



**China United
International Holdings Limited**

(Incorporated in Hong Kong with limited liability)

Interim Report

2003

RESULTS

The Board of directors of China United International Holdings Limited (the "Company") is pleased to announce that the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2003, together with comparative figures for the six months ended 30 June 2002, are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2003

	Notes	For the six months ended 30 June	
		2003 HK\$'000	2002 HK\$'000
		(Unaudited)	
Turnover	4	57,765	123,330
Other revenue		5,681	2,784
Cost of trading securities sold		(18,598)	(87,351)
Depreciation and amortisation expenses		(3,585)	(7,205)
Staff costs		(12,935)	(14,398)
Finance costs for provision of brokerage and financial services		(4,667)	(5,324)
Net other operating (expenses)/income	5	(61,807)	65,101
(Loss)/profit from operations	6	(38,146)	76,937
Gain on disposal of interest in a subsidiary		1,884	–
Impairment losses of:			
– property, plant and equipment		(19,974)	–
– interest in an associate		(1,485)	–
Loss on dilution of interest in a subsidiary		(1,068)	–
Loss on disposal of other securities		(11,455)	–
Other finance costs		(19,882)	(13,324)
(Loss)/profit before taxation		(90,126)	63,613
Taxation	7	2,900	(12,910)
(Loss)/profit after taxation		(87,226)	50,703
Minority interests		894	(16,193)
(Loss)/profit for the period attributable to shareholders		(86,332)	34,510
			(Restated)
(Loss)/earnings per share			
– Basic	9	(35.13 cents)	14.04 cents
– Diluted	9	N/A	12.90 cents

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2003

	Notes	30 June 2003 HK\$'000 (Unaudited)	31 December 2002 HK\$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties		120,398	157,470
Property, plant and equipment		106,894	129,670
Intangible assets		(19,755)	(20,783)
Interests in associates		-	1,485
Investments in securities	10	7,798	58,739
Other long term assets		2,088	2,053
Loans receivable – due after one year	11	1,638	1,369
		<u>219,061</u>	<u>330,003</u>
Current assets			
Loans receivable – due within one year	11	592,478	226,484
Trade and other receivables	12	230,114	300,826
Investments in securities	10	93,717	126,571
Pledged bank deposits		18,088	18,173
Cash and bank balances		49,507	26,554
		<u>983,904</u>	<u>698,608</u>
Current liabilities			
Trade and other payables	13	77,438	50,678
Amounts due to minority shareholders of subsidiaries		7,754	7,754
Provision for taxation		620	457
Obligations under finance leases – due within one year		111	136
Bank and other borrowings – due within one year	14	635,561	423,580
		<u>721,484</u>	<u>482,605</u>
Net current assets		<u>262,420</u>	<u>216,003</u>
Total assets less current liabilities carried forward		<u>481,481</u>	<u>546,006</u>

The accompanying notes form an integral part of these unaudited condensed financial statements.

CONDENSED CONSOLIDATED BALANCE SHEET – Continued

As at 30 June 2003

		30 June 2003	31 December 2002
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
		(Unaudited)	(Audited)
Total assets less current liabilities brought forward		481,481	546,006
Minority interests		44,440	24,266
Non-current liabilities			
Deferred taxation		7,000	10,000
Obligations under finance leases – due after one year		–	47
Bank and other borrowings – due after one year		25,883	102,343
Convertible notes – mature after one year	15	151,840	63,840
		184,723	176,230
NET ASSETS		252,318	345,510
CAPITAL AND RESERVES			
Share capital	16	24,573	61,434
Reserves	17	227,745	284,076
SHAREHOLDERS' FUNDS		252,318	345,510

The accompanying notes form an integral part of these unaudited condensed financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30 June 2003*

	For the six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
	(Unaudited)	
Net cash (used in)/from operating activities	(254,172)	25,584
Net cash from/(used in) investing activities	53,613	(30,273)
Net cash from/(used in) financing activities	223,512	(3,515)
Net increase/(decrease) in cash and cash equivalents	22,953	(8,204)
Cash and cash equivalents at 1 January	26,554	34,201
Cash and cash equivalents at 30 June	49,507	25,997
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	49,507	25,997

The accompanying notes form an integral part of these unaudited condensed financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six months ended 30 June 2003*

	<i>Notes</i>	For the six months ended 30 June	
		2003	2002
		HK\$'000	<i>HK\$'000</i>
Total shareholders' equity at 1 January (Audited)		345,510	428,354
Surplus on revaluation of other securities not recognised in the income statement		–	7,869
Net (loss)/profit for the period	17	(86,332)	34,510
Investment revaluation deficit realised on disposal of other securities	17	10,341	–
Special dividends declared and paid during the period	8	(17,201)	–
Total shareholders' equity at 30 June (Unaudited)		252,318	470,733

The accompanying notes form an integral part of these unaudited condensed financial statements.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

30 June 2003

1. GROUP REORGANISATION

The Company (formerly known as Kanford Holdings Limited) was incorporated in Hong Kong with limited liability on 16 August 2002. Following the scheme of arrangement (the "Scheme") sanctioned by the Supreme Court of Bermuda, which became effective on 3 January 2003, the Company issued its shares to the shareholders of China United Holdings Limited ("CU Holdings"), the then ultimate holding company of the Group, in exchange for the entire issued share capital of CU Holdings. CU Holdings then became a wholly owned subsidiary of the Company, which became the holding company of the companies now comprising the Group. The above restructuring exercise is referred to as the "Group Reorganisation".

