

If you are in any doubt as to any aspect of this document or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China United Holdings Limited, you should at once hand this document and the enclosed forms of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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Proposal for



(incorporated in Bermuda with limited liability)

to become a wholly-owned subsidiary of

CHINA UNITED INTERNATIONAL HOLDINGS LIMITED

互聯控股有限公司

*(a new holding company incorporated in Hong Kong with limited liability
and the shares of which are proposed to be listed on*

The Stock Exchange of Hong Kong Limited by way of introduction)

REORGANISATION PROPOSAL

INVOLVING A CHANGE OF DOMICILE OF CHINA UNITED HOLDINGS LIMITED

BY WAY OF A SCHEME OF ARRANGEMENT

UNDER SECTION 99 OF THE COMPANIES ACT 1981 OF BERMUDA,

AND

SHARE OPTION SCHEME AND CONVERTIBLE NOTES PROPOSALS

Sponsor and financial adviser

ANGLO CHINESE
CORPORATE FINANCE, LIMITED

Co-sponsor and co-financial adviser



CU Corporate Finance Limited

A letter from the board of China United Holdings Limited is set out on pages 12 to 18 of this document. An explanatory statement regarding the proposal (as defined herein) is set out on pages 19 to 35 of this document.

The actions to be taken by the shareholders (as defined herein) are set out on page 35 of this document.

Notices convening the court meeting (as defined herein) to be held at 9:00 a.m. on Friday, 20th December, 2002 and the special general meeting (as defined herein) to be held at 9:30 a.m. (or as soon as the court meeting shall have concluded or been adjourned) on Friday, 20th December, 2002 are set out on pages 199 to 201 of this document. Whether or not you are able to attend the court meeting and the special general meeting or either of them, you are strongly urged to complete and return the enclosed pink form of proxy in respect of the court meeting and the enclosed white form of proxy in respect of the special general meeting, in accordance with the instructions printed thereon as soon as possible but in any event not later than the times and dates stated in the paragraph headed "Actions to be taken" on page 35 of this document.

* For identification purpose only

26th November, 2002

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DEFINITIONS

In this document (other than in the scheme, the notice of the court meeting and the notice of the special general meeting) the following expressions have the following meanings unless the context requires otherwise:

“Anglo Chinese”	Anglo Chinese Corporate Finance, Limited, a registered dealer and investment adviser under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong), which acts as the financial adviser to China United and as sponsor to the holding company;
“articles of association”	the articles of association of the holding company from time to time;
“associate(s)”	the meaning ascribed thereto under the listing rules;
“board”	the board of directors;
“business day”	a day on which the Stock Exchange is open for the business of dealings in securities;
“bye-laws”	the bye-laws adopted by China United from time to time;
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC;
“China United”	China United Holdings Limited, a company incorporated in Bermuda under the Companies Act with limited liability;
“Companies Act”	the Companies Act 1981 of Bermuda;
“Companies Ordinance”	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong;
“convertible notes proposal”	the proposal to holders of the existing convertible notes for the cancellation of all existing convertible notes and an issuance of new convertible notes to them;
“Court”	the Supreme Court of Bermuda;
“court meeting”	the meeting of the holders of Shares to be convened at the direction of the Court at 9:00 a.m. on Friday, 20th December, 2002, the notice of which is set out on pages 197 to 198 of this document, and any adjournment thereof;

DEFINITIONS

“CU Corporate Finance”	CU Corporate Finance Limited, an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and an indirect non wholly-owned subsidiary of China United, which acts as the co-financial adviser to China United and as co-sponsor to the holding company;
“director(s)”	the director(s) of China United;
“effective date”	the date upon which the scheme, if approved by the Court, becomes effective, which is the day on which an office copy of the order of the Court sanctioning the scheme under section 99 of the Companies Act shall have been delivered to the Registrar of Companies in Bermuda for registration and expected to be on Friday, 3rd January, 2003;
“Executive”	the Executive Director of the Corporate Finance division of the SFC and any delegate of the Executive Director;
“existing convertible notes”	the convertible notes of China United of a total principal amount of HK\$63,840,000 issued to a total of four independent third parties who have the right to convert all or part of the outstanding convertible notes into Shares;
“existing share option scheme”	the share option scheme of China United adopted on 30th May, 2002;
“explanatory statement”	the explanatory statement relating to the scheme in compliance with Section 100 of the Companies Act, the text of which is set out on pages 19 to 35 of this document;
“grantee”	a participant who has been granted holding option(s) to subscribe for holding share(s);
“Group”	China United and its subsidiaries;
“holding company”	China United International Holdings Limited (互聯控股有限公司), a company incorporated in Hong Kong and which will be the new holding company of the Group upon the scheme becoming unconditional and effective and whose shares are proposed to be listed on the Stock Exchange by way of introduction;
“holding group”	the holding company and its subsidiaries upon the scheme becoming effective (which will include the Group);
“holding option(s)”	option(s) to subscribe for holding shares granted under the new share option scheme;

DEFINITIONS

“holding share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the holding company;
“holding shareholders”	registered holder(s) of holding shares;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“HKSCC”	Hong Kong Securities Clearing Company Limited;
“independent third party(ies)”	party or parties that is or are independent of and not connected with any directors, chief executive or substantial shareholder of China United or the holding company (as the case may be) or their respective subsidiaries, or any of their respective associates;
“latest practicable date”	20th November, 2002, being the latest practicable date prior to the issue of this document for ascertaining certain information contained herein;
“listing rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“memorandum of association”	the memorandum of association adopted by the holding company from time to time;
“new convertible notes”	the new convertible notes of the holding company of a total principal amount of HK\$63,840,000 to be issued to a total of four independent third parties who are the holders of the existing convertible notes and who have the right to convert all or part of the existing convertible notes into Shares, details of the terms and conditions of which are set out in appendix VII to this document;
“new share option scheme”	the new share option scheme conditionally adopted by the holding company on 20th November, 2002, the principal terms of which are summarised in appendix VIII to this document;
“notice of special general meeting”	the notice of the special general meeting, which is set out on pages 199 to 201 of this document;
“participants”	persons eligible to be granted holding options under the new share option scheme as specified in paragraph 2 of appendix VIII to this document;
“PRC”	the People’s Republic of China;
“proposal”	the proposal for the change of domicile of China United by way of the scheme;

DEFINITIONS

“Radford”	Radford Developments Limited, a company incorporated in the British Virgin Islands which is controlled by a trust of which the son of Mr. Chuang Yueheng, Henry, the chairman of China United, is currently named as the sole beneficiary and which is also a substantial shareholder of China United;
“record time”	4:00 p.m. Hong Kong time on the business day immediately preceding the effective date;
“scheme”	the scheme of arrangement under Section 99 of the Companies Act proposed between China United and the shareholders involving the cancellation of all the Scheme Shares held by the shareholders and in exchange therefor, the issue of new holding shares to them as set out on pages 192 to 196 of this document in its present form or subject to any modification thereof or addition thereto or condition which the Court may approve or impose;
“Scheme Shares”	the 6,143,366,812 Shares in issue as at the latest practicable date together with any further Shares which may be issued prior to the record time;
“SDI Ordinance”	the Securities (Disclosure of Interests) Ordinance, Chapter 396 of the Laws of Hong Kong;
“SFC”	the Securities and Futures Commission;
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of China United;
“share option(s)”	share option(s) to subscribe for shares granted under the executive share option scheme adopted by China United on 15th December, 1995;
“share option scheme proposal”	the proposal to shareholders for the cancellation of the existing share option scheme and the adoption by the holding company of the new share option scheme;
“shareholder(s)”	registered holder(s) of Shares;
“special general meeting”	the special general meeting of China United to be held at 9:30 a.m. on Friday, 20th December, 2002 (or as soon as the court meeting shall have concluded or been adjourned) and any adjournment thereof;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“subsidiaries”	the meaning ascribed thereto in the Companies Ordinance;

DEFINITIONS

“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers;
“HK\$” and “cents”	Hong Kong dollars and cents respectively;
“RMB”	Renminbi, the lawful currency of the PRC;
“sq.m.”	square metre;
“US\$”	United States dollars, the lawful currency of the United States of America;
“%”	per cent.

RESPONSIBILITY STATEMENT

This document includes particulars given in compliance with the listing rules for the purpose of giving information with regard to the Group and the holding company. The respective directors of China United and the holding company jointly and severally accept responsibility for the accuracy of the information contained in this document in relation to the Group and the holding company and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this document misleading.

SUMMARY

REORGANISATION PROPOSAL

It is proposed that the structure of the Group will be reorganised involving a change of domicile of China United by way of a scheme of arrangement under section 99 of the Companies Act. Upon the scheme becoming effective, China United will become a wholly-owned subsidiary of the holding company incorporated in Hong Kong and which will then be the holding company of the Group and the shareholders will become holding shareholders.

To facilitate the scheme, the holding company has conditionally adopted the new share option scheme and, pursuant to the convertible notes proposal, will issue new convertible notes to replace the existing convertible notes. General mandates to issue and purchase shares have conditionally been granted to the directors of the holding company to allot and issue and to purchase holding shares.

The scheme will be conditional upon, amongst other things, the listing committee of the Stock Exchange granting the listing of, and permission to deal in, the holding shares and shareholders' approval at the special general meeting. Subject to the listing committee of the Stock Exchange granting the relevant approvals, the holding shares will be listed on the Stock Exchange by way of introduction. At the same time, the listing of the Shares on the Stock Exchange will be withdrawn.

Save and except for the amount of HK\$100,000 in the issued share capital of China United divided into 10,000,000 new Shares to be issued to the holding company, all of the authorised but unissued share capital of China United (including the authorised but unissued share capital resulting from the reduction in the share capital of China United) will be cancelled on the effective date such that the authorised share capital of China United will be HK\$100,000 divided into 10,000,000 Shares.

EFFECTS OF THE SCHEME

Shareholders

If the scheme becomes effective, the holding company will become the sole beneficial shareholder of China United and the shareholders will receive one holding share for every 25 Scheme Shares held by them as at the record time (save that fractional entitlements will not be allotted and will be sold for the benefit of the holding company).

On the effective date, the issued share capital of China United will be reduced by cancelling and extinguishing all the Scheme Shares. The resultant entire credit of approximately HK\$61 million will be credited to the contributed surplus account of China United save that an amount of HK\$100,000 will be applied in paying up in full at par the 10,000,000 new Shares to be allotted and issued fully-paid to the holding company on the effective date. Further, the entire amount of approximately HK\$1,617 million standing to the credit of the share premium account of China United as at the effective date will be cancelled and transferred to the contributed surplus account of China United. The amount in the contributed surplus account of China United will be applied by China United in or towards writing off the audited accumulated deficit of China United as permitted by the laws of Bermuda and the bye-laws. The audited accumulated deficit of China United was approximately HK\$2,686 million as at 31st December, 2001.

SUMMARY

A special dividend of HK0.28 cents per Share (equivalent to HK7 cents per holding share) will be distributed as soon as possible after the effective date to those persons registered as shareholders of China United immediately before the Court approves the scheme. On the basis of 6,143,366,812 Shares that are in issue as at the latest practicable date and assuming there are no changes to the issued share capital of China United between the latest practicable date and the effective date, the total amount of special dividend distributable to shareholders would amount to approximately HK\$17 million.

Holders of existing convertible notes

If the scheme becomes effective and the convertible notes proposal becomes unconditional, the holders of the existing convertible notes will receive new convertible notes convertible into holding shares. The conversion price under the existing convertible notes is currently HK\$0.0764 per Share (subject to adjustment). Under the convertible notes proposal, the conversion price will be (i) HK\$1.91 per holding share (subject to adjustment) if the conversion rights are exercised during the period from 5th July, 2002 to 4th July, 2003; and (ii) HK\$2.22 per holding share (subject to adjustment) if the conversion rights are exercised during the period from 5th July, 2003 to a date which is 14 days before (and excluding) the maturity date of the new convertible notes (which is on 4th July, 2004). The revised conversion prices are calculated on the basis that the holders of the existing convertible notes are being treated the same as the shareholders in that as one of the terms of the scheme, each shareholder will receive one holding share for every 25 Scheme Shares held by them as at the record time. Other terms and conditions of the new convertible notes to be issued by the holding company will be the same as those of the existing convertible notes other than the name of the issuer, conversion prices and the timing of exercise of the convertible notes.

Assuming full conversion of the new convertible notes, a total of 33,424,083 new holding shares will be issued, representing approximately 13.6% of the issued share capital of the holding company immediately upon the scheme becoming effective, and approximately 12.0% of the issued share capital of the holding company as enlarged by the issuance of holding shares resulting from the exercise of conversion rights under the new convertible notes. The convertible notes proposal is subject to, amongst other things, the scheme becoming effective.

Nominal value and ownership

The par values of the Shares and the holding shares are HK\$0.01 and HK\$0.10, respectively. The higher par value of the holding shares will not affect the proportion of net assets of the holding company attributable to the shareholders who will become holding shareholders when the scheme becomes effective.

The proportionate interests of the holding shareholders in the issued share capital of the holding company will be the same as the existing proportionate interests of the shareholders in the issued share capital of China United.

SUMMARY

General

Implementation of the scheme will not of itself alter the underlying assets, business, management or financial position of the Group, other than as a result of the payment of expenses relating to the scheme, which are estimated to be approximately HK\$4 million.

CONDITIONS OF THE SCHEME

The scheme will become effective and binding on the shareholders provided that each of the following conditions is satisfied on or before 31st March, 2003 or such other date as China United and the holding company may agree and the Court may allow:

- (i) the scheme being approved by a majority in number of the holders of the Shares on the date of the court meeting representing three-fourths in value of the Shares in issue on the date of the court meeting, present and voting in person or by proxy at the court meeting;
- (ii) the special resolution necessary to approve and implement the scheme being passed at the special general meeting;
- (iii) compliance by China United with section 46(2) of the Companies Act in relation to the reduction of share capital and cancellation of the entire amount standing to the credit of the share premium account of China United on the effective date;
- (iv) the Court sanctioning the scheme, with or without modification, and an office copy of the order of the Court being delivered to the Registrar of Companies in Bermuda for registration;
- (v) the listing committee of the Stock Exchange granting the listing of, and permission to deal in, the holding shares; and
- (vi) all other consents or authorisations which may be required under any existing contractual arrangements, including loan and other finance documentation or regulatory requirements being obtained.

RECOMMENDATIONS

Having taken into account the reasons for and benefits of the scheme as set out in the explanatory statement contained in this document, the board considers that the scheme and the related share option scheme proposal and convertible notes proposal are in the best interests of China United and the shareholders as a whole. Accordingly, the board recommends the shareholders to vote in favour of the resolutions to be proposed at the court meeting and the special general meeting to approve and implement the scheme and to approve the termination of the existing share option scheme.

EXPECTED TIMETABLE

Latest time for lodging forms of proxy in respect of:

Court meeting (*Notes 1 and 2*) 9:00 a.m. on Wednesday,
18th December, 2002

Special general meeting (*Notes 1 and 2*) 9:30 a.m. on Wednesday,
18th December, 2002

Court meeting 9:00 a.m. on Friday, 20th December, 2002

Special general meeting (*Note 3*) 9:30 a.m. on Friday, 20th December, 2002

Court hearing of petition to sanction the scheme Thursday, 2nd January, 2003

Last day of dealing in the Shares on the Stock Exchange Thursday, 2nd January, 2003

Record time 4:00 p.m. on Thursday, 2nd January, 2003

Effective date (*Note 4*) Friday, 3rd January, 2003

Withdrawal of listing of the Shares on the Stock Exchange 9:30 a.m. on Friday,
3rd January, 2003

Dealings in holding shares commence 9:30 a.m. on Friday, 3rd January, 2003

First day for exchange of existing certificates
for the Shares for new certificates for the
holding shares, free of charge Friday, 3rd January, 2003

Existing counter for trading in existing Shares
in board lots of 10,000 Shares closes 9:30 a.m. on Friday, 3rd January, 2003

Temporary counter for trading in board lots of
400 holding shares (in the form of existing
Share certificates) opens 9:30 a.m. on Friday, 3rd January, 2003

Designated broker starts to stand in the market
to purchase and sell odd lots of holding shares 9:30 a.m. on Friday, 3rd January, 2003

Counter for trading in board lots of 4,000 holding
shares opens (*Note: Only new certificates for
holding shares can be traded at this counter*) 9:30 a.m. on Friday, 17th January, 2003

EXPECTED TIMETABLE

Parallel trading commences 9:30 a.m. on Friday, 17th January, 2003

Temporary counter for trading in board lots of
400 holding shares (in the form of
existing Share certificates) closes 4:00 p.m. on Monday, 10th February, 2003

Parallel trading in holding shares
(in the form of new certificates for holding
shares and existing Share certificates) ends 4:00 p.m. on Monday, 10th February, 2003

Designated broker ceases to stand in the market
to purchase and sell odd lots of holding shares 4:00 p.m. on Monday, 10th February, 2003

Last day for exchange of existing certificates for the
Shares for new certificates for holding shares
free of charge (*Note 5*) Monday, 3rd March, 2003

Notes:

1. The forms of proxy should be returned to China United at 32nd Floor, China United Centre, 28 Marble Road, North Point, Hong Kong by the times mentioned above; but a form of proxy for the court meeting may instead be handed to the chairman of the court meeting at that meeting and, if accepted by the chairman, may be used to vote at the court meeting.
2. Completion and return of the forms of proxy will not preclude a shareholder from attending the relevant meeting and voting in person if he so desires. In such event, his form of proxy will be deemed to have been revoked.
3. The special general meeting will be held at 9:30 a.m. or as soon as the court meeting shall have concluded or been adjourned.
4. The scheme will become effective when it is sanctioned, with or without modification, by the Court and an office copy of the order of the Court is delivered to the Registrar of Companies in Bermuda for registration. The Court has the right to adjourn any hearing.
5. Certificates for the Shares will be accepted for exchange for certificates for the holding shares on payment of a fee of HK\$2.50 (or such higher amount as may be permitted by the listing rules from time to time) for each new share certificate to be issued or for each Share certificate issued by China United so submitted for exchange, whichever number of certificates is higher.
6. No closure of books is contemplated in the expected timetable.



(incorporated in Bermuda with limited liability)

Executive directors:

Chuang Yueheng, Henry (*Chairman*)
Chung Wilson (*Managing Director*)
Lo Kan Sun
Wong Ying Seung, Asiong
Wong Siu Bun

Registered office:

Cedar House
41 Cedar Avenue
Hamilton HM12
Bermuda

Independent non-executive directors:

Lam Ping Cheung
Sun Lup Chung
Ong Peter

Principal place of business:

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

26th November, 2002

To the shareholders

Dear Sir or Madam,

**REORGANISATION PROPOSAL
INVOLVING A CHANGE OF DOMICILE OF CHINA UNITED HOLDINGS LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
UNDER SECTION 99 OF THE COMPANIES ACT 1981 OF BERMUDA,
AND
SHARE OPTION SCHEME AND CONVERTIBLE NOTES PROPOSALS**

1. INTRODUCTION

On 27th August, 2002, the directors announced that China United intended to put before the shareholders a reorganisation proposal involving a change of domicile of China United by way of a scheme of arrangement under section 99 of the Companies Act. On 13th September, 2002, China United further announced that the scheme will also be conditional upon the number of votes cast against the resolution to approve the scheme at the relevant shareholders' meeting being not more than 10% of the votes attaching to all disinterested Scheme Shares. On 27th September, 2002, China United further announced that the Executive granted a waiver to China United from strict compliance with rule 2.10 of the Takeovers Code such that the scheme will no longer be conditional upon the additional condition as announced on 13th September, 2002. A hearing of the Originating Summons of the Court was held on 21st November, 2002 and it was ordered by the Court that China United be at liberty to convene the court meeting which is expected to be held on 20th December, 2002. It is currently proposed that a Court hearing of the petition to sanction the scheme will be held on 2nd January, 2003 subject to the results of the court meeting and the special general meeting.

* For identification purpose only

LETTER FROM THE BOARD

To facilitate the scheme, the holding company has conditional upon, amongst other things, the scheme becoming effective, adopted the new share option scheme and will issue new convertible notes to replace the existing convertible notes. General mandates have conditionally been granted to the directors of the holding company to allot and issue and to purchase holding shares.

Upon the scheme becoming effective, China United will become a wholly-owned subsidiary of the holding company incorporated in Hong Kong, and which will then become the holding company of the Group. Holding shares will be listed on the Stock Exchange by way of introduction and the listing of the Shares on the Stock Exchange will be withdrawn.

The purpose of this document is to provide you as a shareholder with details of the scheme. If the scheme shall not become effective on or before 31st March, 2003, or such other date as China United and the holding company may agree and the Court may allow, the scheme will lapse and as a result, the share option scheme proposal and the convertible notes proposal will also lapse.

2. REASONS FOR THE SCHEME

The Group, together with its associated companies, is principally engaged in property investment, investment holding, investment in high technology related businesses, investment in retailing business and listed securities and the provision of brokerage and financial services. These businesses are mainly focused in Hong Kong.

In arriving at its recommendation to the shareholders that the scheme is in the best interests of China United and the shareholders as a whole and that the shareholders vote in favour of the scheme at the court meeting and the special general meeting, the board has given due consideration to the commercial and legal advantages and disadvantages of having the holding company of the Group incorporated in Hong Kong. Particularly, the board believes that it is in the best interests of China United and the shareholders as a whole that the holding company of the Group be established in Hong Kong, being a common law jurisdiction familiar to international investors and also the principal place of operation of the Group. The board further believes the scheme would provide more confidence to investors and increase minority shareholders' protection as certain provisions of Hong Kong company law are generally more stringent as compared to Bermuda company law. Additionally, the compliance costs of the holding group would be reduced after the scheme becomes effective because when future transactions are entered into by the holding company, the holding group will no longer be obliged to bear legal costs related to compliance with Bermuda laws. At the same time, save and except for the amount of HK\$100,000 in the issued share capital of China United divided into 10,000,000 new Shares issued to the holding company, all of the authorised but unissued share capital of China United (including the authorised but unissued share capital arising on the reduction in the share capital of China United) will be cancelled on the effective date such that the authorised share capital of China United will be HK\$100,000 divided into 10,000,000 Shares of HK\$0.01 each in the capital of China United. The board believes that China United will benefit from the reduction of annual government fees payable in Bermuda by an exempted company under the Companies Act as a result of the reduction in its authorised share capital.

3. DETAILS AND EFFECTS OF THE SCHEME

As stated in the explanatory statement in this document, it is proposed that the holding company will, by means of the scheme, become the sole beneficial shareholder in China United and that the shareholders will receive one holding share for every 25 Scheme Shares held by them as at record time, (save for Radford which has consented to receiving one holding share for every 25 Scheme Shares held by it as at the record time less 20 holding shares). For clarification, the holding company will not be purchasing the 20 holding shares currently held by Radford as referred to in China United's announcement dated 27th August, 2002 so as to reduce administration costs. Instead, upon the scheme becoming effective, Radford will receive one holding share for every 25 Scheme Shares held by it less the 20 holding shares which it held as at the latest practicable date. Fractional entitlements will not be allotted but will be sold for the benefit of the holding company. China United will become a wholly-owned subsidiary of the holding company and the shareholders will become holding shareholders. As a result, all existing subsidiaries of China United will become indirect subsidiaries of the holding company. The principal activity of the holding company will be investment holding. The proportionate interests of the holding shareholders in the issued share capital of the holding company will be the same as the existing proportionate interests of the shareholders in the issued share capital of China United.

On the effective date, it is proposed that the issued share capital of China United will be reduced by cancelling and extinguishing all the Scheme Shares. The resultant entire credit of approximately HK\$61 million will be credited to the contributed surplus account of China United save that an amount of HK\$100,000 will be applied in paying up in full at par the 10,000,000 new Shares in China United to be allotted and issued fully-paid to the holding company on the effective date. It is also proposed that, upon the scheme becoming effective, save and except for the amount of HK\$100,000 in the issued share capital of China United divided into 10,000,000 new Shares issued to the holding company, all of the authorised but unissued share capital of China United (including the authorised but unissued share capital arising on the reduction in the share capital of China United as described above) will be cancelled such that the authorised share capital of China United will be HK\$100,000 divided into 10,000,000 Shares of HK\$0.01 each in the capital of China United. It is also proposed that the entire amount, which is expected to be approximately HK\$1,617 million, standing to the credit of the share premium account as at the effective date will be cancelled and transferred to the contributed surplus account of China United. It is expected that the contributed surplus account of China United immediately before the effective date would amount to approximately HK\$1,507 million, which is based on the contributed surplus account of China United of approximately HK\$1,233 million as at 31st December, 2001 and approximately HK\$274 million arising from the capital reorganisation of China United which took place in July 2002. Therefore, it is expected that the contributed surplus account of China United as at the effective date would amount to approximately HK\$3,185 million, which will be applied by China United in or towards writing off the audited accumulated deficit of China United of approximately HK\$2,686 million as at 31st December, 2001 as permitted by the laws of Bermuda and the bye-laws.

LETTER FROM THE BOARD

A special dividend of HK0.28 cents per Share (equivalent to HK7 cents per holding share) will be distributed as soon as possible after the effective date to those persons registered as shareholders of China United immediately before the Court approves the scheme. On the basis of 6,143,366,812 Shares that are in issue as at the latest practicable date and assuming there are no changes to the issued share capital of China United between the latest practicable date and the effective date, the total amount of special dividend distributable to shareholders would amount to approximately HK\$17 million.

Upon the scheme becoming effective, the listing of the Shares on the Stock Exchange will be withdrawn and, simultaneously, the holding shares will be listed on the Stock Exchange by way of introduction. The Shares are currently trading in board lots of 10,000 each. Upon the scheme becoming effective, the holding shares will be traded in board lots of 4,000 each.

Implementation of the scheme will not, of itself, alter the underlying assets, business, management or financial position of the Group, other than as a result of the payment of expenses relating to the scheme, which are estimated to be approximately HK\$4 million.

4. CONVERTIBLE NOTES

As at the latest practicable date, China United had obtained in principle agreement of the holders of its convertible notes to give up their rights under the existing convertible notes and to exchange for new convertible notes of an equal principal amount in the holding company. The holders of the existing convertible notes are corporate investors, namely: World Better Corporation, Attentive Investments Limited, Workshop Holdings Limited and Dollar Group Limited, which are all independent third parties.

All of the outstanding convertible notes are currently out-of-the-money with the current conversion price at HK\$0.0764 per Share (subject to adjustment), which is higher than the closing price of the Shares of HK\$0.063 as at the latest practicable date. China United and the holders of the existing convertible notes agreed in principle to a conversion price of (i) HK\$1.91 per holding share (subject to adjustment) for noteholders who exercise their conversion rights under the new convertible notes during the period from 5th July, 2002 to 4th July, 2003; and (ii) HK\$2.22 per holding share (subject to adjustment) if the conversion rights are exercised during the period from 5th July, 2003 to a date which is 14 days before (and excluding) the maturity date of the new convertible notes (which is on 4th July, 2004). The revised conversion prices are calculated on the basis that the holders of the existing convertible notes are being treated the same as the shareholders in that as one of the terms of the scheme, each shareholder will receive one holding share for every 25 Scheme Shares held by them as at the record time. Other than the name of the issuer, conversion prices and the timing of exercise of the convertible notes, it is not proposed that there will be other material changes made to the terms of the new convertible notes.

The convertible notes proposal is subject to, amongst other things, (i) the scheme of arrangement becoming effective; (ii) approval from initial shareholders of the holding company being obtained; and (iii) the listing committee of the Stock Exchange granting the listing of, and permission to deal in, the holding shares which may be issued upon the exercise of the conversion rights of the new convertible notes.

LETTER FROM THE BOARD

The directors are of the view that the proposed issue of the new convertible notes is in the interests of China United and the shareholders as a whole.

The attention of the shareholders is particularly drawn to the section headed “Convertible notes proposal” in the explanatory statement.

5. SHARE OPTION SCHEME

On 27th August, 2002, China United has obtained in principle consents from the holders of the outstanding share options to give up their rights thereunder. China United has not paid or committed to pay any compensation to the holders of these share options. As at the latest practicable date, there are no outstanding share options as the share options previously granted thereunder were cancelled in accordance with the terms of grant and the provisions of the executive share option scheme adopted on 15th December, 1995.

It is proposed under the share option scheme proposal that upon the scheme becoming effective, China United will cancel the existing share option scheme. The holding company has conditionally adopted the new share option scheme to allow the eligible persons of the holding group to subscribe for holding shares. No option has been granted under the existing share option scheme. The terms of the new share option scheme are in compliance with chapter 17 of the listing rules.

The share option scheme proposal is conditional, amongst other things, upon:

- (i) the scheme becoming unconditional and effective;
- (ii) the resolutions necessary to cancel the existing share option scheme and adopt the new share option scheme being duly passed;
- (iii) the listing committee of the Stock Exchange granting the listing of, and permission to deal in, the holding shares to be issued pursuant to the exercise of the options to be granted under the new share option scheme; and
- (iv) all other necessary consents or authorisations which may be required under any existing contractual arrangements or regulatory requirements being obtained.

The subscription rights under the new share option scheme will be exercisable during such period as specified by the holding company and in any event not later than ten years from the date of grant in accordance with the terms and conditions of the new share option scheme.

A summary of the principal terms and conditions of the new share option scheme including circumstances in which the exercise price may be adjusted, is set out in appendix VIII to this document.

The attention of the shareholders is particularly drawn to the section headed “Share option scheme proposal” in the explanatory statement in this document.

LETTER FROM THE BOARD

6. GENERAL MANDATES TO ISSUE AND PURCHASE HOLDING SHARES

On 20th November, 2002, Radford as the sole shareholder of the holding company passed ordinary resolutions, which are conditional upon the scheme becoming effective, authorising, *inter alia*, the directors of the holding company:

- (i) to allot and issue new holding shares up to a maximum of 20% of the aggregate nominal amount of the share capital of holding company that is in issue on the effective date;
- (ii) to purchase holding shares up to a maximum of 10% of the aggregate nominal amount of the share capital of holding company that is in issue on the effective date; and
- (iii) to allot and issue any further holding shares purchased pursuant to the share purchase mandate referred to in (ii) above.

A statement explaining the share purchase mandate is set out in appendix II to this document in accordance with the requirements of the listing rules in respect of purchase of shares by a company with its primary listing on the Stock Exchange.

7. WAIVER FROM THE SFC

The Executive has granted a waiver to China United from strict compliance with the requirements under rule 2.10 of the Takeovers Code on the basis that the economic interests of all shareholders will not be affected as a result of the scheme.

8. STOCK EXCHANGE LISTING AND DEALINGS

Application has been made to the listing committee of the Stock Exchange for the granting of listing of, and permission to deal in, the holding shares in issue and to be issued pursuant to the scheme and, or upon the exercise of the conversion rights of the new convertible notes and, or upon the exercise of subscription rights under the new share option scheme, in each case subject to the fulfilment of the conditions of the scheme, all other regulatory approvals having been obtained and all other conditions thereunder being fulfilled. Upon the scheme becoming effective, the holding shares will be listed on the Stock Exchange and the listing of the Shares will simultaneously be withdrawn. (Note: The holding shares to be issued under the new share option scheme shall not exceed 10% of the issued share capital of the holding company as at the date of commencement of dealing in the holding shares.)

The action necessary to make the scheme effective will not be taken unless the directors are satisfied that the scheme has been duly approved and it will become effective subject only to the listing committee of the Stock Exchange granting the listing of, and permission to deal in, the holding shares in issue and to be issued pursuant to the scheme and, or upon the exercise of the conversion rights of the new convertible notes and, or upon the exercise of subscription rights under the new share option scheme.

LETTER FROM THE BOARD

Subject to the granting of listing of, and permission to deal in, the holding shares in issue and to be issued pursuant to the scheme and, or upon the exercise of the conversion rights attaching to the new convertible notes and, or upon the exercise of subscription rights attaching to options that may be granted under the new share option scheme, as well as compliance with the stock admission requirements of HKSCC, the holding shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the holding shares on the Stock Exchange, or such other date as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made to enable the holding shares to be admitted into CCASS.

Dealings in the holding shares in issue and to be issued pursuant to the scheme and, or upon the exercise of the conversion rights of the new convertible notes and, or upon the exercise of subscription rights under the new share option scheme will be subject to the payment of stamp duty in Hong Kong.

Your attention is also drawn to the section headed “Trading arrangements for the holding shares” in the explanatory statement which contains, amongst other things, information on the arrangements for the exchange of existing certificates for the Shares for new certificates for holding shares.

9. RECOMMENDATION

Having taken into account the reasons for and benefits of the scheme, the board considers that the scheme is in the best interests of China United and the shareholders as a whole. Accordingly, the board recommends the shareholders to vote in favour of the resolutions to be proposed at the court meeting and the special general meeting to approve and implement the scheme and to approve the termination of the existing share option scheme.

10. ACTIONS TO BE TAKEN

Shareholders should pay attention to the section headed “Actions to be taken” in the explanatory statement in this document for the recommended actions to be taken in relation to the scheme.

11. ADDITIONAL INFORMATION

Your attention is also drawn to the further details of the scheme provided in the explanatory statement set out on pages 19 to 35 of this document.

By order of the board
China United Holdings Limited
Chuang Yueheng, Henry
Chairman

EXPLANATORY STATEMENT

(in compliance with Section 100 of the Companies Act)

REORGANISATION PROPOSAL INVOLVING A CHANGE OF DOMICILE OF CHINA UNITED HOLDINGS LIMITED BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 99 OF THE COMPANIES ACT 1981 OF BERMUDA, AND SHARE OPTION SCHEME AND CONVERTIBLE NOTES PROPOSALS

1. INTRODUCTION

It was announced on 27th August, 2002, 13th September, 2002 and 27th September, 2002 that the directors would place before the shareholders a proposal to reorganise the structure of the Group and in connection therewith the share option scheme proposal and the convertible notes proposal. Upon the scheme becoming effective, China United will become a wholly-owned subsidiary of the holding company, a new company incorporated in Hong Kong with limited liability. The proposed reorganisation will be effected by means of a scheme of arrangement under section 99 of the Companies Act.

The purpose of this document is to explain to you the effects of the scheme and the steps required to implement it. **Your attention is drawn, in particular, to the letter from the board in which the directors recommend you, as a shareholder, to vote in favour of the resolutions relating to the scheme to be proposed at the court meeting and the special general meeting.**

The table below shows the authorised and issued share capital of China United as at the latest practicable date and the authorised and issued share capital of the holding company as at the effective date (assuming there are no changes to the issued share capital of China United between the latest practicable date and the effective date).

As at the latest practicable date		As at the effective date	
<i>Authorised:</i>	\$	<i>Authorised:</i>	\$
200,000,000,000 Shares	2,000,000,000	20,000,000,000 holding shares	2,000,000,000
<i>Issued and credited as fully paid:</i>		<i>Issued and credited as fully paid:</i>	
6,143,366,812 Shares	61,433,668	245,734,672 holding shares	24,573,467

The Group, together with its associated companies, is principally engaged in property investment, investment holding, investment in high technology related businesses, investment in retailing business and listed securities and the provision of brokerage and financial services.

EXPLANATORY STATEMENT

In arriving at their recommendation to the shareholders that the scheme is in the best interests of China United and the shareholders as a whole and that the shareholders vote in favor of the scheme at the court meeting and the special general meeting, the board has given due consideration to the commercial and legal advantages and disadvantages of having the holding company of the Group incorporated in Hong Kong. The board believes that it is in the best interests of China United and the shareholders as a whole that the holding company of the Group be established in Hong Kong, being a common law jurisdiction familiar to international investors and also the principal place of operation of the Group. The board further believes the scheme would provide more confidence to investors and increase minority shareholders' protection as certain provisions of Hong Kong company law are generally more stringent as compared to Bermuda company law. Additionally, the compliance costs of the holding group would be reduced after the scheme becomes effective because when future transactions are entered into by the holding company, the holding group will no longer be obliged to bear legal costs related to compliance with Bermuda laws. At the same time, save and except for the amount of HK\$100,000 in the issued share capital of China United divided into 10,000,000 new Shares issued to the holding company, all of the authorised but unissued share capital of China United (including the authorised but unissued share capital resulting from the reduction in the share capital of China United) will be cancelled on the effective date such that the authorised share capital of China United will be HK\$100,000 divided into 10,000,000 Shares of HK\$0.01 each in the capital of China United. The board believes that China United will benefit from the reduction of annual government fees payable in Bermuda by an exempted company under the Companies Act as a result of the reduction in its authorised share capital.

Under the scheme, it is proposed that the following principal steps will occur on the effective date:

- (i) simultaneous with each other:
 - (a) 10,000,000 new Shares will be issued fully-paid to the holding company;
 - (b) the issued share capital of China United other than the 10,000,000 new Shares referred to in (i)(a) above will be reduced by cancelling and extinguishing the Scheme Shares;
- (ii) subject to and forthwith upon such reduction of capital taking effect, the entire credit of approximately HK\$61 million arising from the capital reduction will be credited to the contributed surplus account of China United save that an amount of HK\$100,000 will be applied in paying up in full at par the 10,000,000 new Shares to be allotted and issued fully-paid to the holding company;
- (iii) save and except for the amount of HK\$100,000 in the issued share capital of China United divided into 10,000,000 new Shares to be issued to the holding company in (i)(a) above, all of the authorised but unissued share capital of China United (including the authorised but unissued share capital resulting from the reduction in the share capital of China United as described above) will be cancelled such that the authorised share capital of China United will be HK\$100,000 divided into 10,000,000 Shares;

EXPLANATORY STATEMENT

- (iv) the entire expected amount of approximately HK\$1,617 million standing to the credit of the share premium account as at the effective date will be cancelled and transferred to the contributed surplus account of China United, which is expected to be approximately HK\$1,507 million immediately before the effective date, which together with the amount arising on the reduction of capital of China United amounting to approximately HK\$61 million, will then be applied by China United in or towards writing off against the audited accumulated deficit of China United of approximately HK\$2,686 million as at 31st December, 2001 as permitted by the laws of Bermuda and the bye-laws;
- (v) a special dividend of HK0.28 cents per Share (equivalent to HK7 cents per holding share) will be distributed as soon as possible after the effective date to those persons registered as shareholders of China United immediately before the Court approves the scheme; and
- (vi) in exchange for and in consideration of the cancellation of the Scheme Shares, holders of Scheme Shares will receive holding shares, credited as fully paid, on the following basis:

for every 25 Scheme Shares held as at the record time one holding share

(save for Radford which has consented to receiving one holding share for every 25 Scheme Shares held by it as at the record time less 20 holding shares).

Fractional entitlements to holding shares will not be allotted but will be aggregated and sold for the benefit of the holding company.

As a result of the implementation of the scheme, China United will become a wholly-owned subsidiary of the holding company and the shareholders will become holding shareholders. Each board lot for trading in the holding shares is proposed to be 4,000 holding shares as opposed to the existing board lot of 10,000 Shares each. The nominal value of each holding share is HK\$0.10 which is higher than that of each Share. The higher par value of the holding shares will not affect the attributable interest of each shareholder.

An amount equal to the difference between the consolidated shareholders' funds of China United (which is essentially the consolidated shareholders' funds of the holding company) as at the effective date and the aggregate nominal value of the holding shares to be allotted and issued under the scheme will be credited in the books of account of the holding company to a distributable reserve referred to under Hong Kong law as a merger reserve account.

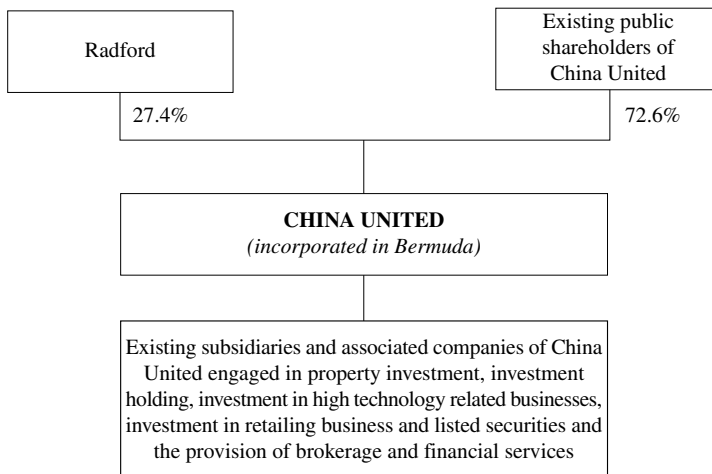
Upon the scheme becoming effective, the existing listing of the Shares on the Stock Exchange will be withdrawn and the holding shares will be listed on the Stock Exchange.

