

Notes to the Financial Statements

Year ended 31 December 2003

1. GENERAL

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

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

2. GROUP REORGANISATION AND BASIS OF PREPARATION

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

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were listed on the Stock Exchange by way of introduction on 6 January 2003 and the listing status of CU Bermuda was withdrawn on the 3 January 2003.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

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

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

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

Notes to the Financial Statements

Year ended 31 December 2003

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

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

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

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

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

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

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

Notes to the Financial Statements

Year ended 31 December 2003

3. PRINCIPAL ACCOUNTING POLICIES

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

Changes in accounting policies

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

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

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Measurement basis

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

Basis of consolidation

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

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

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

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

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

Notes to the Financial Statements

Year ended 31 December 2003

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Goodwill

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

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

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

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

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

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

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

Subsidiaries

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

Notes to the Financial Statements

Year ended 31 December 2003

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Associates

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

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

Revenue recognition

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

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

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

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

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

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

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

Investment properties

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

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

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

Notes to the Financial Statements

Year ended 31 December 2003

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Property, plant and equipment

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

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

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

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

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

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

Investments in securities

Investments in securities are stated at their fair value.

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

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

Notes to the Financial Statements

Year ended 31 December 2003

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Intangible assets

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

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

Leasing

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

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

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

Impairment losses

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

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

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

Notes to the Financial Statements

Year ended 31 December 2003

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Employee benefits

Defined contribution plans

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

Long service payment

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

Equity and equity related compensation benefits

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

Taxation

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

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

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

Notes to the Financial Statements

Year ended 31 December 2003

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Foreign currencies

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

Related parties

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

Cash equivalents

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

4. TURNOVER

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

Notes to the Financial Statements

Year ended 31 December 2003

5. SEGMENT INFORMATION

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

Business segments

Business segments of the Group comprise the following:

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

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

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

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Year ended 31 December 2003

5. SEGMENT INFORMATION (Continued)

Year ended 31 December 2003

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

Notes to the Financial Statements

Year ended 31 December 2003

5. SEGMENT INFORMATION (Continued)

Year ended 31 December 2002

	Investment in trading securities HK\$'000	Brokerage and financial services HK\$'000	Property investment HK\$'000	Investment holding HK\$'000	Elimination HK\$'000	Unallocated HK\$'000	Total HK\$'000
Segment revenue							
Turnover							
External customers	104,973	68,063	7,646	—	—	—	180,682
Inter-segments	—	—	3,014	—	(3,014)	—	—
	<u>104,973</u>	<u>68,063</u>	<u>10,660</u>	<u>—</u>	<u>(3,014)</u>	<u>—</u>	<u>180,682</u>
Other revenue	—	7,087	24	—	—	2,475	9,586
	<u>—</u>	<u>7,087</u>	<u>24</u>	<u>—</u>	<u>—</u>	<u>2,475</u>	<u>9,586</u>
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							(11,908)
Loss attributable to shareholders							<u>(199,369)</u>

Notes to the Financial Statements

Year ended 31 December 2003

5. SEGMENT INFORMATION (Continued)

Assets and liabilities as at 31 December 2003

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

Assets and liabilities as at 31 December 2002

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

Notes to the Financial Statements

Year ended 31 December 2003

5. SEGMENT INFORMATION (Continued)

Other segment information for the year ended 31 December 2003

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

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5. SEGMENT INFORMATION (Continued)

Other segment information for the year ended 31 December 2002

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

Geographical segments

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

Notes to the Financial Statements

Year ended 31 December 2003

6. OTHER REVENUE

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

Notes to the Financial Statements

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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
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Total depreciation and amortisation expenses	4,377	18,948
Contributions to MPF Scheme	477	521
Included in other operating expenses:		
- Auditors' remuneration	2,260	1,310
- (Surplus) Deficit on revaluation of investment properties	(760)	38,890
- Operating lease charges:		
Equipment	24	26
Office premises	1,012	1,069
- Net unrealised holding loss (gain) on trading securities	77,329	(58,181)
- Net realised loss on disposal of other securities:		
Recognised during the year	1,114	—
Previously recognised in equity	10,341	—
- Net provision for bad and doubtful debts	213,207	10,269
- Release of negative goodwill to income	(4,809)	(1,517)
- Loss on disposal of investment properties	10,872	1,258
- Loss on disposal of property, plant and equipment	—	2,804
Rental income from investment properties	(5,856)	(7,646)
Less: Outgoings	1,216	1,653
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	<u>4,640</u>	<u>(5,993)</u>

