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China United
International Holdings Limited

互聯控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 273)

**MAJOR AND CONNECTED TRANSACTIONS
INVESTMENT OF 30% IN FOUND MACAU
AND
HK\$150 MILLION SHAREHOLDERS LOAN
AND
REDEMPTION OF HK\$53 MILLION EXISTING CONVERTIBLE NOTES
AND
ISSUE OF UP TO HK\$200 MILLION NEW CONVERTIBLE NOTES**

**Independent Financial Adviser to the Independent Board Committee and
the Independent Shareholders**

 **KIM ENG**

KIM ENG CORPORATE FINANCE (HONG KONG) LIMITED

A letter from the Independent Board Committee is set out on page 24 of this circular and a letter from the independent financial adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 25 to 39 of this circular.

A notice convening the EGM to be held on Monday, 21st February, 2005 at 30th Floor, China United Centre, 28 Marble Road, North Point, Hong Kong at 9:00 a.m. is set out on pages 142 to 144 of this circular. Whether or not Shareholders are able to attend the EGM, Shareholders are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the registered office of the Company at 32nd Floor, China United Centre, 28 Marble Road, North Point, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the EGM should Shareholders so wish.

4th February, 2005

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DEFINITIONS

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

“Alpha Aim”	Alpha Aim International Limited, a company incorporated in the British Virgin Islands on 18th November, 2004 and a wholly-owned subsidiary of the Company;
“Associates”	has the meaning ascribed thereto in the Listing Rules;
“Board”	the board of directors of the Company;
“Company”	China United International Holdings Limited, a company incorporated in Hong Kong the shares of which are listed on the Stock Exchange;
“Connected Person(s)”	has the meaning ascribed thereto in the Listing Rules;
“Conversion Price”	the initial conversion price of the New Convertible Notes of HK\$0.25 per Share (subject to adjustment as provided in the terms and conditions of the New Convertible Notes);
“Conversion Shares”	such number of new Shares to be issued upon the exercise of the conversion rights attaching to the New Convertible Notes;
“Directors”	the directors of the Company;
“Disposal”	the disposal of 10 FM Shares by Alpha Aim to Filipe Lau on 11th January, 2005;
“EGM”	the extraordinary general meeting of the Company to be held to approve the Transactions;
“Existing Convertible Notes”	the convertible notes issued by the Company on 19th August, 2004 in the aggregate outstanding principal amount of HK\$53,000,000 to independent investors, the details of which are referred to in the Company’s announcement dated 11th June, 2004, 23rd July, 2004 and circular dated 2nd July, 2004;
“Existing Found Macau Loan”	an unsecured shareholders’ loan of HK\$50,000,000 which is interest free and repayable on demand after 8 years from the date of drawdown agreed to be made by Alpha Aim to Found Macau and which has been terminated by the Termination Deed;
“FM Business”	gambling entertainment and related businesses in Macau;

DEFINITIONS

“FM Convertible Note”	the convertible note to be issued by the Company to Found Macau to satisfy in part its obligation to contribute to the New Found Macau Loan as described in the section headed “FM Convertible Note”;
“FM Group”	Found Macau and its subsidiaries;
“FM Investors”	new investors in Found Macau;
“FM Shares”	shares of a par value of US\$1.00 each in the capital of Found Macau;
“FM Transactions”	the New FM Acquisition, New Found Macau Loan, FM Convertible Note and New Shareholders Agreement pursuant to the Verbal Agreement;
“Found Macau”	Found Macau Investments International Limited, a company incorporated in the British Virgin Islands;
“Founders”	Lao Hin Chun, Filipe Lau and Lourenco Cheong;
“Group”	the Company and its subsidiaries;
“Heritage”	Heritage International Holdings Limited (Stock Code: 412), a company incorporated in Bermuda whose shares are listed on the Stock Exchange;
“Heritage Verbal Agreement”	the verbal agreement dated 22nd January, 2005 between Rightmind, Alpha Aim, Vision Gate and the Founders in relation to, inter alia, the acquisition by Rightmind of 20 FM Shares from the Founders;
“Independent Board Committee”	an independent committee of the Board appointed by the Directors to advise the Independent Shareholders in respect of the FM Transactions;
“Independent Shareholders”	shareholders of the Company other than Unity, the Founders, Heritage and other Shareholders who have a material interest in the Transactions and their respective associates;
“Kim Eng”	Kim Eng Corporate Finance (Hong Kong) Limited, the independent financial adviser appointed to advise the Independent Board Committee in connection with the FM Transactions;
“Latest Practicable Date”	28th January, 2005, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Mr. Lao”	Mr. Lao Hin Chun, one of the Founders;
“Mr. Ong”	Mr. Ong Peter, an independent non-executive director of the Company;
“New Convertible Notes”	a series of non-interest bearing convertible redeemable notes in an aggregate principal amount of up to HK\$200 million due on the fifth anniversary from the date of issue;
“New FM Acquisition”	the proposed acquisition of 30 FM Shares by Alpha Aim;
“New Found Macau Loan”	a shareholders loan of HK\$150 million which is proposed to be made by Alpha Aim to Found Macau;
“New Shareholders Agreement”	the new shareholders agreement proposed to be entered into between Found Macau, the Founders, Vision Gate, Rightmind and Alpha Aim in relation to the Found Macau;
“Placing”	the conditional placing of the New Convertible Notes pursuant to the Placing Agreement;
“Placing Agent”	Get Nice Investment Limited, a limited liability company incorporated in Hong Kong and a corporation deemed licensed under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Placing Agreement”	the conditional placing agreement between the Placing Agent and the Company dated 12th January, 2005 in relation to the Placing;
“Promissory Note”	the promissory note to be executed by Found Macau in favour of Alpha Aim to evidence the New Found Macau Loan;
“Radford”	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;
“Rightmind”	Rightmind Developments Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of Heritage;
“SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong);
“Shares”	shares of a par value of HK\$0.10 each in the Company;

DEFINITIONS

“Shareholder(s)”	holder of (a) Share(s);
“Shareholders Agreement”	the shareholders agreement dated 9th December, 2004 entered into between Found Macau, the Founders and Alpha Aim in relation to Found Macau which has been terminated by the Termination Deed;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Termination Deed”	the termination deed dated 11th January, 2005 in relation to the Shareholders Agreement and the Existing Found Macau Loan;
“Transactions”	the New FM Acquisition, the New Found Macau Loan, the New Shareholders Agreement, the Placing, the issue of the New Convertible Notes and the FM Convertible Note and the Conversion Shares upon exercise of the New Convertible Notes and the FM Convertible Note;
“Unity”	Unity Investments International Limited (Stock Code 913) a company whose shares are listed on the Stock Exchange;
“Verbal Agreement”	the Verbal Agreement dated 11th January, 2005 entered into between the Founders and Alpha Aim in relation to the New FM Acquisition, the New Found Macau Loan (including the FM Convertible Note) and the New Shareholders Agreement; and
“Vision Gate”	Vision Gate Enterprises Limited, a company incorporated in the British Virgin Islands.

LETTER FROM THE BOARD



China United
International Holdings Limited
互聯控股有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 273)

Executive Directors

Mr. Chuang Yueheng, Henry
Mr. Chung Wilson
Mr. Lo Kan Sun
Mr. Wong Ying Seung, Asiong

Registered Office and Head Office
32/F., China United Centre
28 Marble Road
Hong Kong

Independent Non-executive Directors

Mr. Lam Ping Cheung
Mr. Ong Peter
Mr. Miu Frank H.
Mr. Nakajima Toshiharu

4th February, 2005

To the Shareholders and for information only to the holders of warrants issued by the Company

Dear Sir/Madam,

**MAJOR AND CONNECTED TRANSACTIONS
INVESTMENT OF 30% IN FOUND MACAU
AND
HK\$150 MILLION SHAREHOLDERS LOAN
AND
REDEMPTION OF HK\$53 MILLION EXISTING CONVERTIBLE NOTES
AND
ISSUE OF UP TO HK\$200 MILLION NEW CONVERTIBLE NOTES**

INTRODUCTION

In the announcement of the Company dated 12th January, 2005, the Company announced, inter alia, that:

- (i) On 11th January, 2005, Alpha Aim entered into the Verbal Agreement with the Founders whereby Alpha Aim agreed, amongst other things, to acquire 30 FM Shares from the Founders, enter into the New Shareholders Agreement and make a shareholders loan of HK\$150 million to Found Macau, conditional upon the approval of Shareholders at the EGM.

LETTER FROM THE BOARD

- (ii) The Company has on 11th January, 2005 given notice to the holders of the Existing Convertible Notes that it will redeem all the outstanding Existing Convertible Notes in full in the aggregate principal amount of HK\$53,000,000 at 100% of the outstanding principal amount, subject to Shareholders approving the issue of the New Convertible Notes at the EGM.
- (iii) On 12th January, 2005, the Company entered into Placing Agreement with the Placing Agent in relation to, amongst other things, the Placing, as to the principal amount of HK\$100 million on a fully underwritten basis and as to the principal amount of HK\$100 million on a best effort basis, by the Placing Agent of the New Convertible Notes.

Mr. Lao is the stepfather of Mr. Ong and hence an “associate” of a Director of the Company treated as a connected person of the Company under Rule 14A.11(4)(b). The FM Transactions constitute major and connected transactions for the Company under Rule 14.06 and Rule 14A.13 of the Listing Rules and are subject to approval of shareholders at the EGM.

The purpose of this circular is to set out details of (i) the Transactions (including the Placing of the New Convertible Notes) (ii) the letter from the Independent Board Committee to the Independent Shareholders on the FM Transactions (iii) the recommendation from Kim Eng to the Independent Board Committee and the Independent Shareholders on the FM Transactions (iv) a notice convening the EGM at which resolutions will be proposed to Shareholders to consider and if thought fit to approve the Transactions.

FOUND MACAU

Reference is made to the Company’s announcement dated 10th, December, 2004 and circular dated 20th December, 2004. On 9th December, 2004, Alpha Aim completed the acquisition of 10 FM Shares, representing 10% of the issued share capital of Found Macau on 9th December, 2004, for US\$10.00 and entered into the Shareholders Agreement relating to Found Macau. Alpha Aim also agreed to make the Found Macau Loan of HK\$50 million to Found Macau. On 11th January, 2005, Alpha Aim disposed of 10 FM Shares which represents its entire interest in Found Macau on that day to Filipe Lau for US\$10.00. The acquisition cost of the 10 FM Shares by Alpha Aim on 9th December, 2004 was US\$10.00. The Disposal has been completed.

On 11th January, 2005, the Founders, Alpha Aim and Found Macau also entered into the Termination Deed whereby the parties agreed to terminate the Shareholders Agreement in relation to Found Macau and its obligation to make the Existing Found Macau Loan.

As at the Latest Practicable Date, the shareholders of Found Macau are:

- (1) Lao Hin Chun — 29 FM Shares, representing 29% of the issued share capital of Found Macau;
- (2) Filipe Lau — 40 FM Shares (including the 10 FM Shares acquired from Alpha Aim pursuant to the Disposal), representing 40% of the issued share capital of Found Macau;

LETTER FROM THE BOARD

- (3) Lourenco Cheong — 30 FM Shares, representing 30% of the issued share capital of Found Macau; and
- (4) Vision Gate — 1 FM Share, representing 1% of the issued share capital of Found Macau. Vision Gate is required to contribute a shareholders loan in the amount of HK\$5,000,000 in cash on the same terms as the New Found Macau Loan to Found Macau (save as to amount and that it is contributed in cash). This amount has been deposited into Found Macau. The promissory note to evidence the loan will only be issued by Found Macau after the HK\$500,000,000 shareholders loans have been advanced.

The Founders and Vision Gate acquired the shares in Found Macau at par value of US\$1.00 each.

Vision Gate

Vision Gate is a wholly-owned subsidiary of Unity. Vision Gate is an investment holding company set up to invest in Found Macau. As at the Latest Practicable Date, the Company beneficially held 26,500,000 shares in Unity, representing approximately 6.63% of the issued share capital of Unity. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Vision Gate is not a Connected Person of the Company and is otherwise independent of the Company and Connected Persons of the Company.

Rightmind

On 22nd January, 2005, the Founders, Alpha Aim and Vision Gate entered into a Verbal Agreement whereby, inter alia, Rightmind agreed to acquire 20 FM Shares from the Founders, make a loan of HK\$100 million to Found Macau and enter into the New Shareholders Agreement, subject to approval of shareholders of Heritage at a special general meeting.

THE VERBAL AGREEMENT

Date: 11th January, 2005

Parties: the Founders
Alpha Aim

Terms: Conditional upon approval of the FM Transactions (excluding the Placing) by Shareholders at the EGM:

- (i) Alpha Aim will acquire 30 FM Shares at US\$30 from the Founders;
- (ii) Alpha Aim will make the New Found Macau Loan of HK\$150 million to Found Macau details of which are described below; and
- (iii) Alpha Aim will enter into the New Shareholders Agreement with the Founders, Vision Gate and Found Macau.

LETTER FROM THE BOARD

There are no other conditions precedent which are required to be satisfied prior to completion of the Verbal Agreement.

If shareholders approve the FM Transactions but not the Placing at the EGM, the Company intends to fund its obligation under the New Found Macau Loan by internal resources, equity or debt fund raising exercises or a combination thereof depending on market conditions.

If the terms of the New Shareholders Agreement when executed are materially different to that set out below, the Company will notify Shareholders by way of an announcement.

The shareholding structure of Found Macau on completion of the Verbal Agreement will be:

- (1) The Founders — 69% (to be held by Lao Hin Chun as to 19%, Filipe Lau as to 30% and Lourenco Cheong as to 20%)
- (2) Alpha Aim — 30%
- (3) Vision Gate — 1%

The shareholding structure of Found Macau on completion of the Heritage Verbal Agreement will be:

- (1) The Founders — 49% (tentatively to be held by Lao Hin Chun as to 9%, Filipe Lau as to 20% and Lourenco Cheong as to 20%)
- (2) Alpha Aim — 30%
- (3) Vision Gate — 1%
- (4) Rightmind — 20%

The Verbal Agreement has not been reduced to writing yet.

THE NEW SHAREHOLDERS AGREEMENT

- Parties to the agreement:
- (1) Found Macau
 - (2) the Founders
 - (3) Alpha Aim
 - (4) Vision Gate
 - (5) Rightmind

LETTER FROM THE BOARD

The New Shareholders Agreement will provide certain minority protections (e.g. reserved matters, matters relating to board and shareholders' meetings and other provisions relating to the rights and obligation of the shareholders). The principal terms of the New Shareholders Agreement are set out below.

The major differences between the Shareholders Agreement and the New Shareholders Agreement are that:

- (i) the repurchase mechanism for the new investors under the Shareholders Agreement is replaced with the structure set out in the section headed "New Investors" below;
- (ii) the New Shareholders Agreement will not terminate on any shareholder holding more than 50% of the issued share capital of Found Macau;
- (iii) the mechanism for repayment of shareholders' loan is simplified as set out below; and
- (iv) the timing of the location of new FM Investors to provide shareholders loans is changed to 31st March, 2005 (or such other date as the shareholders of Found Macau other than the Founders may agree).

Board of directors of Found Macau

Each shareholder is entitled to nominate one person to the board of directors of Found Macau for every 10 FM Shares held by it. The present directors of Found Macau are Lao Hin Chun, Filipe Lau and Lourenco Cheong. Upon completion of the FM Transactions, Alpha Aim will have the right (but no obligation) to nominate three persons to the board of directors of Found Macau. After shareholders loans of HK\$500 million have been raised and assuming that all shareholders of Found Macau who hold 10 FM Shares or more fully exercise their rights to nominate directors, Found Macau will have a maximum of 13 directors.

New Investors

The shareholders of Found Macau must use all reasonable endeavours to locate by 31st March, 2005 (or such other date as the shareholders of Found Macau other than the Founders may agree) new FM Investors to invest up to HK\$500 million (including the New Found Macau Shareholders Loan to be made by Alpha Aim subject to approval at the EGM of the FM Transactions, the shareholders loan of HK\$100 million to be made by Rightmind, subject to the approval of shareholders of Heritage and the shareholders loan of HK\$5 million deposited by Vision Gate) by way of shareholders loans in Found Macau, on the same terms as the New Found Macau Loan (save as to amount and how it is to be satisfied). In the event that FM Investors are located, the Founders will sell the relevant number of FM Shares to the FM Investors at par value and each Investor is required to contribute HK\$5,000,000 as shareholders loan for each FM Share acquired. The shareholders loans are to be advanced to Found Macau on demand.

LETTER FROM THE BOARD

Other than Unity and Heritage, no new investor has confirmed its investment in Found Macau as at the Latest Practicable Date, so the Company is not in a position to comment on whether any of them are connected persons of the Company at this stage.

The purpose of this arrangement is to allow Alpha Aim to maintain a minimum 30% shareholding in Found Macau when new investors invest in the Company whilst the Founders' shareholding is reduced. The Founders are not expected to provide any shareholders loans to Found Macau. The Founders will serve on the board of Found Macau for the purposes of introducing investment projects to Found Macau and to locate new investors. Once a total of HK\$500 million of shareholders loans is raised, the Founders are expected to have no further shareholding in Found Macau, save that they may be directly or indirectly interested in the 2 new FM Shares as described in the section headed "New Issue of FM Shares" below. The existing shareholders of Found Macau (other than the Founders) are entitled (but not obliged) to make further investments in Found Macau under this arrangement. If there are insufficient new investors in Found Macau on 31st March, 2005 (or such other date as the shareholders of Found Macau other than the Founders may agree), the Founders will transfer all of their shares at par value to the other shareholders pro rata to each shareholders' loan as a proportion of the total shareholders' loans. The Company does not have any present intention to make additional investment in or contribute additional shareholders' loan to Found Macau.

Non-competition

The Founders will warrant in the New Shareholders Agreement that:

- (1) the FM Group will be the sole owner of all intellectual property rights required for the carrying on of the FM Business and such rights shall not be subject any encumbrances and/or limitations and/or restrictions;
- (2) the FM Group will be given the first right of refusal in respect of all projects related to the FM Business which are introduced to any member of the FM Group and/or the Founders or their respective associates and should Found Macau decide not to accept any project, no party ("Offeree") which is related to Found Macau (except for an FM Group company), the Founders, directors of Found Macau or any of them or their associates may accept an offer of such project on terms which on more favourable terms to such Offeree than those on which such project was offered to Found Macau.

Repayment of shareholders' loan/Dividend

For so long as any shareholders' loans are outstanding, Found Macau shall not declare, make or pay any dividends or other distributions whatsoever. Found Macau shall repay the shareholders' loan from time to time as soon as it can lawfully do so and a like proportion of each shareholders' loan shall be repaid at the same time so that no part of shareholders' loan shall be repaid unless a like proportion of each of the shareholders' loan is simultaneously repaid.

LETTER FROM THE BOARD

Termination of the New Shareholders Agreement

The New Shareholders Agreement will terminate upon the earlier of:

- (1) a written agreement to terminate by all parties to the Agreement; or
- (2) the liquidation, dissolution or winding up of Found Macau; or
- (3) Found Macau raising HK\$500 million (inclusive of the New Found Macau Loan and the shareholders' loans from Vision Gate and Rightmind) as contemplated under the New Shareholders Agreement (as the Founders should no longer be shareholders of Found Macau by then).

New Issue of FM Shares

The shareholders of Found Macau will agree that once HK\$500 million of shareholders loans (in whatever form) is raised by Found Macau, Found Macau shall issue 2 new FM Shares at the par value of US\$1.00 each to such persons (currently intended to be a company held by employees, directors of Found Macau etc. but who have not been identified at the Latest Practicable Date) as the board of Found Macau shall approve. When the shareholders' loans (in whatever form) of HK\$500 million is repaid in full, the holders of the 2 new FM Shares shall be entitled to share in dividends of Found Macau pro-rata to their shareholding and such 2 new FM Shares shall in all respects rank pari passu to all other FM Shares. The New Shareholders Agreement allows the issue of 2 new FM Shares only.

The reason for this arrangement is to provide incentives to the employees and directors of Found Macau to locate new investors, to source new investment projects and manage projects for Found Macau and generally to contribute towards the success of Found Macau. This arrangement however will allow them to reap returns only when the shareholders' loans are repaid.

NEW FOUND MACAU LOAN

Subject to approval by shareholders at the EGM, the New Found Macau Loan in the amount of HK\$150,000,000 to be made by Alpha Aim to Found Macau shall be satisfied at the Company's election as to a minimum of HK\$50,000,000 in cash (partly to be funded from the net proceeds of the Placing and the balance by internal resources) and as to the balance by the issue by the Company of the FM Convertible Note as described in the section headed "FM Convertible Note" below. The New Found Macau Loan will be unsecured, interest free and repayable after 8 years from the date of drawdown on demand and will be evidenced by the Promissory Note to be executed by Found Macau in favour of Alpha Aim. The promissory notes for the shareholders loans are intended to be executed when the HK\$500,000,000 of shareholders loan have been advanced.

Once advanced, the New Found Macau Loan constitutes an advance to an entity under Rule 13.13 of the Listing Rules. The Company intends to fund the New Found Macau Loan as to the cash portion partly with the net proceeds of the New Convertible Notes and partly by internal resources and the balance by the issue of the FM Convertible Note.

