China United International Holdings Limited
互聯控股有限公司

(incorporated in Hong Kong with limited liability)

(Stock Code: 273)

Audited consolidated results for the year ended 31 December 2003

The Board of directors of China United International Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2003 together with the comparative figures for the year ended 31 December 2002 as follows:

	Note	**2003** *HK$'000*	**2002** *HK$'000*
Turnover	3	138,937	180,682
Other revenue		13,720	9,586
Cost of trading securities sold		(54,544)	(108,875)
Depreciation and amortisation expenses		(4,377)	(18,948)
Staff costs		(22,374)	(30,786)
Finance costs for provision of financial services		(7,029)	(11,492)
Other operating expenses	5	(333,669)	(29,329)
Loss from operations		(269,336)	(9,162)
Impairment losses on:			
- Property, plant and equipment		(21,000)	(112,876)
- Investment properties		(20,300)	—
- Goodwill on consolidation of subsidiaries		(1,006)	(28,343)
- Interest in an associate		(1,485)	—
- Other securities		(13,652)	—
Profit on disposal of interests in subsidiaries	6	245,319	—
Profit on disposal of partial interests in subsidiaries		1,056	—
Loss on deemed disposal of interests in subsidiaries		(1,809)	—
Profit on deemed disposal of interest in an associate		2,500	—
Other finance costs		(37,131)	(27,069)
Loss from ordinary activities before taxation		(116,844)	(177,450)
Taxation	7	5,800	(10,011)
Loss from ordinary activities		(111,044)	(187,461)
Minority interests		77,305	(11,908)
Loss attributable to shareholders		(33,739)	(199,369)
Dividends		17,201	—
Loss per share - Basic	8	(9 cents)	(54 cents)

Notes:

1. GROUP REORGANISATION AND BASIS OF PREPARATION

Pursuant to a group reorganisation under a scheme of arrangement ("the Group Reorganisation") sanctioned by the Supreme Court of Bermuda, which became effective on 3 January 2003, the Company issued its shares to the shareholders of China United Holdings Limited ("CU Bermuda"), the then ultimate holding company of the Group, in exchange for the entire issued share capital of CU Bermuda. CU Bermuda then became a wholly owned subsidiary of the Company, which became the holding company of the companies now comprising the Group.

Upon completion of the Group Reorganisation on 3 January 2003, the Company's shares were listed on the Stock Exchange by way of introduction on 6 January 2003 and the listing status of CU Bermuda was withdrawn on 3 January 2003.

As the shareholders of CU Bermuda and the Company and minority interests in the net assets of the Group were the same immediately before and immediately after the Group Reorganisation, the Company and its subsidiaries resulting from the Group Reorganisation have been regarded as a continuing group. Accordingly, the Group Reorganisation has been accounted for on the basis of merger accounting in accordance with Statement of Standard Accounting Practice No. 27 "Accounting for group reconstructions" issued by the Hong Kong Society of Accountants as if the group structure has always been in existence.

2. CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has adopted the revised SSAP 12 "Income taxes" which became effective on 1 January 2003 and is applied retrospectively. SSAP 12 (revised) requires deferred tax assets and liabilities to be provided in full using the liability method, on temporary differences arising between the tax base of an asset or a liability and its carrying amount in the financial statements at any point in time. Deferred tax assets or liabilities arising from temporary differences need to be measured at the tax rates enacted or substantively enacted by the balance sheet date. In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purpose and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future.

The adoption of SSAP 12 (revised) has not had a material financial impact on these financial statements.

3. TURNOVER

	2003 *HK$'000*	**2002** *HK$'000*
Proceeds from sale of trading securities	80,091	104,634
Interest income	43,800	54,604
Brokerage fees and commission income	9,102	13,459
Dividend income from listed securities	88	339
Rental income	5,856	7,646
	138,937	180,682

4. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined that business segments are its primary reporting format and geographical segments are its secondary reporting format, with each segment organised and managed separately.

Business segments

Business segments of the Group comprise the following:

Investment in trading securities	:	Purchase and sale of securities
Brokerage and financial services	:	Provide securities brokerage services, financial advisory services and loan financing
Property investment	:	Lease of properties for rentals
Investment holding	:	Holding investments for dividend income and capital appreciation

The Group's inter-segment transactions were mainly related to rental charges of which terms were similar to those contracted with third parties.

