTING ACCOUNTANTS' RESPONSIBILITY

For the Financial Information for the Relevant Periods, our responsibility is to express an opinion on the Financial Information based on our examination and to report our opinion to you. We have, for the purpose of this report, examined the Financial Information and have carried out such appropriate procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

BASIS OF OPINION

In our opinion, for the purpose of this report, the Financial Information, gives a true and fair view of the financial position of Silk Road and the Silk Road Group as at 31 December 2008, 2009 and 2010 and of the consolidated results and cash flows of the Silk Road Group for the Relevant Periods.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to note 2 (a) of Section II to the Financial Information which indicates that the Silk Road Group had net current liabilities of HK$18,946,000, HK$17,475,000 and HK$16,584,000 as at 31 December 2008, 2009 and 2010, respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Silk Road Group's ability to continue as a going concern.

I. FINANCIAL INFORMATION

a) Consolidated statements of comprehensive income

		Year ended 31 December		
		2008	**2009**	**2010**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	7	10,286	12,233	17,601
Cost of sales		(4,607)	(5,503)	(7,030)
Gross profit		5,679	6,730	10,571
Other revenue and income	9	355	186	640
Administrative expenses		(10,344)	(10,354)	(12,552)
Other operating expenses		(25)	(29)	(45)
Loss from operations		(4,335)	(3,467)	(1,386)
Finance costs	10(a)	(190)	(110)	(77)
Loss before income tax	10	(4,525)	(3,577)	(1,463)
Tax credit/(income tax)	13(a)	280	(164)	(604)
Loss for the year	14	(4,245)	(3,741)	(2,067)
Other comprehensive income:				
– Exchange differences on translation of financial statements of an overseas subsidiary		7,079	510	4,807
– Surplus on revaluation of hotel properties	16(a)	4,954	5,790	2,294
Less: Deferred tax liabilities	24	(1,238)	(1,448)	(573)
Net surplus on revaluation of hotel properties		3,716	4,342	1,721
Total comprehensive income for the year (after tax)		6,550	1,111	4,461
Loss for the year attributable to:				
– Owners of Silk Road		(3,355)	(2,988)	(1,577)
– Non-controlling interests		(890)	(753)	(490)
		(4,245)	(3,741)	(2,067)
Total comprehensive income for the year				
– Owners of Silk Road		5,281	894	3,646
– Non-controlling interests		1,269	217	815
		6,550	1,111	4,461

b) Consolidated statements of financial position

		As at 31 December		
		2008	**2009**	**2010**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment	16	132,005	133,412	138,749
Lease prepayments	17	3,967	3,870	3,902
		135,972	137,282	142,651
Current assets				
Inventories	19	2,553	2,391	2,533
Trade and other receivables	20	4,484	3,413	1,914
Amount due from a fellow subsidiary	27(c)(i)	20,439	20,553	20,974
Cash and cash equivalents	21	220	255	179
		27,696	26,612	25,600
Current liabilities				
Bank loans	22	23,293	20,210	17,693
Trade and other payables	23	1,977	2,522	3,517
Amount due to intermediate holding company	27(c)(ii)	21,372	21,355	20,974
		46,642	44,087	42,184
Net current liabilities		(18,946)	(17,475)	(16,584)
Total assets less current liabilities		117,026	119,807	126,067
Non-current liabilities				
Deferred tax liabilities	24	13,884	15,554	17,353
Net assets		103,142	104,253	108,714
Capital and reserves				
Share capital	26(a)	–	–	–
Loan from intermediate holding company	26(b)	82,899	82,899	82,899
Reserves	26(c)	8,495	9,389	13,035
Equity attributable to owners of Silk Road		91,394	92,288	95,934
Non-controlling interests		11,748	11,965	12,780
Total equity		103,142	104,253	108,714

c) Statements of financial position

		As at 31 December		
		2008	**2009**	**2010**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Investment in a subsidiary	18	101,024	101,024	101,024
Current liabilities				
Other payables	23	15	8	8
Amount due to intermediate holding company	27(c)(ii)	21,372	21,355	20,974
		21,387	21,363	20,982
Net current liabilities		(21,387)	(21,363)	(20,982)
Net assets		79,637	79,661	80,042
Capital and reserves				
Share capital	26(a)	–	–	–
Loan from intermediate holding company	26(b)	82,899	82,899	82,899
Reserves	26(c)	(3,262)	(3,238)	(2,857)
Total equity		79,637	79,661	80,042

d) Consolidated statements of changes in equity

	Attributable to owners of Silk Road								
			Reserves						
	Share capital	Loan from intermediate holding company	Translation reserve	Property revaluation reserve	Accumulated losses	Total reserves	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2008	–	82,899	10,193	43,776	(50,755)	3,214	86,113	10,479	96,592
Loss for the year	–	–	–	–	(3,355)	(3,355)	(3,355)	(890)	(4,245)
Other comprehensive income									
– Exchange differences on translation of financial statements of an overseas subsidiary	–	–	5,663	–	–	5,663	5,663	1,416	7,079
– Net surplus on revaluation of hotel properties	–	–	–	2,973	–	2,973	2,973	743	3,716
Total comprehensive income for the year (after tax)	–	–	5,663	2,973	(3,355)	5,281	5,281	1,269	6,550
At 31 December 2008 and 1 January 2009	–	82,899	15,856	46,749	(54,110)	8,495	91,394	11,748	103,142
Loss for the year	–	–	–	–	(2,988)	(2,988)	(2,988)	(753)	(3,741)
Other comprehensive income									
– Exchange differences on translation of financial statements of an overseas subsidiary	–	–	408	–	–	408	408	102	510
– Net surplus on revaluation of hotel properties	–	–	–	3,474	–	3,474	3,474	868	4,342
Total comprehensive income for the year (after tax)	–	–	408	3,474	(2,988)	894	894	217	1,111
At 31 December 2009 and 1 January 2010	–	82,899	16,264	50,223	(57,098)	9,389	92,288	11,965	104,253
Loss for the year	–	–	–	–	(1,577)	(1,577)	(1,577)	(490)	(2,067)
Other comprehensive income									
– Exchange differences on translation of financial statements of an overseas subsidiary	–	–	3,846	–	–	3,846	3,846	961	4,807
– Net surplus on revaluation of hotel properties	–	–	–	1,377	–	1,377	1,377	344	1,721
Total comprehensive income for the year (after tax)	–	–	3,846	1,377	(1,577)	3,646	3,646	815	4,461
At 31 December 2010	–	82,899	20,110	51,600	(58,675)	13,035	95,934	12,780	108,714

e) **Consolidated statements of cash flows**

	Year ended 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Operating activities			
Loss before income tax	(4,525)	(3,577)	(1,463)
Adjustments for:			
Amortisation of lease prepayments	112	113	115
Depreciation of property, plant and equipment	5,925	5,794	5,822
Loss on disposal of property, plant and equipment	11	2	–
Impairment loss on trade receivables	198	15	31
Interest income	(6)	(2)	(2)
Interest expense	190	110	77
Changes in working capital:			
(Increase)/decrease in inventories	(326)	162	(142)
Decrease in trade and other receivables	753	1,056	1,468
(Decrease)/increase in trade and other payables	(486)	545	995
Cash generated from operations	1,846	4,218	6,901
Interest received	6	2	2
Net cash inflow from operating activities	1,852	4,220	6,903
Investing activities			
Purchase of property, plant and equipment	(1,381)	(875)	(3,743)
Net cash used in investing activities	(1,381)	(875)	(3,743)
Financing activities			
Increase/(decrease) in amount due to intermediate holding company	581	(17)	(381)
Increase in amount due from a fellow subsidiary	(9)	(114)	(421)
Repayment of bank loans	(1,234)	(3,083)	(2,517)
Interest paid	(190)	(110)	(77)
Net cash used in financing activities	(852)	(3,324)	(3,396)
Net (decrease)/increase in cash and cash equivalents	(381)	21	(236)
Cash and cash equivalents at beginning of year	454	220	255
Effect of foreign exchange rates	147	14	160
Cash and cash equivalents at end of year	220	255	179

II NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION AND RESTRUCTURING

Silk Road is a limited company incorporated in Hong Kong on 1 July 1993. Silk Road is a wholly-owned subsidiary of Culture Resources Development Company Limited ("Culture Resources"), a company incorporated in Hong Kong. The directors of Silk Road regard the ultimate holding company during the Relevant Periods to be M.K. Corporation Limited, a company incorporated in Hong Kong.

The Financial Information is presented in Hong Kong dollars ("HK$"), which is also the functional currency of Silk Road.

Silk Road is an investment holding company. and prior to 21 April 2011, holding entire equity interests in each of Silk Road Hotel Management Company and Beijing Silk Road Hotel Management Company Limited, 80% equity interest in Gansu Dunhuang Lodge Hotel Company Limited, 50% equity interest in Bright Future (HK) Limited and 54% equity interest in The Silk Road Turpan Oasis Hotel Limited, which are engaged in hotel management services and hotel and restaurant operations during the Relevant Periods.

As part of the Restructuring of Silk Road, on 21 April 2011, agreements were entered into between Silk Road and its immediate holding company, Culture Resources, under which, Silk Road had transferred its entire equity interests in each of Silk Road Hotel Management Company, Beijing Silk Road Hotel Management Company Limited, Bright Future (HK) Limited and The Silk Road Turpan Oasis Hotel Limited (together the "Excluded Business") to Culture Resources, which is under common control of the beneficial owners of Silk Road, with effect on 21 April 2011 and thereafter, Silk Road only hold 80% equity interest in Gansu Dunhuang Lodge Hotel Company Limited.