EXPLANATORY STATEMENT

2. GROUP STRUCTURE BEFORE AND AFTER THE SCHEME

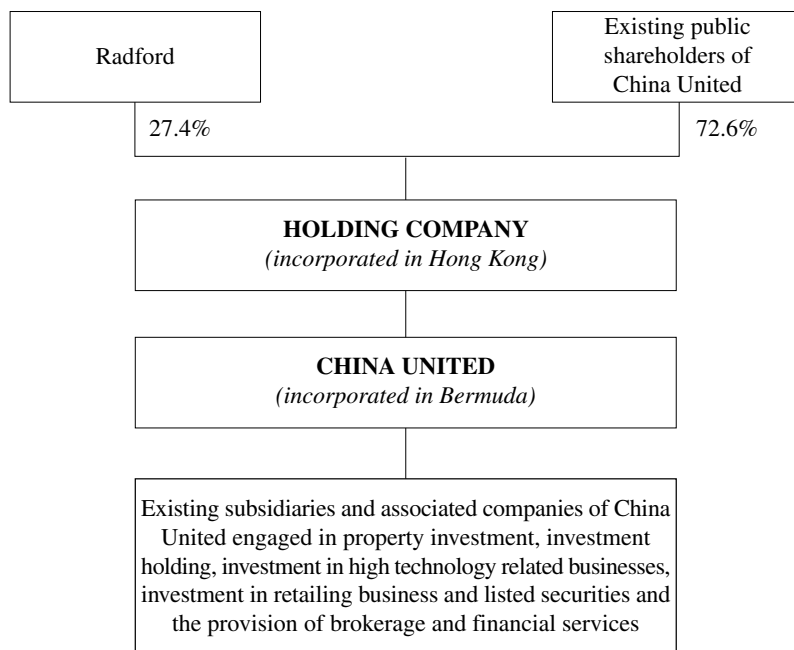
Existing Group structure

A simplified corporate structure of the Group is as follows immediately before the implementation of the scheme:



Proposed holding group structure after the scheme

As further explained in the section headed “Effects of the scheme” below, upon implementation of the scheme, China United will become a wholly-owned subsidiary of the holding company, and all the existing subsidiaries of China United will become indirect subsidiaries of the holding company. The interests of China United in its subsidiaries and associated companies will remain unaffected. A simplified corporate structure of the holding group after implementation of the scheme is as follows:



EXPLANATORY STATEMENT

3. CONDITIONS OF THE SCHEME

The scheme will become effective and binding on the shareholders provided that each of the following conditions is satisfied on or before 31st March, 2003 or such other date as China United and the holding company may agree and the Court may allow:

- (i) the scheme being approved by a majority in number of the holders of the Shares on the date of the court meeting representing three-fourths in value of the Shares in issue on the date of the court meeting, present and voting in person or by proxy at the court meeting;
- (ii) the special resolution necessary to approve and implement the scheme being passed at the special general meeting;
- (iii) compliance by China United with section 46(2) of the Companies Act in relation to the reduction of share capital and cancellation of the entire amount standing to the credit of the share premium account of China United on the effective date;
- (iv) the Court sanctioning the scheme, with or without modification, and an office copy of the order of the Court being delivered to the Registrar of Companies in Bermuda for registration;
- (v) the listing committee of the Stock Exchange granting the listing of, and permission to deal in, the holding shares; and
- (vi) all other consents or authorisations which may be required under any existing contractual arrangements, including loan and other finance documentation or regulatory requirements being obtained.

The action necessary to make the scheme effective will not be taken unless the directors are satisfied that the scheme has been duly approved and the scheme will become effective subject only to the listing committee of the Stock Exchange granting the listing of, and permission to deal in, the holding shares in issue and to be issued pursuant to the scheme and, or upon the exercise of the conversion rights under the new convertible notes and, or upon the exercise of subscription rights under the new share option scheme. (Note: The holding shares to be issued under the new share option scheme shall not exceed 10% of the issued share capital of the holding company as at the date of commencement of dealing in the holding shares.)

It is expected that the scheme will become effective on 3rd January, 2003, but if the scheme shall not have become effective by 31st March, 2003 or such other date as China United and the holding company may agree and the Court may allow, it will lapse. If this happens, the share option scheme proposal and the convertible notes proposal will also lapse.

The shareholders and the holders of the share options and existing convertible notes will be advised by a press announcement of the exact date upon which the scheme will become effective.

4. FUTURE OF THE GROUP

The Group intends to continue focusing on developing its core business of property investment and provision of brokerage and financial services. The Group will actively seek new opportunities in these areas. Particularly, the Group plans to expand its (a) investment advisory business focusing on providing advisory services to investment companies, institutional clients, high net worth individual clients in securities investment and securities portfolio management; and (b) corporate advisory business focusing on providing advisory services to corporate clients on general corporate finance activities. The directors believe that the property investment and financial services businesses offer a good prospect for the Group, and the expansion into these areas will increase the fee based income and enhance the Group's performance in the long term.

5. EFFECTS OF THE SCHEME

Business

The business and management of the Group will not be changed by reason only of the implementation of the scheme. The holding company will act as the new holding company of the Group which, together with its associated companies, will continue to carry on their present business activities which are property investment, investment holding, investment in high technology related businesses, investment in retailing business and listed securities and the provision of brokerage and financial services.

Ownership and voting control

Upon implementation of the scheme, ownership of the Group will remain as at present save that China United will become a wholly-owned subsidiary of the holding company, and the interests of the Group in its subsidiaries and associated companies will remain unaffected. All shareholders will become holding shareholders and, as mentioned above, will receive one holding share for every 25 Scheme Shares held as at the record time (save for Radford, which has consented to receiving one holding share for every 25 Scheme Shares held by it as at the record time less 20 holding shares). Upon implementation of the scheme, the substantial shareholder of China United as identified in appendix VI to this document will become substantial shareholder of the holding company.

Convertible notes

China United has obtained in principle agreement of the holders of the existing convertible notes to give up their rights under these notes and to exchange for new convertible notes of equal amount in the holding company. Other than the name of the issuer, conversion prices and the timing of exercise of the convertible notes, it is not proposed that there will be other material changes made to the terms of the new convertible notes. Accordingly, the holding company will issue new convertible notes of a total principal amount of HK\$63,840,000 to the holders of the existing convertible notes. The new convertible notes will bear interest at 7.5% per annum and can be converted into holding shares in the amounts 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 day on 4th July, 2004.

EXPLANATORY STATEMENT

All of the outstanding convertible notes are currently out-of-the-money with a current conversion price at HK\$0.0764 per Share (subject to adjustment), which is higher than the closing price of the Shares of HK\$0.063 as at the latest practicable date. China United and the holders of the existing convertible notes agreed in principle to a conversion price of (i) HK\$1.91 per holding share (subject to adjustment) for noteholders who exercise their conversion rights under the new convertible notes during the period from 5th July, 2002 to 4th July, 2003; and (ii) HK\$2.22 per holding share (subject to adjustment) if the conversion rights are exercised during the period from 5th July, 2003 to a date which is 14 days before (and excluding) the maturity date of the new convertible notes on 4th July, 2004. The revised conversion prices are calculated on the basis that the holders of the existing convertible notes are being treated the same as the shareholders in that as one of the terms of the scheme, each shareholder will receive one holding share for every 25 Scheme Shares held by the shareholders as at the record time. Assuming full conversion of the new convertible notes in the holding company, a total of 33,424,083 new holding shares will be issued, representing approximately 13.6% of the issued share capital of the holding company immediately after the scheme becomes effective, and approximately 12.0% of the issued share capital of the holding company as enlarged by the issuance of holding shares resulting from the exercise of the conversion rights under the new convertible notes. The holders of the existing convertible notes are corporate investors, namely: World Better Corporation, Attentive Investments Limited, Workshop Holdings Limited and Dollar Group Limited, which are incorporated in the British Virgin Islands and are all independent third parties.

Reserve

An amount equal to the difference between the consolidated net asset value of China United as at the effective date and the aggregate nominal value of all the shares to be allotted and issued by the holding company to holders of the Scheme Shares pursuant to the scheme will be credited to the merger reserve account of the holding company. The actual amount to be credited to the merger reserve account of the holding company will be determined with reference to the actual consolidated net asset value of China United as at the effective date and the actual number of holding shares to be allotted and issued by the holding company to holders of the Scheme Shares pursuant to the scheme. The entire expected amount of approximately HK\$1,617 million standing to the credit of the share premium account as at the effective date will be cancelled and transferred to the contributed surplus account of China United, which will then be applied by China United in or towards writing off the audited accumulated deficit of China United of approximately HK\$2,686 million as at 31st December, 2001 as permitted by the laws of Bermuda and the bye-laws.

Assets and liabilities and financial position

Implementation of the scheme will not, of itself, alter the underlying assets, liabilities, business, management or financial position of the Group, other than as a result of the payment of expenses incurred and to be incurred by the Group in relation to the scheme, which are estimated to be approximately HK\$4 million. The consolidated assets and liabilities of the holding company after the implementation of the scheme will be the same as those of China United prior to the implementation of the scheme, subject to the payment of expenses relating to the scheme. The shareholders' proportionate interests in the holding company will be the same

EXPLANATORY STATEMENT

as their proportionate interests in China United notwithstanding the higher par value of the holding shares. The audited consolidated income statements of the Group and a summary thereof for the year ended 31st March, 2000, the nine months ended 31st December, 2000 and the year ended 31st December, 2001 and the audited consolidated balance sheets of the Group as at 31st December, 2000 and 31st December, 2001 together with the consolidated cash flow statements, consolidated statements of recognised gains and losses and related notes for the nine months ended 31st December, 2000 and the financial year ended 31st December, 2001 extracted from the annual reports of the Group for the year ended 31st December, 2001 and the nine months ended 31st December, 2000, are set out in appendix III to this document.

Each financial year of the holding company will, as for China United, end on 31st December.

Directors and employees

Except Mr. Sun Lup Chung, the present directors will also be the directors of the holding company. There are no agreements or arrangements under which the emoluments or terms of service of any of the directors will be varied as a result of the implementation of the scheme, nor will the terms of service of any employees of the Group be varied as a result of the implementation of the scheme. The material interests of the directors, whether as directors or as shareholders or as creditors of China United or otherwise, and the effect thereon of the scheme are set out in the section headed “Disclosure of interests by directors” in appendix VI to this document.

Dividends

Subject to the scheme becoming effective and upon the writing off of the accumulated deficit of China United of approximately HK\$2,686 million as at 31st December, 2001, the remaining amount in the contributed surplus account can be distributed as a dividend. A special dividend of HK0.28 cents per Share (equivalent to HK7 cents per holding share) will be distributed to those persons registered as shareholders immediately before the Court sanctions the proposed scheme. The special dividend will be distributed as soon as possible after the effective date. Dividends on the holding shares will be free of any withholding tax, under current Hong Kong legislation.

Other instructions

Upon the scheme becoming effective, save and except for the general mandates to issue, allot and purchase shares, all mandates or other instructions to China United in force at the record time relating to the Shares will, unless and until revoked, be deemed to be valid and effective mandates or instructions to the holding company in relation to the corresponding holding shares.

6. CONVERTIBLE NOTES PROPOSAL

As at the latest practicable date, there were outstanding existing convertible notes of a total principal amount of HK\$63,840,000, pursuant to which a total of four noteholders have the right to convert all or part of the principal amount of the outstanding existing convertible notes into Shares at any time from 5th July, 2001 up to 14 days before (and excluding) the maturity date on 4th July, 2004 and bear interest at 7.5% per annum. As at the latest practicable date, based on the current conversion price of HK\$0.0764 per Share, the existing convertible notes can be converted into a total of 835,602,094 Shares, representing approximately 13.6% and approximately 12.0% of the existing and enlarged issued share capital of China United, respectively. China United may redeem in whole or in part the existing convertible notes in denominations of HK\$168,000 at 105% of the outstanding principal amount of the existing convertible notes until a date 14 days prior to (and excluding) the maturity date together with all accrued interest therein.

The four holders of the existing convertible notes are corporate investors, namely: World Better Corporation, Attentive Investments Limited, Workshop Holdings Limited and Dollar Group Limited, which are incorporated in the British Virgin Islands and are all independent third parties.

China United has obtained in principle agreement of the holders of the existing convertible notes to give up their rights under these notes and to exchange for new convertible notes of equal amount in the holding company. It is not proposed that there will be other changes made to the terms of the new convertible notes other than the name of issuer, conversion prices and the timing of exercise of the convertible notes. Accordingly, the holding company will issue new convertible notes of a total principal amount of HK\$63,840,000 to the holders of the existing convertible notes. The new convertible notes will bear interest at 7.5% per annum and can be converted into holding shares in the amounts 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 day on 4th July, 2004.

All of the outstanding convertible notes are currently out-of-the-money with a current conversion price at HK\$0.0764 per Share (subject to adjustment), which is higher than the closing price of the Shares of HK\$0.063 as at the latest practicable date. China United and the holders of the existing convertible notes agreed in principle to a conversion price of (i) HK\$1.91 per holding share (subject to adjustment) for noteholders who exercise their conversion rights under the new convertible notes during the period from 5th July, 2002 to 4th July, 2003; and (ii) HK\$2.22 per holding share (subject to adjustment) if the conversion rights are exercised during the period from 5th July, 2003 to a date which is 14 days before (and excluding) the maturity date of the new convertible notes (which is on 4th July, 2004). Assuming full conversion of the new convertible notes in the holding company, a total of 33,424,083 new holding shares will be issued, representing approximately 13.6% of the issued share capital of the holding company immediately after the scheme has become effective, and approximately 12.0% of the issued share capital of the holding company as enlarged by the issuance of holding shares resulting from the conversion of the new convertible notes.

EXPLANATORY STATEMENT

The convertible notes proposal is subject to, amongst other things, (i) the scheme becoming effective; (ii) approval from initial shareholders of the holding company being obtained; and (iii) the listing committee of the Stock Exchange granting the listing of, and permission to deal in, the holding shares which may be issued upon the exercise of the conversion rights under the new convertible notes.

The directors of China United are of the view that the convertible notes proposal is in the interests of China United and the shareholders as a whole.

7. SHARE OPTION SCHEME PROPOSAL

Under the executive share option scheme adopted by China United on 15th December, 1995, 2,101,179,200 share options were granted of which (i) 2,061,559,200 share options had been exercised; (ii) 31,220,000 share options had lapsed in accordance with the terms of grant and the provisions thereunder; and (iii) 8,400,000 share options remained unexercised and were cancelled on 27th August, 2002. The number and exercise prices of the outstanding share options were subsequently adjusted as announced by China United on 7th August, 2002 after the capital reorganisation and rights issue of the Group.

Cancellation of existing share option scheme and adoption of a new share option scheme

On 27th August, 2002, China United has obtained in principle consents from the holders of the outstanding share options to give up their rights thereunder. China United has not paid or committed to pay any compensation to the holders of these share options.

It is proposed under the share option scheme proposal that upon the scheme becoming effective, China United will cancel its existing share option scheme. The holding company has conditionally adopted the new share option scheme to allow eligible persons of the holding group selected by the board to subscribe for holding shares. The terms of the new share option scheme are in compliance with Chapter 17 of the listing rules.

Conditions of the share option scheme proposal

The share option scheme proposal is conditional, amongst other things, upon:

- (i) the scheme becoming unconditional and effective;
- (ii) the resolutions necessary to cancel the existing share option scheme and adopt the new share option scheme being duly passed;
- (iii) the listing committee of Stock Exchange granting the listing of, and permission to deal in, the holding shares to be issued pursuant to the exercise of the share options to be granted under the new share option scheme; and
- (iv) all other necessary consents or authorisations which may be required under any existing contractual arrangements or regulatory requirements being obtained.

EXPLANATORY STATEMENT

Exercise of the subscription rights under the new share option scheme

The subscription rights under the new share option scheme conditionally adopted by the holding company will be exercisable during such period as specified by the holding company and in any event not later than ten years from the date of grant in accordance with the terms and conditions of the new share option scheme.

General

A summary of the principal terms and conditions of the new share option scheme including circumstances in which the exercise price may be adjusted, is set out in appendix VIII to this document.

8. GENERAL MANDATES TO ISSUE AND PURCHASE HOLDING SHARES

On 20th November, 2002, Radford as the sole shareholder of the holding company passed ordinary resolutions, which are conditional upon the scheme becoming effective, authorising, *inter alia*, directors of the holding company:

- (i) to allot and issue new holding shares up to a maximum of 20% of the aggregate nominal amount of the share capital of holding company that is in issue on the effective date;
- (ii) to purchase holding shares up to a maximum of 10% of the aggregate nominal amount of the share capital of holding company that is in issue on the effective date; and
- (iii) to allot and issue any further holding shares purchased pursuant to the share purchase mandate referred to in (ii) above.

Please refer to appendix II to this document for further details of the above mandates.

9. MEMORANDUM OF ASSOCIATION AND ARTICLES OF ASSOCIATION

The objects of the holding company, as contained in its memorandum of association, encompass those contained in the memorandum of association of China United appropriate for a holding and investment company, with certain limitations arising from Hong Kong law.

The holding company has adopted the articles of association replacing the original articles of association initially adopted by the holding company when it was first incorporated.

The memorandum of association may be amended by a special resolution of holding shareholders in general meeting. A special resolution is required to alter the memorandum of association or the articles of association. For this purpose, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by holding shareholders, being entitled to do so, voting in person or, in the case of such holding shareholders who are corporations, by their respective duly authorised representatives or, where permitted, by proxy or attorney at a general meeting of which not less than 21 clear days' notice specifying the intention to propose the resolution

EXPLANATORY STATEMENT

as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of 21 days' notice may be waived by a majority in number of holding shareholders having the right to attend and vote at the relevant meeting, being a majority holding not less than 95% in nominal value of the holding shares giving that right.

Copies of the memorandum of association and the articles of association and a summary of certain provisions of the articles of association will be available for inspection as referred to in appendix VI to this document.

10. LEGAL CONSIDERATIONS

The attention of the shareholders is also drawn to appendix V of this document which summarises differences between certain provisions of Hong Kong and Bermuda company law.

11. WAIVER FROM THE EXECUTIVE

The Executive has granted a waiver to China United from strict compliance with the requirements under rule 2.10 of the Takeovers Code on the basis that the economic interests of all shareholders will not be affected as a result of the scheme.

12. STOCK EXCHANGE LISTING AND DEALINGS

Application has been made to the listing committee of the Stock Exchange for the granting of listing of, and permission to deal in, the holding shares in issue and to be issued pursuant to the scheme and, or upon the exercise of the conversion rights under the new convertible notes and, or upon the exercise of the subscription rights under the new share option scheme, in each case subject to the fulfilment of the conditions of the scheme, all other regulatory approvals having been obtained and any other conditions thereunder being fulfilled. Upon the scheme becoming effective, the holding shares will be listed on the Stock Exchange and the listing of the Shares will simultaneously be withdrawn.

The action necessary to make the scheme effective will not be taken unless the directors are satisfied that the scheme has been duly approved and will become effective subject only to the listing committee of the Stock Exchange granting the listing of, and permission to deal in, the holding shares in issue and to be issued pursuant to the scheme and, or upon the exercise of the conversion rights under the new convertible notes and, or upon the exercise of the subscription rights under the new share option scheme. (Note: The holding shares to be issued under the new share option scheme shall not exceed 10% of the issued share capital of the holding company as at the date of commencement of dealings in the holding shares.)

Subject to the granting of listing of, and permission to deal in, the holding shares in issue and to be issued pursuant to the scheme and, or upon the exercise of the conversion rights under the new convertible notes and, or upon the exercise of the subscription rights under the new share option scheme, as well as compliance with the stock admission requirements of HKSCC, the holding shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the holding shares on the Stock Exchange, or such

EXPLANATORY STATEMENT

other date as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made to enable the holding shares to be admitted into CCASS.

Dealings in the holding shares in issue and to be issued pursuant to the scheme, and, or upon the exercise of the conversion rights under the new convertible notes and, or upon the exercise of the subscription rights under the new share option scheme will be subject to the payment of stamp duty in Hong Kong.

13. TRADING ARRANGEMENTS FOR THE HOLDING SHARES

Dealings arrangements

Under the scheme, all certificates for any number of Scheme Shares in issue immediately before the effective date will be deemed to be certificates, and will be effective as documents of title, for one-twenty-fifth of that number of the holding shares to be allotted and issued or transferred, under the scheme on the basis of one holding share for every 25 Scheme Shares. On the assumption that the effective date of the scheme will be 3rd January, 2003, parallel trading arrangements have been established with the Stock Exchange as follows:

- a. From 3rd January, 2003, the existing counter for trading in the Shares in board lots of 10,000 Shares each will be removed and a temporary counter for trading in the holding shares in board lots of 400 holding shares each (in the form of existing share certificates) will be set up. Accordingly, 25 Scheme Shares will be deemed to represent one holding share. Existing certificates for the Shares may only be traded at the temporary counter.
- b. With effect from 17th January, 2003, a new counter for trading in the holding shares in board lots of 4,000 holding shares each will be opened. Only new share certificates issued by the holding company can be traded at this new counter.
- c. During 17th January, 2003 to 10th February, 2003 (both days inclusive), there will be parallel trading for the holding shares at the respective counters mentioned in a. and b. above.
- d. After the close of trading on 10th February, 2003, the temporary counter for trading in the holding shares in board lots of 400 holding shares each (represented by existing certificates for the Shares) will be removed. Thereafter, trading in the holding shares will only be in board lots of 4,000 each and certificates for Shares issued by China United will cease to be accepted for trading purposes.

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Dealings in the holding shares (as represented by existing share certificates) on the temporary counter will cease after the close of trading on 10th February, 2003. Existing share certificates will only be valid for delivery and settlement in respect of dealings for the period up to 10th February, 2003 and thereafter will not be accepted for settlement purposes. However, the existing share certificates will continue to be good evidence of legal title to the holding shares on the basis of 25 Scheme Shares for one holding share and may be exchanged for new share certificates for holding shares at any time. Shareholders shall be entitled to tender their certificates for the Shares in exchange for certificates for the holding shares in board lots of 4,000 holding shares each so that their holding in the holding shares may be accurately represented by the new share certificates.

Free exchange of share certificates

On and after the effective date, share certificates issued following registration of transfer will be issued by the holding company in respect of the holding shares. During the period from the effective date to 3rd March, 2003 (both days inclusive), the shareholders may submit Share certificates issued by China United to the office of the registrar of the holding company in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Hong Kong, for exchange, at the expense of the holding company, for share certificates issued by the holding company in respect of the appropriate number of holding shares to be allotted and issued under the scheme. New certificates will be available for collection within ten business days from the date of submission. After 3rd March, 2003, (i) certificates for the Shares will be accepted for exchange for certificates for the holding shares only on payment of a fee of HK\$2.50 (or such higher amount as may be permitted by the listing rules from time to time) for each new share certificate to be issued or for each Share certificate issued by China United so submitted for exchange, whichever number of certificates is higher; and (ii) arrangements will be made for the shareholders to receive share certificates issued by the holding company pursuant to the scheme within ten business days of the submission of the existing Share certificates issued by China United.

No temporary documents of title will be issued.

Certificates in respect of the holding shares will, as far as possible, be issued in board lots of 4,000 holding shares each, as opposed to the existing board lots size of 10,000 Shares.

It should be noted that under the scheme, those shareholders who lodge instruments of transfer and share certificates issued by China United on or after the effective date will be entitled to receive share certificates issued by the holding company.

The existing certificates for the Shares are green in colour. In order to distinguish between the existing and new certificates, certificates for the holding shares will be blue in colour.

Shareholders are recommended to consult their professional advisers if they are in any doubt as to the above procedures.

14. ODD LOT ARRANGEMENTS

China United has appointed Chung Nam Securities Limited to stand in the market to provide matching services for odd lots of the holding shares on a “best effort” basis during the period from 3rd January, 2003 to 10th February, 2003 (both days inclusive). Shareholders who wish to take advantage of this matching facility either to dispose of their odd lots of Shares or to top up board lots to 4,000 holding shares each may contact Mr. Chan Kwok On of Chung Nam Securities Limited at 31st Floor, China United Centre, 28 Marble Road, North Point, Hong Kong at telephone number (852) 3198 0888. Share certificates will be issued in board lots of 4,000 each on or after 17th January, 2003.

15. REGISTRATION PROCEDURES

Subject to the provisions of the Companies Ordinance, the register of members of the holding company will be maintained in Hong Kong by Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Center, 183 Queen’s Road East, Hong Kong. All transfers and other documents of title to the holding shares must be lodged for registration with, and registered by, the holding company’s share registrar in Hong Kong.

A valid instrument of transfer relating to a transfer of the Shares executed before the effective date but not registered in the register of members of China United before that date shall be deemed as of that date to be a valid instrument of transfer in respect of the appropriate number of the holding shares, as the case may be, on or after the effective date.

Shareholders are recommended to consult their professional advisers if they are in any doubt as to the above procedures.

16. TAXATION, STAMP DUTY AND EXCHANGE CONTROL

The holding company

(i) Taxation

All the holding shares will or have been registered on the register of members of the holding company which is in Hong Kong. Under current legislation, implementation of the scheme is not expected, of itself, to result in the holding company or the Group incurring a greater tax liability than would have been incurred had the scheme not been implemented. It is emphasised that the taxation implications of the scheme are a matter for the shareholders themselves and not for China United, the holding company, their respective directors or any other parties involved in the scheme, none of whom accepts any responsibility for any taxation effect on or liabilities of shareholders arising from the implementation of the scheme.

EXPLANATORY STATEMENT

(ii) *General*

Shareholders, whether in Hong Kong or in other jurisdictions, are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of the scheme and, in particular, whether the receipt of the holding shares would make such shareholders, as the case may be, liable to taxation in Hong Kong or in other jurisdictions. It is emphasised that none of China United, the holding company, their respective directors or any other parties involved in the scheme accepts any responsibility for any taxation effect on or liabilities of the shareholders in connection with the scheme in Hong Kong or any other jurisdiction.

(iii) *Exchange control*

There are no exchange control regulations or currency restrictions in Hong Kong.

Shareholders

(i) *Taxation*

The directors have been advised that, under the current legislation, implementation of the scheme is not expected, of itself, to have any adverse Hong Kong tax consequences, except that those persons who are classified for tax purposes as dealers in securities may be subject to profits tax in respect of any deemed profits which may arise from the substitution of the holding shares for the Scheme Shares pursuant to or in connection with the scheme.

(ii) *Stamp duty*

Dealings in holding shares in issue or to be issued pursuant to the scheme and, or upon the exercise of the conversion rights of the new convertible notes and, or upon the exercise of the subscription rights under the new share option scheme will be subject to the payment of stamp duty in Hong Kong.

17. MEETINGS

In accordance with the direction of the Court, the court meeting will be convened for the purpose of considering and, if thought fit, approving the scheme.

The special general meeting will be convened to be held immediately following the court meeting for the purpose of considering and, if thought fit, passing resolutions to approve and implement the scheme and to approve the termination of the existing share option scheme.

The court meeting and the special general meeting will be held at Function Room 9, Ground Floor, City Garden Hotel, 9 City Garden Road, North Point, Hong Kong on 20th December, 2002 at 9:00 a.m. and at 9:30 a.m. (or as soon as the court meeting shall have concluded or been adjourned) respectively. Notices of the court meeting and the special general meeting are set out on pages 197 to 201 of this document.

EXPLANATORY STATEMENT

18. RECOMMENDATIONS

Having taken into account the reasons for the scheme as set out in this explanatory statement, the board considers that the scheme is in the best interests of China United and the shareholders as a whole and unanimously recommends the shareholders to vote in favour of the resolutions to be proposed at the court meeting and the special general meeting to approve and implement the scheme and to approve the termination of the existing share option scheme.

19. ACTIONS TO BE TAKEN

Different forms of proxy for use at the court meeting and the special general meeting are enclosed. The pink form of proxy is for use at the court meeting and the white form of proxy is for use at the special general meeting.

Shareholders are requested to complete and return the pink and white forms of proxy in accordance with the instructions printed thereon respectively, whether or not they propose to attend the relevant meetings in person. It is requested that forms of proxy be returned as soon as possible to China United at 32nd Floor, China United Centre, 28 Marble Road, North Point, Hong Kong not less than 48 hours before the respective times appointed for the meetings. The pink form of proxy for the court meeting may alternatively be handed to the chairman of the court meeting at that meeting and, if accepted by the chairman, may be used to vote at the court meeting. The lodging of forms of proxy will not prevent a shareholder from attending and voting in person at the relevant meetings if he so desires. In that event, his form of proxy for that meeting will be deemed to have been revoked.

20. ADDITIONAL INFORMATION

Your attention is drawn to the appendices to this document which form part of this explanatory statement.

1. PRINCIPAL ACTIVITIES

The Group, together with its associated companies, is principally engaged in property investment, investment holding, investment in high technology related businesses, investment in retailing business and listed securities and the provision of brokerage and financial services.

2. SHARE CAPITAL

(a) Authorised and issued capital

- (i) As at the latest practicable date, the authorised and issued share capital of China United were as follows:

<i>Authorised:</i>	<i>HK\$</i>
<u>200,000,000,000</u> Shares	<u>2,000,000,000</u>
<i>Issued and fully paid:</i>	
<u>6,143,366,812</u> Shares	<u>61,433,668</u>

All the Shares presently in issue are fully paid or credited as fully paid and rank pari passu in all respects with each other, including as to dividends, voting rights and return of capital or other distributions that may be declared, paid or made.

- (ii) The following changes in the capital of the members of the Group have taken place within the two years preceding the latest practicable date:

- (A) During the year ended 31st December, 2001, China United made the following share placements to private and institutional investors at the following subscription prices for Shares.

Date of allotment	Number of Shares allotted	Subscription price per Share <i>HK\$</i>	Total proceeds <i>HK\$'000</i>
2nd January, 2001	1,994,000,000	0.017	33,898
21st February, 2001	2,393,500,000	0.014	33,509
28th May, 2001	2,960,000,000	0.010	29,600
10th August, 2001	3,610,000,000	0.010	36,100
21st September, 2001	<u>4,654,000,000</u>	0.010	<u>46,540</u>
	<u>15,611,500,000</u>		<u>179,647</u>

The net proceeds from placement of shares have been used as working capital of the Group, utilised to repay its borrowings and to partly finance subscription for the new shares issued by Hennabun Management Inc., a non wholly-owned subsidiary.

- (B) During the year ended 31st December, 2001, 1,163,000,000 share options were granted with the exercise price of the share options ranging from HK\$0.01 to HK\$0.01104 per share and such options had been fully exercised. As at the latest practicable date, all outstanding share options were cancelled.
- (C) Pursuant to a special resolution passed on 10th July, 2002, China United adjusted the nominal value of all the issued Shares by reducing the nominal value of all of the issued Shares from HK\$0.01 each to HK\$0.0002 each by cancelling HK\$0.0098 of the paid up capital of each issued Share by way of a reduction of share capital amounting to approximately HK\$274 million. The amount resulting from the capital reduction has been credited to the contributed surplus account of China United. The issued share capital after the capital reduction decreased from approximately HK\$279 million to HK\$6 million.
- (D) Pursuant to the same special resolution, every fifty issued shares of HK\$0.0002 each of China United resulting from the capital reduction were consolidated into one Share. After the capital reduction and share consolidation, China United's number of issued Shares decreased from 27,924,394,622 to 558,487,892.
- (E) On 7th August, 2002, China United issued 5,584,878,920 rights shares of HK\$0.01 each at a subscription price of HK\$0.02 per rights share in the proportion of ten rights shares for every one Share then held by qualifying shareholders. The details of the rights issue are set out in China United's prospectus dated 19th July, 2002 despatched to the shareholders. All new Shares issued as a result of the rights issue rank pari passu with the then existing Shares in all respects. After the rights issue, China United's number of issued Shares increased from 558,487,892 Shares of HK\$0.01 each to 6,143,366,812 Shares of HK\$0.01 each. The proceeds from the rights issue before related expenses amounted to approximately HK\$112 million and will be fully used to settle part of the subscription monies payable for the subscription of shares in Hennabun Management Inc., a non wholly-owned subsidiary of China United, under the subscription agreement dated 16th May, 2002 between China United and Hennabun Management Inc..
- (F) As a result of the aforementioned capital reduction, share consolidation and rights issue, the conversion prices or exercise prices and/or the number of Shares to be issued upon the exercise of the outstanding existing convertible notes and share options have been adjusted in accordance with the respective terms of the instrument constituting the existing convertible notes and the share options.

- (G) The Group has subscribed for 100 million shares in a non wholly-owned subsidiary, Hennabun Management Inc. pursuant to a subscription agreement entered into between China United and Hennabun Management Inc. dated 16th May, 2002 at a consideration of HK\$130 million. This resulted in the increase in the Group's interest in Hennabun Management Inc. from approximately 81.1% to approximately 93.0%.
- (H) On 27th August, 2002, China United obtained consents from the holders of outstanding share options to give up their rights thereunder.
- (I) The acquisition by Hennabun Management Inc. of interests in Trade Sea Assets Limited, an indirect non wholly-owned subsidiary of China United, principally engaged in the operations of restaurants and a sales agency for motor vehicles at a total consideration of HK\$30 million was completed in August 2002.

Save as disclosed above, no alterations in the issued capital of any member of the Group have taken place within the two years preceding the latest practicable date.

(b) Outstanding options

As at the latest practicable date, there are no outstanding share options granted by China United to any persons.

(c) Existing convertible notes

As at the latest practicable date, there were outstanding existing convertible notes of a total principal amount of HK\$63,840,000 pursuant to which a total of four noteholders have the right to convert all or part of the principal amount of the outstanding existing convertible notes into 835,602,094 Shares based on the current conversion price of HK\$0.0764 each (subject to adjustment). The outstanding principal amount of the existing convertible notes may be convertible into Shares in amounts or integral multiples of HK\$168,000 at any time from the date of issue of the convertible notes on 5th July, 2001 up to 14 days before (and excluding) the maturity date on 4th July, 2004. The existing convertible notes may not be transferred to persons who are connected persons of China United (as the term "connected person" is defined in the listing rules) without the prior written consent of China United.

On 20th November, 2002, World Better Corporation, Attentive Investments Limited, Workshop Holdings Limited, Dollar Group Limited (the "Noteholders"), China United and the holding company entered into a deed whereby the Noteholders agreed, in principle, to waive all their rights and claims under the existing convertible notes, subject to the terms set out therein.

Save as disclosed above, within the two years immediately preceding the latest practicable date, no share or loan capital of China United or any of its subsidiaries was issued or is proposed to be issued for cash or otherwise and no commissions, discounts or other special term has been granted by China United in connection with the issue or sale of any such capital. None of the issued share or loan capital of China United is under option or agreed conditionally or unconditionally to be put under option.

(d) **Listing**

All the existing Shares in issue are listed on the Stock Exchange.

Save as disclosed herein, no part of the securities of China United is listed or dealt in, nor is any listing of, or permission to deal in, the securities of China United being or proposed to be sought on, any other stock exchange.

3. STATEMENT OF INDEBTEDNESS

At the close of business on 31st August, 2002, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this document, the total indebtedness of the Group amounted to approximately HK\$663 million. The Group had outstanding bank borrowings of approximately HK\$410 million, comprising unsecured bank borrowings of approximately HK\$19 million and secured bank borrowings of approximately HK\$391 million which were secured by the Group's properties, investment securities and bank deposits with an aggregate net book value of approximately HK\$556 million, personal guarantees of a director of a non wholly-owned subsidiary and securities of the Group's securities margin clients. The bank borrowings mainly comprised mortgage loans.

As at 31st August, 2002, the Group also had obligations under finance leases of approximately HK\$0.2 million, outstanding existing convertible notes with an aggregate principal amount of approximately HK\$64 million and other borrowings of approximately HK\$189 million, comprising unsecured loans of approximately HK\$121 million and secured loans of approximately HK\$68 million which were secured by the Group's properties and interests in two associated companies with an aggregate net book value of approximately HK\$23 million.

The Group also had given a guarantee to a noteholder to the extent of HK\$53 million in respect of a convertible note of HK\$53 million issued by Cupac Technology Limited, a former subsidiary of China United, to the noteholder. The principal amount of the convertible note outstanding as at 31st August, 2002 amounted to HK\$10 million. Furthermore, the Group had executed a guarantee for the due observance and performance of that former subsidiary's obligations under a shareholders' agreement entered into among the Company, the former subsidiary and other third parties.

Save as aforesaid and apart from intra-group liabilities, the Group did not have outstanding at the close of business on 31st August, 2002 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

Foreign currency amounts have been translated into Hong Kong dollars at the approximate exchange rates prevailing at the close of business on 31st August, 2002.

4. LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 30th June, 2002, the Group had unaudited net current assets of approximately HK\$282 million. Unaudited current assets comprised cash and bank balances of approximately HK\$26 million, trade and other receivables of approximately HK\$199 million, short-term loans receivable of approximately HK\$292 million, investments in trading securities of approximately HK\$171 million and pledged bank deposits of approximately HK\$15 million. Unaudited current liabilities comprised trade and other payables of approximately HK\$46 million, bank and other borrowings of approximately HK\$366 million, obligations under finance leases of approximately HK\$0.1 million, amounts due to minority shareholders of subsidiaries of approximately HK\$8 million and provision for taxation of approximately HK\$1 million.

Borrowings and banking facilities

The Group generally finances its operations with internally generated resources and credit facilities provided by its bankers and other lenders in Hong Kong.

Save as disclosed in the paragraph above headed “Statement of indebtedness”, as at 31st August, 2002 the Group did not have any outstanding borrowings, loans, finance leases or hire purchase payables.

Commitments and contingent liabilities

As at 31st August, 2002, China United had given a guarantee to the noteholder to the extent of HK\$53 million in respect of a convertible note of HK\$53 million issued by Cupac Technology Limited, a former subsidiary of China United, to the noteholder. As at 31st August, 2002, the outstanding amount of the convertible note was HK\$10 million. China United has also executed a guarantee for the due observance and performance of the former subsidiary’s obligations under a shareholders’ agreement entered into among China United, the former subsidiary and other third parties.

Save as disclosed above and in the section headed “Litigation” in appendix VI to this document, the directors confirm that the Group does not have any other material commitments or any material contingent liabilities as at 31st August, 2002.

5. WORKING CAPITAL

As at the latest practicable date, the directors are of the opinion that, taking into account the available credit facilities and internal resources of the Group, the Group has sufficient working capital to satisfy its present requirements.

6. MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2001, the aggregate amount of purchases and sales attributable to the Group's five largest suppliers and customers respectively represented less than 30% of the Group's total purchases and turnover.

7. EMPLOYEE

As at the latest practicable date, the Group had approximately 100 employees. The Group remunerates its employees based on their performance, working experience and prevailing market standards and reviews their remuneration annually. Staff benefits include medical insurance coverage, a provident fund and a share option scheme.

8. BUSINESS TREND AND PROSPECTS

Since 31st December, 2001, being the date to which the latest published audited financial statements of China United were made up, the economy in Hong Kong continues to be adversely affected by the global economic downturn especially in the United States of America. However, China United is optimistic that with the previously unseen level of low interest prevailing, the growing positive impact in the context of China's accession to the World Trade Organisation and its improved financial strengths, the Group is well-positioned to benefit from an anticipated economic upturn. The Group proposes to redomicile back to Hong Kong to be ready to take advantage of any opportunities in the years ahead, details of which are set out in China United's announcements of 27th August, 2002, 13th September, 2002 and 27th September, 2002. In view of the Group's expertise in the financial services industry and its strong financial position, the board remains cautiously optimistic about the medium term prospects for the Group and intends to continue to focus on the expansion of its property investment and provision of financial services activities.

9. MATERIAL ADVERSE CHANGES

The directors are not aware of any material adverse changes in the financial or trading position of the Group since 31st December, 2001, being the date to which the latest published audited financial statements of China United were made up.

1. INTRODUCTION

The holding company was incorporated in Hong Kong on 16th August, 2002 as a limited liability company under the Companies Ordinance. It has not carried on any business since the date of incorporation. Upon the implementation of the scheme, the holding company will act as the holding company of the Group, which will continue to carry on its present business activities.

2. DIRECTORS

The directors of the holding company are as follows:

Name	Address	Nationality
<i>Executive directors</i>		
Mr. Chuang Yueheng, Henry	17 Stafford Road Kowloon Hong Kong	American
Mr. Chung Wilson	9/F., Wah Fung Mansion No. 27 Tai Hang Road Wanchai Hong Kong	Chinese
Mr. Lo Kan Sun	Flat B, 12th Floor Tower 6 Pacific Palisades 1 Braemar Hill Road Hong Kong	Canadian
Mr. Wong Ying Seung, Asiong	Flat D, 24th Floor Tower I, Kornville 38 Yau Man Street Quarry Bay Hong Kong	Chinese
Mr. Wong Siu Bun	3rd Floor D-1 Villa Monte Rosa 41A Stubbs Road Hong Kong	Chinese

Name	Address	Nationality
<i>Independent non-executive directors</i>		
Mr. Lam Ping Cheung	Flat A, 1st Floor 96 Yeung UK Tsuen Shap Pat Heung Yuen Long New Territories Hong Kong	Chinese
Mr. Ong Peter	A-B, 14th Floor Golden Mansion 83-85 Chatham Road Tsim Sha Tsui Kowloon Hong Kong	American

Brief biographical details*Executive directors*

Mr. Chuang Yueheng, Henry, aged 47, is the chairman of the Group and holds master's degrees in science and business administration from the University of Southern California, the United States of America. Prior to joining the Group in April 1998, he has over 9 years' experience in corporate finance and development. Mr. Chuang is the chairman of the holding group.

Mr. Chung Wilson, aged 50, is the managing director of the Group and 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. Mr. Chung joined the Group in September 1999 and has over 20 years' experience in corporate finance and banking. Mr. Chung is the managing director of the holding group.

Mr. Lo Kan Sun, aged 48, holds a master's degree in business administration from Indiana University, the United States of America. Mr. Lo joined the Group in October 1999 and has over 22 years' experience in finance, investment and banking.

Mr. Wong Ying Seung, Asiong, aged 52, holds a bachelor's degree in chemical engineering from the University of London, United Kingdom. Mr. Wong joined the Group in October 1999 and has over 22 years' experience in banking and investment.

Mr. Wong Siu Bun, aged 54, has more than 19 years' experience in the securities and futures industry and currently a dealing director of Chung Nam Securities Limited. He is also active in the real estate industry with experience in both property trading and real estate development in Hong Kong and Canada. Mr. Wong joined the Group in December 2000.

Independent non-executive directors

Mr. Lam Ping Cheung, aged 51, 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 also an independent non-executive director of Golden Resources Development International Limited, Kith Holdings Limited, Ngai Lik Industrial Holdings Limited, Qualipak International Holdings Limited and Hansom Eastern (Holdings) Limited, which are publicly listed companies in Hong Kong. Mr. Lam was appointed as an independent non-executive director in October 1999.

Mr. Ong Peter, aged 33, is a merchant. He holds a bachelor's degree from California State University, Los Angeles, the United States of America. He has extensive experience in the press and insurance industries. Mr. Ong was appointed as an independent non-executive director in September 2002.

Only the executive directors are considered as senior management of the holding company.

