

Annual Report **2003**



China United International Holdings Limited

(Incorporated in Hong Kong with limited liability)

Corporate Information

DIRECTORS

Chuang Yueheng, Henry (*Chairman*)
Chung, Wilson (*Managing Director*)
Lo Kan Sun
Wong Ying Seung, Asiong
Lam Ping Cheung*
Ong, Peter*
Miu, Frank H.*

* *Independent Non-executive Directors*

PRINCIPAL BANKERS

Liu Chong Hing Bank Limited
The Hongkong and Shanghai Banking
Corporation Limited
Standard Chartered Bank

SECRETARY

Yung Mei Yee

AUDITORS

Moores Rowland Mazars

REGISTERED OFFICE

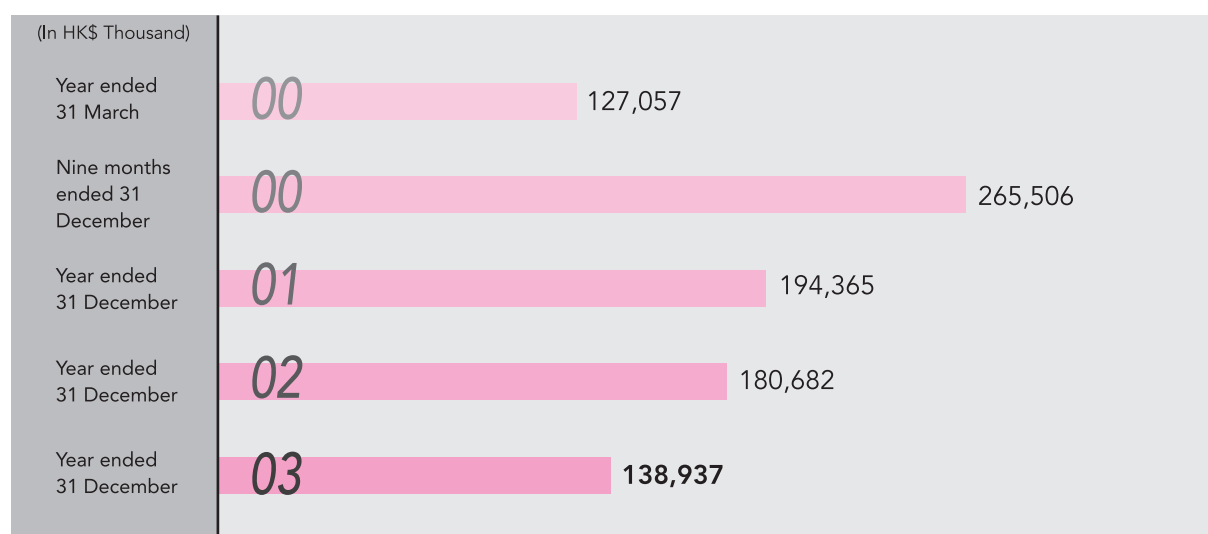
32nd Floor
China United Centre
28 Marble Road
North Point
Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Room 1901-05, 19th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

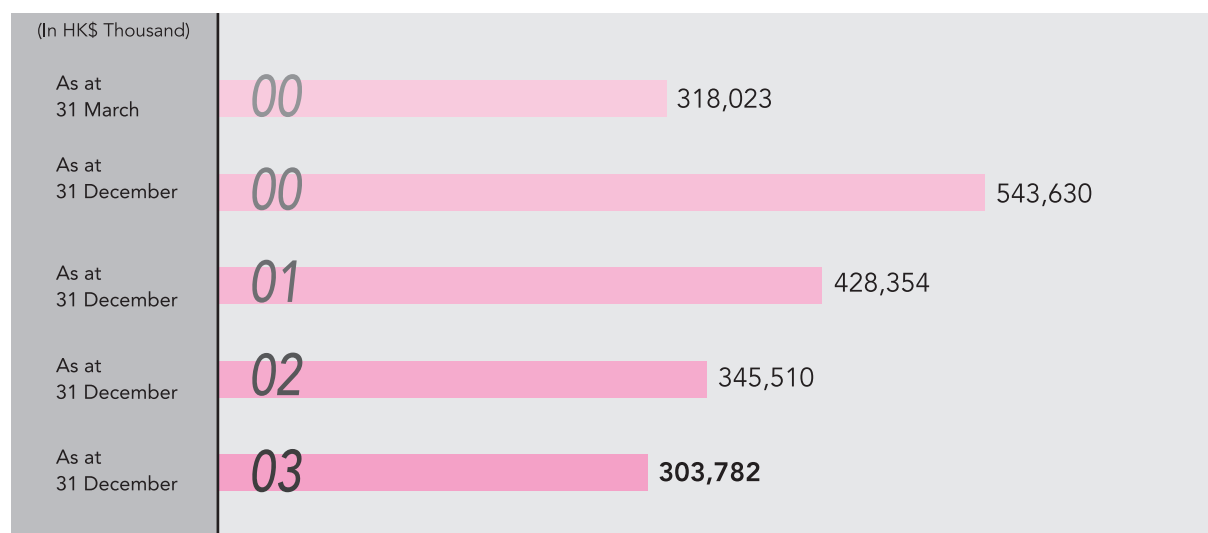
Financial Highlights

FIVE FINANCIAL YEAR / PERIOD TURNOVER SUMMARY



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NET WORTH SUMMARY



Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Members of China United International Holdings Limited ("the Company") will be held at Function Room III, Ground Floor, City Garden Hotel, 9 City Garden Road, North Point, Hong Kong on Monday, 31 May 2004 at 9:00 a.m. for the following purposes:

1. To receive and consider the Financial Statements and the Report of the Directors and Auditors of the Company for the year ended 31 December 2003.
2. To re-elect directors and to authorise the Board of directors to fix their remuneration.
3. To re-appoint auditors and to authorise the Board of directors to fix their remuneration.

As special business, to consider and if thought fit, pass with or without modification the following as a special resolution:

4. "THAT the articles of association of the Company be amended as follows:
 - (A) by deleting the words "Securities and Futures (Clearing Houses) Ordinance (Cap 420 of the Laws of Hong Kong)" in the definition of "clearing houses" in Article 2 and replacing it with the words "the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)";
 - (B) (i) by renumbering existing Article 16 as Article 16A;
 - (ii) by deleting in the second and third lines of Article 16 the words "without payment to receive within two months after allotment or lodgment of a transfer" and replacing it with the words "to receive within two months after allotment or within ten business days after lodgment of a transfer";
 - (iii) by deleting the words "after the first" in the tenth line immediately after the words "every certificate"; and
 - (iv) by inserting the following as Article 16(B):-

"For the purpose of this Article 16,

"business day" means any day on which the market is open for the business of dealing in securities;

"transfer" means a transfer duly stamped and otherwise valid, and does not include such a transfer as the Company is for any reason entitled to refuse to register and does not register.";
 - (C) by inserting the following as new Article 86(c) immediately after Article 86(b):

"(c) Where the Company has knowledge that any member is, under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.";
 - (D) by deleting the word "special" in Article 107(A)(viii) and replacing it with the word "ordinary";

Notice of Annual General Meeting

(E) by deleting the existing Article 108(B) in its entirety and replacing it with the following new Article 108(B):

"108(B) A Director shall not vote (nor shall he be counted in the quorum) on any resolution of the Board approving any contract or arrangement or any other proposal in which he or any of his associate(s) has a material interest, but this prohibition shall not apply to any of the following matters, namely:

- (i) any contract or arrangement for the giving of any security or indemnity to the Director or his associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself or themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of the shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;
- (v) any proposal concerning any other company in which the Director or his associate(s) is/are interested in, whether directly or indirectly, as an officer or a shareholder or in which the Director or his associate(s) is/are beneficially interested in shares of that company other than a company in which the Director and any of his associates are beneficially interested in 5 per cent. or more of the issued shares of any class of such company (or of any third company through which his interest or that of his associates is derived) or of the voting rights; and
- (vi) any proposal or arrangement for the benefit of employees of the Company or its subsidiaries including:
 - (a) the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to the Directors, his associates and employees of the Company or of any of its subsidiaries and does not give any Director or his associate(s), as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; or
 - (b) the adoption, modification or operation of any employees' share scheme or share incentive scheme or share option scheme under which the Director or his associate(s) may benefit."

Notice of Annual General Meeting

- (F) by deleting the word "special" in Article 111 and replacing it with the word "ordinary";
- (G) by deleting the existing Article 123 in its entirety and replacing it with the following new Article 123:

"No person other than a Director retiring at a meeting shall, unless recommended by the Directors for election, be eligible for election as Director at any general meeting unless a notice signed by a member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the registered office of the Company provided that the minimum length of the period during which such notice(s) are given shall be at least seven (7) days and that the period for lodgment of such notice(s) shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting."";

- (H) by deleting in the third and fourth lines of Article 178(A) the words "paragraph (c) of the proviso to Section 165" immediately after the words "mentioned in" and replacing it with the words "Section 165(2)";
- (I) by deleting in the first line of Article 178(B) the words "Section 165 of" immediately after the words "Subject to" and replacing it with the words "the provisions of and so far as may be permitted by"; and
- (J) by adding immediately after Article 178(B) the following new Article:

"178(C) Subject to the provisions of and so far as may be permitted by the Companies Ordinance, the Company may purchase and maintain for any officer of the Company:

- (i) insurance against any liability to the Company, a related company or any other party in respect of any negligence, default, breach of duty or breach of trust (save for fraud) of which he may be guilty in relation to the Company or a related company; and
- (ii) insurance against any liability incurred by him in defending any proceedings, whether civil or criminal, taken against him for any negligence, default, breach of duty or breach of trust (including fraud) of which he may be guilty in relation to the Company or a related company.

For the purpose of this Article 178(C), "related company" in relation to the Company means any company that is the Company's subsidiary or holding company or a subsidiary of the Company's holding company."

By order of the Board
Yung Mei Yee
Company Secretary

Notice of Annual General Meeting

Notes:

- (a) A Member entitled to attend and vote at the above meeting is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.
- (b) To be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority must be deposited at the Company's registered office in Hong Kong at 32nd Floor, China United Centre, 28 Marble Road, North Point, Hong Kong not less than 48 hours before the time fixed for the holding of the meeting or any adjournment thereof.
- (c) In relation to resolution 4 above, the purpose is to align the Articles of Association of the Company with certain amendments to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") (which became effective on 31 March 2004) and the Companies (Amendment) Ordinance 2003 (which came into effect on 13 February 2004). The rationale for the proposed amendments to the Articles of Association of the Company is set out below:
 - (i) to conform with the amended Appendix 3 to the Listing Rules which requires, inter alia, that there be a minimum period during which notice may be given by a member (other than the Director to be proposed) of his intention to propose a person for election as a Director and during which notice is also given by such person of his willingness to be elected. The minimum period must be fixed for at least seven days and the period for lodgment of such notice(s) should commence no earlier than the despatch of the notice of the meeting appointed for such election and end no later than seven days before the date of such meeting.
 - (ii) to conform with the amended Appendix 3 to the Listing Rules which requires where any member is, under the Listing Rules required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.
 - (iii) to conform with the provisions of the amended Appendix 3 to the Listing Rules so that, inter alia, subject to certain exceptions, a Director is not allowed to vote on any resolution of the Board approving any contract or arrangement or any other proposal in which he or any of his associates has a material interest nor shall he be counted in the quorum present at the meeting.
 - (iv) to comply with certain provisions in the Companies (Amendment) Ordinance 2003 with respect to, inter alia, issue of share certificates within 10 business days after lodgment of a transfer and removal of any Director by an ordinary resolution of the Company.
- (d) The Articles of Association of the Company only exists in English, the English text of the proposed resolution 4 shall prevail over the Chinese text.



Chairman's Statement

THE YEAR IN REVIEW

Fiscal 2003 was an important year in the history of China United International Holdings Limited (the "Company"), a year in which the Company moved its domicile from Bermuda to Hong Kong, and as a result of the change of domicile, the listing status of China United Holdings Limited ("CU Bermuda") on the Hong Kong Stock Exchange was replaced by the Company on 6 January 2003. This marks the first Annual Report of the newly reorganized Company.

The rationale for the change of domicile was fully set out in an announcement to the public dated 27 August 2002. The change of domicile was completed in January 2003. In the months that followed, the directors of the Company held weekly meetings to discuss the position, strategy, and the future directions of the Company.

The Company has strong commitment to Hong Kong and China. In this post Enron and Worldcom era, the Directors feel that it is important to restore shareholders' as well as investors' confidence. By redomiciling to Hong Kong, the Company in effect accepts enhanced regulatory scrutiny which would not otherwise be required under the Bermuda Company Act. Equally important is our decision to part with our auditors of 3 years by engaging the service of the auditing firm of Moores Rowland Mazars. We have instructed the auditors to "leave no stones unturned" and to present a true picture to the public. The Directors have always believed in accurate accounting and transparent disclosure.

CU Bermuda became wholly owned subsidiary of the Company due to the change of domicile. In June 2003, the Directors felt an imminent need for restructuring by identifying the different functions and roles of the Company. It was then decided that CU Bermuda would continue in property investments whilst the Company would carry out the financial services provider and investment business. CU Bermuda had been negotiating with various banks and lenders for the restructuring of the loans until the last of the negotiations broke down. CU Bermuda has been involved in various litigations with the lenders and other related parties. The segregation of the two investment functions was found to be necessary in that it facilitated the Company to raise fund through the capital markets. It was expected that investors and/or lenders are more willing to invest or lend to an entity with lesser liabilities than to a debt borne (as a result of devaluation of properties and high associated loans) company with unknown litigation results.

The financial services groups, namely Hennabun Management Inc. and China United Finance Limited, together with certain properties (as required by one particular lender) were transferred to the Company from CU Bermuda for fair and reasonable considerations. It should be noted that the Directors consider the transfer of assets to be fair and reasonable and does not affect the right of the lenders of CU Bermuda. This restructuring was completed in July 2003.

In August 2003, the Directors received an offer from a connected party for the purchase of CU Bermuda. The Directors reached an agreement with the purchaser in which the purchaser would acquire CU Bermuda together with all the assets and liabilities while the Company would retain some of the benefits of the litigations. With the approval of shareholders, the transaction was completed in October 2003. The Company disposed CU Bermuda at a consideration of HK\$10 million.

The sale of CU Bermuda, although unexpected, benefited the Company in that the Company is relieved from the cost of litigation and that the Directors can concentrate their efforts on more productive or rewarding business opportunities.



Chairman's Statement

RESULTS

During the year ended 31 December 2003, the turnover of the Group decreased to HK\$138.9 million as compared to that of HK\$180.7 million for the year ended 31 December 2002. The loss attributable to shareholders of HK\$33.7 million represents a decrease of 83% as compared with a loss of HK\$199.4 million for the year ended 31 December 2002. The loss per share was HK\$0.09 as compared with HK\$0.54 for the corresponding year ended 31 December 2002.

REVIEW AND OUTLOOK

2003 was a very challenging year, one in which we faced the continuing fallout from the collapse of the high-tech bubble and the series of corporate scandals in both US and Hong Kong. Amid the increasing numbers in both personal and business bankruptcies, record unemployment rate, persistent deflation, anemic business spending, and an July 1st protest against the Hong Kong government (magnitude of which has never been seen in the history of Hong Kong), Hong Kong was further hit by the outbreak of the Severe Acute Respiratory Syndrome ("SARS"). Hong Kong experienced an unprecedented economic downturn during the first half of the year. The Group's performance suffered significantly. The Group turned inward to focus its efforts mainly on corporate restructuring and streamlining its businesses activities by concentrating on the provision of financial services and investment in trading securities.

After the corporate restructuring, the Group's financial service arm, Hennabun Management Inc. ("HMI Group") was able to complete several subscriptions from various investors. As a result, the Group's shareholdings in HMI Group had been diluted to approximately 47.6% as at 31 December 2003. During the year, about 89.3% of the Group's turnover was contributed by HMI Group. The business nature of provision of brokerage and financial services does not generate consistent or recurring income and is highly dependent on the state of the economy. HMI Group suffered an operating loss before taxation (before provision of bad and doubtful debts) of HK\$37.2 million.

As for the investment in trading securities, due to the weakness of the stock market and the bearish sentiment on the economy during the first half of the year under review, the activity in the investment in trading securities reduced to HK\$ 80.2 million for the year under review as compared with that of HK\$105 million for the year ended 31 December 2002. The decrease in the market value of the portfolio of the listed investments held by the Group resulted in an operating loss from investment in trading securities to approximately HK\$57.2 million for the current year as compared with a profit of HK\$54.3 million for the corresponding year ended 31 December 2002.

The Company had a disagreement with its previous auditors in the accounting treatment of the 290 million shares of investment in Radford Capital Investment Limited ("Radford Capital"), an investment company listed on the Hong Kong Stock Exchange. During the months of September to October, the Group was successful in orderly disposing approximately 53 million Radford Capital shares for HK\$ 49 million. Trading in the securities of Radford Capital was suspended by the Securities and Futures Commission ("SFC") in October without notice primarily due to the fact that Radford Capital shares were trading substantially above its net asset value (NAV). We regard this action by the SFC as inappropriate, given that there were willing buyers and willing sellers, the action, among others, interfered with the normal operation of the market. When enough done, the value of Radford Capital shares dropped by 90%. The decrease in value of Radford Capital shares contributed to write down in the book of the Group.