LETTER FROM THE BOARD

GENERAL INFORMATION

Found Macau

Found Macau is an investment holding company and it intends to invest in gambling, entertainment and related businesses (currently expected to be businesses including but not limited to the operation of hotels, food and beverage facilities etc.) in Macau through its subsidiaries. Found Macau is intended to act as a holding company and will make investments through subsidiaries to be formed. Found Macau is in the process of incorporating subsidiaries for future investments. Found Macau has presently identified two investment targets in Macau and expects to enter into preliminary agreements shortly but no assurance is given that they will be entered into or as to their terms. There has been no further progress on these investments since the announcement dated 12th January, 2005. One of the identified targets is a vacant piece of land in Macau of approximately 260,000 square feet, the acquisition consideration of which is expected to be in the region of HK\$240 million to HK\$300 million. Found Macau currently intends to build a hotel housing a casino on the land. The second identified target relates to the lease of a property of approximately 10,000 to 15,000 square feet hotel already in operation in Macau and the renovation, decoration, preparation and delivery of this property to a casino or slot machine operator on terms to be agreed. The cost of this investment is expected to be in the region of HK\$150 million. The terms and exact details of such investments are subject to negotiation and finalisation. Based on information provided to the Company by Found Macau, Found Macau has no current right or intention to directly engage in the operation of casinos.

To the best of the knowledge of the Company, the owners of the vacant pieces of land and the landlord of the lease are not Connected Persons of the Company.

As set out in the Accountants Report on Found Macau in Appendix II of this circular, Found Macau incurred a net loss of HK\$81,900 from the date of incorporation of Found Macau to 31st December, 2004. Found Macau has not commenced operation since the date of incorporation to 31st December, 2004 and has not incurred any expenses, except for certain formation and preliminary costs.

Upon completion of acquisition of 30% equity shares of Found Macau and advancement of HK\$150,000,000 loan to Found Macau and issue of New Convertible Notes, there will be an increase in interest in associates of approximately HK\$150,000,000, a decrease of HK\$3,000,000 bank balances and an increase in convertible notes with a net principal amount of HK\$147,000,000 (calculated by subtracting the principal amount of the Existing Convertible Notes of HK\$53,000,000 from the principal amount of the New Convertible Notes of HK\$200,000,000).

The Founders

The Founders possess substantial experience in managing casino, hotel, entertainment and casino related business in Macau.

Mr. Lao Hin Chun, aged 64 has over 40 years of experience in the property development, construction and building material and garment related businesses. Mr. Lao is the Administrador of Companhia De Betao Pronto Lda. Mr. Lao is also very active in participating and supporting charitable

LETTER FROM THE BOARD

social activities in Macau and is currently the Presidente of Fundo De Beneficencia Dos Leitoresdo Jornal Ou Mun and a Membro Permanentes of Associacao Comercial De Macau. Moreover, Mr. Lao is also the Membro Do Comite Nacional Da Conferencia Consultiva Politica Da Republica Popular Da China.

Mr. Filipe Lau, aged 61 has over 30 years of experience in providing advice and project management services to several enterprises engaged in property development, operation of casinos, hotels, restaurants and entertainment related businesses in Macau.

Mr. Lourenco Cheong, aged 40 has over 15 years of experience in promoting business opportunities and prospects in Macau to international investors as well as helping businessmen in Macau to invest aboard and/or expand their products and businesses overseas. Mr. Cheong was the Executive Director of Macau Trade And Investment Promotion Institute and is the Managing Director of Belor Company Limited and was involved in providing consultancy services to (i) international investors investing in Macau; and (ii) Macau enterprises in seeking joint venture partners and/or expanding their businesses overseas.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save and except for Mr. Lao (stepfather of Mr. Ong), the Founders are not Connected Persons of the Company and are otherwise independent of the Company and Connected Persons of the Company.

The Group is principally engaged in investment holding. The principal activities of the Group include property investments, investment holding, investment in trading securities and provision of brokerage and financial services.

Alpha Aim is a wholly-owned subsidiary of the Company that was established specifically for the investment in Found Macau.

REASONS FOR THE TRANSACTION

The acquisition price of US\$30 for the FM Shares is based on the par value of US\$1 per FM Share. Found Macau's intention is to raise HK\$500 million in the form of shareholders loans. The provision of the New Found Macau Loan of HK\$150 million by Alpha Aim is based on Alpha Aim's shareholding interest of 30% in Found Macau upon approval of the FM Transactions.

The reason the Company proposes to invest in Found Macau is that it expects the Group to be able to team up with other potential financial investors of Found Macau leveraged by the prominent social network and management expertise of the Founders to search and invest in various potential projects in Macau so as to capture the opportunities for the economical growth in Macau. Save for Heritage and Unity, as at the Latest Practicable Date, Found Macau has not identified other potential investors. The Company is of the view that terms of the FM Transactions provides a good opportunity for investment in Found Macau, which now is close (subject to contract) to agreeing formally the acquisition of previously identified investment targets and in the process of locating and evaluating potential investment opportunities in Macau generally. Save for the two identified investment targets mentioned above, the Company understands that Found Macau does not have other identified investment targets as at the Latest Practicable Date.

LETTER FROM THE BOARD

The reason the Company entered into the Termination Deed and the Disposal and the FM Transactions is due to Found Macau's recent expedited progress in identifying and negotiating on investment targets which requires substantial investment. Hence, the original Found Macau Loan of HK\$50 million is not sufficient for the purpose of funding the identified investment targets of Found Macau. The Company does not have any current intention to make further investments in Found Macau.

IMPLICATIONS UNDER THE LISTING RULES

The Group will through its wholly-owned subsidiary, Alpha Aim, hold a 30% equity stake in Found Macau after completion of the New FM Acquisition but Found Macau will not become a subsidiary of the Company as a result of the New FM Acquisition. Found Macau has not commenced business yet and as at the Latest Practicable Date not involved in the operation of any casino and entertainment business.

No licence is required in Hong Kong for the operation of the casino and entertainment business in Macau if the casino and entertainment operations are conducted exclusively offshore. The Company will use its best endeavours (insofar as it is able in its capacity as a shareholder in Found Macau to do so) to ensure that for as long as the Company has a direct or indirect interest in the Found Macau, the casino and entertainment business carried out by Found Macau will comply with the applicable laws in the areas where such activities operate and will not contravene the Gambling Ordinance of Hong Kong insofar as it is applicable.

Shareholders should be aware that under the Guidelines issued by the Stock Exchange in relation to "Gambling Activities undertaken by listed applicants and/or listed issuers" dated 11th March, 2003, should the Group be engaged in gambling activities and operation of such gambling activities (i) fail to comply with the applicable laws in the areas with such activities operate and/or (ii) contravene the Gambling Ordinance such that the Company or its business may be considered unsuitable for listing under Rule 8.04 of the Main Board Listing Rules, the Stock Exchange may direct the Company to take remedial action, and/or may suspend the dealings in, or may cancel the listing of, its securities.

Mr. Lao is the stepfather of Mr. Ong and hence an "associate" of a director of the Company treated as a connected person of the Company under Rule 14A.11(4)(b) of the Listing Rules. The FM Transactions constitute major and connected transactions under Rule 14.06 and Rule 14A.13 of the Listing Rules and are subject to approval of independent shareholders at the EGM.

EXISTING CONVERTIBLE NOTES

The Company has given notice to the holders of the Existing Convertible Notes that it will redeem all the outstanding Existing Convertible Notes in full in the aggregate principal amount of HK\$53,000,000 at 100% of the outstanding principal amount, subject to Shareholders approving the issue of the New Convertible Notes at the EGM. The redemption will be made in accordance with the

LETTER FROM THE BOARD

terms of the Existing Convertible Note save that the timing for completion is different and that it is a conditional redemption. Completion of the redemption shall take place on the 30th day after the EGM (or such other date as the Company and the holders of the Existing Convertible Notes may agree). The Company has indicated to the holders of the Existing Convertible Notes that they can contact the Placing Agent in the event they wish to subscribe for the New Convertible Notes and set off with the Company the subscription monies payable by them to the Company for the New Convertible Notes against the amount payable by the Company to them on redemption of the Existing Convertible Notes. The redemption will be funded by part of the proceeds of the Placing.

PLACING OF NEW CONVERTIBLE NOTES

The Placing Agreement

Date: 12th January, 2005

Parties: the Placing Agent
the Company

The Company entered into the Placing Agreement with the Placing Agent in relation to the Placing by the Placing Agent of the New Convertible Notes.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Placing Agent is not a Connected Person of the Company and is otherwise independent of the Company and Connected Persons of the Company.

Issuer

The Company.

Placees

Not less than six individual, institutional and/or professional investors, who are independent third parties and not connected persons of the Company as defined under the Listing Rules.

So far as the Company is aware, Found Macau and the Founders have no present intention to subscribe for the New Convertible Note (save for the FM Convertible Notes to be issued to Found Macau).

Placing Commission

The Placing Agent has agreed to place the New Convertible Notes as to the principal amount of HK\$100 million on a best efforts basis and as to the principal amount of HK\$100 million on a fully underwritten basis and will receive a fee of 2% on the gross proceeds of the New Convertible Notes successfully placed as the placing commission. These fees were agreed after arm's length negotiations between the Company and the Placing Agent. The Board considers that these fees to be in line with the market standards. The net proceeds of the Placing will be approximately HK\$194 million, if the New Convertible Notes are fully placed.

LETTER FROM THE BOARD

Terms of the New Convertible Notes

Principal amount

Up to HK\$200 million

Denomination

HK\$500,000

Maturity

The New Convertible Notes will mature on the fifth anniversary from the date of issue.

Interest

The New Convertible Notes will be non-interest bearing.

Redemption date

The Company may redeem the New Convertible Notes at 100% of the outstanding principal amount of the New Convertible Notes at any time from the date of issue until a date 7 days prior to (and excluding) the maturity date of the New Convertible Notes.

Conversion

The outstanding principal amount of the New Convertible Notes may be converted into the Shares in amounts or integral multiples of HK\$500,000 at any time from the date of issue up to 7 days before (and excluding) the maturity date of the New Convertible Notes.

Conversion Price

The Conversion Price of HK\$0.25 per Share (subject to adjustment as provided in the terms and conditions of the New Convertible Notes) represents (i) a premium of approximately 17.92% to the closing price of HK\$ 0.212 per Share quoted on the Stock Exchange on 3rd January, 2005 the day prior to suspension of dealings in the Shares pending the release of the announcement regarding the Transactions; (ii) a premium of approximately 17.37% to the average closing price of HK\$0.213 per Share as quoted from the Stock Exchange from 20th December, 2004 to 3rd January, 2005, both dates inclusive, being the last ten full trading days immediately before the date of suspension of trading in shares (4th January, 2005) pending the release of the announcement regarding the Transactions; and (iii) a premium of 33.69% to the closing price of the Shares on the Latest Practicable Date.

LETTER FROM THE BOARD

The Conversion Price was agreed after arm's length negotiations between the Placing Agent and the Company. The Board considers that the Conversion Price is fair and reasonable and is in the interests of the Shareholders and the Company as a whole. The Board also considers that the timing of the Placing to be appropriate in view of the FM Transactions and market conditions.

Shares to be issued upon conversion

The Shares to be issued upon conversion of the New Convertible Notes will when issued and rank equally in all respects among themselves and with the Shares in issue on the relevant date of conversion. If all the New Convertible Notes are converted at the Conversion Price of HK\$0.25 per Share (subject to adjustment as provided in the terms and conditions of the New Convertible Notes), a total of 800 million Shares will be issued. These Shares represent approximately 54.37% of the existing issued share capital of the Company, and approximately 35.22% of the issued share capital of the Company as enlarged by the new Shares to be issued upon conversion of the New Convertible Notes (assuming no further shares are issued by the Company from the Latest Practicable Date till the date of conversion).

Voting rights of holders of the New Convertible Notes

The holders of the New Convertible Notes will not have any right to attend or vote at any meetings of the Company by virtue of their being the holders of the New Convertible Notes.

Transferability

The New Convertible Notes will not be transferable to persons who are connected persons of the Company as defined in the Listing Rules without the prior written consent of the Company. The Company will inform the Stock Exchange upon the Company becoming aware that any of the New Convertible Notes have been or are to be transferred to any connected persons of the Company (as defined under the Listing Rules).

Application for listings

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares which may fall to be issued upon conversion of the New Convertible Notes. No listing of the New Convertible Notes will be sought on the Stock Exchange or any other stock exchanges.

TERMINATION

The Placing is subject to termination if before 9:00 a.m. (Hong Kong time) on the date for Completion of the Placing Agreement if in the reasonable opinion of the Placing Agent the success of the Placing or the business or financial prospects of the Group would or might be affected by:

1. any material breach of any of the representations and warranties set out in the Placing Agreement; or

LETTER FROM THE BOARD

2. any of the following events:
- (i) the introduction of any new law or regulation or any change in existing laws or regulations or change in the interpretation or application thereof; or
 - (ii) the occurrence of any event, development or change (whether or not local, national or international or forming part of a series of events or changes occurring or continuing before, on and/or after the date hereof and including an event or change in relation to or a development of an existing state of affairs) of a political, military, industrial, financial, economic or other nature, whether or not sui generis with any of the foregoing, resulting in a material adverse change in, or which might be expected to result in a material adverse change in, political, economic or stock market conditions; or
 - (iii) the imposition of any moratorium suspension or material restriction on trading in securities generally on the Stock Exchange occurring due to exceptional financial circumstances or otherwise; or
 - (iv) a change or development involving prospective change in taxation in Hong Kong or the People's Republic of China or the implementation of exchange controls which shall or might materially and adversely affect the Company or its present or prospective shareholders in their capacity as such; or
 - (v) any change or deterioration in the conditions of local, national or international securities markets occurs.

The Board is not aware of the occurrence of any of such events as at the Latest Practicable Date.

Conditions of the Placing

Completion of the Placing is conditional upon the fulfilment of the following conditions:

- (1) the Listing Committee of the Stock Exchange granting (either unconditionally or subject only to conditions to which the Company, does not reasonably object) listing of and permission to deal in the Conversion Shares;
- (2) the Stock Exchange having approved (either unconditionally or subject only to conditions to which the Company does not reasonably object) the issue of the New Convertible Notes, or the Company not having received any objection from the Stock Exchange to the issue of the New Convertible Notes; and
- (3) the passing by the Shareholders of a resolution to approve the Placing Agreement, the issue of the New Convertible Notes and Conversion Shares at the EGM.

LETTER FROM THE BOARD

Completion

The Placing is to be completed on the third business day (or such other date as may be agreed between the Company and the Placing Agent) after satisfaction of the conditions under the paragraph headed “Conditions of the Placing” above. The Placing Agreement will lapse if the conditions are not satisfied by 15th March, 2005, or such other date as may be agreed between the Company, the Placing Agent. If the Placing Agreement lapses, none of the parties shall have any claims against the others save for any prior breaches of the Placing Agreement.

FM CONVERTIBLE NOTE

To the extent the New Convertible Notes in the principal amount of HK\$100 million which the Placing Agent has agreed to place on a best efforts basis are not fully placed, the Company shall issue the FM Convertible Note in the principal amount equivalent to the amount that has not been placed and otherwise on the same terms as the New Convertible Notes to Found Macau. No commission is payable by the Company in respect of the FM Convertible Note. The FM Convertible Note will be issued to Found Macau to partially satisfy Alpha Aim’s obligation to make the New Found Macau Loan. The FM Convertible Note, if issued, will form part of the New Convertible Notes and will be issued on the same terms as the New Convertible Note as described above. If the New Convertible Notes in the aggregate principal amount of HK\$200 million are fully placed by the Placing Agent or if shareholders do not approve the FM Transactions at the EGM, the FM Convertible Note will not be issued.

As at the Latest Practicable Date, the Company does not have a “controlling shareholder” as such term is defined in the Listing Rules. After completion of the FM Transactions and assuming that FM Convertible Note is issued to Found Macau up to the principal amount of HK\$100 million and Found Macau exercises its conversion rights in full at the conversion price of HK\$0.25 per Share, Found Macau will become the single largest shareholder of the Company.

LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE

Name of Shareholders	As at the Latest Practicable Date		After the Placing of the New Convertible Notes in the principal amount of HK\$200 million and assuming full conversion of the New Convertible Notes and no further shares are issued from the Latest Practicable Date till the date of conversion		After the Placing of the New Convertible Notes by the Placing Agent up to the principal amount of HK\$100 million and assuming the FM Convertible Note is issued to Found Macau in the principal amount of HK\$100 million	
	Shares	% of shareholding	Shares	% of shareholding	Shares	% of shareholding
Radford Developments Limited (Notes 1 and 2)	250,000,000	16.99%	250,000,000	11.01%	250,000,000	11.01%
Found Macau (Note 4)	Nil	Nil	Nil	Nil	400,000,000	17.61%
Public Shareholders						
Heritage International Holdings Limited (Notes 1 and 3)	134,750,163	9.16%	134,750,163	5.93%	134,750,163	5.93%
Radford Capital Investment Limited (Notes 1 and 3)	138,123,363	9.39%	138,123,363	6.08%	138,123,363	6.08%
Holders of the New Convertible Notes	Nil	Nil	800,000,000	35.22%	400,000,000	17.61%
Others (Note 3)	<u>948,448,594</u>	<u>64.46%</u>	<u>948,448,594</u>	<u>41.76%</u>	<u>948,448,594</u>	<u>41.76%</u>
Total	<u>1,471,322,120</u>	<u>100%</u>	<u>2,271,322,120</u>	<u>100%</u>	<u>2,271,322,120</u>	<u>100%</u>

Note 1: Based on the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance as at the Latest Practicable Date.

Note 2: 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.

Note 3: Heritage International Holdings Limited (Stock Code: 412) and Radford Capital Investment Limited (Stock Code: 901) and Chau Tuk Shun are public shareholders, with the meaning of the Listing Rules.

Note 4: Found Macau's shareholding in the Company will depend on the principal amount of the FM Convertible Note issued to it. If Found Macau's shareholding in the Company is more than 10% upon the issue of the FM Convertible Note it will not be considered as a "public shareholder".

LETTER FROM THE BOARD

REASONS FOR THE PLACING

The Board considers that (i) the Placing is an appropriate means of raising capital for the Company to redeem the Existing Convertible Note (with accrued interest) and to fund the New Found Macau Loan (ii) the Placing will not have an immediate dilution effect on the shareholding of the existing Shareholders; and (iii) the recent improvement in the market sentiments provides a good opportunity for the Company to raise funds.

USE OF PROCEEDS

If the New Convertible Notes are fully placed, the net proceeds of the Placing will be approximately HK\$194 million, which is to be used as to approximately HK\$55 million to redeem the Existing Convertible Notes (with accrued interest) and the balance of up to approximately HK\$139 million to fund the New Found Macau Loan. If the New Convertible Notes are placed up to underwritten principal amount of HK\$100 million only, the net proceeds of the Placing will be approximately HK\$97 million, which will be used as to approximately HK\$55 million to redeem the Existing Convertible Notes (with accrued interest) and the balance of approximately HK\$42 million to fund the cash portion of the New Found Macau Loan.

In the event the resolution proposed at the EGM to approve the FM Transactions is voted down but the resolution proposed to approve the Placing is passed, the Company will proceed with the Placing of the New Convertible Notes and use the proceeds of the New Convertible Notes to repay the Existing Convertible Notes (in the aggregate principal amount of HK\$53,000,000) as to HK\$100 million for repayment of existing debts and the remainder of proceeds for future investments and for general working capital. As at the Latest Practicable Date, no investment targets have been identified. Further announcement will be made if there are any changes to the proposed use of proceeds by the Company.

FUND RAISING ACTIVITIES BY THE COMPANY DURING THE PAST 12 MONTHS

The Company issued the Existing Convertible Notes, details of which are mentioned in the Company's announcements dated 11th June, 23rd July and 9th November, 2004. The net proceeds of the issue of the Existing Convertible Notes was approximately HK\$53.7 million. The net proceeds were used for reducing the borrowing of the Company.

The Company placed 17,640,000 new shares at HK\$0.24 per Share, as referred to in the Company's announcement dated 29th November, 2004. The net proceeds of the placing was HK\$4 million. The net proceeds were used for general working capital purposes.

Save as for the above, there have been no equity fund raising activities conducted by the Group in the past 12 months.

PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

Article 81 of the Company's Articles of Association sets out the following procedure by which Shareholders may demand a poll.

LETTER FROM THE BOARD

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded:

- (i) by the chairman of such meeting;
- (ii) by at least three members present in person or by proxy and entitled to vote at the meeting;
- (iii) by any member or members present in person or by proxy and representing not less than one tenth of the total voting rights of all the members having the right to vote at the meeting;
or
- (iv) by a member or members present in person or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one tenth of the total sum paid up on all the shares conferring that right.

EGM

The notice of the EGM is set out on page 142 to page 144 of this circular. A form of proxy for use at the EGM is enclosed. At the EGM resolutions will be proposed, among other things, to approve the FM Transactions, the Placing and the issue of New Convertible Notes.