3. CORPORATE INFORMATION

Company secretary	Ms. Yung Mei Yee <i>MA, FCIS, FCS</i>
Authorised representatives	Mr. Chung Wilson Ms. Yung Mei Yee
Registered office	32nd Floor China United Centre 28 Marble Road North Point Hong Kong
Principal place of business in Hong Kong	32nd Floor China United Centre 28 Marble Road North Point Hong Kong
Share registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen's Road East Hong Kong

4. PARTIES INVOLVED IN THE SCHEME

Sponsor and financial adviser to China United	Anglo Chinese Corporate Finance, Limited 40th Floor, Two Exchange Square 8 Connaught Place Central Hong Kong
Co-sponsor and co-financial adviser to China United	CU Corporate Finance Limited 31st Floor, China United Centre 28 Marble Road North Point Hong Kong
Legal adviser to China United as to Hong Kong law	Richards Butler 20th Floor, Alexandra House 16-20 Chater Road Central Hong Kong
Legal adviser to China United as to Bermuda law	Conyers Dill & Pearman 2901 One Exchange Square 8 Connaught Place Central Hong Kong
Auditors	BDO International Certified Public Accountants 29th Floor, Wing On Centre 111 Connaught Road Central Hong Kong
Property valuer	Centaline Surveyors Limited Room 601, 6th Floor Tower 1, New World Tower 18 Queen's Road Central Hong Kong

Principal bankers

Liu Chong Hing Bank Limited
24 Des Voeux Road Central
Hong Kong

The Hong Kong and Shanghai
Banking Corporation Limited
No. 1 Queen's Road Central
Hong Kong

Bank of China (Hong Kong) Limited
Bank of China Tower
1 Garden Road
Hong Kong

Dao Heng Bank Limited
93-95 Belcher Street
Kennedy Town
Hong Kong

International Bank of Asia Limited
38 Des Voeux Road Central
Hong Kong

Standard Chartered Bank
9th Floor, Standard Chartered Bank Building
4-4A Des Voeux Road Central
Hong Kong

5. SHARE CAPITAL**(a) Authorised and issued share capital**

The holding company was incorporated on 16th August, 2002 with an authorised share capital of HK\$2,000,000,000 consisting of 20,000,000,000 holding shares, 20 of which have been issued and are beneficially owned by Radford.

On the basis of the number of the Shares in issue as at the latest practicable date and no Shares are to be issued pursuant to the exercise of the conversion rights under the existing convertible notes and no Shares are to be purchased by China United, the authorised and issued share capital of the holding company upon the scheme becoming effective will be:

<i>Authorised:</i>		<i>HK\$</i>
20,000,000,000	holding shares	2,000,000,000
<i>Issued and fully paid:</i>		
245,734,672	holding shares	24,573,467

Radford as the sole shareholder of the holding company has passed written resolutions conditional upon the scheme becoming effective authorising, amongst other things, the directors of the holding company:

- (i) to allot, issue and deal with additional holding shares, otherwise than by way of rights to the holding shareholders or any scrip dividend or other similar scheme implemented in accordance with the articles of association of the holding company or holding shares to be issued under the new convertible notes, up to a maximum of 20% of the issued share capital of the holding company immediately following the scheme becoming effective;
- (ii) to purchase issued holding shares, up to a maximum of 10% of the issued share capital of the holding company immediately following the scheme becoming effective. A summary of the regulations governing securities purchase by companies incorporated in Hong Kong and maintaining a primary listing on the Stock Exchange is set out in this appendix II; and
- (iii) to extend the general mandate granted to the directors of the holding company to allot, issue and deal with holding shares as referred to in paragraph (i) above by the addition to the aggregate nominal amount of the share capital of the holding company which may be allotted, issued or dealt with by the directors of the holding company pursuant to such general mandate of an amount representing the aggregate nominal amount of the holding shares purchased by the holding company pursuant to the mandate to purchase holding shares as referred to in paragraph (ii) above, provided that such amount shall not exceed 10% of the aggregate nominal amount of the issued share capital of the holding company immediately following the scheme becoming effective.

The general mandates referred to above will be effective until the earliest of the next annual general meeting of the holding company, the expiration of the period within which the next annual general meeting of the holding company is required by its articles of association or any applicable law of Hong Kong to be held or the variation or revocation of such authority by ordinary resolution of the holding company.

Each of the holding shares in issue on the effective date will rank *pari passu* in all respects including as to dividends, voting and return of capital.

Since the date of its incorporation and save as disclosed herein, no share or loan capital of the holding company has been issued or is proposed to be issued for cash or otherwise and no commissions, discounts, brokerages or other special terms have been granted by the holding company or its subsidiaries in connection with the issue or sale of any such capital.

Save as disclosed herein, none of the unissued shares or loan capital of the holding company is under option or agreed conditionally or unconditionally to be put under option.

(b) Listing

The holding company has applied to the listing committee of the Stock Exchange for the granting of listing of, and permission to deal in, the holding shares in issue and to be issued pursuant to the scheme and, or any holding shares to be issued upon the exercise of the conversion rights under the new convertible notes and, or upon the exercise of the subscription rights under the new share option scheme on the Stock Exchange. The holding shares will not be listed or dealt in on any other stock exchange. (Note: The holding shares to be issued under the new share option scheme shall not exceed 10% of the issued share capital of the holding company as at the date of commencement of dealings in the holdings shares.)

6. SECURITIES PURCHASE MANDATE

(a) Share capital

As at the latest practicable date, the issued share capital of China United was approximately HK\$61,433,668 comprising 6,143,366,812 Shares.

Assuming that no Shares are issued pursuant to exercise of the conversion rights under the existing convertible notes and no Shares are purchased by China United, the total number of the holding shares in issue will be 245,734,672 upon the scheme becoming effective, and the directors of the holding company will be authorised to purchase up to 24,573,467 holding shares pursuant to the securities purchase mandate.

(b) Reasons for purchases

The directors of the holding company believe that it is in the best interests of the holding company and its shareholders to have a general authority from the shareholders to enable the directors of the holding company to purchase holding shares in the market upon the listing of the holding shares on the Stock Exchange. Such purchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of the holding company and its assets or its earnings per holding share or both and will only be made when the directors of the holding company believe that such purchases will benefit the holding company and its shareholders as a whole.

(c) Funding of purchases

In purchasing holding shares, a company may only apply funds legally available for such purpose in accordance with its memorandum and articles of association and the laws of Hong Kong. A company may not purchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

The directors of the holding company do not propose to exercise the purchase mandate to such extent as could, in the circumstances, have a material adverse effect on the working capital or the gearing level of the holding company which in the opinion of its directors is from time to time appropriate for the holding company.

(d) Directors, their associates and connected persons

None of the directors of holding company, the directors and, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intend to sell holding shares to which they will be entitled in consideration of the cancellation of their Scheme Shares to holding company or its subsidiaries upon the scheme becoming effective.

No connected person, as defined in the listing rules, has notified China United or holding company that he has a present intention to sell any holding shares to which he will be entitled in consideration of the cancellation of his Scheme Shares to holding company or its subsidiaries, or has undertaken not to do so.

(e) Directors' undertaking

The directors of holding company have undertaken to the Stock Exchange that they will exercise the purchase mandate in accordance with the listing rules and the applicable laws of Hong Kong so far as the same may be applicable.

(f) Effect of the Takeovers Code

If, as a result of securities purchase by a company, a shareholder's proportionate interest in the voting rights of the company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a shareholder, or a group of shareholders acting in concert, could obtain or consolidate control of the company and becomes obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code.

As at the latest practicable date, Radford was interested or deemed to be interested in an aggregate of 1,683,754,517 Shares, representing approximately 27.4% of the issued share capital of China United.

Upon the scheme becoming effective, Radford will be interested or deemed to be interested in an aggregate of 67,350,180 holding shares. In the event that the securities purchase mandate is exercised in full, the total number of holding shares in issue will be 221,161,205 and Radford's shareholding interest will be approximately 30.5% of the issued share capital of the holding company. Accordingly the increase in the interest of Radford will give rise to an obligation to make a mandatory offer under rules 26 and 32 of the Takeovers Code. The directors have no present intention to exercise in full the power to purchase Shares if the proposed purchase mandate is approved.

(g) Purchases of Shares

China United did not purchase any Shares (whether on the Stock Exchange or otherwise) in the six months preceding the latest practicable date.

(h) Share prices

The highest and lowest prices at which the Shares were traded on the Stock Exchange in each of the 12 months preceding the latest practicable date were as follows:

	Highest <i>HK\$</i>	Lowest <i>HK\$</i>
2001		
November	0.064	0.064
December	0.064	0.064
2002		
January	0.064	0.064
February	0.064	0.064
March	0.064	0.064
April	0.064	0.064
May	0.064	0.064
June	0.064	0.064
July	0.045	0.018
August	0.046	0.018
September	0.050	0.018
October	0.079	0.045
November (up to the latest practicable date)	0.070	0.054

7. ESTATE DUTY

The directors of the holding company have been advised that no adverse material liability for estate duty would be likely to fall upon any member of the Group in relation to the implementation of the scheme within the meaning of the Hong Kong Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong.

8. MEMORANDUM OF ASSOCIATION AND ARTICLES OF ASSOCIATION

The holding company is a company incorporated in Hong Kong and, therefore, operates under the Hong Kong law.

The constitution of the holding company consists of the memorandum of association and the articles of association.

Radford, as the sole existing shareholder of the holding company, approved the adoption of the articles of association on 20th November, 2002 on a conditional basis. Adoption of the memorandum of association and the articles of association by the holding company is conditional upon the scheme becoming effective.

A summary of the articles of association is set out in appendix IX to this document.

A copy of the memorandum of association and the articles of association will be available for inspection as referred to in appendix VI to this document.

9. GENERAL

- (i) Save as disclosed herein, the holding company has not carried on any business since its incorporation and has not entered into any material contracts or agreements (save for the material contract set out in (iv) below).
- (ii) As at the latest practicable date, the holding company does not have any debt securities or term loans outstanding or any outstanding mortgages, charges or other borrowings or indebtedness, including bank overdrafts and liabilities under acceptances, or any hire purchase commitments, guarantees or other contingent liabilities.
- (iii) Saved as disclosed in this document:
 - within the two years preceding the date of this document, no share or loan capital of the holding company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash; and
 - within the two years preceding the date of this document, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the holding company or any of its subsidiaries.
- (iv) The only material contract (not being a contract in the ordinary course of business) entered into by the holding company is the deed in relation to the existing convertible notes referred to in paragraph (ff) of the section headed “Material contracts” in Appendix VI of the document.
- (v) As at the latest practicable date, none of the directors of the holding company had any existing or proposed service contract with any member of the holding group, (excluding contracts expiring or determinable by the relevant employers within one year without payment of compensation (other than statutory compensation)). The holding company presently has no employee.
- (vi) As at the latest practicable date, the holding company was not engaged in any litigation or arbitration, and no litigation or claim is known to the directors of the holding company to be pending or threatened against the holding company. Please refer to the section headed “Litigation” in appendix VI to this document for the information regarding any litigation or arbitration or claim which is known to the directors of the holding company to be pending or threatened against the Group.
- (vii) Assuming the implementation of the scheme and based on the arrangements presently in force, the aggregate of the remuneration payable by the holding group to the directors of the holding company in respect of the year ending 31st December, 2002 is expected to be approximately HK\$10 million.

- (viii) The directors of the holding company have been advised that the implementation of the scheme is not expected to expose the holding group to any material adverse liability to Hong Kong estate duty.
- (ix) Saved as disclosed in this document, within the two years immediately preceding the date of this document, no cash, securities or other benefits has been paid, allotted, or given to the promoter in connection with the related transactions described in this document.
- (x) No founders, management or deferred shares of the holding company or any of its subsidiaries have been issued or agreed to be issued.
- (xi) There has not been any interruption in the business of the holding group which may have or have had a material adverse effect on the financial position of the holding group in the 24 months preceding the latest practicable date.

FINANCIAL STATEMENTS OF THE GROUP

- (a) Set out below is a summary of the consolidated income statements of the Group for the year ended 31 March, 2000, the nine months ended 31 December, 2000 and the year ended 31 December, 2001 extracted from the annual reports of China United.

Consolidated income statement

	1 January, 2001 to 31 December, 2001	1 April, 2000 to 31 December, 2000	1 April, 1999 to 31 March, 2000
	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(Note)</i>	<i>HK\$'000</i>
Turnover	194,365	265,506	127,057
Loss from operations	(197,468)	(244,261)	(136,546)
Loss before taxation	(354,996)	(594,914)	(498,870)
Taxation	86	(2,247)	(2,071)
Loss after taxation	(354,910)	(597,161)	(500,941)
Minority interests	23,350	228,105	—
Loss for the year/period	(331,560)	(369,056)	(500,941)

Note:

The financial year end date of China United and its subsidiaries has been changed from 31 March to 31 December for the year 2000 onward so that the preparation of financial information is better co-ordinated with annual corporate and strategic planning of the Group. The income statement presented above therefore covers a period of nine months for the financial period ended 31 December, 2000.

- (b) Set out below are the audited consolidated income statements of the Group for the financial year ended 31 December, 2001, the nine months ended 31 December, 2000 and the year ended 31 March, 2000 and the audited consolidated balance sheets of the Group as at 31 December, 2001 and 31 December, 2000 together with the consolidated cash flow statements, consolidated statements of recognised gains and losses and related notes for the financial year ended 31 December, 2001 and the nine months ended 31 December, 2000 extracted from the annual reports of the Group for the year ended 31 December, 2001 and the nine months ended 31 December, 2000.

Consolidated Income Statement

	<i>Notes</i>	Year ended 31 December, 2001 HK\$'000	Nine months ended 31 December, 2000 HK\$'000	Year ended 31 March, 2000 HK\$'000
Turnover	4	194,365	265,506	127,057
Other revenues	6	9,090	14,663	12,455
Cost of trading securities sold		(142,989)	(225,485)	(117,912)
Depreciation and amortisation expenses		(28,282)	(38,889)	(14,674)
Staff costs		(32,939)	(23,515)	(16,270)
Finance costs for provision of financial services		(11,748)	(7,957)	—
Other operating expenses	7	(184,965)	(228,584)	(105,282)
Raw materials and consumables used		—	—	(17,679)
Changes in inventories of finished goods and work in progress		—	—	(4,241)
Loss from operations	8	(197,468)	(244,261)	(136,546)
Forfeiture of sale deposit received from disposal of interest in a subsidiary	27(b)	33,000	—	—
Net gain/(loss) on disposals of interests in associates	9	103	2,643	(94,829)
Loss on disposal of other securities		(21,619)	—	—
Impairment losses of:				
— property, plant and equipment		(115,000)	—	—
— goodwill on consolidation of subsidiaries		(4,783)	(229,000)	—
— interest in an associate		(5,479)	—	—
— goodwill on acquisition of associates		—	(10,189)	—
— other securities		—	(101,716)	—
— long term investment		—	—	(42,673)
— interest in an unconsolidated subsidiary		—	—	(30,986)
Net gain on dilution of interest in a subsidiary	10	1,269	13,118	—
Net loss on disposals of interests in subsidiaries		—	—	(23,105)
Provision for amounts paid for acquisition of a subsidiary		—	—	(70,000)
Provision for compensation on disposal of interest in a subsidiary written back		—	7,556	—
Other finance costs	11	(37,666)	(34,141)	(60,383)
Share of results of associates		(7,353)	1,076	(40,348)
Loss before taxation		(354,996)	(594,914)	(498,870)
Taxation	14	86	(2,247)	(2,071)
Loss after taxation		(354,910)	(597,161)	(500,941)
Minority interests		23,350	228,105	—
Loss for the year/period		<u>(331,560)</u>	<u>(369,056)</u>	<u>(500,941)</u>
Loss per share — Basic	16	<u>(1.7 cents)</u>	<u>(4.2 cents)</u>	<u>(30.2 cents)</u>

Consolidated Balance Sheet

	<i>Notes</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Assets and liabilities			
Non-current assets			
Investment properties	17	218,000	249,380
Property, plant and equipment	18	255,911	372,172
Intangible assets	19	3,000	98,570
Interests in associates	21	22,285	50,352
Investments in securities	22	48,245	108,097
Other long term assets	23	2,070	490
Loans and other loan receivable	24 & 25	<u>20,344</u>	<u>2,200</u>
		<u>569,855</u>	<u>881,261</u>
Current assets			
Loans receivable	25	349,995	201,814
Trade and other receivables	26	189,215	61,194
Investments in securities	22	56,458	147,097
Pledged bank deposits		15,254	15,072
Bank balances and cash		<u>34,201</u>	<u>75,017</u>
		<u>645,123</u>	<u>500,194</u>
Current liabilities			
Trade and other payables	27	47,303	77,050
Amounts due to minority shareholders of subsidiaries		7,754	11,888
Provision for taxation		800	5,272
Convertible note	28	—	53,000
Obligations under finance leases			
— due within one year	29	127	136
Bank and other borrowings			
— due within one year	30	<u>356,795</u>	<u>270,013</u>
		<u>412,779</u>	<u>417,359</u>
Net current assets		<u>232,344</u>	<u>82,835</u>
Total assets less current liabilities carried forward		<u>802,199</u>	<u>964,096</u>

* The accompanying notes form an integral part of these financial statements.

	<i>Notes</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Assets and liabilities			
Total assets less current liabilities brought forward		<u>802,199</u>	<u>964,096</u>
Minority interests		<u>36,164</u>	<u>96,378</u>
Non-current liabilities			
Obligations under finance leases			
— due after one year	29	174	355
Bank and other borrowing			
— due after one year	30	273,667	323,733
Convertible notes	28	<u>63,840</u>	<u>—</u>
		<u>337,681</u>	<u>324,088</u>
Net assets		<u><u>428,354</u></u>	<u><u>543,630</u></u>
Capital and reserves			
Share capital	31	279,244	99,739
Reserves	32	<u>149,110</u>	<u>443,891</u>
Shareholders' funds		<u><u>428,354</u></u>	<u><u>543,630</u></u>

* The accompanying notes form an integral part of these financial statements.

Balance Sheet

	<i>Notes</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Assets and liabilities			
Non-current assets			
Interests in subsidiaries	20	1,423,153	1,138,887
Investments in securities	22	<u>—</u>	<u>23,960</u>
		<u>1,423,153</u>	<u>1,162,847</u>
Current assets			
Other receivables		111	222
Investments in securities	22	25,656	73,477
Bank balances and cash		<u>1,078</u>	<u>1,840</u>
		<u>26,845</u>	<u>75,539</u>
Current liabilities			
Other payables		14,785	13,306
Amounts due to subsidiaries		750,486	708,106
Bank and other borrowings			
— due within one year	30	<u>112,990</u>	<u>14,995</u>
		<u>878,261</u>	<u>736,407</u>
Net current liabilities		<u>(851,416)</u>	<u>(660,868)</u>
Total assets less current liabilities		<u>571,737</u>	<u>501,979</u>
Non-current liabilities			
Bank and other borrowings			
— due after one year	30	114,632	140,254
Convertible notes	28	<u>63,840</u>	<u>—</u>
		<u>178,472</u>	<u>140,254</u>
Net assets		<u><u>393,265</u></u>	<u><u>361,725</u></u>
Capital and reserves			
Share capital	31	279,244	99,739
Reserves	32	<u>114,021</u>	<u>261,986</u>
Shareholders' funds		<u><u>393,265</u></u>	<u><u>361,725</u></u>

* The accompanying notes form an integral part of these financial statements.

Consolidated Cash Flow Statement

		Year ended 31 December, 2001	Nine months ended 31 December, 2000
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash outflow from operating activities	33	<u>(420,596)</u>	<u>(293,996)</u>
Returns on investments and servicing of finance			
Interest paid on bank and other borrowings		(43,292)	(53,080)
Bank interest received		1,346	5,248
Interest paid on convertible notes		(2,128)	—
Interest paid on obligations under finance leases		(49)	(37)
Interest received on other loan receivable		75	60
Dividend received from an associate		<u>—</u>	<u>3,750</u>
Net cash outflow from returns on investments and servicing of finance		<u>(44,048)</u>	<u>(44,059)</u>
Taxation			
Hong Kong Profits Tax paid		(4,286)	(3,277)
Overseas tax paid		<u>—</u>	<u>—</u>
Tax paid		<u>(4,286)</u>	<u>(3,277)</u>
Investing activities			
Purchase of interests in subsidiaries	34	271	(387,508)
Purchase of additional interests in subsidiaries		(5,500)	(80,931)
Proceeds from disposal of other securities		19,768	—
Proceeds from disposals of interests in associates		60,000	14,234
Purchase of trading right in The Hong Kong Futures Exchange Limited		(1,600)	—
Purchase of property, plant and equipment		(4,979)	(13,395)
Purchase of other long term assets		(1,580)	(490)
Repayment of other loan receivable		2,000	—
Proceeds from disposals of property, plant and equipment		1,598	1,564
Proceeds from disposals of investment properties		18,480	—
Increase in pledged bank deposits		(182)	(15,072)
Purchase of investment properties		—	(11,020)
Purchase of interests in associates		—	(7,650)
Purchase of other securities		—	(124,734)
Deposit received for disposal of interest in a subsidiary		<u>—</u>	<u>33,000</u>
Net cash inflow/(outflow) from investing activities		<u>88,276</u>	<u>(592,002)</u>

* The accompanying notes form an integral part of these financial statements.

		Year ended 31 December, 2001	Nine months ended 31 December, 2000
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash outflow before financing		<u>(380,654)</u>	<u>(933,334)</u>
Financing	35		
Issue of shares for cash		191,734	634,402
Issue of convertible notes		75,600	53,000
New other loans obtained		112,008	113,446
New bank loans obtained		22,000	10,000
Repayment of other loans		(49,541)	(175,290)
Repayment of bank loans		(25,410)	(38,852)
Capital contribution by minority shareholders of a subsidiary		50,000	315,000
Repurchase of shares by a subsidiary from its minority shareholder		(45,000)	(36,404)
Expenses incurred on issue of shares		(981)	(14,017)
Repayment of obligations under finance leases		<u>(190)</u>	<u>(96)</u>
Net cash inflow from financing		<u>330,220</u>	<u>861,189</u>
Decrease in cash and cash equivalents		(50,434)	(72,145)
Elimination on reclassification of a subsidiary as an associate		(11,447)	—
Cash and cash equivalents at beginning of year/period		<u>(24,520)</u>	<u>47,625</u>
Cash and cash equivalents at end of year/period		<u><u>(86,401)</u></u>	<u><u>(24,520)</u></u>
Analysis of balances of cash and cash equivalents			
Bank balances and cash		34,201	75,017
Bank overdrafts		(42,602)	(2,537)
Other loans with maturity within three months		<u>(78,000)</u>	<u>(97,000)</u>
		<u><u>(86,401)</u></u>	<u><u>(24,520)</u></u>

* The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Recognised Gains and Losses

		Year ended 31 December, 2001	Nine months ended 31 December, 2000
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Surplus/(deficit) on revaluation of other securities	32	4,144	(33,921)
Premium paid by a subsidiary for repurchase of its shares	32	<u>—</u>	<u>(3,726)</u>
Net gain/(loss) not recognised in the consolidated income statement		4,144	(37,647)
Write back of investment revaluation deficit upon disposal of other securities	32	9,627	—
Net loss for the year/period		<u>(331,560)</u>	<u>(369,056)</u>
Total recognised losses for the year/period		(317,789)	(406,703)
Capital reserve arising from acquisition of a subsidiary	32	—	11,149
Capital reserve arising from subscription of new shares of a subsidiary	32	<u>—</u>	<u>776</u>
		<u>(317,789)</u>	<u>(394,778)</u>

* The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

1. GENERAL

The Company is a public limited company incorporated in Bermuda with its shares listed on The Stock Exchange of Hong Kong Limited.

The Company is principally engaged in investment holding. The principal activities of the Group are property investment, investment holding, investment in trading securities, provision of internet and internet related services and provision of brokerage and financial services.

The period covered by the financial statements for the period ended 31 December, 2000 is less than twelve months because the Company's financial year end was changed from 31 March to 31 December so that the preparation of financial information is better co-ordinated with annual corporate and strategic planning of the Group. Accordingly, the comparative amounts shown for the income statement, cash flow statement, statement of recognised gains and losses and related notes cover a nine-month period from 1 April, 2000 to 31 December, 2000 and may not be comparable with the amounts shown for the current year.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The consolidated financial statements are prepared under the historical cost convention except for investment properties and investments in securities which are measured at fair values. Fair value is the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction, and is determined on the basis of existing use.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice ("SSAPs") and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The principal accounting policies adopted are set out below:

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

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

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

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

(b) Goodwill

Goodwill arising on consolidation, which represents the excess of the purchase consideration over the fair value ascribed to the separable net assets at the date of acquisition of a subsidiary or an associate, is capitalised and amortised on a straight line basis over its estimated useful life or twenty years, whichever is shorter. Goodwill arising from acquisitions of interests in subsidiaries and associates engaging in internet and internet related business is amortised over five years.

Goodwill arising from acquisitions of subsidiaries and associates is included in intangible assets and within the carrying value of the associates respectively. Provision is made for all identified impairment loss.

Negative goodwill represents the excess of the fair value ascribed to the separable net assets at the date of acquisition of a subsidiary or an associate over the purchase consideration.

Negative goodwill arising on acquisitions of subsidiaries and associates prior to 1 January, 2001 continues to be held in reserves and is included in the carrying value of the associates respectively and will be credited to income at the time of disposal of the relevant subsidiary or associate.

Negative goodwill arising on acquisitions of subsidiaries and associates after 1 January, 2001 is presented as deduction from intangible assets and included in the carrying value of associates respectively and will be released to income based on an analysis of the circumstances from which the balance resulted.

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 income statement when the future losses and expenses are recognised. Any remaining negative goodwill not exceeding the fair values of the non-monetary assets acquired is recognised in the income statement over the weighted average life of those assets. The amount of negative goodwill in excess of the fair values of acquired identifiable non-monetary assets acquired is recognised as income immediately.

Upon disposal of subsidiaries or associates, the relevant portion of attributable negative goodwill or goodwill net of amortisation and any impairment losses, is included in the determination of the profit or loss on disposal.

(c) Investments in subsidiaries

A subsidiary is an enterprise controlled by the Group. An enterprise is considered to be controlled if the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(d) Investments in associates

An associate is an enterprise over which the Group is in a position to exercise significant influence through participation in the financial and operating policy decisions of the investee.

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting whereby the investments are initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the associates plus premium paid less any discount on acquisition in so far it has not already been amortised/released to income, less any identified impairment loss.

Where a group enterprise transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are immediately recognised in the income statement.

(e) **Revenue recognition**

Rental income, from properties let under operating leases including rentals invoiced in advance for fixed periods, is recognised on a straight line basis over the term of the relevant lease.

Revenue from the sale of trading securities is recognised on a trade-date basis.

Brokerage fees and commission income are recognised when relevant services are provided.

Interest income is accrued on time basis by reference to the principal outstanding and at the interest rate applicable.

Dividend income is recognised when the Group's right to receive payment has been established.

Revenue from provision of consultancy services is recognised when relevant service is provided.

(f) **Investment properties**

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus arises subsequently, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of investment properties, the balance on the investment property revaluation reserve attributable to that property disposed of is credited to the income statement.

No depreciation is provided on investment properties which are held on leases with an unexpired term of more than 20 years.

(g) **Property, plant and equipment**

Property, plant and equipment are stated at cost less depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is charged to income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Depreciation is provided to write off the cost of property, plant and equipment, other than investment properties, over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land/land use rights	Over the terms of leases/land use rights
Buildings	4%
Leasehold improvements	10%
Furniture and fixtures	10-20%
Plant and machinery	10%
Motor vehicles	25%

Assets held under finance leases are depreciated on the same basis as owned assets.

(h) Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

All securities other than held-to-maturity debt securities are measured at fair value at subsequent reporting dates. The Group has no held-to-maturity debt securities.

Where securities are held for trading purposes, unrealised gains and losses are included in the income statement for the year. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in the income statement for the year.

(i) Leases

Leases are classified as finance leases when the terms of the leases transfer substantially all the risks and rewards of ownership of the assets to the Group. All other leases are classified as operating leases.

Assets held under finance leases are capitalised at their fair value at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as obligations under finance leases. 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 payments/receipts under operating leases are charged to/recognised in the income statement on a straight line basis over the term of the relevant leases.

(j) Intangible assets

Intangible assets comprise goodwill which is accounted for in accordance with note 3(b) above and the Group's trading rights in The Stock Exchange of Hong Kong Limited and The Hong Kong Futures Exchange Limited. The trading rights are stated at cost less amortisation. Amortisation is calculated on the straight line basis to write off the cost of the trading rights over their estimated useful lives of ten years.

(k) Other long term assets

Other long term assets are stated at cost less provision for all identified impairment loss.

(l) **Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Expected future cash flows have been discounted in determining the recoverable amount.

If the recoverable amount of an asset or 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. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognised in prior years.

(m) **Provisions**

Provisions are recognised when the Group has a present obligation as a result of a past event which will probably result in an outflow of economic benefits that can be reasonably estimated.

(n) **Retirement benefits scheme**

The Group operates a Mandatory Provident Fund Scheme (“MPF Scheme”) for all qualifying employees. The assets of the scheme are held separately from those of the Group in funds under the control of trustees.

The retirement benefit costs charged to the income statement represent the contributions payable in respect of the current year to the Group’s MPF Scheme.

(o) **Taxation**

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

(p) **Foreign currencies**

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of subsidiaries and associates which are denominated in currencies other than Hong Kong dollars are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

(q) **Cash equivalents**

Cash equivalents represent short term, highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

4. TURNOVER

	Year ended 31 December, 2001 <i>HK\$'000</i>	Nine months ended 31 December, 2000 <i>HK\$'000</i>
Proceeds from sale of trading securities	112,886	219,174
Interest income	57,803	26,574
Brokerage fees and commission income	16,031	13,851
Dividend income from listed securities	549	1,123
Rental income	<u>7,096</u>	<u>4,784</u>
	<u>194,365</u>	<u>265,506</u>

Included in turnover is an amount of HK\$30,431,000 in respect of trading securities disposed of in exchange for certain subsidiaries principally engaged in property investment acquired by the Group during the year.

5. SEGMENTAL INFORMATION

Business segments

For management reporting purposes, business segment information is chosen as the primary reporting format. The principal 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 properties for rentals
Internet and internet related services	:	Provide internet and internet related services
Investment holding	:	Hold investments for dividend income and capital appreciation

Segmental information about these businesses is presented below.

Year ended 31 December, 2001

	Investment in trading securities HK\$'000	Brokerage and financial services HK\$'000	Property investment HK\$'000	Internet and internet related services HK\$'000	Investment holding HK\$'000	Inter- segment eliminations HK\$'000	Unallocated HK\$'000	Consolidated total HK\$'000
Revenue								
Turnover								
External	113,435	73,834	7,096	—	—	—	—	194,365
Inter-segment	—	4,819	3,565	—	—	(8,384)	—	—
	113,435	78,653	10,661	—	—	(8,384)	—	194,365
Other revenue	—	7,045	86	666	—	—	1,293	9,090
Total revenue	<u>113,435</u>	<u>85,698</u>	<u>10,747</u>	<u>666</u>	<u>—</u>	<u>(8,384)</u>	<u>1,293</u>	<u>203,455</u>

Inter-segment revenue is charged at terms comparable to those offered to independent third parties.

Result

Segment loss	<u>(25,307)</u>	<u>(83,679)</u>	<u>(34,843)</u>	<u>(18,551)</u>	<u>(1,471)</u>	<u>—</u>	<u>(33,617)</u>	(197,468)
Forfeiture of sale deposit received from disposal of interest in a subsidiary	—	—	33,000	—	—	—	—	33,000
Net gain on disposals of interests in associates	—	—	—	103	—	—	—	103
Loss on disposal of other securities	—	—	—	—	(21,619)	—	—	(21,619)
Impairment losses	—	—	(120,479)	—	—	—	(4,783)	(125,262)
Net gain on dilution of interest in a subsidiary	—	1,269	—	—	—	—	—	1,269
Other finance costs	—	—	—	—	—	—	(37,666)	(37,666)
Share of results of associates	—	—	(4,466)	(2,887)	—	—	—	<u>(7,353)</u>
Loss before taxation								(354,996)
Taxation								<u>86</u>
Loss after taxation								<u>(354,910)</u>

Nine months ended 31 December, 2000

	Investment in trading securities HK\$'000	Brokerage and financial services HK\$'000	Property investment HK\$'000	Internet and internet related services HK\$'000	Investment holding HK\$'000	Inter- segment eliminations HK\$'000	Unallocated HK\$'000	Consolidated total HK\$'000
Revenue								
Turnover								
External	220,297	40,425	4,784	—	—	—	—	265,506
Inter-segment	—	653	1,890	—	—	(2,543)	—	—
	220,297	41,078	6,674	—	—	(2,543)	—	265,506
Other revenue	—	3,388	—	3,430	—	—	7,845	14,663
Total revenue	<u>220,297</u>	<u>44,466</u>	<u>6,674</u>	<u>3,430</u>	<u>—</u>	<u>(2,543)</u>	<u>7,845</u>	<u>280,169</u>

Inter-segment revenue is charged at terms comparable to those offered to independent third parties.

Result								
Segment loss	<u>(130,801)</u>	<u>(42,172)</u>	<u>(19,746)</u>	<u>(29,540)</u>	<u>(162)</u>	—	<u>(21,840)</u>	(244,261)
Net gain on disposal of interests in associates								
	—	2,643	—	—	—	—	—	2,643
Impairment losses	—	—	—	(340,905)	—	—	—	(340,905)
Gain on dilution of interest in a subsidiary								
	—	—	—	13,118	—	—	—	13,118
Provision for compensation on disposal of interest in a subsidiary written back								
	—	7,556	—	—	—	—	—	7,556
Other finance costs	—	—	—	—	—	—	(34,141)	(34,141)
Share of results of associates								
	—	11,100	(9,086)	(938)	—	—	—	<u>1,076</u>
Loss before taxation								
								(594,914)
Taxation								
								<u>(2,247)</u>
Loss after taxation								
								<u>(597,161)</u>

	Investment in trading securities <i>HK\$'000</i>	Brokerage and financial services <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Internet and internet related services <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Inter- segment eliminations <i>HK\$'000</i>	Consolidated total <i>HK\$'000</i>
Assets and liabilities as at 31 December, 2001							
Assets							
Segment assets	59,464	581,430	431,552	—	48,245	(3,321)	1,117,370
Interests in associates	—	—	22,285	—	—	—	22,285
Unallocated assets							<u>75,323</u>
Total assets							<u>1,214,978</u>
Liabilities							
Segment liabilities	—	137,331	13,212	—	—	(3,321)	147,222
Unallocated liabilities							<u>603,238</u>
Total liabilities							<u>750,460</u>
Assets and liabilities as at 31 December, 2000							
Assets							
Segment assets	147,097	292,931	586,149	94,790	108,097	(15,584)	1,213,480
Interests in associates	—	—	50,352	—	—	—	50,352
Unallocated assets							<u>117,623</u>
Total assets							<u>1,381,455</u>
Liabilities							
Segment liabilities	15,269	127,547	44,399	5,420	—	(15,584)	177,051
Unallocated liabilities							<u>564,396</u>
Total liabilities							<u>741,447</u>

	Investment in trading securities <i>HK\$'000</i>	Brokerage and financial services <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Internet and internet related services <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Inter- segment eliminations <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated total <i>HK\$'000</i>
Other information for the year ended 31 December, 2001								
Capital expenditure incurred during the year*	—	5,974	15,308	5,788	—	—	17,150	44,220
Depreciation and amortisation	—	1,810	9,842	11,724	—	—	4,906	28,282
Provision for bad and doubtful debts	—	108,976	3,815	—	—	—	97	112,888

Other information for the nine months ended 31 December, 2000

Capital expenditure incurred during the period*	—	21,743	15,564	359,788	144,558	—	33,019	574,672
Depreciation and amortisation	—	1,103	7,481	28,480	—	—	1,825	38,889
Provision for bad and doubtful debts	—	45,841	—	—	—	—	325	46,166
Net unrealised loss on trading securities	125,173	—	—	—	—	—	—	125,173

* including additions to other long term assets and intangible assets

Geographical segments

The Group's operations are substantially carried out in Hong Kong. No geographical segment information has been presented as the turnover and results attributable to other geographical segments other than Hong Kong are insignificant. In addition, the assets as at 31 December, 2001 and 31 December, 2000 and capital expenditure incurred not attributable to Hong Kong geographical segment for the year ended 31 December, 2001 and period ended 31 December, 2000 are less than 10% of those of all geographical segments.

6. OTHER REVENUE

	Year ended 31 December, 2001 <i>HK\$'000</i>	Nine months ended 31 December, 2000 <i>HK\$'000</i>
Consultancy fee	2,660	3,430
Guarantee fee income	808	—
Bank interest income	1,346	5,248
Interest income on other loan receivable	75	60
Write back of unclaimed dividend	136	—
Sundry income	3,879	3,398
Accounts payable written back	186	1,468
Recovery of expenses and losses from third parties	—	559
Loan arrangement fee	—	500
	<u>9,090</u>	<u>14,663</u>

7. OTHER OPERATING EXPENSES

Included in other operating expenses are the following:

	Year ended 31 December, 2001 <i>HK\$'000</i>	Nine months ended 31 December, 2000 <i>HK\$'000</i>
Net provision for bad and doubtful debts	(112,888)	(46,166)
Provision for amount due from an associate	(6,602)	(3,000)
Net unrealised gain/(loss) on trading securities	4,295	(125,173)
Net deficit arising on revaluation of investment properties	<u>(25,343)</u>	<u>(14,760)</u>
	<u>(140,538)</u>	<u>(189,099)</u>

8. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging:

	Year ended 31 December, 2001 HK\$'000	Nine months ended 31 December, 2000 HK\$'000
Depreciation on:		
Owned assets	16,084	10,572
Assets held under finance leases	159	123
Amortisation of trading rights on The Stock Exchange of Hong Kong Limited	649	—
Amortisation of goodwill of subsidiaries	11,390	26,522
Amortisation of goodwill of associates	—	1,672
	<u>28,282</u>	<u>38,889</u>
Total depreciation and amortisation		
Auditors' remuneration:		
Current year/period	1,040	1,200
Overprovision in prior years	(7)	(134)
Contributions to MPF Scheme	747	26
Loss on disposals of investment properties	2,520	—
Loss on disposals of property, plant and equipment	650	1,766
	<u>6,957</u>	<u>2,858</u>
and after crediting:		
Rental income from investment properties	7,096	4,784
Less: Outgoings	(712)	(232)
	<u>6,384</u>	<u>4,552</u>
Release of negative goodwill to income	208	—
	<u>6,592</u>	<u>4,552</u>

9. NET GAIN ON DISPOSALS OF INTERESTS IN ASSOCIATES

During the year, the Group no longer has control over Cupac Technology Limited ("Cupac") which is principally engaged in the provision of internet and internet related services and investment in trading securities. Accordingly, Cupac was reclassified as an associate. The results of Cupac were consolidated up to 30 June, 2001, when Cupac became an associate of the Group, and were equity accounted for thereafter until the eventual disposal on 14 August, 2001. This has resulted in a gain on disposal of HK\$103,000.

The Group's loss before taxation to the extent of HK\$21,591,000 (2000: HK\$398,671,000) is attributable to Cupac. Cupac did not have significant contribution to the Group's turnover for the year ended 31 December, 2001. For the period ended 31 December, 2000, Cupac has contributed HK\$42,637,000 to the Group's turnover in respect of proceeds from sale of trading securities.

10. NET GAIN ON DILUTION OF INTEREST IN A SUBSIDIARY

The net gain on dilution of interest in a subsidiary, Hennabun Management Inc. (“HMI”), totalling HK\$1,269,000 for the year ended 31 December, 2001 is resulted from allotment of new shares of HMI to a third party pursuant to a subscription agreement dated 27 March, 2001. Under the said agreement, the Company is required to make payment of HK\$50,000,000 to HMI to fulfil its warranties for HMI’s financial performance in respect of the year ended 31 December, 2001. Accordingly, the portion attributable to the minority shareholders on the said payment amounted to HK\$9,460,000 which has been deducted in arriving at the net gain aforementioned.

11. OTHER FINANCE COSTS

	Year ended 31 December, 2001	Nine months ended 31 December, 2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:		
Bank and other borrowings wholly repayable within five years	22,858	26,956
Bank and other borrowings wholly repayable over five years	22,018	14,441
Convertible notes	4,489	664
Obligations under finance leases	49	37
	<u>49,414</u>	<u>42,098</u>
Less: Amount attributable to provision of financial services	<u>(11,748)</u>	<u>(7,957)</u>
	<u>37,666</u>	<u>34,141</u>

12. DIRECTORS' EMOLUMENTS

	Year ended 31 December, 2001 <i>HK\$'000</i>	Nine months ended 31 December, 2000 <i>HK\$'000</i>
Fees:		
Executive directors	—	—
Independent non-executive directors	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>
Other emoluments:		
Executive directors	9,214	6,868
Independent non-executive directors	<u>120</u>	<u>170</u>
	<u>9,334</u>	<u>7,038</u>
Other emoluments comprises:		
Salaries and other benefits	9,262	7,032
Contributions to MPF Scheme	<u>72</u>	<u>6</u>
	<u>9,334</u>	<u>7,038</u>

Emoluments of the directors were within the following bands:

	Year ended 31 December, 2001	Nine months ended 31 December, 2000
	<i>Number of directors</i>	
Nil to HK\$1,000,000	5	6
HK\$1,500,001 to HK\$2,000,000	1	1
HK\$3,500,001 to HK\$4,000,000	—	1
HK\$4,500,001 to HK\$5,000,000	<u>1</u>	<u>—</u>
	<u>7</u>	<u>8</u>

During the year ended 31 December, 2001 and period ended 31 December, 2000, no emoluments have been paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, during the year ended 31 December, 2001 and period ended 31 December, 2000, no directors have waived any emoluments.