Chairman's Statement

As for the property investment segment, no new property has been added to our portfolio. The Hong Kong property market continued its downward correction in the first half of 2003. The correction was further exaggerated by the effect of SARS. Being a responsible corporate citizen, the Company had given certain rent concessions to both commercial and residential leaseholders during the SARS affected period. Excluding the net deficit arising out of revaluation of the investment properties of about HK\$19.5 million, an operating loss (before financial costs) of approximately HK\$6.9 million was incurred during the current year.

LIQUIDITY AND CAPITAL RESOURCES

During the year, the Company has made a two for one bonus issue of shares in the Company and a bonus issue of warrants on the basis of one unit of subscription right for every five existing shares held by the shareholders. A total additional equity of approximately HK\$15.2 million has been raised for additional working capital up to the date of this announcement.

As at 31 December 2003, the Group's total shareholders' funds amounted to HK\$ 303.8 million compared with HK\$345.5 million at 31 December 2002. As at 31 December 2003, the Group had net current liabilities of HK\$37.9 million including cash and bank balances of HK\$25.2 million compared with net current assets of HK\$216 million comprising cash and bank balances of HK\$26.6 million at 31 December 2002. The Group has continued to closely monitor and reduce its capital-debt structure to a level of a gearing ratio of 61.7 % (the proportion of total interest bearing borrowings to consolidated net assets) and current ratio of 0.78 times at 31 December 2003, compared to 170.7% and 1.45 times respectively at 31 December 2002.

As at 31 December 2003, the Group has bank loans of HK\$32.9 million (31 December 2002: HK\$441.8 million including bank loans and overdrafts), other loans of HK\$90.5 million (31 December 2002: HK\$84.2 million) and convertible notes of HK\$63.8 million (31 December 2002: HK\$63.8 million).

As most of the Group's transactions and bank deposits were denominated in Hong Kong dollars, the Group's exposure to foreign exchange risk was minimal.

PLEDGE OF ASSETS

As at 31 December 2003, certain assets of the Group with an aggregate carrying value of HK\$ 49.3 million (31 December 2002: HK\$411 million) have been pledged to banks and other financial institutions to secure credit facilities granted to the Group.

CONTINGENT LIABILITIES

As at 31 December 2003, the Company (2002: CU Bermuda) had contingent liabilities not provided for in the financial statements in respect of guarantee of HK\$ 38 million and HK\$125 million (31 December 2002: HK\$525.7 million and HK\$Nil) for banking facilities granted to and utilized by subsidiaries and associates to the extent of HK\$32.9 million and HK\$60.9 million (31 December 2002: HK\$320.7 million and HK\$Nil) respectively.



Chairman's Statement

On 30 June 2003, the Company, CU Bermuda and HMI entered into an agreement under which approximately 18.68% of interest in HMI and 48.53% interest in another subsidiary were transferred from CU Bermuda and its subsidiaries (the "Old CU Group") to the Group. Nominal cash has been paid by the Group to the Old CU Group to acquire the legal titles in these companies. Under the agreement, the Company also makes covenant that the Company and/or its subsidiaries will remain as the controlling shareholder of HMI. In addition, under the agreement, CU Bermuda enjoys a perpetual entitlement of 22% in the distribution of dividends, capital and assets by HMI. In addition, the Company makes guarantee to CU Bermuda that if HMI, for whatever reasons, fails to pay 22% of any distribution declared by it to CU Bermuda, the Company will compensate CU Bermuda with the equivalent amount. The covenants made by the Company are perpetual in nature and binding on the Company, whether or not the Company or its subsidiaries held any interest in HMI. According to the consolidated financial statements of HMI, which are subject to audit qualifications, the net assets of HMI Group at 31 December 2003 amounted to HK\$412,234,000.

On 30 June 2003, the Company and CU Bermuda entered into another agreement under which the title of an investment in an unlisted corporation, which was acquired by CU Bermuda during the year, was transferred from the Old CU Group to the Group at a consideration of HK\$100. Under the agreement, CU Bermuda retains all rights and entitlements arising from this investment and, therefore, the Company or its subsidiaries effectively only holds the title of the investment in trust on behalf of CU Bermuda and only have a management role in respect of the investee company. As all the future economic benefits arising from the investment belong to CU Bermuda, this investment is not included in the consolidated balance sheet of the Group. The Company guarantees to CU Bermuda that should CU Bermuda's interests in the said investment be affected by inappropriate manner, the Company is obliged to pay to CU Bermuda HK\$13,000,000, being the original acquisition cost of the investment by CU Bermuda.

EMPLOYEES

The Group has taken steps to control and reduce its operation costs at an appropriate level. As at 31 December 2003, the total number of employees of the Group was 23 (31 December 2002: 78). The Group remunerates its employees based on their performance, working experience and prevailing market standards. Staff benefits include a medical insurance coverage, provident fund and a share option scheme. As at 31 December 2003, there are no share options outstanding.

PROSPECTS

The second half and especially towards the last quarter of fiscal 2003 saw a more positive recovery of the economy. The governments of the PRC and Hong Kong have worked together to institute the Closer Economic Partnership Arrangement and to relax the restriction of China tourists travelling to Hong Kong. The Hong Kong Stock Exchange has received substantial number of applications from China companies that wish to be listed in Hong Kong. There appears to be a renewed interest in investment in securities and local property market by investors and the general public.

The Directors are confident that the benefits of the reorganization, already showing some promises, position the Company to take advantage of new business opportunities when they arise.

Chairman's Statement

APPRECIATION

Fiscal 2003 was a year of hard work, slow progress, and important decisions. I would like to this opportunity to thank all the directors and staff for their talents and tireless efforts.

Chuang Yueheng, Henry

Chairman

Hong Kong, 22 April 2004

Directors' and Senior Management's Biographies

EXECUTIVE DIRECTORS

Mr. Chuang Yueheng, Henry, aged 48, is the Chairman of the Group and holds Master's degrees in Science and Business Administration from the University of Southern California, the United States of America. He has over 11 years' experience in corporate finance and development.

Mr. Chung, Wilson, aged 51, is the Managing Director of the Group and holds a Master's degree in Science and a Master's degree in Business Administration (with Honors) from Cornell Graduate School of Business Administration, the United States of America. He has over 22 years' experience in corporate finance and banking.

Mr. Lo Kan Sun, aged 50, holds a Master's degree in Business Administration from Indiana University, the United States of America. He has over 24 years' experience in finance, investment and banking.

Mr. Wong Ying Seung, Asiong, aged 53, holds a Bachelor's degree in Chemical Engineering from the University of London, the United Kingdom. He has over 24 years' experience in banking and investment.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lam Ping Cheung, aged 52, is a solicitor and the sole proprietor of Messrs Andrew Lam & Co.. He holds a Bachelor's degree in Social Science from the Chinese University of Hong Kong. He is also an independent non-executive director of Golden Resources Development International Limited, Kith Holdings Limited, Ngai Lik Industrial Holdings Limited, Qualipak International Holdings Limited, Hansom Eastern (Holdings) Limited, Unity Investments Holdings Limited and China Velocity Group Limited, which are publicly listed companies in Hong Kong.

Mr. Ong, Peter, aged 34, is a merchant. He holds a Bachelor's degree from California State University, Los Angeles, the United States of America. He has extensive experience in the press and insurance industries. He is also an executive director of Heritage International Holdings Limited and an independent non-executive director of China Sci-Tech Holdings Limited, which are publicly listed companies in Hong Kong.

Mr. Miu, Frank H., aged 55, holds a Juris Doctor's degree from Harvard Law School, Cambridge, the United States of America and a Bachelor's degree in Economics and Accounting from St. John's University, Minnesota, the United States of America. He has extensive experience in law, accounting, project investment and retail chain restaurant business. He is also an independent non-executive director of Capital Estates Limited and Heritage International Holdings Limited, which are publicly listed companies in Hong Kong.

SENIOR MANAGEMENT

Only the executive directors are considered as senior management of the Company.



Directors' Report

The Board of Directors submit their annual report together with the audited financial statements for the year ended 31 December 2003.

CORPORATE REORGANISATION AND CHANGE OF DOMICILE

The Company was incorporated in Hong Kong with limited liability on 16 August 2002 under the name Kanford Holdings Limited. By a special resolution passed on 26 August 2002, the name of the Company was changed to its present name.

Pursuant to a group reorganisation under a scheme of arrangement ("the Group Reorganisation") sanctioned by the Supreme Court of Bermuda, which became effective on 3 January 2003, the Company issued its shares to the shareholders of China United Holdings Limited ("CU Bermuda"), the then ultimate holding company of the Group, in exchange for the entire issued share capital of CU Bermuda. CU Bermuda then became a wholly owned subsidiary of the Company.

Upon completion of the Group Reorganisation on 3 January 2003, the Company's shares were listed on the Stock Exchange by way of introduction on 6 January 2003 and the listing status of CU Bermuda was withdrawn on 3 January 2003.

For reporting purpose, the Company and its subsidiaries resulting from the Group Reorganisation have been regarded as a continuing group.

PRINCIPAL ACTIVITIES

The Company is principally engaged in investment holding. The principal activities of the Company and its subsidiaries during the year are property investment, investment holding, investment in trading securities and provision of brokerage and financial services. Effectively on 31 December 2003, subsidiaries engaged in the provision of brokerage and financial services became associates of the Group. Details of the principal activities and other particulars of the Company's subsidiaries and associates are set out in notes 20 and 21 to the financial statements respectively.

RESULTS, DIVIDENDS AND BONUS ISSUE

The results of the Group for the year ended 31 December 2003 are set out in the consolidated income statement on page 25.

The directors of CU Bermuda have declared an interim dividend of HK7 cents per ordinary share of the Company, totalling HK\$17,201,000 which was paid during the year.

The Board of Directors do not recommend the payment of a final dividend.

On 22 April 2004, the board of directors proposes to make the bonus issue of ordinary shares of the Company to the shareholders of the Company on the basis of three bonus shares, credited as fully paid, for every two existing shares subject to the approval of shareholders at an extraordinary general meeting to be held and the approval from the Stock Exchange granting the listing of and permission to deal in the bonus shares.

Directors' Report

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 33 to the financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial periods is set out on page 87 and page 88 of the annual report.

INVESTMENT PROPERTIES AND FIXED ASSETS

Details of significant changes in the investment properties and fixed assets of the Group during the year are set out in notes 16 and 17 respectively to the financial statements.

Particulars of the major properties of the Group as at 31 December 2003 are set out on pages 89 to 90 of the annual report.

BORROWINGS

Details of the bank and other borrowings of the Group and the Company are set out in note 28 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 30 to the financial statements.

SHARE OPTIONS

Details of the Company's share option scheme are set out in note 31 to the financial statements.

During the year, no options have been granted or exercised under the Company's share option scheme. At 31 December 2003, no share option is outstanding.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

Directors' Report

CONVERTIBLE SECURITIES, OPTIONS OR SIMILAR RIGHTS

Save as set out in notes 29, 31 and 32 to the financial statements, the Company or any of its subsidiaries has no outstanding convertible securities, options or similar rights as at 31 December 2003 and there was no exercise of any convertible securities, options or similar rights during the year.

DIRECTORS

The directors of the Company during the period and up to the date of this report were:

Executive directors:

Chuang Yueheng, Henry

Chung, Wilson

Lo Kan Sun

Wong Ying Seung, Asiong

Wong Siu Bun (resigned on 13 January 2003)

Independent non-executive directors:

Lam Ping Cheung

Ong, Peter

Miu, Frank H. (appointed on 25 March 2004)

In accordance with article 120 of the Company's articles of association, Messrs. Lam Ping Cheung and Ong, Peter retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with article 100 of the Company's articles of association, Mr. Miu, Frank H. retires and, being eligible, offers himself for re-election at the forthcoming annual general meeting.

The term of office of each independent non-executive director is the period up to his retirement by rotation in accordance with the Company's articles of association.

The directors proposed for re-election at the forthcoming annual general meeting do not have service contracts which are not determinable by the Company within one year without payment of compensation other than statutory compensation.

Directors' Report

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

The directors of the Company who held office at 31 December 2003 had the following interests in the shares of the Company, its holding company, subsidiaries and other associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) at that date as recorded in the register of directors' interests and short positions required to be kept under section 352 of the SFO:-

Interests in the Company

Name of director	Number of ordinary shares of HK\$0.1 each held		Number of warrants held		% of holding	
	Personal interests	Family interests	Personal interests	Family interests	Ordinary shares	Warrants
Chuang Yueheng, Henry (Note)	—	101,261,270	—	13,497,236	27.45	27.61
Wong Ying Seung, Asiong	564,000	—	56,000	—	0.15	0.11

Note: These shares were held by Radford Developments Limited which is controlled by a trust with the son of Mr. Chuang Yueheng, Henry, the Chairman of the Company, currently named as the beneficiary.

Each warrant which listed on the Stock Exchange of Hong Kong carries an entitlement to subscribe in cash at a price of HK\$0.38 for one ordinary share of the Company.

Apart from the foregoing, none of the directors of the Company or any of their spouses or children under eighteen years of age has any interest or short position in the shares, underlying shares or debentures of the Company, any of its holding company, subsidiaries or fellow subsidiaries, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Save as set out in note 31 to the financial statements regarding the Company's share option scheme, at no time during the year was the Company, any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate. Since the adoption of the share option scheme, no options have been granted.

DIRECTORS' INTERESTS IN CONTRACTS

Details of directors' interests in contracts are set out in notes 43(c) and (d) to the financial statements.

Saved as disclosed above, no other contract of significance to which the Company, its holding company or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.



Directors' Report

CONNECTED TRANSACTIONS

The following transactions occurred during the year:

1. During the year, the Group disposed CU Bermuda and certain subsidiaries to the brother of the Chairman of the Company at a consideration of HK\$10,000,000. The disposal of CU Bermuda and certain subsidiaries resulted in a net gain of approximately HK\$237,337,000.
2. On 2 December 2003, the Company entered into an agreement with HMI, a non wholly-owned subsidiary of the Company, to acquire 200,000,000 shares of Radford Capital Investment Limited at a consideration of HK\$24,000,000. The acquisition was completed in January 2004. HMI became an associate of the Company effectively on 31 December 2003.
3. Two subsidiaries of the Company and a subsidiary and an associate of HMI have granted unsecured loans to certain directors of the Company and certain related companies, a director of which is also a director of certain companies within the HMI Group. Details of the loans granted are set out in note 43(b) to the financial statements.
4. A wholly-owned subsidiary of HMI, has granted securities margin loans to (i) a substantial shareholder, (ii) a related company, (iii) a director of certain companies within the HMI Group and (iv) certain directors of the Company as detailed in note 43(d) to the financial statements.
5. At the balance sheet date, the Company has executed guarantees of HK\$125,000,000 for banking facilities granted to wholly-owned subsidiaries of HMI, which were utilised to the extent of HK\$60,915,000.
6. A wholly-owned subsidiary of the Company, has granted unsecured loans to HMI. At the balance sheet date, the balance of loans granted amounting to HK\$147,021,000 carries interest at prime rate plus 1% per annum and has no fixed repayment terms.
7. During the year, two agreements have been entered into between the Company and CU Bermuda. Details of these two agreements are disclosed in note 40(b) to the financial statements. In addition, the Company and CU Bermuda also entered into an agreement in which rights and entitlements of certain litigations were transferred to the Company of which details are set out in note 43(g).

The directors confirm that the above transactions have been entered by the Group in the ordinary course of its business and are in accordance with the terms of the agreements governing such transactions.

Directors' Report

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

The Company has been notified of the following interests in the Company's issued shares at 31 December 2003 amounting to 5% or more of the ordinary shares, warrants and convertible notes in issue:

Interests in the Company

	Number of ordinary shares of HK\$0.1 each held	Number of warrants held	Principal amount of convertible notes held (HK\$)	Ordinary shares	% of holding Warrants	Convertible notes
Substantial shareholder						
Radford Developments Limited (note 1)	101,261,270	13,497,236	—	27.45	27.61	—
Other person						
Unity Investments Holdings Limited	18,423,600	2,456,480	—	5.00	5.03	—
Cupac Technology Limited	18,304,504	2,440,600	—	4.96	4.99	—
Radford Capital Investment Limited	14,790,000	1,972,000	5,040,000	4.01	4.03	7.89

Note 1: These shares were held by Radford Developments Limited which is controlled by a trust with the son of Mr. Chuang Yueheng, Henry, the Chairman of the Company, currently named as the beneficiary.

Each listed warrant carries an entitlement to subscribe in cash at a price of HK\$0.38 for one ordinary share of the Company. The unlisted convertible notes can be converted into shares of the Company in the amount or integral multiples of HK\$168,000 at a conversion price of HK\$1.48 per ordinary share.

Apart from the foregoing, no other interests required to be recorded in the register kept under section 336 of the SFO have been notified to the Company.