Dealings in the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") commenced on 6 January 2003 and the listing status of CU Holdings was withdrawn on 3 January 2003. Details of the Group Reorganisation were set out in a circular (the "Circular") issued by CU Holdings dated 26 November 2002.

2. BASIS OF PREPARATION OF INTERIM FINANCIAL STATEMENTS AND FUNDAMENTAL UNCERTAINTY IN RESPECT OF GOING CONCERN

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the unaudited condensed interim financial statements of the Group have been prepared using the principles of merger accounting in accordance with Statement of Standard Accounting Practice ("SSAP") 27 "Accounting for Group Reconstructions" issued by the Hong Kong Society of Accountants ("HKSA").

For the purposes of these interim financial statements, CU Holdings and/or its subsidiaries are referred to as "China United" and the Group excluding China United is referred to as the "New Group".

In preparing the interim financial statements, the directors of the Company have given due consideration to the going concern status of the Group in the context of China United which continues to default in repayments of the principal instalments of its bank loans of HK\$71,836,000 and other loans of HK\$74,678,000 together with accrued interests of HK\$15,238,000 as at 30 June 2003. Accordingly, the relevant bank loans and other loans amounting to HK\$369,837,000 have become repayable on demand and have been classified as current liabilities.

2. BASIS OF PREPARATION OF INTERIM FINANCIAL STATEMENTS AND FUNDAMENTAL UNCERTAINTY IN RESPECT OF GOING CONCERN – *Continued*

During the period, China United has not reached agreements with its lenders for restructuring the above loans and has received a writ of summons demanding for immediate repayment of certain bank loans and related interests amounting to approximately HK\$206,742,000.

In light of the above, the Group has taken or will take the following measures to enable the Group to operate as a going concern.

- (i) The Company has undertaken a series of restructuring of shareholdings in subsidiaries held by CU Holdings whereby CU Holdings's equity interests in certain major subsidiaries were transferred/sold to the New Group and to a third party. After the restructuring, China United became an insignificant part of the Group's net assets. Accordingly, the directors consider that the Group is not expected to suffer from any material losses resulting from disposal or liquidation of China United. The directors consider that the aforementioned restructuring of shareholdings in subsidiaries of CU Holdings has been conducted without contravention of any applicable laws and the New Group will not be subject to challenge by any party as to the validity of the restructuring and/or to possible claims for compensation for any loss suffered by CU Holdings as a result of the restructuring; and
- (ii) China United will endeavour to re-negotiate with the lenders of China United to restructure its loans which will enable China United to meet its financial obligations with existing financial resources available to China United. China United will not resume the repayment of the loans and related interests until agreements for the loan restructuring can be reached with respective lenders. The directors consider that the New Group has no legal obligation to assume the liabilities of China United as the New Group has not given any guarantees and collateral securities to the lenders of China United.

Accordingly, the interim financial statements have been prepared on the going concern basis, on the basis that:

- (i) The restructuring of shareholdings in subsidiaries of CU Holdings has been conducted without contravention of any applicable laws and the New Group will not be subject to challenge by any party as to the validity of the restructuring and/or to possible claims for compensation for any loss suffered by CU Holdings as a result of the restructuring; and

2. BASIS OF PREPARATION OF INTERIM FINANCIAL STATEMENTS AND FUNDAMENTAL UNCERTAINTY IN RESPECT OF GOING CONCERN – *Continued*

- (ii) China United can be successful in re-negotiation with the lenders to restructure its loans.

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.

3. SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed financial statements have been prepared in accordance with SSAP 25 "Interim Financial Reporting" issued by HKSA and with the applicable disclosure requirements of Appendix 16 to the Rules Governing The Listing of Securities on the Stock Exchange. The accounting policies used in the preparation of the condensed financial statements are consistent with those disclosed in CU Holdings's audited financial statements for the year ended 31 December 2002 except for the adoption of SSAP 12 (Revised) "Income Taxes".

In prior periods, partial provision was made for deferred tax using the income statement liability method whereby a liability was recognised in respect of all timing differences which were expected to reverse in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt. The SSAP 12 (Revised) requires the adoption of a balance sheet liability method whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

The adoption of SSAP 12 (Revised) represents a change in accounting policy but has had no material effect on the results for the current or prior periods.

4. SEGMENT INFORMATION

The Group's turnover and operating results are substantially derived from Hong Kong. The analysis of the Group's revenue and results by business segments is as follows:

Six months ended 30 June 2003

(Unaudited)	Investment in trading securities HK\$'000	Brokerage and financial services HK\$'000	Property investment HK\$'000	Investment holding HK\$'000	Inter- segment eliminations HK\$'000	Unallocated HK\$'000	Conso- lidated total HK\$'000
		<i>Note</i>					
Revenue							
Turnover							
External	19,168	34,879	3,718	-	-	-	57,765
Inter-segment	-	-	1,294	-	(1,294)	-	-
	<u>19,168</u>	<u>34,879</u>	<u>5,012</u>	<u>-</u>	<u>(1,294)</u>	<u>-</u>	<u>57,765</u>
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>
Results							
Segment (loss)/profit	<u>(22,366)</u>	<u>17,492</u>	<u>(28,493)</u>	<u>11</u>	<u>-</u>	<u>(4,790)</u>	<u>(38,146)</u>
Gain on disposal of interest in a subsidiary	-	1,884	-	-	-	-	1,884
Impairment losses of:							
- property, plant and equipment	-	-	(19,974)	-	-	-	(19,974)
- interest in an associate	-	-	(1,485)	-	-	-	(1,485)
Loss on dilution of interest in a subsidiary	-	(1,068)	-	-	-	-	(1,068)
Loss on disposal of other securities	-	-	-	(11,455)	-	-	(11,455)
Other finance costs	-	-	-	-	-	(19,882)	(19,882)
Loss before taxation							(90,126)
Taxation							2,900
Loss after taxation							<u>(87,226)</u>

Note: Included in turnover are interest income from loans receivable and advances amounting to HK\$31,391,000.