As the hotel management services business engaged by Silk Road's Excluded Business are outside the scope of the acquisition by the Company, they are not included in the Financial Information as further detailed in note 2 (b) below.

2. BASIS OF PRESENTATION

a) Going concern basis

The Financial Information has been prepared on the going concern basis, notwithstanding that the Silk Road Group had net current liabilities of HK$18,946,000, HK$17,475,000 and HK$16,584,000 as at 31 December 2008, 2009 and 2010, respectively. The immediate holding company, Culture Resources Development Limited has agreed to provide continued financial support and adequate funds to the Silk Road Group to meet its liabilities as and when they fall due until the completion of the Acquisition. Accordingly, the directors of Silk Road and the Company have prepared the Underlying Financial Statements and Financial Information, respectively, on a going concern basis.

b) Basis of presentation

As the hotel management services business engaged by Silk Road's Excluded Business are outside the scope of the acquisition by the Company, for the purpose of this report, the Financial Information have been prepared on a carve-out basis reflecting the results of operation and financial position of the hotel and restaurant operations of Silk Road Group.

Prior to 21 April 2011, Silk Road and its subsidiaries, namely Silk Road Hotel Management Company Limited, Beijing Silk Road Hotel Management Company Limited and Gansu Dunhuang Lodge Hotel Company Limited and associate, namely, Bright Future (HK) Limited and the jointly controlled entity, The Silk Road Turpan Oasis Hotel Limited, are principally engaged in the hotel management services and hotel and restaurant operations, in the PRC. As part of the Restructuring with effect from 21 April 2011, Silk Road transferred its entire equity interests in each of Silk Road Hotel Management Company Limited, Beijing Silk Road Hotel Management Company Limited, Bright Future (HK) Limited and The Silk Road Turpan Oasis Hotel Limited, which are the Excluded Business, to its immediate holding company, Culture Resources, and Gansu Dunhuang has became the sole subsidiary of Silk Road. The directors of the Company are of the view that the inclusion of the hotel management services business, undertaken by the Excluded Business of Silk Road, in the Financial Information will not provide meaningful financial information to the shareholders of the Company, and therefore the carve-out approach has been adopted in order to present to the shareholders of the Company the financial information of the hotel and restaurant operations only of Silk Road and Gansu Dunhuang which is the Silk Road Group, which is the business that the Company is acquiring. In determining the appropriateness of using the carve-out approach for presenting the financial information, the directors of the Company have made reference to Standards for Investment Reporting 2000 "Investment Reporting Standards applicable to public reporting engagements on historical financial information" (Revised) issued by The Auditing Practices Board of the United Kingdom and consider that such approach is appropriate on the basis that (i) Silk Road and its Excluded Business keep separate books and accounting records for their hotel and restaurant operations and hotel management services business (ii) these businesses are separately run by Silk Road and its Excluded Business, and (iii) the directors of Silk Road assess the performance and resources allocation based on the separate management accounts of the hotel and restaurant operations and hotel management services businesses.

The directors of the Company believe that (i) all historical revenues and costs of operations relating to the hotel and restaurant operations have been reflected in the Financial Information, and (ii) income and expense that were related to the hotel management services business are excluded from the Financial Information.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation of the Financial Information

The Financial Information set out in this report has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs) which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA and the disclosure requirements of Hong Kong Companies Ordinance. The Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange Limited.

The Silk Road Group has adopted all the new or revised HKFRSs and interpretations issued by the HKICPA, that are effective for annual accounting periods beginning on 1 January 2010 in the preparation of the Financial Information throughout the Relevant Periods.

The Silk Road Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 7 (Amendments)	Disclosures-Transfers of financial assets
HKFRS 9	Financial Instruments
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets
HKAS 24 (Revised 2009)	Related party disclosures[2]
HKAS 32 (Amendment)	Classification of rights issues[3]
HK(IFRIC)- Int 14 (Amendment)	Prepayments for a minimum funding requirement[2]
HK(IFRIC)- Int 19	Extinguishing financial liabilities with equity instruments[5]

1 Effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 July 2011
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2012
6 Effective for annual periods beginning on or after 1 January 2011
7 Effective for annual periods beginning on or after 1 February 2010

These new standards, revised standards and amendments and interpretations to existing standards are unlikely to have a significant impact on the results of operations and financial position of the Silk Road Group and Silk Road.

The Financial Information has been prepared on the historical cost convention, as modified by the hotel buildings which are stated at fair value.

The preparation of the Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgements in the process of applying the Silk Road Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are discussed in note 6.

b) Subsidiaries and non-controlling interests

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

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

Non-controlling interests are presented in the Financial Information represent the equity in a subsidiary not attributable directly or indirectly to Silk Road, and in respect of which the Silk Road Group has not agreed any additional terms with the holders of these interests which would result in the Silk Road Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Silk Road Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of Silk Road. Non-controlling interests in the results of the Silk Road Group are presented on the face of the consolidated statement of comprehensive income as an allocation of total profit or loss for the year between non-controlling interests and the equity shareholders of Silk Road.

In Silk Road's statement of financial position, the investment in a subsidiary is stated at cost less impairment losses (note 3 (e)(ii)).

c) Property, plant and equipment

Hotel buildings are stated at their revalued amount, being the fair value at the date of the valuation less any subsequent accumulated depreciation.

Revaluations are performed with sufficient regularity to ensure the carrying amount of these does not differ materially from that which would be determined using fair values at the end of the reporting period.

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

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

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

Other items of property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 3 (e)(ii)).

Gains or losses arising from the retirement on disposal of an item of property, plant are determined as the difference between the net disposal proceeds and the carrying amount of the item that are recognised in profit or loss on the date of retirement or disposal.

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

Hotel properties	Lower of underlying land lease term or 50 years
Furniture and fixtures	10% to 33 1/3%
Motor vehicles	20% to 25%
Machinery and equipment	5% to 10%

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

d) Lease prepayments

Lease prepayments are carried at cost less accumulated amortization and impairment losses (see note 3 (e)(ii)). Amortisation is provided to write off the cost of land use rights on a straight-line basis over the respective period.

e) Impairment of assets

i) Impairment of trade and other receivables

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

– significant financial difficulty of the debtor;

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

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

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

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

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

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

ii) Impairment of other assets

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

– property, plant and equipment;
– lease prepayments; and
– investment in a subsidiary

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

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

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

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

f) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment for doubtful debts (see note 3(e)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such case, the receivables are stated at cost less allowance for impairment of doubtful debts.

g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, being cost of purchase, is determined on weight average basis. Net realized value is the estimated selling price in the ordinary course of business, less applicable variable selling expense.

h) Cash and cash equivalents

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

i) Trade and other payables

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

j) Interest – bearing borrowings

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

k) Borrowing costs

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

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

l) Provisions and contingent liabilities

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

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

m) Employee benefits

i) Short-term employee benefits

Salaries, annual bonuses and staff welfare costs are accrued in the year in which the associated services are rendered by employees. Where payments or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii) Contributions to defined contribution retirement plans

Contributions to local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are expensed in the period in which they are incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

n) Income tax

Income tax expense comprises current tax and deferred tax. Income tax expense is recognised in the consolidated statement of comprehensive income.

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

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

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

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

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

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

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

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

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

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

  – the same taxable entity; or

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

o) Translation of foreign currencies

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

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

The results of operations outside Hong Kong are translated into HK$ at the exchange rates approximating the foreign exchange rates ruling at the dates of transactions. Financial position items are translated into HK$ at the foreign exchange rates ruling at the period end date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

p) Operating leases

Leases where a significant portion of the risks and rewards of certain ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentive received from lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the asset is included in the statement of financial position based on the nature of the asset. Lease income from operating lease is recognised over the term of the lease on a straight-line basis.

q) Recognition of revenue

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

i) Hotel revenue from room rentals, food and beverage sales and other ancillary services is recognised when the services are rendered.

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

iii) Rental income from properties is recognised on a straight-line basis over the periods of the respective leases.

r) Related parties

Parties are considered to be related to the Silk Road Group if:

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

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

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

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

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

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

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

s) Segment information

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

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUE

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

a) Credit risk

The Silk Road Group has no significant concentration of credit risk. It has policies in place to ensure that sale of rooms to wholesales are made to customers with an appropriate credit history. Sales to retail customers are made via credit cards to a significant extent. Sales to corporate customers are made to customers with good credit history. Cash and bank deposits are mainly placed in major international and local banks.

b) Liquidity risk

The Silk Road Group has exposure to liquidity risk in view of its net current liabilities position. As Silk Road Group will be able to obtain external financing from the potential acquirer of the Silk Road Group subsequent to 31 December 2010, the exposure to liquidity risk is significantly reduced.

The following tables detail the remaining contractual maturities at the end of reporting period of the Silk Road Group's and Silk Road's financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Silk Road Group and Silk Road can be required to pay.

Specifically, for bank loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, i.e. if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for other bank borrowings is prepared based on the scheduled repayment dates.