Notes to the Financial Statements

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8. LOSS ON DEEMED DISPOSAL OF INTERESTS IN SUBSIDIARIES

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

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

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

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

9. OTHER FINANCE COSTS

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

Notes to the Financial Statements

Year ended 31 December 2003

10. DIRECTORS' EMOLUMENTS

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

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

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

Notes to the Financial Statements

Year ended 31 December 2003

11. EMPLOYEES' EMOLUMENTS

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

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

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

12. TAXATION

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

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

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

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

Notes to the Financial Statements

Year ended 31 December 2003

12. TAXATION (Continued)

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

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13. LOSS FOR THE YEAR

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

14. DIVIDENDS

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

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

Notes to the Financial Statements

Year ended 31 December 2003

15. LOSS PER SHARE

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

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

16. INVESTMENT PROPERTIES

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

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

	2003 HK\$'000	2002 HK\$'000
Land in Hong Kong:		
Long lease	7,160	124,910
Medium-term lease	13,370	32,560
	<u>20,530</u>	<u>157,470</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 31 December 2002 by a firm of independent professional valuers on an open market value existing use basis. Investment properties of HK\$34,000,000 as at 31 December 2002 were stated at its subsequent selling price.

Notes to the Financial Statements

Year ended 31 December 2003

17. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

Notes to the Financial Statements

Year ended 31 December 2003

18. INTANGIBLE ASSETS

	Trading rights HK\$'000
At beginning of year	
Cost	7,600
Accumulated amortisation	(1,458)
	<hr/>
Opening carrying amount	6,142
Amortisation charges	(433)
Deemed disposal of subsidiaries	(5,709)
	<hr/>
Closing carrying amount	<u>—</u>
At balance sheet date	
Cost	—
Accumulated amortisation	—
	<hr/>
Closing carrying amount	<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 1 January 2001
Trading right in the HKFE:	Ten years

Notes to the Financial Statements

Year ended 31 December 2003

19. GOODWILL

	Goodwill HK\$'000	Negative goodwill HK\$'000	Total HK\$'000
At beginning of year			
Cost	34,137	(28,650)	5,487
Accumulated amortisation	(34,137)	1,725	(32,412)
	<u>—</u>	<u>(26,925)</u>	<u>(26,925)</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	—	22,620	22,620
	<u>—</u>	<u>—</u>	<u>—</u>
Closing carrying amount	<u>—</u>	<u>—</u>	<u>—</u>
At balance sheet date			
Cost	35,143	—	35,143
Accumulated amortisation	(35,143)	—	(35,143)
	<u>—</u>	<u>—</u>	<u>—</u>
Closing carrying amount	<u>—</u>	<u>—</u>	<u>—</u>

Notes to the Financial Statements

Year ended 31 December 2003

20. INTERESTS IN SUBSIDIARIES

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

Notes to the Financial Statements

Year ended 31 December 2003

20. INTERESTS IN SUBSIDIARIES (Continued)

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

Note:

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

Notes to the Financial Statements

Year ended 31 December 2003

21. INTERESTS IN ASSOCIATES

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

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

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

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

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

Notes to the Financial Statements

Year ended 31 December 2003

21. INTERESTS IN ASSOCIATES (Continued)

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

Notes to the Financial Statements

Year ended 31 December 2003

21. INTERESTS IN ASSOCIATES (Continued)

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

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

	2003 HK\$'000 (note)
Operating results for the year ended 31 December 2003	
Turnover	<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>
	HK\$'000
Financial position at the balance sheet date	
Total non-current assets	412,246
Total current assets	306,417
Total current liabilities	(259,929)
Total non-current liabilities	<u>(46,500)</u>
Shareholders' funds	<u>412,234</u>
Amount attributable to the Group	<u>196,223</u>

Notes to the Financial Statements

Year ended 31 December 2003

21. INTERESTS IN ASSOCIATES (Continued)

Note:

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

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

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

22. INVESTMENTS IN SECURITIES

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	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 (note)	—	126,571	—	—
Unlisted investments	—	—	—	3,899
Unlisted investment fund	—	—	—	50,941
	—	126,571	—	54,840
Debt securities, Unlisted	—	—	—	3,899
	—	126,571	—	58,739
Fair value of equity securities listed:				
- in Hong Kong (note)	—	123,959	—	—
- overseas	—	2,612	—	—
	—	126,571	—	—

Notes to the Financial Statements

Year ended 31 December 2003

22. INVESTMENTS IN SECURITIES (Continued)

Note:

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

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

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

23. OTHER LONG TERM ASSETS

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

Notes to the Financial Statements

Year ended 31 December 2003

24. LOANS RECEIVABLE

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

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

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

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

Notes to the Financial Statements

Year ended 31 December 2003

25. TRADE AND OTHER RECEIVABLES

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

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

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

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

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

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

Notes to the Financial Statements

Year ended 31 December 2003

26. CASH AND CASH EQUIVALENTS

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

27. TRADE AND OTHER PAYABLES

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

28. INTEREST-BEARING BORROWINGS

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

Notes to the Financial Statements

Year ended 31 December 2003

28. INTEREST-BEARING BORROWINGS (Continued)

The maturity of the above borrowings is as follows:

