



Notes to the Financial Statements

Year ended 31 December 2004

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 financial services.

The Company was incorporated in Hong Kong with limited liability on 16 August 2002.

2. BASIS OF PREPARATION

The financial statements have been prepared in conformity with the principles applicable to a going concern. The applicability of these principles is dependent upon the continued availability of adequate finance in view of the excess of current liabilities over current assets.

In preparing the financial statements for the year ended 31 December 2004, the directors adopted a going concern basis for the following reasons:

- (a) The Group has adopted measures to improve its liquidity, including raising equity finance 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\$80,000,000, which was due for settlement in March 2005. Subsequent to the balance sheet date, the Company has fully repaid the loan partially through the placing of new shares. In the opinion of the directors, the Company will be able to adequately finance its operation.
- (b) Subsequent to the balance sheet date, the Company has successfully issued new convertible notes amounting to HK\$200,000,000. The proceeds from the issue is approximately HK\$198,000,000, approximately HK\$53,000,000 of which was used to redeem the existing convertible notes with interests and the balance of up to approximately HK\$145,000,000 was used to fund the New Found Macau Loan which details are set out in note 35(b).
- (c) Cash consideration amounting to HK\$38,000,000 has been received by instalments subsequent to the balance sheet date for the disposal of other investment securities included in current assets at the balance sheet date.
- (d) Subsequent to the balance sheet date, cash subscriptions totaling approximately HK\$25,000,000 have been received for share options granted and exercised under the share option scheme. In addition, the Group received net proceeds of approximately HK\$45,300,000 from the placing of 274,000,000 shares on 13 April 2005.



Notes to the Financial Statements

Year ended 31 December 2004

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 Institute of Certified Public Accountants ("HKICPA"), 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.

Recently issued accounting standards

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for the accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group is in the process of making an assessment of the impact of these new HKFRSs and has so far concluded that the revised standards may have impact to its consolidated accounts as described below:

Hong Kong Accounting Standard 40 ("HKAS 40") on investment property

The adoption of HKAS 40 would require all revaluation gains or losses of investment properties to be taken directly to the income statement, whereas under the old standards such changes are generally taken to the revaluation reserve on a portfolio basis. The volatility of property prices therefore could have significant impact on the level and consistency of the Company's future operating profits.

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.



Notes to the Financial Statements

Year ended 31 December 2004

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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

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

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

Goodwill

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

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

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

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

- For acquisitions before 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.



Notes to the Financial Statements

Year ended 31 December 2004

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

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

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

Subsidiaries

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

Associates

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

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

Revenue recognition

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

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.

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.



Notes to the Financial Statements

Year ended 31 December 2004

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Investment properties

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

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

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

Property, plant and equipment

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

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

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

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

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

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



Notes to the Financial Statements

Year ended 31 December 2004

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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 included in non-current assets 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.

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 2004

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 2004

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

	2004 HK\$'000	2003 HK\$'000
Proceeds from sale of trading securities	81,765	80,091
Interest income	10,661	43,800
Brokerage fees and commission income	—	9,102
Dividend income from listed securities	—	88
Rental income	318	5,856
	<u>92,744</u>	<u>138,937</u>



Notes to the Financial Statements

Year ended 31 December 2004

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

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

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 2004 and 2003, and certain assets and liabilities information regarding business segments as at 31 December 2004 and 2003.

Notes to the Financial Statements

Year ended 31 December 2004

5. SEGMENT INFORMATION (Continued)

Year ended 31 December 2004

	Investment in trading securities HK\$'000	Brokerage and financial services HK\$'000	Property investment HK\$'000	Investment holding HK\$'000	Unallocated HK\$'000	Total HK\$'000
Segment revenue						
Turnover						
External customers	81,765	10,661	318	—	—	92,744
Inter-segments	—	—	—	—	—	—
	<u>81,765</u>	<u>10,661</u>	<u>318</u>	<u>—</u>	<u>—</u>	<u>92,744</u>
Other revenue	—	—	3,350	—	11,033	14,383
	<u>—</u>	<u>—</u>	<u>3,350</u>	<u>—</u>	<u>11,033</u>	<u>14,383</u>
Total revenue	<u>81,765</u>	<u>10,661</u>	<u>3,668</u>	<u>—</u>	<u>11,033</u>	<u>107,127</u>
Segment results						
	(7,634)	(66,433)	2,986	(542)	7,352	(64,271)
Impairment losses on interest in an associate						
						(75,036)
Negative goodwill released upon recognition of impairment loss in an associate						
						21,246
Loss on deemed disposal of interest in an associate						
						(24,045)
Share of loss of an associate	5,997	(139,578)	—	(20,136)	(26,860)	(180,577)
Other finance costs						(14,185)
Taxation						—
Loss attributable to shareholders						<u>(336,868)</u>

Notes to the Financial Statements

Year ended 31 December 2004

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)	—	—
	<u>80,179</u>	<u>52,902</u>	<u>8,054</u>	<u>—</u>	<u>(2,198)</u>	<u>—</u>	<u>138,937</u>
Other revenue	—	13,014	—	36	—	670	13,720
	<u>—</u>	<u>13,014</u>	<u>—</u>	<u>36</u>	<u>—</u>	<u>670</u>	<u>13,720</u>
Total revenue	<u>80,179</u>	<u>65,916</u>	<u>8,054</u>	<u>36</u>	<u>(2,198)</u>	<u>670</u>	<u>152,657</u>
Segment results	(57,210)	(38,293)	(6,877)	(4,718)	—	(162,238)	(269,336)
Impairment losses							(57,443)
Profit on disposal of interests in subsidiaries							245,319
Profit on disposal of partial interests in subsidiaries							1,056
Loss on deemed disposal of interests in subsidiaries							(1,809)
Profit on deemed disposal of interest in an associate							2,500
Other finance costs							(37,131)
Taxation							5,800
Minority interests							77,305
Loss attributable to shareholders							<u>(33,739)</u>