Silk Road Group

	At 31 December 2008		
	Carrying amount	**Total contractual undiscounted cash outflow**	**Within 1 year or on demand**
	HK$'000	*HK$'000*	*HK$'000*
Trade and other payables	1,977	1,977	1,977
Bank loan subject to a repayment on demand clause	18,431	20,057	20,057
Other bank loans	4,862	5,305	5,305
Amount due to intermediate holding company	21,372	21,372	21,372
	46,642	48,711	48,711

	At 31 December 2009		
	Carrying amount	**Total contractual undiscounted cash outflow**	**Within 1 year or on demand**
	HK$'000	*HK$'000*	*HK$'000*
Trade and other payables	2,522	2,522	2,522
Bank loan subject to a repayment on demand clause	17,031	18,213	18,213
Other bank loans	3,179	3,408	3,408
Amount due to intermediate holding company	21,355	21,355	21,355
	44,087	45,498	45,498

	At 31 December 2010		
	Carrying amount	**Total contractual undiscounted cash outflow**	**Within 1 year or on demand**
	HK$'000	*HK$'000*	*HK$'000*
Trade and other payables	3,517	3,517	3,517
Bank loan subject to a repayment on demand clause	11,795	12,614	12,614
Other bank loans	5,898	6,307	6,307
Amount due to intermediate holding company	20,974	20,974	20,974
	42,184	43,412	43,412

The table that follows summarises the maturity analysis of bank loans with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. Taking into account of the Silk Road Group's financial position, the directors of Silk Road do not consider it probable that the bank will exercise its discretion to demand immediate repayment. The directors of Silk Road believe that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Carrying amount	Total contractual undiscounted cash outflow	Within 1 year	More than 1 year but Less than 2 years	More than 2 years but less than 5 years	More than 5 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2008	21,258	23,135	3,078	1,600	18,457	–
At 31 December 2009	18,507	19,791	1,578	6,071	12,142	–
At 31 December 2010	17,693	18,921	6,307	4,793	7,821	–

Silk Road

	At 31 December 2008		
	Carrying amount	Total contractual undiscounted cash outflow	Within 1 year or on demand
	HK$'000	*HK$'000*	*HK$'000*
Other payables	15	15	15
Amount due to intermediate holding company	21,372	21,372	21,372
	21,387	21,387	21,387

	At 31 December 2009		
	Carrying amount	Total contractual undiscounted cash outflow	Within 1 year or on demand
	HK$'000	*HK$'000*	*HK$'000*
Other payables	8	8	8
Amount due to intermediate holding company	21,355	21,355	21,355
	21,363	21,363	21,363

	At 31 December 2010		
	Carrying amount	Total contractual undiscounted cash outflow	Within 1 year or on demand
	HK$'000	*HK$'000*	*HK$'000*
Other payables	8	8	8
Amount due to intermediate holding company	20,974	20,974	20,974
	20,982	20,982	20,982

c) **Interest rate risk**

Except for bank deposits with stable interest rates, the Silk Road Group has no other interest bearing assets. Accordingly, the Silk Road Group' s income and operating cash flows are substantially independent of changes in market rates. Details of the effective interest rates for bank deposits are disclosed in note 21.

The Silk Road Group's fixed interest rates bank borrowings expose the Silk Road Group to fair value interest rate risk. The Silk Road Group does not use derivative financial instruments to hedge its interest rate risk.

A general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the Silk Road Group's loss after tax by an amount as follows:

	As at 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
100 basis points increase/decrease	211	183	176

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of each reporting period.

d) **Currency risk**

Currency risk refers to the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Silk Road Group's exposure to currency risk is minimal as the subsidiary of the Silk Road Group operates in the PRC with most of its transactions denominated and settled in RMB, which is, the functional currency of the subsidiary. Accordingly, the Silk Road Group does not use derivative financial instruments to hedge its foreign currency risk. In addition, there are no purchases and payments made in foreign currencies. In the opinion of the directors of Silk Road, fluctuations of the exchanges rates of RMB against foreign currencies are not expected to have significant impact on the results of the Silk Road Group.

e) **Fair value**

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2008 and 2009 and 2010.

The following methods and assumptions were used to estimate the fair values of each class of financial instruments:

– Cash, other receivables and other payables

The carrying values approximate their fair values because of the short maturities of these instruments.

– Bank loans

The fair value has been estimated by applying a discounted cash flow approach using interest rates available to the Silk Road Group for similar indebtedness.

Fair value estimates are made at a specific point in time and are based on relevant market information about the financial instruments. These instruments are subjective in nature and involve uncertainties and matters of significant of judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

5. CAPITAL MANAGEMENT

The Silk Road Group's primary objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for its shareholders, by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Silk Road Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders' returns that might be possible with high levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic condition.

The Silk Road Group monitors its capital structure on the basis of a gearing ratio. For this purpose, the Silk Road Group defines gearing ratio as net borrowings divided by total equity.

The gearing ratios of the Silk Road Group were as follows:

	As at 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Bank loans	23,293	20,210	17,693
Less: Cash and cash equivalents	(220)	(255)	(179)
Net debt	23,073	19,955	17,514
Total equity	103,142	104,253	108,714
Gearing ratio	22%	19%	16%

Neither Silk Road nor its subsidiary is subject to externally imposed capital requirements.

6. ACCOUNTING ESTIMATES AND JUDGEMENTS

The Silk Road Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the Financial Information.

a) Depreciation and amortisation

Property, plant and equipment and land use rights are depreciated/amortised on a straight-line basis over the estimates useful lives, after taking into account the estimated residual value. The management reviews annually the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortisation expenses to be recorded during any reporting period. The useful lives are based on the Silk Road Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortisation expenses for future periods are adjusted prospectively if there are significant changes from previous estimated.

b) Depreciation of hotel properties

The Silk Road Group's carrying amount of hotel properties as at 31 December 2008, 2009 and 2010 was approximately HK$128,041,000, HK$129,220,000 and HK$134,747,000 respectively. The Silk Road Group depreciates the hotel properties on a straight-line basis over the remaining unexpired terms of the leases. It reflects the directors' estimate of the periods that the Silk Road Group intends to derive economic benefits from the use of the Silk Road Group's hotel properties. During the Relevant Periods, the useful lives of the hotel properties have been reviewed and these estimates are considered to be appropriate. The Silk Road Group has been granted the rights to operate and manage the hotel properties in the PRC for a period of 50 years and subject to certain conditions to be fulfilled by Gansu Dunhuang. Should the conditions not be fulfilled, the depreciation period of the hotel properties would be adjusted. During the Relevant Periods, the estimated useful life of 50 years of these hotel properties has been reviewed, and these estimated are considered to be appropriate.

c) Impairment of trade and other receivables

The Silk Road Group estimates the impairment allowance of trade and other receivables by assessing the recoverability based on credit history and prevailing market conditions. This requires the use of estimates and judgements. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such differences will affect the carrying amounts of trade and other receivables and thus the impairment loss in the period in which such estimate is changed. The Silk Road Group reassesses the impairment allowances at the end of each reporting period.

d) Impairment on property, plant and equipment and land use rights

The Silk Road Group tests annually whether property, plant and equipment and land use rights have suffered any impairment in accordance with accounting policy as stated in note 3 (e) (ii). The recoverable amounts of property, plant and equipment and land use rights have been determined based on value-in-use calculations. These calculations require the use of estimates such as the future revenue and discount rates. No impairment was provided during the Relevant Periods.

e) Income taxes and deferred taxation

The Silk Road Group is subject to income taxes in Hong Kong and the PRC. Significant judgement is required in determining the amount of the provision for income taxes and the timing of payment of related taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and certain tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences will impact the recognition of deferred tax and tax in the periods in which such estimate is changed.

f) Estimated impairment on investment in the subsidiary

The Silk Road Group makes impairment on investment in the subsidiary when the related recoverable amount of the investment in subsidiary, with reference to the share of net asset value of the subsidiary, is estimated to be less than its carrying amount.

g) Fair value of hotel properties

At the end of each reporting period, the Silk Road Group's hotel properties are stated at fair value, based on valuation performed by an independent qualified professional valuer. The fair value has been determined based on market value basis which involves, inter-alia, certain estimates, including appropriate capitalization rates, reversionary potential and comparable sales transactions. In relying on the valuation, management has exercised their judgement and is satisfied that the method of valuation is reflective of the current market conditions.

h) Functional currency

Silk Road is carrying out its operating activities and making management decision in Hong Kong dollars, that is, raising finance in Hong Kong dollars and has a significant degree of autonomy from its subsidiary in the PRC in the way its business is managed. In the opinion of the directors of Silk Road, the functional currency of Silk Road is HK$ and the functional currency of the PRC subsidiary is RMB. The determination of the functional currency requires significant judgement and the adoption of the functional currency of the Silk Road Group has affected the results and the application of accounting treatment of the Silk Road Group.

7. TURNOVER

The Silk Road Group owns and operates hotel and restaurant operations. Sales recognised during the Relevant Periods are as follows:

	Year ended 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Hotel and restaurant operations:			
Room rentals	7,034	8,372	12,008
Food and beverage	2,982	3,491	5,061
Others	270	370	532
	10,286	12,233	17,601

8. SEGMENT INFORMATION

The chief operating decision-makers have been identified as the directors of Silk Road and they assess the performance of the business based on the review of consolidated statement of comprehensive income and consolidated statement of financial position.

Substantially all the Silk Road Group's revenue from external customers is derived from the PRC and substantially all of its assets are located in the PRC. The Silk Road Group's customer base is diversified and has no customer with whom transactions have exceeded 10% of the Silk Road Group's turnover during the Relevant Periods.