4. SEGMENT INFORMATION – Continued

Six months ended 30 June 2002

(Unaudited)	Investment in trading securities HK\$'000	Brokerage and financial services HK\$'000	Property investment HK\$'000	Investment holding HK\$'000	Inter- segment eliminations HK\$'000	Unallocated HK\$'000	Conso- lidated total HK\$'000
		Note					
Revenue							
Turnover							
External	86,092	33,612	3,626	-	-	-	123,330
Inter-segment	-	-	1,569	-	(1,569)	-	-
	86,092	33,612	5,195	-	(1,569)	-	123,330
Other revenue	-	2,258	-	-	-	526	2,784
Total revenue	<u>86,092</u>	<u>35,870</u>	<u>5,195</u>	<u>-</u>	<u>(1,569)</u>	<u>526</u>	<u>126,114</u>
Results							
Segment profit/(loss)	<u>87,845</u>	<u>4,105</u>	<u>(1,875)</u>	<u>-</u>	<u>-</u>	<u>(13,138)</u>	76,937
Other finance costs	-	-	-	-	-	(13,324)	<u>(13,324)</u>
Profit before taxation							63,613
Taxation							<u>(12,910)</u>
Profit after taxation							<u>50,703</u>

Note: Included in turnover are interest income from loans receivable and advances amounting to HK\$24,434,000.

5. NET OTHER OPERATING (EXPENSES)/INCOME

Included in net other operating (expenses)/income are the following:

	For the six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
	(Unaudited)	
Deficit on revaluation of investment properties	(31,172)	–
Unrealised holding (loss)/gain on trading securities	(22,366)	89,104
Provision for bad and doubtful debts	–	(6,896)
Loss on disposal of property, plant and equipment	–	(34)
	_____	_____

6. (LOSS)/PROFIT FROM OPERATIONS

(Loss)/profit from operations is arrived at after (charging)/crediting:

	For the six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
	(Unaudited)	
Gain/(loss) on sale of trading securities	490	(1,448)
Dividend income	80	189
Release of negative goodwill	1,433	35
	_____	_____

7. TAXATION**For the six months
ended 30 June**

2003	2002
HK\$'000	HK\$'000
(Unaudited)	

The tax credit/(charge) comprises:

Hong Kong profits tax		
– provision for the period	(100)	–
– underprovided in prior periods	–	(910)
Deferred taxation	3,000	(12,000)
	2,900	(12,910)

Hong Kong profits tax is calculated at 17.5% of the estimated assessable profits of the Group for the six months ended 30 June 2003. No provision for Hong Kong profits tax has been made for the six months ended 30 June 2002 as the Group had no assessable profits for that period.

No recognition of the potential deferred tax assets relating to tax losses of the Group has been made as the recoverability of the potential deferred tax assets is uncertain.

8. DIVIDENDS**For the six months
ended 30 June**

2003	2002
HK\$'000	HK\$'000

Special dividends of 7 cents per share declared and paid during the period (30 June 2002: Nil)	17,201	–
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The special dividends were paid out of the merger reserve (note 17) of the Company in January 2003.

9. (LOSS)/EARNINGS PER SHARE

The calculation of basic and diluted (loss)/earnings per share for the six months ended 30 June 2003 and 2002 are based on the following data:

	For the six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
	(Unaudited)	
(Loss)/earnings		
Net (loss)/profit attributable to shareholders for the period for the purpose of basic (loss)/earnings per share	(86,332)	34,510
Interest saved upon deemed conversion of all convertible notes at the beginning of the period	—	2,374
Net (loss)/profit attributable to shareholders for the period for the purpose of diluted (loss)/earnings per share	(86,332)	36,884
		(Restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	245,734,672	245,734,672
Effect of dilutive potential ordinary shares in respect of convertible notes issued in July 2001	—	40,119,403
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share	245,734,672	285,854,075

9. (LOSS)/EARNINGS PER SHARE – Continued

The weighted average number of ordinary shares for the purpose of calculation of basic and diluted (loss)/earnings per share was based on the assumption that the Group Reorganisation had been completed on 1 January 2002.

No diluted loss per share is presented for the six months ended 30 June 2003 as conversion of the Company's outstanding convertible notes and a subsidiary's convertible note have an anti-dilutive effect.

The number of potential ordinary shares convertible from the outstanding convertible notes for the purpose of calculation of diluted earnings per share for the six months ended 30 June 2002 has been adjusted to reflect the change in number of issued ordinary shares as a result of the Group Reorganisation. The share options outstanding during the six months ended 30 June 2002 have not been taken into account in the calculation of diluted earnings per share as the exercise price per share is higher than the market price per share during the same period.