The following tables show revenue and profit information for these segments for the years ended 31 December 2003 and 2002.

Year ended 31 December 2003

	Investment in trading securities *HK$'000*	**Brokerage and financial services** *HK$'000*	**Property investment** *HK$'000*	**Investment holding** *HK$'000*	**Elimination** *HK$'000*	**Unallocated** *HK$'000*	**Total** *HK$'000*
Segment revenue							
Turnover							
External customers	80,179	52,902	5,856	—	—	—	138,937
Inter-segments	—	—	2,198	—	(2,198)	—	—
	80,179	52,902	8,054	—	(2,198)	—	138,937
Other revenue	—	13,014	—	36	—	670	13,720
Total revenue	80,179	65,916	8,054	36	(2,198)	670	152,657
Segment results	(57,210)	(38,293)	(6,877)	(4,718)	—	(162,238)	(269,336)
Impairment losses							(57,443)
Profit on disposal of interests in subsidiaries							245,319
Profit on disposal of partial interests in subsidiaries							1,056
Loss on deemed disposal of interests in subsidiaries							(1,809)
Profit on deemed disposal of interest in an associate							2,500
Other finance costs							(37,131)
Taxation							5,800
Minority interests							77,305
Loss attributable to shareholders							(33,739)

Year ended 31 December 2002

	Investment in trading securities *HK$'000*	Brokerage and financial services *HK$'000*	Property investment *HK$'000*	Investment holding *HK$'000*	Elimination *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Segment revenue							
Turnover							
External customers	104,973	68,063	7,646	—	—	—	180,682
Inter-segments	—	—	3,014	—	(3,014)	—	—
	104,973	68,063	10,660	—	(3,014)	—	180,682
Other revenue	—	7,087	24	—	—	2,475	9,586
Total revenue	104,973	75,150	10,684	—	(3,014)	2,475	190,268
Segment results	54,279	16,515	(40,945)	(14)	—	(38,997)	(9,162)
Impairment losses							(141,219)
Other finance costs							(27,069)
Taxation							(10,011)
Minority interests							(11,908)
Loss attributable to shareholders							(199,369)

Geographical segments

The Group's operations are located in Hong Kong for the years ended 31 December 2003 and 2002. Accordingly, no geographical segment information has been presented.

5. OTHER OPERATING EXPENSES

	2003 *HK$'000*	**2002** *HK$'000*
Included in other operating expenses:		
- Auditors' remuneration	2,260	1,310
- (Surplus) Deficit on revaluation of investment properties	(760)	38,890
- Operating lease charges:		
Equipment	24	26
Office premises	1,012	1,069
- Net unrealised holding loss (gain) on trading securities	77,329	(58,181)
- Net realised loss on disposal of other securities:		
Recognised during the year	1,114	—
Previously recognised in equity	10,341	—
- Net provision for bad and doubtful debts	213,207	10,269
- Release of negative goodwill to income	(4,809)	(1,517)
- Loss on disposal of investment properties	10,872	1,258
- Loss on disposal of property, plant and equipment	—	2,804

6. PROFIT ON DISPOSAL OF INTERESTS IN SUBSIDIARIES

	2003	2002
	HK$'000	*HK$'000*
Total consideration	116,770	
Net liabilities disposed of	127,393	—
Capital reserve realised upon disposal of subsidiaries	1,156	—
Profit on disposal of interests in subsidiaries	245,319	—

7. TAXATION

Hong Kong Profits Tax has been provided at the rate of 17.5% (2002: 16%) on the Group's estimated assessable profits for the year.

	2003	2002
	HK$'000	*HK$'000*
The (credit) charge comprises:		
Current tax		
Hong Kong Profits Tax:		
Current year	4,200	571
Over provision in prior years	—	(560)
	4,200	11
Deferred taxation	(10,000)	10,000
	(5,800)	10,011

Deferred tax credited for the year is in respect of unrealised holding loss on trading securities, which is a reversal of temporary difference.