9. OTHER REVENUE AND INCOME

	Year ended 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Bank interest income	6	2	2
Rental income	129	142	241
Exchange gain	220	42	397
	355	186	640

10. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging:

		Year ended 31 December		
		2008	**2009**	**2010**
		HK$'000	*HK$'000*	*HK$'000*
a)	Finance costs:			
	Interest on bank borrowings wholly repayable within five years	190	110	77
b)	Staff costs:			
	Salaries, wages and benefits	2,666	3,175	4,235
	Contributions to retirement benefit schemes	379	486	564
		3,045	3,661	4,799
c)	Other items:			
	Cost of inventories sold	1,071	1,353	1,861
	Auditor's remuneration	22	22	22
	Amortisation of lease prepayments	112	113	115
	Depreciation of property, plant and equipment	5,925	5,794	5,822
	Impairment loss on trade receivables	198	15	31
	Loss on disposal of property, plant and equipment	11	2	–
	Property tax *(note)*	540	530	553

Note: The property tax levied on the hotel properties (restricted to 70% of the cost of the hotel properties) applicable to Gansu Dunhuang is 1.2% during the Relevant Periods.

11. DIRECTORS' REMUNERATION

All of the directors did not receive any remuneration throughout the Relevant Periods.

None of the directors of the Silk Road Group has waived or agreed to waive any remuneration during the Relevant Periods.

12. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The aggregate of the emoluments in respect of the five highest paid individuals are as follows:

	Year ended 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Salaries and benefits in kind	203	232	277
Retirement benefit schemes contributions	78	91	109
	281	323	386

The emoluments of the highest paid employees fell within the range of RMB1 to RMB881,000 (equivalent to HK$1 to HK$1,000,000) during the Relevant Periods.

During the Relevant Periods, no emoluments were paid or payable by the Silk Road Group to any of the directors or the five highest-paid individuals as an incentive to join or upon joining the Silk Road Group or as compensation for loss of office.

13. INCOME TAX

a) Taxation in the consolidated statement of comprehensive income

	Year ended 31 December		
	2008	2009	2010
	HK$'000	*HK$'000*	*HK$'000*
PRC enterprise income tax			
– Current year	–	–	–
Deferred tax *(note 24)*			
– Current year	280	(164)	(604)
Tax credit/(income tax)	280	(164)	(604)

i) Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the Relevant Periods. No provision for Hong Kong Profits Tax was made as the Silk Road Group did not any have assessable profits subject to Hong Kong Profits Tax during the Relevant Periods.

ii) The PRC's statutory income tax rates are 33% and 25% prior to and effective from 1 January 2008, respectively.

iii) Under the New Tax Law and its relevant regulations, dividends receivable by non-PRC corporate residents from PRC enterprises are subject to withholding tax at a rate of 10%, unless reduced by tax treaties or agreements, for earnings accumulated beginning on 1 January 2008.

b) Reconciliation between tax (credit)/expense and accounting loss at applicable tax rate:

	Year ended 31 December		
	2008	2009	2010
	HK$'000	*HK$'000*	*HK$'000*
Loss before income tax	(4,525)	(3,577)	(1,463)
Notional tax on loss before income tax calculated at the rates applicable to loss in the tax jurisdictions concerned	(1,149)	(896)	(398)
Tax effect of non taxable income	(36)	(7)	(65)
Tax effect of deferred assets recognised	903	1,064	1,065
Tax effect of tax losses not recognised	2	3	2
Tax (credit)/expense	(280)	164	604

14. LOSS ATTRIBUTABLE TO OWNERS OF SILK ROAD

The consolidated loss of the Silk Road Group includes profit of HK$207,000, HK$24,000, and HK$381,000, which have been dealt with in the financial statements of Silk Road for the years ended 31 December 2008, 2009 and 2010, respectively.

15. DIVIDENDS

No dividend was distributed to owners of Silk Road in the Relevant Periods.

As disclosed in note 2 (b), the hotel management services business, undertaken by the Excluded Business, namely Silk Road Hotel Management Company Limited, Beijing Silk Road Hotel Management Company Limited, Bright Future (HK) Limited and The Silk Road Turpan Oasis Hotel Limited, was carved-out and excluded from the Financial Information. The capital contributions for equity interests in these Excluded Business carved-out during the Relevant Periods were regarded as deemed distributions to the owners of Silk Road.

16. PROPERTY, PLANT AND EQUIPMENT

Silk Road Group

	Hotel properties	**Machinery and equipment**	**Furniture and fixtures**	**Motor vehicles**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation					
At 1 January 2008	120,013	15,096	6,395	1,809	143,313
Additions	918	267	196	–	1,381
Disposals	–	–	(61)	–	(61)
Surplus on revaluation	4,954	–	–	–	4,954
Elimination of depreciation on revaluation	(5,090)	–	–	–	(5,090)
Exchange realignment	7,246	913	387	109	8,655
At 31 December 2008	128,041	16,276	6,917	1,918	153,152
Representing:					
Cost	–	16,276	6,917	1,918	25,111
Valuation – 2008	128,041	–	–	–	128,041
	128,041	16,276	6,917	1,918	153,152
At 1 January 2009	128,041	16,276	6,917	1,918	153,152
Additions	–	331	363	181	875
Disposals	–	(16)	(22)	–	(38)
Surplus on revaluation	5,790	–	–	–	5,790
Elimination of depreciation on revaluation	(5,143)	–	–	–	(5,143)
Exchange realignment	532	68	29	9	638
At 31 December 2009	129,220	16,659	7,287	2,108	155,274

	Hotel properties *HK$'000*	Machinery and equipment *HK$'000*	Furniture and fixtures *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Representing:					
Cost	–	16,659	7,287	2,108	26,054
Valuation – 2009	129,220	–	–	–	129,220
	129,220	16,659	7,287	2,108	155,274
At 1 January 2010	129,220	16,659	7,287	2,108	155,274
Additions	3,482	62	138	61	3,743
Disposals	–	(130)	(40)	–	(170)
Surplus on revaluation	2,294	–	–	–	2,294
Elimination of depreciation on revaluation	(5,370)	–	–	–	(5,370)
Exchange realignment	5,121	645	286	84	6,136
At 31 December 2010	134,747	17,236	7,671	2,253	161,907
Representing:					
Cost	–	17,236	7,671	2,253	27,160
Valuation – 2010	134,747	–	–	–	134,747
	134,747	17,236	7,671	2,253	161,907
Accumulated depreciation and impairment losses					
At 1 January 2008	–	12,563	5,177	1,406	19,146
Charge for the year	5,037	535	261	92	5,925
Written back on disposal	–	–	(50)	–	(50)
Written back on revaluation	(5,090)	–	–	–	(5,090)
Exchange realignment	53	763	314	86	1,216
At 31 December 2008 and 1 January 2009	–	13,861	5,702	1,584	21,147
Charge for the year	5,132	298	262	102	5,794
Written back on disposal	–	(14)	(22)	–	(36)
Written back on revaluation	(5,143)	–	–	–	(5,143)
Exchange realignment	11	58	24	7	100
At 31 December 2009 and 1 January 2010	–	14,203	5,966	1,693	21,862
Charge for the year	5,218	302	218	84	5,822
Written back on disposal	–	(130)	(40)	–	(170)
Written back on revaluation	(5,370)	–	–	–	(5,370)
Exchange realignment	152	557	237	68	1,014
At 31 December 2010	–	14,932	6,381	1,845	23,158

	Hotel properties	Machinery and equipment	Furniture and fixtures	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Carrying amount					
At 31 December 2008	128,041	2,415	1,215	334	132,005
At 31 December 2009	129,220	2,456	1,321	415	133,412
At 31 December 2010	134,747	2,304	1,290	408	138,749

a) Revaluation of hotel properties

The hotel properties were revalued at 31 December 2008, 2009 and 2010 by independent professional qualified valuers based on direct comparision method by reference to market transactions in comparable properties. The valuations were carried out by Savills Valuation and Professional Services Limited with recent experience in the location and category of properties being valued.

The revaluation surpluses of HK$4,954,000, HK$5,790,000 and HK$2,294,000 as at 31 December 2008, 2009 and 2010 respectively have been recognised in other comprehensive income and accumulated in the property revaluation reserve of the Silk Road Group.

Had these hotel properties been carried at cost less accumulated depreciation, the carrying amounts would have been HK$47,981,000, HK$45,169,000 and HK$47,138,000 as at 31 December 2008, 2009 and 2010, respectively.

b) The analysis of carrying amount of hotel properties is as follow:

	As at 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Outside Hong Kong, carried at fair value			
– medium-term leases	128,041	129,220	134,747

c) Pledged assets

As at 31 December 2008, 2009 and 2010, all of the hotel properties with carrying amounts of HK$128,041,000, HK$129,220,000 and HK$134,747,000, respectively were pledged as collateral to a bank for the Silk Road Group's borrowings.

17. LEASE PREPAYMENTS

Silk Road Group

	2008	2009	2010
	HK$'000	*HK$'000*	*HK$'000*
Cost			
At 1 January	5,332	5,654	5,677
Exchange realignment	322	23	221
At 31 December	5,654	5,677	5,898
Accumulated depreciation			
At 1 January	1,511	1,687	1,807
Charge for the year	112	113	115
Exchange realignment	64	7	74
At 31 December	1,687	1,807	1,996
Carrying amount			
At 31 December	3,967	3,870	3,902

Lease prepayments represent land use rights for acquiring rights to use land located in the PRC, for own-used hotel properties as referred to note 16.