Mr. Ong, Mr. Lao, Lourenco Cheong and their respective Associates do not hold any Shares as at the Latest Practicable Date. Unity beneficially holds 67,828,000 shares representing approximately 4.61% of the issued share capital of the Company as at the Latest Practicable Date. Filipe Lau holds 2,684,400 shares, representing approximately 0.18% of the issued share capital of the Company as at the Latest Practicable Date. Heritage beneficially holds 134,750,163 shares representing approximately 9.16% of the issued share capital of the Company as at the Latest Practicable Date.

So far as the Company is aware having make all reasonable enquires, as at the Latest Practicable Date, Unity, Heritage and Filipe Lau control or are entitled to control the exercise of 67,828,000, 134,750,163 and 2,684,400 shares in the Company respectively.

Based on information provided to the Company, the respective Associates of Filipe Lau, Unity and Heritage do not hold any Shares as at the Latest Practicable Date.

Unity, the Founders, Heritage and other Shareholders who have a material interest in the Transactions and their respective Associates are required to abstain from voting at the EGM on the Transactions. As at the Latest Practicable Date, save and except for Unity, Filipe Lau, Heritage and their respective Associates, the Company is not aware of any other shareholder with a material interest in the Transactions which is required to abstain from voting.

Radford does not have any material interest in the FM Transactions and the Placing but has indicated to the Company that it is the intention of the trust which controls Radford that it will abstain from voting on the resolutions relating to the FM Transactions and the Placing proposed at the EGM on the grounds that it is sensitive business decision and will let minority shareholders to vote on this matter at the EGM.

LETTER FROM THE BOARD

Whether or not Shareholders are able to attend the EGM, Shareholders are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the registered office of the Company at 32nd Floor, China United Centre, 28 Marble Road, North Point, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the EGM should Shareholders so wish.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 24 of this circular which contains the recommendation of the Independent Board Committee to the Independent Shareholders concerning the FM Transactions and the letter from Kim Eng set out on page 25 to 39 of this circular containing its advice to the Independent Board Committee and the Independent Shareholders in this regard. Kim Eng is of the opinion that the FM Transactions are not in the interests of the Company and the Shareholders as a whole and is not fair and reasonable so far as the Independent Shareholders are concerned. The Independent Board Committee, having taken into account the advice of Kim Eng in relation to the FM Transactions recommended the Independent Shareholders to weigh carefully the balance of merits and risks inherent in the FM Transactions as well as the effect on the Group's working capital position as a result of the FM Transactions and is of the opinion that the FM Transactions are not in the interests of the Company and the Shareholders as a whole and is not fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommended the Independent Shareholders not to vote in favour of the relevant resolutions to be proposed at the EGM to approve the FM Transactions.

Notwithstanding the advice of Kim Eng and the Independent Board Committee, the Directors (except for Mr. Ong who abstained from voting on the FM Transactions at the relevant board meeting and the Independent Board Committee) are of the opinion that the FM Transactions in the interests of the Company and Shareholders as a whole and recommends Shareholders to vote in favour of the resolutions proposed at the EGM on the basis the investment provides an opportunity for the Group to be able to team up with other potential financial investors of Found Macau leveraged by the prominent social network and management expertise of the Founders to search and invest in various potential projects in Macau so as to capture the opportunities for the economical growth in Macau. Please refer to details set out in the section headed "Reasons for the Transaction" of this letter.

The Board (including the independent non-executive directors) is of the opinion that the Placing is in the best interests of the Company and Shareholders as a whole and recommends Shareholders to vote in favour of the resolutions proposed at the EGM.

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

By Order of the Board
China United International Holdings Limited
Chuang Yueheng, Henry
Chairman



China United
International Holdings Limited
互聯控股有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 273)

4th February, 2005

*To the Shareholders and for information only
to the holders of warrants issued by the Company*

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTIONS:

**INVESTMENT OF 30% IN FOUND MACAU
AND
HK\$150 MILLION SHAREHOLDERS LOAN**

We have been appointed as members of the Independent Board Committee to advise you in connection with the FM Transactions, details of which are set out in the letter from the Board in a circular dated 4th February, 2005 issued by the Company to the Shareholders (the “Circular”), of which this letter forms a part. The terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

Your attention is drawn to the letter from Kim Eng Corporate Finance (Hong Kong) Limited concerning its advice to us regarding the FM Transactions as set out on pages 25 to 39 of the Circular. Having considered the advice given by Kim Eng Corporate Finance (Hong Kong) Limited and the principal factors and reasons taken into consideration by them in arriving at its advice, we recommend the Independent Shareholders to weigh carefully the balance of merits and risks inherent in the FM Transactions as well as the effect on the Group’s working capital position as a result of the FM Transactions and we are of the opinion that the FM Transactions are not in the interests of the Company and its Shareholders as a whole, and is not fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders not to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the FM Transactions.

Yours faithfully
By order of the board of
Independent Board Committee
Lam Ping Cheung, Miu Frank H. and Nakajima Toshiharu
Independent non-executive Directors

LETTER FROM KIM ENG

The following is the text of a letter of advice from Kim Eng Corporate Finance (Hong Kong) Limited, which has been prepared for the purpose of incorporation into this Circular, setting out its advice to the Independent Board Committee and Independent Shareholders in connection with the FM Transactions.



Kim Eng Corporate Finance (Hong Kong) Limited
Room 1901, Bank of America Tower,
12 Harcourt Road, Central
Hong Kong

The Independent Board Committee
and Independent Shareholders
China United International Holdings Limited
32/F China United Centre
28 Marble Road
North Point
Hong Kong

4th February, 2005

Dear Sirs,

**MAJOR AND CONNECTED TRANSACTIONS
INVESTMENT OF 30% IN FOUND MACAU
AND
HK\$150 MILLION SHAREHOLDERS LOAN
AND
REDEMPTION OF HK\$53 MILLION EXISTING CONVERTIBLE NOTES
AND
ISSUE OF UP TO HK\$200 MILLION NEW CONVERTIBLE NOTES**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and Independent Shareholders on the terms and conditions of the FM Transactions. Details of the FM Transactions are set out in the letter from the Board contained in the Circular to Shareholders dated 4th February, 2005 (the “Circular”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 11th January, 2005, Alpha Aim, a wholly owned subsidiary of the Company, entered into (i) the Termination Deed to terminate the Shareholders Agreement and the Found Macau Loan and (ii) the Disposal of 10 FM Shares to Filipe Lau.

LETTER FROM KIM ENG

On the same day, Alpha Aim entered into a Verbal Agreement with the Founders whereby Alpha Aim agreed, amongst other things, to acquire 30 FM Shares, enter into the New Shareholders Agreement and make a shareholders loan of HK\$150 million to Found Macau, conditional upon the approval of Shareholders at the EGM and that the shareholders loan will be satisfied by the election of Alpha Aim by payment of a minimum of HK\$50,000,000 in cash and the balance by the issue of the FM Convertible Note.

The FM Transactions constitute major and connected transactions for the Company under Rule 14.06 and Rule 14A.13 of the Listing Rules, and are subject to approval of shareholders at the EGM by virtue of the fact that Mr. Lao is the stepfather of Mr. Ong and hence an “associate” of a Director of the Company treated as a connected person of the Company under Rule 14A.11(4)(b) of the Listing Rules.

The EGM will be convened to approve, among other things, the FM Transactions. By virtue of the Listing Rules, the resolutions for the connected transactions are required to be approved by Independent Shareholders and voted by way of a poll.

Mr. Ong, Mr. Lao, Lourenco Cheong and their respective Associates do not hold any Shares as at the Latest Practicable Date. Unity beneficially holds 67,828,000 Shares representing approximately 4.61% of the issued share capital of the Company as at the Latest Practicable Date. Filipe Lau holds 2,684,400 Shares, representing approximately 0.18% of the issued share capital of the Company as at the Latest Practicable Date. Heritage beneficially holds 134,750,163 Shares representing approximately 9.16% of the issued share capital of the Company as at the Latest Practicable Date.

So far as the Company is aware having made all reasonable enquiries, as at the Latest Practicable Date, Unity, Heritage and Filipe Lau controlled or were entitled to control the exercise of 67,828,000, 134,750,163 and 2,684,400 Shares in the Company respectively.

Based on information provided to the Company, the respective Associates of Filipe Lau, Unity and Heritage did not hold any Shares as at the Latest Practicable Date.

Unity, the Founders, Heritage and other Shareholders who have a material interest in the Transactions and their respective Associates are required to abstain from voting at the EGM on the Transactions. As at the Latest Practicable Date, save and except for Unity, Filipe Lau, Heritage and their respective Associates, the Company is not aware of any other Shareholder with a material interest in the Transactions which is required to abstain from voting.

Radford does not have any material interest in the FM Transactions and the Placing but has indicated to the Company that it is the intention of the trust which controls Radford that it will abstain from voting on the resolutions relating to the FM Transactions and the Placing proposed at the EGM on the grounds that it is sensitive business decision, and will let minority Shareholders vote on this matter at the EGM.

LETTER FROM KIM ENG

INDEPENDENT BOARD COMMITTEE

The Board currently consists of four executive Directors, namely, Mr. Chuang Yueheng, Henry, Mr. Chung Wilson, Mr. Lo Kan Sun and Mr. Wong Ying Seung, Asiong and four independent non-executive Directors, namely Mr. Lam Ping Cheung, Mr. Ong Peter, Mr. Miu Frank H. and Mr. Nakajima Toshiharu.

Mr. Lao is the stepfather of Mr. Ong and therefore Mr. Ong may have a potential conflict of interest in relation to the FM transactions. He is therefore considered not sufficiently independent to give advice to Independent Shareholders. In view of the above, the Independent Board Committee, therefore comprising all the independent non-executive Directors apart from Mr. Ong, namely Mr. Lam Ping Cheung, Mr. Miu Frank H. and Mr. Nakajima Toshiharu, has been formed to consider the terms and conditions of the FM Transactions and give an advice and make recommendation to the Independent Shareholders and the Independent Board Committee in this respect.

BASIS OF OUR OPINION

In forming our opinion as to whether the terms of the FM Transactions are fair and reasonable and in the interest of the Company and Shareholders as a whole, we have relied on the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true, accurate and complete at the time when they were made and continued to be true, accurate and complete as at the date of the Circular.

We have also assumed that all statements of belief, opinion and intention made by the Board of Directors of the Company contained in the Circular were reasonably made by them after their due enquiry and careful consideration and that there are no other facts the omission of which would make any statement in the Circular misleading in any material respect.

Our review and analyses were based upon the information provided by the Company which is set out below:

- the terms and conditions under the Verbal Agreement dated 11 January, 2005 entered into between the Founders and Alpha Aim in relation to the New FM Acquisition and the New Found Macau Loan (including the FM Convertible Note and New Shareholders Agreement);
- the annual report of the Company for the year ended 31st December, 2003 (the “Annual Report”);
- the unaudited interim report of the Company for six months ended 30th June, 2004;
- the terms and conditions of the Placing Agreement including the Placing, the issue of the New Convertible Notes and the Conversion Shares upon exercise of the New Convertible Notes; and
- the Circular.

LETTER FROM KIM ENG

In addition to the information provided by the Company, we have also reviewed the publications on the official website of the Statistics and Census Service, Government of Macau Special Administrative Region.

We consider that we have reviewed sufficient information to reach a reasonably informed view to justify our reliance on the accuracy of the information contained in the Circular as aforesaid and to provide reasonable grounds for our advice.

Furthermore, we have no reason to doubt the truth, accuracy and/or completeness of the information and representations as provided to us by the Directors. We have not conducted any independent in-depth investigation into nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in relation to the terms and conditions of the FM Transactions which comprise the New FM Acquisition, New Found Macau Loan, New Shareholders Agreement and FM Convertible Note, we have considered the following principal factors and reasons:

1. Reason for and Benefits of the entering into the FM Transactions

1.1 *New FM Acquisition and the New Found Macau Loan*

The current principal activities of the Group include, without limitation, property investments, investment holding, investment in trading securities and the provision of brokerage and financial services.

Under the Verbal Agreement, Alpha Aim proposed to acquire a 30% interest in Found Macau at a price of US\$30 which is based on the par value of US\$1 per FM Share. The Directors consider that the Termination Deed, Disposal and FM Transactions entered into between the Company and the Founders will expedite the overall progress in the Group's investments in Macau.

As set out in the Accountants' Report on Found Macau in Appendix II of this Circular, Found Macau incurred a net loss of HK\$81,900 for the period from 1st October, 2004 to 31st December, 2004. Found Macau had not commenced operation at the Latest Practicable Date and has not incurred any expenses, except for certain formation and preliminary costs.

Under the FM Transactions, Alpha Aim will make a shareholders loan of HK\$150 million to Found Macau through Alpha Aim which will be satisfied as to HK\$50,000,000 by cash and as to the balance of HK\$100 million by part of the proceeds of the New Convertible Notes or the proposed issue of FM Convertible Note. As a shareholders loan to Found Macau, the New Found Macau Loan will be contributed by Alpha Aim in proportion to its then shareholding interest of 30% in Found Macau upon completion of the FM Transactions.

LETTER FROM KIM ENG

We note from the Company's Circular dated 20th December, 2004 that it would be difficult to invest in Macau without forming a company and putting in seed money. The Board is of the view that forming Found Macau with the Founders is beneficial to the Company because the Founders have substantial business networks in Macau and should be able to identify promising prospective projects in Macau for participation by Found Macau.

As referred to in the letter from the Board, the Company is of the view that the terms of the FM Transactions are a good opportunity to increase its investment in Found Macau, Found Macau has presently identified two investment targets in Macau and expects to enter into preliminary agreements shortly but no assurance is given that they will be entered into or as to their terms. There has been no further progress on these investments since the announcement dated 12th January, 2005. One of the identified targets is a vacant piece of land in Macau of approximately 260,000 square feet, the acquisition consideration of which is expected to be in the region of HK\$240 million to HK\$300 million. Found Macau currently intends to build a hotel housing a casino on the land. The second identified target relates to the lease of an approximately 10,000 to 15,000 square feet hotel already in operation in Macau and the renovation, decoration, preparation and delivery of this property to a casino or slot machine operator on terms to be agreed. The cost of this investment is expected to be in the region of HK\$150 million. The terms and exact details of such investments are subject to negotiation and finalisation.

We have discussed with the Directors, among other things, the status of Found Macau's investment projects, and were advised that these projects were still subject to negotiation and finalisation. The Directors also confirmed that there were no concrete business plans or proposals prepared for the investment projects of Found Macau. Based on such limited information, we are unable to draw any definitive conclusions as to whether any terms of such investment projects will be or could be finalized or put into a formal agreement before the completion of the FM Transactions, and cannot access or estimate the profit-generating ability of Found Macau.

Based on the current status of Found Macau and facts discussed above, we consider that the FM Acquisition and the New Found Macau Loan are not in the interest of the Company as far as Independent Shareholders are concerned.

1.2 *FM Convertible Note*

1.2.1 *Reason for the Proposed Issue of FM Convertible Note*

Under the FM Transactions, the FM Convertible Note will be issued to Found Macau in the event that the New Convertible Notes are not fully placed. The FM Convertible Note will then be issued in the principal amount equivalent to the amount that the New Convertible Notes that have not been placed, and will be on the same terms as stipulated under the New Convertible Notes.

As set out in the letter from the Board, the Company will issue the FM Convertible Note of HK\$100 million (if any) to Found Macau to satisfy in part the obligations of Alpha Aim to contribute to the New Found Macau Loan as described under Section 1.1 above. No placing fee or commission will be charged to the Company under the terms of the FM Convertible Note.

LETTER FROM KIM ENG

1.2.2 Principal Terms of the FM Convertible Note

Conversion Price

We have compared the conversion price of the FM Convertible Note with the closing price of the Shares and the net asset value of the Shares for different periods. Details of the premium/discounts of the convertible prices are set out in the following table.

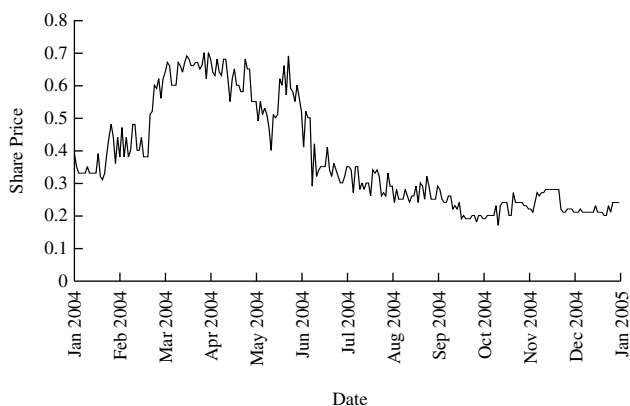
Date/period	(HK\$)	Premium/(Discount) of the conversion price of HK\$0.25 over/to the closing price/average closing price per Share or net asset value per Share
Average closing price per Share as at 3rd January, 2005 (being the last trading day of the Shares prior to the suspension of dealing in Shares)	0.212	17.9%
Average closing price per Share for 10 average closing trading days up to and including 20th December, 2004	0.213	17.4%
Average closing price per Share for 30 average closing trading days up to and including 3rd December, 2004	0.257	(2.8)%
Average closing price per Share for 60 average closing trading days up to and including 3rd November, 2004	0.236	5.6%
Closing price per Share as at the Latest Practicable Date	0.186	34.4
Audited net asset value per Share as at 31st December, 2003 (<i>Note 1</i>)	0.221	13.1%
Unaudited net asset value per Share as at 30th June, 2004 (<i>Note 2</i>)	0.213	17.4%

Note:

- (1) Based on 1,373,583,746 existing issued Shares as at the Latest Practicable Date, the audited net asset value of the Company as at 31st December, 2003 is about HK\$303.8 million.
- (2) Based on 1,373,583,746 existing issued Shares as at the Latest Practicable Date, the unaudited net asset value of the Company as at 30th June, 2004 is about HK\$293.3 million.

LETTER FROM KIM ENG

The following chart illustrates the closing price performance of the Shares for the previous 12 month period:



The share price of HK\$0.70 on 2nd April, 2004 represents the highest Share price in the previous 12 month period. The lowest share price is HK\$0.17 recorded on 19th October, 2004 but it has gone up to HK\$0.212 on 3rd January, 2005, which is below the conversion price of HK\$0.25 per Share.

Although the conversion price of the FM Convertible Note represented a discount to the average closing price for 30 trading days immediately prior to the date of the suspension of dealing in the shares. Independent Shareholders should note that:

- a) the conversion price of the FM Convertible Note represented a premium to the net asset value of the Group as at 30th June, 2004 per Share; and
- b) the conversion price represents a premium over the closing prices of the Shares throughout the 60 days period.

Based on the aforesaid, we consider that the conversion price of the FM Convertible Note is fair and reasonable.

Interest Rate and Maturity

The terms and conditions set out under the FM Convertible Note are the same as terms and conditions as in the New Convertible Notes. Therefore the principal amount under FM Convertible Note will also bear zero interest rate commencing for the date of its issue. Details of the terms and conditions of the New Convertible Notes are set out in section headed "New Convertible Notes" in the letter from the Board.

LETTER FROM KIM ENG

As far as market comparables are concerned, we have identified 6 recent cases of issuance of convertible notes by companies listed on the Stock Exchange since February, 2004. Brief details of these issues are set out as follows:

Stock code	Company	Date of Announcement	Principal amount of convertible note (HK\$ million)	Years to Maturity	Interest rate per annum (%)
273	The Company	12th January, 2005	200.0	5	Nil
563	Neo-China Group (Holdings) Ltd	30th June, 2004	100.0	3	1.0
613	Yugang International Ltd	14th June, 2004	70.0	3	3.0
1031	Medtech Group Company Limited	16th June, 2004	20.0	2	4
878	Soundwill Holdings Limited	23rd June, 2004	147.0	4	3
172	Goldbond Group Holdings Limited	1st April, 2004	70.0	3	Nil
959	A-Max Holdings Limited	20th February, 2004	14.6	5	1.5

The FM Convertible Note matures 5 years from the date of its issue. By comparison, we note that the terms to maturity of the comparables notes range from 2 years to 5 years and that the average term of the comparable notes is approximately 3.6 years. As the term to maturity in the FM Convertible Note lies in the upper range of the market comparable notes, the Group is given a longer period of time to fulfil its payment obligations to the holders of the FM Convertible Note. Therefore we consider that this is in the interests of the Company and Shareholders as a whole.

As far as the cost of funding of the Company is concerned, the Directors advised that the Group had outstanding borrowings from banks or other lenders in an aggregate amount of HK\$180 million as at the 30th November, 2004 (which included the Existing Convertible Notes of HK\$53 million), with interest rates ranging from 5% per annum to 7.8% per annum. By the above comparison, we consider that having a zero interest rate on the FM Convertible Notes, if issued, is in the interest of the Company.

1.3 *New Shareholders Agreement*

Alpha Aim proposed to enter into a new shareholders' agreement with Found Macau, the Founders and Vision Gate.