RETIREMENT SCHEME

The Group provides a defined contribution retirement scheme under the Mandatory Provident Fund Scheme in Hong Kong to all staff. Under the Scheme, employer and employees are each required to make contributions to the scheme at 5% of the employees' relevant income.

Directors' Report

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2003, the aggregate amount of turnover and purchases attributable to the Group's five largest customers and suppliers respectively represented less than 30% of the Group's total turnover and purchases.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

AUDIT COMMITTEE

The audit committee comprises two independent non-executive directors, with one additional independent non-executive directors being appointed after 31 December 2003. The audit committee meets with the Group's senior management and external auditors regularly to review the effectiveness of the internal control systems and the interim and annual reports of the Company.

CODE OF BEST PRACTICE

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The Company has complied throughout the year ended 31 December 2003 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that the independent non-executive directors of the Company are not appointed for any specific term of office but are subject to retirement by rotation in accordance with the Articles of Association of the Company.

AUDITORS

During the year the auditors, Messrs. BDO International resigned and Messrs. Moores Rowland Mazars, Chartered Accountants, Certified Public Accountants, were appointed auditors of the Company. Messrs. BDO International had acted as auditors of CU Bermuda and the Company, after the Group Reorganisation, since the financial period commencing from 1 April 2000.

A resolution will be submitted at the annual general meeting to re-appoint Messrs. Moores Rowland Mazars as auditors of the Company.

On behalf of the Board

Chuang Yueheng, Henry

Chairman

Hong Kong, 22 April 2004

Auditors' Report

Moores Rowland Mazars

摩斯倫·馬賽會計師事務所

34th Floor, The Lee Gardens,
33 Hysan Avenue,
Causeway Bay,
Hong Kong

香港銅鑼灣
希慎道33號
利園廣場34樓

To the members of

China United International Holdings Limited

(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 25 to 86 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Hong Kong Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as follows.



Auditors' Report

- (1) Included in current assets as at 31 December 2003 are loans receivable amounting to HK\$83,456,000. These loans receivable are unsecured and some of them are covered by personal guarantees provided by third parties. Of the total amount, HK\$15,362,000 were not yet due for repayment at 31 December 2003 and have not been settled up to the date of this report. We were unable to obtain adequate external evidence to our satisfaction about the financial strength of the borrowers and the guarantors to enable us to form a view on the recoverability of the loans receivable and hence the adequacy of the provision.
- (2) Included in the non-current assets are interests in associates of approximately HK\$320,624,000 in respect of Hennabun Management Inc. ("HMI"), which were reclassified from interests in subsidiaries during the year as explained in note 8 to the financial statements. As explained in note 21 to the financial statements, the consolidated financial statements of HMI for the year ended 31 December 2003 are subject to audit qualifications as a result of the followings:-

Included in the consolidated balance sheet of HMI at 31 December 2003 are loans receivable amounting to HK\$46,555,000. Of the total amount, HK\$41,206,000 were not yet due for repayment at 31 December 2003 and have not been settled up to the date of the auditors' report. The auditors were unable to obtain adequate external evidence to their satisfaction about the financial strength of the borrowers and the guarantors to enable themselves to form a view on the recoverability of the loans receivable and hence the adequacy of the provision.

Included in the consolidated balance sheet of HMI at 31 December 2003 and its loss for the year is interest in an associate and profit on deemed disposal of interest in an associate amounting to HK\$401,888,000 and HK\$2,500,000 respectively. This associate was originally a subsidiary of HMI and became an associate of HMI following the disposal by HMI of a partial interest in this company during the year. Interest in this associate was further reduced as a result of issuance of shares to third party by this associate. However, audited financial information of this associate is not yet available.

Because of the abovementioned matters, we were unable to form a view as to whether the Group's share of HMI's net assets at 31 December 2003 was fairly stated. Any adjustments relating to the above matters that might have been found to be necessary would have a significant consequential impact on the result of HMI for the year, and accordingly on the Group's net loss for the year, including the loss on deemed disposal of HMI amounting to HK\$1,809,000 and profit on deemed disposal of interest in the said associate of HMI amounting to HK\$2,500,000, and on the Group's interests in HMI at 31 December 2003.



Auditors' Report

- (3) We were not the auditors in respect of the financial statements of China United Holdings Limited ("CU Bermuda") and its subsidiaries for the year ended 31 December 2002, which were audited by another firm of auditors whose report dated 16 April 2003 was qualified in respect of the valuation of one of the trading securities, Radford Capital Investment Limited ("Radford Capital"). We have not been able to obtain sufficient information from the former auditors to resolve the matter that gave rise to the qualification, which would have consequential effect on the realised gain on partial disposal of the Radford Capital shares and the unrealised holding loss recognised in the consolidated income statement of the Group for the year as detailed in note 22 to the financial statements.

In addition, as detailed in note 2 to the financial statements, the Company issued shares in exchange for all the shares of CU Bermuda pursuant to the Group Reorganisation that became effective on 3 January 2003. The shares of CU Bermuda thus acquired were recorded in the Company's own accounts at the consolidated net book value of CU Bermuda and its subsidiaries as shown in the consolidated balance sheet of CU Bermuda at 31 December 2002. The Company then applied the merger relief under section 48C of the Hong Kong Companies Ordinance and recorded the surplus of the consolidated net asset value over the nominal value of the shares issued to a merger reserve, instead of a share premium account. Any adjustment to the value of the Radford Capital shares would also consequentially affect the amount of merger reserve recorded in the Company's own balance sheet at 31 December 2003.

Any adjustments in respect of the matters mentioned in (1) to (3) above would have consequential effect on the carrying amounts of the Company's interests in subsidiaries as recorded in the Company's own balance sheet.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared as follows:-

As detailed in note 2 to the financial statements, CU Bermuda, the former holding company of the Group, became a wholly owned subsidiary of the Company following the group reorganisation under a scheme of arrangement sanctioned by the Supreme Court of Bermuda. Subsequent to the reorganisation under the scheme of arrangement, the Group entered into certain transactions involving the re-grouping of shareholdings in subsidiaries within the Group, the elimination of inter-company balances and the disposal of CU Bermuda and the subsidiaries remaining under CU Bermuda after the re-grouping ("the Old CU Group"). The directors consider that the Group has no obligations to assume the liabilities, actual or contingent, of the Old CU Group and challenge by any interested party, if brought upon the Group, as to the validity of the transactions and/or possible claims for compensation for any loss suffered as a result of the restructuring would have no merit. However, the directors have noted that a creditor has filed a petition to appoint provisional liquidators for CU Bermuda subsequent to the balance sheet date. The financial statements do not include any adjustments that would result from any claims or challenges from this creditor of the Old CU Group or other interested parties in respect of the transactions mentioned above. Whilst the directors, upon taking legal advice, consider that no valid claims against the Group could arise from the petition, the outcome of the petition is uncertain. If the outcome turns out to be adverse, it may have significant potential adverse effect on the financial position of the Group and may in turn affect the going concern basis of the preparation of the financial statements.

Auditors' Report

QUALIFIED OPINION: DISCLAIMER ON VIEW GIVEN BY FINANCIAL STATEMENTS

Because of the significance of:

- (i) the possible effects of the limitation in scope in respect of external evidence outside the control of us or the directors on matters set out in the basis of opinion section; and
- (ii) the possible effect of the fundamental uncertainty,

we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2003 or of the Group's loss and cash flows for the year then ended. In all other respects, in our opinion the financial statements have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Opinion required under section 141(6) of the Hong Kong Companies Ordinance

As the Company is incorporated in Hong Kong, we are required to report under section 141(6) of the Hong Kong Companies Ordinance. Our opinion is as follows:

In respect alone of the limitation on our work relating to matters specified in the basis of opinion section, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

Moores Rowland Mazars

Chartered Accountants

Certified Public Accountants

Hong Kong, 22 April 2004

Consolidated Income Statement

Year ended 31 December 2003

	Note	2003 HK\$'000	2002 HK\$'000
Turnover	4	138,937	180,682
Other revenue	6	13,720	9,586
Cost of trading securities sold		(54,544)	(108,875)
Depreciation and amortisation expenses		(4,377)	(18,948)
Staff costs		(22,374)	(30,786)
Finance costs for provision of financial services	9	(7,029)	(11,492)
Other operating expenses	7	(333,669)	(29,329)
Loss from operations	7	(269,336)	(9,162)
Impairment losses on:			
- Property, plant and equipment		(21,000)	(112,876)
- Investment properties		(20,300)	—
- Goodwill on consolidation of subsidiaries		(1,006)	(28,343)
- Interest in an associate		(1,485)	—
- Other securities		(13,652)	—
Profit on disposal of interests in subsidiaries	37	245,319	—
Profit on disposal of partial interests in subsidiaries		1,056	—
Loss on deemed disposal of interests in subsidiaries	8	(1,809)	—
Profit on deemed disposal of interest in an associate		2,500	—
Other finance costs	9	(37,131)	(27,069)
Loss from ordinary activities before taxation		(116,844)	(177,450)
Taxation	12	5,800	(10,011)
Loss from ordinary activities		(111,044)	(187,461)
Minority interests		77,305	(11,908)
Loss attributable to shareholders	13	(33,739)	(199,369)
Dividends	14	17,201	—
Loss per share - Basic	15	(9 cents)	(54 cents)

Consolidated Statement of Changes in Equity

Year ended 31 December 2003

	2003 HK\$'000	2002 HK\$'000
Opening balance - Total equity	<u>345,510</u>	<u>428,354</u>
Surplus on revaluation of other securities not recognised in the income statement	—	9,809
Capital reserve realised on disposal of subsidiaries	(1,156)	—
Investment revaluation deficit realised on disposal of other securities	<u>10,341</u>	<u>—</u>
Net gains not recognised in the income statement	<u>9,185</u>	<u>9,809</u>
Issue of new shares, net of expenses	(75)	106,716
Issue of shares on exercise of warrants	102	—
Special dividends paid	(17,201)	—
Loss for the year	<u>(33,739)</u>	<u>(199,369)</u>
Closing balance - Total equity	<u><u>303,782</u></u>	<u><u>345,510</u></u>

Consolidated Balance Sheet

At 31 December 2003

	Note	2003 HK\$'000	2002 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	16	20,530	157,470
Property, plant and equipment	17	30,716	129,670
Intangible assets	18	—	6,142
Goodwill	19	—	(26,925)
Interests in associates	21	320,624	1,485
Investments in securities	22	—	58,739
Other long term assets	23	—	2,053
Loans receivable	24	—	1,369
		<u>371,870</u>	<u>330,003</u>
Current assets			
Loans receivable	24	83,456	226,484
Trade and other receivables	25	24,675	300,826
Investments in securities	22	—	126,571
Pledged bank deposits		—	18,173
Cash and cash equivalents	26	25,173	26,554
		<u>133,304</u>	<u>698,608</u>
Current liabilities			
Trade and other payables	27	14,118	50,814
Amounts due to minority shareholders of subsidiaries		—	7,754
Provision for taxation		—	457
Current portion of interest-bearing borrowings	28	93,262	423,580
Convertible notes	29	63,840	—
		<u>171,220</u>	<u>482,605</u>
Net current (liabilities) assets		<u>(37,916)</u>	<u>216,003</u>
Total assets less current liabilities		<u>333,954</u>	<u>546,006</u>
Minority interests		<u>—</u>	<u>24,266</u>

Consolidated Balance Sheet

At 31 December 2003

	Note	2003 HK\$'000	2002 HK\$'000
Non-current liabilities			
Deferred taxation	42	—	10,000
Other payables		—	47
Long-term interest-bearing borrowings	28	30,172	102,343
Convertible notes	29	—	63,840
		<u>30,172</u>	<u>176,230</u>
NET ASSETS		<u>303,782</u>	<u>345,510</u>
CAPITAL AND RESERVES			
Issued capital	30	36,887	61,434
Reserves	33	266,895	284,076
		<u>303,782</u>	<u>345,510</u>

Approved and authorised for issue by the Board of Directors on 22 April 2004 and are signed on its behalf by:

Chuang Yueheng, Henry
Director

Chung, Wilson
Director

Balance Sheet

At 31 December 2003

	Note	2003 HK\$'000
ASSETS AND LIABILITIES		
Non-current asset		
Interests in subsidiaries	20	371,895
Current assets		
Other receivables		180
Cash and cash equivalents	26	25,092
		25,272
Current liabilities		
Other payables		11,135
Due to subsidiaries	20	10,993
Interest-bearing borrowings	28	90,519
Convertible notes	29	63,840
		176,487
Net current liabilities		(151,215)
NET ASSETS		220,680
CAPITAL AND RESERVES		
Issued capital	30	36,887
Reserves	33	183,793
		220,680

Approved and authorised for issue by the Board of Directors on 22 April 2004 and are signed on its behalf by:

Chuang Yueheng, Henry
Director

Chung, Wilson
Director

Consolidated Cash Flow Statement

Year ended 31 December 2003

	Note	2003 HK\$'000	2002 HK\$'000
OPERATING ACTIVITIES			
Cash (used in) generated from operations	34	(401,711)	42,287
Hong Kong Profits Tax paid		(58)	(1,399)
Hong Kong Profits Tax refunded		121	1,137
Net cash (used in) from operating activities		(401,648)	42,025
INVESTING ACTIVITIES			
Purchase of interests in subsidiaries	36	—	(29,411)
Purchase of additional interests in subsidiaries		(10,000)	—
Purchase of property, plant and equipment		(484)	(2,468)
Purchase of other securities		(13,000)	—
Decrease in other long term assets		—	17
Proceeds from disposal of property, plant and equipment		—	450
Proceeds from disposal of investment properties		7,128	25,382
Proceeds from disposal of subsidiaries	37	46,407	—
Proceeds from deemed disposal of subsidiaries	38	17,555	—
Proceeds from sales of partial interests in subsidiaries		13,000	—
Proceeds from disposal of other securities		49,827	—
Net advances from associates		40,000	—
Bank interest received		122	266
Net cash from (used in) investing activities		150,555	(5,764)

Consolidated Cash Flow Statement

Year ended 31 December 2003

	Note	2003 HK\$'000	2002 HK\$'000
FINANCING ACTIVITIES			
Dividends paid		(17,201)	—
Issue of shares for cash		—	111,698
Issue of shares on exercise of warrants		102	—
New other loans raised	28	354,997	259,500
Issue of convertible notes	29	163,000	—
Proceeds from dilution of interest in a subsidiary through subscription of shares	8	178,300	—
Redemption of convertible notes	29	(29,000)	—
New bank loans raised		14,073	—
Repayment of other loans	28	(281,105)	(410,596)
Repayment of bank loans		(17,263)	(15,358)
Expenses incurred on issue of shares		(75)	(4,982)
Repayment of obligations under finance leases included in trade and other payables		(118)	(118)
Interest paid on bank and other borrowings		(15,134)	(45,503)
Interest paid on convertible notes		(7,149)	(4,818)
Interest paid on obligations under finance leases		(53)	(45)
Net cash from (used in) financing activities		343,374	(110,222)
Net increase (decrease) in cash and cash equivalents		92,281	(73,961)
Cash and cash equivalents at beginning of year		(67,108)	6,853
Cash and cash equivalents at end of year	26	25,173	(67,108)

Notes to the Financial Statements

Year ended 31 December 2003

1. GENERAL

China United International Holdings Limited ("the Company") is a public company incorporated in Hong Kong and its shares are listed on the Stock Exchange of Hong Kong Limited ("the Stock Exchange"). The Company is principally engaged in investment holding. The principal activities of the Company and its subsidiaries ("the Group") during the year are property investment, investment holding, investment in trading securities and provision of brokerage and financial services. Effectively on 31 December 2003, the subsidiaries engaged in the provision of brokerage and financial services has become associates of the Group.

The Company was incorporated in Hong Kong with limited liability on 16 August 2002 under the name Kanford Holdings Limited. By a special resolution passed on 26 August 2002, the name of the Company was changed to its present name.

2. GROUP REORGANISATION AND BASIS OF PREPARATION

Pursuant to a group reorganisation under a scheme of arrangement ("the Group Reorganisation") sanctioned by the Supreme Court of Bermuda, which became effective on 3 January 2003, the Company issued its shares to the shareholders of China United Holdings Limited ("CU Bermuda"), the then ultimate holding company of the Group, in exchange for the entire issued share capital of CU Bermuda. CU Bermuda then became a wholly owned subsidiary of the Company, which became the holding company of the companies now comprising the Group.

Upon completion of the Group Reorganisation on 3 January 2003, the Company's shares were listed on the Stock Exchange by way of introduction on 6 January 2003 and the listing status of CU Bermuda was withdrawn on the 3 January 2003. Details of the Group Reorganisation were set out in a circular issued by CU Bermuda dated 26 November 2002.

As the shareholders of CU Bermuda and the Company and minority interests in the net assets of the Group were the same immediately before and immediately after the Group Reorganisation, the Company and its subsidiaries resulting from the Group Reorganisation have been regarded as a continuing group. Accordingly, the Group Reorganisation has been accounted for on the basis of merger accounting in accordance with Statement of Standard Accounting Practice No. 27 "Accounting for group reconstructions" issued by the Hong Kong Society of Accountants as if the group structure has always been in existence.