8. LOSS PER SHARE

The calculation of the loss per share is based on the loss for the year of HK$33,739,000 (2002: HK$199,369,000) and on the weighted average number of 368,608,118 shares (2002: 368,602,008 shares) in issue during the year. The weighted average number of shares in issue used in the basic loss per share calculation for the year ended 31 December 2002 has been adjusted to reflect the effect of the Group Reorganisation and bonus issue during the current year, which is treated as had been completed on 1 January 2002.

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

SUMMARY OF AUDITORS' REPORT

The auditors of the Company (the "Auditors") have issued a disclaimer of opinion on the financial statements for the year because of possible effects of the limitation in scope and fundamental uncertainty. A summary of the details of the limitation in scope and fundamental uncertainty from the auditors' report is as follow:

The Auditors planned their audit so as to obtain all the information and explanations which they considered necessary in order to provide themselves with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to them was limited as follows:

(1) Included in current assets as at 31 December 2003 are loans receivable amounting to HK$83,456,000. These loans receivable are unsecured and some of them are covered by personal guarantees provided by third parties. Of the total amount, HK$15,362,000 were not yet due for repayment at 31 December 2003 and have not been settled up to the date of the Auditors' report. The Auditors were unable to obtain adequate external evidence to their satisfaction about the financial strength of the borrowers and the guarantors to enable them to form a view on the recoverability of the loans receivable and hence the adequacy of the provision.

(2) Included in the non-current assets are interests in associates of approximately of HK$320,624,000 in respect of Hennabun Management Inc. ("HMI"), which were reclassified from interests in subsidiaries during the year. The consolidated financial statements of HMI for the year ended 31 December 2003 are subject to audit qualifications as a result of the followings:-

    Included in the consolidated balance sheet of HMI at 31 December 2003 are loan receivables amounting to HK$46,555,000. Of the total amount, HK$41,206,000 were not yet due for repayment at 31 December 2003 and have not been settled up to the date of the auditors' report. The auditors were unable to obtain adequate external evidence to their satisfaction about the financial strength of the borrowers and the guarantors to enable themselves to form a view on the recoverability of the loans receivable and hence the adequacy of the provision.

    Included in the consolidated balance sheet of HMI at 31 December 2003 and its loss for the year is interest in an associate and profit on deemed disposal of interest in an associate amounting to HK$401,888,000 and HK$2,500,000 respectively. This associate was originally a subsidiary of HMI and became an associate of HMI following the disposal by HMI of a partial interest in this company during the year. Interest in this associate was further reduced as a result of issuance of shares to third party by this associate. However, audited financial information of this associate is not yet available.

    Because of the abovementioned matters, the Auditors were unable to form a view as to whether the Group's share of HMI's net assets at 31 December 2003 was fairly stated. Any adjustments relating to the above matters that might have been found to be necessary would have a significant consequential impact on the result of HMI for the year, and accordingly on the Group's net loss for the year, including the loss on deemed disposal of HMI amounting to HK$1,809,000 and profit on deemed disposal of interest in the said associate of HMI amounting to HK$2,500,000, and on the Group's interests in HMI at 31 December 2003.

(3) The Auditors were not the auditors in respect of the financial statements of CU Bermuda and its subsidiaries for the year ended 31 December 2002, which were audited by another firm of auditors whose report dated 16 April 2003 was qualified in respect of the valuation of one of the trading securities, Radford Capital Investment Limited ("Radford Capital"). They have not been able to obtain sufficient information from the former auditors to resolve the matter that gave rise to the qualification, which would have consequential effect on the realised gain on partial disposal of the Radford Capital shares and the unrealised holding loss recognised in the consolidated income statement of the Group for the year.

    In addition, the Company issued shares in exchange for all the shares of CU Bermuda pursuant to the Group Reorganisation that became effective on 3 January 2003. The shares of CU Bermuda thus acquired were recorded in the Company's own accounts at the consolidated net book value of CU Bermuda and its subsidiaries as shown in the consolidated balance sheet of CU Bermuda at 31 December 2002. The Company then took advantage of the merger relief under section 48C of the Hong Kong Companies Ordinance and recorded the surplus of the consolidated net asset value over the nominal value of the shares issued to a merger reserve, instead of a share premium account. Any adjustment to the value of the Radford Capital shares would also consequentially affect the amount of merger reserve recorded in the Company's own balance sheet at 31 December 2003.

