

## Directors' Report

The directors of China United International Holdings Limited present the annual report and the audited financial statements of China United Holdings Limited for the year ended 31 December 2002.

### CORPORATE REORGANISATION AND CHANGE OF DOMICILE

Pursuant to the reorganisation proposal involving a change of domicile of China United Holdings Limited (the "Company") by way of a scheme of arrangement effective on 3 January 2003 under section 99 of the Companies Act 1981 of Bermuda, the Company's domicile was changed from Bermuda to Hong Kong whereby China United International Holdings Limited issued its shares to the shareholders of the Company at that time in exchange for the entire share capital of the Company. The Company then became a wholly-owned subsidiary of China United International Holdings Limited (formerly known as Kanford Holdings Limited), a company incorporated in Hong Kong on 16 August 2002 with its shares listed on The Stock Exchange of Hong Kong Limited ("the Stock Exchange") by way of introduction on 6 January 2003. The listing of the Company's shares on the Stock Exchange was withdrawn on 3 January 2003.

Prior to the aforementioned reorganisation, China United International Holdings Limited did not have significant assets and liabilities and has not commenced operations. For reporting purposes, China United International Holdings Limited present the annual report and financial statements of the Company for the year ended 31 December 2002.

### PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. Its subsidiaries and associates are principally engaged in property investment, investment holding, investment in trading securities and the provision of brokerage and financial services. Details of the principal activities of the Company's subsidiaries and associates are set out in notes 20 and 21 to the financial statements respectively.

### RESULTS

The results of the Group for the year ended 31 December 2002 are set out in the consolidated income statement on page 21.

### RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 32 to the financial statements.

### FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial periods is set out on page 83 and page 84.

## Directors' Report

### SHARE OPTIONS

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

During the year, no options have been granted or exercised under any of the Company's share option schemes. Details of the outstanding options granted to a director and employees of the Company are set out in note 31 to the financial statements.

### INVESTMENT PROPERTIES

During the year, the Group, through acquisition of a subsidiary, acquired an investment property with the then carrying value of HK\$5,000,000. In addition, the Group disposed of certain investment properties with the then carrying value of HK\$26,640,000. This resulted in a loss on disposal of HK\$1,258,000.

The Group's investment properties were revalued at 31 December 2002 by a firm of independent professional property valuers on an open market value existing use basis. A net deficit of HK\$38,890,000 arising from the revaluation has been charged to the income statement.

Details of the movements in investment properties of the Group are set out in note 17 to the financial statements.

### PROPERTY, PLANT AND EQUIPMENT

During the year, the Group, through acquisition of a subsidiary, acquired a property with the then carrying value of approximately HK\$2,959,000.

During the year, impairment losses of certain properties and plant and equipment amounting to HK\$112,876,000 have been recognised in the income statement.

Details of the movements in property, plant and equipment of the Group during the year are set out in note 18 to the financial statements.

Particulars of the major properties of the Group as at 31 December 2002 are set out on pages 85 to 86 of the annual report.

### BORROWINGS

Details of the obligations under finance leases and bank and other borrowings of the Group and the Company are set out in notes 27 and 28 to the financial statements respectively.

### SHARE CAPITAL

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

## Directors' Report

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

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

### **CONVERTIBLE SECURITIES, OPTIONS OR SIMILAR RIGHTS**

Save as disclosed in notes 29 and 31 to the financial statements, the Company or any of its subsidiaries has no outstanding convertible securities, options or similar rights as at 31 December 2002 and there was no exercise of any convertible securities, options or similar rights during the year.

### **DIRECTORS**

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

#### **Executive directors:**

Chuang Yueheng, Henry  
Chung, Wilson  
Lo Kan Sun  
Wong Ying Seung, Asiong  
Wong Siu Bun

#### **Independent non-executive directors:**

Lam Ping Cheung (Resigned on 28 January 2003)  
Ong, Peter (Appointed on 18 September 2002 and resigned on 28 January 2003)  
Sun Lup Chung (Resigned on 28 January 2003)

In accordance with clause 97 of the Company's Bye-laws, Messrs Chuang Yueheng, Henry and Wong Ying Seung, Asiong retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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

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

The executive and non-executive directors of the Company other than Mr Sun Lup Chung are appointed as the directors of China United International Holdings Limited on 23 August 2002 and 20 September 2002 respectively. Mr Wong Siu Bun resigned as a director of China United International Holdings Limited on 13 January 2003. On 6 January 2003, Messrs Lam Ping Cheung and Ong, Peter, are redesignated from director to independent non-executive directors of China United International Holdings Limited.

In accordance with the Articles of Association of China United International Holdings Limited, Messrs Lo Kan Sun and Wong Ying Seung, Asiong retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of China United International Holdings Limited. The term of office of each non-executive director is the period up to his retirement by rotation in accordance with the Company's Articles of Association.

## Directors' Report

### DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS

The interests of the directors and their associates in the share capital of the Company as at 31 December 2002 as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") are as follows:

|                                       | Number of<br>ordinary shares held |                        |
|---------------------------------------|-----------------------------------|------------------------|
|                                       | Personal<br>interests             | Corporate<br>interests |
| <b>Directors</b>                      |                                   |                        |
| Chuang Yueheng, Henry ( <i>Note</i> ) | —                                 | 1,683,754,517          |
| Lo Kan Sun                            | 4                                 | —                      |

*Note:*

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

Apart from the above, none of the directors or their associates had any personal, family, corporate or other interests in the equity of the Company or its subsidiaries as at 31 December 2002.