The financial position and result of the Company from the date of incorporation to 31 December 2002 are insignificant. No comparative figures for the Company's financial statements were presented as the Company was incorporated on 16 August 2002 for the purpose of the Group Reorganisation.

In the published financial statements for the year ended 31 December 2002 of CU Bermuda, CU Bermuda reported that the Group as previously under it before the reorganisation had been negotiating in the repayment of certain instalments of bank loans and other loans. During the year, the Group continued to negotiate in the repayment of principal instalments and interests. However, a creditor bank issued demands and writs of summons for the whole of the outstanding loan principals and interests when there was dispute over the agreement on loan settlement. The action then led to the termination of all negotiations.

Notes to the Financial Statements

Year ended 31 December 2003

2. GROUP REORGANISATION AND BASIS OF PREPARATION *(Continued)*

During the year, the Group has undertaken certain transactions to restructure different functions and roles within the Group. The restructuring involved the re-grouping of shareholdings in subsidiaries, elimination of inter-company balances and the ultimate disposal of CU Bermuda together with the subsidiaries remaining under it (together "the Old CU Group") to a related party at a consideration of HK\$10,000,000. The Group excluding the Old CU Group is referred to as the "New CU Group". The disposal was completed on 16 October 2003.

As a result of the abovementioned transactions, net liabilities of approximately HK\$226 million have been deconsolidated from the consolidated financial statements of the Group.

Certain other transactions and contingent liabilities arising from the restructuring are disclosed in notes 40(b) and 43(g).

Subsequent to the balance sheet date, the directors have noted that a creditor of the Old CU Group has filed a petition to the High Court of Hong Kong to appoint provisional liquidators for CU Bermuda. Upon taking legal advice, the directors of the Company noted that there were no claims against the Group and consider that no valid claims against the Group could arise therefrom.

In preparing the financial statements for year ended 31 December 2003, the directors adopted a going concern basis for the following reasons:

- (a) The New CU Group has adopted measures to improve its net current liabilities position at the balance sheet date, including rescheduling of loans repayment terms and obtaining continuing support from its banks and creditors. Included in the current portion of interest-bearing borrowings is an unsecured loan amounting to HK\$90,519,000, which was originally due for settlement in February 2004. Subsequent to the balance sheet date, the Company has renewed the loan to March 2005. In the opinion of the directors, the New CU Group will be able to adequately finance its operations.
- (b) The directors consider that the New CU Group has no obligations to assume the liabilities, whether actual or contingent, of the Old CU Group.
- (c) The directors consider that challenge by any interested party, if brought upon the New CU Group, as to the validity of the restructuring and /or to possible claims for compensation for any loss suffered as a result of the restructuring would have no merit.

Notes to the Financial Statements

Year ended 31 December 2003

3. PRINCIPAL ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Statements of Standard Accounting Practice ("SSAP") and Interpretations issued by the Hong Kong Society of Accountants ("HKSA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. A summary of the principal accounting policies adopted by the Group is set out below.

Changes in accounting policies

In the current year, the Group has adopted the revised SSAP 12 "Income taxes" which became effective on 1 January 2003 and is applied retrospectively. SSAP 12 (revised) requires deferred tax assets and liabilities to be provided in full using the liability method, on temporary differences arising between the tax base of an asset or a liability and its carrying amount in the financial statements at any point in time. Deferred tax assets or liabilities arising from temporary differences need to be measured at the tax rates enacted or substantively enacted by the balance sheet date. In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purpose and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future.

The adoption of SSAP 12 (revised) has not had a material financial impact on these financial statements.

Measurement basis

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of investment properties and the marking to market of certain investments in securities as explained in the accounting policies set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to the balance sheet date each year.

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All transactions and balances within the Group are eliminated on consolidation.

Where the Group's equity interest in a subsidiary is diluted by virtue of the issuance of additional shares by such subsidiary or exercise of convertible notes issued by subsidiaries, any gain or loss arising from the dilution or deemed disposal, including the realisation of the attributable reserve, is dealt with in the Group's consolidated income statement.

Notes to the Financial Statements

Year ended 31 December 2003

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired.

Positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life or twenty years, whichever is shorter. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses.

Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Negative goodwill arising on consolidation represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition.

- For acquisitions before 1 January 2001, negative goodwill is credited to a capital reserve; and
- For acquisitions on or after 1 January 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying amount of that associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

On disposal of a subsidiary or an associate, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement or which has previously been dealt with as a movement on group reserves is included in the calculation of the profit or loss on disposal.

Subsidiaries

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is an enterprise, in which the Company, directly or indirectly, holds more than half of the voting power or issued share capital, or controls the composition of the board of directors or equivalent governing body. Investments in subsidiaries are stated at cost less accumulated impairment losses. The carrying amount of the investment is reduced to its recoverable amount on an individual basis.

Notes to the Financial Statements

Year ended 31 December 2003

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Associates

An associate is an enterprise, in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the group's share of the associate's net assets.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably and on the following bases.

Brokerage fees and commission income is recognised in the period when services are rendered.

Rental income under operating leases is recognised in the period in which the properties are let out and on the straight-line basis over the lease terms.

Interest income is accrued on a time proportion basis on the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Proceeds from disposal of trading securities and unlisted investments are recognised on the transaction date when the relevant sale and purchase contract is entered into.

Consultancy services, administration services and securities handling income are recognised in the period when services are rendered.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties with an unexpired lease term of over 20 years are not depreciated and are stated at their open market values on the basis of annual professional valuations. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the income statement.

Upon the disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations will be credited to the income statement.

Notes to the Financial Statements

Year ended 31 December 2003

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Major costs incurred in restoring assets to their normal working conditions are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives.

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between the estimated net sales proceeds and the carrying amount of the assets and is recognised as income or expense in the income statement.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment over their estimated useful lives from the date on which they become fully operational and after taking into account of their estimated residual values, using the straight-line method, at the following rates per annum:

Leasehold land	Over the unexpired term of lease
Buildings	4%
Leasehold improvements	10% or over the terms of respective operating leases
Furniture and fixtures	10% - 20%
Plant and machinery	10% - 33 $\frac{1}{3}$ %
Office equipment	10% - 33 $\frac{1}{3}$ %
Motor vehicles	25%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the leases.

Investments in securities

Investments in securities are stated at their fair value.

For those securities acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin are classified as trading securities. The holding gain or loss on trading securities is included in the income statement.

The holding gain or loss on other securities is recognised directly in equity, until the security is sold, collected, or otherwise disposed of, or until the security is impaired, at which time the cumulated gain or loss is included in the income statement.

Notes to the Financial Statements

Year ended 31 December 2003

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Intangible assets

Intangible assets represent trading rights in the exchanges in Hong Kong. They are stated at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation is provided to write off the cost of intangible assets on the straight-line basis over their estimated useful lives.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable and receivable under operating leases are recognised as an expense and revenue on the straight-line basis over the lease terms.

Impairment losses

At each balance sheet date, the Group reviews internal and external sources of information to determine whether the carrying amounts of its tangible and intangible assets have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its net selling price and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment losses is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment losses is recognised as income immediately.

Notes to the Financial Statements

Year ended 31 December 2003

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Employee benefits

Defined contribution plans

The obligations for contributions to defined contribution retirement scheme are recognised as an expense in the income statement as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund.

Long service payment

The Group's net obligation in respect of long service payment under the Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value and the fair value of any related assets, including retirement scheme benefit, is deducted.

Equity and equity related compensation benefits

The share option program allows the Group's employees and certain other parties to acquire share of the Company. The option exercise price equals the market price of the underlying shares at the date of the grant and no compensation cost or obligation is recognised. When the options are exercised, equity is increased by the amount of the proceeds received.

Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided using the liability method, on all temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities or assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or liability is settled, based on the tax rates and the tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

No deferred tax is provided for temporary differences arising from goodwill / negative goodwill, the initial recognition of assets or liabilities in a transaction other than a business combination and that affecting neither accounting nor taxable profits, and investment in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

Notes to the Financial Statements

Year ended 31 December 2003

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Foreign currencies

Transactions involving foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates of exchange ruling at that date. Translation differences are included in the income statement.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Cash equivalents

For the purpose of cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, net of bank overdrafts. For balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

4. TURNOVER

	2003 HK\$'000	2002 HK\$'000
Proceeds from sale of trading securities	80,091	104,634
Interest income	43,800	54,604
Brokerage fees and commission income	9,102	13,459
Dividend income from listed securities	88	339
Rental income	5,856	7,646
	<u>138,937</u>	<u>180,682</u>

Notes to the Financial Statements

Year ended 31 December 2003

5. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined that business segments are its primary reporting format and geographical segments are its secondary reporting format, with each segment organised and managed separately.

Business segments

Business segments of the Group comprise the following:

Investment in trading securities	:	Purchase and sale of securities
Brokerage and financial services	:	Provide securities brokerage services, financial advisory services and loan financing
Property investment	:	Lease of properties for rentals
Investment holding	:	Holding investments for dividend income and capital appreciation

The Group's inter-segment transactions were mainly related to rental charges of which terms were similar to those contracted with third parties.

The following tables show revenue and profit information for these segments for the years ended 31 December 2003 and 2002, and certain assets and liabilities information regarding business segments as at 31 December 2003 and 2002.

Notes to the Financial Statements

Year ended 31 December 2003

5. SEGMENT INFORMATION (Continued)

Year ended 31 December 2003

	Investment in trading securities HK\$'000	Brokerage and financial services HK\$'000	Property investment HK\$'000	Investment holding HK\$'000	Elimination HK\$'000	Unallocated HK\$'000	Total HK\$'000
Segment revenue							
Turnover							
External customers	80,179	52,902	5,856	—	—	—	138,937
Inter-segments	—	—	2,198	—	(2,198)	—	—
	80,179	52,902	8,054	—	(2,198)	—	138,937
Other revenue	—	13,014	—	36	—	670	13,720
Total revenue	80,179	65,916	8,054	36	(2,198)	670	152,657
Segment results	(57,210)	(38,293)	(6,877)	(4,718)	—	(162,238)	(269,336)
Impairment losses							(57,443)
Profit on disposal of interests in subsidiaries							245,319
Profit on disposal of partial interests in subsidiaries							1,056
Loss on deemed disposal of interests in subsidiaries							(1,809)
Profit on deemed disposal of interest in an associate							2,500
Other finance costs							(37,131)
Taxation							5,800
Minority interests							77,305
Loss attributable to shareholders							(33,739)

Notes to the Financial Statements

Year ended 31 December 2003

5. SEGMENT INFORMATION (Continued)

Year ended 31 December 2002

	Investment in trading securities HK\$'000	Brokerage and financial services HK\$'000	Property investment HK\$'000	Investment holding HK\$'000	Elimination HK\$'000	Unallocated HK\$'000	Total HK\$'000
Segment revenue							
Turnover							
External customers	104,973	68,063	7,646	—	—	—	180,682
Inter-segments	—	—	3,014	—	(3,014)	—	—
	104,973	68,063	10,660	—	(3,014)	—	180,682
Other revenue	—	7,087	24	—	—	2,475	9,586
Total revenue	104,973	75,150	10,684	—	(3,014)	2,475	190,268
Segment results	54,279	16,515	(40,945)	(14)	—	(38,997)	(9,162)
Impairment losses							(141,219)
Other finance costs							(27,069)
Taxation							(10,011)
Minority interests							(11,908)
Loss attributable to shareholders							(199,369)

Notes to the Financial Statements

Year ended 31 December 2003

5. SEGMENT INFORMATION (Continued)

Assets and liabilities as at 31 December 2003

	Investment in trading securities HK\$'000	Brokerage and financial services HK\$'000	Property investment HK\$'000	Investment holding HK\$'000	Elimination HK\$'000	Total HK\$'000
Assets						
Segment assets	—	83,457	50,726	49,274	—	183,457
Interests in associates	—	—	—	—	—	320,624
Unallocated assets						1,093
Total assets						505,174
Liabilities						
Segment liabilities	—	41	33,024	1,435	—	34,500
Unallocated liabilities						166,892
Total liabilities						201,392

Assets and liabilities as at 31 December 2002

	Investment in trading securities HK\$'000	Brokerage and financial services HK\$'000	Property investment HK\$'000	Investment holding HK\$'000	Elimination HK\$'000	Total HK\$'000
Assets						
Segment assets	126,571	533,016	253,446	58,762	(5,405)	966,390
Interests in associates	—	—	1,485	—	—	1,485
Unallocated assets						60,736
Total assets						1,028,611
Liabilities						
Segment liabilities	—	141,338	5,312	—	(5,405)	141,245
Unallocated liabilities						517,590
Total liabilities						658,835

Notes to the Financial Statements

Year ended 31 December 2003

5. SEGMENT INFORMATION (Continued)

Other segment information for the year ended 31 December 2003

	Investment in trading securities HK\$'000	Brokerage and financial services HK\$'000	Property investment HK\$'000	Investment holding HK\$'000	Elimination HK\$'000	Unallocated HK\$'000	Total HK\$'000
Capital expenditure	—	—	484	—	—	—	484
Depreciation and amortisation expenses	—	1,667	2,710	—	—	—	4,377
Release of negative goodwill	—	—	—	—	—	4,809	4,809
Impairment loss on properties	—	—	41,300	—	—	—	41,300
Impairment loss on goodwill	—	—	—	—	—	1,006	1,006
Impairment loss on interest in an associate	—	—	1,485	—	—	—	1,485
Impairment loss on other securities	—	—	—	11,455	—	—	11,455
Net unrealised holding loss on trading securities	77,329	—	—	—	—	—	77,329
Surplus on revaluation of investment properties	—	—	760	—	—	—	760
Net provision for bad and doubtful debts	—	213,207	—	—	—	—	213,207

Notes to the Financial Statements

Year ended 31 December 2003

5. SEGMENT INFORMATION (Continued)

Other segment information for the year ended 31 December 2002

	Investment in trading securities HK\$'000	Brokerage and financial services HK\$'000	Property investment HK\$'000	Investment holding HK\$'000	Elimination HK\$'000	Unallocated HK\$'000	Total HK\$'000
Capital expenditure	—	1,153	8,672	—	—	31,546	41,371
Depreciation and amortisation expenses	—	2,061	8,876	—	—	8,011	18,948
Release of negative goodwill	—	—	—	—	—	1,517	1,517
Impairment loss on properties	—	—	112,876	—	—	—	112,876
Impairment loss on goodwill	—	—	—	—	—	28,343	28,343
Net unrealised holding gain on trading securities	58,181	—	—	—	—	—	58,181
Deficit on revaluation of investment properties	—	—	38,890	—	—	—	38,890
Net provision for bad and doubtful debts	—	10,269	—	—	—	—	10,269

Geographical segments

The Group's operations and assets are located in Hong Kong for the years ended 31 December 2003 and 2002. Accordingly, no geographical segment information has been presented.

Notes to the Financial Statements

Year ended 31 December 2003

6. OTHER REVENUE

	2003 HK\$'000	2002 HK\$'000
Administration fee	841	1,402
Consultancy fee	2,958	2,353
Guarantee fee	—	1,001
Bank interest	122	266
Recovery of bad debts	—	600
Securities handling fees	3,474	2,438
Commission	4,291	—
Sundry	2,034	1,526
	<u>13,720</u>	<u>9,586</u>

Notes to the Financial Statements

Year ended 31 December 2003

7. LOSS FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
This is stated after charging (crediting):		
Depreciation of property, plant and equipment:		
Assets held under finance leases	35	218
Other assets	3,909	17,441
Amortisation of trading rights	433	809
Amortisation of goodwill of subsidiaries	—	480
	<hr/>	<hr/>
Total depreciation and amortisation expenses	4,377	18,948
Contributions to MPF Scheme	477	521
Included in other operating expenses:		
- Auditors' remuneration	2,260	1,310
- (Surplus) Deficit on revaluation of investment properties	(760)	38,890
- Operating lease charges:		
Equipment	24	26
Office premises	1,012	1,069
- Net unrealised holding loss (gain) on trading securities	77,329	(58,181)
- Net realised loss on disposal of other securities:		
Recognised during the year	1,114	—
Previously recognised in equity	10,341	—
- Net provision for bad and doubtful debts	213,207	10,269
- Release of negative goodwill to income	(4,809)	(1,517)
- Loss on disposal of investment properties	10,872	1,258
- Loss on disposal of property, plant and equipment	—	2,804
Rental income from investment properties	(5,856)	(7,646)
Less: Outgoings	1,216	1,653
	<hr/>	<hr/>
	4,640	(5,993)
	<hr/>	<hr/>

Notes to the Financial Statements

Year ended 31 December 2003

8. LOSS ON DEEMED DISPOSAL OF INTERESTS IN SUBSIDIARIES

Pursuant to a share subscription agreement dated 26 June 2003 entered into between a third party and a non wholly-owned subsidiary, Hennabun Management Inc. ("HMI"), HMI issued shares to the subscriber, representing approximately 5.95% of the enlarged share capital at time of subscription. Pursuant to another subscription agreement dated 10 October 2003 entered into between another third party and HMI, HMI issued shares in three tranches to the subscriber, representing a total of approximately 19.22% of the enlarged share capital after the subscription of the three tranches of shares. On 15 December 2003, 50,000,000 shares were allotted by HMI to a third party.