Notes to the Financial Statements

Year ended 31 December 2004

5. SEGMENT INFORMATION (Continued)

Assets and liabilities as at 31 December 2004

	Investment in trading securities HK\$'000	Brokerage and financial services HK\$'000	Property investment HK\$'000	Investment holding HK\$'000	Total HK\$'000
Assets					
Segment assets	23,853	18,554	12,074	18,682	73,163
Interests in associates					181,113
Unallocated assets					31,659
Total assets					<u>285,935</u>
Liabilities					
Segment liabilities	—	18	42	178,020	178,080
Unallocated liabilities					16,404
Total liabilities					<u>194,484</u>

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	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>

Notes to the Financial Statements

Year ended 31 December 2004

5. SEGMENT INFORMATION (Continued)

Other segment information for the year ended 31 December 2004

	Investment in Brokerage and trading securities HK\$'000	financial services HK\$'000	Property investment HK\$'000	Investment holding HK\$'000	Unallocated HK\$'000	Total HK\$'000
Capital expenditure	—	—	—	—	53	53
Depreciation and amortisation expenses	—	—	14	—	1,664	1,678
Impairment loss on goodwill (included in share of loss of an associate)	—	—	—	23,721	—	23,721
Impairment loss on interests in associates	—	—	—	75,036	—	75,036
Net unrealised holding loss on trading securities	1,920	—	—	—	—	1,920
Surplus on revaluation of investment properties	—	—	3,350	—	—	3,350
Reversal of impairment loss on leasehold land and buildings	—	—	—	—	11,033	11,033
Net provision for bad and doubtful debts	—	63,747	—	—	—	63,747

Other segment information for the year ended 31 December 2003

	Investment in Brokerage and trading securities HK\$'000	financial services HK\$'000	Property investment HK\$'000	Investment holding 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 interests in associates	—	—	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



Notes to the Financial Statements

Year ended 31 December 2004

5. SEGMENT INFORMATION *(Continued)*

Geographical segments

The Group's operations and assets are located in Hong Kong for the years ended 31 December 2004 and 2003. Accordingly, no geographical segment information has been presented.

6. OTHER INCOME

	2004	2003
	HK\$'000	HK\$'000
Administration fee	—	841
Consultancy fee	—	2,958
Bank interest	—	122
Securities handling fees	—	3,474
Commission	—	4,291
Sundry	—	2,034
Surplus on revaluation of investment properties	3,350	—
Reversal of impairment loss on land and buildings	11,033	—
	<hr/> 14,383 <hr/>	<hr/> 13,720 <hr/>

Notes to the Financial Statements

Year ended 31 December 2004

7. LOSS FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
This is stated after charging (crediting):		
Depreciation of property, plant and equipment:		
Assets held under finance leases	—	35
Other assets	1,678	3,909
Amortisation of trading rights	—	433
	<hr/>	<hr/>
Total depreciation and amortisation expenses	1,678	4,377
Contributions to MPF Scheme	216	477
Included in other operating expenses:		
- Auditors' remuneration	950	2,260
- Surplus on revaluation of investment properties	—	(760)
- Operating lease charges:		
Equipment	33	24
Office premises	855	1,012
- Net unrealised holding loss on trading securities	1,920	77,329
- 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	63,747	213,207
- Release of negative goodwill to income		
-included in other operating expenses	—	(4,809)
-included in share of loss of an associate	(2,741)	—
- Impairment loss on goodwill arising from acquisition of additional interest in an associate (included in share of loss of an associate)	23,721	—
- (Profit) Loss on disposal of investment properties	(730)	10,872
- Loss on disposal of property, plant and equipment	96	—
Rental income from investment properties	(318)	(5,856)
Less: Outgoings	100	1,216
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	(218)	(4,640)
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Notes to the Financial Statements

Year ended 31 December 2004

8. OTHER FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on:		
Bank and other borrowings wholly repayable within five years	7,564	34,898
Bank and other borrowings wholly repayable over five years	1,555	1,654
Convertible notes	5,066	7,555
Obligations under finance leases	—	53
	<u>14,185</u>	<u>44,160</u>
Less: Amount attributable to provision of financial services	—	(7,029)
	<u>14,185</u>	<u>37,131</u>

9. DIRECTORS' EMOLUMENTS

	2004 HK\$'000	2003 HK\$'000
Fees:		
Executive directors	—	—
Independent non-executive directors	220	120
	<u>220</u>	<u>120</u>
Other emoluments:		
Executive directors	4,473	5,804
Other emoluments comprises:		
Salaries and other benefits	4,425	5,756
Contributions to MPF Scheme	48	48
	<u>4,473</u>	<u>5,804</u>

Notes to the Financial Statements

Year ended 31 December 2004

9. DIRECTORS' EMOLUMENTS (Continued)

	Number of directors	
	2004	2003
Emoluments of the directors were within the following bands:		
Nil to HK\$1,000,000	6	5
HK\$1,000,001 to HK\$1,500,000	—	1
HK\$2,000,001 to HK\$2,500,000	1	—
HK\$2,500,001 to HK\$3,000,000	—	1
	<u>7</u>	<u>7</u>

10. EMPLOYEES' EMOLUMENTS

The five highest paid employees of the Group during the year included four (2003: four) directors, details of whose emoluments are set out in note 9 above. The emolument of the remaining employee (2003: one) is as follows:

	2004	2003
	HK\$'000	HK\$'000
Other emoluments	<u>768</u>	<u>1,302</u>

The remuneration of the employee falls within the band of nil to HK\$1,000,000 (2003: HK\$1,000,001 to HK\$1,500,000) for the year.

