



China United International Holdings Limited
(Incorporated in Hong Kong with limited liability)

annual report
2004

DIRECTORS

Chuang Yueheng, Henry (*Chairman*)
Chung, Wilson (*Managing Director*)
Lo Kan Sun
Wong Ying Seung, Asiong
Lau Da Yip#
Lam Ping Cheung*
Miu, Frank H.*
Nakajima Toshiharu*
Lin Wai Yi*

Non-executive Directors

* *Independent Non-executive Directors*

PRINCIPAL BANKERS

Liu Chong Hing Bank Limited
The Hongkong and Shanghai Banking
Corporation Limited
Standard Chartered Bank

SECRETARY

Yung Mei Yee

QUALIFIED ACCOUNTANT

Wong Wai Man Raymond

AUDITORS

Moore Rowland Mazars

REGISTERED OFFICE

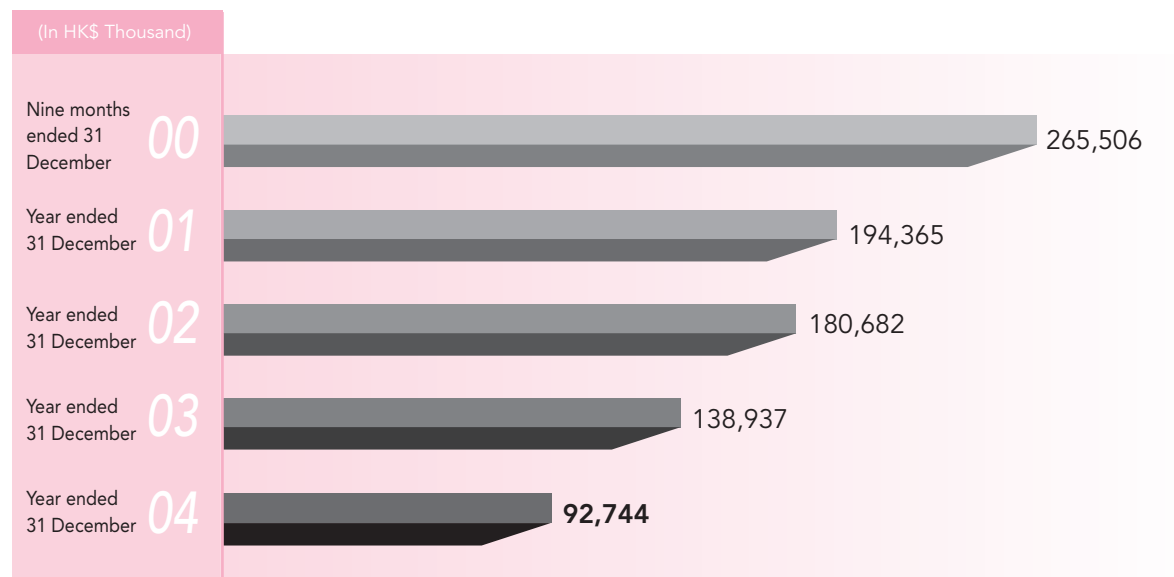
32nd Floor
China United Centre
28 Marble Road
North Point
Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICE

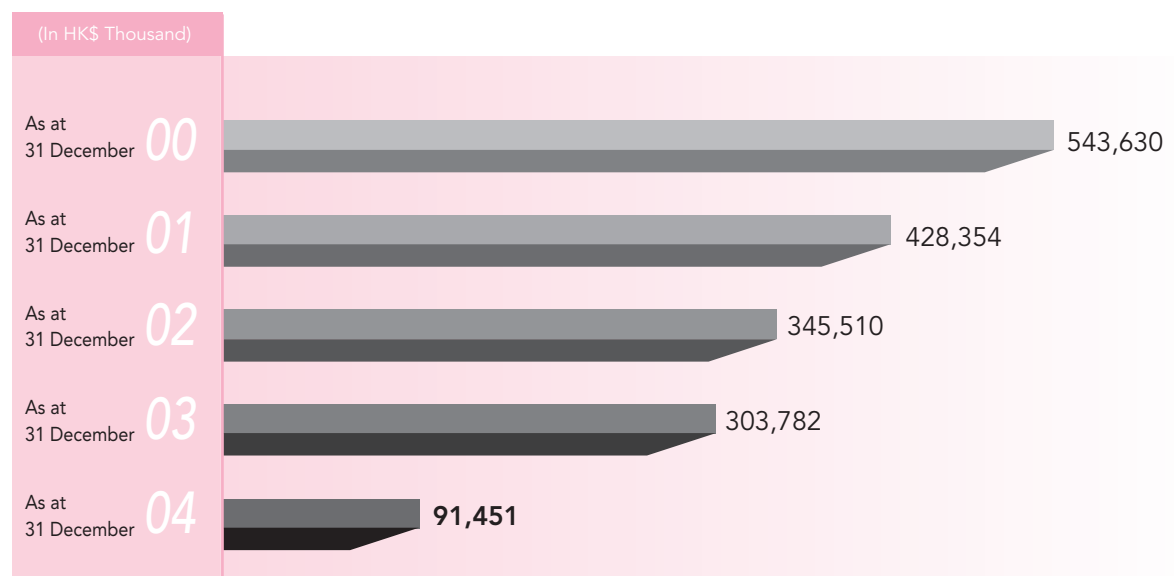
Computershare Hong Kong Investor Services Limited
Shop 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

Financial Highlights

FIVE FINANCIAL YEAR / PERIOD TURNOVER SUMMARY



NET WORTH SUMMARY





Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of China United International Holdings Limited (the "Company") will be held at 30th Floor, China United Centre, 28 Marble Road, North Point, Hong Kong on Monday, 30th May 2005 at 9:00 a.m. for the following purposes:-

1. To receive and consider the Financial Statements and the Report of the Directors and Auditors of the Company for the year ended 31 December 2004.
2. To re-elect directors and to authorise the Board of directors to fix their remuneration.
3. To re-appoint auditors and to authorise the Board of directors to fix their remuneration.

