



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

(Incorporated in Hong Kong with limited liability)
(Stock Code: 273)

Interim Results
For the six months ended 30 June 2004

RESULTS

The Board of directors of China United International Holdings Limited (the “Company”) is pleased to announce that the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2004, together with comparative figures for the six months ended 30 June 2003, are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2004

		For the six months	
		ended 30 June	
		2004	2003
	<i>Note</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Turnover		44,471	57,765
Other revenue		799	5,681
Cost of trading securities sold		(43,181)	(18,598)
Depreciation and amortisation expenses		(906)	(3,585)
Staff costs		(4,676)	(12,935)
Finance costs for provision of financial services		—	(4,667)
Other operating expenses		(18,881)	(61,807)
Loss from operations		(22,374)	(38,146)
Impairment losses on:			
- Property, plant and equipment		—	(19,974)
- Interest in an associate		—	(1,485)
Profit on disposal of interest in a subsidiary		—	1,884
Profit on deemed disposal of interest in an associate		1,800	—
Loss on deemed disposal of interest in a subsidiary		—	(1,068)
Loss on disposal of other securities		—	(11,455)
Share of loss of an associate	3	(77,601)	—
Other finance costs		(7,024)	(19,882)
Loss from ordinary activities before taxation	4	(105,199)	(90,126)
Taxation	5	—	2,900
Loss from ordinary activities		(105,199)	(87,226)
Minority interests		—	894
Loss attributable to shareholders		(105,199)	(86,332)
Dividends		—	17,201
Loss per share — Basic	6	HK\$(0.10)	HK\$(0.09)

**CONDENSED CONSOLIDATED BALANCE SHEET
AT 30 JUNE 2004**

	At 30 June 2004 <i>HK\$'000</i> (Unaudited)	At 31 December 2003 <i>HK\$'000</i> (Audited)
<i>Note</i>		
ASSETS AND LIABILITIES		
Non-current assets		
	15,371	20,530
Investment properties		
Property, plant and equipment	29,765	30,716
Interest in an associate	399,808	320,624
Loans receivable	20,213	—
	<u>465,157</u>	<u>371,870</u>
Current assets		
Loans receivable	25,557	83,456
Other receivables	1,625	24,675
Investments in securities	406	—
Bank balances and cash	569	25,173
	<u>28,157</u>	<u>133,304</u>
Current liabilities		
Other payables	12,320	14,118
Current portion of interest-bearing borrowings	103,201	93,262
Convertible notes	58,800	63,840
	<u>174,321</u>	<u>171,220</u>
Net current liabilities	<u>(146,164)</u>	<u>(37,916)</u>
Total assets less current liabilities	<u>318,993</u>	<u>333,954</u>
Non-current liabilities		
Long-term interest-bearing borrowings	<u>25,723</u>	<u>30,172</u>
NET ASSETS	<u>293,270</u>	<u>303,782</u>
CAPITAL AND RESERVES		
Issued capital	113,634	36,887
Reserves	179,636	266,895
	<u>293,270</u>	<u>303,782</u>

Notes:

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

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. Following the Group Reorganisation, the Group undertook certain transactions (the “Restructuring”) to restructure different functions and roles within the Group involving the re-grouping of shareholdings in subsidiaries, elimination of inter-company balances and the ultimate disposal of CU Bermuda together with the subsidiaries remaining under it (together the “Old CU Group”). Details of the Group Reorganisation and the Restructuring have been set out in the Company’s 2003 annual report.

Before the approval of the Company’s 2003 annual report, the directors noted that a creditor (the “Creditor”) of the Old CU Group filed a petition to the High Court of Hong Kong to appoint provisional liquidators for CU Bermuda. The potential effect of the petition and the view of the directors thereof have been fully disclosed in the Company’s 2003 annual report. The petition was dismissed by the court subsequent to the approval and issue of the 2003 annual report. In July 2004, the Creditor submitted another claim to the court, naming the Company and CU Bermuda as co-defendants, on the following grounds: (i) the Company and the Old CU Group has not complied with the Transfer of Business (Creditors’ Protection) Ordinance because the Company has not published any notice of transfer in respect of certain transactions of the Restructuring and the Group Reorganisation and the Restructuring were intended to defraud creditors of the Old CU Group; and (ii) the Old CU Group is in continuing breach of its contractual obligations to settle the debts owed to the Creditor. The Creditor is claiming (i) the Company should pay the debts owed by the Old CU Group to the Creditor amounting to HK\$154 million with interest thereon; and (ii) certain transactions of the Restructuring should be declared void and the original position be restored as if the transactions had not occurred.