Under the New Shareholders Agreement, the shareholders of Found Macau must use all reasonable endeavours to locate by 31st March, 2005 (or such other date as the shareholders of Found Macau other than the Founders may agree) new FM Investors to invest up to HK\$500 million (including the New Found Macau Loan and the shareholders loan of HK\$5 million made by Vision Gate) by way of shareholders loans in Found Macau, on the same terms as the New Found Macau

LETTER FROM KIM ENG

Loan. In the event that there are insufficient new investors in Found Macau by 31st March, 2005 or such other date, the Founders will transfer all of their shares at par value to the other shareholders pro rata to each shareholder's loan as a proportion of the total shareholders' loans.

Each shareholder for every 10 FM Shares held by it is entitled to nominate one person to the board of directors of Found Macau. The basis of board composition is relative to the respective shareholding percentages of each of the shareholders, which in our view, is fair and reasonable.

The New Shareholders Agreement will also provide certain minority protections to shareholders of Found Macau including but not limited to (i) the repayment of shareholder's loan; (ii) distribution of dividend policy; (iii) non-competition clause; and the issue of FM Shares. Details of the principal terms are set out in the section headed "The New Shareholders Agreement" in the Letter from the Board.

We are of the view that all the terms of the New Shareholders Agreement are fair and reasonable as far as Independent Shareholders are concerned.

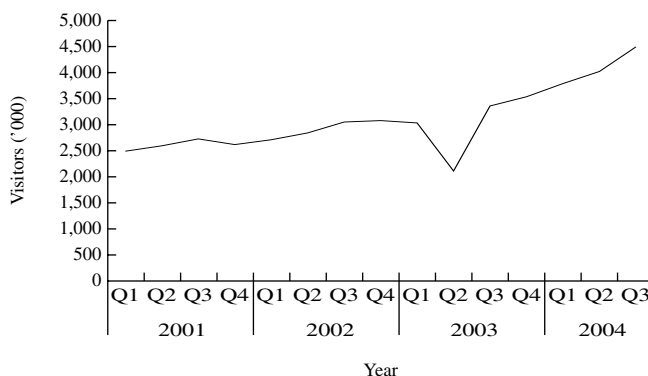
2. Operating Environment of Found Macau

Found Macau intends to invest in gambling, entertainment and related business (currently expected to be businesses including but not limited to the operation of hotels, food and beverage facilities etc.) in Macau through its subsidiaries. Furthermore, Found Macau is intended to act as a holding company and to make investments through subsidiaries to be formed.

Tourism is the backbone industry of Macau's economy. The Directors expect that the tourism industry will continue to expand in the coming years due to the relaxation of the rules governing the entry of visitors from the PRC to Macau under the individual visit scheme, which started in July 2003 to allow travelers from the PRC to visit Macau on an individual basis under the individual visit scheme.

In assessing the operating environment of Found Macau, we have looked into the tourism industry in Macau in particular by visitor arrivals and hotel occupancy rates during the period from 2001 to 2004.

Chart 1: Visitor arrivals in Macau from 2001 to 2004

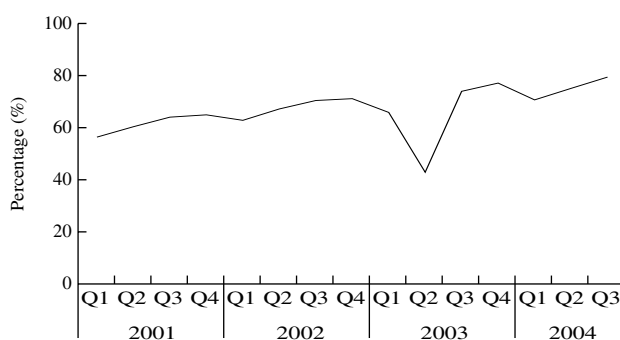


Source: Statistics and Census Service, Government of Macau Special Administrative Region

LETTER FROM KIM ENG

Macau's economy has expanded by leaps and bounds since the establishment of the Macau Special Administrative Region (MSAR) in December 1999. As illustrated in the above Chart 1, total visitor arrivals exceeded 10 million in 2001 and surged approximately 12% to approximately 11.5 million in 2002. Due to the impact of the outbreak of the Severe Acute Respiratory Syndrome ("SARS") in 2003, the lowest number of arrivals of 596,628 was recorded in May 2003, which accounted for only 5% of the annual total. Total visitor arrivals for the nine months ended 30th September, 2004 recorded notable year-on-year growth of approximately 45.3% from approximately 8.4 million to approximately 12.2 million.

Chart 2: Hotel Occupancy Rates in Macau from 2001 to 2004



Source: Statistics and Census Service, Government of Macau Special Administrative Region

As illustrated in the above Chart 2, Macau's average hotel occupancy rates increased by 17.9%, from 2003 to 2004. Due to the SARS incident, the lowest occupancy rate of 42% was recorded in second quarter of 2003. In 2004, the average hotel occupancy rate for the first three quarters is 74%, which increased by 23% for the first three quarters in 2003.

Based on the above statistics, we are of the view that the relaxation of travel restrictions in the PRC will continue to stimulate Macau's tourism industry as well as its casino and hotels businesses, and if such policies remain unchanged, there will be good business opportunities and a favorable operating environment for Found Macau.

3. Effect on the Financial Position of the Group

Working Capital

Based on the interim report of the Company for the six months ended 30th June, 2004, the cash and bank balance as at 30th June, 2004 was about HK\$569,000. As stated in the letter from the Board, the Company issued the Existing Convertible Notes in July 2004. The net proceeds of the issue of the Existing Convertible Notes were approximately HK\$53.7 million. The net proceeds were used for reducing the borrowing of the Company at the time. The Company placed 17,640,000 new shares at HK\$0.24 per Share in November 2004. The net proceeds of the placing were approximately HK\$4 million and were used for general working capital purposes. As set out

LETTER FROM KIM ENG

in Appendix III — “Unaudited Pro Forma Financial Information on the Enlarged Group” of this Circular, the Company received HK\$8 million in January 2005 pursuant to its disposal of Wide Asia and the balance of consideration receivable amounting to HK\$30 million to be received by instalments in February, March and April 2005.

The Company intends to finance the New Found Macau Loan of HK\$150 million to be made by Alpha Aim to Found Macau as to a minimum of HK\$50 million in cash (partly to be funded from the net proceeds of the Placing and the balance from internal resources) and as to the balance by the issue of the FM Convertible Note. The net proceeds from the Placing of HK\$194 million will be used as to approximately HK\$55 million to redeem the Existing Convertible Notes (with accrued interest) and the balance of up to approximately HK\$139 million to fund the New Found Macau Loan.

As stated in the letter from the Board, the Directors intend to apply the net proceeds of the Placing of approximately HK\$194 million, which is to be used as to approximately HK\$55 million to redeem the Existing Convertible Notes (with accrued interest) and as to approximately HK\$139 million will be used to fund the New Found Macau Loan. A shortfall of approximately HK\$11 million for the New Found Macau Loan will be satisfied from the Group’s internal resources, which include the receivables of HK\$30 million to be received by the Group in February, March and April 2005 as a result of the Company’s disposal of Wide Asia in January 2005. In this regard, the Directors confirmed that according to the Company’s working capital projection from 17 January, 2005 up to 28 February, 2006, it would not need to utilize any of its banking facilities to maintain the sufficiency of its working capital and for the payment of the shortfall. We have also reviewed such working capital projection prepared by the Company and are of the view that the Company should have sufficient working capital to meet with its capital requirements under the FM Transactions and finance its existing business operations and requirements of the Group immediately after completion of the FM Transactions.

Taking into the above considerations, in particular, the shortfall of HK\$11 million to be incurred by the Group, we are of the view that there will be a material adverse impact on Group’s liquidity position upon completion of the FM Transactions.

Profit and Loss Figure and New Asset Value

The New Convertible Note is non-interest bearing. Therefore it will not bring additional financing costs to the Group.

Based on the interim report of the Company for the six months ended 30th June, 2004, the unaudited net asset value of the Company was HK\$293.3 million and the unaudited net asset value per Share was HK\$0.26 as at 30th June, 2004.

LETTER FROM KIM ENG

Upon completion of the issue of the New Convertible Note and based on the assumption that the New Convertible Note will be fully converted into new Shares at the conversion price, the net asset value of the Company is expected to increase. The unaudited net asset value per Share will increase to HK\$0.25 and such increase is mainly attributable to the conversion price of HK\$0.25 being slightly higher than the Group's unaudited net asset value per Share of HK\$0.213 as at 30th June, 2004.

Taking into account of the unforeseen risks in respect of “*Risk of Suspension and Cancellation of Listing of the Company's Shares*” stated in section 4(d) — “*Other Areas for Shareholders' Attention*” of the IFA Letter which may or may not occur, we are unable to assess the possible impact on the future earnings of the Group as a result of the FM Transactions.

Gearing Ratio

Based on the unaudited consolidated balance sheet of the Company as at 30th June, 2004, the gearing ratio, which is calculated as the total debts of HK\$200 million over the Company's equity of about HK\$293.3 million, was approximately 0.68. Upon issue of the New Convertible Notes in full and before conversion of the New Convertible Notes into new Shares, and taking into account the redemption of the Existing Convertible Notes of HK\$55 million (with accrued interest), the gearing ratio of the Company, based on the above unaudited balances as at 30th June, 2004, will be increased to 1.18. We consider that such increase in the gearing ratio of the Group will have a material adverse impact on the Group's financial position.

Possible Dilution Effects

Set out below is a table of the shareholding structure of the Company as at the Latest Practicable Date and after completion of the Transactions and based on the assumption that the New Convertible Notes and the FM Convertible Note are fully converted into new Shares at the conversion price of HK\$0.25 per Share:

Name of Shareholders	As at the Latest Practicable Date % of shareholding	After the Placing of the New Convertible Notes in the principal amount of HK\$200 million and assuming full conversion of the New Convertible Notes and no further shares are issued from the Latest Practicable Date till the date of conversion % of shareholding	After the Placing of the New Convertible Notes and/or the FM Convertible Note and assuming the New Convertible Notes and/or the FM Convertible Note is fully converted up to the principal amount of HK\$139 million (for the FM Acquisition and the New Found Macau Loan) % of shareholding	After the Placing of the New Convertible Notes up to the principal amount of HK\$100 million and assuming the FM Convertible Note is issued and fully converted in the principal amount of HK\$100 million % of shareholding
Radford Developments Limited	16.99%	11.01%	12.33%	11.01%
Found Macau	Nil	Nil	Nil	17.61%
PUBLIC SHAREHOLDERS				
Heritage International Holdings Limited	9.16%	5.93%	6.65%	5.93%
Radford Capital Investment Limited	9.39%	6.08%	6.81%	6.08%
Holders of the New Convertible Notes	Nil	35.22%	27.43%	17.61%
Others	<u>64.46%</u>	<u>41.76%</u>	<u>46.78%</u>	<u>41.76%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

LETTER FROM KIM ENG

Despite there is no immediate dilution effect on the shareholding interests of the Independent Shareholders as the New Convertible Notes and/or the FM Convertible Note may or may not be converted into the Shares prior to its maturity, the shareholding of the existing Independent Shareholders as a whole of may be diluted from 83.01% to:-

- (i) 53.77% upon fully conversion of the New Convertible Notes and/or FM Convertible Note at the conversion price of HK\$0.25 per Share in the principal amount of HK\$200 million;
- (ii) 60.24% upon full conversion of New Convertible Notes and/or FM Convertible Note at the conversion price of HK\$0.25 per Share up to the amount of HK\$139 million (to finance for the FM Acquisition and the New Found Macau Loan); and
- (iii) 53.77% upon full conversion of the FM Convertible Note issued to Found Macau at the conversion price of HK\$0.25 per Share in the principal amount of HK\$100 million.

Based on the above shareholding dilution effect, we are of the view that the impact on shareholding dilution as a result of the issue of the New Convertible Notes and/or the FM Convertible Note is material and not favorable so far as Independent Shareholders are concerned.

4. Other Areas for Shareholders' Attention

(a) *Developing stage of the Group's Gambling Business*

As set out in the letter from the Board, Found Macau is an investment holding company and it intends to invest in gambling, entertainment and related business in Macau through its subsidiaries to be formed. Found Macau has no current right or intention to directly engage in the operation of casinos. As at the Latest Practicable Date, the Group has not participated in any gambling businesses in Macau. Shareholders should note that, since the Group's gambling business in Macau, through its investment in Found Macau, is still in its developing stage, its turnover and operating performance might fluctuate in near future.

(b) *Regulatory Restrictions*

Shareholders should also note that there is no assurance that the Company and/or Found Macau will obtain all requisite consents and approvals, if required, from the relevant regulatory authorities for pursuance of gambling business and the FM Transactions may or may not proceed for completion.

(c) *Risk of Gambling Business*

The four-decade monopoly of gambling industry in Macau came to an end when the Macau Government liberalized its gambling and tourism industry in 2002. Recently, about 1 to 1.2 million visitor arrivals in Macau are recorded every month. The increased number of tourists from mainland China and the liberalization of the gambling industry attract new concessionaires in co-operation to develop Macau's gambling industry and intensify competition in the gambling industry in Macau, which may or may not affect the profitability of the Group and/or Found Macau in future.

(d) *Risk of Suspension and Cancellation of Listing of the Company's Shares*

Should the operation of gambling activities that Found Macau may engage in (i) fail to comply with the applicable laws in the areas where such activities operate; and/or (ii) contravene the Gambling Ordinance, the Company or its business may be considered unsuitable for listing under Rule 8.04 of the Listing Rules. Depending on the circumstances of the case, the Stock Exchange may direct the Company to take remedial action, and/or may suspend dealings in, or may cancel the listing of, its securities pursuant to Rule 6.01 of the Listing Rules.

RECOMMENDATION

Having considered the principal factors and reasons as referred to above, we wish to draw the attention of the Shareholders the following to the fact that, as a result of the completion of the FM Transactions, the Shareholders would be faced with the following risks:

- (i) the uncertainty as to whether or not, Found Macau will be capable to generate any profit contribution to itself or to the Group as a whole from its identified and unidentified investment projects in Macau; and
- (ii) the material effect on dilution of shareholding interest of Independent Shareholders as a result of the conversion of the New Convertible Notes and/or the FM Convertible Notes in respect of the FM Transactions.

We consider that the above risks are not in the interests of the Shareholders and should not be acceptable. However, we have also identified that the FM Transactions, if proceeded with, would offer the Shareholders a good opportunity for the Company to participate into the identified and unidentified investment projects of Found Macau which may enable the Group to capture the growing opportunities of the expanding Macau economy in the coming years.

LETTER FROM KIM ENG

In the course of the Independent Shareholders' evaluation of their decision as to whether or not to approve the FM Transactions at the EGM, we would recommend the Independent Shareholders to weigh carefully the balance of merits and risks inherent in the FM Transactions as referred to above as well as the effect on the Group's working capital position (discussed in section 3. of our letter) as a result of the FM Transactions.

We consider that there is a possibility whereby any or all of the risks as identified above may or may not materialize, whilst the merits of the FM Transactions are mostly our factual observations. Therefore, weighing between the respective risks and advantages of the FM Transactions as referred to above, we are of the view that the overall terms and conditions of the FM Transactions are not in the interests of the Company and Independent Shareholders as a whole and would advise the Independent Board Committee to recommend to the Independent Shareholders not to vote in favor of the resolution to be proposed at the EGM to consider and, if thought fit, approve the FM Transactions.

Yours faithfully,

For and on behalf of

Kim Eng Corporate Finance (Hong Kong) Limited

Fabian Shin

Director

1. UNAUDITED INTERIM RESULTS OF THE GROUP FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

Set out below is an extract of the financial information of the Group from its interim report for the six months ended 30th June, 2004.

Condensed Consolidated Income Statement

For the six months ended 30th June, 2004

	Notes	For the six months ended 30th June,	
		2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Turnover		44,471	57,765
Other revenue		799	5,681
Cost of trading securities sold		(43,181)	(18,598)
Depreciation and amortisation expenses		(906)	(3,585)
Staff costs		(4,676)	(12,935)
Finance costs for provision of financial services		—	(4,667)
Other operating expenses		<u>(18,881)</u>	<u>(61,807)</u>
Loss from operations		(22,374)	(38,146)
Impairment losses on:			
— Property, plant and equipment		—	(19,974)
— Interest in an associate		—	(1,485)
Profit on disposal of interest in a subsidiary		—	1,884
Profit on deemed disposal of interest in an associate		1,800	—
Loss on deemed disposal of interest in a subsidiary		—	(1,068)
Loss on disposal of other securities		—	(11,455)
Share of loss of an associate	8	(77,601)	—
Other finance costs		<u>(7,024)</u>	<u>(19,882)</u>
Loss from ordinary activities before taxation	4	(105,199)	(90,126)
Taxation	5	<u>—</u>	<u>2,900</u>
Loss from ordinary activities		(105,199)	(87,226)
Minority interests		<u>—</u>	<u>894</u>
Loss attributable to shareholders		<u>(105,199)</u>	<u>(86,332)</u>
Dividends	6	<u>—</u>	<u>17,201</u>
Loss per share — Basic	7	<u>HK\$(0.10)</u>	<u>HK\$(0.09)</u>

Condensed Consolidated Statement of Changes in Equity*For the six months ended 30th June, 2004*

	For the six months ended 30th June,	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Opening balance — Total equity at 1st January (Audited)	303,782	345,510
Investment revaluation deficit realised on disposal of other securities	—	10,341
Issue of new shares, net of expenses	73,600	—
Issue of shares on exercise of warrants	16,047	—
Issue of shares on conversion of convertible notes	5,040	—
Special dividends paid	—	(17,201)
Loss for the period	<u>(105,199)</u>	<u>(86,332)</u>
Closing balance — Total equity at 30th June (Unaudited)	<u><u>293,270</u></u>	<u><u>252,318</u></u>

Condensed Consolidated Balance Sheet*At 30th June, 2004*

	<i>Notes</i>	At 30th June, 2004 <i>HK\$'000</i> <i>(Unaudited)</i>	At 31st December, 2003 <i>HK\$'000</i> <i>(Audited)</i>
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties		15,371	20,530
Property, plant and equipment		29,765	30,716
Interest in an associate	8	399,808	320,624
Loans receivable	9	<u>20,213</u>	<u>—</u>
		<u>465,157</u>	<u>371,870</u>
Current assets			
Loans receivable	9	25,557	83,456
Other receivables		1,625	24,675
Investments in securities		406	—
Bank balances and cash		<u>569</u>	<u>25,173</u>
		<u>28,157</u>	<u>133,304</u>
Current liabilities			
Other payables		12,320	14,118
Current portion of interest-bearing borrowings		103,201	93,262
Convertible notes	10	<u>58,800</u>	<u>63,840</u>
		<u>174,321</u>	<u>171,220</u>
Net current liabilities		<u>(146,164)</u>	<u>(37,916)</u>
Total assets less current liabilities		<u>318,993</u>	<u>333,954</u>
Non-current liabilities			
Long-term interest-bearing borrowings		<u>25,723</u>	<u>30,172</u>
NET ASSETS		<u><u>293,270</u></u>	<u><u>303,782</u></u>
CAPITAL AND RESERVES			
Issued capital	11	113,634	36,887
Reserves	14	<u>179,636</u>	<u>266,895</u>
		<u><u>293,270</u></u>	<u><u>303,782</u></u>

Condensed Consolidated Cash Flow Statement*For the six months ended 30th June, 2004*

	For the six months ended 30th June,	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Net cash from (used in) operating activities	24,957	(254,172)
Net cash (used in) from investing activities	(68,260)	53,613
Net cash from financing activities	<u>18,699</u>	<u>223,512</u>
Net (decrease) increase in cash and cash equivalents	(24,604)	22,953
Cash and cash equivalents at beginning of period	<u>25,173</u>	<u>26,554</u>
Cash and cash equivalents at end of period, represented by bank balances and cash	<u>569</u>	<u>49,507</u>

Notes to the Condensed Financial Statements

For the six months ended 30th June, 2004

1. 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 3rd 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. Following the Group Reorganisation, the Group undertook certain transactions (the “Restructuring”) to restructure different functions and roles within the Group involving 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”). Details of the Group Reorganisation and the Restructuring have been set out in the Company’s 2003 annual report.

Before the approval of the Company’s 2003 annual report, the directors noted that a creditor (the “Creditor”) of the Old CU Group filed a petition to the High Court of Hong Kong to appoint provisional liquidators for CU Bermuda. The potential effect of the petition and the view of the directors thereof have been fully disclosed in the Company’s 2003 annual report. The petition was dismissed by the court subsequent to the approval and issue of the 2003 annual report. In July 2004, the Creditor submitted another claim to the court, naming the Company and CU Bermuda as co-defendants, on the following grounds: (i) the Company and the Old CU Group has not complied with the Transfer of Business (Creditors’ Protection) Ordinance because the Company has not published any notice of transfer in respect of certain transactions of the Restructuring and the Group Reorganisation and the Restructuring were intended to defraud creditors of the Old CU Group; and (ii) the Old CU Group is in continuing breach of its contractual obligations to settle the debts owed to the Creditor. The Creditor is claiming (i) the Company should pay the debts owed by the Old CU Group to the Creditor amounting to HK\$154 million with interest thereon; and (ii) certain transactions of the Restructuring should be declared void and the original position be restored as if the transactions had not occurred.