Total subscription received from the above issuance of HMI's shares amounted to HK\$178,300,000.

As detailed in note 29 to the financial statements, during the year HMI issued to third parties convertible notes of which 51,000,000 shares were converted.

As a result of the above subscription and conversion of HMI's shares, the Group's interest in HMI has been diluted from 93.04% to 47.6% and HMI and its wholly-owned subsidiaries (collectively "HMI Group") became associates of the Group effectively at 31 December 2003. The loss on deemed disposal amounted to HK\$1,809,000.

9. OTHER FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on:		
Bank and other borrowings wholly repayable within five years	34,898	24,803
Bank and other borrowings wholly repayable over five years	1,654	8,895
Convertible notes	7,555	4,818
Obligations under finance leases	53	45
	<u>44,160</u>	<u>38,561</u>
Less: Amount attributable to provision of financial services	(7,029)	(11,492)
	<u>37,131</u>	<u>27,069</u>

Notes to the Financial Statements

Year ended 31 December 2003

10. DIRECTORS' EMOLUMENTS

	2003 HK\$'000	2002 HK\$'000
Fees:		
Executive directors	—	—
Independent non-executive directors	120	309
	<u>120</u>	<u>309</u>
Other emoluments:		
Executive directors	5,804	9,267
Other emoluments comprises:		
Salaries and other benefits	5,756	9,195
Contributions to MPF Scheme	48	72
	<u>5,804</u>	<u>9,267</u>

	Number of directors	
	2003	2002
Emoluments of the directors were within the following bands:		
Nil to HK\$1,000,000	5	6
HK\$1,000,001 to HK\$1,500,000	1	—
HK\$1,500,001 to HK\$2,000,000	—	1
HK\$2,500,001 to HK\$3,000,000	1	—
HK\$4,500,001 to HK\$5,000,000	—	1
	<u>7</u>	<u>8</u>

The comparative figures for the year ended 31 December 2002 are emoluments paid to directors of CU Bermuda.

Notes to the Financial Statements

Year ended 31 December 2003

11. EMPLOYEES' EMOLUMENTS

The five highest paid employees of the Group during the year included four (2002: four) directors, details of whose emoluments are set out in note 10 above. The emolument of the remaining employee (2002: one) is as follows:

	2003 HK\$'000	2002 HK\$'000
Other emoluments	<u>1,302</u>	<u>1,800</u>

The remuneration of the employees falls within the band of HK\$1,000,001 to HK\$1,500,000 (2002: HK\$1,500,001 to HK\$2,000,000) for the year.

12. TAXATION

Hong Kong Profits Tax has been provided at the rate of 17.5% (2002: 16%) on the Group's estimated assessable profits for the year.

	2003 HK\$'000	2002 HK\$'000
The (credit) charge comprises:		
Current tax		
Hong Kong Profits Tax:		
Current year	4,200	571
Over provision in prior years	—	(560)
	<u>4,200</u>	<u>11</u>
Deferred taxation (Note 42)	<u>(10,000)</u>	<u>10,000</u>
	<u>(5,800)</u>	<u>10,011</u>

Deferred tax credited for the year is in respect of unrealised holding loss on trading securities, which is a reversal of temporary difference.

Details of recognised and unrecognised deferred taxation are set out in note 42 to the financial statements.

Notes to the Financial Statements

Year ended 31 December 2003

12. TAXATION (Continued)

	2003 HK\$'000	2002 HK\$'000
Reconciliation of tax expense		
Loss from ordinary activities before tax	<u>(116,844)</u>	<u>(177,450)</u>
Income tax at applicable tax rate of 17.5% (2002: 16%)	(20,448)	(28,392)
Non-deductible expenses	23,510	23,423
Tax exempt revenue	(57,536)	(10,261)
Unrecognised tax losses	31,103	4,274
Utilisation of previously unrecognised tax losses	(239)	(584)
Unrecognised temporary differences	17,810	22,111
Overprovision in prior years	—	(560)
	<u>(5,800)</u>	<u>10,011</u>
Tax (income) expense for the year		

The applicable tax rate is the Hong Kong Profits Tax rate of 17.5% (2002: 16%).

13. LOSS FOR THE YEAR

Of the Group's loss for the year of HK\$33,739,000 (2002: HK\$199,369,000), a loss of HK\$107,655,000 (2002: HK\$202,793,000) has been dealt with in the financial statements of the Company (2002: CU Bermuda).

14. DIVIDENDS

	2003 HK\$'000	2002 HK\$'000
Special dividend in respect of 2003 of HK7 cents per share (equivalent to HK0.28 cents per share of CU Bermuda) (2002: HK\$Nil per share)	<u>17,201</u>	<u>—</u>

The special dividends were paid out of the contributed surplus of CU Bermuda in January 2003.

Notes to the Financial Statements

Year ended 31 December 2003

15. LOSS PER SHARE

The calculation of the loss per share is based on the loss for the year of HK\$33,739,000 (2002: HK\$199,369,000) and on the weighted average number of 368,608,118 shares (2002: 368,602,008 shares) in issue during the year. The weighted average number of shares in issue used in the basic loss per share calculation for the year ended 31 December 2002 has been adjusted to reflect the effect of the Group Reorganisation and bonus issue during the current year, which is treated as had been completed on 1 January 2002.

No diluted loss per share is presented for the years as conversion of the Company's and a subsidiary's outstanding convertible notes have an anti-dilutive effect.

16. INVESTMENT PROPERTIES

	2003 HK\$'000	2002 HK\$'000
Valuation		
At beginning of year	157,470	218,000
Acquisition of a subsidiary	—	5,000
Impairment loss	(20,300)	—
Disposals	(18,000)	(26,640)
Disposal of subsidiaries	(99,400)	—
Surplus (Deficit) on revaluation	760	(38,890)
At balance sheet date	20,530	157,470

The carrying value of investment properties held by the Group at the balance sheet date comprised:

	2003 HK\$'000	2002 HK\$'000
Land in Hong Kong:		
Long lease	7,160	124,910
Medium-term lease	13,370	32,560
	20,530	157,470

Investment properties were valued at the balance sheet date by Messrs. Centaline Surveyors Limited, Chartered Surveyors, on an open market value basis. The surplus of HK\$760,000 arising on revaluation has been credited to the consolidated income statement, as it represents a reversal of previous revaluation deficit. The Group's investment properties amounting to HK\$123,470,000 were revalued at 31 December 2002 by a firm of independent professional valuers on an open market value existing use basis. Investment properties of HK\$34,000,000 as at 31 December 2002 were stated at its subsequent selling price.

Notes to the Financial Statements

Year ended 31 December 2003

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost						
At beginning of year	398,582	10,053	9,627	6,909	7,465	432,636
Acquisition of subsidiaries	—	—	—	—	4,025	4,025
Additions	—	33	68	383	—	484
Disposal/Deemed disposal of subsidiaries	(357,310)	(4,244)	(2,207)	(4,477)	(5,996)	(374,234)
At balance sheet date	41,272	5,842	7,488	2,815	5,494	62,911
Accumulated depreciation						
At beginning of year	276,500	8,603	7,564	5,101	5,198	302,966
Acquisition of subsidiaries	—	—	—	—	3,579	3,579
Charge for the year	1,006	191	919	681	1,147	3,944
Impairment loss	21,000	—	—	—	—	21,000
Disposal/Deemed disposal of subsidiaries	(286,033)	(3,596)	(1,496)	(3,454)	(4,715)	(299,294)
At balance sheet date	12,473	5,198	6,987	2,328	5,209	32,195
Net book value						
At balance sheet date	28,799	644	501	487	285	30,716
At beginning of year	122,082	1,450	2,063	1,808	2,267	129,670

The net book value of property, plant and equipment includes an amount of HK\$Nil (2002: HK\$35,000) in respect of assets held under finance leases of which the amount of finance leases payable has been included in other payables.

The net book value of land and buildings held by the Group at the balance sheet date comprised:

	2003 HK\$'000	2002 HK\$'000
Land in Hong Kong:		
Long lease	—	91,000
Medium-term lease	28,799	31,082
	28,799	122,082

Notes to the Financial Statements

Year ended 31 December 2003

18. INTANGIBLE ASSETS

	Trading rights HK\$'000
At beginning of year	
Cost	7,600
Accumulated amortisation	(1,458)
	<hr/>
Opening carrying amount	6,142
Amortisation charges	(433)
Deemed disposal of subsidiaries	(5,709)
	<hr/>
Closing carrying amount	<hr/> <hr/>
At balance sheet date	
Cost	—
Accumulated amortisation	—
	<hr/>
Closing carrying amount	<hr/> <hr/>

Note:

Trading rights in the Stock Exchange and the Hong Kong Futures Exchange Limited ("HKFE") which are amortised over the following periods:

Trading rights in the Stock Exchange:	Remaining useful life of 111 months commencing from 1 January 2001
Trading right in the HKFE:	Ten years

Notes to the Financial Statements

Year ended 31 December 2003

19. GOODWILL

	Goodwill HK\$'000	Negative goodwill HK\$'000	Total HK\$'000
At beginning of year			
Cost	34,137	(28,650)	5,487
Accumulated amortisation	(34,137)	1,725	(32,412)
Opening carrying amount	—	(26,925)	(26,925)
Arising from acquisition of interests in subsidiaries	1,006	—	1,006
Arising from acquisition of additional interests in subsidiaries	—	(1,944)	(1,944)
Amortisation charges / recognised as income	—	4,809	4,809
Impairment losses	(1,006)	—	(1,006)
Eliminated on deemed disposal of interests in subsidiaries	—	1,440	1,440
Reclassification to interests in associates upon deemed disposal of subsidiaries	—	22,620	22,620
Closing carrying amount	—	—	—
At balance sheet date			
Cost	35,143	—	35,143
Accumulated amortisation	(35,143)	—	(35,143)
Closing carrying amount	—	—	—

Notes to the Financial Statements

Year ended 31 December 2003

20. INTERESTS IN SUBSIDIARIES

	The Company 2003 HK\$'000
Unlisted shares, at cost	952,881
Impairment loss	(680,000)
	<hr/> 272,881 <hr/>
Due from subsidiaries	154,014
Provision for doubtful debts	(55,000)
	<hr/> 99,014 <hr/>
	<hr/> 371,895 <hr/>

The amounts due from (to) subsidiaries are unsecured, interest-free and have no fixed repayment terms, except an amount due from a subsidiary of approximately HK\$71,254,000 is interest-bearing at approximately 8% per annum.

In the opinion of the directors, a complete list of the particulars of all subsidiaries will be of excessive length and therefore the table below lists the principal subsidiaries at the balance sheet date which materially affect the result or assets of the Group.

Name of subsidiary	Place of incorporation and operations	Particulars of issued ordinary and paid up capital (Note)	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
Action Plus Investments Limited	British Virgin Islands	1 share of US\$1	—	100	Investment holding
Bestford Properties Limited	Hong Kong	2 shares of HK\$1 each	—	100	Property holding
Bestford Development Limited	Hong Kong	2 shares of HK\$1 each	—	100	Property investment
Cuve Asset Management Limited	British Virgin Islands	26,000 shares of US\$1 each	—	100	Investment holding
Embrace Assets Limited	British Virgin Islands	1 share of US\$1	—	100	Investment holding

Notes to the Financial Statements

Year ended 31 December 2003

20. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation and operations	Particulars of issued ordinary and paid up capital (Note)	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
Greatly Fareast Limited	Hong Kong	2 shares of HK\$1 each	—	100	Property investment
Golden Clip Limited	British Virgin Islands	1 share of US\$1	—	100	Investment holding
International Stamps & Coins Exchange Gallery Limited	Hong Kong	20,200 shares of HK\$1 each	—	100	Property investment
Long Bloom Enterprises Limited	Hong Kong	53,000 of HK\$100 each	—	100	Provision of administrative service
Radford Portfolio Management Limited	Hong Kong	10,000 shares of HK\$1 each	—	100	Property holding
Ronford Properties Limited	Hong Kong	2 shares of HK\$1 each	—	100	Property investment
Skill Cheer Limited	Cayman Islands	692,900,008 shares of HK\$1 each	63.92	36.08	Investment holding
Total Capital Limited	British Virgin Islands	1 share of US\$1	—	100	Provision of financial services
Top Ultimate Limited	British Virgin Islands	1 share of US\$1	—	100	Provision of financial services
Wellhand Limited	Hong Kong	2 shares of HK\$1 each	—	100	Property investment
Winport Limited	British Virgin Islands	1 share of US\$1	—	100	Investment holding

Note:

No loan capital has been issued by any of the subsidiaries.

Notes to the Financial Statements

Year ended 31 December 2003

21. INTERESTS IN ASSOCIATES

	2003 HK\$'000	2002 HK\$'000
Share of net assets	196,223	1,485
Negative goodwill reclassified	(22,620)	—
	<u>173,603</u>	<u>1,485</u>
Due from associates	147,021	44,021
Provision for doubtful debts	—	(44,021)
	<u>147,021</u>	<u>—</u>
	<u>320,624</u>	<u>1,485</u>

The amounts due from associates represents loan advances which are unsecured, interest-bearing at prime rate plus 1% per annum and have no fixed repayment terms.

Interests in associates at 31 December 2002 were held by CU Bermuda, and were disposed of during the year. Associates (HMI Group) at 31 December 2003 were originally held by the Group as subsidiaries but were reclassified as associates as a result of deemed disposal.

In the opinion of the directors, a complete list of the particulars of all associates will be of excessive length and therefore the table below lists the principal associates, all of which are limited liability corporation and indirectly held by the Company, at the balance sheet date which materially affect the result or assets of the Group.

Name of associate	Place of incorporation and operation	Particulars of issued ordinary and paid up capital	Proportion of nominal value of issued capital held by the Company	Principal activities
Chung Nam Commodities Limited	Hong Kong	150,000 shares of HK\$100 each	47.6	Commodities dealer
Chung Nam Finance Limited	Hong Kong	410,000,000 shares of HK\$1 each	47.6	Securities financing and money lending
Chung Nam Holdings Limited	Hong Kong	17,200,000 shares of HK\$1 each	47.6	Investment holding
Chung Nam Nominees Limited	Hong Kong	10,000 shares of HK\$1 each	47.6	Nominees

Notes to the Financial Statements

Year ended 31 December 2003

21. INTERESTS IN ASSOCIATES (Continued)

Name of associate	Place of incorporation and operation	Particulars of issued ordinary and paid up capital	Proportion of nominal value of issued capital held by the Company	Principal activities
Chung Nam Securities Limited	Hong Kong	270,000,000 shares of HK\$1 each	47.6	Securities brokerage and financial services
CU Corporate Finance Limited	Hong Kong	10,000,000 shares of HK\$1 each	47.6	Investment advisor
CU Investment Management Limited	Hong Kong	1,000,000 shares of HK\$1 each	47.6	Investment advisor
CU Investment (Holdings) Limited	Hong Kong	2 ordinary shares of HK\$1 each and 2 non-voting deferred shares of HK\$1 each	47.6	Investment holding
CU Nominee Limited	Hong Kong	2 shares of HK\$1 each	47.6	Nominees
Hennabun Capital Management Inc.	British Virgin Islands	1 share of US\$1	47.6	Investment holding and securities investment
Hennabun Investments Limited	British Virgin Islands	1 share of US\$1	47.6	Investment holding
Hennabun Management Inc.	British Virgin Islands	309,133,334 shares of US\$0.1 each	47.6	Investment holding
Radland International Limited (formerly Kam Kwong Company Limited)	Hong Kong	23,400,000 shares of HK\$1 each	47.6	Securities brokerage and financial services
Kam Kwong Investments Limited	Hong Kong	10,000 shares of HK\$1 each	47.6	Investment holding

Notes to the Financial Statements

Year ended 31 December 2003

21. INTERESTS IN ASSOCIATES (Continued)

Name of associate	Place of incorporation and operation	Particulars of issued ordinary and paid up capital	Proportion of nominal value of issued capital held by the Company	Principal activities
Quali-Trade Investments Limited	British Virgin Islands	4,980,000 of US\$1 each	47.6	Investment holding
Winning Point Limited	British Virgin Islands	1 share of US\$1	47.6	Securities investment

Details of the consolidated operating results and financial position of Hennabun Management Inc. ("HMI") based on audited financial statements, after adjusting the fair value of assets acquired at the date of acquisition, are as follows:-

	2003 HK\$'000 (note)
Operating results for the year ended 31 December 2003	
Turnover	124,128
Loss from ordinary activities before taxation	211,412
Loss from ordinary activities before taxation attributable to the Group	132,014
	HK\$'000
Financial position at the balance sheet date	
Total non-current assets	412,246
Total current assets	306,417
Total current liabilities	(259,929)
Total non-current liabilities	(46,500)
Shareholders' funds	412,234
Amount attributable to the Group	196,223

Notes to the Financial Statements

Year ended 31 December 2003

21. INTERESTS IN ASSOCIATES (Continued)

Note:

HMI was a subsidiary of the Group at 31 December 2002 and hence the financial information of HMI for the year ended 31 December 2002 has not been presented.

