

Auditors' Report

Moores Rowland Mazars

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To the members of

China United International Holdings Limited

(incorporated in Hong Kong with limited liability)

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

BASIS OF OPINION

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

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

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



Auditors' Report

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

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

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

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

Auditors' Report

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

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

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

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

Fundamental uncertainty

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

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

Auditors' Report

QUALIFIED OPINION: DISCLAIMER ON VIEW GIVEN BY FINANCIAL STATEMENTS

Because of the significance of:

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

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

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

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

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

Moores Rowland Mazars

Chartered Accountants

Certified Public Accountants

Hong Kong, 22 April 2004