As special businesses, to consider and if thought fit, pass with or without modification the following ordinary resolutions:

ORDINARY RESOLUTIONS

4. **"THAT:-**

- (A) subject to paragraph (C) below, the exercise by the directors of the Company (the "Directors") during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options (including warrants, bonds and debentures convertible into shares of the Company) which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (B) the Directors be and are authorised during the Relevant Period to make or grant offers, agreements and options (including warrants, bonds and debentures convertible into shares of the Company) which might require the exercise of such powers during or after the end of the Relevant Period;
- (C) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraphs 4(A) and (B), otherwise than pursuant to a Rights Issue (as hereinafter defined) or pursuant to the exercise of any options granted under the share option scheme adopted by the Company or an issue of shares upon the exercise of subscription rights attached to the warrants which might be issued by the Company or an issue of shares in lieu of the whole or part of a dividend on shares or any scrip dividend scheme or similar arrangement in accordance with the articles of association of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue, as at the date of passing this resolution and the said approval shall be limited accordingly; and
- (D) for the purposes of this resolution:-

"Relevant Period" means the period from the time of the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;



Notice of the Annual General Meeting

- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the memorandum and articles of association of the Company or any applicable law of Hong Kong to be held; and
- (iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.

“Rights Issue” means an offer of shares open for a period fixed by the directors of the Company to holders of shares on the register of members on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdiction, or the requirements of any recognised regulatory body or any stock exchange).”

5. “THAT:-

- (A) subject to paragraph (C) below, the exercise by the directors of the Company (“Directors”) during the Relevant Period (as hereinafter defined) of all powers of the Company to purchase securities in the capital of the Company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, and that the exercise by the Directors of all powers of the Company to purchase such securities are subject to and in accordance with all applicable laws, be and is hereby, generally and unconditionally approved;
- (B) the approval in paragraph (A) shall be in addition to any other authorisation given to the directors of the Company and shall authorise the directors of the Company on behalf of the Company during the Relevant Period to procure the Company to purchase its securities at a price determined by the Directors;
- (C) the aggregate nominal amount of securities in the capital of the Company purchased or agreed conditionally or unconditionally to be purchased by the Company pursuant to the approval in paragraph (A) during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the time of passing this resolution and the said approval shall be limited accordingly; and
- (D) for the purposes of this resolution:-

“Relevant Period” means the period from the time of the passing of this resolution until whichever is the earliest of:-

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the memorandum and articles of association of the Company or any applicable law of Hong Kong to be held; and
- (iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.”



Notice of the Annual General Meeting

6. **“THAT** conditional upon the passing of the ordinary resolutions numbered 4 and 5 in the notice convening the meeting dated 15th April, 2005, the aggregate nominal amount of the shares in the capital of the Company which are purchased by the Company pursuant to and in accordance with the said resolution numbered 5 shall be added to the aggregate nominal amount of the share capital of the Company that may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to and in accordance with the ordinary resolution numbered 4 set out in the notice of the meeting dated 15th April, 2005.”
7. **“THAT** the existing scheme mandate limit in respect of the granting of options to subscribe for shares in the Company (“Shares”) under the share option scheme adopted by the Company on 20th November, 2002 (the “Share Option Scheme”) be refreshed and renewed provided that the total number of Shares which may be allotted and issued pursuant to the grant or exercise of the options under the Share Option Scheme (excluding options previously granted, outstanding, cancelled, lapsed or exercised under the Share Option Scheme, shall not exceed 10% of the Shares of the Company in issue as at the date of passing this resolution (the “Refreshed Limit”) and that the Directors of the Company be and are hereby authorized, subject to compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, to grant options under the Share Option Scheme up to the Refreshed Limit and to exercise all the powers of the Company to allot, issue and deal with shares of the Company pursuant to the exercise of such options.”

By order of the Board
Yung Mei Yee
Company Secretary

Hong Kong, Dated 15th April, 2005



Notice of the Annual General Meeting

Notes:

1. A form of proxy to be used for the meeting is enclosed.
2. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint another person as his proxy to attend and vote instead of him. On a poll votes may be given either personally or by proxy. A proxy need not be a member of the Company. A member may appoint more than one proxy to attend on the same occasion.
3. To be valid, the instrument appointing a proxy must be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.
4. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at the registered office of the Company at 32nd Floor, China United Centre, No. 28 Marble Road, North Point, Hong Kong not less than 48 hours before the time for holding the meeting or adjourned meeting or poll (as the case may be) at which the person named in such instrument proposes to vote, and in default the instrument of proxy shall not be treated as valid.
5. Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such share shall alone be entitled to vote in respect thereof.
6. As at the date of this notice, the Board comprises four executive directors, namely, Mr. Chuang Yueheng, Henry, Mr. Chung Wilson, Mr. Lo Kan Sun and Mr. Wong Ying Seung, Asiong, one non-executive director, Mr. Lau Da Yip and four independent non-executive directors, namely Mr. Lam Ping Cheung, Mr. Miu Frank H., Mr. Nakajima Toshiharu and Ms. Lin Wai Yi.