13. EMPLOYEES' EMOLUMENTS

The five highest paid employees of the Group during the year included four (2000: three) directors, details of whose emoluments are set out in note 12 above. The emolument of the remaining employee (2000: two) is as follows:

	Year ended 31 December, 2001 HK\$'000	Nine months ended 31 December, 2000 HK\$'000
Other emoluments	<u>1,800</u>	<u>1,570</u>

The remuneration of the employees falls within the following bands:

	Year ended 31 December, 2001 Number of employees	Nine months ended 31 December, 2000 Number of employees
Nil to HK\$1,000,000	—	2
HK\$1,500,001 to HK\$2,000,000	<u>1</u>	<u>—</u>
	<u>1</u>	<u>2</u>

14. TAXATION

The tax (charge)/credit comprises:

	Year ended 31 December, 2001 HK\$'000	Nine months ended 31 December, 2000 HK\$'000
Hong Kong Profits Tax		
Current year/period	(1,395)	(2,400)
Over provision in prior years	<u>1,481</u>	<u>153</u>
	86	(2,247)
Share of tax on results of associates	<u>—</u>	<u>—</u>
	<u>86</u>	<u>(2,247)</u>

Provision for Hong Kong Profits Tax has been calculated at 16% (2000: 16%) of the estimated assessable profits for the year.

Details of unprovided deferred taxation are set out in note 40.

15. LOSS FOR THE YEAR/PERIOD

Of the Group's loss for the year of HK\$331,560,000 (2000: HK\$369,056,000), a loss of HK\$180,600,000 (2000: HK\$320,553,000) has been dealt with in the financial statements of the Company.

16. LOSS PER SHARE

The calculation of the loss per share is based on the loss for the year of HK\$331,560,000 (2000: HK\$369,056,000) and on the weighted average number of 19,713,631,608 shares (2000: 8,882,372,349 shares) in issue during the year. The weighted average number of shares in issue used in the basic loss per share calculation for the period ended 31 December, 2000 has been adjusted to reflect the effect of the rights issue and share consolidation during that period.

No diluted loss per share is presented for the year ended 31 December, 2001 and period ended 31 December, 2000 as exercise of the Company's outstanding share options and conversion of the Company's outstanding convertible notes has an anti-dilutive effect.

17. INVESTMENT PROPERTIES

	The Group <i>HK\$'000</i>
At 1 January, 2001	249,380
Acquisition of subsidiaries	14,963
Disposals	(21,000)
Deficit arising on revaluation	<u>(25,343)</u>
At 31 December, 2001	<u><u>218,000</u></u>

The net book value of investment properties shown above comprises:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Long term leasehold properties situated in Hong Kong	154,560	171,500
Medium term leasehold properties situated in		
— Hong Kong	36,800	46,100
— elsewhere in the People's Republic of China*	<u>26,640</u>	<u>31,780</u>
	<u><u>218,000</u></u>	<u><u>249,380</u></u>

* The investment properties situated in the People's Republic of China include an amount of HK\$440,000 (2000: HK\$4,780,000) in which the Group has not yet obtained the State Land Use Right Certificates and Certificate for Housing Ownership.

The Group's investment properties situated in Hong Kong and in the People's Republic of China were revalued at 31 December, 2001 by a firm of independent professional valuers, Ricacorp Surveyors Limited, on an open market value existing use basis.

18. PROPERTY, PLANT AND EQUIPMENT

The Group

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost						
At 1 January, 2001	380,109	10,372	3,240	6,936	8,250	408,907
Acquisition of subsidiaries	15,514	—	6,200	—	862	22,576
Additions	—	—	641	723	3,615	4,979
Disposals	—	—	(3)	(9)	(3,143)	(3,155)
Reclassification to interest in an associate	—	(1,024)	(934)	(1,481)	(1,120)	(4,559)
At 31 December, 2001	395,623	9,348	9,144	6,169	8,464	428,748
Depreciation and impairment						
At 1 January, 2001	27,900	2,729	663	2,744	2,699	36,735
Acquisition of subsidiaries	1,881	—	4,519	—	517	6,917
Charge for the year	11,104	919	1,172	824	2,224	16,243
Impairment losses	115,000	—	—	—	—	115,000
Eliminated on disposals	—	—	—	(1)	(906)	(907)
Reclassification to interest in an associate	—	(168)	(132)	(478)	(373)	(1,151)
At 31 December, 2001	155,885	3,480	6,222	3,089	4,161	172,837
Net book value						
At 31 December, 2001	239,738	5,868	2,922	3,080	4,303	255,911
At 31 December, 2000	352,209	7,643	2,577	4,192	5,551	372,172

The net book value of property, plant and equipment includes an amount of HK\$253,000 (2000: HK\$463,000) in respect of assets held under finance leases.

The net book value of properties comprises HK\$207,665,000 (2000: HK\$326,837,000) and HK\$32,073,000 (2000: HK\$25,372,000) in respect of long term leasehold properties and medium term leasehold properties situated in Hong Kong respectively.

19. INTANGIBLE ASSETS

	Goodwill <i>HK\$'000</i> <i>Note (i)</i>	Negative goodwill <i>HK\$'000</i> <i>Note (i)</i>	Others <i>HK\$'000</i> <i>Notes (ii) and (iii)</i>	Total <i>HK\$'000</i>
Cost				
At 1 January, 2001	348,092	—	6,000	354,092
Addition	—	—	1,600	1,600
Arising from increase in additional interest in a subsidiary	5,439	(4,159)	—	1,280
Reclassification to interest in an associate	<u>(348,217)</u>	<u>—</u>	<u>—</u>	<u>(348,217)</u>
At 31 December, 2001	<u>5,314</u>	<u>(4,159)</u>	<u>7,600</u>	<u>8,755</u>
Amortisation and impairment				
At 1 January, 2001	255,522	—	—	255,522
Amortisation for the year	11,390	—	649	12,039
Impairment loss	4,783	—	—	4,783
Release of negative goodwill	—	(208)	—	(208)
Reclassification to interest in an associate	<u>(266,381)</u>	<u>—</u>	<u>—</u>	<u>(266,381)</u>
At 31 December, 2001	<u>5,314</u>	<u>(208)</u>	<u>649</u>	<u>5,755</u>
Net book value				
At 31 December, 2001	<u>—</u>	<u>(3,951)</u>	<u>6,951</u>	<u>3,000</u>
At 31 December, 2000	<u>92,570</u>	<u>—</u>	<u>6,000</u>	<u>98,570</u>

Notes:

- (i) Goodwill is amortised in accordance with note 3(b) to the financial statements. The negative goodwill is recognised in the income statement on a straight line basis over ten years.
- (ii) Others represent trading rights in The Stock Exchange of Hong Kong Limited (“SEHK”) and The Hong Kong Futures Exchange Limited (“HKFE”) which are amortised over the following periods:
- | | |
|-----------------------------|---------------------------------------------------------------------|
| Trading rights in the SEHK: | Remaining useful life of 111 months commencing from 1 January, 2001 |
| Trading right in HKFE: | Ten years |
- (iii) No amortisation for the year has been provided on the trading right on the HKFE as it is acquired near the balance sheet date.

20. INTERESTS IN SUBSIDIARIES

	The Company	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	399,637	639,637
Amounts due from subsidiaries	<u>3,490,280</u>	<u>3,055,178</u>
	3,889,917	3,694,815
Less: Impairment losses	(399,636)	(570,636)
Provision for doubtful debts	<u>(2,067,128)</u>	<u>(1,985,292)</u>
	<u>1,423,153</u>	<u>1,138,887</u>

Included in amounts due from subsidiaries are amounts of approximately HK\$484,000,000 (2000: HK\$99,265,000) which bear interest rates ranging from Hong Kong prime rate per annum to Hong Kong prime rate plus 2% per annum or at average rate of 11% per annum. These amounts are unsecured and have no fixed repayment terms. The remaining amounts due from subsidiaries are interest-free.

The following table lists the Company's subsidiaries at 31 December, 2001 which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Name of subsidiary	Place of incorporation and operations	Issued share capital (Note)	Percentage of equity interest held by		Principal activities
			Company %	Subsidiary %	
Action Plus Investments Limited	British Virgin Islands	US\$1	—	100	Investment holding
Bestford Properties Limited	Hong Kong	HK\$2	—	100	Property holding
Bestford Development Limited	Hong Kong	HK\$2	—	100	Property investment
Best Million Limited	British Virgin Islands	US\$50,000	—	100	Investment holding
Bonus Profit Group Limited	British Virgin Islands	US\$1	—	100	Investment holding
Butterville Associates Limited	British Virgin Islands	US\$1	—	100	Investment holding
China United Finance Limited	Hong Kong	HK\$75,000,002	—	100	Money lending
China United Financial Services Limited	Hong Kong	HK\$2	100	—	Investment holding

Name of subsidiary	Place of incorporation and operations	Issued share capital (Note)	Percentage of equity interest held by		Principal activities
			Company %	Subsidiary %	
China United Securities Services Limited	British Virgin Islands	US\$50,000	—	100	Investment holding
Chung Nam Commodities Limited	Hong Kong	HK\$12,000,000	—	100	Commodities dealer
Chung Nam Finance Limited	Hong Kong	HK\$10,000,000	—	100	Securities financing and money lending
Chung Nam Holdings Limited	Hong Kong	HK\$17,200,000	—	100	Investment holding
Chung Nam Nominees Limited	Hong Kong	HK\$10,000	—	100	Nominees
Chung Nam Securities Limited	Hong Kong	HK\$115,000,000	—	100	Securities brokerage and financial services
Cepora Inc.	British Virgin Islands	US\$100	—	100	Investment holding
Colias Inc.	British Virgin Islands	US\$100	—	100	Securities investment
Cliffview Profits Limited	British Virgin Islands	US\$1	—	100	Investment holding
CU Corporate Finance Limited	Hong Kong	HK\$10,000,000	—	100	Investment adviser
CU Investment Management Limited	Hong Kong	HK\$1,000,000	—	100	Investment adviser
CU Investments (Holdings) Limited	Hong Kong	Ordinary shares of HK\$2 Non-voting shares of HK\$2	—	100	Investment holding
CU Nominee Limited	Hong Kong	HK\$2	—	100	Nominees
Cuve Asset Management Limited	British Virgin Islands	US\$26,000	—	100	Investment holding
East Champion Limited	Hong Kong	HK\$2	—	100	Property investment
Embrace Assets Limited	British Virgin Islands	US\$1	—	100	Investment holding
E-Garden Properties Limited	British Virgin Islands	US\$1	—	100	Investment holding

Name of subsidiary	Place of incorporation and operations	Issued share capital (Note)	Percentage of equity interest held by		Principal activities
			Company %	Subsidiary %	
Fei Wang Incorporated	British Virgin Islands	US\$1	—	100	Investment holding
First Asia (China) Limited	Hong Kong	HK\$41,942,945	100	—	Investment holding
First Asia Financial Services Limited	Hong Kong	HK\$5,000,000	—	100	Property investment
First Asia Investments Limited	Cayman Islands	US\$2	100	—	Investment holding
First Asia Properties Limited	British Virgin Islands/ Hong Kong	US\$2	—	100	Investment holding
Great Gains International Limited	Hong Kong	HK\$100	—	100	Property investment
Greatly Fareast Limited	Hong Kong	HK\$2	—	100	Property investment
Golden Clip Limited	British Virgin Islands	US\$1	—	100	Investment holding
Hennabun Capital Management Inc.	British Virgin Islands	US\$1	—	100	Investment holding and securities investment
Hennabun Investments Limited	British Virgin Islands	US\$1	—	100	Investment holding
Hennabun Management Inc.	British Virgin Islands	US\$5,813,333	—	81.08	Investment holding
International Stamps & Coins Exchange Gallery Limited	Hong Kong	HK\$20,200	—	100	Property investment
Kam Kwong Company Limited	Hong Kong	HK\$19,050,000	—	100	Securities brokerage and financial services
Kam Kwong Investments Limited	Hong Kong	HK\$10,000	—	100	Investment holding
Kingarm Company Limited	Hong Kong/ People's Republic of China	HK\$2	—	100	Property investment
Large Investments Limited	British Virgin Islands	US\$1	—	100	Investment holding

Name of subsidiary	Place of incorporation and operations	Issued share capital (Note)	Percentage of equity interest held by		Principal activities
			Company %	Subsidiary %	
Lockrealm Holdings Limited	British Virgin Islands	US\$1	—	100	Investment holding
Long Bloom Enterprises Limited	Hong Kong	HK\$5,300,000	—	100	Provision of administrative service
Million Regal Investment Limited	Hong Kong	HK\$1,000	—	100	Property investment
Pacific Kingdom Investments Limited	Hong Kong	HK\$2	—	100	Property investment
Quali-Trade Investments Limited	British Virgin Islands	US\$4,980,000	—	100	Investment holding
Radford Portfolio Management Limited	Hong Kong	HK\$10,000	—	100	Property holding
Righteam Limited	Hong Kong	HK\$2	100	—	Corporate services
Ronford Properties Limited	Hong Kong	HK\$2	—	100	Property investment
Selway Limited	Hong Kong	HK\$2	—	100	Property investment
Simply Best Limited	British Virgin Islands	US\$1	—	100	Investment holding
Sky Coast Holdings Limited	British Virgin Islands/ Hong Kong	US\$1	—	100	Investment holding
Sun Year Enterprises Limited	Hong Kong/ People's Republic of China	HK\$2	—	100	Property investment
Ultimate United Developments Limited	British Virgin Islands	US\$1	100	—	Investment holding
Wellhand Limited	Hong Kong	HK\$2	—	100	Property investment
Winners Assets Limited	British Virgin Islands	US\$1	—	100	Investment holding
Winport Limited	British Virgin Islands	US\$1	—	100	Investment holding
Winning Point Limited	British Virgin Islands	US\$1	—	100	Securities investment

Note: Unless otherwise specified, all shares are ordinary shares.

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

21. INTERESTS IN ASSOCIATES

	The Group	
	2001 HK\$'000	2000 HK\$'000
Share of net assets	1,733	11,800
Goodwill arising on acquisition of associates (<i>Note iii</i>)	—	11,861
Less: Amortisation	—	(1,672)
Impairment losses	—	(10,189)
	—	—
Amounts due from associates (<i>Note ii</i>)	64,573	75,971
Less: Provision for doubtful debts	(44,021)	(37,419)
	20,552	38,552
	22,285	50,352

Details of the associates at 31 December, 2001 are as follows:

Name of associate	Form of business structure	Place of incorporation and operations	Class of shares held	Percentage of equity interest held by the Group	Principal activities
Bai Hui Group Company Limited	Incorporated	Hong Kong	Ordinary	30%	Investment holding
Bai Hui Real Estate Company Limited	Incorporated	Hong Kong/ People's Republic of China	Ordinary	34%	Investment holding and property management
Pure Fair Investment Limited	Incorporated	Hong Kong	Ordinary	45%	Property investment
Weitang International Limited	Incorporated	British Virgin Islands	Ordinary	35.77%	Investment holding
Wise Decision Investments Limited	Incorporated	British Virgin Islands	Ordinary	45%	Investment holding

Notes:

- (i) The audited financial statements of a major associate holding certain interest in a property project in the PRC are not available. Accordingly, its operating results, assets and liabilities have not been shown. The Group's interest in this associate amounted to approximately HK\$22 million (2000: HK\$46 million) at the balance sheet date.
- (ii) During the year, the Group has agreed with a lender whereby certain properties to be distributed by an associate to the Group for repayment of its shareholder's loan made to the associate will be assigned to the lender for settlement of part of the loan granted to the Group at a total agreed amount of approximately HK\$21 million ("Agreed Amount"). The Group will compensate the lender if the total net proceeds received from sales of the properties (after deduction of half of the excess of sale proceeds over respective agreed amounts of the properties payable to the Group) is less than the Agreed Amount. At the balance sheet date, the transfer of the titles of ownership of the properties to the Group is in progress.
- (iii) The goodwill and related amortisation and impairment losses have been eliminated upon disposal of the relevant associates.

22. INVESTMENTS IN SECURITIES

The Group

	Other securities (Non-current investments)		Trading securities (Current investments)	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Equity				
Listed investments	—	23,960	56,458	147,097
Unlisted investments	3,899	146,415	—	—
Unlisted investment fund	40,447	35,539	—	—
Impairment loss	—	(101,716)	—	—
	44,346	104,198	56,458	147,097
Unlisted debt securities	3,899	3,899	—	—
	<u>48,245</u>	<u>108,097</u>	<u>56,458</u>	<u>147,097</u>
Equity securities at market value listed				
— in Hong Kong	—	23,960	55,882	144,761
— overseas	—	—	576	2,336
	<u>—</u>	<u>23,960</u>	<u>56,458</u>	<u>147,097</u>

The Company

	Other securities (Non-current investments)		Trading securities (Current investments)	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Equity				
Listed investments	<u>—</u>	<u>23,960</u>	<u>25,656</u>	<u>73,477</u>
Equity securities at market value listed				
— in Hong Kong	<u>—</u>	<u>23,960</u>	<u>25,261</u>	<u>71,141</u>
— overseas	<u>—</u>	<u>—</u>	<u>395</u>	<u>2,336</u>
	<u>—</u>	<u>23,960</u>	<u>25,656</u>	<u>73,477</u>

Included in other securities as at 31 December, 2001 is the following investee company.

Name of investee company	Place of incorporation	Class of shares held	Attributable equity interest held by the Group
Ronin Capital Management LLC	U.S.A.	Paid up capital	25%

23. OTHER LONG TERM ASSETS

	The Group	
	2001 HK\$'000	2000 HK\$'000
Deposits with HKFE Clearing Corporation Limited	1,500	—
Fidelity Fund	100	—
Deposits with The Stock Exchange of Hong Kong Limited	276	276
Contribution to Central Clearing and Settlement System Guarantee Fund	94	114
Admission fee paid to Hong Kong Securities Clearing Company Limited	<u>100</u>	<u>100</u>
	<u>2,070</u>	<u>490</u>

24. LOANS AND OTHER LOAN RECEIVABLE

	<i>Notes</i>	The Group	
		2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Loans receivable due after one year	(i)	20,344	200
Other loan receivable	(ii)	<u>—</u>	<u>2,000</u>
		<u>20,344</u>	<u>2,200</u>

Notes:

- (i) The balance includes loans of HK\$893,000 (2000: HK\$200,000) due after one year granted by a subsidiary engaging in money lending to directors of the Company as detailed in note 41(b).
- (ii) The amount was secured by a property, carried interest at 4% per annum and should be fully repayable on 5 July, 2002. The amount was, however, fully settled in December 2001.

25. LOANS RECEIVABLE

Loans granted to borrowers are repayable by instalments or according to set maturity dates. An aging analysis of loan balances as at the balance sheet date is set out below:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Within maturity dates	260,811	134,780
Balance over due for repayment		
— 1-3 months	197,456	87,234
— 4-6 months	1,970	—
— 7-12 months	17,439	—
Over 12 months	<u>21,350</u>	<u>791</u>
	499,026	222,805
Provision for bad and doubtful debts	(128,687)	(20,791)
Loans due after one year included in non-current assets	<u>(20,344)</u>	<u>(200)</u>
	<u>349,995</u>	<u>201,814</u>

26. TRADE AND OTHER RECEIVABLES

The Group maintains a credit policy. The trade and other receivables include trade receivables of HK\$184,067,000 (2000: HK\$48,873,000).

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

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Current	184,067	48,685
— 1-3 months	—	128
— 4-6 months	—	—
— 7-12 months	—	—
Over 12 months	—	60
	<u>184,067</u>	<u>48,873</u>

27. TRADE AND OTHER PAYABLES

- (a) The trade and other payables include trade payables of HK\$6,394,000 (2000: HK\$8,363,000), all of which are current.
- (b) Included in trade and other payables as at 31 December, 2000 was a sale deposit of HK\$33,000,000 received by the Group pursuant to an agreement dated 4 August, 2000 for the disposal of its entire equity interest and shareholder's loan in a wholly-owned subsidiary principally engaging in property investment. The disposal had not been completed on the scheduled completion date of 5 February, 2001. The directors consider that the non-completion of the disposal was a breach of the agreement by the purchaser. Accordingly, the sale deposit has been forfeited and recognised as income during the year.

28. CONVERTIBLE NOTES

	<i>Notes</i>	The Group		The Company	
		2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Notes issued by the Company	(i)	63,840	—	63,840	—
Note issued by a subsidiary	(ii)	—	53,000	—	—
		63,840	53,000	63,840	—
Less: Note matures within one year included in current liabilities		—	(53,000)	—	—
		<u>63,840</u>	<u>—</u>	<u>63,840</u>	<u>—</u>

Notes:

- (i) On 5 July, 2001, the Company issued convertible notes (the “Notes”) with a total principal amount of HK\$75,600,000 to certain third parties. The Notes, which will mature three years from the date of issue, bear interest at 7.5% per annum and can be converted into shares of the Company in the amounts or integral multiples of HK\$168,000 at any time from the date of issue of the Notes up to 14 days before (and excluding) the maturity date. The conversion price, subject to adjustment, is as follows:

Conversion price	Period
HK\$0.01	5 July, 2001 to 4 July, 2002
HK\$0.012	5 July, 2002 to 4 July, 2003
HK\$0.014	5 July, 2003 to 21 June, 2004

The Company may redeem in whole or in part the Notes in denominations of HK\$168,000 at 105% of the outstanding principal amount of the Notes from the date of issue of the Notes until a date 14 days prior to (and excluding) the maturity date together with all accrued interest thereon. No Notes were redeemed by the Company during the year.

During the year, Notes with an aggregate principal amount of HK\$11,760,000 were converted into 1,176,000,000 shares of HK\$0.01 each of the Company at a conversion price of HK\$0.01 each.

- (ii) On 23 October, 2000, the Group issued, through a non wholly-owned subsidiary, a convertible note (the “Note”) with a principal sum of HK\$53,000,000. The Note is guaranteed by the Company and bears interest at 7.5% per annum. The noteholder has the right, at any time from the date of issue up to the first anniversary date of issue of the Note, to convert the whole or any part of the principal amount of the Note (in amounts not less than HK\$5,000,000) into equity shares of the subsidiary with a nominal value of HK\$0.01 each at an initial conversion price, subject to adjustment in certain events, of HK\$0.8 per share.

Unless previously purchased and cancelled, redeemed or converted, the principal sum of the Note is due for redemption on the first anniversary date of issue of the Note. No conversion right was exercised during the year.

The aforesaid subsidiary has been reclassified as an associate and disposed of during the year.

29. OBLIGATIONS UNDER FINANCE LEASES

The amount of obligations payable under finance leases is as follows:

	The Group			
	Minimum lease payments		Present value of minimum lease payments	
	2001	2000	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	176	185	127	136
More than one year, but not exceeding two years	176	185	127	136
More than two years, but not exceeding five years	<u>67</u>	<u>288</u>	<u>47</u>	<u>219</u>
	419	658	301	491
Less: Future finance charges	<u>(118)</u>	<u>(167)</u>		
Present value of finance lease obligations	<u>301</u>	<u>491</u>		
Less: Amount due within one year shown under current liabilities			<u>(127)</u>	<u>(136)</u>
Amount due after one year			<u>174</u>	<u>355</u>

30. BANK AND OTHER BORROWINGS

	The Group		The Company	
	2001	2000	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans and overdrafts:				
Secured	365,032	257,343	121,612	128,430
Unsecured	<u>18,609</u>	<u>89,644</u>	<u>18,609</u>	<u>19,418</u>
	383,641	346,987	140,221	147,848
Other loans:				
Secured	81,420	127,358	—	—
Unsecured	<u>165,401</u>	<u>119,401</u>	<u>87,401</u>	<u>7,401</u>
	246,821	246,759	87,401	7,401
	<u>630,462</u>	<u>593,746</u>	<u>227,622</u>	<u>155,249</u>

The bank and other borrowings are repayable as follows:

	The Group		The Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	356,795	270,013	112,990	14,995
More than one year, but not exceeding two years	52,740	58,941	25,521	25,503
More than two years, but not exceeding five years	153,615	160,483	71,289	73,166
More than five years	<u>67,312</u>	<u>104,309</u>	<u>17,822</u>	<u>41,585</u>
	630,462	593,746	227,622	155,249
Less: Amount due within one year included in current liabilities*	<u>(356,795)</u>	<u>(270,013)</u>	<u>(112,990)</u>	<u>(14,995)</u>
Amount due after one year	<u>273,667</u>	<u>323,733</u>	<u>114,632</u>	<u>140,254</u>

Other loans bear interest at prevailing market rates.

The repayment of a bank loan of HK\$78,892,000 has been rescheduled and agreed by a bank subsequent to the balance sheet date. Accordingly, the above repayment schedule as at 31 December, 2001 is presented based on the revised repayment schedule of the bank loan.

* Included in HK\$356,795,000 as at 31 December, 2001 were instalment amounts of HK\$16,415,000 which were originally not due for repayment within one year. As event of default had arisen under the loan agreement, the loan had become repayable on demand and the relevant loan had been classified as a current liability. The Group is negotiating with the bank for rescheduling the repayment schedule.

31. SHARE CAPITAL

	<i>Notes</i>	Number of ordinary shares	Nominal value HK\$'000
Authorised:			
Share of HK\$0.02 each at 1 April, 2000		100,000,000,000	2,000,000
Subdivision of authorised share capital from 100,000,000,000 shares of HK\$0.02 each to 200,000,000,000 shares of HK\$0.01 each in June 2000	(ii)	<u>100,000,000,000</u>	<u>—</u>
		200,000,000,000	2,000,000
Subdivision of authorised share capital from 200,000,000,000 shares of HK\$0.01 each to 1,000,000,000,000 shares of HK\$0.002 each in August 2000	(iii)	<u>800,000,000,000</u>	<u>—</u>
		1,000,000,000,000	2,000,000
Consolidation of authorised share capital of every five shares of HK\$0.002 each into one share of HK\$0.01 each in August 2000	(iii)	<u>(800,000,000,000)</u>	<u>—</u>
Shares of HK\$0.01 each at 31 December, 2000 and at 31 December, 2001		<u>200,000,000,000</u>	<u>2,000,000</u>
Issued and fully paid:			
Share of HK\$0.02 each at 1 April, 2000		15,595,107,704	311,902
Rights issue in May 2000	(i)	<u>31,190,215,408</u>	<u>623,804</u>
		46,785,323,112	935,706
Reduction of nominal value of issued shares from HK\$0.02 each to HK\$0.01 each in June 2000	(ii)	<u>—</u>	<u>(467,853)</u>
		46,785,323,112	467,853
Reduction of nominal value of issued shares from HK\$0.01 each to HK\$0.002 each and consolidation of every five shares of HK\$0.002 each into one share of HK\$0.01 each in August 2000	(iii)	<u>(37,428,258,490)</u>	<u>(374,283)</u>
		9,357,064,622	93,570
Shares of HK\$0.01 each			
Exercise of share options		<u>616,830,000</u>	<u>6,169</u>
Shares of HK\$0.01 each at 31 December, 2000 and at 1 January, 2001		9,973,894,622	99,739
New share placements to private and institutional investors	(iv)	15,611,500,000	156,115
Exercise of share options	(v)	1,163,000,000	11,630
Conversion of convertible notes into shares	28(a)	<u>1,176,000,000</u>	<u>11,760</u>
Shares of HK\$0.01 each at 31 December, 2001		<u>27,924,394,622</u>	<u>279,244</u>

Notes:

- (i) In May 2000, the Company issued 31,190,215,408 rights shares of HK\$0.02 each at a subscription price of HK\$0.02 per rights share in the proportion of two rights shares for every one existing share then held by qualifying shareholders. The net proceeds were applied for repaying indebtedness, investing in internet and internet related business, making further investments and for working capital.
- (ii) In June 2000, the Company adjusted the nominal value of all the ordinary shares of HK\$0.02 each in the Company by reducing the nominal value of all of the issued shares from HK\$0.02 each to HK\$0.01 each by cancelling HK\$0.01 of the paid up capital of each issued share by way of a reduction of share capital amounting to HK\$467,853,000 in accordance with Section 46 of the Companies Act 1981 of Bermuda and by subdividing every unissued shares from HK\$0.02 each into two unissued shares of HK\$0.01 each. As a result, the authorised share capital of the Company was changed from 100,000,000,000 shares of HK\$0.02 each into 200,000,000,000 shares of HK\$0.01 each.
- (iii) In August 2000, the nominal value of all the issued shares was further reduced from HK\$0.01 each to HK\$0.002 each by cancelling HK\$0.008 of the paid up capital of each issued share by way of a reduction of share capital amounting to HK\$374,283,000 in accordance with Section 46 of the Companies Act 1981 of Bermuda and every five adjusted issued and unissued shares of HK\$0.002 each were consolidated into one consolidated share of HK\$0.01 each.
- (iv) During the year ended 31 December, 2001, the Company made the following share placements to private and institutional investors at the following subscription prices for ordinary shares of HK\$0.01 each in the Company.

Date of allotment	Number of shares allotted	Subscription price per share HK\$	Total proceeds HK\$'000
2 January, 2001	1,994,000,000	0.017	33,898
21 February, 2001	2,393,500,000	0.014	33,509
28 May, 2001	2,960,000,000	0.01	29,600
10 August, 2001	3,610,000,000	0.01	36,100
21 September, 2001	<u>4,654,000,000</u>	0.01	<u>46,540</u>
	<u>15,611,500,000</u>		<u>179,647</u>

The net proceeds from placement of shares have been used as working capital of the Group, utilised to repay its borrowings and to partly finance subscription for the new shares issued by a non wholly-owned subsidiary.

- (v) During the year, 1,163,000,000 share options were granted at nominal consideration with the exercise price of the share options ranging from HK\$0.01 to HK\$0.01104 per share and had been fully exercised. At 31 December, 2001 and 31 December, 2000, outstanding share options to subscribe for the Company's ordinary shares are as follows:

Number of share options outstanding	Exercise price per share HK\$	Exercise period
6,000,000	1.693	9 October, 1997 - 8 October, 2007
2,400,000	0.02048	25 August, 2000 - 24 August, 2010
<u>8,400,000</u>		

All new shares issued as a result of rights issue, share placements, exercise of share options and conversion of convertible notes rank pari passu with the then existing shares in all respects.

32. RESERVES

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Special reserve HK\$'000	Capital reserve HK\$'000	Investment revaluation deficit HK\$'000	Contributed surplus HK\$'000	Deficit HK\$'000	Total HK\$'000
The Group								
At 1 April, 2000	1,552,934	99	33,455	11,131	—	—	(1,591,498)	6,121
Issue of new shares, net of expenses	(9,588)	—	—	—	—	—	—	(9,588)
Deficit on revaluation of other securities	—	—	—	—	(33,921)	—	—	(33,921)
Premium paid by a subsidiary for repurchase of its shares	—	—	—	(3,726)	—	—	—	(3,726)
Arising from cancellation and reduction of share capital	—	—	—	—	—	842,136	—	842,136
Arising from acquisition of interest in a subsidiary	—	—	—	11,149	—	—	—	11,149
Arising from subscription of new shares in a subsidiary	—	—	—	776	—	—	—	776
Loss for the period	—	—	—	—	—	—	(369,056)	(369,056)
At 31 December, 2000 and at 1 January, 2001	1,543,346	99	33,455	19,330	(33,921)	842,136	(1,960,554)	443,891
Issue of new shares, net of expenses	23,008	—	—	—	—	—	—	23,008
Realised on disposal of other securities	—	—	—	—	9,627	—	—	9,627
Surplus on revaluation of other securities	—	—	—	—	4,144	—	—	4,144
Loss for the year	—	—	—	—	—	—	(331,560)	(331,560)
At 31 December, 2001	<u>1,566,354</u>	<u>99</u>	<u>33,455</u>	<u>19,330</u>	<u>(20,150)</u>	<u>842,136</u>	<u>(2,292,114)</u>	<u>149,110</u>
Attributable to:								
The Company and subsidiaries	1,566,354	99	33,455	19,330	(20,150)	842,136	(2,245,886)	195,338
Associates	—	—	—	—	—	—	(46,228)	(46,228)
At 31 December, 2001	<u>1,566,354</u>	<u>99</u>	<u>33,455</u>	<u>19,330</u>	<u>(20,150)</u>	<u>842,136</u>	<u>(2,292,114)</u>	<u>149,110</u>
Attributable to:								
The Company and subsidiaries	1,543,346	99	33,455	19,330	(33,921)	842,136	(1,918,792)	485,653
Associates	—	—	—	—	—	—	(41,762)	(41,762)
At 31 December, 2000	<u>1,543,346</u>	<u>99</u>	<u>33,455</u>	<u>19,330</u>	<u>(33,921)</u>	<u>842,136</u>	<u>(1,960,554)</u>	<u>443,891</u>

	Share premium account <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Investment revaluation deficit <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Deficit <i>HK\$'000</i>	Total <i>HK\$'000</i>
The Company						
At 1 January, 2001	1,552,934	99	—	391,148	(2,184,563)	(240,382)
Issue of new shares, net of expenses	(9,588)	—	—	—	—	(9,588)
Arising from cancellation and reduction of share capital	—	—	—	842,136	—	842,136
Deficit on revaluation of other securities	—	—	(9,627)	—	—	(9,627)
Loss for the period	—	—	—	—	(320,553)	(320,553)
At 31 December, 2000 and at 1 January, 2001	1,543,346	99	(9,627)	1,233,284	(2,505,116)	261,986
Issue of new shares, net of expenses	23,008	—	—	—	—	23,008
Realised on disposal of other securities	—	—	9,627	—	—	9,627
Loss for the year	—	—	—	—	(180,600)	(180,600)
At 31 December, 2001	<u>1,566,354</u>	<u>99</u>	<u>—</u>	<u>1,233,284</u>	<u>(2,685,716)</u>	<u>114,021</u>

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

The contributed surplus to the extent of HK\$391,148,000 represents the difference between the consolidated net assets of the subsidiaries at the date on which they were acquired by the Company and the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1989. The remaining balance of HK\$842,136,000 is transferred from share capital pursuant to the capital reduction made during the period ended 31 December, 2000.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of the contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

At the balance sheet date, the Company has no reserves available for distribution to the shareholders.

33. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	Year ended 31 December, 2001 <i>HK\$'000</i>	Nine months ended 31 December, 2000 <i>HK\$'000</i>
Loss before taxation	(354,996)	(594,914)
Share of results of associates	7,353	(1,076)
Bank interest income	(1,346)	(5,248)
Net deficit arising on revaluation of investment properties	25,343	14,760
Depreciation and amortisation expenses	28,282	38,889
Release of negative goodwill to income	(208)	—
Net unrealised (gain)/loss on trading securities	(4,295)	125,173
Interest income on other loan receivable	(75)	(60)
Interest on convertible notes	4,489	664
Interest on obligations under finance leases	49	37
Interest expense on bank and other borrowings	44,876	41,397
Net provision for bad and doubtful debts	112,888	46,166
Provision for amount due from an associate	6,602	3,000
Loss on disposal of trading securities in exchange for subsidiaries	26,868	—
Loss on disposals of property, plant and equipment	650	1,766
Loss on disposals of investment properties	2,520	—
Loss on disposal of other securities	21,619	—
Forfeiture of sale deposit received from disposal of interest in a subsidiary	(33,000)	—
Net gain on dilution of interest in a subsidiary	(1,269)	(13,118)
Net gain on disposals of interests in associates	(103)	(2,643)
Impairment losses of:		
— property, plant and equipment	115,000	—
— goodwill on consolidation of subsidiaries	4,783	229,000
— interest in an associate	5,479	—
— goodwill on acquisition of associates	—	10,189
— other securities	—	101,716
Increase in loans receivable	(276,221)	(131,632)
(Increase)/decrease in trade and other receivables	(139,966)	26,208
Decrease/(increase) in trading securities	18,614	(95,676)
Increase/(decrease) in trade and other payables	24,195	(92,728)
(Decrease)/increase in amounts due to minority shareholders	(1,185)	4,134
Decrease in amount due to an associate	(57,542)	—
Net cash outflow from operating activities	<u>(420,596)</u>	<u>(293,996)</u>

34. PURCHASE OF INTERESTS IN SUBSIDIARIES

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Net assets acquired:		
Investment properties	14,963	—
Property, plant and equipment	15,659	29,808
Interests in associates	—	13,445
Intangible assets	—	6,000
Trade and other receivables	938	105,965
Loans receivable	—	39,435
Trading securities	—	134,374
Bank balances and cash	271	108,110
Bank overdraft	—	(885)
Trade and other payables	(1,400)	(71,167)
Other short term loans	—	(190,000)
Provision for taxation	—	(2,330)
Minority interests	—	(58,340)
	<u>30,431</u>	<u>114,415</u>
Capital reserve on acquisition	—	(11,149)
Goodwill on acquisition	—	266,906
	<u>30,431</u>	<u>370,172</u>
Satisfied by:		
Trading securities	57,299	—
Cash consideration	—	334,733
Reclassified from interest in an associate	—	35,439
	57,299	370,172
Loss on disposal of trading securities	<u>(26,868)</u>	—
Total consideration	<u>30,431</u>	<u>370,172</u>

Analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the purchase of interests in subsidiaries:

	Year ended 31 December, 2001 <i>HK\$'000</i>	Nine months ended 31 December, 2000 <i>HK\$'000</i>
Cash consideration	—	(334,733)
Cash and bank balances acquired	271	108,110
Bank overdraft acquired	—	(885)
Other loans with maturity within three months acquired	<u>—</u>	<u>(160,000)</u>
Net inflow/(outflow) of cash and cash equivalents in respect of the purchase of interests in subsidiaries	<u>271</u>	<u>(387,508)</u>

The subsidiaries acquired during the year did not have significant contribution to the Group's turnover, results and cash flows of the year.

The subsidiaries purchased during the period ended 31 December, 2000 contributed HK\$123,851,000 to the Group's turnover, a loss of HK\$341,990,000 to the Group's operating results and net operating cash outflow of HK\$111,301,000, utilised a net cash outflow of HK\$26,869,000 in respect of investing activities and funds of HK\$21,405,000 for financing activities.

35. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR/PERIOD

	Share capital (including premium) <i>HK\$'000</i>	Bank loans and other loans <i>HK\$'000</i>	Convertible notes <i>HK\$'000</i>	Obligations under finance leases <i>HK\$'000</i>
Balance at 1 April, 2000	1,864,836	554,905	—	523
Acquisition of subsidiaries	—	190,000	—	—
Issue of shares for cash	634,402	—	—	—
Reduction of share capital	(842,136)	—	—	—
Expenses incurred on issue of shares	(14,017)	—	—	—
Issue of convertible note	—	—	53,000	—
New loans obtained	—	123,446	—	—
Repayment of loans and obligations under finance leases	—	(214,142)	—	(96)
Inception of a finance leases	—	—	—	64
Decrease in other loans with maturity within three months	—	(63,000)	—	—
Balance at 31 December, 2000 and at 1 January, 2001	1,643,085	591,209	53,000	491
Issue of shares for cash	191,734	—	—	—
Expenses incurred on issue of shares	(981)	—	—	—
Issue of convertible notes	—	—	75,600	—
Conversion of convertible notes into shares	11,760	—	(11,760)	—
New loans obtained	—	134,008	—	—
Repayment of loans and obligations under finance leases	—	(74,951)	—	(190)
Repayment of shareholder's loan by an associate assigned to set off other loan	—	(11,398)	—	—
Decrease in other loans with maturity within three months	—	(19,000)	—	—
Elimination on reclassification of a subsidiary as an associate	—	(32,008)	(53,000)	—
Balance at 31 December, 2001	<u>1,845,598</u>	<u>587,860</u>	<u>63,840</u>	<u>301</u>

36. MAJOR NON-CASH TRANSACTIONS

- (a) During the year, the Company had acquired certain subsidiaries at a consideration of HK\$30,431,000 which was satisfied by transfer of the Group's trading securities at the then carrying value of HK\$57,299,000 to the vendor. This resulted in a loss on disposal of trading securities of HK\$26,868,000.
- (b) During the year, a subsidiary had been reclassified as an associate as the Group no longer had control over the subsidiary. In this connection, the then assets and liabilities of the subsidiary as detailed below had been reclassified to interest in an associate.

	2001 HK\$'000	2000 HK\$'000
Net assets:		
Property, plant and equipment	3,408	—
Goodwill	81,836	—
Investment in securities	33,000	—
Trade and other receivables	7,891	—
Trading securities	19,021	—
Bank balances and cash	11,447	—
Trade and other payables	(26,287)	—
Other loans	(32,008)	—
Convertible note	(53,000)	—
Provision for taxation	(100)	—
Amounts due to minority shareholders	(2,949)	—
Minority interests	(48,197)	—
Amounts due from the Group	<u>57,542</u>	<u>—</u>
	<u>51,604</u>	<u>—</u>

- (c) During the year, the repayment of shareholder's loan by an associate to the Group had been assigned to a lender to set off against other loan to the extent of HK\$11,398,000.
- (d) During the year, the deposit of HK\$33,000,000 for disposal of a subsidiary received by the Group in prior period had been forfeited and recognised as income of the year.
- (e) During the year, convertible notes issued by the Company with principal amount of HK\$11,760,000 were converted into 1,176,000,000 shares of HK\$0.01 each of the Company at a conversion price of HK\$0.01 each.

37. COMMITMENTS

(a) Capital commitments

Capital commitments contracted for but not provided in the financial statements in respect of the following:

	The Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital injection to an associate	4,680	4,680
Acquisition of Hong Kong Futures Exchange trading right	—	1,120
Acquisition of property, plant and equipment	—	1,630
	<u>4,680</u>	<u>7,430</u>

(b) Operating lease commitments

Minimum lease payments paid under operating leases during the year are as follows:

	Year ended	Nine months
	31 December,	ended
	2001	31 December,
	<i>HK\$'000</i>	<i>HK\$'000</i>
Office premises	1,145	802
Equipment	26	26
	<u>1,171</u>	<u>828</u>

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises and equipment fall due as follows:

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	182	928
In the second to fifth year inclusive	196	1,425
	<u>378</u>	<u>2,353</u>

At the balance sheet date, the Company had no operating lease commitments.