Pursuant to the land use rights certificate No. Dun Zheng Tu Bo Guo Yong (1993) Zi 8, issued by Dunhuang Shi Tu Di Guan Li Ju dated 18 March 1995, the land use rights of the property with a site area of 200,000 sq.m have been granted to Gansu Dunhuang for a term of 50 years expiring on 18 March 2045 for hotel and catering purposes.

As at 31 December 2008, 2009 and 2010, land use rights with carrying amounts of HK$3,967,000, HK$3,870,000 and HK$3,902,000, respectively were pledged as collateral to a bank for the Silk Road Group's borrowings.

18. INVESTMENT IN A SUBSIDIARY

Silk Road

	As at 31 December		
	2008	2009	2010
	HK$'000	*HK$'000*	*HK$'000*
Unlisted investment, at cost	101,024	101,024	101,024

The particulars of the subsidiary of the Silk Road were set out below:

Name of subsidiary	Place of establishment/ form of entity	Registered and paid-up capital	Percentage of equity directly attributable to Silk Road	Principal activities
Gansu Dunhuang Lodge Hotel Co., Ltd	PRC/ Sino-foreign equity joint venture	RMB25,000,000	80%	Hotel and restaurant operations

19. INVENTORIES

Silk Road Group

	As at 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Raw materials	83	104	155
Low value consumables	2,470	2,287	2,378
	2,553	2,391	2,533

20. TRADE AND OTHER RECEIVABLES

Silk Road Group

	As at 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables	4,249	2,721	2,193
Less: allowance for doubtful debts	(408)	(423)	(454)
	3,841	2,298	1,739
Prepayments	173	1,027	102
Other receivables	470	88	73
	4,484	3,413	1,914

Trade and other receivables are expected to be recovered within one year.

There is no concentration of risk with respect to trade receivables, as the Silk Road Group has a large number of customers, internationally dispersed.

a) The ageing analysis of trade debtors after provision for impairment, based on invoice date is as follows:

	As at 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
0-30 days	22	138	51
31-60 days	230	154	74
61-90 days	1,076	549	282
91-180 days	1,925	1,003	990
Over 181 days	588	454	342
	3,841	2,298	1,739

A significant part of the Silk Road Group's sales are made by credit cards or against payment of deposits. The remaining amounts are with general credit term of 180 days. The Silk Road Group has a defined credit policy.

b) Impairment of trade and other receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Silk Road Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivables directly (see note 3(e)(i)).

The movement in the allowance for doubtful debts during the Relevant Periods including both specific and collective loss components, is as follows:

	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January	210	408	423
Impairment loss recognised	198	15	31
At 31 December	408	423	454

At 31 December 2008, 2009 and 2010, the Silk Road Group's trade receivables of HK$408,000, HK$423,000 and HK$454,000, respectively, were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that these receivables were irrecoverable. The Silk Road Group does not hold any collateral over these balances.

c) Trade and other receivables that are not impaired

		As at 31 December	
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Neither past due nor impaired	3,253	1,844	1,397
Less than 180 days past due	296	400	316
More than 180 days past due	292	54	26
	3,841	2,298	1,739

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

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

21. CASH AND CASH EQUIVALENTS

Silk Road Group

		As at 31 December	
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Cash at banks	187	157	101
Cash in hand	33	98	78
	220	255	179

Cash at banks and in hand totalling HK$222,000, HK$225,000 and HK$179,000 as at 31 December 2008, 2009 and 2010 respectively is denominated in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

The effective annual interest rate for deposits with banks was 0.36% to 0.72%, 0.36% and 0.36% per annum as at 31 December 2008 and 2009 and 2010, respectively.

22. BANK LOANS

Silk Road Group

a) The analysis of the carrying amount of interest-bearing borrowings is as follows:

	As at 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Secured bank loans			
– Due for repayment within one year or on demand	4,862	3,179	5,898
– Due for repayment after one year which contain a repayment on demand clause	18,431	17,031	11,795
	23,293	20,210	17,693

b) At the end of each reporting period, the bank loans were repayable as stipulated in the respective loan agreements as follows:

	As at 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Within 1 year or on demand	4,862	3,179	5,898
After 1 year but within 2 years	1,471	5,677	4,482
After 2 years but within 5 years	16,960	11,354	7,313
	23,293	20,210	17,693

c) As at 31 December 2008, 2009 and 2010, the Silk Road Group's borrowings of HK$21,258,000, HK$18,507,000 and HK$17,693,000 respectively were secured by its hotel properties and land use rights (notes 16 and 17) and guaranteed by a director of Silk Road, Mr. Wong Man Kong, Peter.

As at 31 December 2008 and 2009, the Silk Road Group's borrowings of HK$2,035,000 and HK$1,703,000 were secured by its machinery and equipment and were fully repaid in May 2009 and May 2010, respectively.

d) All of the banking facilities are subject to the fulfillment of covenants. If Silk Road Group were in breach of the covenants, the draw down facilities would become repayable on demand. In addition, certain of the Silk Road Group's bank loan agreements contain clauses which give the lender the right at its sole discretion to demand immediate repayment at any time irrespective of whether the Silk Road Group has complied with the covenants and met the scheduled repayment obligations.

The Silk Road Group regularly monitors its compliance with these covenants, is up to date with the scheduled repayments of the term loan and does not consider it probable that the bank will exercise its discretion to demand repayment so long as the Silk Road Group continues to meet these requirements. Further details of the Silk Road Group's management of liquidity risk are set out in note 4(b). As at 31 December 2008, 2009 and 2010, none of the covenants relating to drawn down facilities had been breached.

e) The effective interest rates (which are also equal to contracted interest rates) on the Silk Road Group's bank loans was 8.83% to 9.48%, 6.94% to 7.43% and 6.94% per annum as at 31 December 2008, 2009 and 2010, respectively.

23. TRADE AND OTHER PAYABLES

Silk Road Group

	As at 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Trade payables	735	1,287	858
Accruals	290	270	482
Other taxes payable	409	304	376
Deposits received	164	192	205
Other payables	379	469	1,596
	1,977	2,522	3,517

Silk Road

	As at 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Other payables	15	8	8

All the trade and other payables of the Silk Road Group and Silk Road are expected to be settled within one year.

24. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Silk Road Group

Deferred tax assets/(liabilities) recognised

The components of deferred tax assets/(liabilities) recognised in the consolidated statements of financial position and the related movements are as follows:

	Deferred tax liabilities- revaluation of hotel properties	**Deferred tax assets- tax losses**	**Net deferred tax liabilities**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2008	(18,240)	6,046	(12,194)
Charged to other comprehensive income	(1,238)	–	(1,238)
Credited to profit or loss ***(note 13(a))***	–	280	280
Exchange realignment	(1,100)	368	(732)
At 31 December 2008 and 1 January 2009	(20,578)	6,694	(13,884)
Charged to other comprehensive income	(1,448)	–	(1,448)
Charged to profit or loss ***(note 13(a))***	–	(164)	(164)
Exchange realignment	(86)	28	(58)
At 31 December 2009 and 1 January 2010	(22,112)	6,558	(15,554)
Charged to other comprehensive income	(573)	–	(573)
Charged to profit or loss ***(note 13(a))***	–	(604)	(604)
Exchange realignment	(859)	237	(622)
At 31 December 2010	(23,544)	6,191	(17,353)

25. RETIREMENT BENEFIT SCHEMES

Silk Road operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Scheme Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan held separately from those of the Silk Road Group in funds under the control of trustees. Under the MPF Scheme, the employer and employees are each required to make contributions to the plan of 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the plan vest immediately.

Pursuant to the relevant labour rules and regulation in the PRC, employees of the Gansu Dunhuang are required to participate in defined contribution retirement schemes administrated and operated by the local municipal government. The Silk Road Group was required to make contributions to the scheme at 34% of the employees' salaries for the years ended 31 December 2008, 2009 and 2010 to fund the retirement benefits of the employees.

The Silk Road Group has no other material obligation for the payment of retirement benefits associated with the schemes beyond the contributions described above.

26. CAPITAL AND RESERVES

a) Share capital

	As at 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Authorised:			
10,000 shares of HK$1 each	10	10	10
Issued and fully paid			
2 shares of HK$1 each	–	–	–

Silk Road issued 2 shares with par value of HK$1 each for a consideration of HK$2 on incorporation.

b) After having detailed assessment of the nature of the loan from intermediate holding company in accordance with HKAS 32 "Financial Instruments: Disclosures and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement", the directors of Silk Road are of the view that these advances are in substance equity contributions by the intermediate holding company, North West Development Ltd, to provide for the capital of Silk Road. These advances are unsecured, interest free and will not be demanded for repayment. Therefore, these advances have been accounted for as part of the equity of Silk Road for the Relevant Periods.

c) Reserves

i) Silk Road Group

Movements of reserves of Silk Road Group are set out in the consolidated statement of changes in equity in note d of Section I to the Financial Information.

ii) Silk Road

	Accumulated losses
	HK$'000
At 1 January 2008	(3,469)
Profit for the year	207
Total comprehensive income for the year	207
At 31 December 2008 and 1 January 2009	(3,262)
Profit for the year	24
Total comprehensive income for the year	24
At 31 December 2009 and 1 January 2010	(3,238)
Profit for the year	381
Total comprehensive income for the year	381
At 31 December 2010	(2,857)

d) **Nature and purpose of reserves**

i) *Translation reserve*

The translation reserve comprises all foreign differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out note 3 (o).

ii) *Property revaluation reserve*

The property revaluation reserve has been set up and is dealt with in accordance the accounting policies adopted for buildings in note 3 (c).

e) **Distributable reserve**

In the opinion of directors of Silk Road, there was no reserve available for distribution to owners of Silk Road as at 31 December 2008, 2009 and 2010.