Chairman's Statement

THE YEAR IN REVIEW

Fiscal 2004 was encouraging, a year of significant changes for the Company. Last year, in my statement to shareholders, I reported to you that the Company has moved its domicile to Hong Kong and the restructuring of the Company into China United International Holdings Limited and China United Holdings Limited ("CU Bermuda"). I also reported of the subsequent sale of CU Bermuda to a third party. I mentioned that the sale "benefited the Company" in that the "Directors can concentrate their efforts on more productive or rewarding business opportunities". In the same statement, I mentioned that in 2003 the Company "turned inward to focus on corporate restructuring and streamlining its business activities". I am encouraged by our efforts this year and I think we have made a great deal of progress.

In the past two months, the Board of Directors or I have received requests and granted several interviews to newspapers as well as magazines. Many of them pointed out the same facts that I as chairman or we as directors of the Company am and are well aware of, that is, the Company has posted a seven year loss, that the Company has in the past raised a large sum of money through the stock market, and that they are unclear as to the direction of the Company. The points they raised were certainly legitimate. I feel that they as media reporters who bring information to the general public and you as investors of this Company certainly deserve to know the answer. Since I am the Chairman and this is my statement, I have chosen to elaborate my answers here.

The current Board of Directors essentially took over the operation of the Company in 1998. The Company was heavily in debt as a result of various real estates purchased at the height of the market and several major investments in PRC which were not profitable. The Company had defaulted in every one of its loans. The new management was faced with close to HK\$1 billion debts that had to be repaid, creditors were threatening to sue if they had not already done so, and a cash position so poor that it was not enough to meet payroll. Our efforts were concentrated in saving the Company. During the past few years, we had repaid more than half of the debt. Many worthwhile projects came across our desks during those years, the choice that the Directors were faced with is whether to invest aggressively or conservatively. Given the financial situation that the Company was in, we chose some of the most aggressive projects with the highest projected returns. We invested in internet projects, in the dotcoms, and in China projects. The investors need not hear from me that high return comes with high risk and as a result of the burst of the internet bubble, the Asian financial crisis, and the crash of the Hong Kong real estate market, we too have suffered substantial loss.

Our annual report was qualified by our auditors last year for 2 reasons and I shall deal with one of the reasons here. The auditor mentioned "Fundamental Uncertainty", an issue arises out of the sale of CU Bermuda in which the Directors considered that the "Group has no obligations to assume the liabilities, actual or contingent, and challenge by any interested party, if brought upon ... as to the validity of transaction ... or loss suffered as a result of the restructuring". The auditors were concerned because prior to the release of the annual report, a creditor filed petition for the liquidation of CU Bermuda. During 2004, the creditor has settled with CU Bermuda. The same auditors are satisfied that this "Fundamental Uncertainty" does not exist anymore. China United International Holdings Limited or its subsidiaries are not involved in any unsettled legal actions at this time.

No longer burdened with debt or any legal problems, the Directors were able to continue to focus on streamlining existing business and focus on new directions for the Company.

RESULTS

During the year ended 31 December 2004, the turnover of the Group decreased to HK\$92.7 million as compared to that of HK\$138.9 million for the year ended 31 December 2003. The loss attributable to shareholders of HK\$336.9 million represents an increase of 9.9 times as compared with a loss of HK\$33.7 million for the year ended 31 December 2003. The loss per share was HK\$0.28 as compared with HK\$0.09 for the corresponding year ended 31 December 2003.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2004, the Group's total shareholders' funds amounted to HK\$91.5 million compared with HK\$303.8 million at 31 December 2003. As at 31 December 2004, the Group had net current liabilities of HK\$117.3 million including cash and bank balances of HK\$10.7 million compared with net current liabilities of HK\$37.9 million comprising cash and bank balances of HK\$25.2 million at 31 December 2003. The gearing ratio (calculated by aggregated interest-bearing borrowings divided by shareholders' fund) and current ratio of the Group was 198% and approximately 0.31 times at 31 December 2004, compared to 61.7% and 0.78 times respectively at 31 December 2003.

As at 31 December 2004, the Group has bank loans of HK\$32.1 million (31 December 2003: HK\$32.9 million), other loans of HK\$96.1 million (31 December 2003: HK\$90.5 million) and convertible notes of HK\$53 million (31 December 2003: HK\$63.8 million).

As most of the Group's transactions and bank deposits were denominated in Hong Kong dollars, the Group's exposure to foreign exchange risk was minimal.

PLEDGE OF ASSETS

As at 31 December 2004, certain assets of the Group with an aggregate carrying value of HK\$50.7 million (31 December 2003: HK\$49.3 million) have been pledged to banks and other financial institutions to secure credit facilities granted to the Group.

CONTINGENT LIABILITIES

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 associate respectively, which were utilised by subsidiaries and 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.



Chairman's Statement

As set out in the Company's 2003 annual report, the Company, CU Bermuda and HMI entered into an agreement under which approximately 18.68% of interest in HMI and 48.53% interest in another subsidiary were transferred from the Old CU Group to the 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.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the year.

REVIEW AND OUTLOOK

Despite high global oil prices, the war on Iraq, and the political tension between China and Taiwan, the Hong Kong economy took a remarkable and somewhat surprisingly strong recovery this year. The property markets, and especially the high end markets, have risen or even gone beyond the highs set in 1997. The Company has taken the opportunity to further reduce its property holdings. The economy also benefited from the continual influx of mainland tourists and trade conventions. There also seems to be a renewed interest in the stock market. The Hong Kong economy is in general upbeat.