11. TAXATION

Hong Kong Profits Tax has not been provided as the Group incurred a loss for taxation purposes for the year ended 31 December 2004. Hong Kong Profits Tax had been provided at the rate of 17.5% on the Group's estimated assessable profits for the year of 2003.

	2004	2003
	HK\$'000	HK\$'000
The (credit) charge comprises:		
Hong Kong Profits Tax	—	4,200
Deferred taxation (Note 33)	—	(10,000)
	<u>—</u>	<u>(5,800)</u>



Notes to the Financial Statements

Year ended 31 December 2004

11. TAXATION (Continued)

Deferred tax credited for the year ended 31 December 2003 was in respect of unrealised holding loss on trading securities, which was a reversal of temporary difference.

Details of unrecognised deferred taxation are set out in note 33 to the financial statements.

	2004	2003
	HK\$'000	HK\$'000
Reconciliation of tax expense		
Loss from ordinary activities before tax	<u>(336,868)</u>	<u>(116,844)</u>
Income tax at applicable tax rate of 17.5% (2003: 17.5%)	(58,952)	(20,448)
Non-deductible expenses	59,477	23,510
Tax exempt revenue	(4,291)	(57,536)
Unrecognised tax losses	3,797	31,103
Utilisation of previously unrecognised tax losses	—	(239)
Unrecognised temporary differences	<u>(31)</u>	<u>17,810</u>
Tax (income) expense for the year	<u>—</u>	<u>(5,800)</u>

The applicable tax rate is the Hong Kong Profits Tax rate of 17.5% (2003: 17.5%).

12. LOSS FOR THE YEAR

Of the Group's loss for the year of HK\$336,868,000 (2003: HK\$33,739,000), a loss of HK\$279,505,000 (2003: HK\$107,655,000) has been dealt with in the financial statements of the Company.

13. DIVIDEND

	2004	2003
	HK\$'000	HK\$'000
Special dividend in respect of 2003 of HK7 cents per share and no dividend declared during the year.	<u>—</u>	<u>17,201</u>



Notes to the Financial Statements

Year ended 31 December 2004

14. LOSS PER SHARE

The calculation of the loss per share is based on the loss for the year of HK\$336,868,000 (2003: HK\$33,739,000) and on the weighted average number of 1,209,700,000 shares (2003: 1,014,388,361 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 2003 has been adjusted to reflect the effect of the bonus issues during the current year, which is treated as had been completed on 1 January 2003.

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

15. INVESTMENT PROPERTIES

	2004	2003
	HK\$'000	HK\$'000
Valuation		
At beginning of year	20,530	157,470
Impairment loss	—	(20,300)
Disposals	(11,950)	(18,000)
Disposal of subsidiaries	—	(99,400)
Surplus on revaluation	3,350	760
	<hr/>	<hr/>
At balance sheet date	11,930	20,530
	<hr/> <hr/>	<hr/> <hr/>

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

	2004	2003
	HK\$'000	HK\$'000
Land in Hong Kong:		
Long lease	6,780	7,160
Medium-term lease	5,150	13,370
	<hr/>	<hr/>
	11,930	20,530
	<hr/> <hr/>	<hr/> <hr/>

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\$3,350,000 arising on revaluation has been credited to the consolidated income statement, as it represents a reversal of previous revaluation deficit.

Notes to the Financial Statements

Year ended 31 December 2004

16. 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	41,272	5,842	7,488	2,815	5,494	62,911
Additions	—	—	21	32	—	53
Disposal	—	(830)	(249)	(454)	(1,980)	(3,513)
At balance sheet date	41,272	5,012	7,260	2,393	3,514	59,451
Accumulated depreciation						
At beginning of year	12,473	5,198	6,987	2,328	5,209	32,195
Charge for the year	1,107	23	116	147	285	1,678
Reversal of impairment loss	(11,033)	—	—	—	—	(11,033)
Disposal	—	(297)	(119)	(170)	(1,980)	(2,566)
At balance sheet date	2,547	4,924	6,984	2,305	3,514	20,274
Net book value						
At balance sheet date	38,725	88	276	88	—	39,177
At beginning of year	28,799	644	501	487	285	30,716

The net book value of land and buildings is HK\$38,725,000 (2003: 28,799,000) held by the Group in medium-term lease in Hong Kong at the balance sheet date.

Notes to the Financial Statements

Year ended 31 December 2004

17. INTERESTS IN SUBSIDIARIES

	The Company	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	952,881	952,881
Impairment loss	(875,957)	(680,000)
	76,924	272,881
Due from subsidiaries	290,025	154,041
Provision for doubtful debts	(125,600)	(55,000)
	164,425	99,014
	241,349	371,895

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\$25,913,000 (2003: HK\$71,254,000) was interest bearing at approximately 8% per annum (2003: 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	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

Notes to the Financial Statements

Year ended 31 December 2004

17. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation	Particulars of issued ordinary and paid up capital (Note)	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
China United International Administrative Services Limited (formerly Long Bloom Enterprises Limited)	Hong Kong	53,000 shares of HK\$100 each	—	100	Provision of administrative service
CU International Finance Limited	Hong Kong	2 shares of HK\$1 each	—	100	Money lending
Embrace Assets Limited	British Virgin Islands	1 share of US\$1	—	100	Investment holding
Grand Wishes Limited	British Virgin Islands	1 share of US\$1	—	100	Investment holding
Greatly Fareast Limited	Hong Kong	2 shares of HK\$1 each	—	100	Property investment
Golden Clip Limited	British Virgin Islands	1 share of US\$1	—	100	Investment holding
International Stamps & Coins Exchange Gallery Limited	Hong Kong	20,200 shares of HK\$1 each	—	100	Property investment
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

Notes to the Financial Statements

Year ended 31 December 2004

17. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation	Particulars of issued ordinary and paid up capital (Note)	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
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

All of the above subsidiaries operate principally in Hong Kong.