In preparing the interim financial statements for the six months ended 30th June, 2004, the directors adopted a going concern basis for the following reasons:

- (a) The Group has adopted measures to improve its liquidity, including ongoing negotiation with creditors to reschedule loans repayment terms and to obtain continuing support from its banks and creditors. Subsequent to 30th June, 2004, the Company has successfully issued new convertible notes amounting to HK\$55 million, which proceeds was applied to repay the old convertible notes which matured in July 2004. The new convertible notes have a maturity date of 19th August, 2009. The directors are confident that the Group is able to obtain adequate finance for its operations as and when required.
- (b) Based on legal advice, the directors consider that (i) the Group has no obligations to assume the liabilities, whether actual or contingent, of the Old CU Group and (ii) challenge by any interested party as to the validity of the restructuring and/or to possible claims for compensation for any loss suffered as a result of the Group Reorganisation and the Restructuring would have no merit.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The accounting policies adopted are consistent with those followed by the Group’s audited financial statements for the year ended 31st December, 2003.

3. SEGMENT INFORMATION

The analysis of the Group's revenue and results by business segments are as follows:

Six months ended 30th June, 2004 (Unaudited)

	Investment in trading securities <i>HK\$'000</i>	Brokerage and financial services <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue						
Turnover						
External customers	36,400	7,862	209	—	—	44,471
Other revenue	<u>—</u>	<u>—</u>	<u>121</u>	<u>—</u>	<u>678</u>	<u>799</u>
Total revenue	<u>36,400</u>	<u>7,862</u>	<u>330</u>	<u>—</u>	<u>678</u>	<u>45,270</u>
Segment results						
Profit on deemed disposal of interest in an associate	(6,855)	(7,220)	102	(2,072)	(6,329)	(22,374)
Share of profit (loss) of an associate	5,826	(1,517)	—	(59,381)	(22,529)	(77,601)
Other finance costs						<u>(7,024)</u>
Loss attributable to shareholders						<u>(105,199)</u>

Note: Following the partial disposal of Hennabun Management Inc. ("HMI"), HMI has become an associate of the Company effectively on 31st December, 2003 and, as a result, portion of the segment revenue and segment results attributable to HMI were included in share of results of an associate from 1st January, 2004 onwards.

Six months ended 30th June, 2003 (Unaudited)

	Investment in trading securities <i>HK\$'000</i>	Brokerage and financial services <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue							
Turnover							
External customers	19,168	34,879	3,718	—	—	—	57,765
Inter-segments	—	—	1,294	—	(1,294)	—	—
	19,168	34,879	5,012	—	(1,294)	—	57,765
Other revenue	—	5,047	3	46	—	585	5,681
Total revenue	<u>19,168</u>	<u>39,926</u>	<u>5,015</u>	<u>46</u>	<u>(1,294)</u>	<u>585</u>	<u>63,446</u>
Segment results	(22,366)	17,492	(28,493)	11	—	(4,790)	(38,146)
Profit on disposal of interest in a subsidiary							1,884
Impairment losses							(21,459)
Loss on deemed disposal of interest in a subsidiary							(1,068)
Loss on disposal of other securities							(11,455)
Other finance costs							(19,882)
Taxation							2,900
Minority interests							<u>894</u>
Loss attributable to shareholders							<u>(86,332)</u>

4. LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging (crediting):

	For the six months ended 30th June,	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Deficit on revaluation of investment properties	—	31,172
Net provision for bad and doubtful debts	14,705	—
Profit on disposal of investment properties	(121)	—
Profit on disposal of property, plant and equipment	(678)	—
Release of negative goodwill to income		
— included in other operating expenses	—	(1,433)
— included in share of loss of an associate	(1,347)	—
Impairment loss on goodwill arising from acquisition of additional interest in an associate (included in share of loss of an associate)	23,721	—
Dividend income	—	(80)
Net unrealised holding loss on trading securities	—	22,366
	<u> </u>	<u> </u>

5. TAXATION

Hong Kong Profits Tax has not been provided as the Group incurred a loss for taxation purposes for the six months ended 30th June, 2004. Hong Kong Profits Tax has been provided at the rate of 17.5% on the Group's estimated assessable profits for the six months ended 30th June, 2003.

	For the six months ended 30th June,	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
The (credit) charge comprises:		
Current tax		
Hong Kong Profits Tax:		
Provision for the period	—	100
Deferred taxation	<u> </u>	<u> </u>
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>

Deferred tax credited for the six months ended 30th June, 2003 was in respect of unrealised holding loss on trading securities, which was a reversal of temporary difference.

6. DIVIDENDS

	For the six months ended 30th June,	
	2004	2003
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
HK\$Nil per share		
(2003: Special dividend of HK7 cents per share)	—	17,201

The directors do not recommend the payment of a dividend for the six months ended 30th June, 2004. The special dividends were paid out of the contributed surplus of CU Bermuda in January 2003.

7. LOSS PER SHARE

The calculation of the loss per share is based on the loss for the period of HK\$105,199,000 (2003: HK\$86,332,000) and on the weighted average number of 1,038,348,610 shares (2003:921,505,020 shares) in issue during the period. The weighted average number of shares in issue used in the basic loss per share calculation for the six months 30th June, 2003 has been adjusted to reflect the effect of the bonus issues during the current period and during the year ended 31st December, 2003, which is treated as had been completed on 1st January, 2003.

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

8. INTEREST IN AN ASSOCIATE

	Notes	At 30th June,	At 31st
		2004	December,
		HK\$'000	2003
		(Unaudited)	(Audited)
Share of net assets		192,287	196,223
Negative goodwill		<u>(20,885)</u>	<u>(22,620)</u>
	(a)	<u>171,402</u>	<u>173,603</u>
Due from an associate	(b)	<u>228,406</u>	<u>147,021</u>
		<u>399,808</u>	<u>320,624</u>

Interest in an associate represented the Group's 45.15% interest in HMI.

Notes:

- (a) On 10th 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 at a consideration satisfied by the issuance of 40 million shares of the Company, representing approximately 8.85% of the Company's enlarged issued share capital. Positive goodwill arising from the acquisition amounted to approximately HK\$23,721,000 which was fully impaired during the period.

The directors have given due consideration of the financial position of HMI and its subsidiaries (collectively the “HMI Group”) in determining whether the positive goodwill have suffered an impairment loss. Following the deemed disposal of HMI Group effectively on 31st December, 2003, HMI Group is no longer consolidated into the financial statements of the Company. The Company was informed by the management of HMI that one of its shareholders intended to dispose of its interests in HMI. The directors considered that the acquisition could further consolidate the interest in HMI and to avoid the shareholdings being transferred to other party who is unfamiliar with the business of HMI. Further, the directors considered the increase in shareholding in HMI could enhance the profitability of the Group in future in view of the blooming of the financial market in Hong Kong. However, for prudence, the directors have written off the goodwill arising from the acquisition of additional interest in HMI.

In addition to the above acquisition of additional shareholdings in HMI, the Group’s interests in HMI were reduced because of conversion of convertible note by a convertible note holder and issue of shares to a third party. As a result, the interest in HMI was reduced from 47.6% at 1st January, 2004 to 45.15% at 30th June, 2004.

(b) Details of the amount due from an associate are as follows:

	<i>Notes</i>	<i>HK\$’000</i> <i>(Unaudited)</i>
Advances:		
At 1st January, 2004		147,021
Net advances		101,789
Interest accrued		6,070
Setting-off against subscription payable of convertible note		<u>(150,000)</u>
At 30th June, 2004	(ii)	<u>104,880</u>
Convertible note receivables:		
At 1st January, 2004		—
Subscription with settlement through set-off of advances due		150,000
Interest accrued		3,226
Disposal to a third party		<u>(29,700)</u>
At 30th June, 2004	(i)	<u>123,526</u>
Total amounts due from an associate		<u><u>228,406</u></u>

Notes:

- (i) Of the amounts due, HK\$120,300,000 is principal amount of a convertible note issued by HMI on 15th January, 2004. Related interest receivable amounted to HK\$3,226,000 at the balance sheet date. 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 notes and before its maturity date. During the period, the Company and HMI agreed to revise the conversion price to HK\$1.0 per ordinary share. On 25th February, 2004, the Company agreed to subordinate the amounts due from HMI Group in respect of the convertible note to HMI Group’s banks up to an amount of HK\$150 million, if so requested by HMI Group’s banks.
- (ii) The remaining amounts due represent cash advances which are unsecured, interest-bearing at prime rate plus 1% per annum and have no fixed repayment term.

Details of the consolidated operating results and financial position of HMI based on unaudited financial statements, after adjusting the fair value of assets acquired at the date of acquisition, are as follows:

**For the six months
ended 30th June, 2004**

HK\$'000

(Unaudited)

Operating results for the six months ended 30th June, 2004

Turnover	<u>68,869</u>
Loss from ordinary activities before taxation	<u>116,024</u>
Loss from ordinary activities before taxation attributable to the Group	55,227
Release of negative goodwill to income	(1,347)
Impairment loss on goodwill arising from acquisition of additional interest in an associate	<u>23,721</u>
Share of loss of an associate	<u>77,601</u>

Financial position at the balance sheet date

HK\$'000

Total non-current assets	11,458
Total current assets	727,870
Total current liabilities	(183,143)
Total non-current liabilities	<u>(130,300)</u>
Shareholders' funds	<u>425,885</u>
Amount attributable to the Group	<u>192,287</u>

9. LOANS RECEIVABLE

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

		At 30th June, 2004	At 31st December, 2003
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Unaudited)</i>	<i>(Audited)</i>
Third parties		139,224	161,233
A related company	17(b)	20,460	20,460
Directors of the Company	17(c)	<u>—</u>	<u>972</u>
		159,684	182,665
Provision for bad and doubtful debts		<u>(113,914)</u>	<u>(99,209)</u>
		45,770	83,456
Less: Balances due within one year included in current assets		<u>(25,557)</u>	<u>(83,456)</u>
Balances due after one year		<u><u>20,213</u></u>	<u><u>—</u></u>

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

		At 30th June, 2004	At 31st December, 2003
		<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Unaudited)</i>	<i>(Audited)</i>
Within maturity dates		61,131	110,629
Balances overdue for repayment:			
1-3 months		—	28,159
4-6 months		26,518	38,404
7-12 months		66,562	5,473
Over 12 months		<u>5,473</u>	<u>—</u>
		<u><u>159,684</u></u>	<u><u>182,665</u></u>

10. CONVERTIBLE NOTES

	At 30th June, 2004 <i>HK\$'000</i> <i>(Unaudited)</i>	At 31st December, 2003 <i>HK\$'000</i> <i>(Audited)</i>
At balance sheet date	<u>58,800</u>	<u>63,840</u>

Note:

The 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 4th July, 2004. During the period, principal amounting to HK\$5,040,000 was converted into 3,405,405 ordinary shares of HK\$0.1 each of the Company at a conversion price of HK\$1.48 per share.

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 4th July, 2004. The amount to be paid by the Company upon redemption of the notes shall be 105% of the outstanding amount of the notes. No notes were redeemed by the Company during the period.

The conversion prices applicable to the relevant period are as follows:

Conversion price per share	Period
HK\$1.91	Date of issue to 4th July, 2003
HK\$2.22	5th July, 2003 to 11th November, 2003
HK\$1.48	12th November, 2003 to 13th June, 2004
HK\$0.592	14th June, 2004 to 14 days before and excluding the maturity date on 4th July, 2004

11. ISSUED CAPITAL

	<i>Notes</i>	Number of ordinary shares	Nominal value <i>HK\$</i>
Authorised:			
At balance sheet date		<u>20,000,000,000</u>	<u>2,000,000,000</u>
Issued and fully paid:			
At beginning of period (Audited)		368,868,495	36,886,850
Exercise of warrants	(i)	45,733,510	4,573,351
Conversion of convertible notes	(ii)	3,405,405	340,541
Issuance of shares	(iii)	40,000,000	4,000,000
Bonus issue	(iv)	<u>678,328,503</u>	<u>67,832,850</u>
At balance sheet date (Unaudited)		<u>1,136,335,913</u>	<u>113,633,592</u>

Notes:

- (i) During the period, an aggregate of 45,733,510 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 for 39,945,103 shares and of HK\$0.15 per share for 5,788,407 shares respectively.
- (ii) During the period, an aggregate of 3,405,405 ordinary shares of HK\$0.1 each of the Company were issued to a convertible note holder upon the conversion of convertible notes as set out in note 10.
- (iii) Pursuant to the sales and purchase agreement dated 10th March, 2004, 40,000,000 ordinary shares of HK\$0.1 each of the Company were issued to acquire 37.5 million shares of HMI as set out in note 8.
- (iv) By an ordinary resolution passed on 14th June, 2004, 678,328,503 ordinary shares of HK\$0.1 each were issued to shareholders on the basis of three bonus shares for every two existing shares.

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

12. SHARE OPTION SCHEME

No options have been granted under the Company's share option scheme during the period.

13. WARRANTS

At the balance sheet date, the Company had outstanding 3,146,937 warrants. Exercise in full of such warrants would result in the issue of 3,146,937 additional shares of HK\$0.1 each. The exercise price of the warrants is adjusted from HK\$0.38 to HK\$0.15 with effect from 1st June, 2004 as a result of the bonus issue during the period.

14. RESERVES

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2004 (Audited)	—	18,273	88,128	160,494	266,895
Exercise of warrants	11,474	—	—	—	11,474
Shares issued at premium, net of issuing expenses	74,299	—	—	—	74,299
Capitalisation as bonus issue	(67,833)	—	—	—	(67,833)
Loss for the period	—	—	—	(105,199)	(105,199)
At 30th June, 2004 (Unaudited)	<u>17,940</u>	<u>18,273</u>	<u>88,128</u>	<u>55,295</u>	<u>179,636</u>

15. CONTINGENT LIABILITIES**(a) Guarantees for banking facilities**

At the balance sheet date, the Company had contingent liabilities not provided for in the financial statements in respect of guarantee of HK\$36,120,000 (At 31st December, 2003: HK\$38,000,000) and HK\$75,000,000 (At 31st December, 2003: HK\$125,000,000) for banking facilities granted to subsidiaries and associates respectively, which were utilised by subsidiaries and associates to the extent of HK\$28,424,000 (At 31st December, 2003: HK\$32,915,000) and HK\$53,462,000 (At 31st December, 2003: HK\$60,915,000) respectively.

(b) Other guarantees

As set out in the Company's 2003 annual report, the Company guaranteed to CU Bermuda that the Company was obliged to pay to CU Bermuda HK\$13,000,000, should the interest of an unlisted investment held in trust on behalf of CU Bermuda by the Company be affected by any inappropriate manner. During the period, the title in the investment was transferred to a nominee under CU Bermuda's instruction at a nominal consideration of HK\$1. The abovementioned guarantee was released accordingly.

Except as aforesaid, there are no material changes on other guarantees as detailed in the Company's 2003 annual report during the period.

16. 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:

	At 30th June, 2004 HK\$'000 (Unaudited)	At 31st December, 2003 HK\$'000 (Audited)
Land and buildings	28,308	28,799
Investment properties	<u>15,371</u>	<u>20,530</u>
	<u>43,679</u>	<u>49,329</u>

17. RELATED PARTY TRANSACTIONS

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

- (a) A property of the Group with net book value of HK\$17,009,000 (At 31st December, 2003: HK\$17,294,000) 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.
- (b) The Group has granted unsecured loans to a related company, 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 (At 31st December, 2003: HK\$20,460,000) and carried interest at prime rate plus 3% per annum. Provision of HK\$20,460,000 (At 31st December, 2003: HK\$20,460,000) had been made for non-repayment of the loans and related interest.

HMI Group, former subsidiaries of the Company, becomes associates of the Group effectively 31st December, 2003. During the year ended 31st December, 2003, HMI Group (including HMI's associate) had granted unsecured loans to certain related companies in which the abovementioned related party is also a director and/or substantial shareholder. At 31st December, 2003, 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.

- (c) During the year ended 31st December, 2003, the Group and HMI Group granted unsecured loans to the executive directors of the Company with outstanding balances at 31st December, 2003 amounted to HK\$972,000 and HK\$106,000 respectively. The loans carried interest at 8% per annum. All the amounts due have been settled during the period.
- (d) During the year ended 31st December, 2003, the Group granted securities margin loans, through HMI Group, to a substantial shareholder, a related company, and directors of the Company with outstanding balances at 31st December, 2003 amounting to HK\$16,663,000, HK\$1,466,000, and HK\$877,000 respectively. The loans carried interest at prime rate or prime rate plus 3% or 15% per annum and were 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.
- (e) At 31st December, 2003, HMI Group's credit facilities to the extent of HK\$50,000,000 was guaranteed by a director of certain companies within the HMI Group who is a brother of a director of the Company.

- (f) During the period, the Group acquired certain trading securities from HMI Group at a total consideration of HK\$24,000,000. All the trading securities acquired were disposed in the market during the period.

18. POST BALANCE SHEET EVENTS

Other than disclosed elsewhere in the financial statements, there are other post balance sheet events, details of which are set out below:

Subsequent to the balance sheet date, the Company issued convertible notes with principal amounts of HK\$55 million. The convertible notes bear interest at 7.8% per annum and can be converted into the ordinary shares of the Company at a conversion price of HK\$0.5 per share in amounts or integral multiples of HK\$1,000,000 at any time from date of issue up to 7 days before (and excluding) the maturity of the convertible notes. The convertible notes will mature on 19th August, 2009. The proceeds from the issue were applied to repay the original convertible notes which were due in July 2004.

Subsequent to the balance sheet date, certain investment properties with carrying value of HK\$6.79 million were disposed of at total consideration of HK\$7.4 million.

On 17th September, 2004, the board of directors proposed to make the bonus issue of ordinary shares of the Company to the shareholders of the Company on the basis of one bonus share, credited as fully paid, for every ten 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.

2. AUDITED CONSOLIDATED RESULTS OF THE GROUP

Set out below are the audited consolidated income statement of the Group for the years ended 31st December, 2003, 2002 and 2001 (with auditors' reports for the financial years ended 31st December, 2003 and 2002. The auditors did not express any qualified opinion in the Auditor's Report for the year ended 31st December, 2001) extracted from the audited financial statements of the Group for the relevant years and consolidated income statement, consolidated statement of changes in equity, consolidated balance sheet and consolidated cash flow statement for each of the two years ended 31st December, 2002 and 2003 of the Group together with the relevant notes in the accounts as extracted from the audited financial statements of the Company for the year ended 31st December, 2003. Certain of the 2002 and 2001 comparative figures in the consolidated income statement below have been restated or reclassified to conform to the presentation of the audited financial statements for the year ended 31st December, 2003.

i) Consolidated Income Statement

	2003	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	138,937	180,682	194,365
Other revenue	13,720	9,586	9,090
Cost of trading securities sold	(54,544)	(108,875)	(142,989)
Depreciation and amortisation expenses	(4,377)	(18,948)	(28,282)
Staff costs	(22,374)	(30,786)	(32,939)
Finance costs for provision of financial services	(7,029)	(11,492)	(11,748)
Other operating expenses	<u>(333,669)</u>	<u>(29,329)</u>	<u>(184,965)</u>
Loss from operations	(269,336)	(9,162)	(197,468)
Impairment losses on:			
— Property, plant and equipment	(21,000)	(112,876)	(115,000)
— Investment properties	(20,300)	—	—
— Goodwill on consolidation of subsidiaries	(1,006)	(28,343)	(4,783)
— Interest in an associate	(1,485)	—	(5,479)
— Other securities	(13,652)	—	—
Profit on disposal of interests in subsidiaries	245,319	—	—
Profit on disposal of partial interests in subsidiaries	1,056	—	—
(Loss)/Profit on deemed disposal of interests in subsidiaries	(1,809)	—	1,269
Profit on deemed disposal of interest in an associate	2,500	—	—
Loss on disposal of other securities	—	—	(21,619)

	2003	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Forfeiture of sale deposit received from disposal of interest in a subsidiary	—	—	33,000
Net gain on disposals of interests in associates	—	—	103
Other finance costs	(37,131)	(27,069)	(37,666)
Share of results of associates	<u>—</u>	<u>—</u>	<u>(7,353)</u>
Loss from ordinary activities before taxation	(116,844)	(177,450)	(354,996)
Taxation	<u>5,800</u>	<u>(10,011)</u>	<u>86</u>
Loss from ordinary activities	(111,044)	(187,461)	(354,910)
Minority interests	<u>77,305</u>	<u>(11,908)</u>	<u>23,350</u>
Loss attributable to shareholders	<u>(33,739)</u>	<u>(199,369)</u>	<u>(331,560)</u>
Dividends	<u>17,201</u>	<u>—</u>	<u>—</u>
Loss per share — Basic	<u>(9 cents)</u>	<u>(54 cents)</u>	<u>(90 cents)</u>

ii) Auditors' Report**a.) Auditors' Report for the year ended 31st December, 2003**

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.

- (1) Included in current assets as at 31st 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 31st 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 31st December, 2003 are subject to audit qualifications as a result of the followings:

Included in the consolidated balance sheet of HMI at 31st 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 31st 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 31st 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 31st 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 31st December, 2003.