With a reported year end loss of over HK\$300 million, the inevitable question from investors is what made 2004 an encouraging year for China United. Last year, when we changed auditors, we asked the current auditors to "present a true picture to the public" and that they shall "leave no stones unturned". However, we did not agree on the amount of loan provisions that should be reported in the financial statement last year. Consequently, this led to the other reason that the 2003 annual report was qualified.

The Company's investment in HMI had been further diluted to 42.03% as at 31 December 2004. The Group still regards HMI and its subsidiaries (the "HMI Group") as a close associate. In December 2004, HMI announced that Citigroup Global Markets Limited has become one of its shareholders and that it has also signed on as non-exclusive agent and advisor for Sojitz. The Company believes that with the upturn in economy, HMI Group's financial advisory, brokerage, proprietary trading, and financial services can stand to benefit.



Chairman's Statement

HMI Group engages in financial services. The business nature of provision of brokerage and financial services also require that the Group engages in the lending business. After the fall of Arthur Andersen and the likes of Worldcom and Enron, the accounting industry has become very conservative in its reporting, and in our specific case, the treatment of loans outstanding. The lending standard or qualification that the auditors would accept is substantially higher. As a result, the provision and write off for HMI amount to HK\$258 million while the net provision for the Company amounts to HK\$61 million. The Directors opted to accept these figures rather than to have the annual report qualified again. As we are still in the process of collecting on the various loans outstanding, we believe that this accounting treatment presents an extremely conservative picture on the financial strength of the Company.

During the year, the Company focused its effort on Macau related projects. Some of our Directors have always had close relationships with influential individuals in the Macau gaming industry while others have been developing their networks. On 10 December, the Company announced its first venture in Macau related business, the acquisition of Wide Asia Shipping S. A., a holding company that owns a vessel to be leased for gambling. This investment was subsequently disposed of in 2005 at a gain of over HK\$20 million.

Subsequent to year end, the Company also made announcements regarding an investment in Found Macau, a joint venture company for large scale investments in Macau, as well as other Macau Projects. The Company continues to evaluate projects on hand and will invest only after thoughtful and quantified evaluation of business.

2004 was an encouraging year because during the past year, we have made important decisions. We have aggressively moved forward in a new direction. We feel that we are focused on the right things, our strategy is sound, and we are sailing in the right direction.

The Company has on 11 April, 2005 announced to change its name to Willie International Holdings Limited. The name change does not have any impact on the Company's equity valuation but is an important milestone in the evolution of the Company. It does not signify a beginning or an end but it marks how far we have come and how much further we aspire to go. As we look to the future, we see bright prospects and we are prepared to meet the challenges ahead.

EMPLOYEES/DIRECTORS

The Company has taken further steps to control and reduce its operation costs to an appropriate level. During the past year, as we become a progressive company, tremendous workloads have been place on the both the employees and the directors. I especially want to thank all the staff and directors for their many valuable contributions and for their hard work and dedication. It has certainly been a privilege to work with them and to serve you, our shareholders.

Subsequent to year end, the Company has appointed Mr. Nakajima Toshiharu, Ms. Lin Wai Yi, and Mr. Lau Da Yip as Non-Executive Director. On behalf of the Board, I would like to extend our sincere welcomes to the new directors. We are fortunate to be governed by a strong Board of independent directors who sets high standards consistent with their fiduciary duty to the shareholders. The Board would also like to thank Mr. Peter Ong for his many contributions during the past year. Mr. Ong resigned as an Independent Director in February 2005.



Chairman's Statement

IN MEMORY

Just as I am writing this statement, a sad news that one of my classmates, Prof. Lo Yam Kuen, a professor at a local university, whom I had the chance of reacquainted during my 30th high school reunion last year, has been confirmed dead as a victim of the tsunami. I am once again reminded and proud of those employees who had devoted and continue to devote not only their money but also their time and effort in the various fund raising activities for the tsunami victims. Your care and concern have spread hope among those who have survived.

By Order of the Board
Chuang Yueheng, Henry
Chairman

Hong Kong, 15 April 2005



Directors' and Senior Management's Biographies

EXECUTIVE DIRECTORS

Mr. Chuang Yueheng, Henry, aged 49, was appointed Chairman of the Company in 2002. He holds Master's degrees in Science and Business Administration from the University of Southern California, the United States of America. He has over 12 years' experience in corporate finance and development.

Mr. Chung, Wilson, aged 52, was appointed Managing Director of the Company in 2002. He holds a Master's degree in Science and a Master's degree in Business Administration (with Honors) from Cornell Graduate School of Business Administration, the United States of America. He has over 23 years' experience in corporate finance and banking.

Mr. Lo Kan Sun, aged 51, was appointed Executive Director of the Company in 2002. He holds a Master's degree in Business Administration from Indiana University, the United States of America. He has over 25 years' experience in finance, investment and banking.

Mr. Wong Ying Seung, Asiong, aged 54, was appointed Executive Director of the Company in 2002. He holds a Bachelor's degree in Chemical Engineering from the University of London, the United Kingdom. He has over 25 years' experience in banking and investment. He is also an independent non-executive director of Unity Investments Holdings Limited, a publicly listed company in Hong Kong.