10. INVESTMENTS IN SECURITIES

	Trading securities		Other securities	
	30 June 2003 HK\$'000 (Unaudited)	31 December 2002 HK\$'000 (Audited)	30 June 2003 HK\$'000 (Unaudited)	31 December 2002 HK\$'000 (Audited)
Equity securities				
Listed investments	93,717	126,571	-	-
Unlisted investments	-	-	3,899	3,899
Unlisted investment fund	-	-	-	50,941
	93,717	126,571	3,899	54,840
Unlisted debt securities	-	-	3,899	3,899
	93,717	126,571	7,798	58,739

10. INVESTMENTS IN SECURITIES – Continued

Included in trading securities is the Group's investment in 290,000,000 shares with carrying amount of HK\$92,800,000 (31 December 2002: 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. 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. Although the Group's investment in Radford Capital accounts for 28.4% issued ordinary shares of Radford Capital, the Group does not regard Radford Capital as an associate because it intends to hold the investment in Radford Capital for trading purpose.

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 is the fair value of the Group's investment in Radford Capital. Accordingly, the investment in Radford Capital is stated at HK\$92,800,000 (31 December 2002: HK\$114,840,000) after taking 20% discount on the closing market price quoted on the Stock Exchange on 30 June 2003 (31 December 2002: on the last trading day in December 2002). This resulted in a recognition of an accumulated unrealised holding gain of HK\$33,600,000 (31 December 2002: HK\$52,640,000) after attributable taxation as at 30 June 2003 and a net unrealised holding loss of HK\$19,040,000, after taking into account an estimated attributable tax credit of HK\$3,000,000, in the income statement for the current period.

11. LOANS RECEIVABLE

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

		30 June 2003 HK\$'000 (Unaudited)	31 December 2002 HK\$'000 (Audited)
	<i>Notes</i>		
Third parties		594,453	308,192
Related companies	<i>20(b)</i>	127,200	46,987
Directors of the Company/ CU Holdings	<i>20(c)</i>	1,150	1,361
		<hr/>	<hr/>
Total loans receivable		722,803	356,540
Provision for bad and doubtful debts		(128,687)	(128,687)
		<hr/>	<hr/>
		594,116	227,853
Less: Loans due within one year included in current assets		(592,478)	(226,484)
		<hr/>	<hr/>
Loans receivable due after one year		1,638	1,369
		<hr/>	<hr/>

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

		30 June 2003 HK\$'000 (Unaudited)	31 December 2002 HK\$'000 (Audited)
Within maturity dates		603,614	275,036
Balance overdue for repayment			
Within:			
1 – 3 months		61,602	40,692
4 – 6 months		431	11,621
7 – 12 months		27,285	266
Over 12 months		29,871	28,925
		<hr/>	<hr/>
		722,803	356,540
		<hr/>	<hr/>

12. TRADE AND OTHER RECEIVABLES

The Group maintains a credit policy. The trade and other receivables comprises the following:

		30 June 2003 HK\$'000 (Unaudited)	31 December 2002 HK\$'000 (Audited)
	<i>Notes</i>		
Third parties		247,034	273,779
A substantial shareholder	<i>20(e)</i>	15,572	47,906
A related company	<i>20(e)</i>	1,250	15,171
A director of certain non wholly-owned subsidiaries	<i>20(e)</i>	880	3,657
Directors of the Company/ CU Holdings	<i>20(e)</i>	1,667	1,706
		<hr/>	<hr/>
Total loans receivable		266,403	342,219
Provision for bad and doubtful debts		(51,262)	(51,262)
		<hr/>	<hr/>
Trade receivables after provision		215,141	290,957
Other receivables		14,973	9,869
		<hr/>	<hr/>
		230,114	300,826
		<hr/>	<hr/>

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

		30 June 2003 HK\$'000 (Unaudited)	31 December 2002 HK\$'000 (Audited)
Repayable on demand		214,784	290,866
Within:			
1 – 3 months		350	91
4 – 6 months		7	–
		<hr/>	<hr/>
		215,141	290,957
		<hr/>	<hr/>

13. TRADE AND OTHER PAYABLES

The trade and other payables include trade payables of approximately HK\$7,793,000 (31 December 2002: HK\$12,985,000). At the balance sheet date, all trade payables are current.

14. BANK AND OTHER BORROWINGS

Included in the bank and other borrowings of HK\$635,561,000 (31 December 2002: HK\$423,580,000) shown under current liabilities are the bank and other loans amounting to HK\$369,837,000 (31 December 2002: HK\$278,614,000) for which China United has defaulted in repayment.

15. CONVERTIBLE NOTES

		30 June 2003	31 December 2002
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
		(Unaudited)	(Audited)
Notes issued by CU Holdings	<i>(a)</i>	–	63,840,000
Notes issued by the Company	<i>(a)</i>	63,840,000	–
Note issued by a subsidiary	<i>(b)</i>	88,000,000	–
		<u>151,840,000</u>	<u>63,840,000</u>

Notes:

- (a) As detailed in the Circular mentioned in note 1 to the financial statements, the noteholders had given up their rights under the notes issued by CU Holdings in exchange for the new notes of equal principal amount in the Company. The new notes bear interest at 7.5% per annum and can be converted into shares of the Company in the amounts or integral multiples of HK\$168,000 at any time from the date of issue and up to 14 days before (and excluding) the maturity date of 4 July 2004. The conversion price, which is subject to adjustments, applicable to relevant period is as follows:

Conversion price	Period
HK\$1.91	Date of issue to 4 July 2003
HK\$2.22	5 July 2003 to 14 days before (and excluding) the maturity date of 4 July 2004

15. CONVERTIBLE NOTES – Continued

No conversion right was exercised by the noteholders during the current period.

- (b) On 14 April 2003, a non wholly-owned subsidiary issued a convertible note (the “Note”) with a principal sum of HK\$88,000,000. The Note bears interest at 5% per annum and matures on the second anniversary of the date of issue of the Note. The noteholder has the right, at any time from the date of issue and before the maturity date of the Note, to convert the whole or any part of the outstanding principal amount of the Note into ordinary shares of the subsidiary with a nominal value of US\$0.1 each at a conversion price of HK\$2 per share.