Any adjustments in respect of the matters mentioned in (1) to (3) above would have consequential effect on the carrying amounts of the Company's interests in subsidiaries as recorded in the Company's own balance sheet.

Fundamental uncertainty

In forming their opinion, the Auditors have considered the adequacy of the disclosures made in the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared as follows:-

CU Bermuda, the former holding company of the Group, became a wholly owned subsidiary of the Company following the group reorganisation under a scheme of arrangement sanctioned by the Supreme Court of Bermuda. Subsequent to the reorganisation under the scheme of arrangement, the Group entered into certain transactions involving the re-grouping of shareholdings in subsidiaries within the Group, the elimination of inter-company balances and the disposal of CU Bermuda and the subsidiaries that remaining under CU Bermuda after the re-grouping ("the Old CU Group"). The directors consider that the Group has no obligations to assume the liabilities, actual or contingent, of the Old CU Group and challenge by any interested party, if brought upon the Group, as to the validity of the transactions and/or possible claims for compensation for any loss suffered as a result of the restructuring would have no merit. However, the directors have noted that a creditor has filed a petition to appoint provisional liquidators for CU Bermuda subsequent to the balance sheet date. The financial statements do not include any adjustments that would result from any claims or challenges from this creditor of the Old CU Group or other interested parties in respect of the transactions mentioned above. Whilst the directors, upon taking legal advice, consider that no valid claims against the Group could arise from the petition, the outcome of the petition is uncertain. If the outcome turns out to be adverse, it may have significant potential adverse effect on the financial position of the Group and may in turn affect the going concern basis of the preparation of the financial statements.

Qualified opinion: Disclaimer on view given by financial statements

Because of the significance of the possible effects of the limitation in scope in respect of external evidence outside the control of the Auditors or the directors on matters set out above and the possible effect of the fundamental uncertainty, the Auditors are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2003 or of the Group's loss and cash flows for the year then ended. In all other respects, in their opinion the financial statements have been properly prepared in accordance with the Hong Kong Companies Ordinance.

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

As the Company is incorporated in Hong Kong, the Auditors are required to report under section 141(6) of the Hong Kong Companies Ordinance. Their opinion is that in respect alone of the limitation on their work relating to matters specified above, they have not obtained all the information and explanations that they considered necessary for the purpose of their audit.

DIVIDEND

The Board of directors does not recommend the payment of any final dividend for the year ended 31 December 2003 (2002: Nil). A special dividend of HK7 cents per share was paid for the year ended 31 December 2003 (2002: Nil). No interim dividend was paid for the year ended 31 December 2003 (2002: Nil).

PROPOSED BONUS ISSUE OF SHARES

The Board of directors proposes to make a bonus issue of shares, on the basis of three new bonus shares for every two existing shares of the Company held by qualifying shareholders of the Company on the record date by way of capitalization of the credit balance in the share premium account of the Company. For further details of the bonus issue of shares, please refer to the separate announcement made by the Company.

BUSINESS REVIEW AND PROSPECTS

The year in review

Fiscal 2003 was an important year in the history of the Company, a year in which the Company moved its domicile from Bermuda to Hong Kong, and as a result of the change of domicile, the listing status of CU Bermuda on the Hong Kong Stock Exchange was replaced by China United International Holdings Limited on 6 January 2003. This marks the first Annual Report of the newly reorganized Company.

The rationale for the change of domicile was fully set out in an announcement to the public dated 27 August 2002. The change of domicile was completed in January 2003. In the months that followed, the directors of the Company held weekly meetings to discuss the position, strategy, and the future directions of the Company.

The Company has strong commitment to Hong Kong and China. In this post Enron and Worldcom era, the Directors feel that it is important to restore shareholders' as well as investors' confidence. By redomiciling to Hong Kong, the Company in effect accepts enhanced regulatory scrutiny which would not otherwise be required under the Bermuda Company Act. Equally important is our decision to part with our auditors of 3 years by engaging the service of the auditing firm of Moores Rowland Mazars. We have instructed the auditors to "leave no stones unturned" and to present a true picture to the public. The Directors have always believed in accurate accounting and transparent disclosure.