- (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 31st December, 2002, which were audited by another firm of auditors whose report dated 16th 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 3rd 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 31st 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 31st 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.

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 31st 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, 22nd April, 2004

b.) Auditors' Report for the year ended 31st December, 2002**TO THE MEMBERS OF CHINA UNITED HOLDINGS LIMITED**

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 21 to 82 which have been prepared in accordance with accounting principles generally accepted in Hong Kong, other than as set out below.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors of the Company are required 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 statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned and performed 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. 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 of our opinion.

Fundamental uncertainty relating to the going concern basis

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements which explain the circumstances giving rise to the fundamental uncertainty relating to:

- (i) the completion of disposals of certain investment properties and other properties;
- (ii) the outcome of the proposed restructuring of bank loans;
- (iii) the outcome of the rescheduling of a bank loan and other loans; and
- (iv) the validity of the Group's legal right to recover the payments previously made by the Company and its subsidiary to two lenders.

The financial statements have been prepared on the going concern basis, the validity of which depends on the completion of the disposals of certain investment properties and other properties, the success in the proposed restructuring of bank loans, the rescheduling of a bank loan and other loans and the validity of the Group's legal right to recover the payments previously made by the Company and its subsidiary to two lenders. If the going concern basis were found not to be appropriate, adjustments would have to be made to restate the values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. We consider that the fundamental uncertainty has been adequately disclosed in the financial statements and our opinion is not qualified in this respect.

QUALIFIED OPINION ARISING FROM DISAGREEMENT ABOUT ACCOUNTING TREATMENT

As explained in note 22 (i) to the financial statements, the Group holds 290,000,000 shares in a company, Radford Capital Investment Limited ("Radford Capital"), as trading securities with a carrying value of HK\$114,840,000 representing, in the directors' opinion, its fair value. Radford Capital is a company incorporated in the Cayman Islands with limited liability and whose shares are listed on The Stock Exchange of Hong Kong Limited ("the Stock Exchange").

Since 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 31st December, 2002 is the fair value of the Group's investment in Radford Capital. Accordingly, the investment in Radford Capital is stated at HK\$114,840,000 after taking 20% discount on the closing market price quoted on the Stock Exchange on the last trading day in December 2002. This resulted in a recognition of a net unrealised holding gain of HK\$52,640,000, after deducting an estimated attributable tax of HK\$10,000,000, in the income statement for the current year.

We disagree with the assumptions adopted by the directors in arriving at the discount rate of 20% used in assessing the fair value of the investment in Radford Capital. Consequently, in our opinion, the carrying value of the investment does not appropriately reflect its fair value. However, we have not been able to quantify the effect on the carrying value of the investment in Radford Capital and on the Group's results for the year with reasonable accuracy.

Except for the failure to state the investment in Radford Capital at its fair value as described in the preceding paragraph, in our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2002 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance. In our opinion, the financial statements give a true and fair view of the cash flows of the Group for the year ended 31st December, 2002.

BDO International
Certified Public Accountants

Hong Kong, 16th April, 2003

iii) Audited Financial Statements

Consolidated Income Statement*Year ended 31st December, 2003*

	<i>Notes</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
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	<u>(333,669)</u>	<u>(29,329)</u>
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	<u>(37,131)</u>	<u>(27,069)</u>
Loss from ordinary activities before taxation		(116,844)	(177,450)
Taxation	12	<u>5,800</u>	<u>(10,011)</u>
Loss from ordinary activities		(111,044)	(187,461)
Minority interests		<u>77,305</u>	<u>(11,908)</u>
Loss attributable to shareholders	13	<u>(33,739)</u>	<u>(199,369)</u>
Dividends	14	<u>17,201</u>	<u>—</u>
Loss per share — Basic	15	<u>(9 cents)</u>	<u>(54 cents)</u>

Consolidated Statement of Changes in Equity*Year ended 31st December, 2003*

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
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 31st December, 2003*

	<i>Notes</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
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>

	<i>Notes</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
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><u>303,782</u></u>	<u><u>345,510</u></u>
CAPITAL AND RESERVES			
Issued capital	30	36,887	61,434
Reserves	33	266,895	284,076
		<u><u>303,782</u></u>	<u><u>345,510</u></u>

Balance Sheet*At 31st December, 2003*

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

Consolidated Cash Flow Statement*Year ended 31st December, 2003*

	<i>Notes</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
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		<u>121</u>	<u>1,137</u>
Net cash (used in) from operating activities		<u>(401,648)</u>	<u>42,025</u>
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		<u>122</u>	<u>266</u>
Net cash from (used in) investing activities		<u>150,555</u>	<u>(5,764)</u>

		2003	2002
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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		<u>(53)</u>	<u>(45)</u>
Net cash from (used in) financing activities		<u>343,374</u>	<u>(110,222)</u>
Net increase (decrease) in cash and cash equivalents		92,281	(73,961)
Cash and cash equivalents at beginning of year		<u>(67,108)</u>	<u>6,853</u>
Cash and cash equivalents at end of year	26	<u><u>25,173</u></u>	<u><u>(67,108)</u></u>

Notes to the Financial Statements*Year ended 31st 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 31st 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 16th August, 2002 under the name Kanford Holdings Limited. By a special resolution passed on 26th 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 3rd 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 3rd January, 2003, the Company’s shares were listed on the Stock Exchange by way of introduction on 6th January, 2003 and the listing status of CU Bermuda was withdrawn on the 3rd January, 2003. Details of the Group Reorganisation were set out in a circular issued by CU Bermuda dated 26th 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 31st December, 2002 are insignificant. No comparative figures for the Company’s financial statements were presented as the Company was incorporated on 16th August, 2002 for the purpose of the Group Reorganisation.

In the published financial statements for the year ended 31st 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.

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 16th 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 31st 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.

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 1st 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.

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 1st January, 2001, negative goodwill is credited to a capital reserve; and
- For acquisitions on or after 1st 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.

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.

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.

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.

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.

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	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
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	<u>5,856</u>	<u>7,646</u>
	<u>138,937</u>	<u>180,682</u>

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 31st December, 2003 and 2002, and certain assets and liabilities information regarding business segments as at 31st December, 2003 and 2002.

Year ended 31st December, 2003

	Investment in trading securities <i>HK\$'000</i>	Brokerage and financial services <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
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	<u>80,179</u>	<u>65,916</u>	<u>8,054</u>	<u>36</u>	<u>(2,198)</u>	<u>670</u>	<u>152,657</u>
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							<u>77,305</u>
Loss attributable to shareholders							<u>(33,739)</u>

Year ended 31st December, 2002

	Investment in trading securities <i>HK\$'000</i>	Brokerage and financial services <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
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	<u>104,973</u>	<u>75,150</u>	<u>10,684</u>	<u>—</u>	<u>(3,014)</u>	<u>2,475</u>	<u>190,268</u>
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							<u>(11,908)</u>
Loss attributable to shareholders							<u>(199,369)</u>

Assets and liabilities as at 31st December, 2003

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

Assets and liabilities as at 31st December, 2002

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

Other segment information for the year ended 31st December, 2003

	Investment in trading securities <i>HK\$'000</i>	Brokerage and financial services <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
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

Other segment information for the year ended 31st December, 2002

	Investment in trading securities <i>HK\$'000</i>	Brokerage and financial services <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
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 31st December, 2003 and 2002. Accordingly, no geographical segment information has been presented.

6. OTHER REVENUE

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
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>

7. LOSS FROM OPERATIONS

	2003	2002
	HK\$'000	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
	<u>4,377</u>	<u>18,948</u>
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	<u>1,216</u>	<u>1,653</u>
	<u>4,640</u>	<u>(5,993)</u>

8. LOSS ON DEEMED DISPOSAL OF INTERESTS IN SUBSIDIARIES

Pursuant to a share subscription agreement dated 26th 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 10th 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 15th 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 31st December, 2003. The loss on deemed disposal amounted to HK\$1,809,000.

9. OTHER FINANCE COSTS

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
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	<u>(7,029)</u>	<u>(11,492)</u>
	<u><u>37,131</u></u>	<u><u>27,069</u></u>

10. DIRECTORS' EMOLUMENTS

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Fees:		
Executive directors	—	—
Independent non-executive directors	120	309
	<u>120</u>	<u>309</u>
Other emoluments:		
Executive directors	<u>5,804</u>	<u>9,267</u>
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 31st December, 2002 are emoluments paid to directors of CU Bermuda.

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	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
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	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
The (credit) charge comprises:		
Current tax		
Hong Kong Profits Tax:		
Current year	4,200	571
Over provision in prior years	—	<u>(560)</u>
	4,200	11
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.

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
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	<u>—</u>	<u>(560)</u>
Tax (income) expense for the year	<u>(5,800)</u>	<u>10,011</u>

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	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
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.

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 31st 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 1st 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	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
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	<u>760</u>	<u>(38,890)</u>
At balance sheet date	<u><u>20,530</u></u>	<u><u>157,470</u></u>

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

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

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 31st 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 31st December, 2002 were stated at its subsequent selling price.

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Leasehold improvements	Furniture and fixtures	Office equipment	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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	<u>(357,310)</u>	<u>(4,244)</u>	<u>(2,207)</u>	<u>(4,477)</u>	<u>(5,996)</u>	<u>(374,234)</u>
At balance sheet date	<u>41,272</u>	<u>5,842</u>	<u>7,488</u>	<u>2,815</u>	<u>5,494</u>	<u>62,911</u>
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	<u>(286,033)</u>	<u>(3,596)</u>	<u>(1,496)</u>	<u>(3,454)</u>	<u>(4,715)</u>	<u>(299,294)</u>
At balance sheet date	<u>12,473</u>	<u>5,198</u>	<u>6,987</u>	<u>2,328</u>	<u>5,209</u>	<u>32,195</u>
Net book value						
At balance sheet date	<u>28,799</u>	<u>644</u>	<u>501</u>	<u>487</u>	<u>285</u>	<u>30,716</u>
At beginning of year	<u>122,082</u>	<u>1,450</u>	<u>2,063</u>	<u>1,808</u>	<u>2,267</u>	<u>129,670</u>

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

18. INTANGIBLE ASSETS

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

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 1st January, 2001

Trading right in the HKFE: Ten years

19. GOODWILL

	Goodwill <i>HK\$'000</i>	Negative goodwill <i>HK\$'000</i>	Total <i>HK\$'000</i>
At beginning of year			
Cost	34,137	(28,650)	5,487
Accumulated amortisation	<u>(34,137)</u>	<u>1,725</u>	<u>(32,412)</u>
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	<u>—</u>	<u>22,620</u>	<u>22,620</u>
Closing carrying amount	<u>—</u>	<u>—</u>	<u>—</u>
At balance sheet date			
Cost	35,143	—	35,143
Accumulated amortisation	<u>(35,143)</u>	<u>—</u>	<u>(35,143)</u>
Closing carrying amount	<u>—</u>	<u>—</u>	<u>—</u>

20. INTERESTS IN SUBSIDIARIES

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

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
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.

21. INTERESTS IN ASSOCIATES

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Share of net assets	196,223	1,485
Negative goodwill reclassified	<u>(22,620)</u>	<u>—</u>
	<u>173,603</u>	<u>1,485</u>
Due from associates	147,021	44,021
Provision for doubtful debts	<u>—</u>	<u>(44,021)</u>
	<u>147,021</u>	<u>—</u>
	<u><u>320,624</u></u>	<u><u>1,485</u></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 31st December, 2002 were held by CU Bermuda, and were disposed of during the year. Associates (HMI Group) at 31st 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
Chung Nam Securities Limited	Hong Kong	270,000,000 shares of HK\$1 each	47.6	Securities brokerage and financial services

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
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
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
	<i>HK\$'000</i>
	<i>(note)</i>
Operating results for the year ended 31st December, 2003	
Turnover	<u>124,128</u>
Loss from ordinary activities before taxation	<u>211,412</u>
Loss from ordinary activities before taxation attributable to the Group	<u>132,014</u>
	<i>HK\$'000</i>
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	<u>(46,500)</u>
Shareholders' funds	<u>412,234</u>
Amount attributable to the Group	<u>196,223</u>

Note:

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

The auditors' report on the consolidated financial statements of HMI for the year ended 31st 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 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
At fair value:				
Equity securities				
Listed investments (<i>note</i>)	—	126,571	—	—
Unlisted investments	—	—	—	3,899
Unlisted investment fund	—	—	—	50,941
	<u>—</u>	<u>126,571</u>	<u>—</u>	<u>54,840</u>
Debt securities, Unlisted	—	—	—	3,899
	<u>—</u>	<u>126,571</u>	<u>—</u>	<u>58,739</u>
Fair value of equity securities listed:				
— in Hong Kong (<i>note</i>)	—	123,959	—	—
— overseas	—	2,612	—	—
	<u>—</u>	<u>126,571</u>	<u>—</u>	<u>—</u>

Note:

Included in trading securities at 31st 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 31st December, 2002 and 30th 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 31st 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 31st 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	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
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>

24. LOANS RECEIVABLE

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

	<i>Notes</i>	2003	2002
		<i>HK\$'000</i>	<i>HK\$'000</i>
Third parties		161,233	297,752
Related companies	43(b)	20,460	57,427
Directors of the Company	43(c)	<u>972</u>	<u>1,361</u>
		182,665	356,540
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>
		—	1,369
		<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	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
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	—	28,925
	<u>182,665</u>	<u>356,540</u>

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:

	<i>Notes</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
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		—	<u>(51,262)</u>
Trade receivables, net		—	290,957
Other receivables	39(a)	<u>24,675</u>	<u>9,869</u>
		<u>24,675</u>	<u>300,826</u>

No trade receivables existed at 31st 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 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Current	—	290,866
1-3 months	<u>—</u>	<u>91</u>
	<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.

26. CASH AND CASH EQUIVALENTS

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

27. TRADE AND OTHER PAYABLES

At 31st 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 31st 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
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans:			
Secured	32,915	311,302	—
Unsecured	<u>—</u>	<u>18,609</u>	<u>—</u>
	32,915	329,911	—
Bank overdrafts:			
Secured	—	111,501	—
Unsecured	<u>—</u>	<u>334</u>	<u>—</u>
	<u>—</u>	<u>111,835</u>	<u>—</u>
Other loans (<i>note</i>):			
Secured	—	67,276	—
Unsecured	<u>90,519</u>	<u>16,901</u>	<u>90,519</u>
	<u>90,519</u>	<u>84,177</u>	<u>90,519</u>
	<u>123,434</u>	<u>525,923</u>	<u>90,519</u>

The maturity of the above borrowings is as follows:

	The Group		The Company
	2003	2002	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	<u>93,262</u>	<u>423,580</u>	<u>90,519</u>
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	<u>17,637</u>	<u>25,740</u>	<u>—</u>
	<u>30,172</u>	<u>102,343</u>	<u>—</u>
	<u><u>123,434</u></u>	<u><u>525,923</u></u>	<u><u>90,519</u></u>

Note:

Movements in other loans are as follows:

	The Group		The Company
	2003	2002	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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 (<i>note 35</i>)	—	(11,548)	—
Disposal of subsidiaries	<u>(67,550)</u>	<u>—</u>	<u>—</u>
At balance sheet date	<u><u>90,519</u></u>	<u><u>84,177</u></u>	<u><u>90,519</u></u>

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 (<i>Note i</i>)	—	—	63,840
Issuance during the year (<i>Note ii</i>)	163,000	—	—
Redemption (<i>Note ii</i>)	(29,000)	—	—
Conversion (<i>Note ii</i>)	(87,500)	—	—
Deemed disposal of HMI	(46,500)	—	—
	<u>63,840</u>	<u>63,840</u>	<u>63,840</u>
At balance sheet date	<u>63,840</u>	<u>63,840</u>	<u>63,840</u>
Represented by:			
Current portion	63,840	—	63,840
Non-current portion	<u>—</u>	<u>63,840</u>	<u>—</u>
	<u>63,840</u>	<u>63,840</u>	<u>63,840</u>

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 4th 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 4th 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 4th July, 2003
HK\$2.22	5th July, 2003 to 11th November, 2003
HK\$1.48	12th November, 2003 to 14 days before and excluding the maturity date on 4th July, 2004

- (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	14th April, 2005	HK\$2.00 and HK\$1.50
HK\$60,000,000	7.5% per annum	29th November, 2006	HK\$1.50
HK\$15,000,000	7.5% per annum	1st 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.

30. ISSUED CAPITAL

	<i>Notes</i>	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)	<u>90,000</u>	<u>—</u>
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)	<u>19,999,900,000</u>	<u>1,999,990,000</u>
At balance sheet date		<u><u>20,000,000,000</u></u>	<u><u>2,000,000,000</u></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)	<u>18</u>	<u>—</u>
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)	<u>266,487</u>	<u>26,649</u>
At balance sheet date		<u><u>368,868,495</u></u>	<u><u>36,886,850</u></u>

The comparative figure of issued capital as at 31st 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.

Note:

- (i) The Company was incorporated in Hong Kong with limited liability on 16th 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 30th 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 30th 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 20th November, 2002 and the Scheme sanctioned by the Supreme Court of Bermuda which became effective on 3rd 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 29th 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 15th 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 27th 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.

(ii) New share option scheme of CU Bermuda

Pursuant to a resolution passed on 30th 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 20th November, 2002 and the Scheme sanctioned by the Supreme Court of Bermuda which became effective on 3rd 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 20th November, 2002 by the shareholders of the Company and became effective on 3rd 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 12th 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 11th 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.

33. RESERVES

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Special reserve HK\$'000	Capital reserve HK\$'000	Investment revaluation reserve HK\$'000	Contributed surplus HK\$'000	Merger reserve HK\$'000	Accumulated (losses) profits HK\$'000	Total HK\$'000
The Group									
At 1st 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 31st 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 31st December, 2003	<u>—</u>	<u>—</u>	<u>—</u>	<u>18,273</u>	<u>—</u>	<u>—</u>	<u>88,128</u>	<u>160,494</u>	<u>266,895</u>

Included in the reserves of the Group as at 31st 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	Merger reserve	Accumulated loss	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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	<u>—</u>	<u>—</u>	<u>(107,655)</u>	<u>(107,655)</u>
At 31st December, 2003	<u>—</u>	<u>291,448</u>	<u>(107,655)</u>	<u>183,793</u>

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

34. CASH (USED IN) GENERATED FROM OPERATIONS

	<i>Notes</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
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)	—
		<u>49,242</u>	<u>14,535</u>
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		<u>33,466</u>	<u>17,570</u>
Cash (used in) generated from operations		<u>(401,711)</u>	<u>42,287</u>

35. MAJOR NON-CASH TRANSACTIONS

During the year ended 31st 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 31st 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.

36. ACQUISITION OF SUBSIDIARIES

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
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><u>1,400</u></u>	<u><u>30,000</u></u>
Satisfied by:		
Cash paid	—	30,000
Unsettled payable	<u>1,400</u>	<u>—</u>
Cash consideration	<u><u>1,400</u></u>	<u><u>30,000</u></u>
Analysis of outflow of cash and cash equivalents in respect of acquisition of subsidiaries:		
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Cash paid	—	(30,000)
Bank balances and cash acquired	—	3,475
Bank overdraft acquired	<u>—</u>	<u>(2,886)</u>
Net outflow of cash and cash equivalents	<u><u>—</u></u>	<u><u>(29,411)</u></u>

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

37. DISPOSAL OF SUBSIDIARIES

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
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	<u>(293,806)</u>	<u>—</u>
	(127,393)	—
Profit on disposal of subsidiaries	245,319	—
Capital reserve realised upon disposal of subsidiaries	<u>(1,156)</u>	<u>—</u>
Total consideration	<u><u>116,770</u></u>	<u><u>—</u></u>
Satisfied by:		
Cash received	96,773	—
Reclassification to interest in an associate of HMI Group	<u>19,997</u>	<u>—</u>
	<u><u>116,770</u></u>	<u><u>—</u></u>
Analysis of inflow of cash and cash equivalents in respect of disposal of subsidiaries:		
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash received	96,773	—
Bank balances and cash disposed of	<u>(50,366)</u>	<u>—</u>
Net inflow of cash and cash equivalents	<u><u>46,407</u></u>	<u><u>—</u></u>

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.

38. DEEMED DISPOSAL OF SUBSIDIARIES

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
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	<u>(212,762)</u>	<u>—</u>
	199,472	—
Loss on deemed disposal of subsidiaries	(1,809)	—
Negative goodwill realised upon deemed disposal of subsidiaries	<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	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank balances and cash disposed of	(43,554)	—
Bank overdrafts disposed of	<u>61,109</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.

39. COMMITMENTS

(a) Capital expenditure commitments

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

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

In addition, the Company entered into an agreement with HMI on 2nd December, 2003 to acquire 200,000,000 shares of Radford Capital from HMI at a total consideration of HK\$24,000,000. At 31st 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 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
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 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Within one year	487	4,681
In the second to fifth year inclusive	193	2,817
	<u>680</u>	<u>7,498</u>

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 30th 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 31st December, 2003 amounted to HK\$412,234,000.

On 30th 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.