NON-EXECUTIVE DIRECTOR

Mr. Lau Da Yip, aged 61, was appointed as director of the Company in 2005. He has over 30 years of experience in providing advice and project management services to several enterprises engaged in property development, operation of casinos, hotels, restaurants and entertainment related businesses in Macau.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lam Ping Cheung, aged 53, was appointed director of the Company in 2002. He is a solicitor and the sole proprietor of Messrs. Andrew Lam & Co.. He holds a Bachelor's degree in Social Science from the Chinese University of Hong Kong. He is an independent non-executive director of Golden Resources Development International Limited, Kith Holdings Limited, Qualipak International Holdings Limited, Hansom Eastern (Holdings) Limited, Unity Investments Holdings Limited, China Velocity Group Limited and Espco Technology Holdings Limited, which are publicly listed companies in Hong Kong. He is also a non-executive director of Ngai Lik Industrial Holdings Limited, a publicly listed company in Hong Kong.

Mr. Miu, Frank H., aged 56, was appointed director of the Company in 2004. He holds a Juris Doctor's degree from Harvard Law School, Cambridge, the United States of America and a Bachelor's degree in Economics and Accounting from St. John's University, Minnesota, the United States of America. He has extensive experience in law, accounting, project investment and food business. He is an independent non-executive director of Capital Estate Limited, Heritage International Holdings Limited, Asia Commercial Holdings Limited, China Sci-Tech Holdings Limited and Wonson International Holdings Limited, which are publicly listed companies in Hong Kong.



Directors' and Senior Management's Biographies

Mr. Nakajima Toshiharu, aged 68, was appointed director of the Company in 2005. He holds a Bachelor of Economics degree from Waseda University in Tokyo, Japan. He has over 41 years' experience in investment advisory and asset management. He is an executive director of Radford Capital Investment Limited, a publicly listed company in Hong Kong.

Ms. Lin Wai Yi, aged 41, was appointed director of the Company in 2005. She holds a Bachelor, Master and Doctorate degrees in Chinese Law from the Beijing University of China. She has been a practising solicitor in Hong Kong since 1994 and in England and Wales since 1996. She is the founder of Messrs. Deca Lin & Partners.

SENIOR MANAGEMENT

Mr. Wong Wai Man Raymond, aged 40, is the Qualified Accountant of the Company. He holds a Professional Diploma in Accountancy from the Hong Kong Polytechnic University. He is an Associate Member of the Hong Kong Institute of Certified Public Accountants and a Fellow Member of the Association of Chartered Certified Accountants. He has over 15 years' experience in finance and accounting.



Directors' Report

The Board of Directors submit their annual report together with the audited financial statements for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

The Company is principally engaged in investment holding. The principal activities of the Company and its subsidiaries during the year are property investment, investment holding, investment in trading securities and provision of financial services. Effectively on 31 December 2003, subsidiaries engaged in the provision of brokerage and financial services became associates of the Group. Details of the principal activities and other particulars of the Company's subsidiaries and an associate are set out in notes 17 and 18 to the financial statements respectively.

RESULTS, DIVIDENDS AND BONUS ISSUE

The results of the Group for the year ended 31 December 2004 are set out in the consolidated income statement on page 24.

The Board of Directors do not recommend the payment of a final dividend.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 26 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 years/period is set out on page 72 and page 73 of the annual report.

INVESTMENT PROPERTIES AND FIXED ASSETS

Details of significant changes in the investment properties and fixed assets of the Group during the year are set out in notes 15 and 16 respectively to the financial statements.

Particulars of the major properties of the Group as at 31 December 2004 are set out on page 74 of the annual report.

BORROWINGS

Details of the bank and other borrowings of the Group and the Company are set out in note 21 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 23 to the financial statements.

SHARE OPTIONS

Details of the Company's share option scheme are set out in note 24 to the financial statements. During the year, 24,573,467 of share options have been granted and exercised under the Company's share option scheme. At 31 December 2004, no share option is outstanding.

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 set out in notes 22, 24 and 25 to the financial statements, the Company or any of its subsidiaries has no outstanding convertible securities, options or similar rights as at 31 December 2004. There were exercise of convertible notes of HK\$5,040,000 at HK\$1.48 per share and exercise of convertible notes of HK\$2,000,000 at HK\$0.5 per share 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

Executive directors:

Lau Da Yip (appointed on 15 April 2005)

Independent non-executive directors:

Lam Ping Cheung
Miu, Frank H. (appointed on 25 March 2004)
Nakajima Toshiharu (appointed on 4 January 2005)
Lin Wai Yi (appointed on 7 February 2005)
Ong, Peter (resigned on 7 February 2005)

In accordance with article 120 of the Company's articles of association, 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.

In accordance with article 100 of the Company's articles of association, Mr. Nakajima Toshiharu, Ms. Lin Wai Yi and Mr. Lau Da Yip retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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

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.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

The directors of the Company who held office at 31 December 2004 had the following interests in the shares of the Company, its holding company, subsidiaries and other associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) at that date as recorded in the register of directors' interests and short positions required to be kept under section 352 of the SFO:-

Interests in the Company

Name of director	Number of ordinary shares of HK\$0.1 each held		% of holding Ordinary shares
	Personal interests	Family interests	
Chuang Yueheng, Henry (Note)	—	270,861,892	19.78

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 foregoing, none of the directors of the Company or any of their spouses or children under eighteen years of age has any interest or short position in the shares, underlying shares or debentures of the Company, any of its holding company, subsidiaries or fellow subsidiaries, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Save as set out in note 24 to the financial statements regarding the Company's share option scheme, at no time during the year was the Company, any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate. Since the adoption of the share option scheme, 24,573,467 options were granted and exercised during the year.