Unless previously purchased and cancelled, redeemed or converted, the outstanding principal sum of the Note together with additional amounts as may be payable under the terms and conditions of the Note may be redeemed prior to the maturity date of the Note. No conversion right was exercised during the period.

16. SHARE CAPITAL

	<i>Notes</i>	Number of ordinary shares	Nominal value HK\$
Authorised:			
Creation of 10,000 shares of HK\$1 each upon incorporation	<i>(a)</i>	10,000	10,000
Subdivision of authorised share capital from 10,000 shares of HK\$1 each to 100,000 of HK\$0.10 each	<i>(b)</i>	<u>90,000</u>	<u>–</u>
Shares of HK\$0.10 each		100,000	10,000
Increase by creation of an additional 19,999,900,000 shares of HK\$0.10 each	<i>(c)</i>	<u>19,999,900,000</u>	<u>1,999,990,000</u>
Shares of HK\$0.10 each at 30 June 2003		<u>20,000,000,000</u>	<u>2,000,000,000</u>
Issued and fully paid:			
Initial shares of HK\$1 each	<i>(a)</i>	2	2
Subdivision of issued shares from 2 shares of HK\$1 each to 20 shares of HK\$0.10 each	<i>(b)</i>	<u>18</u>	<u>–</u>
Shares of HK\$0.10 each		20	2
Issue of shares pursuant to the Group Reorganisation	<i>(d)</i>	<u>245,734,652</u>	<u>24,573,465</u>
Shares of HK\$0.10 each		<u>245,734,672</u>	<u>24,573,467</u>

The comparative amount of share capital as at 31 December 2002 shown in the condensed consolidated balance sheet represents the issued share capital of CU Holdings, the former ultimate holding company of the Group, divided into 6,143,366,812 ordinary shares of HK\$0.01 each.

16. SHARE CAPITAL – *Continued*

Details of changes in the authorised and issued shares capital of the Company for the period from 16 August 2002 (date of incorporation) to 30 June 2003 are as follows:

Notes:

- (a) The Company was incorporated on 16 August 2002 with an authorised share capital of HK\$10,000 divided into 10,000 ordinary shares of HK\$1 each. At time of incorporation, 2 ordinary shares of HK\$1 each were issued at par to the subscribers.
- (b) By a special resolution passed on 30 August 2002, the authorised share capital of the Company of HK\$10,000 divided into 10,000 ordinary shares of HK\$1 each, of which 2 ordinary shares of HK\$1 were issued and fully paid, were sub-divided into 100,000 ordinary shares of HK\$0.10 each, of which 20 ordinary shares of HK\$0.10 each were issued and fully paid.
- (c) By an ordinary resolution passed on 30 August 2002, the authorised share capital of the Company was increased from HK\$10,000 to HK\$2,000,000,000 divided into 20,000,000,000 ordinary shares of HK\$0.1 each.
- (d) Following an ordinary resolution passed on 20 November 2002 and the Scheme sanctioned by the Supreme Court of Bermuda which became effective on 3 January 2003, the Company allotted and issued 245,734,652 new ordinary shares of HK\$0.10 each credited as fully paid in exchange for the entire issued share capital of CU Holdings in accordance with the Group Reorganisation.

All the shares issued during the period ranked *pari passu* with the then existing shares in all respects.

Following an ordinary resolution passed on 20 November 2002 and the Scheme sanctioned by the Supreme Court of Bermuda which became effective on 3 January 2003, the share option scheme of CU Holdings adopted on 30 May 2002 was cancelled and a new share option scheme of the Company was approved on 20 November 2002 by the shareholders of the Company and became effective on 3 January 2003. The terms of the new share option scheme are substantially the same as those of the share option scheme adopted on 30 May 2002. No option under the above share option schemes has been granted or outstanding during the period.

17. RESERVES

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Special reserve HK\$'000	Capital reserve HK\$'000	Investment revaluation deficit HK\$'000	Contributed surplus HK\$'000	Retained profits/ (deficit) HK\$'000	Merger reserve HK\$'000	Total HK\$'000
At 1 January 2003 (Audited)	1,617,221	99	33,455	19,330	(10,341)	1,115,795	-	(2,491,483)	284,076
Contributed surplus set off against accumulated losses pursuant to the Group Reorganisation	-	-	-	-	-	(2,685,716)	-	2,685,716	-
Reduction of capital pursuant to the Group Reorganisation	(1,617,221)	-	-	-	-	1,678,555	-	-	61,334
Share capital of CU Holdings eliminated on the Group Reorganisation	-	-	-	-	-	-	100	-	100
Reclassification of reserves resulting from the Group Reorganisation	-	(99)	-	99	-	(108,634)	108,634	-	-
Issue of shares by the Company pursuant to Group Reorganisation	-	-	-	-	-	-	(24,573)	-	(24,573)
Special dividends declared and paid during the period	-	-	-	-	-	-	(17,201)	-	(17,201)
Realised on disposal of other securities	-	-	-	-	10,341	-	-	-	10,341
Loss for the period	-	-	-	-	-	-	-	(86,332)	(86,332)
At 30 June 2003 (Unaudited)	-	-	33,455	19,429	-	-	66,960	107,901	227,745

18. COMMITMENTS**(a) Capital commitments**

Commitments contracted for but not provided in the financial statements are as follows:

	30 June 2003 HK\$'000 (Unaudited)	31 December 2002 HK\$'000 (Audited)
Capital injection to an associate	<u>4,680</u>	<u>4,680</u>

(b) Operating lease commitments

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises and equipment fall due as follows:

	30 June 2003 HK\$'000 (Unaudited)	31 December 2002 HK\$'000 (Audited)
Within one year	181	263
In the second to fifth year inclusive	93	159
	<u>274</u>	<u>422</u>

19. PLEDGE OF ASSETS

At the balance sheet date, certain assets of the Group with the following net book values have been pledged to banks and other financial institutions to secure credit facilities granted to the Group.