Note:

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

18. INTEREST IN AN ASSOCIATE

	2004 HK\$'000	2003 HK\$'000
Share of net assets	128,827	196,223
Impairment loss	(75,036)	—
Negative goodwill (see note 18(b))	—	(22,620)
	<u>53,791</u>	<u>173,603</u>
Due from an associate	127,322	147,021
	<u>181,113</u>	<u>320,624</u>

HMI is a 42.03% owned associate of the Group. It is incorporated in the British Virgin Islands and engaged in investment holding in Hong Kong.

Notes to the Financial Statements

Year ended 31 December 2004

18. INTEREST IN AN ASSOCIATE (Continued)

Notes:

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

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

During the year, HMI issued 65 million shares of HMI to the Group in order to settle part of the loan advances owed to the Group.

Despite the above acquisition of additional shareholdings in HMI, the Group's interest in HMI was effectively diluted from 47.6% at 1 January 2004 to 42.03% at 31 December 2004 because of the issuance of shares by HMI to other parties on a number of occasions. The effect of the dilution has been accounted for as deemed disposal.

- (b) Goodwill and negative goodwill

	Goodwill HK\$'000	Negative goodwill HK\$'000	Total HK\$'000
At beginning of year			
Cost	—	(26,915)	(26,915)
Accumulated amortisation	—	4,295	4,295
	<hr/>	<hr/>	<hr/>
Opening carrying amount	—	(22,620)	(22,620)
Arising from acquisition of interest in an associate	23,721	—	23,721
Arising from acquisition of additional interest in an associate	—	(1,923)	(1,923)
Amortisation charges/recognised as income	—	2,741	2,741
Impairment loss	(23,721)	—	(23,721)
Released upon recognition of impairment loss	—	21,246	21,246
Eliminated on deemed disposal of interest in associate	—	556	556
	<hr/>	<hr/>	<hr/>
Closing carrying amount	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At balance sheet date			
Cost	23,721	(28,838)	(5,117)
Accumulated amortisation and impairment	(23,721)	28,838	5,117
	<hr/>	<hr/>	<hr/>
Closing carrying amount	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements

Year ended 31 December 2004

18. INTEREST IN AN ASSOCIATE (Continued)

(c) The auditors' report on the consolidated financial statements of HMI for the year ended 31 December 2004 expected to contain a disclaimer of opinion because of limitation of scope in respect of the following matters:

- (i) The consequential effect of the audit qualifications for the previous year on the current year results of the associate.
- (ii) The auditors' inability to assess the financial strength of a director of HMI, who has provided a personal guarantee in respect of the recoverability of certain loans receivable as at 31 December 2004.

In order to address the uncertainties as to the director's personal guarantee, the Company has made a further provision for impairment loss of approximately HK\$75,000,000 against the interest in HMI as at 31 December 2004.

(d) Details of the amount due from HMI are as follows:-

	Note	2004 HK\$'000	2003 HK\$'000
Advances:			
At beginning of year		147,021	—
Net advances		67,979	144,315
Interest accrued		—	2,706
Settlement by the issuance of 65 million HMI shares		(65,000)	—
Settlement by the subscription of convertible note		(150,000)	—
		<hr/>	<hr/>
At balance sheet date	(i)	<hr/> —	<hr/> 147,021
Convertible note receivables:			
Subscription through set-off of advances due		150,000	—
Interest accrued		7,022	—
Partial disposal to a third party		(29,700)	—
		<hr/>	<hr/>
At balance sheet date	(ii)	<hr/> 127,322	<hr/> —
		<hr/>	<hr/>
Total amounts due from HMI		<u>127,322</u>	<u>147,021</u>

Note:

- (i) The amounts due from HMI represented loan advances which were unsecured and had no fixed repayment terms. The advances together with interest accrued were converted into shares in HMI and convertible notes during the year.
- (ii) Of the amounts due, HK\$120,300,000 is principal amount of a convertible note issued by HMI on 28 January 2004. Related interest receivable amounted to HK\$7,022,000 at the balance sheet date. The note, which will mature in three years from the date of issue, bears interest at 6% per annum and can be converted into shares of HMI at a conversion price of HK\$1.50 per ordinary share at any time after the date of issue of the convertible and before its maturity date. During the year, the Company and HMI agreed to revise the conversion price to HK\$1.0 per ordinary share. On 25 February 2004, the Company agreed to subordinate the amounts due from HMI Group in respect of the convertible note to HMI Group's banks up to an amount of HK\$150 million, if so requested by HMI Group's banks.