The auditors' report on the consolidated financial statements of HMI for the year ended 31 December 2003 contains a disclaimer of opinion because of limitation of scope in respect of the following matters:

- (a) The consolidated financial statements of HMI include an interest in an associate amounting to approximately HK\$401,888,000, made up of share of net assets of the associate of HK\$22,498,000 and amount due from the associate of HK\$379,390,000. This associate was originally a subsidiary of HMI and became an associate of HMI following the disposal by HMI of a partial interest in this company during the year. Interest in this associate was further reduced as a result of issuance of shares to third party by this associate, resulting in a profit on deemed disposal of interest of HK\$2,500,000. The amount of HK\$401,888,000 carried in the consolidated financial statements of HMI was based on the latest management accounts of the associate prepared by its management. However, audited financial information of this associate is not yet available.
- (b) Information concerning the financial strength of the borrowers and guarantors in respect of loan receivables amounting to HK\$41,206,000 was not available for the assessment of the recoverability of the loan receivables.

22. INVESTMENTS IN SECURITIES

	Trading securities (Current assets)		Other securities (Non-current assets)	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At fair value:				
Equity securities				
Listed investments (note)	—	126,571	—	—
Unlisted investments	—	—	—	3,899
Unlisted investment fund	—	—	—	50,941
	—	126,571	—	54,840
Debt securities, Unlisted	—	—	—	3,899
	—	126,571	—	58,739
Fair value of equity securities listed:				
- in Hong Kong (note)	—	123,959	—	—
- overseas	—	2,612	—	—
	—	126,571	—	—

Notes to the Financial Statements

Year ended 31 December 2003

22. INVESTMENTS IN SECURITIES (Continued)

Note:

Included in trading securities at 31 December 2002 is the Group's investment in 290,000,000 shares with carrying amount of HK\$114,840,000 in a company, Radford Capital Investment Limited ("Radford Capital"), a company incorporated in the Cayman Islands with limited liability and whose shares are listed on the Stock Exchange. As a result of deemed disposal of certain subsidiaries (HMI Group) of the Group of which these subsidiaries are now classified as associates, the 290,000,000 shares of Radford Capital with carrying amount of HK\$15,950,000 are now included in the interests in associates. Radford Capital is principally engaged in investments in listed and unlisted enterprises established and/or conducting business in Hong Kong and/or the People's Republic of China and is an investment company listed under Chapter 21 of the Listing Rules of the Stock Exchange. Although HMI's (2002: Group's) investment in Radford Capital accounts for 28.67% (2002: 28.4%) issued ordinary shares of Radford Capital, HMI/the Group does not regard Radford Capital as an associate because it intends to hold the investment in Radford Capital for trading purpose.

The shares of Radford Capital are thinly traded and the percentage of issued shares of Radford Capital held by the Group is substantial. The directors consider, to the best of their estimate and knowledge, that a discount of 20% on the quoted market price of Radford Capital as at 31 December 2002 and 30 June 2003 was appropriate to reflect the fair value of the Group's investment in Radford Capital at the respective dates because the quoted market price were significantly higher than the net asset value of Radford Capital.

At 31 December 2003, the quoted market price of Radford Capital was lower than the net asset value. The directors of the Company and the associate holding the shares of Radford Capital consider the quoted market price at 31 December 2003, without any discount, was the fair value of Radford Capital at that date because the quoted market price which was lower than the net asset value and that the quoted market price better reflects the realisable value of the shares of Radford Capital, which were held with the intention of an orderly disposal in the stock market. Realised gain on partial disposal and unrealised holding loss of Radford Capital shares and the related deferred tax credit recognised during the year amounted to HK\$24,887,000, HK\$77,685,000 and \$10,000,000 (note 42) respectively.

23. OTHER LONG TERM ASSETS

	2003 HK\$'000	2002 HK\$'000
Deposits with HKFE Clearing Corporation Limited	—	1,500
Fidelity Fund	—	100
Deposits with the Stock Exchange	—	253
Contribution on Central Clearing and Settlement System Guarantee Fund	—	100
Admission fee paid to Hong Kong Securities Clearing Company Limited	—	100
	<u>—</u>	<u>2,053</u>

Notes to the Financial Statements

Year ended 31 December 2003

24. LOANS RECEIVABLE

Loans granted to borrowers are repayable by installments or according to set maturity dates. The balance comprises loans receivable from:

	Note	2003 HK\$'000	2002 HK\$'000
Third parties		161,233	297,752
Related companies	43(b)	20,460	57,427
Directors of the Company	43(c)	972	1,361
		<u>182,665</u>	<u>356,540</u>
Provision for bad and doubtful debts		<u>(99,209)</u>	<u>(128,687)</u>
		83,456	227,853
Less: Balances due within one year included in current assets		<u>(83,456)</u>	<u>(226,484)</u>
Balances due after one year		<u>—</u>	<u>1,369</u>

An aging analysis of loans receivable (before provision for bad and doubtful debts) as at the balance sheet date is set out below:

	2003 HK\$'000	2002 HK\$'000
Within maturity dates	110,629	275,036
Balances overdue for repayment:		
1-3 months	28,159	40,692
4-6 months	38,404	11,621
7-12 months	5,473	266
Over 12 months	<u>—</u>	<u>28,925</u>
	<u>182,665</u>	<u>356,540</u>

Notes to the Financial Statements

Year ended 31 December 2003

25. TRADE AND OTHER RECEIVABLES

The Group's trade receivables mainly consist of securities margin loans and securities trading receivables of cash accounts. Securities margin loans are reviewed regularly based on the value of securities held to loan ratio. Securities trading receivables of cash accounts are to be settled within two days from the date of transactions. The trade and other receivables comprises the following:

	Note	2003 HK\$'000	2002 HK\$'000
Trade receivables			
Third parties		—	273,779
A substantial shareholder of the Company	43(d)	—	47,906
A related company	43(d)	—	15,171
A director of certain non wholly-owned subsidiaries	43(d)	—	3,657
Directors of the Company	43(d)	—	1,706
		<u>—</u>	<u>342,219</u>
Provision for bad and doubtful debts		—	(51,262)
		<u>—</u>	<u>—</u>
Trade receivables, net		—	290,957
Other receivables	39(a)	24,675	9,869
		<u>24,675</u>	<u>300,826</u>

No trade receivables existed at 31 December 2003 because all trade receivables were attributable to HMI Group which were reclassified as associates upon deemed disposal.

An aging analysis of trade receivables (after provision for bad and doubtful debts) as at the balance sheet date is as follows:

	2003 HK\$'000	2002 HK\$'000
Current	—	290,866
1-3 months	—	91
	<u>—</u>	<u>290,957</u>

Current age represents the amounts due are within the settlement date. For securities margin loans, it represents those margin loans not yet called and securities not yet seized for settlement.

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Year ended 31 December 2003

26. CASH AND CASH EQUIVALENTS

	The Group		The Company
	2003	2002	2003
	HK\$'000	HK\$'000	HK\$'000
Bank balances and cash	25,173	23,554	25,092
Time deposits	—	3,000	—
As stated in the balance sheet	25,173	26,554	25,092
Pledged deposits	—	18,173	—
Bank overdraft	—	(111,835)	—
As stated in the cash flow statement	25,173	(67,108)	—

27. TRADE AND OTHER PAYABLES

At 31 December 2002, the trade and other payables of the Group included trade payables of HK\$12,985,000, all of which were current. No trade payables existed at 31 December 2003 because all trade payables were attributable to HMI Group which was reclassified as associates upon deemed disposal.

28. INTEREST-BEARING BORROWINGS

	The Group		The Company
	2003	2002	2003
	HK\$'000	HK\$'000	HK\$'000
Bank loans:			
Secured	32,915	311,302	—
Unsecured	—	18,609	—
	32,915	329,911	—
Bank overdrafts:			
Secured	—	111,501	—
Unsecured	—	334	—
	—	111,835	—
Other loans (note):			
Secured	—	67,276	—
Unsecured	90,519	16,901	90,519
	90,519	84,177	90,519
	123,434	525,923	90,519

Notes to the Financial Statements

Year ended 31 December 2003

28. INTEREST-BEARING BORROWINGS (Continued)

The maturity of the above borrowings is as follows:

	The Group		The Company
	2003	2002	2003
	HK\$'000	HK\$'000	HK\$'000
Within one year	93,262	423,580	90,519
After one year but within two years	2,890	22,001	—
After two years but within five years	9,645	54,602	—
After five years	17,637	25,740	—
	30,172	102,343	—
	123,434	525,923	90,519

Note:

Movements in other loans are as follows:

	The Group		The Company
	2003	2002	2003
	HK\$'000	HK\$'000	HK\$'000
At beginning of year	84,177	246,821	—
Addition	354,997	259,500	291,497
Repayment	(281,105)	(410,596)	(200,978)
Assignment of loan (note 35)	—	(11,548)	—
Disposal of subsidiaries	(67,550)	—	—
At balance sheet date	90,519	84,177	90,519

Notes to the Financial Statements

Year ended 31 December 2003

29. CONVERTIBLE NOTES

	The Group		The Company
	2003	2002	2003
	HK\$'000	HK\$'000	HK\$'000
At beginning of year	63,840	63,840	—
Issuance upon Group Reorganisation (Note i)	—	—	63,840
Issuance during the year (Note ii)	163,000	—	—
Redemption (Note ii)	(29,000)	—	—
Conversion (Note ii)	(87,500)	—	—
Deemed disposal of HMI	(46,500)	—	—
At balance sheet date	63,840	63,840	63,840
Represented by:			
Current portion	63,840	—	63,840
Non-current portion	—	63,840	—
	63,840	63,840	63,840

Note:-

- (i) Upon the Group Reorganisation, the convertible note holders of CU Bermuda has agreed to give up their rights under these notes and to exchange for new convertible notes of equal amount in the Company. The new convertible notes bear interest at 7.5% per annum and can be converted into shares of the Company in the amount or integral multiples of HK\$168,000 at any time from the date of issue of the new convertible notes up to 14 days before and excluding the maturity date on 4 July 2004.

The Company may redeem in whole or in part the notes in the amount or integral multiples of HK\$168,000 at any time from the date of issue up to 14 days before and excluding the maturity date on 4 July 2004. The amount to be paid by the Company upon redemption of the notes shall be 105% of the outstanding principal amount of the notes. No notes were redeemed by the Company during the year.

The conversion prices applicable to relevant period are as follows:

Conversion price per share	Period
HK\$1.91	Date of issue to 4 July 2003
HK\$2.22	5 July 2003 to 11 November 2003
HK\$1.48	12 November 2003 to 14 days before and excluding the maturity date on 4 July 2004

Notes to the Financial Statements

Year ended 31 December 2003

29. CONVERTIBLE NOTES (Continued)

Note:- (Continued)

- (ii) During the year, HMI issued convertible notes with principal sum of HK\$163,000,000 to third parties. Details of the notes issued are as follows:-

Principal of notes	Interest	Maturity date	Conversion price per share
HK\$88,000,000	5% per annum	14 April 2005	HK\$2.00 and HK\$1.50
HK\$60,000,000	7.5% per annum	29 November 2006	HK\$1.50
HK\$15,000,000	7.5% per annum	1 December 2006	HK\$1.50

The note holders can convert the whole or a part of the outstanding principal amount of the notes at any time after the date of issue and before the maturity date, in such number of conversion shares of HMI to be determined by dividing the principal amount of the notes or such part thereof to be converted by the conversion price.

HMI may, at any time after the issue of the notes up to the date immediately prior to the maturity date, redeem the entirety or any part of the notes by payment to the note holders in cash of an amount equal to that part of the principal amount of the notes.

Of the convertible note with principal sum of HK\$88,000,000, principal amounting to HK\$29,000,000 was redeemed by the Group, and principals amounting to HK\$44,000,000 and HK\$15,000,000 were converted into 22,000,000 ordinary shares and 10,000,000 ordinary shares of US\$0.1 each of HMI at a conversion price of HK\$2.00 and HK\$1.50 per share respectively. According to the terms of the convertible note with principal sum of HK\$88,000,000, the conversion price is HK\$2.00 per share but the note holder and HMI mutually agreed that principal of HK\$15,000,000 was to be converted to HMI's shares at HK\$1.50 per share. Of the convertible note with principal sum of HK\$60,000,000, principal amounting to HK\$28,500,000 was converted into 19,000,000 ordinary shares of US\$0.1 each of HMI.

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Year ended 31 December 2003

30. ISSUED CAPITAL

	Note	Number of ordinary shares	Nominal value HK\$
Authorised:			
Creation of 10,000 shares of HK\$1 each upon incorporation	(i)	10,000	10,000
Subdivision from 10,000 shares of HK\$1 each to 100,000 of HK\$0.1 each	(ii)	90,000	—
Shares of HK\$0.1 each		100,000	10,000
Increase by creation of additional 19,999,900,000 shares of HK\$0.1 each	(iii)	19,999,900,000	1,999,990,000
At balance sheet date		<u>20,000,000,000</u>	<u>2,000,000,000</u>
Issued and fully paid:			
Issuance of shares of HK\$1 each upon incorporation	(i)	2	2
Subdivision from 2 shares of HK\$1 each to 20 shares of HK\$0.1 each	(ii)	18	—
Shares of HK\$0.1 each		20	2
Issuance of shares pursuant to the Group Reorganisation	(iv)	245,734,652	24,573,465
Bonus issue	(v)	122,867,336	12,286,734
Exercise of warrants	(vi)	266,487	26,649
At balance sheet date		<u>368,868,495</u>	<u>36,886,850</u>

The comparative figure of issued capital as at 31 December 2002 stated in the consolidated balance sheet represented the issued share capital of CU Bermuda of 6,143,366,812 ordinary shares of HK\$0.01 each.

Notes to the Financial Statements

Year ended 31 December 2003

30. ISSUED CAPITAL (Continued)

Note:

- (i) The Company was incorporated in Hong Kong with limited liability on 16 August 2002 with HK\$10,000 authorised share capital of 10,000 ordinary shares of HK\$1 each. On incorporation, 2 ordinary shares of HK\$1 each were issued at par for cash consideration to provide initial working capital for the Company.
- (ii) By a special resolution passed on 30 August 2002, the authorised share capital of the Company of HK\$10,000 divided into 10,000 ordinary shares of HK\$1 each, of which 2 ordinary shares of HK\$1 were issued and fully paid, were sub-divided into 100,000 ordinary shares of HK\$0.1 each, of which 20 ordinary shares of HK\$0.1 each were issued and fully paid.
- (iii) By an ordinary resolution passed on 30 August 2002, the authorised share capital of the Company was increased to HK\$2,000,000,000 by the creation of an additional 19,999,900,000 ordinary shares of HK\$0.1 each.
- (iv) Pursuant to the ordinary resolution passed on 20 November 2002 and the Scheme sanctioned by the Supreme Court of Bermuda which became effective on 3 January 2003, the Company issued 245,734,652 ordinary shares of HK\$0.1 each credited as fully paid in exchange for the entire issued share capital of CU Bermuda pursuant to the Group Reorganisation.
- (v) By an ordinary resolution passed on 29 October 2003, 122,867,336 ordinary shares of HK\$0.1 each were issued to shareholders on the basis of one bonus share for every two existing shares.
- (vi) During the year, an aggregate 266,487 new shares of HK\$0.1 each of the Company were issued to certain warrant holders upon exercise of warrants at the cash subscription price of HK\$0.38 per share.

All these shares issued during the year rank *pari passu* in all respects with the then existing shares.

31. SHARE OPTION SCHEME

(i) Executive share option scheme

Pursuant to the executive share option scheme which became effective on 15 December 1995 and which would expire in ten years after that date, the directors of CU Bermuda may, at their discretion, grant options to any director or employee of CU Bermuda, or any of its subsidiaries, to subscribe for shares in CU Bermuda at a price neither less than the par value of the shares nor at a discount of more than 20% of the average closing price of the shares on the Stock Exchange on the five dealing days immediately preceding the date of the grant of the options. The maximum number of share options granted should not be more than 10% of the issued share capital of CU Bermuda from time to time. A share option may be exercised at any time no later than ten years from the date of grant of the share option.

On 27 August 2002, CU Bermuda has obtained consents from the holders of the outstanding share options to give up their rights under the share option. Accordingly, 1,848,000 issued options were cancelled on the same date. CU Bermuda has not paid or committed to pay any compensation to the holders of these share options.

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Year ended 31 December 2003

31. SHARE OPTION SCHEME (Continued)

(ii) New share option scheme of CU Bermuda

Pursuant to a resolution passed on 30 May 2002, CU Bermuda's executive share option scheme was cancelled and a new share option scheme ("New CU Bermuda Share Option Scheme") was adopted.

Following an ordinary resolution passed on 20 November 2002 and the Scheme sanctioned by the Supreme Court of Bermuda which became effective on 3 January 2003, the New CU Bermuda Share Option Scheme was cancelled. The terms of the New CU Bermuda Share Option Scheme are substantially the same as those of the share option scheme adopted by the Company as detailed below. No options have been granted since the date of adoption of the New CU Bermuda Share Option Scheme.