	30 June 2003 HK\$'000 (Unaudited)	31 December 2002 HK\$'000 (Audited) (Restated)
Land and buildings	99,291	120,782
Investment properties	120,118	157,190
Interests in associates	-	1,485
Trading securities	92,800	114,840
Bank deposits	18,088	18,173
	330,297	412,470

20. RELATED PARTY TRANSACTIONS

During the period, the Group has the following material transactions with related parties:

- (a) A property of the Group with net book value of HK\$17,579,000 (31 December 2002: HK\$17,864,000) is occupied by a brother of the chairman of the Company rent free. The chairman's brother is also a director ("Subsidiary Director") of certain non-wholly owned subsidiaries of the Company.
- (b) The Group has granted unsecured loan to two related companies whose director is also the Subsidiary Director. At the balance sheet date, the outstanding loan amounted to HK\$127,200,000 (31 December 2002: HK\$46,987,000) which carry interest at prime rate plus 1% per annum to prime rate plus 3% per annum.
- (c) The Group has granted unsecured loans of approximately HK\$1,150,000 (31 December 2002: HK\$1,361,000) to certain directors of the Company/CU Holdings. The loans bear interest at 8% per annum.

20. RELATED PARTY TRANSACTIONS – Continued

- (d) The Group's credit facilities to the extent of HK\$50,000,000 (31 December 2002: HK\$60,000,000) are guaranteed by the Subsidiary Director.
- (e) The Group has granted securities margin loans to a substantial shareholder, a related company, the Subsidiary Director and directors of the Company as disclosed in note 12 to the financial statements. The loan carry interest at prior rate plus 3% per annum and are repayable on demand. The Subsidiary Director is a director of the said related company.

21. POST BALANCE SHEET EVENTS

The following events have occurred subsequent to the balance sheet date:

- (a) A sale and purchase agreement ("S & P Agreement") dated 2 July 2003 was entered into by a subsidiary with a third party for disposal of its investment property at a consideration of HK\$7,128,000. The disposal was completed on 2 September 2003 and has not resulted in a material loss to the Group.
- (b) On 28 July 2003, the agreements for the disposals of certain properties as detailed in the Company's circular dated 17 February 2003 were cancelled.
- (c) CU Holdings, which has changed its name to Zhuang PP Holdings Limited on 18 August 2003, acquired and disposed of certain equity interests in companies as follows:
 - (i) On 2 July 2003, CU Holdings disposed of its 25% and 16.67% interests in two subsidiaries to a third party at a total consideration of HK\$13,000,000.
 - (ii) On the same date, CU Holdings acquired 22% equity interest in a company at a consideration of HK\$13,000,000. Thereafter, this company was disposed of to a subsidiary of the Company at a nominal consideration on 4 July 2003.
 - (iii) On 7 July 2003, CU Holdings disposed of a subsidiary to a third party at a consideration of HK\$480,000.

21. POST BALANCE SHEET EVENTS – Continued

- (d) On 6 August 2003, the Company entered into an agreement for private placement of its 49,144,000 new ordinary shares of HK\$0.1 each at a subscription price of HK\$0.87 per share with independent investors. The placement was cancelled on 9 September 2003.
- (e) On 20 August 2003, the Group entered into a sale and purchase agreement to dispose of CU Holdings to a company beneficially held by the Subsidiary Director at a consideration of HK\$10,000,000. The transaction is expected to be completed on the next business day upon fulfillment of the conditions as specified in the agreement by 31 October 2003 or such other date as agreed between the Company and the purchaser.

The details on the above disposal are set out in the Company's announcement dated 20 August 2003.

- (f) On 11 July 2003, CU Holdings and its subsidiary, East Champion Limited, ("East Champion") received from a bank a statutory demand for repayment of approximately HK\$3,541,000, representing excess of the outstanding amount of the bank loan over the estimated market value of East Champion's properties pledged to the bank. CU Holdings and East Champion have applied for injunction preventing the bank from presenting winding up petitions against them. On 15 August 2003, an injunction was granted by the Court to restrain the presentation of the intended petition.
- (g) On 19 September 2003, the Board of directors proposed to make a bonus issue of shares, on the basis of one new bonus share for every two existing shares of the Company held by qualifying shareholders of the Company on the record date by way of capitalisation from the Company's reserves and also to make a bonus issue of warrants, on the basis of one unit of subscription right of warrant for every five existing shares held by qualifying shareholders of the Company on the record date.

22. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These unaudited condensed interim financial statements were approved and authorised for issue by the Board of directors on 19 September 2003.



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INDEPENDENT AUDITORS' REVIEW REPORT TO THE BOARD OF DIRECTORS OF CHINA UNITED INTERNATIONAL HOLDINGS LIMITED

(互聯控股有限公司)

(FORMERLY KNOWN AS KANFORD HOLDINGS LIMITED)

(嘉豐集團有限公司)

(incorporated in Hong Kong with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report of the Company set out on pages 1 to 26.

Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statement of Auditing Standard 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Society of Accountants, except that the scope of our review was limited as explained below.

A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Fundamental uncertainty in respect of the going concern basis

In arriving at our review conclusion, we have considered the adequacy of disclosures made in the interim financial report which mentioned the Company has undertaken a group reorganisation and explained that the interim financial report has been prepared on the going concern basis.

Pursuant to the group reorganisation, the Company became the ultimate holding company of China United Holdings Limited (“CU Holdings”). For the purpose of this review report, CU Holdings and/or its subsidiaries are referred to as “China United” and the Group (comprising the Company and its subsidiaries) excluding China United is referred to as the “New Group”.

The validity of preparation of the interim financial report on the going concern basis depends on whether:

- (i) The restructuring of shareholdings in subsidiaries of CU Holdings has been conducted without contravention of any applicable laws and the New Group will not be subject to challenge by any party as to the validity of the restructuring and/or to possible claims for compensation for any loss suffered by CU Holdings as a result of the restructuring; and
- (ii) China United can be successful in re-negotiation with the lenders to restructure its loans.

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.

Details of the circumstances relating to the above fundamental uncertainty are described in note 2 to the interim financial report.

Limitation of review scope on certain loans receivable

The scope of our review was limited in respect of certain major loans receivable amounting to HK\$457,788,000 included in the Group's total loans receivable of HK\$722,803,000 before provision (note 11 to the interim financial report). There is insufficient information and explanations about the financial positions of the borrowers to support the directors' contention that these loans receivable can be recovered. Accordingly, we are unable to determine whether these loans receivable can be recovered and provision for doubtful debts against this balance is required.

Any of the above loans receivable which eventually becomes unrecoverable may have a significant adverse effect on the Group's cash flows and its going concern status.

Inability to reach a review conclusion arising from disagreement about accounting treatment, limitation of review scope and fundamental uncertainty relating to the going concern basis

As explained in note 10 to the interim financial report, 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\$92,800,000 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.

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 30 June 2003 is the fair value of the Group's investment in Radford Capital. Accordingly, the investment in Radford Capital is stated at HK\$92,800,000 after taking 20% discount on the closing market price quoted on the Stock Exchange on 30 June 2003. This resulted in a recognition of an accumulated unrealised holding gain of HK\$33,600,000 after attributable taxation as at 30 June 2003 and a recognition of a net unrealised holding loss of HK\$19,040,000, after deducting an estimated attributable tax credit of HK\$3,000,000, in the income statement for the current period.

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, 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 period with reasonable accuracy.

We previously qualified our opinion for the year ended 31 December 2002 in respect of the above basis of valuation of the investment.

On the basis of our review which does not constitute an audit, with the failure to state the investment in Radford Capital at its fair value as described in the preceding paragraph and because of the foregoing significant fundamental uncertainty relating to the appropriateness of the going concern basis and the significance of the possible effects of the limitation in evidence regarding the recoverability of the loans receivable, we are unable to reach a review conclusion as to whether material modifications should be made to the interim financial report for the six months ended 30 June 2003.

BDO International

Certified Public Accountants

Hong Kong, 19 September 2003

INTERIM DIVIDEND

The Board of directors does not recommend any interim dividend for the six months ended 30 June 2003 (2002: Nil).

PROPOSED BONUS ISSUE OF SHARES AND WARRANTS

The Board of directors proposes to make a bonus issue of shares, on the basis of one new bonus share for every two existing shares of the Company held by qualifying shareholders of the Company on the record date by way of capitalisation from the Company's reserves and also to make a bonus issue of warrants, on the basis of one unit of subscription right of warrant for every five existing shares held by qualifying shareholders of the Company on the record date. For further details of the bonus issue of shares and warrants, please refer to the separate announcement made by the Company.

BUSINESS REVIEW AND PROSPECTS

Results

During the six months ended 30 June 2003, the Group recorded an unaudited net loss attributable to shareholders of approximately HK\$86.3 million, as compared with a profit of approximately HK\$34.5 million for the corresponding six months ended 30 June 2002. The loss per share was HK35.13 cents for the current period as compared with the earnings per share of HK14.04 cents for the corresponding period ended 30 June 2002. Turnover was approximately HK\$57.8 million, an decrease of approximately 53.1% from 2002's level of approximately HK\$123.3 million, which was mainly due to the substantial decrease in investment in trading securities of approximately 77.7% (approximately HK\$19.2 million in this period versus approximately HK\$86.1 million in 2002) during the period despite a slight increase in income for the provision of brokerage and financial services of 3.9% for this period (approximately HK\$34.9 million in this period versus approximately HK\$33.6 million in 2002) and the increase of approximately 2.8% in the rental income from property investment (approximately HK\$3.7 million in this period versus approximately HK\$3.6 million in 2002).

Review and Outlook

During the period, faced with the outbreak of the Severe Acute Respiratory Syndrome ("SARS"), the Group continued to consolidate its efforts on the core businesses of property investment, investment in trading securities and provision of brokerage and financial services under very poor business environment. For the businesses of provision of brokerage and financial services, an operating profit (before provision of bad and doubtful debts) of approximately HK\$17.5 million was generated from this segment during the current period as compared with that of approximately HK\$10.8 million during the corresponding period in 2002. Besides, an operating profit (before financial costs and excluding the deficit on

revaluation of investment properties of about HK\$31.2 million) of HK\$2.7 million was attributable to the letting out of properties during the current period as compared with an operating loss (before financial costs) of approximately HK\$1.9 million for the period ended 30 June 2002. For the investment in trading securities, in view of the continuous low turnover and weak performance of the local stock market during the period, in particular during the SARS period, the Group's activity in the investment in trading securities was significantly curtailed and a decrease of 77.7% in turnover from approximately HK\$86.1 million was recorded for the period ended 30 June 2002 to HK\$19.2 million for the current period. The operating loss from investment in trading securities to approximately HK\$22.4 million for the current period as compared with a profit of approximately HK\$87.8 million in 2002 was substantially attributed to the decrease in the market value of the portfolio of the listed investments held by the Group as at 30 June 2003.