Notes to the Financial Statements

Year ended 31 December 2004

18. INTEREST IN AN ASSOCIATE (Continued)

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

	2004 HK\$'000	2003 HK\$'000
Operating results for the year ended 31 December 2004		
Turnover	<u>35,870</u>	<u>124,128</u>
Loss from ordinary activities before taxation	<u>(421,199)</u>	<u>(211,412)</u>
Loss from ordinary activities before taxation attributable to the Group	<u>(159,597)</u>	<u>(132,014)</u>
Amortisation of negative goodwill recognised as income	2,741	
Impairment loss on goodwill arising from acquisition of additional interest in HMI	<u>(23,721)</u>	
Share of loss of HMI	<u>(180,577)</u>	
Financial position at the balance sheet date		
Total non-current assets	8,500	412,246
Total current assets	522,345	306,417
Total current liabilities	(104,033)	(259,929)
Total non-current liabilities	<u>(120,300)</u>	<u>(46,500)</u>
Shareholders' funds	<u>306,512</u>	<u>412,234</u>
Amount attributable to the Group	<u>128,827</u>	<u>196,223</u>

19. INVESTMENTS IN SECURITIES

	2004 HK\$'000	2003 HK\$'000
At fair value:		
Equity securities		
Listed investments	2,902	—
Unlisted investments	<u>17,472</u>	<u>—</u>
	<u>20,374</u>	<u>—</u>
Fair value of equity securities listed:		
- in Hong Kong	<u>2,902</u>	<u>—</u>

Notes to the Financial Statements

Year ended 31 December 2004

20. LOANS RECEIVABLE

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

	Note	2004 HK\$'000	2003 HK\$'000
Third parties		158,342	161,233
Related companies	34(b)	20,460	20,460
Directors of the Company	34(c)	—	972
		<u>178,802</u>	<u>182,665</u>
Provision for bad and doubtful debts		(160,000)	(99,209)
Balances due within one year included in current assets		<u>18,802</u>	<u>83,456</u>

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

	2004 HK\$'000	2003 HK\$'000
Within maturity dates	65,386	110,629
Balances overdue for repayment:		
1-3 months	—	28,159
4-6 months	15,362	38,404
7-12 months	26,518	5,473
Over 12 months	71,536	—
	<u>178,802</u>	<u>182,665</u>

Notes to the Financial Statements

Year ended 31 December 2004

21. INTEREST-BEARING BORROWINGS

	The Group		The Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Secured bank loans	32,054	32,915	—	—
Unsecured other loans (note)	96,080	90,519	96,080	90,519
	128,134	123,434	96,080	90,519

The maturity of the above borrowings is as follows:

	The Group		The Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	104,683	93,262	96,080	90,519
After one year but within two years	2,749	2,890	—	—
After two years but within five years	9,202	9,645	—	—
After five years	11,500	17,637	—	—
	23,451	30,172	—	—
	128,134	123,434	96,080	90,519

Note:

Movements in other loans are as follows:

	The Group		The Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of year	90,519	84,177	90,519	—
Addition	84,921	354,997	84,921	291,497
Repayment	(79,360)	(281,105)	(79,360)	(200,978)
Disposal of subsidiaries	—	(67,550)	—	—
At balance sheet date	96,080	90,519	96,080	90,519

Notes to the Financial Statements

Year ended 31 December 2004

22. CONVERTIBLE NOTES

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
At beginning of year (Note i)	63,840	63,840	63,840	—
Issuance upon Reorganisation	—	—	—	63,840
Issuance during the year (Note ii)	55,000	163,000	55,000	—
Redemption (Note iii)	(58,800)	(29,000)	(58,800)	—
Conversion (Note ii and iii)	(7,040)	(87,500)	(7,040)	—
Deemed disposal of HMI	—	(46,500)	—	—
At balance sheet date	53,000	63,840	53,000	63,840
Represented by:				
Current portion	—	63,840	—	63,840
Non-current portion	53,000	—	53,000	—
	53,000	63,840	53,000	63,840

Note:-

- (i) The convertible notes bear interest at 7.5% per annum and can be converted into shares of the Company in the amount or integral multiples of HK\$168,000 at any time from the date of issue of the new convertible notes up to 14 days before and excluding the maturity date on 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 amount of the notes. No notes were redeemed by the Company during the period.

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

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

- (ii) During the year, the Group issued convertible notes with principal sum of HK\$55,000,000 to third parties. The convertible notes bear interest at 7.8% per annum and can be converted into the ordinary shares of the Company at a conversion price of HK\$0.5 per share in amounts or integral multiples of HK\$1,000,000 at any time from date of issue up to 7 days before (and excluding) the maturity of the convertible notes. The convertible notes will mature on 19 August 2009. The conversion price of the convertible notes is adjusted from HK\$0.5 to HK\$0.45 with effect from 10 November 2004 as a result of the bonus issue during the year.

During the year, of the convertible note with principal sum of HK\$55,000,000, principal amounting to HK\$2,000,000 was converted into 4,000,000 ordinary shares of HK\$0.1 each of the Company at a conversion price of HK\$0.50 per share.

Notes to the Financial Statements

Year ended 31 December 2004

22. CONVERTIBLE NOTES (Continued)

Note:- (Continued)

- (iii) During the year, convertible note with principal sum of HK\$58,800,000 was redeemed by the Group and convertible note with principal sum of HK\$5,040,000 was converted into 3,405,405 ordinary shares of HK\$0.1 each of the Company at a conversion price of HK\$1.48 per share.

23. ISSUED CAPITAL

	Number of ordinary shares		Nominal value	
	2004	2003	2004 HK\$	2003 HK\$
Authorised:				
At beginning of year/period	20,000,000,000	—	2,000,000,000	—
Creation of 10,000 shares of HK\$1 each upon incorporation	—	10,000	—	10,000
Subdivision from 10,000 shares of HK\$1 each to 100,000 of HK\$0.1 each	—	90,000	—	—
	<u>20,000,000,000</u>	<u>100,000</u>	<u>2,000,000,000</u>	<u>10,000</u>
Shares of HK\$0.1 each				
Increase by creation of additional 19,999,900,000 shares of HK\$0.1 each	—	19,999,900,000	—	1,999,990,000
	<u>—</u>	<u>19,999,900,000</u>	<u>—</u>	<u>1,999,990,000</u>
At balance sheet date	<u>20,000,000,000</u>	<u>20,000,000,000</u>	<u>2,000,000,000</u>	<u>2,000,000,000</u>