(iii) Share option scheme of the Company

Pursuant to the Group Reorganisation, a share option scheme ("New Scheme") of the Company was approved on 20 November 2002 by the shareholders of the Company and became effective on 3 January 2003. The New Scheme is valid and effective for a period of ten years. The board of directors of the Company may grant options to eligible employees including directors of the Company and its subsidiaries and any other persons including consultants, advisors, agents, customers, suppliers, etc. to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the New Scheme is not permitted to exceed 30% of the shares of the Company in issue from time to time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any 12 month period is not permitted to exceed 1% of the shares of the Company in issue from time to time, without prior approval from the Company's shareholders. Options granted to any director, chief executive or substantial shareholder of the Company or any of their respective associates in excess of 0.1% of the Company's share capital in issue and having an aggregate value in excess of HK\$5 million must be subject to prior approval by the Company's shareholders.

An amount of HK\$1 is payable on the grant of an option. Options may be exercised no later than ten years from the date of grant of the share option. The exercise price is determined by the directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the date of grant, the average closing price of the shares for the five business days immediately preceding the date of grant and the nominal value of the shares on the date of grant.

No options have been granted during the year.

32. WARRANTS

A bonus issue of warrants was made on the basis of one unit of subscription right of warrant for every five existing shares on 12 November 2003. Each warrant, which is listed on the Stock Exchange, carries an entitlement to subscribe in cash at a price of HK\$0.38 for one ordinary share of the Company, at any time from the date of issue to 11 May 2005.

During the year, the registered holders of 266,487 warrants exercised their rights to subscribe for ordinary shares. At the balance sheet date, the Company had outstanding 48,880,447 warrants. Exercise in full of such warrants would result in the issue of 48,880,447 additional shares of HK\$0.1 each.

Notes to the Financial Statements

Year ended 31 December 2003

33. RESERVES

	Share premium	Capital redemption reserve	Special reserve	Capital reserve	Investment revaluation reserve	Contributed surplus	Merger reserve	Accumulated (losses) profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Group									
At 1 January 2002	1,566,354	99	33,455	19,330	(20,150)	842,136	—	(2,292,114)	149,110
Shares issued at premium, net of issuing expenses	50,867	—	—	—	—	—	—	—	50,867
Cancellation and reduction of share capital	—	—	—	—	—	273,659	—	—	273,659
Surplus on revaluation	—	—	—	—	9,809	—	—	—	9,809
Loss for the year	—	—	—	—	—	—	—	(199,369)	(199,369)
At 31 December 2002	1,617,221	99	33,455	19,330	(10,341)	1,115,795	—	(2,491,483)	284,076
Reduction of capital pursuant to the Group Reorganisation	(1,617,221)	—	—	—	—	1,678,555	—	—	61,334
Contributed surplus set off against accumulated losses pursuant to the Group Reorganisation	—	—	—	—	—	(2,685,716)	—	2,685,716	—
Share capital of CU Bermuda eliminated on the Group Reorganisation	—	—	—	—	—	—	100	—	100
Reclassification of reserves resulting from the Group Reorganisation	—	(99)	(33,455)	99	—	(91,433)	124,888	—	—
Issue of shares by the Company pursuant to the Group Reorganisation	—	—	—	—	—	—	(24,573)	—	(24,573)
Special dividends declared and paid in respect of the current year	—	—	—	—	—	(17,201)	—	—	(17,201)
Released upon disposals	—	—	—	—	10,341	—	—	—	10,341
Capitalisation as bonus issue	—	—	—	—	—	—	(12,287)	—	(12,287)
Released upon disposal of subsidiaries	—	—	—	(1,156)	—	—	—	—	(1,156)
Exercise of warrants	75	—	—	—	—	—	—	—	75
Issuing expenses in respect of bonus issue	(75)	—	—	—	—	—	—	—	(75)
Loss for the year	—	—	—	—	—	—	—	(33,739)	(33,739)
At 31 December 2003	—	—	—	18,273	—	—	88,128	160,494	266,895

Notes to the Financial Statements

Year ended 31 December 2003

33. RESERVES (Continued)

Included in the reserves of the Group as at 31 December 2003 were accumulated losses of associates attributable to the Group amounting to HK\$258,307,000 (2002: HK\$46,476,000).

The special reserve represented the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of CU Bermuda's share issued for the acquisition at the time of the group reorganisation prior to the listing of CU Bermuda's shares in 1989.

Contributed surplus is transferred from share capital pursuant to the capital reduction of CU Bermuda made in previous years.

The application of the Company's share premium account is governed by Section 48B of the Hong Kong Companies Ordinance. The capital reserve and investment revaluation reserve have been set up and will be dealt with in accordance with the accounting policies adopted for goodwill and the revaluation of investments in securities.

	Share premium HK\$'000	Merger reserve HK\$'000	Accumulated loss HK\$'000	Total HK\$'000
The Company				
Effect of the Group Reorganisation	—	303,735	—	303,735
Issuance of bonus shares	—	(12,287)	—	(12,287)
Exercise of warrants	75	—	—	75
Issuing expenses in respect of bonus issue	(75)	—	—	(75)
Loss for the period	—	—	(107,655)	(107,655)
At 31 December 2003	—	291,448	(107,655)	183,793

At the balance sheet date, the Company has no reserves available for distribution to the shareholders.

Notes to the Financial Statements

Year ended 31 December 2003

34. CASH (USED IN) GENERATED FROM OPERATIONS

	Note	2003 HK\$'000	2002 HK\$'000
Loss from ordinary activities before taxation		(116,844)	(177,450)
Depreciation and amortisation expenses		4,377	18,948
Impairment losses on:			
- Property, plant and equipment		21,000	112,876
- Investment properties		20,300	—
- Goodwill on consolidation of subsidiaries		1,006	28,343
- Interest in an associate		1,485	—
- Other securities		13,652	—
Release of negative goodwill to income statement		(4,809)	(1,517)
(Surplus) Deficit arising on revaluation of investment properties		(760)	38,890
Interest expenses on bank and other borrowings		36,552	33,698
Interest on obligations under finance leases		53	45
Interest on convertible notes		7,555	4,818
Bank interest income		(122)	(266)
Loss on disposal of property, plant and equipment		—	2,804
Net provision for bad and doubtful debts		213,207	10,269
Net unrealised loss (gain) on trading securities		77,329	(58,181)
Loss on disposal of investment properties		10,872	1,258
Loss on disposal of other securities		11,455	—
Loss on deemed disposal of interests in subsidiaries	38	1,809	—
Profit on disposal of interests in subsidiaries	37	(245,319)	—
Profit on disposal of partial interests in subsidiaries		(1,056)	—
Profit on deemed disposal of interest in an associate		(2,500)	—
		49,242	14,535
Changes in working capital:			
Loans receivable		(474,296)	142,486
Trade and other receivables		(30,066)	(120,372)
Trading securities		19,943	(11,932)
Trade and other payables		33,466	17,570
Cash (used in) generated from operations		(401,711)	42,287

35. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2003, convertible notes of principal amount of HK\$87,500,000 issued by an associate of the Company, HMI, of which at the time was a non wholly-owned subsidiary, was converted into 51,000,000 ordinary shares of HMI. During the year ended 31 December 2002, the repayment of shareholder's loan by an associate to the Group had been assigned to a lender to set off against other loan of HK\$11,548,000 and related accrued interest of HK\$9,251,000.

Notes to the Financial Statements

Year ended 31 December 2003

36. ACQUISITION OF SUBSIDIARIES

	2003 HK\$'000	2002 HK\$'000
Net assets acquired:		
Investment properties	—	5,000
Property, plant and equipment	446	5,080
Trade and other receivables	—	1,508
Tax prepaid	—	92
Bank balances and cash	—	3,475
Trade and other payables	—	(6,861)
Obligations under finance leases	(52)	—
Bank overdraft	—	(2,886)
Bank loan	—	(4,231)
	<u>394</u>	<u>1,177</u>
Goodwill arising on acquisition	<u>1,006</u>	<u>28,823</u>
Total consideration	<u>1,400</u>	<u>30,000</u>
Satisfied by:		
Cash paid	—	30,000
Unsettled payable	<u>1,400</u>	<u>—</u>
Cash consideration	<u>1,400</u>	<u>30,000</u>

Analysis of outflow of cash and cash equivalents in respect of acquisition of subsidiaries:

	2003 HK\$'000	2002 HK\$'000
Cash paid	—	(30,000)
Bank balances and cash acquired	—	3,475
Bank overdraft acquired	—	(2,886)
Net outflow of cash and cash equivalents	<u>—</u>	<u>(29,411)</u>

The subsidiaries acquired during the years ended 31 December 2003 and 2002 did not have significant contribution to the Group's turnover, results and cash flows for the respective years.

Notes to the Financial Statements

Year ended 31 December 2003

37. DISPOSAL OF SUBSIDIARIES

	2003 HK\$'000	2002 HK\$'000
Net assets disposed of:		
Investment properties	99,400	—
Property, plant and equipment	72,344	—
Other securities	7,146	—
Trade and other receivables	44,561	—
Loans receivable	465,162	—
Due from group companies	2,932	—
Trading securities	6,678	—
Bank balances and cash	50,366	—
Trade and other payables	(49,150)	—
Due to a minority shareholder	(7,754)	—
Due to HMI Group companies	(419,390)	—
Due to group companies	(8,261)	—
Obligations under finance leases	(71)	—
Dividends payable to the Group	(30,000)	—
Other loans	(67,550)	—
Bank loans	(293,806)	—
	(127,393)	—
Profit on disposal of subsidiaries	245,319	—
Capital reserve realised upon disposal of subsidiaries	(1,156)	—
Total consideration	116,770	—
Satisfied by:		
Cash received	96,773	—
Reclassification to interest in an associate of HMI Group	19,997	—
	116,770	—

Analysis of inflow of cash and cash equivalents in respect of disposal of subsidiaries:

	2003 HK\$'000	2002 HK\$'000
Cash received	96,773	—
Bank balances and cash disposed of	(50,366)	—
Net inflow of cash and cash equivalents	46,407	—

The subsidiaries disposed of during the year contributed approximately HK\$14,149,000 (2002: HK\$69,713,000) to turnover and contributed negatively to loss before tax of the Group in the amount of approximately HK\$80,975,000 (2002: HK\$171,668,000) of loss for the period between the last balance sheet date and the date of disposal.

Notes to the Financial Statements

Year ended 31 December 2003

38. DEEMED DISPOSAL OF SUBSIDIARIES

	2003 HK\$'000	2002 HK\$'000
Net assets disposed of:		
Property, plant and equipment	2,596	—
Intangible assets	5,709	—
Interest in an associate	401,888	—
Other long term assets	2,053	—
Trading securities	22,621	—
Loans receivable	46,555	—
Trade and other receivables	193,687	—
Bank balances and cash	43,554	—
Trade and other payables	(47,079)	—
Bank overdrafts	(61,109)	—
Taxation	(4,720)	—
Convertible notes	(46,500)	—
Due to group companies	(147,021)	—
Minority interests	(212,762)	—
	<u>199,472</u>	<u>—</u>
Loss on deemed disposal of subsidiaries	(1,809)	—
Negative goodwill realised upon deemed disposal of subsidiaries	(1,440)	—
	<u>(1,440)</u>	<u>—</u>
Total consideration	<u>196,223</u>	<u>—</u>
Satisfied by:		
Reclassification to interests in associates	<u>196,223</u>	<u>—</u>

Analysis of inflow of cash and cash equivalents in respect of deemed disposal of subsidiaries:

	2003 HK\$'000	2002 HK\$'000
Bank balances and cash disposed of	(43,554)	—
Bank overdrafts disposed of	61,109	—
	<u>17,555</u>	<u>—</u>
Net inflow of cash and cash equivalents	<u>17,555</u>	<u>—</u>

The subsidiaries disposed of during the year contributed approximately HK\$124,128,000 (2002: HK\$109,857,000) to turnover and contributed negatively to loss before tax of the Group in the amount of approximately HK\$132,014,000 (2002: contributed positively of HK\$23,677,000) of loss for the period between the last balance sheet date and the date of disposal.

Notes to the Financial Statements

Year ended 31 December 2003

39. COMMITMENTS

(a) Capital expenditure commitments

Capital commitments contracted for by the Group but not provided in the financial statements are as follows:

	2003 HK\$'000	2002 HK\$'000
Capital injection to an associate	—	4,680

In addition, the Company entered into an agreement with HMI on 2 December 2003 to acquire 200,000,000 shares of Radford Capital from HMI at a total consideration of HK\$24,000,000. At 31 December 2003, an amount of HK\$24,000,000 has been paid to HMI as deposit and included in other receivables. The acquisition was completed in January 2004.

(b) Commitments under operating leases

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases in respect of office premises and equipment, which are payable as follows:

	2003 HK\$'000	2002 HK\$'000
Within one year	882	263
In the second to fifth year inclusive	1,664	159
	<u>2,546</u>	<u>422</u>

The Group leases out all its investment properties under operating leases with average lease terms of 2 years. The future aggregate minimum rental receivable under non-cancellable operating leases are as follows:

	2003 HK\$'000	2002 HK\$'000
Within one year	487	4,681
In the second to fifth year inclusive	193	2,817
	<u>680</u>	<u>7,498</u>

Notes to the Financial Statements

Year ended 31 December 2003

40. CONTINGENT LIABILITIES

(a) Guarantees for banking facilities

At the balance sheet date, the Company (2002: CU Bermuda) had contingent liabilities not provided for in the financial statements in respect of guarantee of HK\$38,000,000 (2002: HK\$525,658,000) and HK\$125,000,000 (2002: HK\$Nil) for banking facilities granted to subsidiaries and associates respectively, which were utilised by subsidiaries and associates to the extent of HK\$32,915,000 (2002: HK\$320,713,000) and HK\$60,915,000 (2002: HK\$Nil) respectively.

(b) Other guarantees

On 30 June 2003, the Company, CU Bermuda and HMI entered into an agreement under which approximately 18.68% of interest in HMI and 48.53% interest in another subsidiary were transferred from the Old CU Group to the New CU Group in consideration of nominal cash and perpetual entitlement as detailed below. Nominal cash has been paid by the New CU Group to the Old CU Group to acquire the legal titles in these companies. Under the agreement, the Company also makes covenant that the Company and/or its subsidiaries will remain as the controlling shareholder of HMI. In addition, under the agreement, CU Bermuda enjoys a perpetual entitlement of 22% in the distribution of dividends, capital and assets by HMI. In addition, the Company makes guarantee to CU Bermuda that if HMI, for whatever reasons, fails to pay 22% of any distribution declared by it to CU Bermuda, the Company will compensate CU Bermuda with the equivalent amount. The covenants made by the Company are perpetual in nature and binding on the Company, whether or not the Company or its subsidiaries held any interest in HMI. According to the consolidated financial statements of HMI, which are subject to audit qualifications (note 21), the net assets of HMI at 31 December 2003 amounted to HK\$412,234,000.

On 30 June 2003, the Company and CU Bermuda entered into another agreement under which the title of an investment in an unlisted corporation, which was acquired by CU Bermuda during the year, was transferred from the Old CU Group to the New CU Group at a consideration of HK\$100. Under the agreement, CU Bermuda retains all rights and entitlements arising from this investment and, therefore, the Company or its subsidiaries effectively only holds the title of the investment in trust on behalf of CU Bermuda and only have a management role in respect of the investee company. As all the future economic benefits arising from the investment belong to CU Bermuda, this investment is not included in the consolidated balance sheet of the New CU Group. The Company guarantees to CU Bermuda that should CU Bermuda's interests in the said investment be affected by inappropriate manner, the Company is obliged to pay to CU Bermuda HK\$13,000,000, being the original acquisition cost of the investment by CU Bermuda.

Notes to the Financial Statements

Year ended 31 December 2003

41. PLEDGE OF ASSETS

At the balance sheet date, certain assets of the Group with the following carrying values have been pledged to secure general banking facilities granted to the Group:

	2003 HK\$'000	2002 HK\$'000
Land and buildings	28,799	120,782
Investment properties	20,530	157,190
Trading securities	—	114,840
Bank deposits	—	18,173
	<u>49,329</u>	<u>410,985</u>

42. DEFERRED TAXATION

At 31 December 2002, the Group had deferred tax liability of HK\$10,000,000 in respect of unrealised gain on trading securities recognised in the income statement which is reversed during the year.

At the balance sheet date, the major components of the deferred tax assets (liabilities) of the Group are as follows:

	Assets		Liabilities	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Depreciation allowances	—	—	(414)	(9,182)
Unrealised gain on trading securities	—	—	—	(10,000)
Tax losses	414	9,182	—	—
	<u>414</u>	<u>9,182</u>	<u>(414)</u>	<u>(19,182)</u>
Deferred tax assets (liabilities)	414	9,182	(414)	(19,182)
Offset deferred tax assets and liabilities	(414)	(9,182)	414	9,182
	<u>—</u>	<u>—</u>	<u>—</u>	<u>(10,000)</u>
Net tax liabilities	<u>—</u>	<u>—</u>	<u>—</u>	<u>(10,000)</u>

Notes to the Financial Statements

Year ended 31 December 2003

42. DEFERRED TAXATION (Continued)

Unrecognised deferred tax assets

	2003 HK\$'000	2002 HK\$'000
Deductible temporary differences	4,605	163,966
Tax losses	348,269	703,617
At balance sheet date	352,874	867,583

Both the tax losses and the deductible temporary differences have no expiry date under current tax legislation. Deferred tax assets of HK\$61,753,000 (2002: HK\$151,827,000) have not been recognised in respect of these items due to uncertainty of their recoverability.