DIRECTORS' INTERESTS IN CONTRACTS

Details of directors' interests in contracts are set out in note 34(c) to the financial statements. Saved as disclosed above, no other contract of significance to which the Company, its holding company or 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.

CONNECTED TRANSACTIONS

The following transactions occurred during the year:

- (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 stated in note 34(c) to the financial statements.
- (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.
- (f) At the balance sheet date, the Company has executed guarantees of HK\$75,000,000 for banking facilities granted to an associate which were utilised to the extent of HK\$31,589,000.
- (g) At the balance sheet date, a wholly-owned subsidiary of the Company holds HMI's convertible note amounting to HK\$120,300,000. Details of HMI's convertible note is stated in note 18(d)(ii) to the financial statements.

The directors confirm that the above transactions have been entered 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' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

The Company has been notified of the following interests in the Company's issued shares at 31 December 2004 amounting to 5% or more of the ordinary shares, warrants and convertible notes in issue:

Interests in the Company

	Number of ordinary shares of HK\$0.1 each held	% of holding Ordinary shares
Substantial shareholder		
Radford Developments Limited (Note 1)	270,861,892	19.78
Other person		
Heritage International Holdings Limited (Note 2)	134,750,163	9.84
Radford Capital Investment Limited (Note 2)	105,983,363	7.74
Chau Tuk Shun (Note 2)	72,822,000	5.32

Note 1: 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.

Note 2: Heritage International Holdings Limited (Stock code: 412), Radford Capital Investment Limited (Stock code: 901) and Chau Tuk Shun are public shareholders, with the meaning of the Listing Rules.

Apart from the foregoing, no other interests required to be recorded in the register kept under section 336 of the SFO have been notified to the Company.

RETIREMENT SCHEME

The Group provides a defined contribution retirement scheme under the Mandatory Provident Fund Scheme in Hong Kong to all staff. Under the Scheme, employer and employees are each required to make contributions to the scheme at 5% of the employees' relevant income.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2004, 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.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

AUDIT COMMITTEE

The audit committee comprises four independent non-executive directors, with two additional independent non-executive directors being appointed after 31 December 2004. The audit committee meets with the Group's senior management and external auditors regularly to review the effectiveness of the internal control systems and the interim and annual reports of the Company.

CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31 December 2004 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that the independent non-executive directors of the Company are not appointed for any specific term of office but are subject to retirement by rotation in accordance with the Articles of Association of the Company.

AUDITORS

During 2003 the auditors, Messrs. BDO International resigned and Messrs. Moores Rowland Mazars, Chartered Accountants, Certified Public Accountants, were appointed auditors of the Company.

A resolution will be submitted at the annual general meeting to re-appoint Messrs. Moores Rowland Mazars as auditors of the Company.

On behalf of the Board
Chuang Yueheng, Henry
Chairman

Hong Kong, 15 April 2005



Auditors' Report

Moores Rowland Mazars

摩斯倫·馬賽會計師事務所

34th Floor, The Lee Gardens,
33 Hysan Avenue,
Causeway Bay,
Hong Kong

香港銅鑼灣
希慎道33號
利園廣場34樓

To the members of

China United International Holdings Limited

(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 24 to 71 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

BASIS OF OPINION

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

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

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

- (1) We had not been able to form a view in the previous year on the recoverability of loans receivable of HK\$15,362,000 as at 31 December 2003 and had qualified our audit report accordingly. Details of our qualification were more fully explained in the 2003 annual report.

The amount concerned has been fully provided for during the year of 2004. Any adjustments to the loans receivable balance as at 31 December 2003 would have consequential effect on the loss of the Group for the year ended 31 December 2004.



Auditors' Report

(2) As at 31 December 2003, the net assets of the Group included interest in an associate of HK\$320,624,000 in respect of Hennabun Management International Limited ("HMI")(formerly known as Hennabun Management Inc.). As the consolidated financial statements of HMI for the year ended 31 December 2003 were subject to audit qualifications, we had been unable to form a view as to whether the Group's share of HMI's net assets at 31 December 2003 was fairly stated. We had therefore qualified our auditors' report for that year. Details of our qualification were more fully explained in the 2003 annual report. Any adjustments to the Group's share of HMI's net assets at 31 December 2003 would have consequential effect on the loss of the Group for the year ended 31 December 2004.

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

FUNDAMENTAL UNCERTAINTY

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements in relation to the preparation of the financial statements on a going concern basis. We consider that appropriate disclosures have been made and our opinion is not qualified in this respect.

QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

In our opinion the financial statements give a true and fair view, in all material respect, of the state of affairs of the Company and the Group as at 31 December 2004, and except for any adjustments that might have been found necessary in respect of the foregoing scope limitations, in our opinion the financial statements give a true and fair view, in all material respects, of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

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

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

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

Without further qualifying our opinion, we draw attention to the fact that because we issued a disclaimer of opinion on 22 April 2004 on the financial statements of the Group and the Company for the year ended 31 December 2003 because of the scope limitations as summarised in the basis of opinion section above, the comparative amounts shown in these financial statements may not be comparable with the amounts for the current year.