Notes to the Financial Statements

Year ended 31 December 2004

23. ISSUED CAPITAL (Continued)

	Note	Number of ordinary shares		Nominal value	
		2004	2003	2004 HK\$	2003 HK\$
Issued and fully paid:					
At beginning of year/period		368,868,495	—	36,886,850	—
Issuance of shares of HK\$1 each upon incorporation		—	2	—	2
Subdivision from 2 shares of HK\$1 each to 20 shares of HK\$0.1 each		—	18	—	—
Shares of HK\$0.1 each		368,868,495	20	36,886,850	2
Issuance of shares pursuant to the Group Reorganisation		—	245,734,652	—	24,573,465
Exercise of warrants	(i)	45,739,040	226,487	4,573,904	26,649
Conversion of convertible notes	(ii)	7,405,405	—	740,541	—
Issuance of shares	(iii)	130,440,000	—	13,044,000	—
Issuance of shares under share option scheme	(iv)	24,573,467	—	2,457,347	—
Bonus issue	(v)	792,362,647	122,867,336	79,236,264	12,286,734
At balance sheet date		<u>1,369,389,054</u>	<u>368,868,495</u>	<u>136,938,906</u>	<u>36,886,850</u>

Note:

- (i) During the year, an aggregate of 45,739,040 new shares of HK\$0.1 each of the Company were issued to certain warrant holders upon exercise of warrants at the cash subscription price of HK\$0.38 per share for 39,945,103 shares and of HK\$0.15 per share for 5,793,937 shares respectively.
- (ii) During the year, an aggregate of 7,405,405 ordinary shares of HK\$0.1 each of the Company were issued to a convertible note holder upon the conversion of convertible notes as set out in note 22.



Notes to the Financial Statements

Year ended 31 December 2004

23. ISSUED CAPITAL (Continued)

Note: (Continued)

- (iii) Pursuant to the sales and purchase agreement dated 10 March 2004, 40,000,000 ordinary shares of HK\$0.1 each of the Company were issued to acquire 37.5 million shares of HMI as set out in note 18.

Pursuant to the Placing Agreement dated 19 November 2004, the Company agreed to conditionally place 17,640,000 ordinary shares of HK\$0.1 each of the Company on a fully underwritten basis to independent investors at a price of HK\$0.24 per share.

Pursuant to the sales and purchase agreement dated 22 November 2004, 72,800,000 ordinary shares of HK\$0.1 each of the Company were issued to acquire the investment securities (included in current assets) at a price of HK\$0.24 per share.

- (iv) By an ordinary resolution passed on 24 November 2004, 24,573,467 ordinary shares of HK\$0.1 each were issued to staff under share option scheme at an exercise price of HK\$0.27 per share.

- (v) By an ordinary resolution passed on 14 June 2004, 678,328,503 ordinary shares of HK\$0.1 each were issued to shareholders on the basis of three bonus share for every two existing shares.

By an ordinary resolution passed on 10 November 2004, 114,034,144 ordinary shares of HK\$0.1 each were issued to shareholders on the basis of one bonus share for every ten existing shares.

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

24. SHARE OPTION SCHEME

A share option scheme ("the Scheme") of the Company was approved on 20 November 2003 by the shareholders of the Company and became effective on 3 January 2004. The 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 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.

Notes to the Financial Statements

Year ended 31 December 2004

24. SHARE OPTION SCHEME (Continued)

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.

(a) Movement in share option scheme

	2004 Number	2003 Number
At the beginning of year	—	—
Issued	24,573,467	
Exercised	(24,573,467)	—
At balance sheet date	—	—

(b) Details of share options exercised during the year

Exercise date	Exercise price HK\$	Market value per share at exercise date HK\$	Proceeds received HK\$	Number
24 November 2004	0.27	0.285	<u>6,634,836</u>	<u>24,573,467</u>

25. WARRANTS

During the year, the registered holders of 45,739,040 warrants exercised their rights to subscribe for ordinary shares. The exercise price of the warrants is adjusted from HK\$0.38 to HK\$0.15 with effect from 1 June 2004 and then to HK\$0.14 with effect from 28 October 2004 as a result of the bonus issues during the year.

At the balance sheet date, the Company had outstanding 3,141,408 warrants. Exercise in full of such warrants would result in the issue of 3,141,408 additional shares of HK\$0.1 each.

Notes to the Financial Statements

Year ended 31 December 2004

26. RESERVES

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

Notes to the Financial Statements

Year ended 31 December 2004

26. RESERVES (Continued)

	Share premium	Capital reserve	Merger reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Group					
At 1 January 2004	—	18,273	88,128	160,494	266,895
Exercise of warrants	11,474	—	—	—	11,474
Shares issued at premium, net of issuing expenses	88,070	—	—	—	88,070
Share issued under share option scheme	4,177	—	—	—	4,177
Issuance of bonus issue	(79,236)	—	—	—	(79,236)
Set off against accumulated losses	—	—	(88,128)	88,128	—
Loss for the year	—	—	—	(336,868)	(336,868)
	<u>—</u>	<u>—</u>	<u>—</u>	<u>(336,868)</u>	<u>(336,868)</u>
At 31 December 2004	<u>24,485</u>	<u>18,273</u>	<u>—</u>	<u>(88,246)</u>	<u>(45,488)</u>

Included in the reserves of the Group as at 31 December 2004 were accumulated losses of associate attributable to the Group amounting to HK\$512,866,000 (2003: HK\$258,307,000).

The application of the Company's share premium account is governed by Section 48B of the Hong Kong Companies Ordinance.