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	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
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 31st 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	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	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>—</u>	<u>—</u>
Deferred tax assets (liabilities)	414	9,182	(414)	(19,182)
Offset deferred tax assets and liabilities	(414)	(9,182)	414	9,182
	<u>(414)</u>	<u>(9,182)</u>	<u>414</u>	<u>9,182</u>
Net tax liabilities	<u>—</u>	<u>—</u>	<u>—</u>	<u>(10,000)</u>

Unrecognised deferred tax assets

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

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 31st December, 2002 are included in the amounts granted by the Group in the above paragraph.

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

Name of director	Balance at 31.12.2003 <i>HK\$'000</i>	Balance at 1.1.2003 <i>HK\$'000</i>	Maximum amount outstanding during the year <i>HK\$'000</i>	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	<u>106</u>	<u>—</u>	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 31st 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 13th January, 2003 and the balance of HK\$244,000 at 31st 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 31st December, 2003 and at 31st December, 2002.

- (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 31st December, 2003 amounted to HK\$16,663,000, HK\$1,466,000, HK\$Nil and HK\$877,000 respectively (comparative figures as of 31st 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 1st January, 2003 have been included in trade and other receivables of the Group's balance sheet whereas the balances at 31st December, 2003 have been included in interests in associates.

Mr. Wong Siu Bun resigned as a director of the Company on 13th 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 31st December, 2003 and at 31st December, 2002.

- (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 31st 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 31st 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.

44. POST BALANCE SHEET EVENTS

On 15th 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 27th 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 10th 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 22nd 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.

3. STATEMENT OF INDEBTEDNESS

At the close of business on 30th November, 2004, being the latest practicable date for the purpose of this indebtedness statement prior to printing the Circular, the total indebtedness of the Group amounted to approximately HK\$180 million. The Group had outstanding bank borrowings of approximately HK\$29 million, secured by the Group's certain land and buildings and investment properties and corporate guarantee by the Company.

As at 30th November, 2004, the Group also had outstanding existing convertible notes with an aggregate principal amount of approximately HK\$53 million and other unsecured borrowings of approximately HK\$98 million.

The Company also had given corporate guarantee to the extent of HK\$75 million for banking facilities granted to associated companies of the Company.

In addition, the Company and the former ultimate holding company of the Group, China United Holdings Limited, ("CU Bermuda") are named as co-defendants in a claim initiated on 9th July, 2004 by a creditor, Umbrella Finance Company Limited (in the process of being replaced by Zhuang BH Holdings Limited) (the "Creditor"), of CU Bermuda and subsidiaries remaining under it (together the "Old CU Group") after a group restructuring, challenging the validity of the restructuring. The Creditor is also claiming the Company should pay the debts owed by the Old CU Group to the Creditor amounting to HK\$154 million with interest thereon. After taking legal advice, the directors consider that the claims have no merit. The Creditor and the Company have agreed to settle the matter out of court and are in the process of finalizing the consent order. The proposed settlement involves the waiver by the Creditor and Old CU Group of all claims against the Company under the lawsuit.

There were no borrowings outstanding, no contingent liabilities and no capital commitment outstanding for Found Macau as at 30th November, 2004.

Save as aforesaid and apart from intra-group liabilities, the Group and Found Macau did not have outstanding at the close of business on 30th November, 2004 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other contingent liabilities.

4. FINANCIAL AND TRADING PROSPECTS

During the six months ended 30th June, 2004, the Group recorded an unaudited loss attributable to shareholders of approximately HK\$105.2 million, as compared with a loss of approximately HK\$86.3 million for the corresponding six months ended 30th June, 2003. The loss per share was HK\$0.10 for the current period as compared with a loss per share of HK\$0.09 for the corresponding period ended 30th June, 2003. Turnover was approximately HK\$44.5 million, a decrease of approximately 23% from 2003's level of approximately HK\$57.8 million, which was mainly due to the decrease of approximately 77.4% in the income for brokerage and financial services (approximately HK\$7.9 million in this period versus approximately HK\$34.9 million in 2003) during the period despite an increase in investment in trading securities of 89.9% for this period (approximately HK\$36.4 million in this period versus approximately HK\$19.2 million in 2003).

On 27th September, 2004, the board of directors proposed a bonus issue of shares on the basis of one new bonus share for every ten existing shares of the Company held by the shareholders of the Company on the record date by way of capitalisation of the credit balance in the share premium account of the Company, which was approved by the shareholders at the shareholders meeting on 27th October, 2004.

During 2004, the Group has successfully streamlined its business and rescheduled the terms of repayment of debts with creditors. Apart from the investment in property and trading securities, the Group is focusing on strengthening the provision of brokerage and financial services as well as the investments in Macau and PRC.

As set out in the Company announcement dated 21st December, 2004, the Company's associated company, Hennabun Management Inc. ("HMI") which is engaged in the provision of the brokerage and financial services has been appointed by Sojitz (Hong Kong) Limited ("Sojitz") as the adviser and non-exclusive agent for the recovery of bad and doubtfully loans of Sojitz for a term of 18 months in return for an agency fee on a success basis calculated at 10% on the net amount of the bad loan(s) being recovered during the recovery process. Citigroup has also become a shareholder of HMI, holding 25,000,000 in HMI. The Board considers that the recent developments in HMI has provided new phases of development for HMI and the Company will continue its investment in HMI which is involved in, inter alia, the provision of brokerage and financial services.

Investment in Macau and PRC is another focus of the Group. Through its investment in Found Macau, the Group can team up with other potential financial investors of Found Macau leveraged by the prominent social network and management expertise of the Founders to search and invest in various potential projects in Macau so as to capture the opportunities for the economical growth in Macau. Regarding investments in PRC, so far as the PRC market is concerned, the Group considered several investment opportunities in PRC and as yet has not made any firm commitment. However, the Group will continue to evaluate different opportunities for possible investment.

For the year 2005, the Board expects the Hong Kong economy to show a gradual improvement. Positive factors such as the expanded CEPA arrangement, the improving tourist figures as well as other released figures may be adversely affected by the historical high oil price, the sporadic terrorist attacks around the world and the continuing war on terrorism. The Group takes a conservative approach in investing and continues to evaluate projects in Hong Kong, Macau, and China.

5. WORKING CAPITAL

The Directors are of the opinion that the Group will have sufficient working capital for its present requirements, the FM Transactions and the existing operations and requirements of the Group immediately after the completion of the FM Transactions.

6. MATERIAL ADVERSE CHANGE

The Directors are not aware as at the Latest Practicable Date of any material adverse change in the financial or trading position of the Group since 31st December, 2003, the date to which the latest published audited financial statements of the Group were made up.



Moores Rowland Mazars

摩斯倫 · 馬賽會計師事務所

A member firm of Mazars



Chartered Accountants
Certified Public Accountants

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

Tel 電話: (852) 2909 5555
Fax 傳真: (852) 2810 0032

Email 電郵: info@mr-mazars.com.hk
Website 網址: www.mr-mazars.com.hk

4th February, 2005

The Directors
China United International Holdings Limited
32/F, China United Centre
28 Marble Road
North Point
Hong Kong

Dear Sirs,

We set out below our report on the financial information regarding Found Macau Investments International Limited (“Found Macau”) to be acquired by China United International Holdings Limited (the “Company”) pursuant to a verbal agreement (the “Verbal Agreement”) dated 11th January, 2005 made between Lao Hin Chun, Filipe Lau, Lourenco Cheong and Alpha Aim International Limited (“Alpha Aim”) (a wholly-owned subsidiary of the Company), prepared on the basis as set out in Section E 1. (a) below, for inclusion in the circular issued by the Company dated 4th February, 2005 (the “Circular”). Pursuant to the Verbal Agreement, Alpha Aim will acquire 30 shares (representing 30% equity interest) in Found Macau at a consideration of US\$30 and make a loan of HK\$150 million to Found Macau. Upon completion of the Verbal Agreement, Found Macau will become an associate of the Company.

Found Macau was incorporated in the British Virgin Islands on 1st October, 2004 under the name of Profit Sharp Limited as a limited liability company. The current name of Found Macau Investments International Limited was adopted on 3rd December, 2004 pursuant to a sole director’s resolution. Found Macau has not commenced operation since the date of incorporation to 31st December, 2004 and has not incurred any expenses, except for certain formation and preliminary costs. Up to the date of this report, except for the Shareholders Agreement, Verbal Agreement and the Termination Deed, Found Macau had not entered into any material contracts or agreements. No audited accounts of Found Macau have been prepared up to the date of this report.

For the purpose of this report, we have examined the management accounts of Found Macau for the period from its date of incorporation to 31st December, 2004 (the "Relevant Period"), which were prepared in accordance with accounting principles generally accepted in Hong Kong, in accordance with the Statements of Auditing Standards and Auditing Guideline "Prospectuses and the reporting accountant" issued by the Hong Kong Institute of Certified Public Accountants.

The income statement, the statement of changes in equity and the cash flow statement of Found Macau for the Relevant Period and of the balance sheet of Found Macau as at 31st December, 2004 (the "Financial Statements") as set out in this report have been prepared, and are presented on the basis as set out in Section E 1. (a) below.

The Financial Statements are the responsibility of the directors of Found Macau who approve their issuance. The directors of the Company are responsible for the content of the Circular relating to Found Macau in which this report is included. It is our responsibility to compile the Financial Statements together with the notes thereto, to form an independent opinion on such information and to report our opinion to you.

In our opinion, the Financial Statements together with the notes thereto give, for the purpose of this report, a true and fair view of the results and cash flows of Found Macau for the Relevant Period, and of the state of affairs of Found Macau as at 31st December, 2004.

A. INCOME STATEMENT

	<i>Note</i>	Period from 1st October, 2004 (date of incorporation) to 31st December, 2004 <i>HK\$</i> <i>(unaudited)</i>
Turnover	2	—
Other operating expenses		<u>(81,900)</u>
Loss from ordinary activities before taxation	3	(81,900)
Taxation	4	<u>—</u>
Net loss for the period		<u><u>(81,900)</u></u>

B. STATEMENT OF CHANGES IN EQUITY

	Issued capital <i>HK\$</i>	Accumulated losses <i>HK\$</i>	Total <i>HK\$</i>
Share issued	780	—	780
Net loss for the period	<u>—</u>	<u>(81,900)</u>	<u>(81,900)</u>
At 31st December, 2004 (unaudited)	<u>780</u>	<u>(81,900)</u>	<u>(81,120)</u>

C. BALANCE SHEET

	<i>Note</i>	At 31st December, 2004 <i>HK\$</i> <i>(unaudited)</i>
ASSETS AND LIABILITIES		
Current asset		
Due from shareholders	5	780
Current liability		
Accrued charges		<u>(81,900)</u>
NET LIABILITIES		<u>(81,120)</u>
CAPITAL AND RESERVE		
Issued capital	6	780
Accumulated losses		<u>(81,900)</u>
		<u>(81,120)</u>

D. CASH FLOW STATEMENT

**Period from
1st October, 2004
(date of incorporation
to 31st December, 2004
HK\$
(unaudited)**

OPERATING ACTIVITIES

Loss before taxation	(81,900)
Increase in due from shareholders	(780)
Increase in accrued charges	<u>81,900</u>

Cash used in operations	(780)
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FINANCING ACTIVITIES

Issued of shares	<u>780</u>
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Cash and cash equivalents at end of period	<u><u>—</u></u>
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E. NOTES TO THE FINANCIAL INFORMATION**1. PRINCIPAL ACCOUNTING POLICIES**

The Financial Information has been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Institute of Certified Public Accountants and under the historical cost convention. The principal accounting policies adopted by Found Macau in arriving at the Financial Information set out in this report are set out below:

(a) Going concern

The Financial Information has been prepared in conformity with the principles applicable to a going concern. The applicability of these principles is dependent upon the outcome of formal agreement and execution of the Verbal Agreement and the New Shareholders Agreement in view of the excess of liabilities over assets.

(b) Taxation

The charge for current income tax is based on the results for the period 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. The 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.

(c) 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.

2. TURNOVER

Found Macau has no turnover during the period since its incorporation.

3. LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

**Period from
1st October, 2004
(date of incorporation)
to 31st December, 2004**
HK\$
(unaudited)

This is stated after charging:

Auditors' remuneration	—
Directors' emoluments	—
	<u> </u>

4. TAXATION

Hong Kong Profits Tax has not been provided as Found Macau has no assessable profits for the period.

Reconciliation of tax expense

**Period from
1st October, 2004
(date of incorporation)
to 31st December, 2004**
HK\$
(unaudited)

Loss from ordinary activities before tax	<u>(81,900)</u>
Income tax at Hong Kong profits tax rate of 17.5%	(14,332)
Unrecognised tax losses	<u>14,332</u>
Tax expense for the period	<u> </u>

Deferred taxation has not been recognised as Found Macau had no temporary differences as at 31st December, 2004.

5. DUE FROM SHAREHOLDERS

The amounts due are unsecured, interest-free and have no fixed repayment term.

6. ISSUED CAPITAL

	At 31.12.2004
	<i>HK\$</i>
	<i>(unaudited)</i>
Authorised:	
50,000 ordinary shares of US\$1 each	<u>390,000</u>
Issued and fully paid:	
100 ordinary shares of US\$1 each	<u>780</u>

Found Macau was incorporated in the British Virgin Islands with limited liability on 1st October, 2004 with US\$50,000 authorised share capital of 50,000 ordinary shares of US\$1 each. On incorporation, 1 ordinary share of US\$1 was issued at par to provide initial working capital for Found Macau. On 9th December, 2004, 99 ordinary shares of US\$1 were issued at par to provide further working capital for Found Macau.

7. SUBSEQUENT EVENTS

Subsequent to 31st December, 2004, shareholders of Found Macau entered into the Termination Deed and Verbal Agreement as described in this circular.

8. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Found Macau in respect of any period subsequent to 31st December, 2004.

Yours faithfully
Moores Rowland Mazars
Chartered Accountants
Certified Public Accountants
Hong Kong

**APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION
ON THE ENLARGED GROUP**

For illustrative purpose only, set out below is the unaudited pro forma combined financial information of the Group after completion of the Transactions (the “Enlarged Group”). The pro forma combined financial information is prepared in accordance with Paragraph 4.29 of the Listing Rules for the purpose of providing investors with information to illustrate the effect of the Transactions on financial statements of the Enlarged Group.

I. UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The following is a summary of the unaudited pro forma statement of assets and liabilities of the Enlarged Group. It is based on the unaudited consolidated balance sheet of the Group as at 30th June, 2004, as shown in the interim reports of the Company set out in the Appendix I to the Circular, and assuming that the FM Transactions had been completed as at 30th June, 2004 for the purpose of illustrating how the FM Transactions might have affected the financial position of the Group as at 30th June, 2004. It is also assumed that the redemption of Existing Convertible Notes and placing of New Convertible Notes had been completed as at 30th June, 2004. As it is prepared for illustrative purpose only, because of its nature, it may not give a true picture of the financial position of the Enlarged Group as at 30th June, 2004 or any future date.

	The Group <i>HK\$'000</i>	Pro forma adjustment for the acquisition of 30% equity shares of Found Macau, the advance of New Found Macau Loan, redemption of Existing Convertible Notes and placing of New Convertible Notes <i>HK\$'000</i>	Enlarged Group <i>HK\$'000</i>
Non-current assets			
Investment properties	15,371	—	15,371
Property, plant and equipment	29,765	—	29,765
Interest in associates	399,808	150,000 ⁽¹⁾	549,808
Loans receivable	<u>20,213</u>	<u>—</u>	<u>20,213</u>
	<u>465,157</u>	<u>150,000</u>	<u>615,157</u>
Current assets			
Loans receivable	25,557	—	25,557
Other receivables	1,625	—	1,625
Investments in securities	406	—	406
Bank balances and cash	<u>569</u>	<u>(11,000)⁽²⁾</u>	<u>(10,431)⁽⁶⁾</u>
	<u>28,157</u>	<u>(11,000)</u>	<u>17,157</u>

**APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION
ON THE ENLARGED GROUP**

	The Group <i>HK\$'000</i>	Pro forma adjustment for the acquisition of 30% equity shares of Found Macau, the advance of New Found Macau Loan, redemption of Existing Convertible Notes and placing of New Convertible Notes <i>HK\$'000</i>	Enlarged Group <i>HK\$'000</i>
Current liabilities			
Other payables (<i>Note 4</i>)	12,320	(2,000)	10,320
Current portion of interest-bearing borrowings	103,201	—	103,201
Convertible notes (<i>Note 4</i>)	<u>58,800</u>	<u>(53,000)</u>	<u>5,800</u>
	<u>174,321</u>	<u>(55,000)</u>	<u>119,321</u>
Net current liabilities	<u>(146,164)</u>	<u>44,000</u>	<u>(102,164)</u>
Total assets less current liabilities	<u>318,993</u>	<u>194,000</u>	<u>512,993</u>
Non-current liabilities			
Convertible notes (<i>Note 5</i>)	—	200,000	200,000
Long-term interest-bearing borrowings	<u>25,723</u>	<u>—</u>	<u>25,723</u>
	<u>25,723</u>	<u>200,000</u>	<u>225,723</u>
NET ASSETS	<u><u>293,270</u></u>	<u><u>(6,000)</u></u>	<u><u>287,270</u></u>

Notes:

- (1) These represent the adjustments in relation to the acquisition of 30% equity shares in Found Macau by cash of US\$30 and the advance of New Found Macau Loan of HK\$150,000,000.
- (2) The Company will issue a principal sum of HK\$200 million New Convertible Notes for cash. The proceeds from the issue, net of issuing expenses of HK\$6 million, will be used to redeem the Existing Convertible Notes of HK\$53 million and the accrued interest of approximately HK\$2 million. The remaining balance of HK\$139 million will be used to settle the New Found Macau Loan. Another HK\$11 million will be paid to Found Macau in cash from the Group's cash reserve to make up the contribution of HK\$150 million New Found Macau Loan. The Company placed 17,640,000 new shares at a price of HK\$0.24 per share in November 2004. The placing raised approximately HK\$4 million for the Company. The Company also received HK\$8,000,000 in January 2005 pursuant to the disposal of Wide Asia and the balances of consideration receivable amounting to HK\$30 million are to be received by instalments in February, March and April

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP

2005. To the extent the New Convertible Notes in the principal amount of HK\$100 million which the Placing Agent has agreed to place on a best efforts basis are not fully placed, the Company shall issue the FM Convertible Note in the principal amount equivalent to the amount that has not been placed and otherwise on the same terms as the New Convertible Notes to Found Macau.

- (3) The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRS”), which are effective for accounting periods beginning on or after 1st January, 2005. The preparation and presentation of the Company’s results and financial position will be affected by the new HKFRS starting from the Company’s financial year ending 31st December, 2005. The directors consider that the adoption of the new HKFRS would not have any material impact on the preparation of the unaudited pro forma statement of assets and liabilities.
- (4) These represent the adjustments in relation to the redemption of Existing Convertible Notes of HK\$53 million and the repayment of accrued interest of approximately HK\$2 million.
- (5) Placement of New Convertible Notes and FM Convertible Note in aggregate of HK\$200 million are assumed to be fully subscribed for. All issuing expenses to be incurred amounting to approximately HK\$6 million is reflected as a decrease of bank balances and cash.
- (6) On pro forma basis, the Enlarged Group recorded a negative cash and bank balances because the net cash outflow resulted from the Transactions exceeded the Group’s cash and bank balances as at 30th June, 2004. However, as set out in the basis of preparation above, the combination of the balances at different dates may not give a true picture of the cash and bank balance of the Enlarged Group as at 30th June, 2004 or at any future date. In particular, the Company placed 17,640,000 new shares at a price of HK\$0.24 per share in November 2004. The placing raised approximately HK\$4 million for the Company. The Company also received HK\$8,000,000 in January 2005 pursuant to the disposal of Wide Asia and the balances of consideration receivable amounting to HK\$30 million are to be received by instalments in February, March and April 2005. As mentioned in the section headed “working capital” in Appendix I of this circular, the Directors are of the opinion that the Group will have sufficient working capital for its present requirements, the FM Transactions and the existing operations and requirements of the Group immediately after the completion of the FM Transactions.

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP

II. LETTER FROM THE AUDITORS OF THE COMPANY ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION



Moores Rowland Mazars

摩斯倫 · 馬賽會計師事務所

A member firm of Mazars



Chartered Accountants
Certified Public Accountants

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

Tel 電話: (852) 2909 5555
Fax 傳真: (852) 2810 0032

Email 電郵: info@mr-mazars.com.hk
Website 網址: www.mr-mazars.com.hk

4th February, 2005

The Directors
China United International Holdings Limited
32/F, China United Centre
28 Marble Road
North Point
Hong Kong

Dear Sirs

We report on the unaudited pro forma financial information (“unaudited Pro Forma Financial Information”) of China United International Holdings Limited (the “Company”) and its subsidiaries (hereafter collectively referred to as the “Group”) set out on pages 128 to 130 under the heading of “Unaudited Pro Forma Financial Information on the Enlarged Group” in Appendix III of the Company’s circular dated 4th February, 2005 in connection with a major transaction regarding the acquisition of a company for pursuance of gambling, entertainment and related business in Macau (“FM Transactions”) and the redemption of existing convertible notes and the placing of new convertible notes. The unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the FM Transactions and the redemption of existing convertible notes and the placing of new convertible notes might have affected the relevant financial information of the Group as at 30th June, 2004.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP

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

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board in the United Kingdom. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited Pro Forma Financial Information with the directors of the Company.