In preparing the interim financial statements for the six months ended 30 June 2004, the directors adopted a going concern basis for the following reasons:

- (a) The Group has adopted measures to improve its liquidity, including ongoing negotiation with creditors to reschedule loans repayment terms and to obtain continuing support from its banks and creditors. Subsequent to 30 June 2004, the Company has successfully issued new convertible notes amounting to HK\$55 million, which proceeds was applied to repay the old convertible notes which matured in July 2004. The new convertible notes have a maturity date of 19 August 2009. The directors are confident that the Group is able to obtain adequate finance for its operations as and when required.
- (b) Based on legal advice, the directors consider that i) the Group has no obligations to assume the liabilities, whether actual or contingent, of the Old CU Group and ii) challenge by any interested party as to the validity of the restructuring and /or to possible claims for compensation for any loss suffered as a result of the Group Reorganisation and the Restructuring would have no merit.

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The accounting policies adopted are consistent with those followed by the Group’s audited financial statements for the year ended 31 December 2003.

2. SEGMENT INFORMATION

The analysis of the Group's revenue and results by business segments are as follows:

Six months ended 30 June 2004 (Unaudited)

	Investment in trading securities	Brokerage and financial services	Property investment	Investment holding	Unallocated	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue						
Turnover						
External customers	36,400	7,862	209	—	—	44,471
Other revenue	—	—	121	—	678	799
Total revenue	<u>36,400</u>	<u>7,862</u>	<u>330</u>	<u>—</u>	<u>678</u>	<u>45,270</u>
Segment results	(6,855)	(7,220)	102	(2,072)	(6,329)	(22,374)
Profit on deemed disposal of interest in associate						1,800
Share of profit (loss) of an associate	5,826	(1,517)	—	(59,381)	(22,529)	(77,601)
Other finance costs						<u>(7,024)</u>
Loss attributable to shareholders						<u>(105,199)</u>

Note: Following the partial disposal of Hennabun Management Inc. ("HMI"), HMI has become an associate of the Company effectively on 31 December 2003 and, as a result, portion of the segment revenue and segment results attributable to HMI were included in share of results of an associate from 1 January 2004 onwards.

Six months ended 30 June 2003 (Unaudited)

	Investment in trading securities	Brokerage and financial services	Property investment	Investment holding	Elimination	Unallocated	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue							
Turnover							
External customers	19,168	34,879	3,718	—	—	—	57,765
Inter-segments	—	—	1,294	—	(1,294)	—	—
	19,168	34,879	5,012	—	(1,294)	—	57,765
Other revenue	—	5,047	3	46	—	585	5,681
Total revenue	<u>19,168</u>	<u>39,926</u>	<u>5,015</u>	<u>46</u>	<u>(1,294)</u>	<u>585</u>	<u>63,446</u>
Segment results	(22,366)	17,492	(28,493)	11	—	(4,790)	(38,146)
Profit on disposal of interest in a subsidiary							1,884
Impairment losses							(21,459)
Loss on deemed disposal of interest in a subsidiary							(1,068)
Loss on disposal of other securities							(11,455)
Other finance costs							(19,882)
Taxation							2,900
Minority interests							894
Loss attributable to shareholders							<u>(86,332)</u>

3. SHARE OF LOSS OF AN ASSOCIATE

Details of the consolidated operating results of Hennabun Management Inc. (“HMI”), which is 45.15% owned by the Group, based on unaudited financial statements, after adjusting the fair value of assets acquired at the date of acquisition, are as follows:-

**For the six
months ended
30 June
2004**
HK\$'000
(Unaudited)

Operating results for the six months ended 30 June 2004

Turnover	<u>68,869</u>
Loss from ordinary activities before taxation	<u>116,024</u>
Loss from ordinary activities before taxation attributable to the Group	55,227
Release of negative goodwill to income	(1,347)
Impairment loss on goodwill arising from acquisition of additional interest in an associate	<u>23,721</u>
Share of loss of HMI to the Group	<u>77,601</u>

4. LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

For the six months ended 30 June	
2004	2003
HK\$'000	HK\$'000
(Unaudited)	(Unaudited)

This is stated after charging (crediting):

Deficit on revaluation of investment properties	—	31,172
Net provision for bad and doubtful debts	14,705	—
Profit on disposal of investment properties	(121)	—
Profit on disposal of property, plant and equipment	(678)	—
Release of negative goodwill to income		
- included in other operating expenses	—	(1,433)
- included in share of loss of an associate	(1,347)	—
Impairment loss on goodwill arising from acquisition of additional interest in an associate (included in share of loss of associate)	23,721	—
Dividend income	—	(80)
Net unrealised holding loss on trading securities	—	22,366

5. TAXATION

Hong Kong Profits Tax has not been provided as the Group incurred a loss for taxation purposes for the six months ended 30 June 2004. Hong Kong Profits Tax has been provided at the rate of 17.5% on the Group's estimated assessable profits for the six months ended 30 June 2003.

For the six months ended 30 June	
2004	2003
HK\$'000	HK\$'000
(Unaudited)	(Unaudited)

The (credit) charge comprises:

Current tax

Hong Kong Profits Tax:

Provision for the period	—	100
Deferred taxation	—	(3,000)
	—	(2,900)

Deferred tax credited for the six months ended 30 June 2003 was in respect of unrealised holding loss on trading securities, which was a reversal of temporary difference.

6. LOSS PER SHARE

The calculation of the loss per share is based on the loss for the period of HK\$105,199,000 (2003: HK\$86,332,000) and on the weighted average number of 1,038,348,610 shares (2003:921,505,020 shares) in issue during the period. The weighted average number of shares in issue used in the basic loss per share calculation for the six months 30 June 2003 has been adjusted to reflect the effect of the bonus issue during the current period and during the year ended 31 December 2003, which is treated as had been completed on 1 January 2003.

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

7. LOANS RECEIVABLE

Loans granted to borrowers are repayable according to set maturity dates. The balance comprises loans receivable from:

	At 30 June 2003 <i>HK\$'000</i> (Unaudited)	At 31 December 2003 <i>HK\$'000</i> (Audited)
Third parties	139,224	161,233
A related company	20,460	20,460
Directors of the Company	<u>—</u>	<u>972</u>
	159,684	182,665
Provision for bad and doubtful debts	(113,914)	(99,209)
	45,770	83,456
Less: Balances due within one year included in current assets	(25,557)	(83,456)
Balances due after one year	<u>20,213</u>	<u>—</u>

An aging analysis of loans receivable (before provision for bad and doubtful debts) as at the balance sheet date is set out below:

	At 30 June 2004 <i>HK\$'000</i> (Unaudited)	At 31 December 2003 <i>HK\$'000</i> (Audited)
Within maturity dates	61,131	110,629
Balances overdue for repayment:		
1-3 months	<u>—</u>	28,159
4-6 months	26,518	38,404
7-12 months	66,562	5,473
Over 12 months	5,473	<u>—</u>
	<u>159,684</u>	<u>182,665</u>

INTERIM DIVIDEND

The Board of directors does not recommend any interim dividend for the six months ended 30 June 2004 (2003:Nil). For the six months ended 30 June 2003, there was a special dividend of total HK\$17.2 million.

PROPOSED BONUS ISSUE OF SHARES

The Board of directors proposes to make a bonus issue of shares, on the basis of one new bonus share for every ten existing shares of the Company held by the 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

Results

During the six months ended 30 June 2004, the Group recorded an unaudited loss attributable to shareholders of approximately HK\$105.2 million, as compared with a loss of approximately HK\$86.3 million for the corresponding six months ended 30 June 2003. The loss per share was HK\$0.10 for the current period as compared with a loss per share of HK\$0.09 for the corresponding period ended 30 June 2003. Turnover was approximately HK\$ 44.5 million, a decrease of approximately 23% from 2003's level of approximately HK\$57.8 million, which was mainly due to the decrease of approximately 77.4% in the income for brokerage and financial services (approximately HK\$7.9 million in this period versus approximately HK\$34.9 million in 2003) during the period despite an increase in investment in trading securities of 89.9% for this period (approximately HK\$36.4 million in this period versus approximately HK\$19.2 million in 2003).