27. MATERIAL RELATED PARTY TRANSACTIONS

During the Relevant Periods, the directors of Silk Road are of the view that the following companies are related parties of the Silk Road Group:

a) **Guarantee provided by related party**

As disclosed in note 22(c), the Silk Road Group's bank borrowings of approximately HK$21,258,000, HK$18,507,000 and HK$17,693,000 as at 31 December 2008, 2009 and 2010, respectively were guaranteed by a director of Silk Road, Mr. Wong Man Kong, Peter. In the opinion of the directors of Silk Road, the fair value of the guarantee was insignificant during the Relevant Periods.

b) **Key management remuneration**

Remuneration for key management personnel of the Silk Road Group, including amounts paid to the Silk Road Group's directors as disclosed in note 11 and certain of the highest paid employees as disclosed in note 12, is as follows:

	As at 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Short term employee benefits	203	232	277
Contributions to retirement benefit schemes	78	91	109
	281	323	386

c) Balances with related party

(i) Amount due from a fellow subsidiary

Silk Road Group

	As at 31 December		
	2008	**2009**	**2010**
	HK\$'000	*HK\$'000*	*HK\$'000*
Beijing Silk Road Hotel Management Company Limited	20,439	20,553	20,974

Amount due from a fellow subsidiary is unsecured, interest-free and repayable on demand.

The intermediate holding company, North West Development Limited, has agreed to undertake to Silk Road on the settlement of the outstanding balance due by Beijing Silk Road Hotel Management Company Limited.

(ii) Amount due to intermediate holding company

Silk Road Group and Silk Road

	As at 31 December		
	2008	**2009**	**2010**
	HK\$'000	*HK\$'000*	*HK\$'000*
North West Development Limited	21,372	21,355	20,974

Amount due to intermediate holding company is unsecured, interest-free and repayable on demand.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Silk Road Group in respect of any period subsequent to 31 December 2010. In addition, save as disclosed in the report, no dividend or distribution has been declared, made or repaid by the Silk Road Group in respect of any period subsequent to 31 December 2010.

Yours faithfully

CCIF CPA Limited
Certified Public Accountants
Hong Kong

Leung Chun Wa
Practising Certificate Number P04963

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE RESULTANT GROUP

Introduction to the unaudited pro forma financial information

The accompanying unaudited pro forma financial information of UDL Holdings Limited (the "Company") and its subsidiaries (the "Group") together with Silk Road Development Company Limited ("Silk Road") and its subsidiary (the "Silk Road Group") (collectively referred to as the "Resultant Group") which gives effect to the proposed acquisition of Silk Road by the Company (the "Acquisition") as if the Acquisition had been completed on 31 January 2011 (the "Unaudited Pro Forma Financial Information").

The Unaudited Pro Forma Financial Information of the Resultant Group is prepared based upon the published interim report of the Group as at 31 January 2011 and the audited Financial Information of the Silk Road Group as at 31 December 2010 as set out in appendix II to this circular after incorporating the unaudited pro forma adjustments described in the accompanying notes. A narrative description of the unaudited pro forma adjustments of the Acquisition that are (i) directly attributable to the transaction concerned and not relating to future events or decisions; (ii) expected to have a continuing impact on the Resultant Group; and (iii) factually supportable, are summarised in the accompanying notes.

The Unaudited Pro Forma Financial Information of the Resultant Group is based on a number of assumptions, estimates, uncertainties and currently available information. As a result of these assumptions, estimates and uncertainties, the accompanying Unaudited Pro Forma Financial Information of the Resultant Group does not purport to describe the actual financial position of the Resultant Group that would have been attained had the Acquisition been completed on 31 January 2011 or any future date. Further, the accompanying Unaudited Pro Forma Financial Information of the Resultant Group does not purport to give a true picture of the Resultant Group's financial position or predict the Resultant Group's financial position or predict the Resultant Group's future financial position.

The Unaudited Pro Forma Financial Information of the Resultant Group should be read in conjunction with the financial information of the Group as set out in appendix I to this circular, the financial information of the Silk Road Group as set out in appendix II to this circular and other financial information included elsewhere in this circular.

Unaudited pro forma consolidated statement of financial position as at 31 January 2011

	The Group as at 31 January 2011	The Silk Road Group as at 31 December 2010	Combined total	Pro forma adjustments	*Notes*	Unaudited pro forma consolidated statement of financial position of the Resultant Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*		*HK$'000*
	(Note 1)	*(Note 2)*				
Non-current assets						
Property, plant and equipment	119,841	138,749	258,590			258,590
Lease prepayments	59,057	3,902	62,959	112,467	3	175,426
Club membership	200	–	200			200
Interests in associates	6,843	–	6,843			6,843
	185,941	142,651	328,592			441,059
Current assets						
Inventories	62,092	2,533	64,625			64,625
Trade and other receivables	35,658	1,914	37,572			37,572
Amounts due from customers for contract work	17,677	–	17,677			17,677
Amount due from a fellow subsidiary	–	20,974	20,974			20,974
Amount due from related companies	4,348	–	4,348			4,348
Cash and cash equivalents	12,366	179	12,545			12,545
	132,141	25,600	157,741			157,741
Current liabilities						
Bank loans	–	17,693	17,693			17,693
Obligations under finance lease	18	–	18			18
Trade and other payables	21,779	3,517	25,296	800	4	26,096
Amounts due to related companies	3,717	–	3,717			3,717
Amount due to intermediate holding company	–	20,974	20,974			20,974
Loan from a related company	40,099	–	40,099			40,099
Amount due to an associate	198	–	198			198
Amounts due to directors	60	–	60			60
Provision for taxation	2,015	–	2,015			2,015
	67,886	42,184	110,070			110,870
Net current assets/(liabilities)	64,255	(16,584)	47,671			46,871
Total assets less current liabilities	250,196	126,067	376,263			487,930

	The Group as at 31 January 2011 HK$'000 (Note 1)	The Silk Road Group as at 31 December 2010 HK$'000 (Note 2)	Combined total HK$'000	Pro forma adjustments HK$'000	Notes	Unaudited pro forma consolidated statement of financial position of the Resultant Group HK$'000
Non-current liabilities						
Promissory note	–	–	–	185,908	3	185,908
Deferred tax liabilities	–	17,353	17,353	28,117	3	45,470
	–	17,353	17,353			231,378
Net assets	250,196	108,714	358,910			256,552
Capital and reserves						
Share capital	101,909	–	101,909			101,909
Shareholder's loan	–	82,899	82,899	(82,899)	3	
Reserves	148,287	13,035	161,322	(13,035)	5	124,993
				(800)	4	
				(22,494)	3	
Equity attributable to owners of the Company	250,196	95,934	346,130			226,902
Non-controlling interests	–	12,780	12,780	16,870	3(b)	29,650
Total equity	250,196	108,714	358,910			256,552

Notes to the Unaudited Pro Forma Information of the Resultant Group

(1) The balances of assets and liabilities of the Group are extracted from the unaudited consolidated statement of financial position of the Group as at 31 January 2011 as included in the published interim report of the Group for the six months ended 31 January 2011.

(2) The balances of assets and liabilities of the Silk Road Group are extracted from the audited consolidated statement of financial position of the Silk Road Group as at 31 December 2010 as set out in Appendix II to this circular.

(3) As described in the section "Letter from the Board" of this circular, the Company, through one of its wholly-owned subsidiaries, Sunfill Limited (the Purchaser), has entered into an agreement with Culture Resources Development Company Limited (the "Vendor") (the "Agreement"), to acquire 100% equity interest in Silk Road Development Company Limited for a consideration of approximately HK$205,214,000 (subject to downward adjustment mechanism as detailed in page 5 of the Letter from the Board) which will be satisfied by the issuance of the promissory note to the Vendor upon completion of the Acquisition. Pursuant to the Agreement, the Vendor will waive all indebtedness due and owing by the Silk Road Group to the then shareholder (the "shareholder's loan") as at the completion date of the Acquisition.

Based upon the accountants' report and property valuation report as set out in appendicies II and IV to this circular, if the Sale and Purchase Agreement had been completed on 31 December 2010, there would be a downward adjustment to the Consideration, and the Consideration payable would have been approximately HK$185,908,000. This is because (i) the audited net asset value less non-controlling interest of Silk Road Development Company Limited is approximately HK$13,030,000 (refer to page 22, being HK$108,714,000 (equity) minus HK$82,899,000 (loan from intermediate holding company) and further minus HK$12,780,000 (non-controlling interests)); (ii) the value of the Sale Debts is approximately HK$82,899,000 (refer to page 22, being loan from intermediate holding company); and (iii) the value of the land use rights of the Dunhuang Lodge Hotel owned as to 80% by Silk Road Development Company Limited is approximately HK$89,974,000 (refer to pages 64 and 22, being RMB98,660,000 i.e. HK$116,369,000 (market value of land) minus HK$3,902,000 (lease prepayments) and further minus HK$22,493,000 (being 20% non-controlling interests in net surplus land value)) over the audited book value of such land use rights. Shareholders should note that the Consideration payable is subject to further change (though cap at approximately HK$205,214,000) as it depends on the actual result of an audit of Silk Road Group at Completion.