Notes to the Financial Statements

Year ended 31 December 2004

26. RESERVES (Continued)

	Share premium HK\$'000	Merger reserve HK\$'000	Accumulated losses 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)
At 31 December 2003	—	291,448	(107,655)	183,793
At 1 January 2004	—	291,448	(107,655)	183,793
Exercise of warrants	11,474	—	—	11,474
Shares issued at premium, net of issuing expenses	88,070	—	—	88,070
Issuance of shares under share option scheme	4,177	—	—	4,177
Issuance of bonus shares	(79,236)	—	—	(79,236)
Set off against accumulated losses	—	(291,448)	291,448	—
Loss for the year	—	—	(279,505)	(279,505)
At 31 December 2004	24,485	—	(95,712)	(71,227)

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 2004

27. CASH USED IN OPERATIONS

	Note	2004 HK\$'000	2003 HK\$'000
Loss from ordinary activities before taxation		(336,868)	(116,844)
Depreciation and amortisation expenses		1,678	4,377
Impairment losses on:			
- Property, plant and equipment		—	21,000
- Investment properties		—	20,300
- Goodwill on consolidation of subsidiaries		—	1,006
- Interest in associate		75,036	1,485
- Other securities		—	13,652
Negative goodwill released upon recognition of impairment loss in an associate		(21,246)	—
Release of negative goodwill to income statement		—	(4,809)
Reversal of impairment loss on leasehold land and buildings		(11,033)	—
Surplus arising on revaluation of investment properties		(3,350)	(760)
Interest expenses on bank and other borrowings		9,119	36,552
Interest on obligations under finance leases		—	53
Interest on convertible notes		5,066	7,555
Interest income from an associate		(7,022)	—
Bank interest income		—	(122)
Loss on disposal of property, plant and equipment		96	—
Net provision for bad and doubtful debts		63,747	213,207
Net unrealised loss (gain) on trading securities		—	77,329
(Profit) Loss on disposal of investment properties		(730)	10,872
Loss on disposal of other securities		—	11,455
Loss on deemed disposal of interests in subsidiaries		—	1,809
Profit on disposal of interests in subsidiaries		—	(245,319)
Profit on disposal of partial interests in subsidiaries		—	(1,056)
Loss (Profit) on deemed disposal of interest in an associate	18(a)	24,045	(2,500)
Share of loss of an associate	18(e)	180,577	—
		(20,885)	49,242
Changes in working capital:			
Loans receivable		908	(474,296)
Other receivables		20,798	(30,066)
Trading securities		(2,902)	19,943
Other payables		1,874	33,466
Cash used in operations		(207)	(401,711)

Notes to the Financial Statements

Year ended 31 December 2004

28. MAJOR NON-CASH TRANSACTIONS

Major non-cash transactions during the year have been disclosed in note 18, 22 and 23 respectively. 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.

29. COMMITMENTS

(a) Capital expenditure commitments

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:

	2004	2003
	HK\$'000	HK\$'000
Within one year	855	882
In the second to fifth year inclusive	713	1,664
	<u>1,568</u>	<u>2,546</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 is as follows:

	2004	2003
	HK\$'000	HK\$'000
Within one year	133	487
In the second to fifth year inclusive	—	193
	<u>133</u>	<u>680</u>



Notes to the Financial Statements

Year ended 31 December 2004

30. CONTINGENT LIABILITIES

(a) Guarantees for banking facilities

At the balance sheet date, the Company had contingent liabilities not provided for in the financial statements in respect of guarantee of HK\$38,000,000 (2003: HK\$38,000,000) and HK\$75,000,000 (2003: HK\$125,000,000) for banking facilities granted to subsidiaries and an associate respectively, which were utilised by subsidiaries and an associate to the extent of HK\$32,054,000 (2003: HK\$32,915,000) and HK\$31,589,000 (2003: HK\$60,915,000) respectively.

(b) Other guarantees

As set out in the Company's 2003 annual report, the Company, China United Holdings Limited ("CU Bermuda", the former holding company of the Company's subsidiaries) 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 CU Bermuda and subsidiaries remaining under it after a group restructuring (the "Old CU Group") to the Group. According to the agreement, CU Bermuda had a perpetual entitlement of 22% in the distribution of dividends, capital and assets by HMI. In addition, the Company made guarantee to CU Bermuda that if HMI failed to pay the said distributions to CU Bermuda, the Company would compensate CU Bermuda with the equivalent amount. During the year, CU Bermuda has confirmed in writing that the agreement has been cancelled and thereafter the guarantee made by the Company mentioned above was released accordingly.

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



Notes to the Financial Statements

Year ended 31 December 2004

31. OUTSTANDING LITIGATION

The Company and CU Bermuda (renamed Zhuang PP Holdings Limited, "Zhuang PP") were named as co-defendants in a claim ("Legal Action") initiated on 9 July 2004 by a creditor of the Old CU Group after a group restructuring, challenging the validity of the restructuring. The creditor also claimed the Company should pay the debts owed by the Old CU Group to the creditor amounting to HK\$154 million with interest thereon.

In November 2004, the Company, the creditor, Zhuang PP and other independent third parties entered into a Deed of Agreement under which another creditor (the "Creditor") would substitute the creditor as the plaintiff in respect of the Legal Action (the "Substitution"). In March 2005, a Consent Summons in respect of the Substitution has been approved by the High Court.

The Creditor, the Company and Zhuang PP have also agreed to wholly discontinue the Legal Action with no order as to costs and will file a Notice of Discontinuance by consent to the court. Further, the Creditor has agreed not to initiate other actions against the Company challenging the validity of the group restructuring and/or claiming for compensation for any loss suffered as a result of the group restructuring. After taking legal advice, the directors considered that the above matters would have no significant adverse effect on the Group.