38. CONTINGENT LIABILITIES

At the balance sheet date, the Company had given corporate guarantees to banks and financial institutions in respect of credit facilities utilised by subsidiaries to the extent of HK\$250,544,000 (2000: HK\$362,270,000).

The Company had given a guarantee to a third party to the extent of HK\$53 million in respect of a convertible note of HK\$53 million issued by a former subsidiary. As at 31 December, 2001, as no conversion right was exercised, the whole principal sum was due for redemption. The former subsidiary is negotiating with the noteholder for extending the maturity date of the convertible note and the Company is negotiating with relevant parties for releasing the guarantee. In addition, the Company had executed a guarantee for the due observance and performance of the former subsidiary under a shareholders' agreement entered into among the Company, the former subsidiary and other third parties.

39. PLEDGE OF ASSETS

At the balance sheet date, certain assets of the Group with the following net book values have been pledged to banks and other financial institutions to secure credit facilities granted to the Group:

	The Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Land and buildings	239,738	352,085
Investment properties	191,360	209,300
Bank deposits	<u>15,254</u>	<u>15,072</u>
	<u>446,352</u>	<u>576,457</u>

At the balance sheet date, the entire issued share capital of a subsidiary of the Company, Million Regal Investment Limited, was pledged to a financial institution to secure loan facility of HK\$25 million (2000: HK\$25 million) granted to the subsidiary.

The Group's interests in two associates, Bai Hui Group Company Limited and Bai Hui Real Estate Company Limited, together with the shareholders' loans of approximately HK\$21 million (2000: HK\$38 million) were pledged to secure a loan and interest repayments of HK\$65 million (2000: HK\$95 million) payable to a third party.

40. UNPROVIDED DEFERRED TAXATION

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

	The Group		The Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax effect of timing differences attributable to:				
Excess of tax allowances over depreciation	(9,155)	(5,948)	—	—
General provisions	24,576	6,729	—	—
Taxation losses	<u>113,622</u>	<u>105,655</u>	<u>10,544</u>	<u>5,259</u>
	<u>129,043</u>	<u>106,436</u>	<u>10,544</u>	<u>5,259</u>

The amount of the unprovided deferred tax credit/(charge) for the year/period is as follows:

	The Group		The Company	
	Year ended	Nine months ended	Year ended	Nine months ended
	31 December, 2001	31 December, 2000	31 December, 2001	31 December, 2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax effect of timing differences attributable to:				
Excess of tax allowances over depreciation	(3,207)	(4,943)	—	—
General provisions	17,847	5,460	—	—
Tax losses				
— current year/period	5,815	25,281	5,679	1,816
— under/(over) stated in prior years	4,863	13,554	(394)	(9,321)
Acquisition of subsidiaries	945	1,063	—	—
Eliminated on reclassification of a subsidiary as an associate	<u>(3,656)</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>22,607</u>	<u>40,415</u>	<u>5,285</u>	<u>(7,505)</u>

A deferred tax asset in respect of tax losses available to set off future taxable profits has not been recognised in the financial statements as it is uncertain whether the tax benefit will be crystallised in the foreseeable future.

Deferred tax has not been provided in respect of the revaluation deficit arising on the revaluation of investment properties and other securities as losses arising on the disposal of these assets would not be subject to taxation. Accordingly, the revaluation does not constitute a timing difference for tax purposes.

41. RELATED PARTY TRANSACTIONS

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

- (a) A property of the Group with net book value of HK\$18,794,000 (31 December, 2000: HK\$24,720,000) is occupied by the brother of a director of the Company rent free. The director's brother is a director of certain non-wholly owned subsidiaries of the Company.
- (b) The Group has granted unsecured loans to two executive directors of the Company as follows:

Name of director	Balance at 31 December, 2001 HK\$'000	Balance at 1 January, 2001 HK\$'000	Maximum amount outstanding during the year HK\$'000	Maturity	Interest rate per annum
Mr. Chung, Wilson	1,086	1,000	1,115	Extended from 10 October, 2001 to 25 October, 2006	Prime rate+2.5%
Mr. Wong Siu Bun	398	270	398	Repayable on demand	9.5%-11.5%
Mr. Wong Siu Bun	<u>72</u>	<u>200</u>	200	29 June, 2002	15%
	<u>1,556</u>	<u>1,470</u>			

There was neither any interest due but unpaid nor any provision made against these loans at 31 December, 2001.

- (c) The Group has granted unsecured short term loans and secured advances to a director of certain non wholly-owned subsidiaries who had resigned during the year. The loans carried interest at 12% to 15% per annum or at prime rate plus 5% per annum. The advances carried interest at prime rate plus 3% to 24% per annum. At the date of resignation of the director, the outstanding loans and advances amounted to approximately HK\$46.9 million and HK\$22.6 million respectively. Interest income received and receivable from the director up to that date amounted to HK\$702,000.
- (d) The banking facilities of a non wholly-owned subsidiary to the extent of HK\$40,000,000 were guaranteed by a director of certain non wholly-owned subsidiaries.
- (e) The Group has obtained a short term loan of HK\$80,000,000 from a subsidiary of minority shareholder. The loan was unsecured and carried interest at 9% per annum. The interest paid on the loan amounted to HK\$2,037,000 in respect of the year.
- (f) The Group has granted securities margin loans to a substantial shareholder and certain directors of the Company. At the balance sheet date, the loans amounted to HK\$26,811,000 and HK\$2,077,000 respectively which carried interest at prime rate plus 3% per annum.

42. POST BALANCE SHEET EVENT

In February 2002, a non wholly-owned subsidiary, HMI, subscribed for 289,990,000 shares in Radford Capital Investment Limited at a total consideration of HK\$52,198,200 pursuant to a subscription agreement. After the subscription, HMI holds 29% interest in Radford Capital Investment Limited whose shares are listed on The Stock Exchange of Hong Kong Limited.

43. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, the following SSAPs:

SSAP 9	(Revised in January 2001)	Events after the balance sheet date
SSAP 10	(Revised in May 2001)	Accounting for investments in associates
SSAP 14	(Revised in February 2000)	Leases
SSAP 17	(Revised in April 2001)	Property, plant and equipment
SSAP 26	(Issued in February 2000 and revised in August 2001)	Segment reporting
SSAP 28	(Issued in January 2001)	Provisions, contingent liabilities and contingent assets
SSAP 29	(Issued in January 2001)	Intangible assets
SSAP 30	(Issued in June 2001)	Business combination
SSAP 31	(Issued in January 2001)	Impairment of assets
SSAP 32	(Issued in January 2001)	Consolidated financial statements and accounting for investments in subsidiaries

Adoption of these standards has resulted in a number of changes in the Group's accounting policies which has led to some changes in the detailed application of the Group's accounting policies and some modifications to financial statement presentation. Comparative amounts for prior period have been restated in order to achieve a consistent presentation.

In particular, the adoption of these standards has resulted in the following changes to the Group's accounting policies.

(a) Goodwill

In prior periods, negative goodwill arising on acquisition of subsidiaries and associates was credited to reserves and included in carrying value of associates respectively in the year in which it arose. Effective 1 January, 2001, the Group adopted the transitional provisions prescribed in SSAP 30 "Business Combination". All negative goodwill arising from acquisitions prior to 1 January, 2001 continues to be accounted for in the above manner and will be credited to income at the time of disposal of the relevant subsidiary or associate.

Negative goodwill arising on acquisition of subsidiaries and associates after 1 January, 2001 is presented as deduction from intangible assets and included in the carrying value of associates respectively and will be released to income based on an analysis of the circumstances from which the balance resulted.

Goodwill on acquisitions of subsidiaries at 31 December, 2000 has been reclassified to be included in intangible assets to conform with the current year's presentation.

(b) Intangible assets

In prior periods, the Group's trading rights in The Stock Exchange of Hong Kong Limited included in other long term assets were stated at cost less provision for permanent diminution in value. Effective 1 January, 2001, the Group adopted SSAP 29 "Intangible Assets". The trading rights are stated at cost less amortisation. Amortisation is calculated on the straight line basis to write off the cost of the trading rights over a period of ten years. This change in accounting policy has not been applied retrospectively as the financial effect on prior periods is immaterial. Accordingly, the trading rights are amortised over the remaining useful life of 111 months commencing from 1 January, 2001.

The trading rights at 31 December, 2000 had been reclassified to be included in intangible assets to conform with the current year's presentation.

(c) Impairment of assets

Effective 1 January, 2001, the Group adopted SSAP 31 "Impairment of assets" which has introduced a formal framework for the recognition of impairment losses in respect of the Group's assets other than financial assets and investment properties. Although in prior years the Group complied with the requirements of specific Accounting Standards in respect of impairment losses, the introduction of SSAP 31 has required a re-estimation of the recoverable amounts of certain intangible assets, property, plant and equipment and interests in associates, resulting in the identification of impairment losses of property, plant and equipment and goodwill amounting to HK\$115,000,000 and HK\$4,783,000 respectively as at 31 December, 2001. These impairment losses have been recognised in full in the current year.

(d) Segment reporting

Effective 1 January, 2001, the Group adopted SSAP 26 "Segment Reporting" which has established principles for reporting the segmental analysis of financial information. The adoption of this standard has resulted in the following changes in the basis for allocation of expenses to segments.

Operating expenses paid or payable to other segments resulting from the operating activities of a segment that are directly attributable to the segment are included as expenses of the segment. Corporate expenses previously included in the business segment of investment holding are reclassified as unallocated expenses. Finance cost, which is attributable to the business segment of provision of financial services, is included as expense of the segment.

The comparative figures of the income statement and segmental information for the nine months ended 31 December, 2000 have been restated to conform with the current year's presentation.

44. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 11 April, 2002.

Set out below is an extract of the interim report of China United dated 20 September, 2002:

Condensed consolidated income statement

For the six months ended 30 June, 2002

	Notes	For the six months ended 30 June,	
		2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)
Turnover	2	123,330	119,312
Other revenue		2,784	5,405
Cost of trading securities sold		(87,351)	(113,895)
Depreciation and amortisation expenses		(7,205)	(19,732)
Staff costs		(14,398)	(17,149)
Finance costs for provision of brokerage and financial services		(5,324)	(7,006)
Net other operating income/(expenses)	3	<u>65,101</u>	<u>(22,006)</u>
Profit/(loss) from operations	4	76,937	(55,071)
Forfeiture of sale deposit received from disposal of interest in a subsidiary		—	33,000
Gain on disposal of partial interest in an associate		—	2,391
Loss on disposal of other securities		—	(21,619)
Impairment loss on interest in an associate		—	(5,500)
Gain on dilution of interest in a subsidiary		—	1,269
Other finance costs		(13,324)	(17,421)
Share of results of associates		<u>—</u>	<u>(4,466)</u>
Profit/(loss) before taxation		63,613	(67,417)
Taxation	5	<u>(12,910)</u>	<u>(200)</u>
Profit/(loss) after taxation		50,703	(67,617)
Minority interests		<u>(16,193)</u>	<u>10,666</u>
Profit/(loss) for the period attributable to shareholders		<u><u>34,510</u></u>	<u><u>(56,951)</u></u>
			(Restated)
Earnings/(loss) per share			
- Basic	6	<u><u>3.37 cents</u></u>	<u><u>(10.69 cents)</u></u>
- Diluted	6	<u><u>1.82 cents</u></u>	<u><u>N/A</u></u>

The accompanying notes form an integral part of these unaudited condensed financial statements.

Condensed consolidated balance sheet

As at 30 June, 2002

	<i>Notes</i>	30 June, 2002 <i>HK\$'000</i> <i>(Unaudited)</i>	31 December, 2001 <i>HK\$'000</i> <i>(Audited)</i>
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties		218,000	218,000
Property, plant and equipment		249,634	255,911
Intangible assets		2,723	3,000
Interests in associates	7	1,485	22,285
Investments in securities	8	56,715	48,245
Deposit paid for acquisition of interests in subsidiaries	9	30,000	—
Other long term assets		2,070	2,070
Loans receivable - due after one year	10	4,147	20,344
		<u>564,774</u>	<u>569,855</u>
Current assets			
Loans receivable - due within one year	10	291,700	349,995
Trade and other receivables	11	199,075	189,215
Investments in securities	8	171,100	56,458
Pledged bank deposits		15,000	15,254
Cash and bank balances		25,997	34,201
		<u>702,872</u>	<u>645,123</u>
Current liabilities			
Trade and other payables	12	45,905	47,303
Amounts due to minority shareholders of subsidiaries		7,754	7,754
Provision for taxation		740	800
Obligations under finance leases - due within one year		127	127
Bank and other borrowings - due within one year		366,235	356,795
		<u>420,761</u>	<u>412,779</u>
Net current assets		<u>282,111</u>	<u>232,344</u>
Total assets less current liabilities carried forward		<u>846,885</u>	<u>802,199</u>

The accompanying notes form an integral part of these unaudited condensed financial statements.

Condensed consolidated balance sheet*As at 30 June, 2002*

	<i>Notes</i>	30 June, 2002 <i>HK\$'000</i> <i>(Unaudited)</i>	31 December, 2001 <i>HK\$'000</i> <i>(Audited)</i>
Total assets less current liabilities brought forward		<u>846,885</u>	<u>802,199</u>
Minority interests		<u>52,958</u>	<u>36,164</u>
Non-current liabilities			
Obligations under finance leases			
- due after one year		112	174
Bank and other borrowings			
- due after one year		247,242	273,667
Convertible notes		63,840	63,840
Deferred taxation		<u>12,000</u>	<u>—</u>
		<u>323,194</u>	<u>337,681</u>
NET ASSETS		<u><u>470,733</u></u>	<u><u>428,354</u></u>
CAPITAL AND RESERVES			
Share capital	13	279,244	279,244
Reserves	14	<u>191,489</u>	<u>149,110</u>
SHAREHOLDERS' FUNDS		<u><u>470,733</u></u>	<u><u>428,354</u></u>

The accompanying notes form an integral part of these unaudited condensed financial statements.

Condensed consolidated cash flow statement*For the six months ended 30 June, 2002*

	For the six months ended 30 June,	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Restated)</i>
Net cash from/(used in) operating activities	25,584	(156,692)
Net cash (used in)/from investing activities	(30,273)	24,968
Net cash (used in)/from financing activities	<u>(3,515)</u>	<u>144,052</u>
Net (decrease)/increase in cash and cash equivalents	(8,204)	12,328
Elimination on reclassification of a subsidiary to an associate	—	(11,447)
Cash and cash equivalents at 1 January	<u>34,201</u>	<u>75,017</u>
Cash and cash equivalents at 30 June	<u><u>25,997</u></u>	<u><u>75,898</u></u>
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	<u><u>25,997</u></u>	<u><u>75,898</u></u>

The accompanying notes form an integral part of these unaudited condensed financial statements.

Condensed consolidated statement of changes in equity*For the six months ended 30 June, 2002*

	<i>Note</i>	For the six months ended 30 June,	
		2002	2001
		<i>HK\$'000</i>	<i>HK\$'000</i>
Total shareholders' equity at 1 January (Audited)		428,354	543,630
Surplus/(deficit) on revaluation of other securities not recognised in the income statement	14	7,869	(7,460)
Net profit/(loss) for the period	14	34,510	(56,951)
Issue of new shares, net of expenses		—	102,416
Investment revaluation deficit realised on disposal of other securities	14	—	9,627
Total shareholders' equity at 30 June (Unaudited)		<u>470,733</u>	<u>591,262</u>

The accompanying notes form an integral part of these unaudited condensed financial statements.

Notes to the condensed financial statements*30 June, 2002***1. BASIS OF PREPARATION AND ACCOUNTING POLICIES**

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants (“HKSA”) and with the applicable disclosure requirements of Appendix 16 to the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited. The basis of preparation and accounting policies used in the preparation of the condensed consolidated interim financial statements are consistent with those disclosed in the Group’s audited financial statements for the year ended 31 December, 2001 except as described below.

In the current period, the Group has adopted, for the first time, a number of new and revised SSAPs issued by the HKSA which has led to the following changes in the Group’s accounting policies and the presentation of the financial statements:

SSAP 1 (Revised) “Presentation of Financial Statements” has introduced new format of presentation in reporting changes in equity. The presentation in the prior period’s condensed financial statements has been restated in order to achieve a consistent presentation.

SSAP 15 (Revised) “Cash Flow Statements” has changed the classifications of cash flows in the cash flow statement and the definition of cash equivalents. The presentation in the prior period’s condensed cash flow statement has been restated in accordance with the new format.

SSAP 34 “Employee Benefits” has introduced a formal framework for the recognition of liabilities and expenses in respect of employee benefits. The adoption of this new accounting standard has not resulted in any material effects on the financial statements of the current or prior period and accordingly, no prior period adjustment is required.

2. SEGMENT INFORMATION

The Group's turnover and operating results are substantially derived from Hong Kong. The analysis of the Group's revenue and results by business segments is as follows:

(Unaudited)	Six months ended 30 June, 2002						
	Investment in trading securities	Brokerage and financial services	Property investment	Investment holding	Inter- segment eliminations	Unallocated	Consolidated total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		<i>Note</i>					
Revenue							
Turnover							
External	86,092	33,612	3,626	—	—	—	123,330
Inter-segment	—	—	1,569	—	(1,569)	—	—
Other revenue	—	2,258	—	—	—	526	2,784
Total revenue	<u>86,092</u>	<u>35,870</u>	<u>5,195</u>	<u>—</u>	<u>(1,569)</u>	<u>526</u>	<u>126,114</u>
Result							
Segment profit/(loss)	<u>87,845</u>	<u>4,105</u>	<u>(1,875)</u>	<u>—</u>	<u>—</u>	<u>(13,138)</u>	76,937
Other finance costs	—	—	—	—	—	(13,324)	<u>(13,324)</u>
Profit before taxation							63,613
Taxation							<u>(12,910)</u>
Profit after taxation							<u>50,703</u>

Note: Included in turnover are interest income from loans receivable and advances amounting to HK\$24,434,000.

(Unaudited)	Six months ended 30 June, 2001							
	Investment in trading securities <i>HK\$'000</i>	Brokerage and financial services <i>HK\$'000</i> Note	Property investment <i>HK\$'000</i>	Internet and internet related business <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Inter- segment eliminations <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated Total <i>HK\$'000</i>
Revenue								
Turnover								
External	81,896	34,029	3,387	—	—	—	—	119,312
Inter-segment	—	1,436	1,862	—	—	(3,298)	—	—
	<u>81,896</u>	<u>35,465</u>	<u>5,249</u>	<u>—</u>	<u>—</u>	<u>(3,298)</u>	<u>—</u>	<u>119,312</u>
Other revenue	—	4,086	—	680	639	—	—	5,405
	<u>—</u>	<u>4,086</u>	<u>—</u>	<u>680</u>	<u>639</u>	<u>—</u>	<u>—</u>	<u>5,405</u>
Total revenue	<u>81,896</u>	<u>39,551</u>	<u>5,249</u>	<u>680</u>	<u>639</u>	<u>(3,298)</u>	<u>—</u>	<u>124,717</u>
Result								
Segment								
profit/(loss)	<u>(17,225)</u>	<u>2,732</u>	<u>1,517</u>	<u>(18,828)</u>	<u>(4,465)</u>	<u>—</u>	<u>(18,802)</u>	<u>(55,071)</u>
Forfeiture of sale deposit received from disposal of interest in a subsidiary	—	—	33,000	—	—	—	—	33,000
Gain on disposal of partial interest in an associate	—	—	—	2,391	—	—	—	2,391
Loss on disposal of other securities	—	—	—	—	(21,619)	—	—	(21,619)
Impairment loss on interest in an associate	—	—	—	(5,500)	—	—	—	(5,500)
Gain on dilution of interest in a subsidiary	—	1,269	—	—	—	—	—	1,269
Other finance costs	—	—	—	—	—	—	(17,421)	(17,421)
Share of results of associates	—	—	(4,466)	—	—	—	—	(4,466)
Loss before taxation								(67,417)
Taxation								(200)
Loss after taxation								<u>(67,617)</u>

Note: Included in turnover are interest income from loans receivable and advances amounting to HK\$25,112,000.

3. NET OTHER OPERATING INCOME/(EXPENSES)

Included in net other operating income/(expenses) are the following:

	For the six months ended 30 June,	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	
Unrealised gain on trading securities	89,104	16,503
Provision for bad and doubtful debts	(6,896)	(8,324)
Loss on disposal of an investment property	—	(2,820)
Loss on disposal of property, plant and equipment	(34)	(347)
	<u>89,104</u>	<u>16,503</u>

4. PROFIT/(LOSS) FROM OPERATIONS

Profit/(loss) from operations is arrived at after (charging)/crediting:

	For the six months ended 30 June,	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	
Loss on sale of trading securities	(1,448)	(32,433)
Dividend income	189	434
	<u>(1,448)</u>	<u>(32,433)</u>

5. TAXATION

	For the six months ended 30 June,	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	
The tax charge comprises:		
Hong Kong profits tax		
underprovided in prior periods	910	—
Taxation elsewhere		
underprovided in prior periods	—	200
Deferred taxation	12,000	—
	<u>12,910</u>	<u>200</u>
Share of tax on results of associates	—	—
	<u>12,910</u>	<u>200</u>

No provision for Hong Kong profits tax has been made for the six months ended 30 June, 2002 and 30 June, 2001 as the Group has no assessable profits for these periods.

6. EARNINGS/(LOSS) PER SHARE

The calculation of basic and diluted earnings/(loss) per share for the six months ended 30 June, 2002 and 30 June, 2001 are based on the following data:

	For the six months ended 30 June,	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	
Earnings/(loss)		
Net profit/(loss) attributable to shareholders for the period for the purpose of basic earnings/(loss) per share	34,510	(56,951)
Interest saved upon deemed conversion of all convertible notes at the beginning of the period	<u>2,374</u>	<u>—</u>
Net profit/(loss) attributable to shareholders for the period for the purpose of diluted earnings/(loss) per share	<u>36,884</u>	<u>(56,951)</u>
		<i>(Restated)</i>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	1,024,748,426	532,997,806
Effect of dilutive potential ordinary shares in respect of convertible notes issued in July 2001	<u>1,002,985,075</u>	<u>—</u>
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	<u>2,027,733,501</u>	<u>532,997,806</u>

The weighted average number of ordinary shares for the purpose of calculation of basic and diluted earnings/(loss) per share has been adjusted for the effect of the share consolidation (note 19(b)) and rights issue (note 19(c)) subsequent to the balance sheet date.

Share options have not been taken into account in the calculation of diluted earnings per share for the six months ended 30 June, 2002 as the exercise price per share is higher than the market price per share during the period.

No diluted loss per share is presented for the six months ended 30 June, 2001 as the exercise of the Company's outstanding share options has an anti-dilutive effect on the basic loss per share for that period.

7. INTERESTS IN ASSOCIATES

During the period, certain properties to be distributed by an associate to the Group for repayment of its shareholder's loan made to the associate has been assigned to the Group's lender for settlement of part of the loan granted to the Group at a total agreed amount of approximately HK\$21 million.

8. INVESTMENTS IN SECURITIES

	Trading securities		Other securities	
	30 June, 2002 HK\$'000 (Unaudited)	31 December, 2001 HK\$'000 (Audited)	30 June, 2002 HK\$'000 (Unaudited)	31 December, 2001 HK\$'000 (Audited)
Equity securities				
Listed investments	171,100	56,458	—	—
Unlisted investments	—	—	3,899	3,899
Unlisted investment fund	—	—	48,917	40,447
Unlisted debt securities	—	—	3,899	3,899
	<u>171,100</u>	<u>56,458</u>	<u>56,715</u>	<u>48,245</u>

Included in listed investments as at 30 June, 2002 is the Group's investment in Radford Capital Investment Limited ("Radford Capital"), a company incorporated in Cayman Islands with limited liability, whose shares are listed on The Stock Exchange of Hong Kong Limited. The Group's investment with a carrying amount of HK\$139,200,000 represents approximately 28.4% holding of the issued ordinary shares of Radford Capital. Radford Capital is not regarded as an associate of the Group because the Group intends to hold the investment in Radford Capital temporarily.

9. DEPOSIT PAID FOR ACQUISITION OF INTERESTS IN SUBSIDIARIES

The Group has entered into an agreement for acquisition of interests in certain subsidiaries principally engaged in operations of restaurants and sales agency for motor vehicles. In this connection, a total consideration of HK\$30 million has been paid by the Group to the vendor.

10. LOANS RECEIVABLE

Loans granted to borrowers are repayable by instalments or according to set maturity dates. The aging analysis of loans receivable balances as at the balance sheet date is set out below.

	30 June, 2002	31 December, 2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Within maturity dates	373,408	260,811
Balance overdue for repayment		
Within:		
1-3 months	17,746	197,456
4-6 months	120	1,970
7-12 months	5,323	17,439
Over 12 months	<u>30,170</u>	<u>21,350</u>
Total loans receivable	426,767	499,026
Provision for bad and doubtful debts	<u>(130,920)</u>	<u>(128,687)</u>
	295,847	370,339
Less: Loans due after one year included in non-current assets	<u>(4,147)</u>	<u>(20,344)</u>
Loans receivable due within one year	<u><u>291,700</u></u>	<u><u>349,995</u></u>

11. TRADE AND OTHER RECEIVABLES

The Group maintains a credit policy. Included in trade and other receivables are trade receivables of approximately HK\$185,904,000 (31 December, 2001: HK\$184,067,000). The aging analysis of trade receivable, after provision for bad and doubtful debts, as at the balance sheet date is as follows:

	30 June, 2002	31 December, 2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Current	185,706	184,067
Within:		
1-3 months	106	—
4-6 months	<u>92</u>	<u>—</u>
	<u><u>185,904</u></u>	<u><u>184,067</u></u>

12. TRADE AND OTHER PAYABLES

The trade and other payables include trade payables of approximately HK\$12,348,000 (31 December, 2001: HK\$6,394,000). At the balance sheet date, all trade payables are current.

13. SHARE CAPITAL

	30 June, 2002	31 December, 2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Authorised		
200,000,000,000 ordinary shares of HK\$0.01 each	<u>2,000,000</u>	<u>2,000,000</u>
Issued and fully paid		
27,924,394,622 ordinary shares of HK\$0.01 each	<u>279,244</u>	<u>279,244</u>

There are no changes in share capital during the period. The details of changes in share capital subsequent to 30 June, 2002 are set out in notes 19(a), (b) and (c) to the financial statements.

At 30 June, 2002, the Company has the following outstanding options granted in prior periods to subscribe for its shares of HK\$0.01 each.

Exercisable period	Exercise price per share	Number of options outstanding at 30 June, 2002
	<i>HK\$</i>	
9 October, 1997 — 8 October, 2007	1.693	6,000,000
25 August, 2000 — 24 August, 2010	0.02048	2,400,000

Pursuant to an ordinary resolution passed on 30 May, 2002, the termination of the existing executive share option scheme of the Company adopted on 15 December, 1995 and adoption of a new share option scheme were approved by the shareholders of the Company at the same date. No option was granted under the new share option scheme during the period.

14. RESERVES

	Share premium account <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Investment revaluation deficit <i>HK\$'000</i>	Contributed Surplus <i>HK\$'000</i>	Deficit <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January, 2001 (Audited)	1,543,346	99	33,455	19,330	(33,921)	842,136	(1,960,554)	443,891
Issue of new shares, net of expenses	21,591	—	—	—	—	—	—	21,591
Deficit on revaluation of other securities	—	—	—	—	(7,460)	—	—	(7,460)
Realised on disposal of other securities	—	—	—	—	9,627	—	—	9,627
Loss for the period	—	—	—	—	—	—	(56,951)	(56,951)
At 30 June, 2001 (Unaudited)	<u>1,564,937</u>	<u>99</u>	<u>33,455</u>	<u>19,330</u>	<u>(31,754)</u>	<u>842,136</u>	<u>(2,017,505)</u>	<u>410,698</u>
At 1 January, 2002 (Audited)	1,566,354	99	33,455	19,330	(20,150)	842,136	(2,292,114)	149,110
Surplus on revaluation of other securities	—	—	—	—	7,869	—	—	7,869
Profit for the year	—	—	—	—	—	—	34,510	34,510
At 30 June, 2002 (Unaudited)	<u>1,566,354</u>	<u>99</u>	<u>33,455</u>	<u>19,330</u>	<u>(12,281)</u>	<u>842,136</u>	<u>(2,257,604)</u>	<u>191,489</u>

15. COMMITMENTS

(a) Capital commitments

Commitments contracted for but not provided in the financial statements are as follows:

	30 June, 2002	31 December, 2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Capital injection to an associate	<u>4,680</u>	<u>4,680</u>

(b) Operating lease commitments

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises and equipment fall due as follows:

	30 June, 2002	31 December, 2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Within one year	156	182
In the second to fifth year inclusive	<u>39</u>	<u>196</u>
	<u>195</u>	<u>378</u>

16. CONTINGENCIES

In connection with a convertible note of HK\$53,000,000 issued to a noteholder by a former subsidiary, the Group has given a guarantee to the noteholder to the extent of HK\$53,000,000. At 30 June, 2002, the outstanding amount of the convertible note is HK\$10,000,000. The Company has also executed a guarantee for the due observance and performance of the former subsidiary under a shareholders' agreement entered into among the Company, the former subsidiary and other third parties.

17. PLEDGE OF ASSETS

At the balance sheet date, certain assets of the Group with the following net book values have been pledged to banks and other financial institutions to secure credit facilities granted to the Group.

	30 June, 2002	31 December, 2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Land and buildings	234,949	239,738
Investment properties	191,080	191,360
Trading securities	139,200	—
Bank deposits	<u>15,000</u>	<u>15,254</u>
	<u>580,229</u>	<u>446,352</u>

The Group's interests in two associates with an aggregate carrying value of approximately HK\$1,485,000 (31 December, 2001: HK\$22,285,000) as at 30 June, 2002 were pledged to secure a loan and interest repayments of approximately HK\$43,000,000 (31 December, 2001: HK\$65,000,000) payable to a lender.

18. RELATED PARTY TRANSACTIONS

During the period, the Group has the following material transactions with related parties.

- (a) The Group has granted unsecured loans of approximately HK\$1,390,000 (31 December, 2001: HK\$1,556,000) to certain directors of the Company. The loans bear interest ranging from prime rate plus 2.5% per annum to 11.5% per annum.
- (b) A property of the Group with net book value of approximately HK\$18,456,000 (31 December, 2001: HK\$18,794,000) is occupied by a director of certain non wholly-owned subsidiaries rent-free.
- (c) The Group's credit facilities to the extent of HK\$110,000,000 (31 December, 2001: HK\$60,000,000) are guaranteed by a director of certain non wholly-owned subsidiaries.
- (d) The Group has granted loans to certain companies. A director of certain non wholly-owned subsidiaries of the Group is also a director of these companies. At the balance sheet date, the outstanding loans amounted to HK\$53,000,000 which carry interest at prime rate plus 3% per annum.
- (e) The Group has granted securities margin loans to a substantial shareholder and certain directors of the Company. At the balance sheet date, the loans amounted to HK\$6,955,000 (31 December, 2001: HK\$26,811,000) and HK\$1,021,000 (31 December, 2001: HK\$2,077,000) respectively which carry interest at prime rate plus 3% per annum.
- (f) A subsidiary of the Group has received management fees of HK\$561,000 from Radford Capital in respect of the period.

19. POST BALANCE SHEET EVENTS

The following events have occurred subsequent to the balance sheet date:

- (a) Pursuant to a special resolution passed on 10 July, 2002, the Company adjusted the nominal value of all the issued shares of HK\$0.01 each in the Company by reducing the nominal value of all of the issued shares from HK\$0.01 each to HK\$0.0002 each by cancelling HK\$0.0098 of the paid up capital of each issued share by way of a reduction of share capital amounting to approximately HK\$273,659,000. The amount resulting from the capital reduction has been credited to the contributed surplus account of the Company. The issued share capital after the capital reduction decreased from approximately HK\$279,244,000 to HK\$5,585,000.
- (b) Pursuant to the same special resolution, every fifty issued shares of HK\$0.0002 each of the Company resulting from the capital reduction have been consolidated into one share of HK\$0.01 each ("Consolidated Share"). After the capital reduction and share consolidation, the Company's number of issued shares decreased from 27,924,394,622 to 558,487,892.
- (c) On 7 August, 2002, the Company issued 5,584,878,920 rights shares of HK\$0.01 each at a subscription price of HK\$0.02 per rights share in the proportion of ten rights shares for every one Consolidated Share then held by qualifying shareholders. The details of the rights issue are set out in the Company's prospectus dated 19 July, 2002 despatched to the shareholders. All new shares issued as a result of the rights issue rank pari passu with the then existing shares in all respects. After the rights issue, the Company's number of issued shares increased from 558,487,892 shares of HK\$0.01 each to 6,143,366,812 shares of HK\$0.01 each. The proceeds from the rights issue before related expenses amounted to approximately HK\$111,698,000.

- (d) As a result of the aforementioned capital reduction, share consolidation and rights issue, the conversion prices or exercise prices and/or the number of shares to be issued upon the exercise of the outstanding convertible notes and options have been adjusted in accordance with the respective terms of the instrument constituting the convertible notes and the options.
- (e) The Group has subscribed for 100 million shares in a non wholly-owned subsidiary, Hennabun Management Inc. at a consideration of HK\$130 million. This resulted in the increase in the Group's interest in Hennabun Management Inc. from 81.08% to 93.04%.
- (f) The Company's options outstanding at 30 June, 2002 were cancelled on 27 August, 2002.
- (g) The acquisition of the interests in subsidiaries at a total consideration of HK\$30 million as mentioned in note 9 to the financial statements was completed in August 2002.
- (h) The Company proposed a reorganisation which will involve a change of domicile of the Company by way of a scheme of arrangement (the "Scheme") under Section 99 of the Companies Act 1981 of Bermuda. Upon the Scheme approved by the shareholders and becoming effective, the Company will become a wholly-owned subsidiary of China United International Holdings Limited ("CU International"), a company incorporated in Hong Kong which will then be the holding company of the Company and its subsidiaries.

The shares in CU International will be listed on The Stock Exchange of Hong Kong Limited by way of introduction. At the same time, the listing of the shares in the Company on The Stock Exchange of Hong Kong Limited will be withdrawn.

Under the Scheme, each of the shareholders of the Company will receive one share in CU International for every 25 then existing issued shares (after the aforesaid share consolidation and rights issue) in the Company held by them as at the business day last preceding the date on which the Scheme becomes effective.

To facilitate the Scheme, it is proposed that a new share option scheme will be adopted and new convertible notes will be issued by CU International in replacement of the convertible notes of the Company with outstanding principal amount of HK\$63,840,000. It is also proposed that the share capital of the Company will be reduced by cancelling and extinguishing all its then 6,143,366,812 issued shares. The entire credit of approximately HK\$61,433,668 arising from the above will be credited to the contributed surplus account of the Company save that an amount of HK\$100,000 will be applied in paying up in full at par the 10,000,000 new shares in the Company to be allotted and issued nil paid to CU International on the date the Scheme becomes effective.

The details of the proposed Scheme are set out in the Company's announcements dated 27 August, 2002 and 13 September, 2002.

- (i) The directors proposed that upon the proposed Scheme becoming effective, a special dividend of Hong Kong 0.28 cents per then existing share of the Company (equivalent to Hong Kong 7 cents per new share in the new holding company of the Company) will be paid to those persons registered as shareholders of the Company on the effective date of the proposed Scheme.

20. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These unaudited condensed consolidated interim financial statements were approved by the Board of directors on 20 September, 2002.

INTERIM DIVIDEND

The Board of directors does not recommend any interim dividend for the six months ended 30 June, 2002 (2001: Nil).

BUSINESS REVIEW AND PROSPECTS**Results**

During the six months ended 30 June, 2002, the Group recorded an unaudited net profit attributable to shareholders of approximately HK\$34.5 million, as compared with a loss of approximately HK\$57.0 million for the corresponding six months ended 30 June, 2001. The earnings per share was HK3.37 cents for the current period as compared with a loss per share of HK10.69 cents for the corresponding period ended 30 June, 2001. Turnover was approximately HK\$123.3 million, an increase of approximately 3.4% from 2001's level of approximately HK\$119.3 million, which was mainly due to the increase of approximately 5.9% in the rental income from property investment (approximately HK\$3.6 million in this period versus approximately HK\$3.4 million in 2001) and the increase in investment in trading securities of approximately 5.1% (approximately HK\$86.1 million in this period versus approximately HK\$81.9 million in 2001) during the period despite a slight decrease in income for the provision of brokerage and financial services of 1.2% for this period (approximately HK\$33.6 million in this period versus approximately HK\$34.0 million in 2001).

Review and outlook

During the period, in face of the sustained economic downturn in Hong Kong, the Group continued to consolidate its efforts on the core business of property investment and provision of brokerage and financial services. For the businesses of provision of brokerage and financial services, an operating profit (before related provision of bad and doubtful debts) of approximately HK\$10.8 million was contributed from this segment during the current period as compared with that of approximately HK\$11.0 million during the corresponding period in 2001. Besides, an operating loss (before financial costs) of HK\$1.88 million was attributable to the letting out of properties during the current period as compared with an operating profit (before financial costs and excluding the loss on disposal of an investment property of about HK\$2.8 million) of approximately HK\$4.3 million during the period ended 30 June, 2001. For the investment in trading securities, despite the continuous low turnover and weak performance of the local stock market during the period, the Group's activity in the investment in trading securities was maintained with a 5.1% increase in turnover from approximately HK\$81.9 million for the period ended 30 June, 2001 to HK\$86.1 million for the current period. The increase in the market value of the portfolio of the listed investments held by the Group substantially increased the operating profit from investment in trading securities to approximately HK\$87.8 million for the current period as compared with a loss of approximately HK\$17.2 million in 2001.

The unveiling of corporate accounts' scandals at Enron and Worldcom after the 911 event in the United States of America has significantly weakened investors' confidence and in turn pushed back the economic recovery both in the United State of America and other regions including Hong Kong. Nevertheless, the Group will take a cautious approach to consolidate its existing financial position whilst maintaining an open attitude to look for prospective attractive investment opportunities.

Liquidity and Capital Resources

During the period, while continuing to consolidate the Group's financial position to cope with the current difficult economic environment, the Group is continually seeking to improve its capital base. In August, 2002 the Company has successfully completed a Ten for One Rights Issue, raising a total additional equity of approximately HK\$111.7 million (before issue expenses) to strengthen the Group's balance sheet.

As at 30 June, 2002, the Group's total shareholders' funds amounted to approximately HK\$470.7 million compared with HK\$428.4 million at 31 December, 2001. As at 30 June, 2002, the Group had net current assets of approximately HK\$282.1 million compared with net current assets of HK\$232.3 million at 31 December, 2001. The Group has continued to improve its debt-equity structure with the achievement of a gearing ratio of approximately 143.9% and current ratio of approximately 1.67 times at 30 June, 2002, compared to approximately 162.1% and approximately 1.56 times respectively at 31 December, 2001.

As at 30 June, 2002, the Group has bank loans and other borrowings of approximately HK\$613.4 million (31 December, 2001: approximately HK\$630.5 million) and convertible notes, with an aggregate principal amount of approximately HK\$63.8 million (31 December, 2001: approximately 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 30 June, 2002, certain assets of the Group with an aggregate net book value of approximately HK\$580.2 million (31 December, 2001: approximately HK\$446.4 million) were pledged to banks and other financial institutions to secure credit facilities granted to the Group. In addition, interests in two associates were pledged to secure an outstanding loan and interest payment payable to a lender.

Contingent Liabilities

The Company has given a guarantee to the noteholder to the extent of HK\$53 million in respect of a convertible note of HK\$53 million issued by a former subsidiary. As at 30 June, 2002, the outstanding amount of the convertible note was HK\$10 million. The Company has also executed a guarantee for the due observance and performance of the former subsidiary under a shareholders' agreement entered into among the Company, the former subsidiary and other third parties.

Employees

As at 30 June, 2002, the total number of employees of the Group was 76. The Group remunerates its employees based on their performance, working experience and prevailing market standards and reviews their remuneration annually. Staff benefits include a medical insurance coverage, provident fund and a share option scheme.

Prospects

The economy in Hong Kong continues to be adversely affected by the global economic downturn especially in the United States of America in the short term. However, the Company is optimistic that with the previously unseen level of low interest prevailing, the growing positive impact in the context of China's accession to the World Trade Organisation and its improved financial strengths, the Group is well-placed to benefit from an anticipated economic upturn. The Group has proposed to redomicile back to Hong Kong to be ready to take advantage of any opportunities in the years ahead. Full details of the Group's redomicile plan are set out in the Company's announcements of 27 August, 2002 and 13 September, 2002. Given our improved performance and financial position, the Board remains cautiously optimistic about the medium term prospects for the Group.

Subject to the proposed redomicile for the Company becoming effective, the Company will apply the amount standing to the credit of the contributed surplus account to write off the accumulated deficit of the Company.

Based on the financial performance of the Group for the six months ended 30 June, 2002 and barring unforeseen circumstances, the directors expect the results of the Group to improve significantly from the financial year 2001. Upon the proposed redomicile becoming effective, the directors propose to pay a special dividend of Hong Kong 0.28 cents per then existing share of the Company (equivalent to Hong Kong 7 cents per new share in the new holding company of the Company) to those persons registered as shareholders of the Company on the effective date of the proposed redomicile.

DIRECTORATE

We welcome Mr. Ong Peter to join our Board as an independent non-executive director.

DISCLOSURE OF INTERESTS OF DIRECTORS

As at 30 June, 2002, the interests of directors and chief executive in the share capital of the Company as recorded in the register maintained under Section 29 of Securities (Disclosure of Interests) Ordinance (“SDI Ordinance”) were as follows:

(i) Shares

Director	Number of ordinary shares held in the Company		
	Personal interest	Corporate interest	Total interest
Chuang Yueheng, Henry	—	3,868,202,364 (Note)	3,868,202,364
Lo Kan Sun	200	—	—

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.