(a) Details of goodwill arising from the Acquisition are as follows:

	HK$'000
Fair value of consideration settled by issue of promissory note	185,908
Non-controlling interests' proportionate share of the Silk Road Group's identifiable net assets (note 3 (b))	29,650
	215,558
Less: Fair value of identifiable net assets of the Silk Road Group (note 3 (b))	193,064
Excess payment written off upon completion	22,494

(b) The fair value of carrying amounts of assets and liabilities arising from the Acquisition as at 31 December 2010 are as follows:

	The Silk Road Group's carrying amount *HK$'000*	**Fair value adjustments** *HK$'000*	**The Silk Road Group's fair value** *HK$'000*
Property, plant and equipment	138,749		138,749
Lease prepayments	3,902	112,467	116,369
Inventories	2,533		2,533
Trade and other receivables	1,914		1,914
Cash and cash equivalents	179		179
Amount due from a fellow subsidiary	20,974		20,974
Trade and other payables	(3,517)		(3,517)
Bank loans	(17,693)		(17,693)
Amount due to intermediate holding company	(20,974)		(20,974)
Deferred tax liabilities	(17,353)	(28,117)	(45,470)
Net assets acquired	108,714	84,350	193,064
Non-controlling interests – 20% in Gansu Dunhuang Lodge Hotel Company Limited	12,780	16,870	29,650

(c) The adjustment to lease prepayments represents the fair value adjustment of HK$112,467,000 (being market value of land of HK$116,369,000 (equivalent of RMB98,660,000) minus book value of lease prepayments of HK$3,902,000 of the Silk Road Group) allocated to the leasehold land. A deferred tax liability of HK$28,117,000 is recognised on the fair value adjustment on the lease prepayments, calculated at the PRC income tax rate of 25%. The fair value adjustment on lease prepayments is determined by the directors of the Company with reference to the valuation report prepared by Savills Valuation and Professional Services Limited, an independent valuer as set out in appendix IV to this circular, where the basis of valuation adoption is the direct comparison approach by making reference to comparable sales evidence as available in the market.

(d) Fair value adjustment was only made to the leasehold land in the pro forma financial information. Whereas market value of the building element of the property as valuated in the property valuation report as set out in appendix IV to this circular and associated adjustments have already been included in the accountants' report as set out in appendix II to this circular (see note 16 to the accountants' report). Accordingly, no fair value adjustment for the building element is required in the pro forma financial information.

(4) The adjustment represents the estimated amount of legal and professional fee and other expenses incurred for the Acquisition totalling approximately HK$800,000. This adjustment is expected not to have a continuing effect on the financial statements of the Resultant Group in subsequent years.

(5) The adjustment represents the elimination of pre-acquisition reserves and non-controlling interests of the Silk Road Group as at 31 December 2010.

(6) For the purpose of the pro forma adjustments, the balances stated in Renminbi are converted into Hong Kong dollars at the rate of HK$1.00 to RMB0.84782.

B. ACCOUNTANT'S REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE RESULTANT GROUP

CCIF

CCIF CPA LIMITED

34/F The Lee Gardens
33 Hysan Avenue
Causeway Bay Hong Kong

8 June 2011

The Board of Directors
UDL Holdings Limited
Room 702, 7 Floor, Aitken Vanson Centre
61 Hoi Yuen Road, Kwun Tong
Kowloon

Dear Sirs

We report on the unaudited pro forma statement (the "Unaudited Pro Forma Financial Information") of UDL Holdings Limited (the "Company") and its subsidiaries (the "Group"), together with Silk Road Development Company Limited (the "Silk Road") and its subsidiary (collectively referred to as the "Resultant Group") set out on pages 54 to 58 in appendix III to the circular of the Company dated 8 June 2011 (the "Circular"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed acquisition of 100% equity interest of Silk Road might have affected the financial information presented. The basis of preparation of the Unaudited Pro Forma Financial Information of the Resultant Group is set out on page 54 of the Circular.

Respective responsibilities of directors of the Company and reporting accountant

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for inclusion in Investment Circulars") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as requires by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion solely to you. We do not accept any responsibility for any reports previously given to us on any financial information used in the compilation for the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company and, because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Resultant Group as at 31 January 2011 or any future date.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully

CCIF CPA Limited
Certified Public Accountants
Hong Kong

Leung Chun Wa
Practising Certificate Number P04963

The following is the text of a letter and valuation certificate, prepared for the purpose of incorporation in this circular received from Savills Valuation and Professional Services Limited, an independent valuer, in connection with their valuation as of 31 March 2011 of the property interest to be acquired by the Group.

Savills Valuation and
Professional Services Limited
23/F Two Exchange Square
Central, Hong Kong

T : (852) 2801 6100
F : (852) 2530 0756

EA Licence: C-023750
savills.com

UDL Holdings Limited
Room 702
7/F Aitken Vanson Centre
61 Hoi Yuen Road
Kwun Tong
Kowloon
Hong Kong

8 June 2011

Dear Sirs,

Re: The Dunhuang Lodge Hotel, Dunyue Road, Dunhuang, Gansu Province, the People's Republic of China (the "property")

In accordance with your instructions to value the property situated in the People's Republic of China (the "PRC") to be purchased by UDL Holdings Limited (the "Company") and/or its subsidiaries (hereinafter together referred to as the "Group"), we confirm that we have carried out inspections, made relevant searches and enquiries and obtained such further information as we consider necessary for the purpose of providing the Company with our opinion of value of such property as at 31 March 2011 for inclusion in a circular issued by the Company.

Our valuation of the property is our opinion of its market value which we would define as intended to mean "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".

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value of a property is also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

The property will be held by the Group for owner operation. In valuing the property which is situated in the PRC, we have adopted the direct comparison approach by making reference to comparable sales evidences as available on the market.

Unless otherwise stated, in the course of valuation of the property in the PRC, we have assumed that transferable land use rights in respect of the property for specific term at nominal land use fee have been granted and that all requisite land premium payable has been fully settled. We have also assumed that the owner of the property has an enforceable title to the property and has free and uninterrupted rights to use, occupy or assign the property for the whole of the unexpired term as granted. We have been provided with copies of extracts of title documents relating to the property in the PRC. However, we have not inspected the original documents to verify ownership or to verify any amendments that may not appear on the copies handed to us. We have relied on the advice given by the Group and the legal adviser of Culture Resources Development Company Limited, Guangda Law Firm (廣大律師事務所), on the PRC laws, regarding the title to the property in the PRC.

We have relied to a very considerable extent on information given by the Group and have accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, particulars of occupancy, identification of the property, site and floor areas and all other relevant matters. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us and are therefore only approximations. No on-site measurements have been made. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to our valuation. We have also advised by the Group that no material facts have been omitted from the information provided.

We have inspected the exterior of the property. During 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 that the property is free from rot, infestation or any other structural defect. No tests were carried out to any of the services. Moreover, we have not carried out investigations on site to determine the suitability of soil conditions and services for any future development. Our valuation is prepared on the assumption that these aspects are satisfactory and that no unexpected costs or delays will be incurred during the construction period.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property nor 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 valuation is prepared in compliance with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors.

Unless otherwise stated, all money amounts stated are in Renminbi (“RMB”).

Our valuation certificate is attached.

Yours faithfully,
For and on behalf of
Savills Valuation and Professional Services Limited
Anthony C K Lau
MRICS MHKIS RPS(GP)
Director

Note: Anthony C K Lau is a qualified valuer and has over 18 years’ experience in the valuation of properties in both Hong Kong and the PRC.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2011
The Dunhuang Lodge Hotel, Dunyue Road, Dunhuang, Gansu Province, PRC	The property comprises 8 single to 4-storey hotel buildings completed in about 1995 and is named as The Dunhuang Lodge Hotel (the "Hotel"). The Hotel comprises 269 guestrooms, a Chinese restaurant, a Western restaurant, a lounge, a business centre and some entertainment facilities. The Hotel has a total gross floor area of approximately 32,712.76 sq m (352,120 sq ft) erected on a parcel of land with a site area of approximately 200,000 sq m (2,152,800 sq ft). A portion of the land of the Hotel is currently vacant. The land use rights of the Hotel were granted for a term expiring on 25 February 2043 for tourism services uses.	The property is currently operated as a hotel.	RMB212,900,000

Notes:

(1) Pursuant to State-owned Land Use Certificate No. Dun Guo Yong (2002) Zi 4300, the land use rights of the Hotel with a site area of 200,000.00 sq m were granted to Gansu Silk Road Dunhuang Lodge Hotel Co., Ltd. ("Silk Road Dunhuang") for a term expiring on 25 February 2043 for tourism services uses.

(2) Pursuant to Building Ownership Certificate No. Dun Fang Quan Zheng Gang Shang Tou Zi Fang Di Chang Zi 20522, the building ownership of the Hotel with a gross floor area of 32,712.76 sq m is vested in Silk Road Dunhuang.

(3) Pursuant to a Joint Venture Agreement of Silk Road Dunhuang, Silk Road Dunhuang is formed between Gansu Guangda Enterprise Company (20% of shares) and Silk Road Development Company Limited (80% of shares) with a registered capital of RM25,000,000. The profit sharing of Silk Road Dunhuang is in accordance to the share ratio.