CU Bermuda became wholly owned subsidiary of the Company due to the change of domicile. In June 2003, the Directors felt an imminent need for restructuring by identifying the different functions and roles of the Company. It was then decided that CU Bermuda would continue in property investments whilst the Company would carry out the financial services provider and investment business. CU Bermuda had been negotiating with various banks and lenders for the restructuring of the loans until the last of the negotiations broke down. CU Bermuda has been involved in various litigations with the lenders and other related parties. The segregation of the two investment functions was found to be necessary in that it facilitated the Company to raise fund through the capital markets. It was expected that investors and/or lenders are more willing to invest or lend to an entity with lesser liabilities than to a debt borne (as a result of devaluation of properties and high associated loans) company with unknown litigation results.

The financial services groups, namely Hennabun Management Inc. and China United Finance Limited, together with certain properties (as required by one particular lender) were transferred to the Company from CU Bermuda for fair and reasonable considerations. It should be noted that the Directors consider the transfer of assets to be fair and reasonable and does not affect the right of the lenders of CU Bermuda. This restructuring was completed in July 2003.

In August 2003, the Directors received an offer from a connected party for the purchase of CU Bermuda. The Directors reached an agreement with the purchaser in which the purchaser would acquire CU Bermuda together with all the assets and liabilities while the Company would retain some of the benefits of the litigations. With the approval of shareholders, the transaction was completed in October 2003. The Company disposed CU Bermuda at a consideration of HK$10 million.

The sale of CU Bermuda, although unexpected, benefited the Company in that the Company is relieved from the cost of litigation and that the Directors can concentrate their efforts on more productive or rewarding business opportunities.

Results

During the year ended 31 December 2003, the turnover of the Group decreased to HK$138.9 million as compared to that of HK$180.7 million for the year ended 31 December 2002. The loss attributable to shareholders of HK$33.7 million represents a decrease of 83% as compared with a loss of HK$199.4 million for the year ended 31 December 2002. The loss per share was HK$0.09 as compared with HK$0.54 for the corresponding year ended 31 December 2002.

Review and outlook

2003 was a very challenging year, one in which we faced the continuing fallout from the collapse of the high-tech bubble and the series of corporate scandals in both US and Hong Kong. Amid the increasing numbers in both personal and business bankruptcies, record unemployment rate, persistent deflation, anemic business spending, and an July 1st protest against the Hong Kong government (magnitude of which has never been seen in the history of Hong Kong), Hong Kong was further hit by the outbreak of the Severe Acute Respiratory Syndrome ("SARS"). Hong Kong experienced an unprecedented economic downturn during the first half of the year. The Group's performance suffered significantly. The Group turned inward to focus its efforts mainly on corporate restructuring and streamlining its businesses activities by concentrating on the provision of financial services and investment in trading securities.

After the corporate restructuring, the Group's financial service arm, Hennabun Management Inc. ("HMI Group") was able to complete several subscriptions from various investors. As a result, the Group's shareholdings in HMI Group had been diluted to approximately 47.6% as at 31 December 2003. During the year, about 89.3% of the Group's turnover was contributed by HMI Group. The business nature of provision of brokerage and financial services does not generate consistent or recurring income and is highly dependent on the state of the economy. HMI Group suffered an operating loss before taxation (before provision of bad and doubtful debts) of HK$37.2 million.

As for the investment in trading securities, due to the weakness of the stock market and the bearish sentiment on the economy during the first half of the year under review, the activity in the investment in trading securities reduced to HK$ 80.2 million for the year under review as compared with that of HK$105 million for the year ended 31 December 2002. The decrease in the market value of the portfolio of the listed investments held by the Group resulted in an operating loss from investment in trading securities to approximately HK$57.2 million for the current year as compared with a profit of HK$54.3 million for the corresponding year ended 31 December 2002.