(ii) Share Options

As at 30 June, 2002, details of share options to the Directors and their associates under the existing executive share option scheme of the Company were as follows:

Director	Number of share options						Exercise price
	At 1 January, 2002	Exercise price	Granted during the period	Exercised during the period	Lapsed during the period	At 30 June, 2002	
Chuang Yueheng, Henry	6,000,000	HK\$1.693	—	—	—	6,000,000	HK\$1.693

Pursuant to an ordinary resolution passed on 30 May, 2002, the termination of the existing executive share option scheme of the Company adopted on 15 December, 1995 and adoption of a new share option scheme were approved by the shareholders of the Company at the same date. No option was granted under the new share option scheme during the period.

Save as disclosed herein, none of the directors, including their respective spouses, infant children, related trusts and companies which they control, had any personal, family, corporate or other interests in the share capital of the Company or its subsidiaries as defined in the SDI Ordinance as at 30 June, 2002.

DISCLOSURE OF INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June, 2002, as far as the Directors were aware, the interests of the substantial shareholders in the shares of the Company were as follows:

Name	Number of ordinary shares of HK\$0.01 each held in the Company	% of issued share capital of the Company
Radford Developments Limited	3,868,202,364 <i>(Note)</i>	13.85%

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 aforesaid, as at 30 June, 2002, the Company had not been notified of any interest amounting to 10% or more of the issued share capital of the Company.

CODE OF BEST PRACTICE

None of the directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 June, 2002 in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Code of Best Practice”), except that the independent non-executive directors of the Company are not appointed for a specific term as they are subject to retirement by rotation and re-election at annual general meeting of the Company in accordance with the Company’s Bye-Laws.

AUDIT COMMITTEE

The Group has established the audit committee according to the Code of Best Practice. In setting out the written terms of reference the Directors had made reference to the “Guide for the Formation of an Audit Committee” published by the Hong Kong Society of Accountants. The Committee comprises the two independent non-executive directors, Mr. Lam Ping Cheung and Mr. Sun Lup Chung. The interim report has been reviewed by the auditors, Messrs. BDO International, certified public accountants.

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 six months ended 30 June, 2002.

Set out below is the text of a letter with valuation certificate, prepared by Centaline Surveyors Limited, in connection with their valuation of the property interests of the Group as at 30th September 2002.



中原測量師行有限公司

CENTALINE SURVEYORS LIMITED

測量師、估價師、投資、物業發展及項目代理策劃顧問

Surveyors, Valuers, Investment, Development & Project Agency Consultants

香港中環皇后大道中18號新世界大廈1座6樓601室

Room 601, Tower 1, New World Tower, 18 Queen's Road Central, Central, Hong Kong

26th November, 2002

The Directors
China United Holdings Limited
32nd Floor
China United Centre
28 Marble Road
North Point
Hong Kong

Dear Sirs,

Re: 20 Properties In Hong Kong

We refer to your recent instructions for us to prepare open market valuations in respect of the captioned properties held by China United Holdings Limited (the “Company”) or its subsidiaries (together referred to as the “Group”) and are pleased to provide you herewith our Valuation Certificate of the said properties. We have based on the information and documents supplied, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the open market value of the subject properties as at 30th September 2002.

Our valuation is our opinion of the open market value which we would define as intended to mean “the best price at which the sale of an interest in a property might reasonably be expected to have been completed unconditionally for cash consideration on the date of valuation, assuming:

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;

- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (d) that no account is taken of any additional bid by a purchaser with a special interest; and
- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

Our valuation has been made on the assumption that the Group sells the property interests on the open market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the property. In addition, no forced sale situation in any manner is assumed in our valuation.

In valuing the property interests, we have assumed that registered owners thereof have free and uninterrupted rights to use, occupy or assign the property interests for the whole of the unexpired term as granted (except those which are tenanted or mortgaged to third parties).

For the properties held under a Government Lease expired before 30th June 1997, we have taken into account the provisions contained in Annex III of the Joint Declaration of the Government of the United Kingdom and the Government of the People’s Republic of China and New Territories Leases (Extension) Ordinance which stipulates that such lease may be extended without payment of premium until 30th June 2047 and that a rent of three per cent of the then ratable value will be charged per annum from the date of extension.

In forming our opinion of value of the property interests, we have carried out the valuation assuming the sale of the properties in their existing state in the open market with the benefit of immediate vacant possession (for those vacant or owner-occupied properties) or subject to the existing tenancy (for those tenanted properties). Reference has been made to comparable sales and rental evidence as available on the market.

We have relied to a considerable extent on the information given by the Group and have accepted advice given to us on such matters as title, planning approvals or statutory notices, easements, occupational status, lettings, site area and floor areas. We were also advised by the Company that no material factors have been omitted from the information supplied.

Whilst we have not been provided with copies of title documents relating to the property interests, we have conducted land search in respect of the properties at the Hong Kong Land Registry. However, we have not searched or inspected the original documents to verify ownership or to ascertain the existence of any amendments.

Dimensions, measurements and areas included in the Valuation Certificate are based on information contained in the documents provided to us and are therefore only approximations. We have had no reason to doubt the truth and accuracy of the information provided to us by the Company which are material to the valuation.

We have inspected the exterior and, wherever possible, the interior of the properties to such an extent as we consider necessary for the purpose of this valuation. However, no structural survey has been made nor any tests were carried out on any of the services. We are therefore not able to report that the properties are free from rot, infestation or any other structural defects.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property nor for any expenses which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions, outgoing, or any onerous terms which could materially affect their values.

Neither the whole or any part of this letter and valuation certificate or any reference to it may be included in any published document, circular or statement nor published in any way without our prior written approval of the form and context in which it may appear.

We enclose herewith a summary of valuation and our Valuation Certificate.

Yours faithfully,
For and behalf of
Centaline Surveyors Limited
Phinex P. K. Wong
BSc MRICS AHKIS RPS(GP)
Director

Note: Mr. Phinex P.K. Wong is a Chartered General Practice Surveyor and a Registered Professional Surveyor in Hong Kong. He has extensive experience in valuing properties in Hong Kong and in the People's Republic of China since 1995.

SUMMARY OF VALUATION

Group I — Properties owned by the Group in Hong Kong	Capital value in existing state as at 30th September 2002
1. Basement, Stamps Gallery, China United Centre, No. 28 Marble Road, North Point, Hong Kong.	HK\$60,000,000
2. Unit 1 on Ground Floor, Stamps Gallery, China United Centre, No. 28 Marble Road, North Point, Hong Kong.	HK\$18,000,000
3. Units 5 and 6 on Ground Floor, Stamps Gallery, China United Centre, No. 28 Marble Road, North Point, Hong Kong.	HK\$18,000,000
4. 7th Floor, China United Centre, No. 28 Marble Road, North Point, Hong Kong.	HK\$21,000,000
5. 30th, 31st and 32nd Floor, China United Centre, No. 28 Marble Road, North Point, Hong Kong.	HK\$95,000,000
6. Unit Nos. 7 to 14, 44, 51 to 67 on First Floor, Hunghom Commercial Centre, Nos. 37-39 Ma Tau Wai Road, Hunghom, Kowloon.	HK\$20,000,000
7. Container Car Parking Space No. C1 on G/F, Lorry Car Parking Space Nos. L9, L23 and L34 on Ground Floor and Main Roofs B5-B12 and B21-B25 of Block B, Kong Nam Industrial Building, Nos. 603-609 Castle Peak Road, Tsuen Wan, New Territories.	HK\$1,800,000

	Capital value in existing state as at 30th September 2002
Group I — Properties owned by the Group in Hong Kong	
8. House No. 41, Cotton Tree Villas, Lot No. 287 in DD 213, Muk Min Shan Road, Sai Kung, New Territories	HK\$4,400,000
9. Flat A on 29th Floor together with Flat Roof Appertaining Thereeto and Car Park No. 207 on 2nd Floor, Peace Tower, No. 6 Peace Avenue, Homantin, Kowloon	HK\$2,000,000
10. Flat C on 13th Floor of Block 12, No. 17 Laguna Street, Laguna City, Yau Tong, Kowloon	HK\$1,900,000
11. Car Park No. 8 on Ground Floor, Prince Park, No. 234 Prince Edward Road West, Homantin, Kowloon	HK\$280,000
12. Flat B on 2nd Floor of Block 23, No. 15 Laguna Street, Laguna City, Yau Tong, Kowloon	HK\$1,650,000
13. Flat A on 12th Floor together with a Portion of Roof immediately thereabove, Scholar Court, No. 15 Sands Street, Kennedy Town, Hong Kong	HK\$1,280,000
14. Flat B on 12th Floor together with a Portion of Roof immediately thereabove, Scholar Court, No. 15 Sands Street, Kennedy Town, Hong Kong.	HK\$1,200,000
15. Flat C8, 26th Floor, Block C, Elizabeth House, Nos. 250-254 Gloucester Road, Causeway Bay, Hong Kong.	HK\$2,500,000
16. Flat B on Ground Floor & Garden of Block 3 & Car Parking Space No. 36, Stanford Villa, No. 7 Stanley Village Road, Stanley, Hong Kong.	HK\$5,500,000

	Capital value in existing state as at 30th September 2002
Group I — Properties owned by the Group in Hong Kong	
17. Flat B, 22nd Floor together with a Portion of Roof immediately thereabove and Car Parking Space No. 22 on Car Park Floor, Royalton, No. 118 Pok Fu Lam Road, Pok Fu Lam, Hong Kong.	HK\$11,800,000
18. Duplex Flat A, 21st and 22nd Floors together with a Portion of Roof thereabove and Car Parking Space No. 33, Royalton, No. 118 Pok Fu Lam Road, Pok Fu Lam, Hong Kong.	HK\$18,000,000
19. Shop No.6 on G/F, Wing Wah House, Nos. 28-38 Fan Wa Street, Yau Tong, Kowloon.	HK\$1,500,000

Total:	<u>HK\$285,810,000</u>

Group II — Property rented by the Group in Hong Kong

20. Room 835 on 8th Floor, Central Building, Nos. 1-3 Pedder Street, Central, Hong Kong.	No commercial value
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VALUATION CERTIFICATE

Group I — Properties owned by the Group in Hong Kong

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30th September 2002
<p>1. Basement, Stamps Gallery, China United Centre, No. 28 Marble Road, North Point, Hong Kong.</p> <p>1700/23400th shares of and in IL No. 3504 S.A ss.2, 3504 S.A ss.3 S.B, 3504 S.A ss.3 R.P., 3504 S.A ss.3 S.A , 3504 S.A ss.5, 3504 S.A ss.4, 3504 S.A R.P., 3504 S.A ss.1 S.A. R.P., 3504 S.A ss.1 S.A ss.5, 3504 S.A. ss.1 S.A ss.3, 3504 S.A. ss.1 S.A ss.2, 3504 S.A ss.1 S.A ss.4, 3504 S.A ss.1 S.A ss.6.</p>	<p>The property comprises a commercial floor on the basement level of a 30-storey (exclusive of a mechanical floor) commercial building completed in 1997.</p> <p>The property has a gross floor area of approximately 13,790 sq.ft. (1,281.1 sq.m.) and a saleable area of approximately 10,580 sq.ft. (982.9 sq.m.).</p> <p>The property is held under the Conditions of Sale No. 3369 for a term of 75 years commencing from 17th October 1932 with a right of renewal for a further term of 75 years.</p> <p>The government rent payable for the lot is HK\$334 per annum.</p>	<p>The property comprises a total number of 47 shop units. 13 units are currently leased to various tenants and the remaining 34 shop units are all vacant. Details of the tenancy are as follows:</p> <p>Shop 32</p> <p>The unit is subject to a tenancy agreement dated 24th September 2002 for a term commencing from 24th August 2002 to 23rd April 2004 at a monthly rental of HK\$5,800 inclusive of rates and government rent but exclusive of management fees, with a rent-free period of 2 months and an option to renew for a further term of 1 year. We are advised by the Company that the tenant, Mr. Chan Peter, is an independent third party to the Company.</p> <p>Shop 33</p> <p>The unit is subject to a tenancy agreement dated 19th August 2002 for a term commencing from 15th August 2002 to 30th September 2003 at a monthly rental of HK\$3,060 inclusive of rates and government rent but exclusive of management fees, with an option to renew for a further term of 1 year. We are advised by the Company that the tenant, Ms. Satyaver, Selina Flora, is an independent third party to the Company.</p>	HK\$60,000,000

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30th September 2002
		<p>Shop 34-41</p> <p>The units are subject to a tenancy agreement dated 26th August 2002 for a term commencing from 1st June 2002 to 31st May 2005 at a monthly rental of HK\$20,000 inclusive of rates, government rent and management fees, with a rent-free period of 3 months and an option to renew for a further term of 3 years. We are advised by the Company that the tenant, Pacific Cyber Business Systems Limited, is an independent third party to the Company.</p>	
		<p>Shop 42</p> <p>The unit is subject to a tenancy agreement dated 30th October 2002 for a term commencing from 26th September 2002 to 25th October 2003 at a monthly rental of HK\$33,066 inclusive of rates, government rent and management fees but excluding electricity charges, with a rent-free period of 1 month and an option to renew for a further term of 1 year. We are advised by the Company that the tenant, Chung Nam Securities Limited, is an indirect non wholly-owned subsidiary of the Company.</p>	
		<p>Shop 43</p> <p>The unit is subject to a tenancy agreement dated 26th August 2002 for a term commencing from 26th August 2002 to 15th March 2004 at a monthly rental of HK\$3,800 inclusive of rates, government rent and management fees but excluding electricity charges, with a rent-free period of 3 weeks and an option to renew for a further term of 1 year. We are advised by the Company that the tenant, Mr. Lam Hiu Fung, is an independent third party to the Company.</p>	

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30th September 2002
		<p>Shop 44</p> <p>The unit is subject to a tenancy agreement dated 13th September 2002 for a term commencing from 13th September 2002 to 30th September 2003 at a monthly rental of HK\$2,300 inclusive of rates, government rent and management fees but excluding electricity charges, with a rent-free period of 18 days and an option to renew for a further term of 1 year. We are advised by the Company that the tenant, Mr. Lam Hiu Tung, is an independent third party to the Company.</p>	

Notes:

- 1) The registered owner of the property is East Champion Limited, an indirect wholly-owned subsidiary of the Company, under an assignment dated 25th September 1997 vide Memorial No. 7311213.
- 2) The property is subject to a legal charge dated 25th September 1997 vide Memorial No. 7311214 and rental assignment dated 2nd November 1999 vide Memorial No. 7924863 all in favour of International Bank of Asia Limited.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30th September 2002
2. Unit 1 on Ground Floor, Stamps Gallery, China United Centre, No. 28 Marble Road, North Point, Hong Kong. 718/23400th shares of and in IL No. 3504 S.A ss.2, 3504 S.A ss. 3 S.B, 3504 S.A ss.3 R.P., 3504 S.A ss.3 S.A , 3504 S.A ss.5, 3504 S.A ss.4, 3504 S.A R.P., 3504 S.A ss.1 S.A. R.P., 3504 S.A ss.1 S.A ss.5, 3504 S.A. ss.1 S.A ss.3, 3504 S.A. ss.1 S.A ss.2, 3504 S.A ss.1 S.A ss.4, 3504 S.A ss.1 S.A ss.6.	<p>The property comprises one shop unit on the ground floor of a 30-storey (exclusive of a mechanical floor) commercial building completed in 1997.</p> <p>The property has a gross floor area of approximately 2,838 sq.ft. (263.7 sq.m.) and a saleable area of approximately 1,561 sq.ft. (145.0 sq.m.).</p> <p>The property is held under Conditions of Sale No. 3369 for a term of 75 years commencing from 17th October 1932 with a right of renewal for a further term of 75 years.</p> <p>The government rent payable for the lot is HK\$334 per annum.</p>	<p>The property is currently leased and subject to a tenancy agreement dated 5th July 2001 for a term of 2 years commencing from 24th February 2001 to 23rd February 2003 at a monthly rental of HK\$88,000 exclusive of rates, government rent, management fees and utilities charges, with an option to renew for a further term of 2 years. We are advised by the Company that the tenant, Regent Dragon Investment Limited, is an independent third party to the Company.</p>	HK\$18,000,000

Notes:

- 1) The registered owner of the property is Million Regal Investment Limited, an indirect wholly-owned subsidiary of the Company, under an assignment dated 29th December 1997 vide Memorial No. 7405800.
- 2) The property is subject to a mortgage dated 31st March 1998 vide Memorial No. 7463973 and a second legal charge dated 11th May 1999 vide Memorial No. 7753244 in favour of Nissho Iwai Hong Kong Corporation Limited.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30th September 2002
<p>3. Units 5 and 6 on Ground Floor, Stamps Gallery, China United Centre, No. 28 Marble Road, North Point, Hong Kong.</p> <p>642/23400th shares of and in IL No. 3504 S.A ss.2, 3504 S.A ss.3 S.B, 3504 S.A ss.3 R.P., 3504 S.A ss.3 S.A , 3504 S.A ss.5, 3504 S.A ss.4, 3504 S.A R.P., 3504 S.A ss.1 S.A. R.P., 3504 S.A ss.1 S.A ss.5, 3504 S.A. ss.1 S.A ss.3, 3504 S.A. ss.1 S.A ss.2, 3504 S.A ss.1 S.A ss.4, 3504 S.A ss.1 S.A ss.6.</p>	<p>The property comprises two shop units on the ground floor of a 30-storey (exclusive of a mechanical floor) commercial building completed in 1997.</p> <p>The property has a total gross floor area of approximately 2,506 sq.ft. (232.8 sq.m.) and a total saleable area of approximately 1,379 sq.ft. (128.1 sq.m.).</p> <p>The property is held under Conditions of Sale No. 3369 for a term of 75 years commencing from 17th October 1932 with the right of renewal for a further term of 75 years.</p> <p>The government rent payable for the lot is HK\$334 per annum.</p>	<p>Unit 5 of the property is currently leased and subject to a tenancy agreement dated 9th September 2000 for a term of 3 years commencing from 15th September 2000 to 14th September 2003 at a monthly rental of HK\$46,000 inclusive of rates, government rent, management fees and air-conditioning charges, with a rent-free period of 1 month and an option to renew for a further term of 2 years. We are advised by the Company that the tenant, Ching Pak Man, is an independent third party to the Company.</p> <p>Unit 6 of the property is currently leased and subject to a tenancy agreement dated 15th November 2001 for a term of 2 years commencing from 10th December 2001 to 9th December 2003 at a monthly rent of HK\$60,000 inclusive of rates, government rent, management fees and air-conditioning charges. We are advised by the Company that the tenant, Tsoi Fan Fong, is an independent third party to the Company.</p>	HK\$18,000,000

Notes:

- 1) The registered owner of the property is Great Gains International Limited, an indirect wholly-owned subsidiary of the Company, under assignments both dated 25th September 1997 vide Memorial No. 7311497 and No. 7322037 for Unit 5 and Unit 6 respectively.
- 2) The property is subject to a mortgage dated 25th September 1997 vide Memorial No. 7307195 in favour of The China and South Sea Bank Limited (now known as Bank of China (Hong Kong) Limited).
- 3) A tenancy agreement for a term of 3 years from 15th September 2000 to 14th September 2003 in favour of Ching Pak Man is registered with the Land Registry for the shop Unit 5.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30th September 2002
4. 7th Floor, China United Centre, No. 28 Marble Road, North Point, Hong Kong.	The property comprises a whole floor on the 7th floor of a 30-storey (exclusive of a mechanical floor) commercial building completed in 1997.	The property is subject to a licence dated 6th November 2001 for a term of 2 years commencing from 1st January 2002 to 31st December 2003 at a monthly licence fee of	HK\$21,000,000
617/23400th shares of and in IL No. 3504 S.A ss.2, 3504 S.A ss.3 S.B, 3054 S.A ss.3 R.P., 3504 S.A ss.3 S.A , 3504 S.A ss.5, 3504 S.A ss.4, 3504 S.A R.P., 3504 S.A ss.1 S.A. R.P., 3504 S.A ss.1 S.A ss.5, 3504 S.A. ss.1 S.A ss.3, 3504 S.A. ss.1 S.A ss.2, 3504 S.A ss.1 S.A ss.4, 3504 S.A ss.1 S.A ss.6.	<p>The property has a gross floor area of approximately 10,936 sq.ft. (1,016.0 sq.m.) and a saleable area of approximately 8,551 sq.ft. (794.4 sq.m.).</p> <p>The property is held under Conditions of Sale No. 3369 for a term of 75 years commencing from 17th October 1932 with a right of renewal for a further term of 75 years.</p> <p>The government rent payable for the lot is HK\$334 per annum.</p>	<p>HK\$139,434 exclusive of rates and management fees, and subject to a break clause that the licensor has the right to terminate the license by giving not less than 1 month's notice. We are advised by the Company that the licensee, Qualipak Manufacturing Limited, is an independent third party to the Company.</p>	

Notes:

- 1) The registered owner of the property is Great Gains International Limited, an indirect wholly-owned subsidiary of the Company, under an assignment dated 25th September 1997 vide Memorial No.7311498.
- 2) The property is subject to a mortgage dated 25th September 1997 vide Memorial No. 7307195 to secure general banking facilities in favour of The China and South Sea Bank Limited (now known as Bank of China (Hong Kong) Limited).

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30th September 2002
5.	30th, 31st and 32nd Floor, China United Centre, No. 28 Marble Road, North Point, Hong Kong.	The property comprises three whole office floors on the 30th, 31st and 32nd floor of a 30-storey (exclusive of a mechanical floor) commercial building completed in 1997.	<p>30th Floor</p> <p>The floor is currently leased and subject to a tenancy agreement dated 22nd August 2000 for a term of 5 years commencing from 19th August 2000 to 18th August 2005 at a monthly rental of HK\$157,668 exclusive of rates and management fees, and subject to a break clause that the tenant has the right to terminate the tenancy by giving not less than 2 months' notice after the first 2 years of the term. We are advised by the Company that the tenant, Chung Nam Securities Limited, is an indirect non wholly-owned subsidiary of the Company.</p>	HK\$95,000,000
	2661/23400th shares of and in IL No. 3504 S.A ss.2, 3504 S.A ss.3 S.B, 3504 S.A ss.3 R.P., 3504 S.A ss.3 S.A , 3504 S.A ss.5, 3504 S.A ss.4, 3504 S.A R.P., 3504 S.A ss.1 S.A. R.P., 3504 S.A ss.1 S.A ss.5, 3504 S.A. ss.1 S.A ss.3, 3504 S.A. ss.1 S.A ss.2, 3504 S.A ss.1 S.A ss.4, 3504 S.A ss.1 S.A ss.6.	<p>The property has a total gross floor area of approximately 33,786 sq.ft. (3,138.8 sq.m.) and a total saleable area of approximately 26,418 sq.ft. (2,454.3 sq.m.).</p> <p>The property is held under Conditions of Sale No. 3369 for a term of 75 years commencing from 17th October 1932 with a right of renewal for a further term of 75 years.</p>	<p>31st Floor</p> <p>The floor is sub-divided into four office units (A, B, C & D) and is currently leased and subject to four separate tenancies all dated 11th February 2002 each for a term of 2 years commencing from 1st January 2002 to 31st December 2003 at a monthly rental of HK\$28,155 exclusive of rates, utilities charges and other outgoings, with an option to renew for a further term of 2 years. We are advised by the Company that the tenants of office A — Chung Nam Holdings Limited, office B — CU Corporate Finance Limited and Office D — Kam Kwong Company Limited, are the indirect non wholly-owned subsidiaries of the Company. The tenant of office C, Radford Capital Investment Limited, is an independent third party to the Company.</p>	
		The government rent payable for the lot is HK\$334 per annum.		

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30th September 2002
		<p>32nd Floor</p> <p>Portion of the floor (about 2,211 sq.ft. in gross floor area and 1,729 sq.ft. in saleable area) is leased and subject to a tenancy agreement dated 16th October 2000 for a term of 2 years commencing from 1st October 2000 to 30th September 2002 at a monthly rental of HK\$30,000 exclusive of rates, air-conditioning charges and management fees. The remaining portion is owner-occupied. We are advised by the Company that the tenant, China United Cyberworks (HK) Limited, is an independent third party to the Company.</p>	

Notes:

- 1) The registered owner of the property is Pacific Kingdom Investments Limited, an indirect wholly-owned subsidiary of the Company, under an assignment dated 18th October 1997 vide Memorial No.7348713.
- 2) The property is subject to a charge dated 27th November 1997 vide Memorial No.7355059 in favour of The Kwangtung Provincial Bank (now known as Bank of China (Hong Kong) Limited).
- 3) A tenancy agreement dated 11th February 2002 for a term of 2 years from 1st January 2002 to 31st December 2003 in favour of Chung Nam Holdings Limited with an option to renew for a further term of 2 years is registered with the Land Registry vide Memorial No.8617567 for the Office A on the 31st floor.
- 4) A tenancy agreement dated 11th February 2002 for a term of 2 years from 1st January 2002 to 31st December 2003 in favour of CU Corporate Finance Limited with an option to renew for a further term of 2 years is registered with the Land Registry vide Memorial No.8617568 for the Office B on the 31st floor.
- 5) A tenancy agreement dated 11th February 2002 for a term of 2 years from 1st January 2002 to 31st December 2003 in favour of Radford Capital Investment Limited with an option to renew for a further term of 2 years is registered with the Land Registry vide Memorial No.8617569 for the Office C on the 31st floor.
- 6) A tenancy agreement dated 11th February 2002 for a term of 2 years from 1st January 2002 to 31st December 2003 in favour of Kam Kwong Company Limited with an option to renew for a further term of 2 years is registered with the Land Registry vide Memorial No.8617570 for the Office D on the 31st floor.
- 7) The tenancy agreement in respect of the 30th floor was surrendered on 31st October 2002 and replaced by the tenancy agreements mentioned in paragraphs 8 and 9 below.
- 8) A new tenancy agreement dated 31st October 2002 has been signed for a term of 2 years commencing from 1st November 2002 to 31st October 2004 in favour of Unity Investments Holdings Limited (an independent third party to the Company) at a monthly rental of HK\$60,000 exclusive of rates, government rent, management fees and air-conditioning charges for the designated Room 1 on the 30th floor.
- 9) A new tenancy agreement dated 28th October 2002 has been signed for a term of 3 years commencing from 1st November 2002 to 31st October 2005 in favour of Chung Nam Securities Limited (an indirect non wholly-owned subsidiary of the Company) at a monthly rental of HK\$87,668 exclusive of rates, management fees and air-conditioning charges for the designated Room 2 on the 30th floor.
- 10) A new tenancy agreement dated 2nd October 2002 has been signed for a term of 1 year commencing from 1st October 2002 to 30th September 2003 in favour of China United Cyberworks (HK) Limited (an independent third party to the Company) at a monthly rental of HK\$30,000 exclusive of rates, management fees and air-conditioning charges for the designated Room 1 on the 32nd floor.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30th September 2002
<p>6. Unit Nos. 7 to 14, 44, 51 to 67 on First Floor, Hunghom Commercial Centre, Nos. 37-39 Ma Tau Wai Road, Hunghom, Kowloon.</p> <p>313/12841st shares of and in the Remaining Portion of Section O of Kowloon Marine Lot No. 40.</p>	<p>The property comprises a total of 26 shop units on the first floor of a commercial development which consists of two 10-storey office towers erected over a 4-storey (plus basement) commercial podium completed in 1982.</p> <p>The property has a total gross floor area of approximately 13,505 sq.ft. (1,254.6 sq.m.).</p> <p>The property is held under Government Lease for a term of 75 years commencing from 15th September 1897 with a right of renewal for a further term of 75 years.</p> <p>The government rent payable is \$5,040 per annum. (P.E.3776)</p>	<p>Unit No. 14, part of Unit No. 63 and Unit Nos. 61, 62, 64 to 67 on the 1st floor of the property are currently leased and subject to a tenancy agreement dated 28th August 2000 for a term of 3 years commencing from 1st November 1999 to 31st October 2002 at a monthly rental of HK\$32,500 exclusive of rates and management fees, with an option to renew for a further term of 3 years and subject to a break clause that the tenant has the right to terminate the tenancy by giving not less than 3 months' notice after the first 24 months of the term. We are advised by the Company that the tenant, WTC 499 Limited, is an independent third party to the Company.</p> <p>Unit Nos. 7-13 and part of Unit No. 63 on the 1st floor of the property are currently leased and subject to a tenancy agreement dated 2nd May 2002 for a term of 4 years commencing from 2nd May 2002 to 1st May 2006 at a monthly rental of HK\$28,000 exclusive of rates and government rent but inclusive of management fees and other outgoings, with a rent-free period of 44 days and an option to renew for a further term of 2 years. We are advised by the Company that the tenant, The Faith Church Limited, is an independent third party to the Company.</p>	<p>HK\$20,000,000</p>

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30th September 2002
		<p>Unit Nos. 54-60 on the 1st floor of the property are currently leased and subject to a tenancy agreement dated 21st June 2002 for a term of 3 years commencing from 10th May 2002 to 9th May 2005 at a monthly rental of HK\$28,000 inclusive of rates, government rent, management fees, air-conditioning charges and other outgoings, with a rent-free period of 45 days and an option to renew for a further term of 3 years. We are advised by the Company that the tenant, The Dairy Farm Company Limited, is an independent third party to the Company.</p>	
		<p>Unit Nos. 44, 51, 52 and 53 on the 1st floor of the property are currently leased and subject to a tenancy agreement dated 14th January 2002 for a term of 1 year commencing from 15th January 2002 to 14th January 2003 at a monthly rental of HK\$12,500 exclusive of rates, management fees and air-conditioning charges, with an option to renew for a further term of 1 year. We are advised by the Company that the tenant, Joint Publishing (Hong Kong) Company Limited, is an independent third party to the Company.</p>	

Notes:

- 1) The registered owner of the property is Selway Limited, an indirect wholly-owned subsidiary of the Company, under an assignment dated 27th January 1997 vide Memorial No. 6945416 .
- 2) The property is subject to a mortgage dated 27th January 1997 vide Memorial No. 6945417 to secure general banking facilities in favour of Dao Heng Bank Limited.
- 3) The property is subject to a memorandum of outstanding management and air-conditioning charges dated 1st September 1998 vide Memorial No. 7561210 by Guardian Property Management Limited.
- 4) As advised by the Group, both the landlord and the tenant are now negotiating for the renewal of tenancy of Unit No. 14, Part of Unit No. 63, Unit Nos. 61, 62 and 64 to 67 on the 1st floor of the subject property.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30th September 2002
7. Container Car Parking Space No. C1 on Ground Floor, Lorry Car Parking Space Nos. L9, L23 and L34 on Ground Floor and Main Roofs B5-B12 and B21-B25 of Block B, Kong Nam Industrial Building, Nos. 603-609 Castle Peak Road, Tsuen Wan, New Territories. 44/17794th shares of and in the Remaining Portion of Tsuen Wan Marine Lot No. 7.	<p>The property comprises one container car parking space and three lorry car parking spaces on the ground floor as well as a portion of the main roof of a 27-storey industrial building completed in about 1981.</p> <p>The property has a total roof area of approximately 6,792 sq.ft. (631.0 sq.m.) (exclusive of the area of the container/lorry carparking spaces).</p> <p>The property is held under Conditions of Grant No. 3677 for a term of 75 years commencing from 1st July 1898 with the right of renewal for a further term of 24 years less the last 3 days thereof. The term of the Government Lease is extended until 30th June 2047 under Section 6 of the New Territories Leases (Extension) Ordinance 1988.</p> <p>The government rent payable is of an amount equal to 3% of the rateable value from time to time of the land leased.</p>	<p>The container car parking space and the three lorry car parking spaces of the property are currently leased and subject to a tenancy agreement dated 31st August 2001 for a term of 2 years commencing from 1st September 2001 to 31st August 2003 at a monthly rental of HK\$13,000 exclusive of rates and service charges. We are advised by the Company that the tenant, Guardian Property Management Limited, is an independent third party to the Company.</p> <p>A portion of the main roof of the property is vacant.</p>	HK\$1,800,000

Notes:

- 1) The registered owner of the property is First Asia Financial Services Limited, an indirect wholly-owned subsidiary of the Company, under an assignment dated 25th October 1994 vide Memorial No. 7756854.
- 2) The property is subject to a mortgage dated 3rd November 2000 vide Memorial No. 8253860 to secure general banking facilities in favour of The Hongkong Chinese Bank Limited.
- 3) The property is subject to an agreement dated 27th April 1999 vide Memorial No. 7756856 (pursuant to section 37 of Railways Ordinance) in favour of The Hongkong Chinese Bank Limited pending completion of the registration procedure.
- 4) The property is subject to an agreement dated 3rd November 2000 vide Memorial No. 8253861 in favour of The Hongkong Chinese Bank Limited pending completion of the registration procedure.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30th September 2002
8.	House No. 41, Cotton Tree Villas, Lot No. 287 in DD 213, Muk Min Shan Road, Sai Kung, New Territories.	<p>The property is a 3-storey village-typed house completed in 1979.</p> <p>The property has a total gross floor area of approximately 2,100 sq.ft. (195.1 sq.m.) with 2 balconies and a roof of approximately 700 sq.ft. (65.0 sq.m.) thereabove.</p> <p>It also comprises a garden of approximately 100 sq.ft. (9.3 sq.m.).</p> <p>The property is held under New Grant No. 6218 for a term of 99 years commencing from 1st July 1898 less the last 3 days thereof. The term of the Government Lease is extended until 30th June 2047 under Section 6 of the New Territories Leases (Extension) Ordinance 1988.</p> <p>The government rent payable is of an amount equal to 3% of the rateable value from time to time of the land leased.</p>	The property is vacant.	HK\$4,400,000

Notes:

- 1) The registered owner of the subject property is Bestford Development Limited, an indirect wholly-owned subsidiary of the Company, under an assignment dated 9th August 2000 vide Memorial No. 442118.
- 2) The property is subject to a mortgage dated 9th May 2001 vide Memorial No. 481543 in favour of Liu Chong Hing Bank Limited.
- 3) A new tenancy agreement dated 9th September 2002 has been signed for a term of 2 years commencing from 1st November 2002 to 31st October 2004 in favour of Leung Man Ling Betty (an independent third party to the Company) at a monthly rental of HK\$27,500 inclusive of rates, government rent and management fees, with a rent-free period of 15 days from 16th October 2002 to 30th October 2002 before commencement of the tenancy and subject to a break clause that the tenant has the right to terminate the tenancy by giving not less than 2 months' notice after the first 12 months of the term.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30th September 2002
<p>9. Flat A on 29th Floor together with Flat Roof Appertaining Thereto and Car Park No. 207 on 2nd Floor, Peace Tower, No. 6 Peace Avenue, Homantin, Kowloon.</p> <p>46/3570th shares of and in Sub-Section 3 of Section A of Kowloon Inland Lot No. 1312 and Section C, D and E of Kowloon Inland Lot No.1314 and Section C, D and the Remaining Portion of Kowloon Inland Lot No. 1624.</p>	<p>The property comprises one residential unit on the 29th floor and a flat roof and one car parking space on the 2nd floor of a 28-story commercial/residential building completed in 1998.</p> <p>The residential unit has a gross floor area of approximately 465 sq.ft. (43.2 sq.m.) and a saleable area of approximately 318 sq.ft. (29.5 sq.m.). The flat roof area is approximately 212 sq.ft. (19.7 sq.m.).</p> <p>The property is held under Government Lease for a term of 75 years commencing from 1st December 1913 with a right of renewal for a further term of 75 years.</p> <p>The government rent payable to the Government is HK\$3,644 per annum. (P.E.5564)</p>	<p>Flat A on the 29th floor together with the flat roof appertaining thereto of the property is currently leased and subject to a tenancy agreement dated 22nd January 2002 for a term of 2 years commencing from 1st February 2002 to 31st January 2004 at a monthly rental of HK\$8,200 inclusive of rates, government rent, property tax and other outgoings but exclusive of utilities charges, and subject to a break clause that the tenant has the right to terminate the tenancy by giving 1 month's notice after the first year of the term. We are advised by the Company that the tenant, Tong Michael, is an independent third party to the Company.</p> <p>Car Park No. 207 on the 2nd floor of the property is currently leased and subject to a tenancy agreement dated 21st November 2001 for a term of 1 year commencing from 1st December 2001 to 30th November 2002 at a monthly rental of HK\$2,400 inclusive of rates and management fees, and subject to a break clause that either party is entitled to terminate the tenancy by giving 1 month's notice. We are advised by the Company that the tenant, Lai Mun Yip Brian, is an independent third party to the Company.</p>	HK\$2,000,000

Notes:

- 1) The registered owner of the subject property is Wellhand Limited, an indirect wholly-owned subsidiary of the Company, under assignments both dated 25th November 1998 vide Memorial No. 7637891 and No. 7637893 for the residential unit and car park respectively.
- 2) The property is subject to a mortgage dated 9th May 2001 vide Memorial No. 8386510 in favour of Liu Chong Hing Bank Limited.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30th September 2002
10.	Flat C on 13th Floor of Block 12, Laguna City, No. 17 Laguna Street, Yau Tong, Kowloon.	The property comprises one residential unit on the 13th floor of a 28-storey residential building completed in 1994 within a large-scaled residential development.	The property is vacant.	HK\$1,900,000
	7/52361st shares of and in New Kowloon Inland Lot No. 6055.	<p>The property has a gross floor area of approximately 669 sq.ft (62.2 sq.m.) and a saleable area of approximately 522 sq.ft. (48.5 sq.m.).</p> <p>The property is held under Conditions of Exchange No. 12004 for a term of 99 years commencing from 1st July 1898 less the last 3 days thereof. The term of the Government Lease is extended until 30th June 2047 under Section 6 of the New Territories Leases (Extension) Ordinance 1988.</p> <p>The government rent payable is of an amount equal to 3% of the rateable value from time to time of the land leased.</p>		

Notes:

- 1) The registered owner of the subject property is Wellhand Limited, an indirect wholly-owned subsidiary of the Company, under an assignment dated 27th January 1997 vide Memorial No. 6944983.
- 2) The property is subject to a mortgage dated 9th May 2001 vide Memorial No. 8386510 in favour of Liu Chong Hing Bank Limited.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30th September 2002
11.	Car Park No. 8 on Ground Floor, Prince Park, No. 234 Prince Edward Road West, Homantin, Kowloon. 1/462nd shares of and in Kowloon Inland Lot No. 2204.	The property comprises one car parking space on the ground floor of a 16-storey residential building completed in 1993. The area of the property is approximately 135 sq.ft. (12.5 sq.m.). The property is held under Government Lease for a term of 75 years commencing from 6th August 1929 with a right of renewal for a further term of 75 years. The government rent payable to the Government is HK\$52 per annum.	The property is currently leased and subject to a verbal tenancy agreement at a monthly rental of HK\$500 inclusive of rates and management fees, which is renewable on a monthly basis.	HK\$280,000

Note:

- 1) The registered owner of the subject property is Wellhand Limited, an indirect wholly-owned subsidiary of the Company, under an assignment dated 7th October 1993 vide Memorial No. 5832987.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30th September 2002
12.	Flat B on 2nd Floor of Block 23, Laguna City, No. 15 Laguna Street, Yau Tong, Kowloon.	The property comprises one residential unit on the 2nd floor of a 26-storey residential building completed in 1994 within a large-scaled residential development.	The property is currently leased and subject to a tenancy agreement dated 28th January 2002 for a term of 2 years commencing from 28th January 2002 to 27th January 2004 at a monthly rental of HK\$7,000	HK\$1,650,000
	7/52361st shares of and in New Kowloon Inland Lot No. 6055.	The property has a gross floor area of approximately 669 sq.ft. (62.2 sq.m.) and a saleable area of approximately 522 sq.ft. (48.5 sq.m.).	inclusive of rates and services charges, and subject to a break clause that either party is entitled to terminate the tenancy by giving 1 month's notice after the first year of the term. We are advised by the Company that the tenant, APC Asia Pacific Cargo (H.K.) Limited, is an independent third party to the Company.	
		The property is held under Conditions of Exchange No. 12004 for a term of 99 years commencing from 1st July 1898 less the last 3 days thereof. The term of the Government Lease is extended until 30th June 2047 under Section 6 of the New Territories Leases (Extension) Ordinance 1988.		
		The government rent payable is of an amount equal to 3% of the rateable value from time to time of the land leased.		

Notes:

- 1) The registered owner of the subject property is Ronford Properties Limited, an indirect wholly-owned subsidiary of the Company, under an assignment dated 15th May 1997 vide Memorial No. 7111272.
- 2) The property is subject to a mortgage dated 9th May 2001 vide Memorial No. 8386510 in favour of Liu Chong Hing Bank Limited.

			Capital value in existing state as at 30th September 2002	
Property	Description and tenure	Particulars of occupancy		
13.	<p>Flat A on 12th Floor together with a Portion of Roof immediately thereabove, Scholar Court, No. 15 Sands Street, Kennedy Town, Hong Kong.</p> <p>36/1600th shares of and in Inland Lot Nos. 2394 and 2395.</p>	<p>The property comprises one residential unit on the 12th floor and a portion of the roof of a 12-storey residential building completed in 1998.</p> <p>The residential unit has a gross floor area of approximately 506 sq.ft. (47.0 sq.m.) and a saleable area of approximately 354 sq.ft. (32.9 sq.m.). The portion of roof has an area of approximately 272 sq.ft. (25.3 sq.m.).</p> <p>The property is held under Government Lease for a term of 75 years commencing from 19th October 1914 with a right of renewal for a further term of 75 years.</p> <p>The government rent payable to the Government from 1st January 1999 is HK\$2,376 per annum. (P.E.5558)</p>	<p>The property is currently leased and subject to a tenancy agreement dated 5th February 2001 for a term of 2 years commencing from 1st January 2001 to 31st December 2002 at a monthly rental of HK\$7,200 inclusive of rates, government rent and property tax, and subject to a break clause that the tenant has the right to terminate the tenancy by giving 1 month's notice after the first 11 months of the term. We are advised by the Company that the tenant, Chan Chi Chung, is an independent third party to the Company.</p>	<p>HK\$1,280,000</p>

Notes:

- 1) The registered owner of the subject property is Ronford Properties Limited, an indirect wholly-owned subsidiary of the Company, under an assignment dated 12th November 1998 vide Memorial No. 7630013.
- 2) The property is subject to a mortgage dated 9th May 2001 vide Memorial No. 8386510 in favour of Liu Chong Hing Bank Limited.

