



## Directors' Report

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

### CORPORATE REORGANISATION AND CHANGE OF DOMICILE

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

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

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were listed on the Stock Exchange by way of introduction on 6 January 2003 and the listing status of CU Bermuda was withdrawn on 3 January 2003.

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

### PRINCIPAL ACTIVITIES

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

### RESULTS, DIVIDENDS AND BONUS ISSUE

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

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

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

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

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### RESERVES

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

### FINANCIAL SUMMARY

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

### INVESTMENT PROPERTIES AND FIXED ASSETS

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

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

### BORROWINGS

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

### SHARE CAPITAL

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

### SHARE OPTIONS

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

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

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

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

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### CONVERTIBLE SECURITIES, OPTIONS OR SIMILAR RIGHTS

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

### DIRECTORS

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

#### Executive directors:

Chuang Yueheng, Henry

Chung, Wilson

Lo Kan Sun

Wong Ying Seung, Asiong

Wong Siu Bun (resigned on 13 January 2003)

#### Independent non-executive directors:

Lam Ping Cheung

Ong, Peter

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

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

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

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

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

## Directors' Report

### DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

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

#### Interests in the Company

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

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

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

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

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

### DIRECTORS' INTERESTS IN CONTRACTS

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

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



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### CONNECTED TRANSACTIONS

The following transactions occurred during the year:

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

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

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

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

#### Interests in the Company

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

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

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

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

#### RETIREMENT SCHEME

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

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### MAJOR CUSTOMERS AND SUPPLIERS

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

### MANAGEMENT CONTRACTS

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

### AUDIT COMMITTEE

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

### CODE OF BEST PRACTICE

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

### AUDITORS

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

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

On behalf of the Board  
**Chuang Yueheng, Henry**  
*Chairman*

Hong Kong, 22 April 2004