Our work does not constitute an audit or review in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such assurance on the unaudited Pro Forma Financial Information.

The unaudited Pro Forma Financial Information has been prepared on the bases set out in Section I of Appendix III for illustrative purpose only and, because of its nature, it may not be indicative of the financial position of the Group as at 30th June, 2004 or at any future date.

Opinion

In our opinion:

- (a) the unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated therein;
- (b) such basis is consistent with the accounting policies of the Company; and
- (c) the adjustments are appropriate for the purposes of the unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29 of the Listing Rules.

Yours faithfully
Moore Rowland Mazars
Chartered Accountants
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered into the register required to be kept under section 352 of the SFO were as follows:

Long positions in Shares

Name	Capacity	Total number of Shares	Approximate % shareholding
Chuang Yueheng, Henry ^(Note 1)	Family	250,000,000	16.99%

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.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had any interests and short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered into the register required to be kept under section 352 of the SFO.

(b) Interests of Shareholders

As at the Latest Practicable Date, so far as is known to the Directors and the chief executives of the Company, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the Shares and underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of any member of the Group.

Name	Number of Shares	Approximate % shareholding
Honeylink Agents Limited (<i>Note 2</i>)	400,000,000	27.19%
Radford Developments Limited (<i>Note 1</i>)	250,000,000	16.99%
Heritage International Holdings Limited	134,750,163	9.16%
Radford Capital Investment Limited	138,123,363	9.39%

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.

Note 2: These are the underlying shares related to the New Convertible Notes which the Placing Agent has underwritten in respect of the Placing. Honeylink Agents Limited controls Get Nice Holdings Limited, which in turn controls Get Nice Incorporated, which in turn controls Get Nice Investment Limited, the Placing Agent.

Save as disclosed above, the Directors and the chief executives of the Company are not aware that there is any person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of any other member of the Group.

Mr. Ong, an independent non-executive director of the Company is the managing director of Heritage.

Mr. Miu Frank H., an independent non-executive director of the Company is also an independent non-executive director of Heritage.

As at the Latest Practicable Date:

- (i) none of the Directors, Moores Rowland Mazars nor Kim Eng had any direct or indirect interests in any assets which have since 31st December, 2003 (being the date to which the latest published audited accounts of the Group were made up) been acquired or disposed of by or leased to any members of the Group, or are proposed to be acquired or disposed of by or leased to any members of the Group;

- (ii) save for Mr Ong's interest in the FM Transactions as disclosed in this circular, none of the Directors was materially interested in any contracts or arrangements entered into by any members of the Group subsisting at the date of this circular which is significant in relation to the business of the Group.

Moore Rowland Mazars and Kim Eng do not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered into any service agreement with any member of the Group. The Directors are subject to rotation and re-election arrangements as set out in the articles of association of the Company.

4. LITIGATION

As at the Latest Practicable Date and save as disclosed in the paragraph headed "Statement of Indebtedness" as set out in Appendix I of this circular, no member of the Group was engaged in any litigation or arbitration proceedings of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

5. COMPETING INTERESTS

As at the Latest Practicable Date, save as disclosed below, none of the Directors and his/her respective associates was considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group other than those businesses to which the Directors and his/her associates were appointed to represent the interests of the Company and/or the Group. Mr. Ong is the managing director of Heritage and holds approximately 4.48% of the shares in Heritage as at the Latest Practicable Date. Heritage is principally engaged in investment holding. The principal activities of the Heritage Group include investment in casino services and gambling business, property investment, investment in securities and money lending business. As at the Latest Practicable Date, the Company's only involvement in the Macau gaming and entertaining business is its investment in Found Macau, whose identified investment targets are properties on which casinos are intended to operate. The Group will continue to look for other investment opportunities in the gaming and entertainment business. Such new investments may or may not result in competition with Heritage in the future. However, Mr. Ong is an independent non-executive director and is not involved in the daily operation and management of the Group and its investment project and Heritage is managed by a separate team. Hence, there should not be any conflict between his role as independent non-executive director of the Company and his role as managing director of Heritage at present.

So far as the Company is aware and save as referred to above, Mr. Ong's and his Associates (including Mr. Lao) current business interests involve, inter alia, different business activities in the Macau entertainment business which do not compete with the Group.

6. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) has been entered into by members of the Group within the two years preceding the date of this circular and is or may be material.

- (i) On 19th February, 2003, the Company (as borrower) entered into a loan agreement with Maxlord Enterprises Limited (as lender) (not a Connected Person) in relation to a loan in the amount of HK\$150,000,000 which loan is unsecured, bears interest at the HSBC prime lending rate plus 2% per annum and matured on 18th February, 2004 and as at the Latest Practicable Date has been fully repaid;
- (ii) On 28th July, 2003, the Company (as borrower) entered into a loan agreement with Double Smart Finance Limited (as lender) (not a Connected Person) in relation to a loan in the amount of HK\$45,000,000 which loan is unsecured, bears interest at the HSBC prime lending rate plus 2% per annum and matured on 27th January, 2004 and as at the Latest Practicable Date has been fully repaid;
- (iii) On 6th August, 2003, the Company, CU Corporate Finance Limited and Chung Nam Securities Limited entered into a placing agreement, whereby, inter alia, the Company appointed (i) Chung Nam Securities as placing agent to place up to 49,144,000 shares of HK\$0.10 each in the Company on a best efforts basis and (ii) CU Corporate Finance Limited as financial adviser to the Company in relation to the placing of shares;
- (iv) On 20th August, 2003, the Company entered into a sale and purchase agreement with Sunderland Properties Limited (a company wholly-owned by Mr. Chuang Yue-chien. Eugene, brother of Mr. Chuang Yueheng, Henry, the Chairman of the Company hence a Connected Person), whereby the Company agreed, inter alia, to sell 10,000,000 existing shares of HK\$0.01 each in China United Holdings Limited (a former wholly-owned subsidiary of the Company) to Sunderland Properties Limited for a consideration of HK\$10,000,000;
- (v) On 9th September, 2003, the Company, CU Corporate Finance Limited and Chung Nam Securities Limited entered into a termination agreement to, inter alia, terminate the placing agreement entered into on 6th August 2003 in relation to the placing of up to 49,144,000 shares of HK\$0.10 each in the Company on a best efforts basis;
- (vi) On 2nd December, 2003, the Company entered into a sale and purchase agreement with Hennabun Management Inc., whereby the Company agreed, inter alia, to purchase or procure a wholly-owned subsidiary to purchase 200,000,000 ordinary shares in the capital of Radford Capital Investment Limited (not a Connected Person) for a consideration of HK\$24,000,000;

- (vii) On 29th December, 2003, the Company, CU Corporate Finance Limited and Chung Nam Securities Limited entered into a placing agreement, whereby, inter alia, the Company appointed (i) Chung Nam Securities Limited as placing agent to place a series of convertible redeemable notes issued by the Company up to an aggregate principal amount of HK\$93,440,000 at a conversion price of HK\$1.28 per share (subject to adjustment) on a best efforts basis; and (ii) CU Corporate Finance Limited as financial adviser to the Company in relation to the placing of convertible notes;
- (viii) On 15th January, 2004, Hennabun Management Inc. entered into a subscription agreement with CU International Finance Limited (a wholly-owned subsidiary of the Company), whereby, inter alia, Hennabun Management Inc. agreed to, inter alia, issue subordinate convertible bonds in the principal amount of HK\$150,000,000 to CU International Finance Limited;
- (ix) On 10th March, 2004, the Company entered into an agreement with Top Result International Limited (not a Connected Person), whereby the Company agreed, inter alia, to issue and allot 40,000,000 shares at the price of HK\$1.80 per share to Top Result International Limited in consideration of Top Result International Limited transferring 37,500,000 shares in Hennabun Management Inc. to the Company;
- (x) On 30th March, 2004, the Company (as borrower) entered into a lump sum loan agreement with Maxlord Enterprises Limited (as lender) in relation to a loan in the amount of HK\$100,000,000 which loan is unsecured, bears interest at the HSBC prime lending rate plus 2% per annum and will mature on 29th March, 2005. The outstanding amount of the loan as at the Latest Practicable Date is HK\$50,000,000;
- (xi) On 11th June, 2004, the Company, CU Corporate Finance Limited and Chung Nam Securities Limited entered into a placing agreement whereby, inter alia, the Company appointed (i) Chung Nam Securities Limited as placing agent to place a series of convertible redeemable notes up to an aggregate principal amount of HK\$80,000,000 (subsequently reduced by agreement dated 23rd July, 2004 to HK\$55,000,000) at a conversion price of HK\$0.5 per share, subsequently adjusted to HK\$0.45 per share (subject to adjustment) issued by the Company on a best efforts basis; and (ii) CU Corporate Finance Limited as financial adviser to the Company in relation to the placing of convertible notes;
- (xii) On 23rd July, 2004, the Company, CU Corporate Finance Limited and Chung Nam Securities Limited entered into a placing agreement whereby, inter alia, the Company appointed (i) Chung Nam Securities Limited as placing agent to place 90,000,000 new ordinary shares of the Company on a best efforts basis at a price of HK\$0.30 per share and (ii) CU Corporate Finance Limited as financial adviser to the Company in relation to the placing of shares;

- (xiii) On 19th November, 2004, the Company entered into an agreement with Kingston Securities Limited (not a Connected Person) whereby, inter alia, the Company appointed Kingston Securities Limited as placing agent to place 17,640,000 new shares at a price of HK\$0.24 per share;
- (xiv) On 22nd November, 2004, Chau Tuk Shun (“Mr. Chau”) (not a Connected Person) as vendor and Pleasure Developments Limited (“Pleasure Developments”), a wholly-owned subsidiary of the Company, as purchaser entered into an agreement (“Wide Asia S/P Agreement”) whereby, inter alia, Mr. Chau agreed to sell and Pleasure Developments agreed to purchase 28 shares in Wide Asia Shipping S.A. (“Wide Asia”) for a consideration of HK\$17,472,000;
- (xv) On 7th December, 2004 Wide Asia Shipping S.A. as grantor entered into an agreement with Pleasure Developments Limited as grantee whereby, inter alia, Wide Asia agreed to grant of a call option over shares in Wide Asia Shipping S.A. for a consideration of HK\$1.00 to Pleasure Developments at an exercise price of US\$5,000,000;
- (xvi) the Shareholders Agreement;
- (xvii) an instrument of transfer dated 9th December, 2004 entered into between Alpha Aim and the subscriber whereby Alpha Aim acquired 1 share in Found Macau at a consideration of US\$1;
- (xviii) a subscription letter dated 9th December, 2004 from Alpha Aim to Found Macau agreeing to subscribe for 9 shares in Found Macau at a consideration of US\$9;
- (xix) On 14th December, 2004, the Company (as borrower) entered into a loan agreement with Double Smart Finance Limited (as lender) in relation to a loan in the amount of HK\$12,000,000 which loan is unsecured, bears interest at the fixed rate of 2% and matured on 13th January, 2005 and as at the Latest Practicable Date has been fully repaid;
- (xx) On 3rd January, 2005, Wide Asia entered into a first termination deed with Pleasure Developments, inter alia, terminating a conditional call option agreement entered into by the same parties dated 7th December, 2004;
- (xxi) On 3rd January, 2005 Pleasure Developments entered into a second termination deed with Mr. Chau to terminate certain undertakings given by Mr. Chau to Pleasure Developments in a conditional sale and purchase agreement entered into between the same parties dated 22nd November, 2004;

(xxii) On 3rd January, 2005, Pleasure Developments entered into a disposal agreement with Ms. Ng Chor Har (not a Connected Person) whereby Pleasure Developments agreed, inter alia, to dispose of 28 shares in Wide Asia to Ms. Ng Chor Har for a cancellation fee of HK\$38,000,000;

(xxiii) On 11th January, 2005, Alpha Aim entered into a bought and sole note and instrument of transfer with Filipe Lau to acquire 10 FM Shares at a consideration of US\$10;

(xxiv) the Termination Deed; and

(xxv) the Placing Agreement;

Prior to 31st December, 2003, Hennabun Management Inc. was a non-wholly-owned subsidiary of the Company. With effect from 31st December, 2003, Hennabun Management Inc. is only an Associate of the Company. Chung Nam Securities Limited and CU Corporate Finance Limited are wholly-owned subsidiaries of Hennabun Management Inc. hence, were Connected Persons of the Company prior to 31st December, 2003 but no longer Connected Persons of the Company thereafter.

7. QUALIFICATIONS OF EXPERT AND CONSENT

The following are the qualifications of the expert which has given opinions or advice which are contained in this circular.

Name	Qualifications
Kim Eng Corporate Finance (Hong Kong) Limited	a licensed corporation for Type 6 regulated activities under the SFO
Moores Rowland Mazars	Chartered Accountants Certified Public Accountants Hong Kong

Kim Eng and Moores Rowland Mazars have given and have not withdrawn its written consent to the issue of this circular with the inclusion of and references to its name and the reports or letters in the form and context in which it appears.

8. GENERAL

- (i) The secretary of the Company for the purpose of the Listing Rules is Yung Mei Yee, Master's degree in Language and Law, Fellow member of The Hong Kong Institute of Company Secretaries and The Institute of Chartered Secretaries and Administrators.
- (ii) The qualified accountant of the Company for the purpose of Rule 3.24 of the Listing Rules is Wong Wai Man, Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants.

- (iii) The share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited, of Shops 1712 - 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (iv) The registered office and head office of the Company is at 32/F., China United Centre, 28 Marble Road, Hong Kong.
- (v) The English version of this circular shall prevail over the Chinese text.

9. DOCUMENTS AVAILABLE FOR INSPECTION

The following documents are available for inspection at the office of the Company at 30th Floor, China United Centre, 28 Marble Road, North Point, Hong Kong for a period of up to 14 days after the date of this circular:

- (i) the memorandum and articles of association of the Company;
- (ii) the material contracts as disclosed in paragraph 6 of this Appendix IV;
- (iii) the Accountants Report on Found Macau and the Pro forma Financial Information on the Enlarged Group set out in Appendix II and III of the circular;
- (iv) the Annual Reports of the Company for the years ended 31st December, 2001, 31st December, 2002 and 31st December, 2003;
- (v) the Interim Report of the Company for the six months ended 30th June, 2004;
- (vi) the letter from Kim Eng to the Independent Board Committee and the Independent Shareholders as set out in this circular;
- (vii) the consolidated audited accounts of the Group for the year ended 31st December, 2002 and 31st December, 2003; and
- (viii) copies of the circulars issued pursuant to the requirements set out in Chapters 14 and/or 14A since 31st December, 2003, as follows:
 - (a) a circular dated 13th May, 2004 relating to a bonus issue of shares of the Company, grant of general mandates and amendment to its articles of association;
 - (b) a circular dated 2nd July, 2004 relating to a connected transaction regarding the Existing Convertible Notes;

- (c) a circular dated 11th October, 2004 relating to a bonus issue of the shares of the Company;
- (d) a circular dated 20th December, 2004 relating to the discloseable transactions regarding the acquisition of interest in Wide Asia and Found Macau;
- (e) a circular dated 31st December, 2004 relating to proposals for renewal of general mandate and refreshment of scheme mandate limit under the share option scheme of the Company; and
- (f) a circular dated 14th January, 2005 relating to a discloseable transaction regarding the disposal of Wide Asia.

NOTICE OF EXTRAORDINARY GENERAL MEETING



China United
International Holdings Limited
互聯控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 273)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of China United International Holdings Limited (the “Company”) will be held at 30th Floor, China United Centre, 28 Marble Road, North Point, Hong Kong at 9:00 a.m. on Monday, 21st February, 2005 for the purpose of considering and, if thought fit, passing the following resolutions which will be proposed as ordinary resolutions:

ORDINARY RESOLUTIONS

1. **“THAT** the entering of a verbal agreement (the “Verbal Agreement”) dated 11th January, 2005 between the Company, through its wholly-owned subsidiary, Alpha Aim International Limited (“Alpha Aim”), Lao Hin Chun, Filipe Lau and Lourenco Cheong (together the “Founders”) pursuant to which, inter alia, conditionally (i) Alpha Aim agreed to acquire (“FM Acquisition”) 30 shares in Found Macau Investments International Limited (“Found Macau”) at an aggregate consideration of US\$30; (ii) Alpha Aim agreed to make a loan of HK\$150,000,000 to Found Macau (“New Found Macau Loan”) which is unsecured, interest free and repayable on demand eight years from the date of drawdown to be evidenced by a promissory note to be executed by Found Macau in favour of Alpha Aim (“Promissory Note”) and (iii) Alpha Aim agreed to enter into a shareholders agreement (“Shareholders Agreement”) in relation to Found Macau with, inter alia, the Founders, Vision Gate Enterprises Limited, Rightmind Developments Limited (a copy of the draft Promissory Note and Shareholders Agreement has been produced to this meeting marked “A” and “B” and initialled by the chairman of the meeting for identification purpose) be and is hereby approved, ratified and confirmed and that the directors of the Company (the “Directors”) be and are hereby authorised to implement all the transactions referred to in the Verbal Agreement including but not limited to completing the FM Acquisition, advancing the New Found Macau Loan, entering into the Shareholders Agreement and to do all such acts and things and sign all such documents as they shall in their absolute discretion consider necessary or desirable to give effect to the Verbal Agreement and the arrangements contemplated thereunder.”
2. **“THAT:**
 - (A) the entering into of a placing agreement (the “Placing Agreement”) dated 12th January, 2005 between the Company, Get Nice Investments Limited (“Get Nice”) pursuant to which Get Nice acting as placing agent agreed to procure placees for non interest bearing convertible redeemable notes, on a fully underwritten basis at an aggregate principal amount of HK\$100,000,000 and on a best efforts basis at an additional aggregate principal amount of up to HK\$100,000,000 (the “New Convertible Notes”) (a copy of which has been produced to this meeting marked “C” and initialled by the chairman of the meeting for identification purpose) be and is hereby approved, ratified and confirmed;

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (B) the terms and conditions of the New Convertible Notes (a copy of which has been produced to this meeting marked “D” and initialled by the chairman of the meeting for identification purpose) be and are hereby approved;
- (C) the terms and conditions of the convertible notes (“FM Convertible Note”) to be issued to Found Macau in partial satisfaction of Alpha Aim’s obligation to fund the shareholders loan to be made to Found Macau of HK\$150,000,000 as referred to in the resolution numbered (1) in the notice convening the meeting of the Company dated 4th February, 2005 (a copy of which has been produced to the meeting marked “E” and initialled by the chairman of the meeting for identification purpose) be and is hereby approved;
- (D) the issue of the New Convertible Notes to places under the Placing Agreement be and is hereby approved;
- (E) the issue of the FM Convertible Note to Found Macau be and is hereby approved;
- (F) the issue and allotment of new shares of the Company (“Conversion Shares”) to holders of the New Convertible Notes upon exercise of conversion rights of the New Convertible Notes and to the holder(s) of the FM Convertible Note upon exercise of conversion rights under the FM Convertible Notes in accordance with the respective terms and conditions of the New Convertible Notes and the FM Convertible Notes be and is hereby approved; and
- (G) the Directors be and are hereby authorised to decide whether or not the FM Convertible Note will be issued and the principal amount thereof and to do all such acts and things and sign all such documents as they shall in their absolute direction consider necessary and desirable to give effect to the Placing Agreement, the issue of the New Convertible Notes and the FM Convertible Note and the issue and allotment of the Conversion Shares and transactions contemplated thereunder.”

By Order of the Board
China United International Holdings Limited
Chuang Yueheng, Henry
Chairman

Dated 4th February, 2005

NOTICE OF EXTRAORDINARY GENERAL MEETING

Registered Office:

32nd Floor, China United Centre
No. 28 Marble Road
North Point
Hong Kong

Notes:

1. A form of proxy to be used for the meeting is enclosed.
2. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint another person as his proxy to attend and vote instead of him. On a poll votes may be given either personally or by proxy. A proxy need not be a member of the Company. A member may appoint more than one proxy to attend on the same occasion.
3. The instrument appointing a proxy must be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.
4. The instrument appointing a 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 shall be deposited at the registered office of the Company at 32nd Floor, China United Centre, No. 28 Marble Road, North Point, Hong Kong not less than 48 hours before the time for holding the meeting or adjourned meeting or poll (as the case may be) at which the person named in such instrument proposes to vote, and in default the instrument of proxy shall not be treated as valid.
5. Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such share shall alone be entitled to vote in respect thereof.
6. As at the date of this notice, the Board comprises four executive directors, namely, Mr. Chuang Yueheng, Henry, Mr. Chung Wilson, Mr. Lo Kan Sun and Mr. Wong Ying Seung, Asiong and four independent non-executive directors, namely Mr. Lam Ping Cheung, Mr. Ong Peter, Mr. Miu Frank H. and Mr. Nakajima Toshiharu.