32. 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:

	2004	2003
	HK\$'000	HK\$'000
Land and buildings	38,725	28,799
Investment properties	11,930	20,530
	<u>50,655</u>	<u>49,329</u>

Notes to the Financial Statements

Year ended 31 December 2004

33. DEFERRED TAXATION

The Group had deferred tax liability of HK\$10,000,000 in prior year in respect of unrealised gain on trading securities recognised in the income statement which is reversed during the year of 2003.

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

	Assets		Liabilities	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Depreciation allowances	—	—	—	(414)
Tax losses	—	414	—	—
	<hr/>	<hr/>	<hr/>	<hr/>
Deferred tax assets (liabilities)	—	414	—	(414)
Offset deferred tax assets and liabilities	—	(414)	—	414
	<hr/>	<hr/>	<hr/>	<hr/>
Net tax liabilities	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

Unrecognised deferred tax assets

	2004 HK\$'000	2003 HK\$'000
Deductible temporary differences	10,755	4,605
Tax losses	184,708	348,269
	<hr/>	<hr/>
At balance sheet date	<u>195,463</u>	<u>352,874</u>

Both the tax losses and the deductible temporary differences have no expiry date under current tax legislation. Deferred tax assets of 34,206,000 (2003: HK\$61,753,000) have not been recognised in respect of these items due to uncertainty of their recoverability.

Notes to the Financial Statements

Year ended 31 December 2004

34. RELATED PARTY TRANSACTIONS

Other than disclosed elsewhere in the financial statements, there are other related party transactions entered by the Group during the year, details of which are set out below:-

- (a) A property of the Group with net book value of HK\$21,724,000 (2003: HK\$17,294,000) is occupied by a brother of a director of the Company free of rental. The director's brother is a director of certain companies within the HMI Group.
- (b) The Group has granted unsecured loans to 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 (2003: HK\$20,460,000) and carried interest at prime rate plus 3% per annum. Provision of HK\$20,460,000 (2003: HK\$20,460,000) had been made for non-repayment of the loans and related interest.
- (c) Details of the unsecured loans and securities margin loans granted by the Group and HMI Group to the executive directors of the Company are as follows:

Name of director	Granted by	Balance at 31.12.2004 HK\$'000	Balance at 1.1.2004 HK\$'000	Maximum amount outstanding during the year HK\$'000	Maturity	Interest rate per annum
Chung, Wilson						
- unsecured loan	The Group	—	972	972	25.6.2007	8%
Wong Ying Seung, Asiong						
- unsecured loan	HMI Group	—	106	106	10.6.2004	8%
- margin loan	HMI Group	45	442	4,646	N/A	Prime rate +3%
Chung, Wilson						
- margin loan	HMI Group	—	416	574	N/A	Prime rate +3%
Lo Ka Sun						
- margin loan	HMI Group	—	19	136	N/A	Prime rate
		<u>45</u>	<u>1,955</u>			

There was neither any interest due but unpaid nor any provision made against these loans at 31 December 2003 and, except for HK\$45,000, the loans were fully repaid during the year.



Notes to the Financial Statements

Year ended 31 December 2004

34. RELATED PARTY TRANSACTIONS *(Continued)*

- (d) During the year, the Group acquired certain trading securities from HMI Group at a total consideration of HK\$24,000,000. All the trading securities acquired were disposed of in the market during the year.
- (e) During the year, the Group paid placing commission of HK\$825,000 and financial advisory fee of HK\$400,000 to subsidiaries of the HMI Group.

35. POST BALANCE SHEET EVENTS

Other than disclosed elsewhere in the financial statements, the following post balance sheet events were conducted:-

- (a) On 3 January 2005, the investment in securities (included in current assets) was disposed of at the consideration of HK\$38 million to a third party. The total considerations were received in March 2005.
- (b) On 11 January 2005, the Company, through its subsidiary, acquired 30% interest in Found Macau Shares ("FM Transactions") at the consideration of US\$30 from the shareholders (the "Founders") of Found Macau Investments International Limited ("Found Macau"). On 22 February 2005, the subsidiary of the Company and another investor entered into a shareholder agreement with the Founders to raise HK\$500 million in the form of shareholders loans ("New Found Macau Loan"). According to the shareholders agreement, the Group, based on 30% of shareholding interest in Found Macau, has to provide the New Found Macau Loan of HK\$150 million. The Shareholders Loans shall be interest free, repayable on demand after 8 years from the date of drawdown. The Promissory Notes have been issued by Found Macau to the investors when the HK\$500 million Shareholders Loans were advanced.
- (c) On 28 February 2005, the Company issued the New Convertible Notes with the principal amounts of HK\$100,000,000 to third parties and HK\$100,000,000 to Found Macau respectively. The New Convertible Notes are non-interest bearing, and can be converted into the ordinary shares of the Company at a conversion price of HK\$0.25 per share in amounts or integral multiples of HK\$500,000 at any time from date of issue up to 7 days prior to (and excluding) the maturity date of the New Convertible Notes. The convertible notes will mature on 28 February 2010. The net proceeds from the issue are approximately HK\$198,000,000, which is approximately HK\$53,000,000 to redeem the Existing Convertible Notes and the balance of up to approximately HK\$145,000,000 to fund the New Found Macau Loan. The Company issued the New Convertible Notes in the principal amount of HK\$100,000,000 to Found Macau to partially satisfy the Group's obligation to make the New Found Macau Loan, the other loan amount of HK\$50,000,000 was satisfied in cash paid.
- (d) On 16 March 2005, the Board resolved that a total of 400,000,000 new ordinary shares of the Company be and are allotted to Found Macau at a conversion price of HK\$0.25 per share upon conversion of New Convertible Note.

36. 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.