The Company had a disagreement with its previous auditors in the accounting treatment of the 290 million shares of investment in Radford Capital, an investment company listed on the Hong Kong Stock Exchange. During the months of September to October, the Group was successful in orderly disposing approximately 53 million Radford Capital shares for HK$ 49 million. Trading in the securities of Radford Capital was suspended by the Securities and Futures Commission ("SFC") in October without notice primarily due to the fact that Radford Capital shares were trading substantially above its net asset value (NAV). We regard this action by the SFC as inappropriate, given that there were willing buyers and willing sellers, the action, among others, interferes with the normal operation of the market. When enough done, the value of Radford Capital shares dropped by 90%. The decrease in value of Radford Capital shares contributed to write down in the book of the Group.

As for the property investment segment, no new property has been added to our portfolio. The Hong Kong property market continue its downward correction in the first half of 2003. The correction was further exaggerated by the effect of SARS. Being a responsible corporate citizen, the Company had given certain rent concessions to both commercial and residential leaseholders during the SARS affected period. Excluding the net deficit arising out of revaluation of the investment properties of about HK$19.5 million, an operating loss (before financial costs) of approximately HK$6.9 million was incurred during the current year.

Liquidity and Capital Resources

During the year, the Company has made a two for one bonus issue of shares in the Company and a bonus issue of warrants on the basis of one unit of subscription right for every five existing shares held by the shareholders. A total additional equity of approximately HK$15.2 million has been raised for additional working capital up to the date of this announcement.

As at 31 December 2003, the Group's total shareholders' funds amounted to HK$ 303.8 million compared with HK$345.5 million at 31 December 2002. As at 31 December 2003, the Group had net current liabilities of HK$37.9 million including cash and bank balances of HK$25.2 million compared with net current assets of HK$216 million comprising cash and bank balances of HK$26.6 million at 31 December 2002. The Group has continued to closely monitor and reduce its capital-debt structure to a level of a gearing ratio of 61.7 % (the proportion of total interest bearing borrowings to consolidated net assets) and current ratio of 0.78 times at 31 December 2003, compared to 170.7% and 1.45 times respectively at 31 December 2002.

As at 31 December 2003, the Group has bank loans of HK$32.9 million (31 December 2002: HK$441.8 million including bank loans and overdrafts), other loans of HK$90.5 million (31 December 2002: HK$84.2 million) and convertible notes of HK$63.8 million (31 December 2002: HK$63.8 million).

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

Pledge of Assets

As at 31 December 2003, certain assets of the Group with an aggregate carrying value of HK$ 49.3 million (31 December 2002: HK$411 million) have been pledged to banks and other financial institutions to secure credit facilities granted to the Group.

Contingent Liabilities

As at 31 December 2003, the Company (2002: CU Bermuda) had contingent liabilities not provided for in the financial statements in respect of guarantee of HK$ 38 million and HK$125 million (31 December 2002: HK$525.7 million and HK$Nil) for banking facilities granted to and utilized by subsidiaries and associates to the extent of HK$ 32.9 million and HK$60.9 million (31 December 2002: HK$320.7 million and HK$Nil) respectively.

On 30 June 2003, the Company, CU Bermuda and HMI entered into an agreement under which approximately 18.68% of interest in HMI and 48.53% interest in another subsidiary were transferred from the Old CU Group to the Group. Nominal cash has been paid by the Group to the Old CU Group to acquire the legal titles in these companies. Under the agreement, the Company also makes covenant that the Company and/or its subsidiaries will remain as the controlling shareholder of HMI. In addition, under the agreement, CU Bermuda enjoys a perpetual entitlement of 22% in the distribution of dividends, capital and assets by HMI. In addition, the Company makes guarantee to CU Bermuda that if HMI, for whatever reasons, fails to pay 22% of any distribution declared by it to CU Bermuda, the Company will compensate CU Bermuda with the equivalent amount. The covenants made by the Company are perpetual in nature and binding on the Company, whether or not the Company or its subsidiaries held any interest in HMI. According to the consolidated financial statements of HMI, which are subject to audit qualifications, the net assets of HMI Group at 31 December 2003 amounted to HK$412,234,000.