Moores Rowland Mazars

Chartered Accountants

Certified Public Accountants

Hong Kong, 15 April 2005

Consolidated Income Statement

Year ended 31 December 2004

	Note	2004 HK\$'000	2003 HK\$'000
Turnover	4	92,744	138,937
Other income	6	14,383	13,720
Cost of trading securities sold		(87,356)	(54,544)
Depreciation and amortisation expenses		(1,678)	(4,377)
Staff costs		(8,785)	(22,374)
Finance costs for provision of financial services	8	—	(7,029)
Other operating expenses	7	(73,579)	(333,669)
Loss from operations	7	(64,271)	(269,336)
Impairment losses on:			
- Property, plant and equipment		—	(21,000)
- Investment properties		—	(20,300)
- Goodwill on consolidation of subsidiaries		—	(1,006)
- Interests in associates	18	(75,036)	(1,485)
- Other securities		—	(13,652)
Negative goodwill released upon recognition of impairment loss in an associate	18(b)	21,246	—
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)
(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)	—
Other finance costs	8	(14,185)	(37,131)
Loss from ordinary activities before taxation		(336,868)	(116,844)
Taxation	11	—	5,800
Loss from ordinary activities		(336,868)	(111,044)
Minority interests		—	77,305
Loss attributable to shareholders	12	(336,868)	(33,739)
Dividend	13	—	17,201
Loss per share – Basic	14	(28 cents)	(3 cents)

Consolidated Statement of Changes in Equity

Year ended 31 December 2004

	2004	2003
	HK\$'000	HK\$'000
Opening balance – Total equity	303,782	345,510
Capital reserve realised on disposal of subsidiaries	—	(1,156)
Investment revaluation deficit realised on disposal of other securities	—	10,341
Net gains not recognised in the income statement	—	9,185
Issue of shares on exercise of warrants	16,048	102
Issue of new shares, net of expenses	94,814	(75)
Issue of shares on conversion of convertible notes	7,040	—
Issue of shares under share option scheme	6,635	—
Special dividends paid	—	(17,201)
Loss for the year	(336,868)	(33,739)
Closing balance – Total equity	91,451	303,782

Consolidated Balance Sheet

At 31 December 2004

	Note	2004 HK\$'000	2003 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	15	11,930	20,530
Property, plant and equipment	16	39,177	30,716
Interest in an associate	18	181,113	320,624
		<u>232,220</u>	<u>371,870</u>
Current assets			
Loans receivable	20	18,802	83,456
Other receivables		3,876	24,675
Investments in securities	19	20,374	—
Bank balances and cash		10,663	25,173
		<u>53,715</u>	<u>133,304</u>
Current liabilities			
Other payables		13,350	14,118
Current portion of interest-bearing borrowings	21	104,683	93,262
Convertible notes	22	53,000	63,840
		<u>171,033</u>	<u>171,220</u>
Net current liabilities	2	<u>(117,318)</u>	<u>(37,916)</u>
Total assets less current liabilities		<u>114,902</u>	<u>333,954</u>
Non-current liabilities			
Long-term interest-bearing borrowings	21	23,451	30,172
NET ASSETS		<u>91,451</u>	<u>303,782</u>
CAPITAL AND RESERVES			
Issued capital	23	136,939	36,887
Reserves	26	(45,488)	266,895
		<u>91,451</u>	<u>303,782</u>

Approved and authorised for issue by the Board of Directors on 15 April 2005:

(Signed)
Director

(Signed)
Director

Balance Sheet

At 31 December 2004

	Note	2004 HK\$'000	2003 HK\$'000
ASSETS AND LIABILITIES			
Non-current asset			
Interests in subsidiaries	17	<u>241,349</u>	<u>371,895</u>
Current assets			
Other receivables		214	180
Bank balances and cash		<u>8,822</u>	<u>25,092</u>
		<u>9,036</u>	<u>25,272</u>
Current liabilities			
Other payables		10,302	11,135
Due to subsidiaries	17	25,291	10,993
Interest-bearing borrowings	21	96,080	90,519
Convertible notes	22	53,000	63,840
		<u>184,673</u>	<u>176,487</u>
Net current liabilities	2	<u>(175,637)</u>	<u>(151,215)</u>
NET ASSETS		<u><u>65,712</u></u>	<u><u>220,680</u></u>
CAPITAL AND RESERVES			
Issued capital	23	136,939	36,887
Reserves	26	<u>(71,227)</u>	<u>183,793</u>
		<u>65,712</u>	<u>220,680</u>

Approved and authorised for issue by the Board of Directors on 15 April 2005:

(Signed)
Director

(Signed)
Director

Consolidated Cash Flow Statement

Year ended 31 December 2004

	Note	2004 HK\$'000	2003 HK\$'000
OPERATING ACTIVITIES			
Cash used in operations	27	(207)	(401,711)
Hong Kong Profits Tax paid		—	(58)
Hong Kong Profits Tax refunded		—	121
Net cash used in operating activities		(207)	(401,648)
INVESTING ACTIVITIES			
Purchase of investment in securities		(427)	—
Purchase of additional interests in subsidiaries		—	(10,000)
Purchase of property, plant and equipment		(53)	(484)
Purchase of other securities		—	(13,000)
Proceeds from disposal of property, plant and equipment		850	—
Proceeds from disposal of investment properties		12,680	7,128
Proceeds from disposal of subsidiaries		—	46,407
Proceeds from deemed disposal of subsidiaries		—	17,555
Proceeds from sales of partial interests in subsidiaries		—	13,000
Proceeds from disposal of other securities		—	49,827
Net advances (to) from associates	18	(38,279)	40,000
Bank interest received		—	122
Net cash (used in) from investing activities		(25,229)	150,555
FINANCING ACTIVITIES			
Dividends paid		—	(17,201)
Issue of shares for cash		4,170	—
Issue of shares under share option scheme		6,635	—
Issue of shares on exercise of warrants		16,048	102
New bank loans raised		6,000	14,073
New other loans raised	21	84,921	354,997
Issue of convertible notes	22	55,000	163,000
Proceeds from dilution of interest in a subsidiary through subscription of shares		—	178,300
Repayment of bank loans		(6,861)	(17,263)
Repayment of other loans	21	(79,360)	(281,105)
Redemption of convertible notes	22	(58,800)	(29,000)
Expenses incurred on issue of shares		—	(75)
Repayment of obligations under finance leases included in trade and other payables		—	(118)
Interest paid on bank and other borrowings		(11,761)	(15,134)
Interest paid on convertible notes		(5,066)	(7,149)
Interest paid on obligations under finance leases		—	(53)
Net cash from financing activities		10,926	343,374
Net (decrease) increase in cash and cash equivalents		(14,510)	92,281
Cash and cash equivalents at beginning of year		25,173	(67,108)
Cash and cash equivalents at end of year, represented by bank balances and cash		10,663	25,173



