

## Auditors' Report



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### TO THE MEMBERS OF CHINA UNITED HOLDINGS LIMITED

*(incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 21 to 82 which have been prepared in accordance with accounting principles generally accepted in Hong Kong, other than as set out below.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors of the Company are required to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

### BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis of our opinion.

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### **Fundamental uncertainty relating to the going concern basis**

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements which explain the circumstances giving rise to the fundamental uncertainty relating to:

- (i) the completion of disposals of certain investment properties and other properties;
- (ii) the outcome of the proposed restructuring of bank loans;
- (iii) the outcome of the rescheduling of a bank loan and other loans; and
- (iv) the validity of the Group's legal right to recover the payments previously made by the Company and its subsidiary to two lenders.

The financial statements have been prepared on the going concern basis, the validity of which depends on the completion of the disposals of certain investment properties and other properties, the success in the proposed restructuring of bank loans, the rescheduling of a bank loan and other loans and the validity of the Group's legal right to recover the payments previously made by the Company and its subsidiary to two lenders. If the going concern basis were found not to be appropriate, adjustments would have to be made to restate the values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. We consider that the fundamental uncertainty has been adequately disclosed in the financial statements and our opinion is not qualified in this respect.

### **QUALIFIED OPINION ARISING FROM DISAGREEMENT ABOUT ACCOUNTING TREATMENT**

As explained in note 22 (i) to the financial statements, the Group holds 290,000,000 shares in a company, Radford Capital Investment Limited ("Radford Capital"), as trading securities with a carrying value of HK\$114,840,000 representing, in the directors' opinion, its fair value. Radford Capital is a company incorporated in the Cayman Islands with limited liability and whose shares are listed on The Stock Exchange of Hong Kong Limited ("the Stock Exchange").

Since 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 is the fair value of the Group's investment in Radford Capital. Accordingly, the investment in Radford Capital is stated at HK\$114,840,000 after taking 20% discount on the closing market price quoted on the Stock Exchange on the last trading day in December 2002. This resulted in a recognition of a net unrealised holding gain of HK\$52,640,000, after deducting an estimated attributable tax of HK\$10,000,000, in the income statement for the current year.

We disagree with the assumptions adopted by the directors in arriving at the discount rate of 20% used in assessing the fair value of the investment in Radford Capital. Consequently, in our opinion, the carrying value of the investment does not appropriately reflect its fair value. However, we have not been able to quantify the effect on the carrying value of the investment in Radford Capital and on the Group's results for the year with reasonable accuracy.

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### **QUALIFIED OPINION ARISING FROM DISAGREEMENT ABOUT ACCOUNTING TREATMENT** *(Continued)*

Except for the failure to state the investment in Radford Capital at its fair value as described in the preceding paragraph, in our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance. In our opinion, the financial statements give a true and fair view of the cash flows of the Group for the year ended 31 December 2002.

#### **BDO International**

*Certified Public Accountants*

Hong Kong, 16 April 2003