			Capital value in existing state as at 30th September 2002	
Property	Description and tenure	Particulars of occupancy		
14.	<p>Flat B on 12th Floor together with a Portion of Roof immediately thereabove Scholar Court, No. 15 Sands Street, Kennedy Town, Hong Kong.</p> <p>34/1600th shares of and in Inland Lot Nos. 2394 and 2395.</p>	<p>The property comprises one residential unit on the 12th floor and a portion of the roof of a 12-storey residential building completed in 1998.</p> <p>The residential unit has a gross floor area of approximately 475 sq.ft. (44.1 sq.m.) and a saleable area of approximately 332 sq.ft. (30.8 sq.m.). The portion of roof has an area of approximately 255 sq.ft. (23.7 sq.m.).</p> <p>The property is held under Government Lease for a term of 75 years commencing from 19th October 1914 with a right of renewal for a further term of 75 years.</p> <p>The government rent payable to the Government from 1st January 1999 is HK\$2,376 per annum. (P.E.5558)</p>	<p>The property is currently leased and subject to a tenancy agreement dated 12th June 2002 for a term of 2 years commencing from 15th June 2002 to 14th June 2004 at a monthly rental of HK\$6,500 inclusive of rates, government rent and management fees, and subject to a break clause that the tenant has the right to terminate the tenancy by giving 1 month's notice after the first 11 months of the term. We are advised by the Company that the tenant, 林文慧 (Lam Man Wai), is an independent third party to the Company.</p>	<p>HK\$1,200,000</p>

Notes:

- 1) The registered owner of the subject property is Ronford Properties Limited, an indirect wholly-owned subsidiary of the Company, under an assignment dated 12th November 1998 vide Memorial No. 7630014.
- 2) The property is subject to a mortgage dated 9th May 2001 vide Memorial No. 8386510 in favour of Liu Chong Hing Bank Limited.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30th September 2002
15.	Flat C8, 26th Floor, Block C, Elizabeth House, Nos. 250-254 Gloucester Road, Causeway Bay, Hong Kong.	The property comprises one residential unit on the 26th floor of a 21-storey residential building erected over a 7-storey commercial podium completed in 1978.	The property is vacant.	HK\$2,500,000
	15/11616th shares of and in the Remaining Portion of Inland Lot No. 6303, the Remaining Portion of Section B of Inland Lot No. 2835, Section D of Inland Lot No. 2835 and the Remaining Portion of Section A of Inland Lot No. 2833.	The property has a gross floor area of approximately 705 sq.ft. (65.5 sq.m.) and a saleable area of approximately 614 sq.ft. (57.0 sq.m.). The property is held under Government Leases for the respective term of 75 years renewable for 75 years commencing from 18th October 1947 (IL No. 6303) and 99 years renewable for 99 years commencing from 25th May 1929 (IL No. 2835) and 15th April 1929 (IL No. 2833) respectively. The government rent payable to the Government is HK\$356 per annum.		

Notes:

- 1) The registered owner of the property is International Stamps & Coins Exchange Gallery Limited, an indirect wholly-owned subsidiary of the Company, under an assignment dated 16th June 2000 vide Memorial No. 8129376.
- 2) The property is subject to a mortgage dated 9th May 2001 vide Memorial No. 8386510 in favour of Liu Chong Hing Bank Limited.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30th September 2002
16.	Flat B on Ground Floor & Garden of Block 3 & Car Parking Space No. 36, Stanford Villa, No. 7 Stanley Village Road, Stanley, Hong Kong. 22/2030th shares of and in the Remaining Portion of Rural Building Lot No. 1112.	<p>The property comprises one residential unit on the ground floor and a car parking space of a 3-storey residential building completed in 1995.</p> <p>The property has a gross floor area of approximately 758 sq.ft. (70.4 sq.m.) and a saleable area of approximately 624 sq.ft. (58.0 sq.m.) (exclusive of the area of the car parking space) and a garden area of approximately 656 sq.ft. (60.9 sq.m.).</p> <p>The property is held under Conditions of Exchange No. 12314 commencing from 26th July 1994 until 30th June 2047.</p> <p>The government rent payable is of an amount equal to 3% of the rateable value from time to time of the land leased.</p>	The property is vacant.	HK\$5,500,000

Notes:

- 1) The registered owner of the property is Greatly Fareast Limited, an indirect wholly-owned subsidiary of the Company, under an assignment dated 2nd June 2000 vide Memorial No. 8111661.
- 2) The property is subject to a mortgage dated 9th May 2001 vide Memorial No. 8386510 in favour of Liu Chong Hing Bank Limited.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30th September 2002
17.	Flat B, 22nd Floor together with a Portion of Roof immediately thereabove and Car Parking Space No. 22 on Car Park Floor, Royalton, No. 118 Pok Fu Lam Road, Pok Fu Lam, Hong Kong. 82/3444th shares of and in the Rural Building Lot No. 1114.	The property comprises one residential unit on the top floor and a car parking space of a 23-storey residential building completed in 1997. The residential unit has a gross floor area of approximately 2,160 sq.ft. (200.7 sq.m.) and a saleable area of approximately 1,641 sq.ft. (152.5 sq.m.). The portion of roof has an area of approximately 1,229 sq.ft. (114.2 sq.m.). The property is held under Conditions of Exchange No. 12323 commencing from 12th October 1994 to 30th June 2047. The government rent payable is of an amount equal to 3% of the rateable value from time to time of the land leased.	The property is vacant.	HK\$11,800,000

Notes:

- 1) The registered owner of the property is Bestford Properties Limited, an indirect wholly-owned subsidiary of the Company, under an assignment dated 27th June 1997 vide Memorial No. 7374945.
- 2) The property is subject to a mortgage dated 9th May 2001 vide Memorial No. 8386510 in favour of Liu Chong Hing Bank Limited.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30th September 2002
18.	Duplex Flat A on 21st & 22nd Floors together with a Portion of Roof immediately thereabove and Car Parking Space No. 33, Royalton, No.118 Pok Fu Lam Road, Pok Fu Lam, Hong Kong. 120/3444th shares of and in the Rural Building Lot No. 1114.	The property comprises one duplex residential unit on the top floor and a car parking space of a 23-storey residential building completed in 1997. The residential unit has a gross floor area of approximately 3,259 sq.ft. (302.8 sq.m.) and a saleable area of approximately 2,476 sq.ft. (230.0 sq.m.). The portion of roof has an area of approximately 837 sq.ft. (77.8 sq.m.). The property is held under Conditions of Exchange No. 12323 commencing from 12th October 1994 to 30th June 2047. The government rent payable is of an amount equal to 3% of the rateable value from time to time of the land leased.	The property is currently occupied as staff quarters.	HK\$18,000,000

Notes:

- 1) The registered owner of the property is Radford Portfolio Management Limited, an indirect wholly-owned subsidiary of the Company, under an assignment dated 4th July, 1997 vide Memorial No. 7240051.
- 2) The property is subject to a mortgage dated 28th November 2000 vide Memorial No. 8254357 in favour of Liu Chong Hing Bank Limited.

			Capital value in existing state as at 30th September 2002
Property	Description and tenure	Particulars of occupancy	
19. Shop No.6 on G/F, Wing Wah House, Nos. 28-38 Fan Wa Street, Yau Tong, Kowloon. 1/52nd shares of and in New Kowloon Inland Lot No. 4942.	<p>The property comprises one shop unit on the ground floor of a 6-storey commercial/residential building completed in about 1973.</p> <p>The property has a saleable area of approximately 824 sq.ft. (76.6 sq.m.).</p> <p>The property is held under Conditions of Grant No. 8931 for a term of 99 years commencing from 1st July 1898 less the last 3 days thereof. The term of the Government Lease is extended until 30th June 2047 under Section 6 of the New Territories Leases (Extension) Ordinance 1988.</p> <p>The government rent payable is of an amount equal to 3% of the rateable value from time to time of the land leased.</p>	<p>The property is leased and subject to a tenancy agreement dated 29th August 1997 for a term of 5 years commencing from 1st September 1997 to 31st August 2002 at a monthly rental of HK\$13,000 exclusive of rates, government rent, management fees and property tax, and subject to a break clause that the tenant has the right to terminate the tenancy by giving 1 month's notice after the first 3 years of the term. Both parties agreed to extend the term of tenancy until 30th September 2002 at the same rent. We are advised by the Company that the tenant, Auto Standard Limited, is an independent third party to the Company.</p>	HK\$1,500,000

Notes:

- 1) The registered owner of the property is Fortune Gold Investment Limited, an indirect wholly-owned subsidiary of the Company, under an assignment dated 22nd July 1997 vide Memorial No. 7208277.
- 2) A new tenancy agreement dated 30th September 2002 has been signed with the same tenant above for a term commencing from 1st October 2002 to 31st August 2005 at a monthly rental of HK\$10,000 exclusive of rates, government rent and management fees.

Group II — Property rented by the Group in Hong Kong

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30th September 2002
20.	Room 835 on 8th Floor, Central Building, Nos. 1-3 Pedder Street, Central, Hong Kong. The Remaining Portion of Marine Lot Nos. 3, 5 and 7.	The property comprises one office unit of a 16-storey office building completed in about 1960. The property has a gross floor area of approximately 340 sq.ft. (31.6 sq.m.) and a saleable area of approximately 273 sq.ft. (25.4 sq.m.). The building is held under Government Lease for a term of 999 years commencing from 26th June 1843.	The property is let to the Group for office use for a term of 2 years commencing from 1st October 2001 to 30th September 2003 at a monthly rental of HK\$13,000 exclusive of rates, air-conditioning charges and utilities charges, and subject to a break clause that the landlord has the right to terminate the tenancy by giving 6 months' notice in case of any demolition or reconstruction of the building.	No commercial value

Notes:

- 1) The registered owner and the landlord of the property is Central Building (BVI) Limited, under an assignment dated 24th June 1997 vide Memorial No. 7151277.
- 2) The tenant is Kam Kwong Company Limited, an indirect non wholly-owned subsidiary of the Company.

Set out below is a summary of the differences of certain provisions under the Companies Ordinance in Hong Kong and the Companies Act in Bermuda concerning a listed company. This summary is not exhaustive:

	Hong Kong	Bermuda
Alteration of memorandum and articles of association or bye-laws	<p>A company may not alter its memorandum except in the cases, in the mode and to the extent, for which express provision is made in the Companies Ordinance.</p> <p>A company may alter provisions in its articles of association by a special resolution unless such alteration is inconsistent with the special rights attached to a class of shares.</p>	<p>Subject to the bye-laws, a company may by a special resolution amend its memorandum of association. In certain circumstances, consent to the alteration must be obtained from the Minister of Finance of Bermuda.</p> <p>The bye-laws of a company may be amended by its directors subject to the approval of the shareholders in general meeting. In any case, subject to the bye-laws of the company, a special resolution of the shareholders to approve a change to its bye-laws must be obtained.</p>
Issue of share	<p>Unless with the approval of the shareholders, the directors of a company may only allot and issue shares to the subscribers of the memorandum of association or under a pro rata offer of shares by such company to its shareholders.</p>	<p>There is no requirement for the directors of a company to obtain the approval of its shareholders for the issue of shares on a pro rata basis. Such power to issue shares of company, however, will be determined in accordance with the company's bye-laws.</p>

	Hong Kong	Bermuda
Share premium and contributed surplus	<p>When a company issues shares at a premium, the amount of the premium must be transferred to the share premium account. The money in the share premium account may be applied (i) in paying up unissued shares of the company to be issued to its members as fully paid bonus shares, (ii) in writing off preliminary expenses of the company or the expenses of issuing shares; and (iii) as premium payable on the redemption of redeemable preference shares.</p>	<p>When a company issues shares at a premium, the premium will be transferred to the share premium account and its use is subject to restrictions that are broadly similar to those in Hong Kong.</p> <p>Where premium arises from an exchange of shares, however, the excess value of the shares acquired over the nominal value of the shares being issued may be credited to a contributed surplus account of the issuing company. Contributed surplus can, among other things, be distributed to the shareholders subject to there being reasonable grounds for believing that:</p> <ul style="list-style-type: none">(a) the company is, or would after the payment be able to pay its liabilities as they become due; and(b) the realisable value of the company's assets would thereby be not less than the aggregate of its liabilities and its issued share capital and share premium accounts.

	Hong Kong	Bermuda
Financial assistance	<p>In general, it is not permissible for a company to give financial assistance in connection with acquisition of the company's shares unless the principal purpose in giving the assistance is not for the acquisition of the shares and the assistance is given in good faith in the interests of the company. There are only a few exceptions to the prohibition of providing financial assistance, which include, among other things, (i) distribution of dividends; (ii) distribution of assets in winding up; (iii) the allotment of bonus shares; (iv) reduction of capital confirmed by the court; (v) anything done in pursuance of an order of the court under Section 166 of the Companies Ordinance in respect of a compromise or scheme of arrangement between a company and its members or creditors; (vi) where the ordinary business of the company is lending money; and (vii) the company makes a loan to its employees (other than the non-salaried directors) employed in good faith by the company with a view to enabling them to purchase fully paid shares in the company or its holding company. In the case of a listed company giving financial assistance under (vi) or (vii) above, its net assets must not be thereby reduced or, to the extent that those assets are there by reduced, if the assistance is provided out of distributable profits.</p>	<p>The Companies Act includes financial assistance provisions historically intended to preserve the capital of a company. However, in a recent amendment to the Companies Act, financial assistance is no longer prohibited in circumstances where, if, on the date from which the financial assistance is to be given, there are no reasonable grounds for believing that the company is, or will be unable to pay its liabilities as they become due.</p>

	Hong Kong	Bermuda
Subsidiary's membership of holding company	<p>A subsidiary is prohibited from holding the shares of its holding company, except in certain circumstances set out in the Companies Ordinance.</p>	<p>Under Bermuda law, a subsidiary may hold shares in its holding company and, subject to any restrictions relating to financial assistance, may acquire such shares.</p>
Share repurchase	<p>A company in general may not purchase its own shares, except (i) where the redemption of shares, which is in effect a purchase by the company of those shares, is permitted; (ii) on a reduction of capital; (iii) if it is ordered by the court to purchase the shares of dissentients; (iv) the purchase is authorised by its articles of association provided that after the buy-back, the company's capital does not comprise only redeemable shares. Save in limited circumstances, a purchase may only be funded out of the distributable profits of a company or the proceeds of a fresh issue of shares made for the purpose.</p> <p>A listed company may purchase its shares under a general offer or on recognised stock exchange or otherwise approved by special resolution in general meeting. In the case of a purchase on a stock exchange, the purchase must be authorised by the company in general meeting.</p> <p>A listed company may purchase its shares in order to (i) settle or compromise a debtor claim; (ii) eliminate fractional shares; (iii) to fulfil an employee share scheme agreement; or (iv) comply with certain court orders.</p>	<p>A company may purchase its shares which may be funded (i) with respect to the par value of the shares to be purchased, out of capital paid up thereon or out of the funds of the company otherwise available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose of repurchase and (ii) with respect to any premium on the purchase of such shares, out of the share premium account before the share repurchase or out of its funds of the company otherwise available for dividend or distribution.</p> <p>On a purchase of shares, there must be no reasonable grounds for believing the company is, or after the repurchase would be, unable to pay its liabilities as they become due.</p>

	Hong Kong	Bermuda
Capital reduction	<p>A company may, if so authorised by its articles of association, by a special resolution reduce its capital in any way and the court confirms the reduction. If the court is satisfied, with respect to every creditor who is entitled to object to the reduction that either his consent to the reduction has been obtained or his debt or claim has been discharged or has been determined, or has been secured, it may make an order confirming the reduction on such terms and conditions as it thinks fit.</p>	<p>A company having a share capital if authorised in general meeting and by its memorandum of association and bye-laws may reduce its share capital in any way. Such reduction requires the publication of an announcement in an appointed newspaper in Bermuda not less than 15 and not more than 30 days prior to the reduction and, further, there must be no reasonable grounds for believing that the company on the effective date of reduction, is or would be unable to pay its liabilities as they become due.</p>
Dividends and distribution	<p>A company shall not make a distribution except out of profits available for the purpose. A listed company may only make a distribution if, at the time of distribution and after the distribution, the value of its net assets is not less than the total of its called up share capital and undistributable reserves.</p>	<p>A company shall not declare or pay a dividend out of profits or distributable reserves, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that:</p> <ul style="list-style-type: none">(a) the company is, or would after the payment be, unable to pay its liabilities as they become due, or(b) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

	Hong Kong	Bermuda
Protection of minority shareholders	<p>Any member of a company incorporated in Hong Kong may apply for relief under Section 168A of the Companies Ordinance on the ground that the affairs of the company are being or have been conducted in a manner which is unfairly prejudicial to the interests of the members generally or of some part of the members (including himself). The court may make any order as it thinks appropriate, including, among other things, (i) an order regulating the affairs of the company in the future; (ii) an order providing for the other members of the company or for the company itself to buy the shares of any member; or (iii) an order altering the company's memorandum and articles of association.</p> <p>The court may also wind up a company, whether incorporated in Hong Kong or elsewhere, if the court considers that it is just and equitable that the company should be wound up.</p>	<p>Shareholders are entitled to complain to the court under the Companies Act that the affairs of a Bermuda company are being conducted in a manner which is oppressive or prejudicial to some part of the members. A Bermuda company may be wound up by the court if, inter alia, the court is of the opinion that it is just and equitable that the company should be wound up. Besides, the Companies Act also provides that a shareholder who does not vote in favour of an amalgamation and is not satisfied that he is being offered fair value for his shares has the right, within one month of the giving of the notice in respect of the meeting at which the amalgamation was voted on, to make an application to the court to appraise the fair value of his shares.</p>

DISCLOSURE OF INTERESTS BY DIRECTORS

- (a) As at the latest practicable date, the interests of the directors and their associates in the share capital of China United or any of its associated corporations within the meaning of the SDI Ordinance which are required to be notified to the Stock Exchange and China United pursuant to section 28 of the SDI Ordinance (including interests which they are deemed or taken to have under section 31 of or Part I of the Schedule to the SDI Ordinance) or which are required, pursuant to section 29 of the SDI Ordinance to be entered in the register referred to therein or which are required to be notified to China United and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Interests in Shares

Name of directors	Type of interest	Number of ordinary Shares beneficially held
Chuang Yueheng, Henry (<i>Note</i>)	Corporate	1,683,754,517
Lo Kan Sun	Personal	4

Note: 1,683,754,517 Shares are held by Radford, which is controlled by a trust with the son of Mr. Chuang Yueheng, Henry, chairman of China United, currently named as the sole beneficiary.

Save as disclosed therein, none of the directors has any interests in the share capital of China United or any of its associated corporations within the meaning of the SDI Ordinance which are required to be notified to the Stock Exchange and China United pursuant to section 28 of the SDI Ordinance (including interests which they are deemed or taken to have under section 31 of or Part I of the Schedule to the SDI Ordinance) or which are required, pursuant to section 29 of the SDI Ordinance to be entered in the register referred to therein or which are required to be notified to China United and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

- (b) As at the latest practicable date:
- (i) upon the scheme becoming effective, China United will become a wholly-owned subsidiary of the holding company. On the assumption that there is no change to the number of and their interests in the Shares between the latest practicable date and the record time, the interests of the directors and the directors of the holding company in the securities of China United or any associated corporation (within the meaning of the SDI Ordinance) will be the same as their respective proportionate interests in the Shares as set out above except that the above references to their interests in the Shares will be substituted by their interests in the holding shares;

- (ii) none of the directors has any direct or indirect interests in any assets which have since 31st December, 2001 (being the date to which the latest published audited accounts of China United were made up) been acquired or disposed of by or leased to any members of the Group, or are proposed to be acquired or disposed of by or leased to any members of the Group or in the promotion of any of such assets, within two years before the date of this document;
- (iii) none of the directors is materially interested in any contracts or arrangements entered into by any members of the Group subsisting at the date of this document which is significant in relation to the business of the Group;
- (iv) none of the directors has entered into any service agreement with any member of the Group nor are there any other service agreements proposed which will not expire or be determinable by the Group within one year without payment of compensation (other than statutory compensation);
- (v) the aggregate directors' fees and the aggregate directors' basic salaries, housing allowances, other allowances, benefits in kind, bonuses and pensions paid by the Group for the year ended 31st December, 2001 were approximately HK\$9 million;
- (vi) during the year ended 31st December, 2001, no Shares were issued to the directors pursuant to the exercise of certain options granted to them under the executive share option scheme adopted by China United on 15th December, 1995;
- (vii) the aggregate amount of directors' remuneration paid or payable by the Group for the year ending 31st December, 2002 is estimated to be approximately HK\$10 million;
- (viii) Centaline Surveyors Limited has no and has had no direct or indirect interest in any assets which have been acquired, disposed of by or leased to the Group or which are proposed to be acquired, disposed of by or leased to the holding company or the Group, or in the promotion of any of such assets, within two years immediately preceding the date of this document; and
- (ix) none of Anglo Chinese, CU Corporate Finance, BDO, Centaline Surveyors Limited and Conyers Dill & Pearman has any shareholding in the holding company or any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the holding company or any member of the Group.

SUBSTANTIAL SHAREHOLDERS

As at the latest practicable date so far as is known to the directors, the following persons were directly or indirectly interested in 10% or more of the nominal value of any class of the issued share capital of China United carrying rights to vote in all circumstances at general meetings of any member of the Group and the amount of each of such person's interest in such securities was:

Name of Shareholder	Type of interest	Number of Shares beneficially held
Radford (<i>Note</i>)	Corporate	1,683,754,517

Note: These Shares are held by Radford, which is controlled by a trust with the son of Mr. Chuang Yueheng, Henry, the chairman of China United, currently named as the sole beneficiary.

Save as disclosed above, there is no person known to the directors who, as at the latest practicable date, was directly or indirectly interested in Shares representing 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

As at the latest practicable date, no substantial shareholder has any interest in the share options.

LITIGATION

The following sets out litigation or claims of material importance pending or threatened against the Group:

(a) Actions commenced by the Group

- (i) Action on 14th October, 1998 by Rich Resources Enterprises Limited ("Rich Resources"), an indirect wholly-owned subsidiary of China United, against Fung Kam Shun (trading as Suntex International Investment Company) and Ho Heung Sing James (as defendants), for default in sale and purchase agreement in the sum of approximately HK\$7.34 million for failure to complete the purchase of certain properties and interest and costs of the action.
- (ii) Two actions on 4th October, 1999 by Rich Resources (as plaintiff), an indirect wholly-owned subsidiary of China United, against Ready Step Promotion Limited for default in two sale and purchase agreements and failure to complete the purchase of certain properties. The aggregate sum claimed is approximately HK\$2.17 million together with interest and costs.

- (iii) Two actions on 4th October, 1999 by Rich Resources (as plaintiff), an indirect wholly-owned subsidiary of China United, against Chung Hing Lam (as defendant) for default in two sale and purchase agreements and failure to complete the purchase of certain properties. The aggregate sum claimed is approximately HK\$1.4 million together with interest and costs.
- (iv) Action on 3rd September, 2001 by China United Finance Limited (as plaintiff), an indirect wholly-owned subsidiary of China United, against Hu Hsing Chung Brian John (as defendant) claiming repayment of a loan amounting to approximately HK\$2.09 million which is due and owing.
- (v) Legal action commenced on 28th May, 2002 by Chung Nam Finance Limited (as plaintiff), an indirect wholly-owned subsidiary of Hennabun Management Inc. (“HMI”), against Lo Kam Wing Albert (as defendant) claiming repayment of a loan amounting to approximately HK\$1.7 million which is due and owing.
- (vi) An action has been commenced on 4th October, 2002 by China United Finance Limited (as plaintiff), an indirect wholly-owned subsidiary of China United, against Top Gallant Investment Limited (1st defendant), Lam Nui (2nd defendant) and Lam Yick Sing (3rd defendant) claiming against (1) the 1st defendant for the delivery of vacant possession of the charged property; payment of all moneys due and owing to the plaintiff by the 1st defendant pursuant to a charge dated 8th June, 2000 entered into by the 1st defendant in favour of China United Finance Limited; an order to sell the charged property to discharge the moneys and interests owing under the legal charge and costs; and (2) the 2nd and 3rd defendants for payment of all moneys and interests due pursuant to a guarantee dated 12th April, 2001 entered into by them in favour of China United Finance Limited and costs.

China United has made full provisions in respect of the above item (i) to item (vi) as the directors are of the view that the chance of recovery of the same is low. China United will seek legal advice on the issues accordingly.

(b) Litigation against the Group

- (i) Action on 13th January, 2000 by High Wealth International Limited (as plaintiff) against China United (as defendant) for specific performance of an alleged obligation to issue conversion shares, pursuant to a subscription agreement dated 24th June, 1999 and an instrument in relation to convertible debentures dated 30th December, 2000. No further action has been taken by the plaintiff since 16th October, 2001.
- (ii) Action on 13th June, 2000 by Yarllogg Resources Co. Limited (formerly known as Yarlogg Resources Co. Ltd.) (as plaintiff) against Winsland Holdings Limited, an indirect wholly-owned subsidiary of China United (as defendant), for alleged failure to pay the consideration for the purchase of shares of Yarllogg Investments Limited of HK\$65 million. The pleadings of the action were closed and no further action has been taken by the plaintiff since 21st February, 2000.

- (iii) Action on 21st December, 1998 by AWT World Transport Group Limited (as plaintiff) against China United for a sum of Australian dollars 602,680 (equivalent to approximately HK\$2.65 million) for alleged breach of an agreement in which China United acted as guarantor for First Asia Investments Limited, together with contractual interests. The plaintiff subsequently applied for summary judgement, however, on 9th August, 1999, there was an order adjourning indefinitely the hearing for the plaintiff's summary judgement with liberty to restore. No further action has been taken by the plaintiff since 19th August, 1999.
- (iv) Actions on 22nd August, 2000 by Tilpifa Company Limited (as plaintiff) against Cuve Asset Management Limited, an indirect wholly-owned subsidiary of China United (as defendant), for the aggregate amount of approximately HK\$1.5 million for unpaid arrears of rents allegedly due to the plaintiff. A defence was filed on 12th September, 2000 and no further action has been taken by the plaintiff since 12th September, 2000.
- (v) On 4th April, 2002, two summonses were issued to China United in respect of alleged breach of certain sections of the SDI Ordinance. On 29th August, 2002, China United pleaded not guilty to the complaints thereunder. China United was convicted, and was fined HK\$500 for each summons and ordered to pay the SFC's cost of investigation at HK\$15,354. China United has lodged an appeal, which is scheduled to be heard on 27th November, 2002.

SPONSORS

Anglo Chinese and CU Corporate Finance have made an application on behalf of the holding company to the listing committee of the Stock Exchange for the listing of, and permission to deal in, the holding shares in issue and to be issued as mentioned herein and any holding shares (i) in issue and to be issued pursuant to the scheme; (ii) to be issued upon the exercise of the subscription rights attaching to any options which may be granted under the new share option scheme (not exceeding 10 per cent. of the issued ordinary share capital of the holding company as at the date upon listing of the holding shares); and (iii) to be issued upon the exercise of the conversion rights attaching to the new convertible notes.

CONSENT

Centaline Surveyors Limited has given and has not withdrawn its written consent to the issue of this document with the inclusion of its report and letter, as the case may be, and references to its name in the form and context in which it appears.

The following is the qualification of the professional adviser who has given an opinion or advice which is contained in this document:

Name	Qualification
Centaline Surveyors Limited	Property valuer

MATERIAL CONTRACTS

In the two years immediately preceding the date of this document, the following contracts, not being contracts in the ordinary course of business, were entered into by China United or its subsidiaries and are or may be material:

- (a) on 1st December, 2000, Go Lucky Profits Limited (now known as China United Securities Services Limited (“CUSSL”)), an indirect wholly-owned subsidiary of China United, Hennabun Management Inc. (“HMI”), an indirect non wholly-owned subsidiary of China United and Tokyo Light Holdings Limited, a minority shareholder of HMI, entered into a deed to repurchase 5,200,753 shares in HMI from Tokyo Light Holdings Limited at a consideration of approximately HK\$36 million;
- (b) on 12th December, 2000, China United entered into a placing agreement with Tai Fook Securities Company Limited (“Tai Fook”) in relation to the placing by China United of 1,994,000,000 Shares at a price of HK\$0.017 per placing share and a commission of 2.5% of the proceeds of placing (approximately HK\$0.8 million) was paid to Tai Fook;
- (c) on 5th February, 2001, China United entered into a placing agreement with Chung Nam Securities Limited, an indirect wholly-owned subsidiary of HMI, in relation to the placing by China United of 2,393,500,000 Shares at a price of HK\$0.014 per placing share and a commission of 2.5% of the proceeds of placing (approximately HK\$0.8 million) was paid to Chung Nam Securities Limited;
- (d) on 5th March, 2001, Simply Best Limited (as purchaser), an indirect wholly-owned subsidiary of China United, entered into a share sale agreement with March Match Limited (as vendor), an independent third party, in relation to the sale and purchase of Golden Clip Limited and its subsidiaries, the consideration of which was satisfied by the delivery by Simple Best Limited to March Match Limited a portfolio of listed shares of approximately HK\$49 million;
- (e) on 27th March, 2001, China United (as warrantor) and HMI entered into a subscription agreement with Equity Spin Investments Limited (as subscriber) in relation to the subscription of 10 million shares of US\$0.10 each in HMI (“HMI Shares”) at HK\$5 each and in which a warranted income guarantee was given by China United of HK\$50 million;
- (f) on 23rd April, 2001, Central Asia Investment Limited, an indirect wholly-owned subsidiary of China United, entered into a sale and purchase agreement with Wan Chi Hing, an independent third party, pursuant to which Central Asia Investment Limited sold to Wai Chi Hing of Flat A, 2/F., Block B12, Village Gardens Phase A together with car parking spaces Nos. 269 and 428, Village Gardens Phase A & B at a consideration of HK\$9 million;

- (g) on 15th May, 2001, China United entered into a placing agreement with Chung Nam Securities Limited (as placing agent) and CU Corporate Finance (as financial adviser), indirect wholly-owned subsidiaries of HMI, in relation to the issue of convertible redeemable notes with an aggregate principal amount of up to approximately HK\$76 million in denominations of HK\$168,000 each;
- (h) on 15th May, 2001, China United entered into a placing agreement with Chung Nam Securities Limited (as placing agent) and CU Corporate Finance (as financial adviser), indirect wholly-owned subsidiaries of HMI, in relation to the placing by China United of 2,960,000,000 Shares at a placing price of HK\$0.01 per placing share and a commission of 1% on the gross proceeds of placing (approximately HK\$0.3 million) was paid to each of Chung Nam Securities Limited and CU Corporate Finance;
- (i) on 15th May, 2001, CUSL entered into a subscription agreement with HMI, pursuant to which CUSL subscribed for 25,000,000 HMI Shares at a consideration of HK\$75 million;
- (j) on 21st June, 2001, China United (as vendor) entered into an agreement with Glory Ocean Resources Limited (as purchaser), an independent third party, in relation to the sale of 10,000,000 shares of HK\$0.01 each in Cupac Technology Limited, formerly a non wholly-owned subsidiary of China United, at a consideration of HK\$5 million;
- (k) on 27th July, 2001, China United entered into a placing agreement with Chung Nam Securities Limited (as placing agent) and CU Corporate Finance (as financial adviser), indirect wholly-owned subsidiaries of HMI, in relation to the placing by China United of up to 3,610,000,000 Shares at HK\$0.01 per placing share and a commission of 1% on the gross proceeds of placing (approximately HK\$0.4 million) was paid to each of Chung Nam Securities Limited and CU Corporate Finance;
- (l) on 2nd August, 2001, Large Investments Limited, an indirect wholly-owned subsidiary of China United, for which held 34% interests in Bai Hui Real Estates Company Limited, entered into the agreement with other shareholders of Bai Hui Real Estates Company Limited to distribute certain properties held by Bai Hui Real Estate Company to its shareholders for the repayment of its shareholders' loans. Large Investments Limited received approximately US\$3.2 million (equivalent to approximately HK\$25 million) from such distribution;
- (m) on 14th August, 2001, China United (as vendor) entered into an agreement with Starlot Limited (as purchaser), an independent third party, in relation to the sale and purchase of 230,000,000 shares of HK\$0.01 each in Cupac Technology Limited at a consideration of HK\$55 million;

- (n) on 10th September, 2001, China United entered into a placing agreement with Chung Nam Securities Limited (as placing agent) and CU Corporate Finance (as financial adviser), indirect wholly-owned subsidiaries of HMI, in relation to the placing by China United of 4,654,000,000 Shares at HK\$0.01 per placing share and a commission of 1% on the gross proceeds of placing (approximately HK\$0.5 million) was paid to each of Chung Nam Securities Limited and CU Corporate Finance;
- (o) on 13th September, 2001, Sky Coast Holdings Limited (as vendor), an indirect wholly-owned subsidiary of China United, entered into a sale and purchase agreement with Top Solution Inc. (as purchaser), an independent third party, in relation to the sale and purchase of the entire issued share capital of Unigolden Limited, formerly an indirect wholly-owned subsidiary of China United, together with its shareholders' loan at a consideration of approximately HK\$9 million;
- (p) on 13th September, 2001, China United entered into a deed of indemnity in favour of Unigolden Limited, formerly an indirect wholly-owned subsidiary of China United, and Top Solution Inc., an independent third party, in relation to certain transaction liabilities of Unigolden Limited, which was sold to Top Solution Inc. pursuant to the agreement disclosed in (o) above;
- (q) on 13th September, 2001, Sky Coast Holdings Limited (as assignor), an indirect wholly-owned subsidiary of China United, Top Solution Inc., an independent third party and Unigolden Limited, formerly an indirect wholly-owned subsidiary of China United, entered into a deed of assignment of loan to assign all the shareholders' loan owed by Unigolden Limited to Sky Coast Holdings Limited of approximately HK\$12 million;
- (r) on 26th September, 2001, Chung Nam Finance Limited (as borrower), an indirect wholly-owned subsidiary of HMI and China United (as guarantor) entered into a loan agreement with Master Tone Limited (as lender), an independent third party, in relation to a loan of HK\$50 million from Master Tone Limited to Chung Nam Finance Limited and guaranteed by China United. As at the latest practicable date, the loan had been repaid in full;
- (s) on 26th September, 2001, China United entered into a supplemental deed with East Champion Limited, an indirect wholly-owned subsidiary of China United, and Asia Standard International Group Limited, an independent third party, in relation to the repayment of a loan of approximately HK\$68 million provided to East Champion Limited by Asia Standard International Group Limited and guaranteed by China United;
- (t) on 26th September, 2001, East Champion Limited, an indirect wholly-owned subsidiary of China United, Large Investments Limited, an indirect wholly-owned subsidiary of China United, and Asia Standard International Group Limited entered into a supplemental deed in relation to the repayment of a loan of approximately HK\$68 million provided to East Champion Limited by Asia Standard International Group Limited and guaranteed by China United;

- (u) on 5th March, 2002, China United (as guarantor) and its indirect wholly-owned subsidiary, East Champion Limited (as borrower), entered into a supplemental agreement with International Bank of Asia Limited (as lender) to restructure the loan of approximately HK\$76 million by International Bank of Asia Limited to East Champion Limited;
- (v) on 16th May, 2002, China United entered into an underwriting agreement (“Underwriting Agreement”) with Radford and Tai Fook in relation to the underwriting and certain other arrangements in respect of the rights issue, which involved a payment of an underwriting commission of approximately HK\$0.6 million and HK\$2.2 million respectively, details of which are set out in a circular issued by China United dated 17th June, 2002, and a subscription agreement with HMI in relation to the subscription of 100,000,000 new HMI Shares to be subscribed by China United for a consideration of HK\$130 million. On 11th June, 2002, China United also entered into a supplemental agreement in addition to the Underwriting Agreement;
- (w) on 1st August, 2002, Power Link Group Limited (as vendor), an independent third party, and HMI (as purchaser), entered into a sale and purchase agreement for the sale and purchase of the entire issued share capital of Trade Sea Assets Limited and a loan in the amount of approximately HK\$30 million for an aggregate consideration of HK\$30 million;
- (x) On 1st August, 2002, Power Link Group Limited (as assignor) and HMI (as assignee) and Trade Sea Assets Limited entered into a loan assignment in relation to a loan in the amount of approximately HK\$30 million;
- (y) on 4th October, 2002, Winners Assets Limited (the vendor), an indirect wholly-owned subsidiary of China United and Eastrade Alliance Limited (the purchaser), an independent third party, entered into an agreement for the sale and purchase of the entire issued share capital of and the loan to Sun Year Enterprises Limited, formerly an indirect wholly-owned subsidiary of China United, for a total consideration of HK\$6 million;
- (z) on 4th October, 2002, Winners Assets Limited (as assignor), an indirect wholly-owned subsidiary of China United, Eastrade Alliance Limited (as assignee) and Sun Year Enterprises Limited, formerly an indirect wholly-owned subsidiary of China United, entered into a deed of assignment whereby Sun Year Enterprises Limited assigned its rights to a loan in the amount of approximately HK\$4 million owed by Sun Year Enterprises Limited to Eastrade Alliance Limited;
- (aa) on 11th October, 2002, Sky Coast Holdings Limited (as vendor), an indirect wholly-owned subsidiary of China United and Senstar Limited (as purchaser), an independent third party, entered into an agreement for the sale and purchase of the entire issued share capital of and the shareholders’ loan to Kingarm Company Limited, formerly an indirect wholly-owned subsidiary of China United, for a total consideration of HK\$19 million;

- (bb) on 11th October, 2002, Sky Coast Holdings Limited (as assignor), an indirect wholly-owned subsidiary of China United, Senstar Limited (as assignee) and Kingarm Company Limited, formerly an indirect wholly-owned subsidiary of China United, entered into a deed of assignment whereby Sky Coast Holdings Limited assigned its rights to a loan in the amount of approximately HK\$14 million owed by Kingarm Company Limited to Sky Coast Holdings Limited in favour of Senstar Limited;
- (cc) on 11th October, 2002, China United Finance Limited (as borrower), an indirect wholly-owned subsidiary of China United, Double Smart Finance Limited (as lender), Sky Coast Holdings Limited (as vendor), an indirect wholly-owned subsidiary of China United, and Senstar Limited (as purchaser) entered into a deed of novation and set off in connection with a HK\$19 million loan;
- (dd) on 22nd October, 2002, Modern View Holdings Limited (as vendor), an indirect non wholly-owned subsidiary of China United, and Tenstarz Limited (as purchaser), an independent third party, entered into a sale and purchase agreement for the sale and purchase of the entire issued share capital of Newick Group Limited, formerly an indirect non wholly-owned subsidiary of China United, for a consideration of HK\$8 million;
- (ee) on 22nd October, 2002, Modern View Holdings Limited (as vendor), Newick Group Limited and Tenstarz Limited (as purchaser) entered into a deed of indemnity whereby Modern View Holdings Limited agreed to indemnify Newick Group Limited and Tenstarz Limited for taxation liabilities; and
- (ff) on 20th November, 2002, World Better Corporation, Attentive Investments Limited, Workshop Holdings Limited, Dollar Group Limited (the “Noteholders”), China United and the holding company entered into a deed whereby the Noteholders agreed in principle, to waive all their rights and claims under the existing convertible notes, subject to the terms set out therein.

GENERAL

- (a) The estimated preliminary expenses of the holding company are approximately HK\$0.1 million and are payable by the holding company.
- (b) All expenses of the scheme incurred or to be incurred by the Group, including legal, accounting and other advisory fees, printing costs, listing fees and other expenses, have been or will be borne by the Group and are estimated to amount to approximately HK\$4 million.
- (c) Ms. Yung Mei Yee is the company secretary of China United and the holding company, who is a fellow member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries.
- (d) The English texts of this document and the related proxy forms shall prevail over the Chinese texts.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the office of the solicitors of China United, Richards Butler, at 20th Floor, Alexandra House, 16-20 Chater Road, Central, Hong Kong during normal business hours on any business day from the date of this document until the date on which the scheme becomes effective or lapses:

- (a) the memorandum of association and the bye-laws of China United;
- (b) the memorandum of association and the articles of association;
- (c) a summary of certain provisions of the articles of association;
- (d) the annual reports of China United in respect of each of the year ended 31st March, 2000, the nine months ended 31st December, 2000 and the year ended 31st December, 2001 and the interim report of China United for the six months ended 30th June, 2002;
- (e) the Companies Ordinance;
- (f) the material contracts referred to in this appendix;
- (g) the letter of consent referred to in this appendix;
- (h) a draft (subject to amendment) of the instrument for the creation of the new convertible notes, a summary of the terms and conditions of which is set out in appendix VII of this document;
- (i) the new share option scheme, a summary of the terms and conditions of which is set out in appendix VIII of this document; and
- (j) the letter and certificate from Centaline Surveyors Limited, the texts of both of which are set out in appendix IV to this document.

The principal terms of the new convertible notes

The new convertible notes will not be listed on any stock exchange:

(a) *Maturity date*

4th July, 2004

(b) *Conversion period*

The new convertible notes will be convertible into ordinary shares of the holding company in amounts 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.

(c) *Conversion price*

(i) HK\$1.91 per holding share (subject to adjustment) for noteholders who exercise their conversion rights under the new convertible notes during the period from 5th July, 2002 to 4th July, 2003; and

(ii) HK\$2.22 per holding share (subject to adjustment) if the conversion rights are exercised during the period from 5th July, 2003 to a date which is 14 days before (and excluding) the maturity date of the new convertible notes (which is on 4th July, 2004).