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	financial services	Property investment	Investment holding	Unallocated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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	financial services	Property investment	Investment holding	Unallocated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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
	<hr/>	<hr/>
	(218)	(4,640)
	<hr/>	<hr/>



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
	<u>11,930</u>	<u>20,530</u>
At balance sheet date	11,930	20,530

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
	<u>11,930</u>	<u>20,530</u>

Investment properties were valued at the balance sheet date by Messrs. Centaline Surveyors Limited, Chartered Surveyors, on an open market value basis. The surplus of HK\$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	<u>127,322</u>	<u>147,021</u>
	<u><u>181,113</u></u>	<u><u>320,624</u></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	Negative	Total
	HK\$'000	goodwill	HK\$'000
		HK\$'000	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 HK\$'000	Capital reserve HK\$'000	Merger reserve HK\$'000	Accumulated losses HK\$'000	Total 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.



Summary of Financial Information

A summary of the results and of the assets and liabilities of the Group for the last five financial years/period, as extracted from the audited financial statements and reclassified as appropriate, is set out below.

RESULTS

	2004 HK\$'000	Year ended 31 December			Nine months ended 31 December
		2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Turnover	<u>92,744</u>	<u>138,937</u>	<u>180,682</u>	<u>194,365</u>	<u>265,506</u>
Loss before taxation	(336,868)	(116,844)	(177,450)	(354,996)	(594,914)
Taxation	<u>—</u>	<u>5,800</u>	<u>(10,011)</u>	<u>86</u>	<u>(2,247)</u>
Loss after taxation	(336,868)	(111,044)	(187,461)	(354,910)	(597,161)
Minority interests	<u>—</u>	<u>77,305</u>	<u>(11,908)</u>	<u>23,350</u>	<u>228,105</u>
Loss for the year/period	<u>(336,868)</u>	<u>(33,739)</u>	<u>(199,369)</u>	<u>(331,560)</u>	<u>(369,056)</u>

Summary of Financial Information

ASSETS AND LIABILITIES

	2004	2003	2002	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Investment properties	11,930	20,530	157,470	218,000	249,380
Property, plant and equipment	39,177	30,716	129,670	255,911	372,172
Intangible assets	—	—	(20,783)	3,000	98,570
Interests in associates	181,113	320,624	1,485	22,285	50,352
Investments in securities	—	—	58,739	48,245	108,097
Other long term assets	—	—	2,053	2,070	490
Loans and other loan receivable	—	—	1,369	20,344	2,200
Current assets	53,715	133,304	698,608	645,123	500,194
Current liabilities	(171,033)	(171,220)	(482,605)	(412,779)	(417,359)
	<u>114,902</u>	<u>333,954</u>	<u>546,006</u>	<u>802,199</u>	<u>964,096</u>
Shareholders' funds	91,451	303,782	345,510	428,354	543,630
Minority interests	—	—	24,266	36,164	96,378
Deferred taxation	—	—	10,000	—	—
Obligations under finance leases	—	—	47	174	355
Long term bank and other borrowings	23,451	30,172	102,343	273,667	323,733
Convertible notes	—	—	63,840	63,840	—
	<u>114,902</u>	<u>333,954</u>	<u>546,006</u>	<u>802,199</u>	<u>964,096</u>

Particulars of Properties Held by the Group

(A) INVESTMENT PROPERTIES

Description	Use	Lease term
Flat C8, 26th Floor, Block C, Elizabeth House, Nos. 250-254 Gloucester Road, Hong Kong	Residential	Long term
Car Park Space No. 8 on Ground Floor, Prince Park, No. 234 Prince Edward Road West, Kowloon	Residential	Long term
Flat C on 13th Floor of Block 12, No. 17 Laguna Street, Laguna City, Kowloon	Residential	Medium term
Flat B on 2nd Floor of Block 23, No 15 Laguna Street, Laguna City, Kowloon	Residential	Medium term
Flat A & B on 12th Floor together with a Portion of Roof immediately there above, Scholar Court, No. 15 Sands Street, Kennedy Town, Hong Kong	Residential	Long term

(B) LEASEHOLD LAND AND BUILDINGS

Description	Use	Lease term
Duplex Flat A, 21st and 22nd Floor together with a portion of roof thereabove and Car Parking Space No. 33, Royalton, 118 Pok Fu Lam Road, Pok Fu Lam, Hong Kong	Residential	Medium term
Flat B, 22nd Floor together with a portion of roof immediately thereabove and Car Parking Space No. 22, Royalton, 118 Pok Fu Lam Road, Pok Fu Lam, Hong Kong	Residential	Medium term