43. RELATED PARTY TRANSACTIONS

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

- (a) A property of the Group with net book value of HK\$17,294,000 (2002: HK\$17,864,000) is occupied by a brother of a director of the Company free of rental. The director's brother is a director of certain companies within the HMI Group, which are originally non wholly-owned subsidiaries of the Company and reclassified as associates in current year.
- (b) The Group has granted unsecured loans to certain related companies, a director of which is also a director of certain companies within the HMI Group and is a brother of a director of the Company. At the balance sheet date, the outstanding loans amounted to HK\$20,460,000 (2002: HK\$57,427,000) and carried interest at prime rate plus 3% per annum. Provision of HK\$20,460,000 (2002: HK\$10,440,000) had been made for non-repayment of the loans and related interest.

Associates of the Group, HMI Group (including HMI's associate) which are non wholly-owned subsidiaries of the Company during the year, also granted unsecured loans to certain related companies in which the abovementioned related party is also a director and/or substantial shareholder. At the balance sheet date, the outstanding loans amounted to HK\$201,486,000 and carried interest at a range of 6%-7% per annum or at prime rate plus 1%-3% per annum. Provision of HK\$46,525,000 had been made for non-repayment of the loans and related interest. Loan amounts and provision at 31 December 2002 are included in the amounts granted by the Group in the above paragraph.

Notes to the Financial Statements

Year ended 31 December 2003

43. RELATED PARTY TRANSACTIONS (Continued)

(c) The Group has granted unsecured loans to the executive directors of the Company as follows:

Name of director	Balance at 31.12.2003 HK\$'000	Balance at 1.1.2003 HK\$'000	Maximum amount outstanding during the year HK\$'000	Maturity	Interest rate per annum
Chung, Wilson	—	939	939	25.10.2006	Prime rate +2.5%
Chung, Wilson	972	—	1,000	25.6.2007	8%
Wong Siu Bun	—	342	342	Repayable on demand	9.5%- 11.5%
Wong Ying Seung, Asiong	—	80	80	19.4.2003	12%
Wong Ying Seung, Asiong	106	—	120	10.6.2004	8%
	<u>1,078</u>	<u>1,361</u>			

Outstanding loan granted to Mr. Wong Ying Seung, Asiong amounted to HK\$106,000 at 31 December 2003 is granted by a company in the HMI Group, which becomes an associate of the Group during the year.

Mr. Wong Siu Bun resigned as a director of the Company on 13 January 2003 and the balance of HK\$244,000 at 31 December 2003 has been included in the loan receivables stated in the consolidated balance sheet of HMI.

There was neither any interest due but unpaid nor any provision made against these loans at 31 December 2003 and at 31 December 2002.

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Year ended 31 December 2003

43. RELATED PARTY TRANSACTIONS (Continued)

- (d) The Group has granted securities margin loans, through HMI Group, to a substantial shareholder, a related company, a director of certain companies within the HMI Group and directors of the Company with outstanding balances at 31 December 2003 amounted to HK\$16,663,000, HK\$1,466,000, HK\$Nil and HK\$877,000 respectively (comparative figures as of 31 December 2002 being disclosed in note 25 to the financial statements). The loans carry interest at prime rate or prime rate plus 3% or 15% per annum and are repayable on demand. A director of certain companies within the HMI Group is a director of the said related company and is a brother of a director of the Company. Such securities margin loans granted are included in the interests in associates as a result of deemed disposal of HMI Group.

The details of the securities margin loans granted directly to directors of the Company are as follows:

Name of director	Balance at 31.12.2003 HK\$'000 (Note)	Balance at 1.1.2003 HK\$'000 (Note)	Maximum amount outstanding during the year HK\$'000	Interest rate per annum
Chuang Yueheng, Henry	—	461	473	Prime rate
Chung, Wilson	416	—	679	Prime rate +3%
Lo Kan Sun	19	377	411	Prime rate
Wong Ying Seung, Asiong	442	137	483	Prime rate +3%
Wong Siu Bun	—	68	68	Prime rate
Ong, Peter	—	663	746	Prime rate +3% or 15%
	<u>877</u>	<u>1,706</u>		

Note: As a result of deemed disposal of HMI Group, the balances at 1 January 2003 have been included in trade and other receivables of the Group's balance sheet whereas the balances at 31 December 2003 have been included in interests in associates.

Mr. Wong Siu Bun resigned as a director of the Company on 13 January 2003 and the balance has been included in securities margin loans stated in the balance sheet of HMI. Mr. Wong Siu Bun is also a director in certain companies within the HMI Group. The maximum amount outstanding during the year was HK\$68,000.

There was neither any interest due but unpaid nor any provision made against these securities margin loans at 31 December 2003 and at 31 December 2002.

Notes to the Financial Statements

Year ended 31 December 2003

43. RELATED PARTY TRANSACTIONS (Continued)

- (e) HMI Group's (2002: The Group's) credit facilities to the extent of HK\$50,000,000 (2002: HK\$60,000,000) are guaranteed by a director of certain companies within the HMI Group who is a brother of a director of the Company.
- (f) During the year, Old CU Group was sold to a company wholly and beneficially owned by a director of certain companies within the HMI Group at a consideration of HK\$10,000,000. The disposal of Old CU Group resulted in a net gain of approximately HK\$237,337,000. The director of certain companies within the HMI Group is a brother of a director of the Company.

The New CU Group has signed tenancy agreements with the Old CU Group to lease certain office premises which are held by the Old CU Group. At time of signing the tenancy agreements, those companies of the Old CU Group which lease out the said office premises and the Company had common directors. The operating lease commitments in respect of these premises are set out in note 39(b) to the financial statements.

Prior to the disposal of Old CU Group, certain inter-company balances between the Old CU Group and the New CU Group have been set-off and eventually a net amount of HK\$1,984,000 remained and was due to the Old CU Group at 31 December 2003. Subsequent to the disposal of Old CU Group, the New CU Group acquired three subsidiaries from the Old CU Group at a consideration of HK\$1,400,000.

- (g) As detailed in note 2 to the financial statements, the Group has carried out certain restructuring of shareholdings of subsidiaries prior to the disposal of Old CU Group. During the restructuring, a subsidiary having 100% interest in another two subsidiaries (the "Subsidiaries") involving in litigations were transferred to the Old CU Group. The sales and purchase agreement of Subsidiaries between the Old CU Group and the New CU Group provides that the New CU Group would bear all future legal costs of one of the litigations (the "Litigation") and, in return, the Subsidiaries undertakes to transfer to the New CU Group all rights, titles and interests in and to the Litigation and all causes of action thereof and all rights or remedies against any parties whatsoever in respect thereof and all benefits thereof.

The Litigation was filed by the Subsidiaries, together with CU Bermuda and one subsidiary of the Old CU Group, (collectively the "Plaintiff") during the year in respect of payments made by the Old CU Group under certain counter indemnities on settlement of bank borrowings. The details of Litigation are not presented because the directors of the Company consider the disclosure of detailed information may prejudice seriously the position of the Plaintiff in the Litigation.

At present, the directors of the Company do not know the outcome of the Litigation and the amount of future legal costs with reasonable certainty. Accordingly, no provision for any legal costs which might arise in connection with the Litigation has been made in these financial statements.

- (h) During the year ended 31 December 2002, a substantial shareholder has received underwriting commission of approximately HK\$576,000 from CU Bermuda in connection with its rights issue partly underwritten by the substantial shareholder in August 2002.

Notes to the Financial Statements

Year ended 31 December 2003

44. POST BALANCE SHEET EVENTS

On 15 January 2004, a subscription agreement in respect of a convertible note of HK\$150,000,000 issued by HMI was entered into between a wholly-owned subsidiary of the Group and HMI. The note, which will mature in three years from the date of issue, bears interest at 6% per annum and can be converted into shares of HMI at a conversion price of HK\$1.50 per ordinary share at any time after the date of issue of the convertible note and before its maturity date. The subscription consideration was settled by setting off the amounts due from HMI. The Company then agreed to subordinate the amounts due from HMI Group to HMI Group's banks, if so requested by HMI Group's banks, up to an amount of HK\$150 million.

On 27 February 2004, convertible notes issued by the Company with principal amounting to HK\$5,040,000 were converted into 3,405,405 ordinary shares of the Company of HK\$0.1 each.

Subsequent to the balance sheet date, interest in HMI was reduced to 37.81% as a result of issue of new shares by HMI. On 10 March 2004, the Company entered into an agreement with a shareholder of HMI, being an independent third party, to acquire 37.5 million shares of HMI which representing approximately 9.64% of the issued share capital of HMI. The consideration of the acquisition is HK\$72 million which will be satisfied by the issue of 40 million shares of the Company, representing approximately 8.85% of the Company's enlarged issued share capital. Upon completion of the acquisition in March 2004, the Company has an effective interest of approximately 47.45% in HMI.

On 22 April 2004, the board of directors proposes to make the bonus issue of ordinary shares of the Company to the shareholders of the Company on the basis of three bonus shares, credited as fully paid, for every two existing shares subject to the approval of shareholders at an extraordinary general meeting to be held and the approval from the Stock Exchange granting the listing of and permission to deal in the bonus shares.

45. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation, as management believes that the current year's presentation better reflects the Group's financial positions and operating results.

Summary of Financial Information

A summary of the results and of the assets and liabilities of the Group for the last five financial years/period, as extracted from the audited financial statements and reclassified as appropriate, is set out below.

RESULTS

	Year ended		Nine months		Year ended
	31 December		31 December		31 March
	2003	2002	2001	2000	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>138,937</u>	<u>180,682</u>	<u>194,365</u>	<u>265,506</u>	<u>127,057</u>
Loss before taxation	<u>(116,844)</u>	<u>(177,450)</u>	<u>(354,996)</u>	<u>(594,914)</u>	<u>(498,870)</u>
Taxation	<u>5,800</u>	<u>(10,011)</u>	<u>86</u>	<u>(2,247)</u>	<u>(2,071)</u>
Loss after taxation	<u>(111,044)</u>	<u>(187,461)</u>	<u>(354,910)</u>	<u>(597,161)</u>	<u>(500,941)</u>
Minority interests	<u>77,305</u>	<u>(11,908)</u>	<u>23,350</u>	<u>228,105</u>	<u>—</u>
Loss for the year/period	<u>(33,739)</u>	<u>(199,369)</u>	<u>(331,560)</u>	<u>(369,056)</u>	<u>(500,941)</u>

Summary of Financial Information

ASSETS AND LIABILITIES

		At 31 December		At 31 March	
	2003	2002	2001	2000	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Investment properties	20,530	157,470	218,000	249,380	253,120
Property, plant and equipment	30,716	129,670	255,911	372,172	342,930
Intangible assets	—	(20,783)	3,000	98,570	—
Interests in associates	320,624	1,485	22,285	50,352	93,822
Investments in securities	—	58,739	48,245	108,097	101,140
Other long term assets	—	2,053	2,070	490	20,400
Loans and other loan receivable	—	1,369	20,344	2,200	2,000
Current assets	133,304	698,608	645,123	500,194	148,395
Current liabilities	(171,220)	(482,605)	(412,779)	(417,359)	(327,262)
	<u>333,954</u>	<u>546,006</u>	<u>802,199</u>	<u>964,096</u>	<u>634,545</u>
Shareholders' funds	303,782	345,510	428,354	543,630	318,023
Minority interests	—	24,266	36,164	96,378	—
Deferred taxation	—	10,000	—	—	—
Obligations under finance leases	—	47	174	355	347
Long term bank and other borrowings	30,172	102,343	273,667	323,733	316,175
Convertible notes	—	63,840	63,840	—	—
	<u>333,954</u>	<u>546,006</u>	<u>802,199</u>	<u>964,096</u>	<u>634,545</u>

Particulars of Properties Held by the Group

(A) INVESTMENT PROPERTIES

Description	Use	Lease term
Flat C8, 26th Floor, Block C, Elizabeth House, Nos. 250-254 Gloucester Road, Hong Kong	Residential	Long term
Flat B on Ground Floor and Garden, Block 3 and Car Parking Space No. 36 on Ground Floor, Standford Villa, No. 7 Stanley Village Road, Stanley, Hong Kong	Residential	Medium term
House No. 41, Cotton Tree Villas, Lot No. 287 in DD213 Muk Min Shan Road, Sai Kung, New Territories	Residential	Medium term
Flat A on 29th Floor together with Flat Roof, Appertaining Thereto & Car Park No. 207 on 2nd Floor, Peace Tower, No. 6 Peace Avenue, Homantin, Kowloon	Residential	Long term
Car Park Space No. 8 on Ground Floor, Prince Park, No. 234 Prince Edward Road West, Kowloon	Residential	Long term
Flat C on 13th Floor of Block 12, No. 17 Laguna Street, Laguna City, Kowloon	Residential	Medium term
Flat B on 2nd Floor of Block 23, No 15 Laguna Street, Laguna City, Kowloon	Residential	Medium term
Flat A & B on 12th Floor together with a Portion of Roof immediately there above, Scholar Court, No. 15 Sands Street, Kennedy Town, Hong Kong	Residential	Long term

Particulars of Properties Held by the Group

(B) LEASEHOLD LAND AND BUILDINGS

Description	Use	Lease term
Duplex Flat A, 21st and 22nd Floor together with a portion of roof thereabove and Car Parking Space No. 33, Royalton, 118 Pok Fu Lam Road, Pok Fu Lam, Hong Kong	Residential	Medium term
Flat B, 22nd Floor together with a portion of roof immediately thereabove and Car Parking Space No. 22, Royalton, 118 Pok Fu Lam Road, Pok Fu Lam, Hong Kong	Residential	Medium term



China United
International Holdings Limited
互聯控股有限公司
(Incorporated in Hong Kong with limited liability)

FORM OF PROXY FOR ANNUAL GENERAL MEETING TO BE HELD ON 31 MAY 2004

I/We ¹ _____
of _____, being
the registered holder(s) of ² _____
shares of HK\$0.10 each ("Shares") in the capital of China United International Holdings Limited (the "Company"), HEREBY
APPOINT ³ the Chairman of the Meeting or _____
of _____
as my/our proxy to attend, act and vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be
held at Function Room III, Ground Floor, City Garden Hotel, 9 City Garden Road, North Point, Hong Kong on Monday, 31
May 2004 at 9:00 a.m. and at any adjournment thereof on the Resolutions referred to in the Notice of Annual General
Meeting (with or without modifications) as indicated below:

	RESOLUTIONS	FOR ⁴	AGAINST ⁴
1.	To receive and consider the Financial Statements and the Report of the Directors and Auditors of the Company for the year ended 31 December 2003.		
2.	(i) To re-elect Mr. Lam Ping Cheung as a director.		
	(ii) To re-elect Mr. Ong, Peter as a director.		
	(iii) To re-elect Mr. Miu, Frank H. as a director.		
	(iv) To authorise the Board of directors to fix their remuneration.		
3.	To re-appoint auditors and to authorise the Board of directors to fix their remuneration.		
4.	To approve the amendments to the Articles of Association of the Company.		

Dated this _____ day of _____ 2004 Signature ⁵ _____

Notes:

1. Full name(s) and address(es) to be inserted in BLOCK CAPITALS. The names of all joint holders should be stated.
2. Please insert the number of Shares to which this form of proxy relates registered in your name(s). If no number is inserted, this form of proxy will be deemed to relate to all the Shares in the Company registered in your name(s).
3. If any proxy other than Chairman of the Meeting is preferred, strike out the words "the Chairman of the Meeting or" herein inserted and insert the name and address of the proxy desired in the space provided. ANY ALTERATION MADE TO THIS FORM OF PROXY MUST BE INITIALLED BY THE PERSON WHO SIGNS IT.
4. IMPORTANT: IF YOU WISH TO VOTE FOR A PARTICULAR RESOLUTION, TICK IN THE RELEVANT BOX MARKED "FOR". IF YOU WISH TO VOTE AGAINST A PARTICULAR RESOLUTION, TICK IN THE RELEVANT BOX MARKED "AGAINST". Failure to tick a box will entitle your proxy to cast your vote at his discretion. Your proxy will also be entitled to vote at his discretion on any resolution properly put to the Meeting other than those referred to in the notice convening the Meeting.
5. This form of proxy must be signed by you or your attorney duly authorised in writing or, in the case of a corporation, must be either under its seal or under the hand of an officer or attorney duly authorised.
6. In order to be valid, this form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof must be lodged at the Company's registered office in Hong Kong at 32nd Floor, China United Centre, 28 Marble Road, North Point, Hong Kong not less than 48 hours before the time appointed for the holding of the Meeting or any adjournment thereof.
7. In the case of joint holders of a Share, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s), and for this purpose seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
8. The proxy need not be a member of the Company but must attend the Meeting in person to represent you.