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

Note:

Movements in other loans are as follows:

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

Notes to the Financial Statements

Year ended 31 December 2003

29. CONVERTIBLE NOTES

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

Note:-

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

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

The conversion prices applicable to relevant period are as follows:

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

Notes to the Financial Statements

Year ended 31 December 2003

29. CONVERTIBLE NOTES (Continued)

Note:- (Continued)

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

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

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

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

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

Notes to the Financial Statements

Year ended 31 December 2003

30. ISSUED CAPITAL

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

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

Notes to the Financial Statements

Year ended 31 December 2003

30. ISSUED CAPITAL (Continued)

Note:

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

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

31. SHARE OPTION SCHEME

(i) Executive share option scheme

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

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

Notes to the Financial Statements

Year ended 31 December 2003

31. SHARE OPTION SCHEME (Continued)

(ii) New share option scheme of CU Bermuda

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

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

(iii) Share option scheme of the Company

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

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

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

No options have been granted during the year.

32. WARRANTS

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

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

Notes to the Financial Statements

Year ended 31 December 2003

33. RESERVES

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

Notes to the Financial Statements

Year ended 31 December 2003

33. RESERVES (Continued)

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

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

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

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

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

Notes to the Financial Statements

Year ended 31 December 2003

34. CASH (USED IN) GENERATED FROM OPERATIONS

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

35. MAJOR NON-CASH TRANSACTIONS

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

Notes to the Financial Statements

Year ended 31 December 2003

36. ACQUISITION OF SUBSIDIARIES

	2003 HK\$'000	2002 HK\$'000
Net assets acquired:		
Investment properties	—	5,000
Property, plant and equipment	446	5,080
Trade and other receivables	—	1,508
Tax prepaid	—	92
Bank balances and cash	—	3,475
Trade and other payables	—	(6,861)
Obligations under finance leases	(52)	—
Bank overdraft	—	(2,886)
Bank loan	—	(4,231)
	<u>394</u>	<u>1,177</u>
Goodwill arising on acquisition	<u>1,006</u>	<u>28,823</u>
Total consideration	<u><u>1,400</u></u>	<u><u>30,000</u></u>
Satisfied by:		
Cash paid	—	30,000
Unsettled payable	<u>1,400</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 HK\$'000	2002 HK\$'000
Cash paid	—	(30,000)
Bank balances and cash acquired	—	3,475
Bank overdraft acquired	—	(2,886)
Net outflow of cash and cash equivalents	<u><u>—</u></u>	<u><u>(29,411)</u></u>

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

Notes to the Financial Statements

Year ended 31 December 2003

37. DISPOSAL OF SUBSIDIARIES

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

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

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

Notes to the Financial Statements

Year ended 31 December 2003

38. DEEMED DISPOSAL OF SUBSIDIARIES

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

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

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

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

Notes to the Financial Statements

Year ended 31 December 2003

39. COMMITMENTS

(a) Capital expenditure commitments

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

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

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

(b) Commitments under operating leases

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

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

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

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

Notes to the Financial Statements

Year ended 31 December 2003

40. CONTINGENT LIABILITIES

(a) Guarantees for banking facilities

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

(b) Other guarantees

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

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

Notes to the Financial Statements

Year ended 31 December 2003

41. PLEDGE OF ASSETS

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

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

42. DEFERRED TAXATION

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

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

	Assets		Liabilities	
	2003	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>(414)</u>	<u>(19,182)</u>
Deferred tax assets (liabilities)	414	9,182	(414)	(19,182)
Offset deferred tax assets and liabilities	(414)	(9,182)	414	9,182
	<u>—</u>	<u>—</u>	<u>—</u>	<u>(10,000)</u>
Net tax liabilities	<u>—</u>	<u>—</u>	<u>—</u>	<u>(10,000)</u>

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Year ended 31 December 2003

42. DEFERRED TAXATION (Continued)

Unrecognised deferred tax assets

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

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

43. RELATED PARTY TRANSACTIONS

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

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

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

Notes to the Financial Statements

Year ended 31 December 2003

43. RELATED PARTY TRANSACTIONS (Continued)

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

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

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

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

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

Notes to the Financial Statements

Year ended 31 December 2003

43. RELATED PARTY TRANSACTIONS (Continued)

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

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

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

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

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

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

Notes to the Financial Statements

Year ended 31 December 2003

43. RELATED PARTY TRANSACTIONS (Continued)

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

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

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

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

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

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

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

Notes to the Financial Statements

Year ended 31 December 2003

44. POST BALANCE SHEET EVENTS

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

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

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

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

45. COMPARATIVE FIGURES

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