Chairman's Statement

THE YEAR IN REVIEW

Fiscal 2003 was an important year in the history of China United International Holdings Limited (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 China United Holdings Limited ("CU Bermuda") on the Hong Kong Stock Exchange was replaced by the Company 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.

Chairman's Statement

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 Investment Limited ("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, interfered 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 continued 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 CU Bermuda and its subsidiaries (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.

Chairman's Statement

APPRECIATION

Fiscal 2003 was a year of hard work, slow progress, and important decisions. I would like to this opportunity to thank all the directors and staff for their talents and tireless efforts.

Chuang Yueheng, Henry
Chairman

Hong Kong, 22 April 2004