Review

While the second half of 2003 saw a more positive recovery of the economy, there are many issues still clouding the world economy as well as the Hong Kong economy. The Group took a cautious view in investing in projects and continued streamlining its business activities.

Affected by the global war on terrorism and China's macro economic adjustment, the Hang Seng Index experienced a fluctuation of about 3,000 points and a major downward correction. During the period, the Group further acquired 37.5 million shares in Hennabun Management Inc. ("HMI") by the issuance of 40 million shares of the Company stock. The Group's shareholding in HMI then stood at 47.44%. The Group recorded a loss of HK\$77.6 million attributed from the HMI group. The loss resulted mainly from the provisions made for the margin and lending business and the loss relating to the subsequent disposal of HMI's associate.

While there are positive market sentiments, Hong Kong is still seeing persistent unemployment rate and deflation. Certain sectors of the economy, and especially the property market sector, however do show a strong recovery. The Group has taken the opportunity to reduce its real estate portfolio and corresponding liability.

Liquidity and Capital Resources

As at 30 June 2004, the Group's total shareholders' funds amounted to approximately HK\$293.3 million compared with HK\$303.8 million as at 31 December 2003. The gearing ratio (calculated by aggregated interest-bearing borrowings divided by shareholders' funds at the balance sheet date) and current ratio of the Group was approximately 64% and approximately 0.16 times as at 30 June 2004, compared to approximately 61.7% and approximately 0.78 times respectively as at 31 December 2003.

As at 30 June 2004, the Group has bank loans and other borrowings of approximately HK\$128.9 million (31 December 2003: approximately HK\$123.4 million) and convertible notes, with an aggregate principal amount of approximately HK\$58.8 million (31 December 2003: 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 2004, certain assets of the Group with an aggregate net book value of approximately HK\$43.7 million (31 December 2003: approximately HK\$49.3 million) were pledged to banks and other financial institutions to secure credit facilities granted to the Group.

Contingent Liabilities

As at 30 June 2004, the Group did not have any material contingent liabilities other than as disclosed above.

Employees

As at 30 June 2004, the total number of employees of the Group was 23. 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. As at 30 June 2004, there are no share options outstanding.

Prospects

The Hong Kong economy is showing a gradual improvement. Positive factors such as the expanded CEPA arrangement, the improving tourist figures as well as other released figures can be adversely affected by the historical high oil price, the sporadic terrorist attacks around the world and the continuing war on terrorism, the November US presidential election, and the workings of a newly elected Hong Kong Legislative Council. The Group takes a conservative approach in investing and continues to evaluate projects in Hong Kong, Macau, and China. The Group has identified and is currently evaluating certain projects of potential interests.

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 2004 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, except that the independent non-executive directors of the Company are not appointed for any specific term of office but are subject to retirement by rotation in accordance with the Articles of Association of the Company.

AUDIT COMMITTEE

The Audit Committee comprises the three independent non-executive directors, Mr. Lam Ping Cheung, Mr. Ong Peter and Mr. Miu Frank H. The Audit Committee meets with the Group's senior management regularly to review the effectiveness of the internal control systems and the interim and annual reports of the Company. The Audit Committee has reviewed the Group's unaudited interim results for the six months ended 30 June 2004.

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 2004.

PUBLICATION OF DETAILED RESULTS ANNOUNCEMENT ON THE STOCK EXCHANGE'S WEBSITE

The 2004 Interim Report containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange will be published on the Stock Exchange's website (www.hkex.com.hk) in due course.

By Order of the Board
Chuang Yueheng, Henry
Chairman

Hong Kong, 17th September 2004

As at the date of this announcement, the Board comprises four executive directors, namely, Mr. Chuang Yueheng, Henry, Mr. Chung Wilson, Mr. Lo Kan Sun and Mr. Wong Ying Seung, Asiong and three independent non-executive directors, namely Mr. Lam Ping Cheung, Mr. Ong Peter and Mr. Miu Frank H.