

Chairman's Statement

On behalf of the board of directors (the "Directors") of Zhong Hua International Holdings Limited (the "Company"), I am pleased to present the Annual Report of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2001.

REVIEW OF RESULTS

The Directors are pleased to report that the Group recorded a turnover of HK\$215,764,000, net profit from ordinary activities attributable to shareholders of HK\$32,065,000, and basic earnings per share of HK1.08 cents and diluted earnings per share of HK1.06 cents, for the year ended 31 December 2001. These figures represented increases of approximating 21%, 217% and 218% respectively when compared to a turnover of HK\$177,795,000, net profit from ordinary activities attributable to shareholders of HK\$10,128,000 and basic earnings per share of HK0.34 cents (adjusted upon subdivision of shares on 9 August 2001) for the year ended 31 December 2000.

FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2001.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be temporarily closed from Monday, 10 June 2002 to Tuesday, 11 June 2002, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the attendance at the Company's annual general meeting to be held on Tuesday, 11 June 2002, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tengis Limited at 4th Floor Hutchison House, 10 Harcourt Road, Central, Hong Kong for registration not later than 4:00 p.m. on Friday, 7 June 2002.

BUSINESS REVIEW

The Group's turnover mainly comprised pre-sale of Phase III of the residential units currently under construction from Haizhu Peninsula Garden in Guangzhou, the People's Republic of China (the "PRC") and sale of completed units from Gang Yu Square in Chongqing, the PRC, together with rental income generated from the commercial podiums located in Guangzhou and Chongqing.

Property development and investment business

The improved results of the Group for the year were mainly attributable to the satisfactory pre-sale of Phase III of Haizhu Peninsula Garden. Over 50% of the residential units had been sold up to the end of 2001. The construction of the superstructure of Phase III of Haizhu Peninsula Garden was completed in September, 2001 and it is expected the residential units in Phase III will be available in move-in condition in mid 2002.

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Provision of online English learning services

The Group is engaged in the provision of online English learning courses, developed by GlobalEnglish Corporation in the United States of America, to individual and corporate customers in the region of the PRC including Hong Kong and Macau.

We had conducted extensive researches on the demand of English learning services, marketing strategy and distribution channels during the past year. We had commenced the selling of the "GlobalEnglish" learning courses in early 2002 and the results were satisfactory.

Upon entering the World Trade Organisation and the successful bid for the 2008 Olympic Games in Beijing, it is anticipated that the demand for English learning courses will increase dramatically and it is expected that the sale of online English learning courses will generate additional revenue for the Group in near future.

Provision of exclusive technology consultancy services

Upon completion of the acquisition of I-Action Agents Limited on 28 June 2001, the Group is also engaged in the provision of exclusive technology consultancy services to 廣州市飛躍信息技術開發有限公司 ("Fei Yue") for the setting up and development of call centers and the operation of the phone banking payment gateway in Guangdong Province excluding Shenzhen.

Since the acquisition, the Group had conducted large scale marketing campaigns with GNET (廣東省銀行卡網絡服務中心) to promote the use of phone banking services in Guangzhou and we were at the final stage of system testing for our call centers. With Fei Yue successfully obtained service contracts with major telecommunication, media and other companies to serve as their phone banking payment service provider in Guangdong Province excluding Shenzhen and with Fei Yue's exclusive cooperation agreement with GNET for the operation and management of a phone payment system for a term of fifteen years commencing from 28 September 2000, technology consultancy fee income arising from services rendered to Fei Yue is expected to increase in near future.

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group generally financed its businesses with internally generated cash flows and banking facilities. Cash and bank balances for the Group as at 31 December 2001 amounted to HK\$55,174,000 (31 December 2000: HK\$8,491,000) and pledged deposits of HK\$4,071,000 (2000: Nil). Interest-bearing bank loans for the Group amounted to HK\$193,451,000 (31 December 2000: HK\$187,334,000) of which 76%, 22% and 2% respectively were repayable within one year or on demand, in the second year and in the third to fifth years, inclusive. An amount of HK\$181,751,000 bank loans were charged at fixed interest rates. The cash position of the Group had improved as a result of the satisfactory sale and pre-sale of the Group's properties during the year.

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Liquidity and Financial Resources (Continued)

The Group's gearing ratio as at 31 December 2001 was 0.33 (31 December 2000: 0.41), calculated based on the Group's total debts of HK\$574,620,000 (31 December 2000: HK\$561,627,000) over total assets of HK\$1,719,354,000 (31 December 2000: HK\$1,393,558,000).

Currency Structure

The Group had limited exposure to foreign exchange rate fluctuations as most of its transactions, including borrowings, were mainly conducted in Hong Kong dollars or Renminbi and the exchange rates of these currencies were relatively stable throughout the year.

Pledge of Assets

The Group had utilized bank loan facilities amounting to approximately HK\$193,451,000 (31 December 2000: HK\$187,334,000) as at 31 December 2001. The bank loans were secured by certain of the Group's investment properties, properties under development and completed properties for sales and a corporate guarantee executed by the Company.

Contingent Liabilities

As at 31 December 2001, guarantees given for mortgage loans granted by banks to certain purchasers of the Group's properties amounted to HK\$353,791,000 (31 December 2000: HK\$242,383,000).

Material Acquisitions and Disposals of Subsidiaries

On 6 April 2001, the Group entered into a conditional agreement for the acquisition of 100% equity interest in I-Action Agents Limited for a consideration of HK\$320,000,000. The principal activities of I-Action Agents Limited and its subsidiaries are engaged in the provision of technology consultancy services for the operation of the phone banking payment gateway. The consideration was to be satisfied by the disposal of the Group's 49% interest in Ample Dragon Limited. The principal activities of Ample Dragon Limited and its subsidiaries are mainly engaged in property development and investment in the PRC.

Details of the acquisition and the disposal of subsidiaries have been set out in a circular of the Company dated 31 May 2001. The transaction was completed on 28 June 2001 and the profit arising from the disposal had been reflected in the Group's profit and loss account for the year.

Employee And Remuneration Policy

The Group employed approximately 114 full-time staff in Hong Kong and the PRC as at 31 December 2001. Employees are remunerated according to the nature of their job and market trend, with built-in merit components incorporated in the annual increment to reward and motivate individual performance. In the PRC, the Group provides staff welfare and bonuses to its employees in accordance with the prevailing labour law. In Hong Kong, other staff benefits include medical schemes, mandatory provident fund schemes and employees' share option scheme.

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Share Subdivision

On 8 August 2001, the Company passed an ordinary resolution to approve that every share of HK\$0.10 in the issued and unissued share of the Company was to be subdivided into five shares of HK\$0.02 each. The authorised share capital of the Company remained unchanged at HK\$120,000,000 divided into 6,000,000,000 shares of HK\$0.02 each after the subdivision.

Details of the subdivision of shares have been set out in a circular of the Company dated 17 July 2001.

PROSPECTS

It is believed that significant economic growth will be generated upon entering the World Trade Organisation and the 2008 Beijing Olympic Games in the PRC and therefore creating numerous investment opportunities. The Group will continue to evaluate attractive investment opportunities with aims to maximize shareholders' return.

APPRECIATION

On behalf of the Directors, I would like to express my sincere appreciation to all management executives and staff for their conscientious efforts and support in maintaining the Group's profile during the year.

On behalf of the Board

Ho Tsam Hung

Chairman

Hong Kong, 25 April 2002