(4) We have been provided with a legal opinion on the title to the property issued by the legal adviser, Guangda Law Firm, which contains, inter alia, the following information:

(i) Silk Road Dunhuang legally owns the land use rights and building ownership rights of the property;

(ii) the property is subject to a mortgage in favour of the Bank of East Asia Limited Xian Branch; and

(iii) Silk Road Dunhuang is entitled to use the property but have to obtain prior written consent from the Bank of East Asia Limited Xian Branch to lease, transfer and mortgage the property.

(5) As per your instruction, we are also of the opinion that the respective market values of the property as at 31 December 2007, 31 December 2008, 31 December 2009, 31 December 2010 and 31 March 2011 together with the notional apportionment of the land and building elements are as follows:

Portion	Market value as at 31 December 2007 *(RMB)*	Market value as at 31 December 2008 *(RMB)*	Market value as at 31 December 2009 *(RMB)*	Market value as at 31 December 2010 *(RMB)*	Market value as at 31 March 2011 *(RMB)*
Land	58,160,000	70,360,000	83,690,000	98,660,000	98,660,000
Building	112,540,000	113,240,000	113,810,000	114,240,000	114,240,000
Total:	**170,700,000**	**183,600,000**	**197,500,000**	**212,900,000**	**212,900,000**

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 and chief executives of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations which were required (a) to be 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 which they were deemed or taken to have under such provisions of the SFO); (b) to be and were recorded in the register required to be kept pursuant to Section 352 of the SFO; or (c) to otherwise be notified to the Company and the Stock Exchange pursuant to the Model Code, 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 Personal	Other	Percentage of the Company's issued share capital
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:

1. 6,202,833,221 shares are held by Harbur 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 Yu Oi Ling, Irene and her children, namely, Miss Leung Chi Yin, Gillian, Mr. Leung Chi Hong, Jerry and Mr. Leung Kai Hong, Kaiser. Mr. Leung Yat Tung is the founder of the discretionary trust.

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

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

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

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

6. 100,900,674 shares are held by Mr. Leung Yat Tung, spouse of Mrs. Leung Yu Oi Ling, Irene.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations which was required (a) to be 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 he/she was taken or deemed to have under such provisions of the SFO); (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, none of the Directors had any interest, either directly or indirectly, in any assets which have been, since 31 July 2010, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group. No Director was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group taken as a whole.

(b) Substantial Shareholders

As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, the following persons (other than 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, 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:

Long position in the Shares and underlying Shares

Name	Number of Shares held	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 Yu Oi Ling, Irene and her children, namely, Miss Leung Chi Yin, Gillian, Mr. Leung Chi Hong, Jerry and Mr. Leung Kai Hong, Kaiser. Mr. Leung Yat Tung is the founder of the discretionary trust.

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 CONTRACTS

As at the Latest Practical Date, none of the Directors had any existing or proposed service contracts with the Company or any other member of the Group which will not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

4. QUALIFICATIONS AND CONSENTS OF EXPERTS

The following are the qualifications of the experts whose advice or opinions are contained in this circular:

Name	Qualification
CCIF CPA Limited ("**CCIF**")	Certified Public Accountants
Savills Valuation and Professional Services Limited ("**Savills**")	Professional Surveyors

As at the Latest Practicable Date, none of CCIF and Savills had any shareholding in any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, none of CCIF and Savills had any direct or indirect interest in any assets which 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 since 31 July 2010, being the date to which the latest published audited consolidated financial statements of the Company were made up.

Each of CCIF and Savills has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its reports and references to its name, in the form and context in which they appear.

5. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, to the best knowledge and belief of the Directors after having made all reasonable enquiries, none of the Directors and their respective associates were considered to have any interests in businesses which competed or were likely, either directly or indirectly, with the businesses of the Group.

6. 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:

– the Sale and Purchase Agreement

7. LITIGATIONS

(a) On 31 July 2002, Charterbase Management Limited, one of the Petitioners, issued the Bermuda Writ against the Company and against Mrs. Leung Yu Oi Ling, Irene, Mr. Chan Kim Leung, Miss Leung Chi Yin, Gillian, Mr. Pao Ping Wing, JP and Mr. Wong Pui Fai who were directors of the Company in April 2001, at the time of the Subscription SGM. Mr. Wong Pui Fai and Mr. Chan Kim Leung resigned as the directors of the Company on 28 April 2002 and on 27 September 2002, respectively. The Bermuda Writ recited the basis of the Petitioners' Complaint with respect of Charterbase Management Limited, namely, that the circular regarding the Subscription misdescribed the Scheme Administrator's voting capacity in respect of the Shares held by the Scheme Administrator under the Scheme. The Bermuda Writ alleged that the Company was negligent and its directors were negligent and/or in breach of their fiduciary duty in 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.

Three new parties joined as Petitioners, namely United People Assets Limited, Hung Ngai Holdings Limited and Value Partners Investment Limited. In addition to the matters pleaded in the original Petition, the Amended Petition complained about the Company's non-acceptance of a conditional credit facility from Hung Ngai Holdings Limited and about the Rights Issue in November 2002 (the "2002 rights issue"), in particular the allocation of 2002 Rights Shares to Harbour Front, and other allegedly prejudicial conduct of the Company.

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 seeked 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 judgement against the Company and the Group, and therefore, no provision has therefore been made in respect of these claims.

(c) UDL Contracting Limited ("UDL Contracting"), a wholly-owned subsidiary of the Company, commenced legal action under HCA 1209 of 2007 against two defendants on 8 June 2007 to claim damages in relation to the construction of a printing workshop carried out by UDL Contracting. Default judgement in the sum of approximately HK$162 million was awarded by the court in favour of UDL Contracting on 27 June 2007. However, one defendant took out a Summons to apply to set aside the default judgement which has been consented by UDL Contracting. The legal counsels are of the opinion that UDL Contracting is unlikely to incur any liability save for legal costs. The legal costs of the first defendent have been settled amicably upon the claim against the first defendent having been stayed to arbitration. No substantial action has been taken by the second defendent. UDL Contracting is considering further actions on the case. No asset is recognised in respect of this claim, and the recovery of this claim is a Scheme Asset. Based on an irrevocable letter of undertaking dated 23 October 2008 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 under arbitration to recover a sum of approximately HK$14.6 million in respect of construction works services rendered relating to an aviation fuel facility in Hong Kong. UDL Dredging has also filed a claim under HCCT 54 of 2010 against this contractor to recover a sum of approximately HK$4.8 million in respect of other services rendered on the same project. This action has subsequently been stayed to arbitration by consent. UDL Dredging is currently formulating further action on both claims.

8. 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 authorized representatives of the Company are:

(i) Mrs. Leung Yu Oi Ling, Irene

Mrs. Leung Yu Oi Ling, Irene, aged 57, 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) Miss Leung Chi Yin, Gillian

Miss Leung Chi Yin, Gillian, aged 30, was designated in September 2002 as an executive Director. Miss 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. Miss 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.

9. 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, 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 accountant's reports of Silk Road Development Company Limited for the three years ended 31 December 2008, 2009 and 2010, the text of which is as set out in appendix II to this circular;

(e) the accountants' report in respect of the unaudited pro forma financial information of the Resultant Group, the text of which is set out in appendix III to this circular;

(f) the property valuation report relating to the property interests of Silk Road Group, the text of which is set out in appendix IV to this circular;

(g) the written consents referred to in the paragraph headed "Qualifications and consents of experts";

(h) the material contract(s) referred to in the paragraph headed "Material contracts" in this appendix.

10. CONSENTS

CCIF and Sallvis have given and have not withdrawn their written consent as to the issue of this circular with the inclusion herein of their respective opinions or letters and/or reference to their name, opinions or letters in the form and context in which they respectively appear.

UDL HOLDINGS LIMITED

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(incorporated in Bermuda with limited liability)

(Stock Code: 620)

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 Meeting Room 6, 7th Floor, Kowloonbay International Trade & Exhibition Centre, No. 1 Trademart Drive, Kowloon Bay, Kowloon, Hong Kong on 23 June 2011 at 10:00 a.m. 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 sale and purchase agreement dated 26 April 2011 made between a wholly owned subsidiary of the Company, Sunfill Limited as Purchaser and Culture Resources Development Company Limited as Vendor in respect of the sale and purchase of the entire issued share capital of and debts due by Silk Road Development Company Limited ("Sale and Purchase Agreement"), a copy of which has been produced to the meeting and marked "A" and initialed by the chairman of the meeting for identification purpose, be and is hereby approved; and

(b) the Directors be and are hereby authorized to do all such acts and things, to sign and execute all such further documents including but not exclusively, issuance of the promissory note by Sunfill Limited to the vendor in the amount and form as set out in the Sale and Purchase Agreement 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 Sale and Purchase Agreement or any of the transactions contemplated under that agreement."

By order of the Board
UDL Holdings Limited
Leung Yu Oi Ling, Irene
Chairman

Hong Kong, 8 June 2011

Notes:

(a) 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.

(b) 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.

(c) 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.

(d) 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.

(e) As at the date of this notice, the executive Directors of the Company are Mr. Leung Yat Tung, Mrs. Leung Yu Oi Ling, Irene, Miss Leung Chi Yin, Gillian and Mr. Leung Chi Hong, Jerry; and the independent non-executive Directors of the Company are Mr. Pao Ping Wing, JP, Prof. Yuen Ming Fai, Matthew and Ms. Tse Mei Ha.