During the year, outstanding options held by Mr Chuang Yueheng, Henry as detailed in note 31(i) to the financial statements were given up by him.

Save as disclosed above, as at 31 December 2002, none of the directors or their associates had any interests in the shares and share options of the Company or any of its subsidiaries or associated corporations as defined in the SDI Ordinance. In addition, none of the directors, or their spouses or children under the age of 18 had any right to subscribe for the shares of the Company or had exercised any such right during the year.

### DIRECTORS' INTERESTS IN CONTRACTS

Details of directors' interests in contracts are set out in notes 41 (c) and (d) to the financial statements.

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

## Directors' Report

### CONNECTED TRANSACTIONS

The following connected transactions occurred during the year ended 31 December 2002.

1. On 7 August 2002, the Group subscribed for 100 million shares of US\$0.1 each of the share capital of a non wholly-owned subsidiary, Hennabun Management Inc. ("HMI"), at a total consideration of HK\$130,000,000.
2. The Company has executed guarantees for credit facilities of HK\$130,000,000 granted to subsidiaries of HMI, Chung Nam Securities Limited ("Chung Nam Securities") and Chung Nam Finance Limited ("Chung Nam Finance"), of which HK\$95,000,000 is available to Chung Nam Securities and HK\$35,000,000 is available to Chung Nam Securities and Chung Nam Finance. In this connection, a monthly guarantee fee of 0.125% on the maximum monthly usage of a credit facility to the extent of HK\$30,000,000 will be payable by Chung Nam Securities to the Company. Guarantee fee receivable by the Company from Chung Nam Securities amounted to HK\$554,000 in respect of the year. At the balance sheet date, credit facilities of HK\$73,607,000 and HK\$34,938,000 were utilised by Chung Nam Securities and Chung Nam Finance respectively.
3. The Group has obtained a short term loan of HK\$80,000,000 from Hansom Finance Limited, a subsidiary of a minority shareholder of HMI. The loan was unsecured and carried interest at prime rate plus 1% per annum and was fully repaid during the year. The interest paid to Hansom Finance Limited amounted to HK\$309,000 in respect of the year.
4. A wholly-owned subsidiary, China United Finance Limited, has granted unsecured short term loans to HMI and Chung Nam Finance. The loans either carry interest at 11% to 15% per annum or at prime rate plus 1.5% to 3% per annum. At the balance sheet date, the outstanding loans amounted to HK\$177,860,000. The interest received and receivable from HMI and Chung Nam Finance in respect of the year amounted to HK\$1,763,000.
5. China United Finance Limited and Chung Nam Finance have granted unsecured loans amounting to HK\$1,361,000 to certain directors of the Company as detailed in note 41(c) to the financial statements.
6. Chung Nam Securities has granted securities margin loans to a substantial shareholder, a related company, a director of certain non wholly-owned subsidiaries and certain directors of the Company as detailed in notes 41(d) to the financial statements. At the balance sheet date, the loans which carry interest at prime rate plus 3% per annum amounted to HK\$47,906,000, HK\$15,171,000, HK\$3,657,000 and HK\$1,706,000 respectively.
7. The non wholly-owned subsidiary, CU Corporate Finance Limited, has acted as the Company's financial advisor for the rights issue and the reorganisation proposal involving a change of domicile of the Company. In this connection, the Company has fees totalling HK\$1,660,000 paid and payable to CU Corporate Finance Limited.

## Directors' Report

### CONNECTED TRANSACTIONS *(Continued)*

8. A substantial shareholder, Radford Developments Limited, has received underwriting commission of approximately HK\$576,000 from the Company in connection with the Company's rights issue partly underwritten by Radford Developments Limited in August 2002.
9. Pursuant to a subscription agreement dated 27 March 2000, the Group has made payment of HK\$50,000,000 to HMI to fulfil its warranties for HMI's financial performance in respect of the year ended 31 December 2001.

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

### SUBSTANTIAL SHAREHOLDERS

As at 31 December 2002, as far as the directors were aware, the interests of the substantial shareholders in the shares of the Company are as follows:

| Name                         | Number of ordinary<br>shares of HK\$0.01 each<br>held in the Company<br><i>(Note)</i> | Percentage of<br>issued share<br>capital of<br>the Company |
|------------------------------|---|--|
| Radford Developments Limited | 1,683,754,517   | 27.41  |

*Note:*

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

Apart from the above, as at 31 December 2002, the Company had not been notified of any interest amounting to 10% or more of the issued share capital of the Company.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## Directors' Report

### MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2002, the aggregate amount of turnover and purchases attributable to the Group's five largest customers and suppliers respectively represented less than 30% of the Group's total turnover and purchases.

### CODE OF BEST PRACTICE

The Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### POST BALANCE SHEET EVENTS

Significant post balance sheet events are set out in note 42 to the financial statements.

### AUDITORS

Except for the financial period commencing from 1 April 1996 to 31 March 2000, in which Messrs Deloitte Touche Tohmatsu acted as auditors of the Company, Messrs BDO International have acted as auditors of the Company since the financial period commencing from 1 April 2000.

A resolution will be submitted to the annual general meeting to re-appoint Messrs BDO International as auditors of the Company and appoint BDO International as auditors of China United International Holdings Limited.

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

Hong Kong, 16 April 2003