On 30 June 2003, the Company and CU Bermuda entered into another agreement under which the title of an investment in an unlisted corporation, which was acquired by CU Bermuda during the year, was transferred from the Old CU Group to the Group at a consideration of HK$100. Under the agreement, CU Bermuda retains all rights and entitlements arising from this investment and, therefore, the Company or its subsidiaries effectively only holds the title of the investment in trust on behalf of CU Bermuda and only have a management role in respect of the investee company. As all the future economic benefits arising from the investment belong to CU Bermuda, this investment is not included in the consolidated balance sheet of the Group. The Company guarantees to CU Bermuda that should CU Bermuda's interests in the said investment be affected by inappropriate manner, the Company is obliged to pay to CU Bermuda HK$13,000,000, being the original acquisition cost of the investment by CU Bermuda.

Employees

The Group has taken steps to control and reduce its operation costs at an appropriate level. As at 31 December 2003, the total number of employees of the Group was 23 (31 December 2002: 78). The Group remunerates its employees based on their performance, working experience and prevailing market standards. Staff benefits include a medical insurance coverage, provident fund and a share option scheme. As at 31 December 2003, there are no share options outstanding.

Prospects

The second half and especially towards the last quarter of fiscal 2003 saw a more positive recovery of the economy. The governments of the PRC and Hong Kong have worked together to institute the Closer Economic Partnership Arrangement and to relax the restriction of China tourists travelling to Hong Kong. The Hong Kong Stock Exchange has received substantial number of applications from China companies that wish to be listed in Hong Kong. There appears to be a renewed interest in investment in securities and local property market by investors and the general public.

The Directors are confident that the benefits of the reorganization, already showing some promises, position the Company to take advantage of new business opportunities when they arise.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

DETAILED RESULTS ANNOUNCEMENT

A detailed results announcement containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited will be subsequently published on the Stock Exchange's website in due course.

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

Hong Kong, 22 April 2004

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Members of China United International Holdings Limited ("the Company") will be held at Function Room III, Ground Floor, City Garden Hotel, 9 City Garden Road, North Point, Hong Kong on Monday, 31 May 2004 at 9:00 a.m. for the following purposes:

1. To receive and consider the Financial Statements and the Report of the Directors and Auditors of the Company for the year ended 31 December 2003.

2. To re-elect directors and to authorise the Board of directors to fix their remuneration.

3. To re-appoint auditors and to authorise the Board of directors to fix their remuneration.

As special business, to consider and if thought fit, pass with or without modification the following as a special resolution:

4. "THAT the articles of association of the Company be amended as follows:

   (A) by deleting the words "Securities and Futures (Clearing Houses) Ordinance (Cap 420 of the Laws of Hong Kong)" in the definition of "clearing houses" in Article 2 and replacing it with the words "the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)";

   (B) (i) by renumbering existing Article 16 as Article 16A;

   (ii) by deleting in the second and third lines of Article 16 the words "without payment to receive within two months after allotment or lodgment of a transfer" and replacing it with the words "to receive within two months after allotment or within ten business days after lodgment of a transfer";

   (iii) by deleting the words "after the first" in the tenth line immediately after the words "every certificate"; and

   (iv) by inserting the following as Article 16(B):-

   "For the purpose of this Article 16,

   "business day" means any day on which the market is open for the business of dealing in securities;

   "transfer" means a transfer duly stamped and otherwise valid, and does not include such a transfer as the Company is for any reason entitled to refuse to register and does not register.";

   (C) by inserting the following as new Article 86(c) immediately after Article 86(b):

   "(c) Where the Company has knowledge that any member is, under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.";

(D) by deleting the word "special" in Article 107(A)(viii) and replacing it with the word "ordinary";

(E) by deleting the existing Article 108(B) in its entirety and replacing it with the following new Article 108(B):

"108(B). A Director shall not vote (nor shall he be counted in the quorum) on any resolution of the Board approving any contract or arrangement or any other proposal in which he or any of his associate(s) has a material interest, but this prohibition shall not apply to any of the following matters, namely:

(i) any contract or arrangement for the giving of any security or indemnity to the Director or his associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

(ii) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself or themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(iii) any proposal concerning an offer of the shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(iv) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;