(d) *Interest*

The new convertible notes will bear interest at a rate of 7.5% per annum on the principal amount of the new convertible notes from time to time outstanding. Each interest period is 12 months.

(e) *Repayment*

On the maturity date, the holding company will repay to the holders of the new convertible notes the outstanding principal amount of the new convertible notes together with all accrued interest thereon.

(f) *Redemption*

The holding company will have the right to redeem in whole or in part the new convertible notes in denominations of HK\$168,000 at 105% of its outstanding principal amount at any time from the date of issue of the new convertible notes up to 14 days before (and excluding) the maturity date together with all accrued interest thereon.

(g) *Rights*

The holding shares to be issued upon conversion of the new convertible notes will rank equally in all respects among themselves and with the holding shares in issue on the relevant date of conversion.

(h) *Voting*

The holders of the new convertible notes will not have any right to attend or vote at any meetings of the holding company by virtue only of their being the holders of the new convertible notes.

(i) *Transferability*

The new convertible notes may not be transferred to persons who are connected persons of the holding company (as the term “connected person” is defined in the listing rules) without the prior written consent of the holding company.

The following is a summary of the terms required to be included in the new share option scheme as required by the listing rules. For the purpose of this section, “employee(s)” means any full time or part time employee(s) (as well as the executive and non-executive directors) of the Group; “grantee” means any participant who has been offered and accepted an option in accordance with the terms of the new share option scheme; and “participant” means any of the persons set out in paragraph (2) below.

I. Summary of the principal terms of the new share option scheme

1. The purpose of the new share option scheme is to provide the participants with the opportunity to acquire proprietary interests in the holding company and to encourage participants to work towards enhancing the value of the holding company and its holding shares for the benefit of the holding company and its shareholders as a whole.
2. All directors and employees of the holding group and consultant, advisor, agent, customers, supplier, service provider, contractor, business partner or connected person of the holding group or its associates who, in the sole discretion of the board of directors of the holding company, have contributed or will contribute to the holding group are eligible to participate in the new share option scheme (“Participants”).
3. The total number of holding shares which may be issued upon exercise of all outstanding holding options granted and yet to be exercised under the new share option scheme or any other share option scheme adopted by the holding company must not exceed 30% of the holding shares in issue from time to time. No holding option may be granted under the holding company or any other share option scheme adopted by the holding company if that will result in the 30% limit being exceeded. The number of holding shares which may be issued upon exercise of all holding options to be granted under the new share option scheme or any other share option scheme adopted by the holding company shall not in aggregate exceed 10% of the holding shares in issue on the date on which the holding shares first commence dealings on the Stock Exchange. Holding options which have lapsed in accordance with the terms of the new share option scheme will not be counted in calculating the 10% limit. However, the holding company may refresh this 10% limit with shareholders’ approval from the shareholders of the holding company in general meeting with the issue of an appropriate circular to shareholders of the holding company provided that each such renewal may not exceed the 10% of the holding shares in issue as at the date of the approval from the shareholders of the holding company for refreshing the 10% limit. The holding company may seek separate approval by shareholders of the holding company in general meeting, with the issue of an appropriate circular to shareholder of the holding company in compliance with the listing rules requirements, for granting options beyond the 10% limit provided the holding options in excess of the limit are granted only to the participants specially identified by the holding company before such approval is sought.

4. Unless approved by shareholders in the holding company in the manner set out in this paragraph below, the total number of holding shares issued and to be issued upon exercise of the holding options granted to each participant or grantee (as the case may be) (including both exercised and unexercised holding options) under the new share option scheme or any other share option scheme adopted by the holding company in any 12 month period must not exceed 1% of the holding shares in issue. Any further grant of holding options which would result in the number of holding shares issued as aforesaid exceeding the said 1% limit shall be subject to prior approval from the shareholders of the holding company with the relevant participant or grantee (as the case may be) and his associates (as such term is defined in the listing rules) abstaining from voting. A circular in compliance with the listing rules requirements must be sent to shareholders of the holding company disclosing the identity of such participant or grantee (as the case may be) and the number and terms of the holding options granted and to be granted.
5.
 - (a) The period within which the holding options must be exercised will be specified by the holding company at the time of grant. This period must expire no later than 10 years from the relevant date of grant (being the business day on which the board of directors of the holding company resolves to make an offer of holding option to the relevant grantee).
 - (b) In the event a grantee, if an employee, ceases to be an employee of the holding group for any reason other than (i) his or her death or (ii) on one or more of the grounds of termination of employment specified in paragraph 12(f) below, the holding option shall lapse on the date of cessation of such employment and not be exercisable unless the board of directors of the holding company otherwise determines in which event the holding option shall be exercisable to the extent and within such period as the board of directors of the holding company may determine. The date of cessation of employment shall be the last actual working day on which the grantee was physically at work with the holding company or the relevant subsidiary, whether salary is paid in lieu of notice or not.
 - (c) In the event the grantee dies before exercising the holding option in full and, if the grantee is an employee, none of the events for termination of employment under paragraph 12(f) below then exists with respect to such grantee, the personal representative(s) of the grantee shall be entitled within a period of 12 months from the date of death to exercise the holding option up to the entitlement of such grantee as at the date of death.
 - (d) If a general offer by way of takeover or otherwise (other than by way of scheme of arrangement pursuant to paragraph 5(e) below) is made to all the holders of holding shares (or all such holders other than the offeror, any person controlled by the offeror and any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional prior to the expiry date of

the relevant holding option, the holding company shall forthwith give notice thereof to the grantee and the grantee shall be entitled to exercise the holding option either to its full extent or to the extent notified by the holding company at any time within such period as shall be notified by the holding company.

- (e) If a general offer for holding shares by way of scheme of arrangement is made to all the holders of holding shares and has been approved by the necessary number of holders of holding shares at the requisite meetings, the holding company shall forthwith give notice thereof to the grantee and the grantee may at any time thereafter (but before such time as shall be notified by the holding company) exercise the holding option either to its full extent or to the extent notified by the holding company.
- (f) In the event a notice is given by the holding company to its shareholders to convene a shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind-up the holding company, the holding company shall forthwith give notice thereof to the grantee and the grantee may at any time thereafter (but before such time as shall be notified by the holding company) exercise the holding option either to its full extent or to the extent notified by the holding company, and the holding company shall as soon as possible and in any event no later than three days prior to the date of the proposed shareholders' meeting, allot, issue and register in the name of the grantee such number of fully paid holding shares which fall to be issued on exercise of such holding option.
- (g) In the event of a compromise or arrangement, other than a scheme of arrangement contemplated in paragraph 5(e) above, between the holding company and its members and/or creditors being proposed in connection with a scheme for the reconstruction or amalgamation of the holding company, the holding company shall give notice thereof to all grantees on the same day as it first gives notice of the meeting to its members and/or creditors to consider such a scheme or arrangement and the grantee may at any time thereafter but before such time as shall be notified by the holding company exercise the holding option either to its full extent or to the extent notified by the holding company, and the holding company shall as soon as possible and in any event no later than three days prior to the date of the proposed meeting, allot, issue and register in the name of the grantee such number of fully paid holding shares which fall to be issued on exercise of such holding option.
- (h) Upon the occurrence of any of the events referred to in paragraphs 5(d), (e), (f) and (g) above, the holding company may in its discretion and notwithstanding the terms of the relevant holding option also give notice to a grantee that his or her holding option may be exercised at any time within such period as shall be

notified by the holding company and/or to the extent (not being less than the extent to which it could then be exercised in accordance with its terms) notified by the holding company. If the holding company gives such notice, the balance of the holding option shall lapse.

6. Each grant of holding options to any director of the holding company, chief executive or substantial shareholder of the holding company, or any of their respective associates (as such term is defined in the listing rules) shall be subject to the prior approval of the independent non-executive directors of the holding company (excluding any independent non-executive director of the holding company who is a grantee of the holding option in question). Where any grant of holding options to a substantial shareholder or an independent non-executive director of the holding company, or any of their respective associates (as such term is defined in the listing rules), would result in the holding shares issued and to be issued upon exercise of all holding options already granted and to be granted (including holding options exercised, cancelled and outstanding) to such person in the 12 month period up to and including the date of such grant:
 - (a) representing in aggregate over 0.1% of the holding shares in issue; and
 - (b) having an aggregate value, based on the closing price of the holding shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of each grant, in excess of HK\$5 million, such grant of holding options shall be subject to prior approval by the shareholders of the holding company. Any vote taken at the meeting to approve the grant of such holding options must be taken on a poll. All connected persons (as defined in the listing rules) of the holding company shall abstain from voting at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular to be sent to the shareholders of the holding company in connection therewith.
7. Unless otherwise determined by the board of directors of the holding company at its sole discretion, the new share option scheme does not require a minimum period for which holding options must be held nor a performance target which must be achieved before an holding option can be exercised. In the event that the directors of the holding company resolves to impose such term(s) on the grant of holding options which decision may vary on a case by case basis, such terms should be stated in the letter containing the offer to the relevant participant and no such term(s) shall be imposed the result of which will be to the advantage of the participants.
8. The amount payable on acceptance of holding option is HK\$1 and an offer shall remain open for acceptance by the participant for a period of 14 days from the date on which the letter containing the offer is delivered to that participant.

9. The subscription price for the holding shares the subject of holding options shall be no less than the highest of (i) the closing price of the holding shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant; (ii) the average closing price of the holding shares as stated in the daily quotations sheets issued by the Stock Exchange for the 5 business days immediately preceding the date of grant; and (iii) the nominal value of a holding share on the date of grant. The subscription price will be established by the board of directors of the holding company at the time the holding option is offered to the relevant participant.
10. The holding shares to be allotted and issued upon the exercise of holding option shall be subject to all the provisions of the memorandum and articles of association in force at the relevant time and will rank *pari passu* with the fully paid holding shares in issue on the date the name of the grantee is registered on the register of members of the holding company. Prior to the grantee being registered on the register of members of the holding company, the grantee shall not have any voting rights, or rights to participate in any dividends or distributions of any rights arising on a liquidation of the holding company, in respect of the holding shares to be issued upon the exercise of the holding option.
11. The new share option scheme shall be valid and effective for a period of ten years commencing on the date of its adoption by resolution of the shareholders of the holding company.
12. A holding option shall lapse automatically and not be exercisable, to the extent not already exercised, on the earliest of:
 - (a) the expiry of the option period of a holding option;
 - (b) the expiry of the period for exercising the holding option as referred to in paragraphs 5(b), (c), (d), (f) or (g) above;
 - (c) subject to the scheme of arrangement referred to in paragraph 5(e) above becoming effective, the expiry of the period for exercising the holding option as referred to in paragraph 5(e) above;
 - (d) subject to paragraph 5(f) above, the date of commencement of the winding up of the holding company;
 - (e) the date on which the grantee sells, transfers, charges, mortgages, encumbers or creates any interest in favour of any other person, over or in relation to any holding option in breach of the new share option scheme;
 - (f) the date on which the grantee ceases to be a participant by reason of the termination of his or her employment on the grounds that he or she has been guilty of serious misconduct, or appears either to be unable to pay or to have no

reasonable prospect of being able to pay his or her debts or has become bankrupt or has made any arrangement or composition with his or her creditors generally or has been convicted of any criminal offence involving his or her integrity or honesty or on any other ground on which an employer would be entitled to terminate his or her employment summarily; and

- (g) unless the board of directors of the holding company otherwise determines, the date the grantee ceases to be a participant for any other reason.
13. In the event of any capitalisation of profits or reserves, rights issue, subdivision or consolidation of holding shares, reduction of the share capital of the holding company whilst any holding option remains exercisable, the auditors or independent financial adviser of the holding company shall determine what adjustment is required to the subscription price or the number of holding shares to be issued on exercise of the holding options provided that any such adjustments give the participant the same proportion of the equity capital of the holding company as to which that person was previously entitled. No such adjustment may be made to the extent that a holding share will be issued at less than its nominal value.
 14. Any holding options granted but not exercised may be cancelled if the grantee so agrees and new holding options may be granted to the grantee provided there are available unissued holding options (excluding the cancelled holding options) within the limits specified in paragraph 3 above and are otherwise granted in accordance with the terms of the new share option scheme.
 15. The holding shares issued on exercise of the holding options will on issue be identical to the then existing issued holding shares of the holding company.
 16. The holding company by ordinary resolution of shareholders of the holding company, or by resolution of the board of directors of the holding company, may at any time terminate the operation of the new share option scheme and in such event no further holding options will be offered or granted under the new share option scheme. Any granted but unexercised holding options shall continue to be exercisable in accordance with their terms of issue after the termination of the new share option scheme.
 17. The holding options granted will be personal to the grantees and are not transferable or assignable.
 18. Those specific provisions of the new share option scheme which relate to the matters set out in rule 17.03 of the listing rules as referred to in paragraphs 1-5(a) and 7-17 above cannot be altered to the advantage of participants, and no changes to the authority of the directors of the holding company or administrator of the new share option scheme in relation to any alteration of the terms shall be made, without the prior approval of shareholders of the holding company in general meeting. Any alterations to the terms and conditions of the new share option scheme which are of

a material nature, or any change to the terms of the holding options granted, must be approved by shareholders of the holding company in general meeting, except where the alterations take effect automatically under the existing terms of the new share option scheme. Any such alterations to the terms of the new share option scheme and the holding options will have to comply with the listing rules then applicable.

19. On exercise of a holding option by a grantee, the holding company may at its sole discretion (which discretion may or may not be exercised on request from a grantee) elect to cancel such exercised holding option and instead of issuing new holding shares to the grantee, pay to the grantee the aggregate of:
- (a) the subscription price received by the holding company from the grantee with the notice of exercise of the holding option;
 - (b) if the average closing price of the holding shares (as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date the holding company receives notice of exercise of the holding option) exceeds the subscription price, an amount equal to such excess multiplied by the number of holding shares in respect of which the holding option was exercised.

II. Restriction on the time of grant of holding options

A grant of holding options may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published in newspapers. In particular, during the period commencing one month immediately preceding the earlier of:

- (1) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with paragraph 12 of the listing agreement between the holding company and the Stock Exchange) for the approval of the holding company's interim or annual results; and
- (2) the deadline for the holding company to publish its interim or annual results announcement under the listing agreement between the holding company and the Stock Exchange,

and ending on the date of the results announcement, no holding option may be granted. The period during which no holding option may be granted will cover any period of delay in the publication of a results announcement.

III. Present status of the new share option scheme

The new share option scheme has been adopted conditional on:

- (a) the listing committee of the Stock Exchange granting approval of the listing of, and permission to deal in, the holding shares to be issued pursuant to any exercise of the holding options;
- (b) the scheme becoming unconditional and effective;
- (c) the resolutions necessary to cancel the existing share option scheme and adopt the new share option scheme are duly passed; and
- (d) all other necessary consents or authorisations which may be required under any existing contractual arrangements or regulatory requirements being obtained.

If the above conditions are not satisfied on or before 31st March, 2003, the new share option scheme shall forthwith determine and no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the new share option scheme and the existing share option scheme shall continue to operate.

Application has been made to the listing committee of the Stock Exchange for the approval of the listing of, and permission to deal in, the holding shares which may fall to be issued pursuant to the exercise of the holding options granted under the new share option scheme.

IV. The directors consider that it is not appropriate to state the value of all holding options that can in future be granted pursuant to the new share option scheme as if they had been granted on the latest practicable date as a number of variables which are crucial for the calculation of the value of the holding options have not been determined. Such variables include the exercise price, exercise period, any lock up period, any performance targets set and other relevant variables. The directors believe that any calculation of the value of the holding options as at the latest practicable date based on such a great number of speculative assumptions would not be meaningful and would be misleading to the shareholders.

The current articles of association were adopted on 20th November, 2002. The following is a summary of certain provisions of the articles of association:

Alteration of capital

The holding company may from time to time by ordinary resolution increase the share capital by such sum, to be divided into shares of such amount, as the resolution shall prescribe.

The holding company may from time to time by ordinary resolution (a) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares; (b) cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken, by any person and diminish the amount of its share capital by the amount of the shares so cancelled; and (c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the memorandum of association and the resolution may determine that, as between the holders of the shares resulting from the sub-division, any of the shares may have any preference or advantage over or to be subject to any restrictions as compared with the others as the holding company has power to attach to unissued or new shares, subject nevertheless to the provisions of the Companies Ordinance.

The holding company may by special resolution reduce its capital, any capital redemption reserve fund or any share premium account in any manner subject to any provisions prescribed by law.

Modification of rights

Subject to the provisions of the Companies Ordinance, if at any time the share capital is divided into different classes of shares, the rights attached to any class of shares may be varied with the consent in writing of the holders of not less than three fourths in nominal value of the issued shares of that class, or with the sanction of a special resolution passed at a separate general meeting of the holders of such shares. To any such separate general meeting, all the provisions of the articles of association as to general meetings of the holding company shall *mutatis mutandis* apply, but so that the necessary quorum shall be two persons at least holding or representing by proxy or by authorised representative not less than one third in nominal value of the issued shares of that class and that every holder of shares of that class shall be entitled on a poll to one vote for every share of that class, held by him, and any holder of shares of the class present in person or by proxy or by authorised representative may demand a poll and that at an adjourned meeting of the holders, two person holding shares of that class present in person or by proxy or by authorised representative (whatever the number of shares held by them) shall be a quorum.

Votes of members

Subject to any special terms as to voting for the time being attached to any shares on a show of hands every member who is present in person or by a representative duly authorised under the Companies Ordinance at a general meeting of the holding company, shall have one vote and on a poll every member who is present in person or by proxy or by his authorised representative shall have one vote for every share of which he is the holder which is fully paid up.

A member of the holding company, being a recognised clearing house within the meaning of the (Securities and Futures (Clearing Houses) Ordinance of Hong Kong or its nominees may authorise such person or persons as it thinks fit to act as its representative (or representatives) or proxy (or proxies) at any general meeting of the holding company or at any meeting of any class of members provided that, if more than one person is so authorised, the authorisation or proxy form must specify the number and class of shares in respect of which each such person is so authorised. The person so authorised will be entitled to exercise the same power on behalf of the clearing house (or its nominee(s)) which he represents as that clearing house (or its nominee(s)) could exercise as if it were a registered holder of the shares of the holding company.

Borrowing powers

The directors of the holding company may exercise all the powers of the holding company to raise or borrow money and to mortgage or charge its undertaking, property and uncalled capital of the holding company and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the holding company or of any third party.

Directors

Unless and until otherwise determined by ordinary resolution of the holding company, the number of directors shall be not less than two. A director is not required to hold any qualification shares.

The holding company may by special resolution remove any director before the expiration of his period of office and may (subject to the articles of association) appoint another person who is willing to act to be a director in his place.

At every annual general meeting one third of the directors of the holding company for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not exceeding one third shall retire from office. The chairman of the board, the managing director and/or deputy chairman of the holding company shall not, whilst holding office as such be subject to retirement by rotation or be taken into account in determining the number of directors to retire at each annual general meeting.

Without prejudice to the provisions in the articles of association for retirement by rotation or otherwise contained in the articles of association, the office of a director shall be vacated if by notice in writing served upon him and signed by all his co-directors.

No director shall be required to vacate office by reason only of his having attained any particular age.

The directors of the holding company may from time to time appoint one or more directors to hold any employment or executive office with the holding company (including that of a managing director) for such period and upon such terms as the directors of the holding company think fit and may revoke or terminate any of such appointments.

The directors of the holding company shall be entitled to receive by way of remuneration for their services such sum to be determined by the members in general meeting of the holding company or by the directors of the holding company on the authority of the holding company.

An executive director shall receive such remuneration (whether by way of salary, commission, participation in profits or otherwise) as the directors of the holding company may determine and in addition to his remuneration as a director.

Each director may be paid his reasonable travelling and hotel expenses incurred by him in or about the performance of his duties as directors, including his expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred while engaged in the business of the holding company. Any director who performs any special or extra services to or at the request of the holding company may be paid special remuneration. Such special remuneration may be made payable to such director in addition to or in substitution for his ordinary remuneration as a director, and may be made by way of salary or commission or participation in profits or otherwise as may be arranged.

Notwithstanding the above, the remuneration of a director appointed to any office in the management of the holding company may from time to time be fixed by the directors of the holding company and may be by way of salary, commission, participation in profits or otherwise or by all or any of those modes and with such other benefits (including pension and/or gratuity and/or other benefits or retirement and allowances) as the directors of the holding company may from time to time decide. Such remuneration shall be in addition to his remuneration as a director.

Directors' interests

A director may hold any other office or place of profit with the holding company (except that of auditor) in conjunction with his office of director for such period and upon such terms as the directors of the holding company may determine and may be paid such extra remuneration for it (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to any remuneration provided for by or pursuant to any other provision of the articles of association.

Subject to the Companies Ordinance and the provisions of the articles of association, no director proposed or intending director shall be disqualified by his office from contracting with the holding company, either with regard to his tenure of any office or place or profit or as vendor, purchaser or in any other manner whatever, nor shall any contract in which any director is in any way interested be liable to be avoided, nor shall any director who is interest be liable to account to the holding company or the members for any remuneration, profit or other benefit realised by the contract by reason of such director holding that office or of the fiduciary relationship thereby established and subject to any other provisions of the articles of association.

A director who to his knowledge is in any way, whether directly or indirectly, interested in a contract with the holding company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract is first taken into consideration, if he knows that he is or has become so interested. For this purpose, a general notice to the directors of the holding company given by a director to the effect that (a) he is a member of a specified company or firm and is to be regarded as interested in any contract which may after the date of the notice be made with that company or firm, or (b) he is to be regarded as interested in any contract which may after the date of the notice be made with a specified person who is connected with him, shall be deemed to be a sufficient declaration of interest in relation to any such contract; provided that no such notice shall be effective unless either it is given at a meeting of the board or the director of the holding company takes reasonable steps to secure that it is brought up and read at the next meeting of the directors after it is given.

Save as otherwise provided by the articles of association, a director of the holding company shall not vote on, or be counted in the quorum in relation to, any resolution of the directors of the holding company in respect of any contract in which he is to his knowledge materially interested, but this prohibition shall not apply to any of the following matters:

- (i) the giving to him of any indemnity or security in respect of money lent or obligations undertaken by him for the benefit of the holding company or any of its subsidiaries;
- (ii) the giving to a third party of any indemnity or security in respect of a debt or obligation of the holding company or any of its subsidiaries for which the director of the holding company has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
- (iii) where the holding company or any other company which the holding company may promote is offering securities in which offer the director of the holding company is or is to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any contract in which the director of the holding company is interested by virtue of his interest in shares or debentures or other securities of the holding company;
- (v) any contract concerning any other company (not being a company in which the director of the holding company, together with any of his associates, owns five per cent. or more) in which he is interested directly or indirectly whether as an officer, executive or shareholder;
- (vi) any contract concerning the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to directors and employees of the holding company or of any of its subsidiaries and does not provide in respect of any director personally as such any privilege or advantage not accorded to the class of persons to which the fund or scheme relates; and
- (vii) any contract concerning the adoption, modification or operation of any share incentive or share option scheme under which the director of the holding company may benefit.

Any director may act by himself or his firm in a professional capacity for the holding company (otherwise than as auditor), and he or his firm shall be entitled to remuneration for professional services as if he were not a director.

Dividends

The holding company may in general meeting declare dividends in any currency but no dividend shall exceed the amount recommended by the board.

Except in so far as the rights attaching to, or the terms of issue of, any share otherwise provide all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, but no amount paid up on a share in advance of calls shall be treated for this purpose as paid up on the share.

The directors of the holding company may pay such interim dividends as appear to the board to be justified by the profits of the holding company and may also pay any dividend payable at a fixed rate at intervals settled by the directors of the holding company, whatever the profits of the holding company, in the opinion of the directors of the holding company, justifies its payment.

The directors of the holding company may deduct from any dividend or other moneys payable to a member by the holding company all sums of money (if any) presently payable by him to the holding company on account of calls or otherwise.

In respect of any dividend proposed to be paid or declared by the directors of the holding company or by the holding company in general meeting, the directors of the holding company may further resolve that (a) such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid, provided that the members entitled thereto shall be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) the members entitled to such dividend be entitled to elect to receive an allotment of shares credited as fully paid in lieu of the whole or such part of the dividend as the directors of the holding company may think fit.

Any general meeting declaring a dividend may, upon the recommendation of the directors of the holding company, by ordinary resolution, direct that it shall be satisfied wholly or partly by the distribution of assets.

Any dividend unclaimed after a period of six years from the date when it became due for payment may be forfeited and shall revert to the holding company. All dividends unclaimed for one year after having been declared may be invested or otherwise made use of by the directors of the holding company for the benefit of the holding company until claimed and the holding company shall not be constituted a trustee in respect of it.

Transfer of shares

Subject to such of the restrictions of the articles of association as may be applicable, any member may transfer all or any of his shares by an instrument of transfer in the usual common form as prescribed by the Stock Exchange or in such other form as the directors of the holding company may accept and may approve. Such transfer may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), under hand or by machine-imprinted signature or by such other manner of execution as the directors of the holding company may approve from time to time.

The instrument of transfer of a share shall be executed by or on behalf of the transferor and the transferee. The transferor shall for all purposes hereof remain the holder of the share until the name of the transferee is entered in the register in respect of it. Nothing in the articles of association shall preclude the board from recognising a renunciation of the allotment or provisional allotment of any share by the allottee in favour of some person.

The directors of the holding company may in their absolute discretion and without assigning any reason, decline to register any transfer of any share which is not a fully-paid share. The directors of the holding company may also decline to register any transfer unless:

- (i) the instrument of transfer, duly stamped, is accompanied by the certificate for the shares to which it relates and such other evidence as the directors of the holding company may reasonably require to show the right of the transferor to make the transfer;
- (ii) such fee which does not exceed the maximum amount prescribed by the Stock Exchange from time to time as the directors of the holding company may from time to time require is paid to the holding company in respect of it;
- (iii) the instrument of transfer is in respect of only one class of share; and
- (iv) the shares concerned are free from any lien in favour of the holding company.

If the directors of the holding company decline to register a transfer of any share, they shall, within two months after the date on which the instrument of transfer was lodged with the holding company send to each of the transfer and the transferee notice of the refusal.

Purchases of shares

The holding company is authorised by its articles of association to purchase its shares and may do so so far as is permitted by the Companies Ordinance or any other relevant ordinance and the purchase is made in accordance with any relevant rules or regulations issued by the Stock Exchange or the SFC from time to time.

SCHEME OF ARRANGEMENT

IN THE SUPREME COURT OF BERMUDA

CIVIL JURISDICTION

2002: No. 461

IN THE MATTER OF

CHINA UNITED HOLDINGS LIMITED

and

IN THE MATTER OF

SECTION 99 OF THE COMPANIES ACT (as herein defined)

SCHEME OF ARRANGEMENT

between

CHINA UNITED HOLDINGS LIMITED

and

THE HOLDERS OF THE SCHEME SHARES (as herein defined)

PRELIMINARY

(A) In this scheme of arrangement, unless inconsistent with the subject or context, the following expressions shall bear the following meanings:

“Business Day”	a day other than Saturday on which banks are open for business in Hong Kong;
“Companies Act”	the Companies Act 1981 of Bermuda;
“Company”	CHINA UNITED HOLDINGS LIMITED, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange;
“Court”	the Supreme Court of Bermuda;

SCHEME OF ARRANGEMENT

“Court Meeting”	a meeting of the Shareholders which meeting shall be convened by the direction of the Court, including any adjournment thereof;
“Effective Date”	the date (Bermuda time) on which the Scheme becomes effective in accordance with Clause 6 of the Scheme;
“Explanatory Statement”	the statement in relation to the Scheme required under section 100 of the Companies Act;
“Group”	the Company and its subsidiaries or, where applicable, Newco and its subsidiaries;
“holder”	a registered holder, including a person entitled by transmission to be registered as such;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	The Hong Kong Special Administrative Region of The People’s Republic of China;
“Latest Practicable Date”	20 November, 2002, being the latest practicable date prior to the printing of the document containing the Scheme for the purposes of ascertaining certain information for inclusion therein;
“Listing Rules”	Rules governing the listing of securities on The Stock Exchange of Hong Kong Limited;
“Newco”	China United International Holdings Limited, a company incorporated in Hong Kong with limited liability;
“Newco Share(s)”	share(s) of HK\$0.10 each in the share capital of Newco;
“Radford”	Radford Developments Limited, a company incorporated in the British Virgin Islands which is controlled by a trust in which the son of Mr. Chuang Yueheng, Henry, the chairman of the Company, is currently named as the sole beneficiary and which is also a substantial shareholder of the Company;
“Record Time”	4:00 p.m. (Hong Kong time) on the Business Day immediately preceding the date (Bermuda time) on which the Scheme becomes effective;
“Register”	the register of members of the Company;

SCHEME OF ARRANGEMENT

“Scheme”	the scheme of arrangement in respect of the Shareholders as contained herein, in its present form or with or subject to any modification thereof or additions thereto or conditions approved by the Shareholders or imposed by the Court;
“Shareholder(s)”	holder(s) of the Scheme Shares as appearing in the Register at the Record Time;
“Scheme Share(s)”	share(s) of HK\$0.01 each in the capital of the Company;
“Special General Meeting”	the special general meeting of the Shareholders to be convened to consider and, if thought fit, approve the Scheme;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;

- (B) The Company was incorporated on 3 March, 1989 in Bermuda under the Companies Act 1981.
- (C) As of the Latest Practicable Date, the Company had an authorised share capital of HK\$2,000,000,000 divided into 200,000,000,000 Scheme Shares of which HK\$61,433,668.12 divided into 6,143,366,812 Scheme Shares have been issued and are fully paid or credited as fully paid.
- (D) The purpose of the Scheme is to establish Newco (which is incorporated in Hong Kong) as the holding company of the Group in Hong Kong as Hong Kong is the principal place of operation of the Group. Newco shall become the holding company of the Group by way of an exchange of shares between the Shareholders and Newco.
- (E) The Scheme involves the Shareholders becoming the shareholders of Newco by way of an exchange of Shares held by the Shareholders for new Newco Shares. The Shareholders shall receive one (1) Newco Share for every twenty-five (25) Scheme Shares held by them at the Record Time, and the Company shall become a wholly-owned subsidiary of Newco.
- (F) Newco has agreed to appear by counsel at the hearing of the petition to sanction the Scheme and to undertake to the Court to be bound thereby and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed and done by them for the purpose of giving effect to the Scheme including, without limitation, satisfying its obligations under the Scheme.

SCHEME OF ARRANGEMENT

PART I

SCHEME PARTICULARS

1. On the Effective Date:
 - (a) simultaneous with each other:
 - (i) the entire issued share capital of the Company shall be cancelled;
 - (ii) HK\$100,000 divided into 10,000,000 new Scheme Shares shall be allotted and issued to Newco, credited as fully-paid;
 - (iii) the credit arising from the reduction of capital in sub-paragraph (a)(i) above shall be credited to the contributed surplus of the Company; and
 - (iv) a special dividend of HK\$0.0028 per Scheme Share will be distributed to those persons registered as Shareholders immediately before the Court approves the Scheme; and
 - (b) in consideration of the cancellation of their Scheme Shares in sub-paragraph (a)(i) above, the Shareholders shall receive new Newco Shares, credited as fully-paid, on the basis of one (1) Newco Share for every twenty-five (25) Scheme Shares cancelled as aforesaid, save for Radford, which has consented to receiving one (1) Newco Share for every twenty-five (25) Scheme Shares held by it as at the Record Time less twenty (20) Newco Shares.

PART II

GENERAL APPLICATION

2. The new Newco Shares shall rank *pari passu* in all respects with the Newco Shares then in issue, including the right to receive all dividends and distributions which may be declared, made or paid thereafter.
3. Shareholders entitled to fractions of Newco Shares under the Scheme will not be allotted and issued Newco Shares representing such fractional entitlements. Such fractional entitlements to the Newco Shares will, instead, be aggregated and sold for the benefit of Newco.
4. (a) Newco shall effect the allotment and issue of the new Newco Shares pursuant to Clause 1(b) above on the Effective Date.

(b) During a period of two (2) months after the Effective Date, Shareholders may submit share certificates in respect of the Scheme Shares to the share registrar of Newco, Computershare Hong Kong Investor Services Limited, at its office at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, in exchange, at the expense of Newco, for share certificates of Newco in respect of the appropriate number of Newco Shares to be allotted and issued under the Scheme.

SCHEME OF ARRANGEMENT

- (c) After a period of two (2) months after the Effective Date, share certificates in respect of the Scheme Shares shall be accepted by the share registrar of Newco, Computershare Hong Kong Investor Services Limited, at its office at Shops 1712- 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, on payment of a fee of HK\$2.50 (or such higher amount as may be permitted under the Listing Rules from time to time) for each new share certificate in respect of Newco Shares to be issued or for each share certificate of the Company submitted for exchange, whichever number of share certificates is higher.
- (d) Newco share certificates to be received in exchange for the share certificates of the Company submitted under Clauses 4(b) and (c) above shall be ready for collection by the Shareholders within ten (10) Business Days of the date of submission of the share certificates of the Company in exchange for Newco share certificates.
5. Each instrument of transfer and certificate validly subsisting at the Record Time in respect of a transfer or holding, respectively, of any number of the Scheme Shares shall, on the Effective Date, cease to be valid for any purpose as an instrument of transfer or a certificate for the Scheme Shares and each certificate and valid instrument of transfer for the Scheme Shares existing at the Record Time shall, instead, be a certificate and valid instrument of transfer in respect of the relevant number of new Newco Shares, provided that any such certificate may at any time after the Effective Date at the option of the holder concerned be lodged with the share registrar of Newco for exchange whereupon the same shall be cancelled and a certificate of Newco Shares shall be issued by Newco at its expenses up to a period of two (2) months after the Effective Date and at the expense of the holder thereafter.
6. The Scheme shall become effective upon an office copy of the Order of the Court sanctioning the Scheme under Section 99 of the Companies Act being delivered to the Registrar of Companies in Bermuda for registration.
7. Unless the Scheme shall have become effective as aforesaid on or before 31 March, 2003 or such later date as the Company and Newco may agree and the Court may allow, the Scheme shall lapse.
8. The Company may consent for and on behalf of all concerned, to any modification of or addition to the Scheme or to any condition which the Court may require.
9. All costs, charges and expenses of and incidental to this Scheme and the costs of carrying the same into effect shall be borne by Newco.

Dated the 26th day of November, 2002

NOTICE OF COURT MEETING

IN THE SUPREME COURT OF BERMUDA

CIVIL JURISDICTION

2002: NO.461

IN THE MATTER OF CHINA UNITED HOLDINGS LIMITED

AND IN THE MATTER OF THE COMPANIES ACT 1981

NOTICE OF BERMUDA COURT MEETING

NOTICE IS HEREBY GIVEN that, by an Order dated 21st November, 2002, made in the above matter, the Court has directed a meeting to be convened of the holders of shares of Hong Kong Dollars \$0.01 each in the capital of the above-named CHINA UNITED HOLDINGS LIMITED (the “Company”) (defined as the “Scheme Shares” in the scheme of arrangement hereinafter mentioned) for the purposes of considering and, if thought fit, approving (with or without modification), a scheme of arrangement (the “Scheme”) proposed to be made between the Company and the holders of the Scheme Shares on the Record Time (as defined in the Scheme) and that such meeting will be held at Function Room 9, Ground Floor, City Garden Hotel, 9 City Garden Road, North Point, the Hong Kong Special Administrative Region of the People’s Republic of China (“Hong Kong”) at 9:00 a.m. on 20th December, 2002, at which place and time; all the holders of the Scheme Shares are requested to attend.

A copy of a printed scheme circular (the “Scheme Circular”), of which this notice forms a part containing the Scheme and the explanatory statement required to be furnished pursuant to section 100 of the Companies Act 1981 together with a form of proxy have been posted to every shareholder having a registered address in the register of members of the Company and additional copies of the said document, together with forms of proxy, can be obtained by any person entitled to attend the said meeting during usual business hours on any day prior to the day appointed for the said meeting (other than a Saturday afternoon, a Sunday or a statutory holiday):

- (i) at the principal place of business of the Company at 32nd Floor, China United Centre, 28 Marble Road, North Point, Hong Kong;
- (ii) at the office of the branch share registrar of the Company in Hong Kong, namely Computershare Hong Kong Investor Services Limited, situated at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong; and
- (iii) from the Company’s Hong Kong legal advisers, Messrs. Richards Butler of 20th Floor, Alexandra House, 16-20 Chater Road, Central, Hong Kong;

NOTICE OF COURT MEETING

and can be seen on display at the principal place of business of the Company at 32nd Floor, China United Centre, 28 Marble Road, North Point, Hong Kong.

The holders of the Scheme Shares entitled to attend and vote at the said meeting may vote, in the case of corporations, by means of their authorised corporate representatives and in other cases, either in person at the said meeting or by appointing another person, whether a shareholder of the Company or not, as their proxy to attend and vote in their stead.

In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy or by representative, shall be accepted to the exclusion of the votes of the other joint holders; and for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

It is requested that the instrument appointing a proxy shall be deposited at the principal place of business of the Company at 32nd Floor, China United Centre, 28 Marble Road, North Point, Hong Kong not less than 48 hours before the time appointed for the said meeting.

By the said Order, the Court has appointed Mr. Chung Wilson, a director of the Company or, failing him, Mr. Lo Kan Sun, a director of the Company to act as chairman of the said meeting and has directed the chairman to report the result thereof to the Court.

The Scheme will be subject to the subsequent approval of the Court and to the satisfaction of the conditions set out in the explanatory statement contained in the Scheme Circular.

Dated this 26th November, 2002.

Conyers Dill & Pearman

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

NOTICE OF SPECIAL GENERAL MEETING



(incorporated in Bermuda with limited liability)

NOTICE IS HEREBY GIVEN that a special general meeting of China United Holdings Limited (the “Company”) will be held at Function Room 9, Ground Floor, City Garden Hotel, 9 City Garden Road, North Point, Hong Kong on Friday, 20th December, 2002 at 9:30 a.m. (or as soon as the Court Meeting (as defined in the Scheme) shall have concluded or been adjourned) for the purpose of considering and, if thought fit, passing the following resolutions (with or without modifications in the case of the Ordinary Resolution), which will be proposed as special and ordinary resolutions of the Company:

SPECIAL RESOLUTION

“**THAT** conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited approving the listing of and granting permission to deal in, shares of HK\$0.10 each in the issued share capital of Newco (as defined in the Scheme hereinafter mentioned):

- (A) the scheme of arrangement dated 26th November, 2002 (the “Scheme”) between the Company and the holders of the Scheme Shares (as defined in the Scheme) as at the Record Time (as defined in the Scheme) in the form of the printed document contained in a composite document which has been submitted to this meeting marked “A” and, for the purpose of identification, signed by the chairman of this meeting, with any modification thereof or addition thereto or subject to any conditions approved or imposed by the Supreme Court of Bermuda be and is hereby approved; and
- (B) for the purpose of giving effect to the Scheme, on the Effective Date (as defined in the Scheme):
 - (i) simultaneous with each other:
 - (a) the entire issued share capital of HK\$61,433,668.12 divided into 6,143,366,812 shares of HK\$0.01 of the Company shall be cancelled; and
 - (b) HK\$100,000 in the issued share capital of the Company divided into 10,000,000 new Scheme Shares (as defined in the Scheme), shall be allotted and issued to Newco (as defined in the Scheme), credited as fully-paid;
 - (ii) the entire amount standing to the credit of the share premium account of the Company on the Effective Date shall be cancelled;

* For identification purpose only

NOTICE OF SPECIAL GENERAL MEETING

- (iii) the credit arising in the books of account of the Company as a result of the reduction in the share capital of the Company in sub-paragraph (i)(a) above and the cancellation of the credit in the share premium account of the Company in sub-paragraph (ii) above be applied to the contributed surplus account of the Company, where it may be utilised by the directors of the Company (the “Directors”) in accordance with the bye-laws of the Company and all applicable laws; and
- (iv) all of the authorised but unissued share capital of the Company (which shall include the authorised but unissued share capital resulting from the reduction in the share capital of the Company in sub-paragraph (i)(a) above) save and except for the HK\$100,000 in the issued share capital of the Company divided into 10,000,000 new Scheme Shares issued to Newco in sub-paragraph (i)(b) above be cancelled such that the authorised share capital of the Company upon completion of the Scheme shall be HK\$100,000 divided into 10,000,000 shares of HK\$0.01 each in the capital of the Company;

and that the Directors be and are hereby authorised to do all such acts, deeds and things as they may, in their absolute discretion, deem fit to effect, implement and complete any of the foregoing.”

ORDINARY RESOLUTION

“**THAT** subject to the passing of the special resolution referred to in this notice herein, the share option scheme of the Company (the “Share Option Scheme”) be and is hereby terminated in accordance with Clause 13 of the Share Option Scheme.”

By order of the board
China United Holdings Limited
Chung Wilson
Managing Director

Hong Kong, 26th November, 2002

Notes:

1. A white form of proxy for use at the meeting is enclosed.
2. The instrument appointing a proxy shall 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, attorney duly authorised.
3. Any member entitled to attend and vote at the meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a member of the Company. A member may appoint more than one proxy to attend on the same occasion.

NOTICE OF SPECIAL GENERAL MEETING

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 32nd Floor, China United Centre, 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 the instrument proposes to vote and in default the instrument of proxy shall not be treated as valid. Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting or poll concerned.
5. In the case of joint holders the vote of the senior who tenders a vote, whether in person or by proxy or by representative, shall be accepted to the exclusion of the votes of the other joint holders; and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
6. The instrument appointing a proxy to vote at a general meeting shall be deemed to confer authority to demand or join in demanding a poll and to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit.
7. The instrument appointing a proxy may be used at any adjournment of meeting for which it was originally intended and on a poll demanded at a meeting or adjourned meeting provided that in all these cases the meeting was originally held within 12 months from such date.