Liquidity and Capital Resources

To cope with the current difficult economic environment, the Group continued to consolidate its financial position. Hence, there was no change to the capital base of the Company during the period.

As at 30 June 2003, the Group's total shareholders' funds amounted to approximately HK\$252.3 million compared with HK\$345.5 million at 31 December 2002. As at 30 June 2003, the Group had net current assets of approximately HK\$262.4 million compared with net current assets of HK\$216.0 million at 31 December 2002. The gearing ratio (calculated by aggregated interest-bearing borrowings divided by the Group's shareholders' funds at the balance sheet date) and current ratio of the Group was approximately 322.4% and approximately 1.36 times at 30 June 2003, compared to approximately 170.7% and approximately 1.45 times respectively at 31 December 2002.

As at 30 June 2003, the Group has bank loans and other borrowings of approximately HK\$661.4 million (31 December 2002: approximately HK\$525.9 million) and convertible notes, with an aggregate principal amount of approximately HK\$151.8 million (31 December 2002: approximately HK\$63.8 million).

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

Pledge of Assets

As at 30 June 2003, certain assets of the Group with an aggregate net book value of approximately HK\$330.3 million (31 December 2002: approximately HK\$412.5 million) were pledged to banks and other financial institutions to secure credit facilities granted to the Group.

Contingent Liabilities

As at 30 June 2003, the Group did not have any material contingent liabilities.

Employees

As at 30 June 2003, the total number of employees of the Group was 79. The Group remunerates its employees based on their performance, working experience and prevailing market standards and reviews their remuneration annually. Staff benefits include a medical insurance coverage, provident fund. On 3 January 2003, the share option scheme adopted by the Company's subsidiary on 30 May 2002 was cancelled and a new share option scheme of the Company was adopted with substantially the same terms as compared to the previous share option scheme adopted on 30 May 2002. No option under the above share option schemes was granted during the period or outstanding as at 30 June 2003.

Prospects

With the effect of SARS being mitigated and following the recent relaxation of Mainland tourists traveling to Hong Kong, together with the recent signing of the Closer Economic Partnership Arrangement between Hong Kong and the PRC accompanied by the accession of the PRC to the WTO, the Group believes that the operating environment for the rest of the year and the years immediately ahead would be improved substantially and became more stable, which in turn would revitalized consumers' and investors' confidence. It is hoped that all these recent positive signs of improving business environment will continue and improve further to benefit the economic recovery of Hong Kong in general. The Group is well-placed to benefit from an anticipated economic upturn and will strive to pursue new business opportunities with prudence aiming at creating value to shareholders.

DISCLOSURE OF INTERESTS OF DIRECTORS

As at 30 June 2003, the interests of the directors and chief executive of the Company in the share capital of the Company as recorded in the register maintained under section 352 of the Securities and Futures Ordinance (the "SFO") were as follows:

(i) Shares

Director	Personal interest	Number of ordinary shares held in the Company			Percentage of the issued share capital of the Company
		Family interest	Total interest		
Chuang Yueheng, Henry	-	67,350,180 (Note)	67,350,180	27.41%	
Wong Ying Seung, Asiong	280,000	-	280,000	0.11%	

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

Save as disclosed herein, as at 30 June 2003, none of the directors or chief executive of the Company had any interest or short position in any shares or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained under section 352 of the SFO.

(ii) Share Option Scheme

The Company conditionally adopted a share option scheme on 20 November 2002 (which became effective on 3 January 2003) under which 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.

No options have been granted since the date of adoption of the share option scheme.

DISCLOSURE OF INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2003, the following shareholder had interests of 5% or more in the share capital of the Company as recorded in the register maintained by the Company under section 336 of the SFO:

Name	Number of ordinary shares of HK\$0.10 each held in the Company	Percentage of the issued share capital of the Company
Radford Developments Limited	67,350,180 <i>(Note)</i>	27.41%

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

Save as disclosed herein, as at 30 June 2003, the Company was not notified of any interests in more than 5% of the issued share capital of the Company as recorded in the register maintained under section 336 of the SFO, and no person was interested in or had a short position in the shares or underlying shares which would fall to be disclosed to the Company under section 336 of the SFO.

CODE OF BEST PRACTICE

None of the directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 June 2003 in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("Code of Best Practice"), except that the independent non-executive directors of the Company are not appointed for a specific term as they are subject to retirement by rotation and re-election at annual general meeting of the Company in accordance with the Company's Articles of Association.

AUDIT COMMITTEE

The Group has established the audit committee according to the Code of Best Practice. In setting out the written terms of reference the Directors had made reference to the "Guide for the Formation of an Audit Committee" published by the Hong Kong Society of Accountants. The Committee comprises the two independent non-executive directors, Mr. Lam Ping Cheung and Mr. Peter Ong. The interim report has been reviewed by the auditors, Messrs. BDO International, certified public accountants.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the six months ended 30 June 2003.

By Order of the Board
Chuang Yueheng, Henry
Chairman

Hong Kong, 19 September 2003