(v) any proposal concerning any other company in which the Director or his associate(s) is/are interested in, whether directly or indirectly, as an officer or a shareholder or in which the Director or his associate(s) is/are beneficially interested in shares of that company other than a company in which the Director and any of his associates are beneficially interested in 5 per cent. or more of the issued shares of any class of such company (or of any third company through which his interest or that of his associates is derived) or of the voting rights; and

(vi) any proposal or arrangement for the benefit of employees of the Company or its subsidiaries including:

(a) the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to the Directors, his associates and employees of the Company or of any of its subsidiaries and does not give any Director or his associate(s), as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; or

(b) the adoption, modification or operation of any employees' share scheme or share incentive scheme or share option scheme under which the Director or his associate(s) may benefit.";

(F) by deleting the word "special" in Article 111 and replacing it with the word "ordinary";

(G) by deleting the existing Article 123 in its entirety and replacing it with the following new Article 123:

"No person other than a Director retiring at a meeting shall, unless recommended by the Directors for election, be eligible for election as Director at any general meeting unless a notice signed by a member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the registered office of the Company provided that the minimum length of the period during which such notice(s) are given shall be at least seven (7) days and that the period for lodgment of such notice(s) shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting."";

(H) by deleting in the third and fourth lines of Article 178(A) the words "paragraph (c) of the proviso to Section 165" immediately after the words "mentioned in" and replacing it with the words "Section 165(2)";

(I) by deleting in the first line of Article 178(B) the words "Section 165 of" immediately after the words "Subject to" and replacing it with the words "the provisions of and so far as may be permitted by"; and

(J) by adding immediately after Article 178 (B) the following new Article:

"178 (C) Subject to the provisions of and so far as may be permitted by the Companies Ordinance, the Company may purchase and maintain for any officer of the Company:

(i) insurance against any liability to the Company, a related company or any other party in respect of any negligence, default, breach of duty or breach of trust (save for fraud) of which he may be guilty in relation to the Company or a related company; and

(ii) insurance against any liability incurred by him in defending any proceedings, whether civil or criminal, taken against him for any negligence, default, breach of duty or breach of trust (including fraud) of which he may be guilty in relation to the Company or a related company.

For the purpose of this Article 178(C), "related company" in relation to the Company means any company that is the Company's subsidiary or holding company or a subsidiary of the Company's holding company."

By order of the Board
China United International Holdings Limited
Yung Mei Yee
Company Secretary

Hong Kong, 22 April 2004

Notes:

(a) A Member entitled to attend and vote at the above meeting is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.

(b) To be valid, a form of 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 must be deposited at the Company's registered office in Hong Kong at 32nd Floor, China United Centre, 28 Marble Road, North Point, Hong Kong not less than 48 hours before the time fixed for the holding of the meeting or any adjournment thereof.

(c) In relation to resolution 4 above, the purpose is to align the Articles of Association of the Company with certain amendments to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") (which became effective on 31 March 2004) and the Companies (Amendment) Ordinance 2003 (which came into effect on 13 February 2004). The rationale for the proposed amendments to the Articles of Association of the Company is set out below:

   (i) to conform with the amended Appendix 3 to the Listing Rules which requires, inter alia, that there be a minimum period during which notice may be given by a member (other than the Director to be proposed) of his intention to propose a person for election as a Director and during which notice is also given by such person of his willingness to be elected. The minimum period must be fixed for at least seven days and the period for lodgment of such notice(s) should commence no earlier than the despatch of the notice of the meeting appointed for such election and end no later than seven days before the date of such meeting.

   (ii) to conform with the amended Appendix 3 to the Listing Rules which requires where any member is, under the Listing Rules required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

   (iii) to conform with the provisions of the amended Appendix 3 to the Listing Rules so that, inter alia, subject to certain exceptions, a Director is not allowed to vote on any resolution of the Board approving any contract or arrangement or any other proposal in which he or any of his associates has a material interest nor shall he be counted in the quorum present at the meeting.

(iv) to comply with certain provisions in the Companies (Amendment) Ordinance 2003 with respect to, inter alia, issue of share certificates within 10 business days after lodgment of a transfer and removal of any Director by an ordinary resolution of the Company.

(d) The Articles of Association of the Company only exists in English, the English text of the proposed resolution (4) shall prevail over the Chinese text.