

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 2002.

REVIEW OF RESULTS

The Directors are pleased to report that the Group recorded a turnover of HK\$172,511,000, net loss from ordinary activities attributable to shareholders of HK\$191,750,000, and basic loss per share of HK6.43 cents for the year ended 31 December 2002. These figures represented decrease of approximating 20%, 698% and 695%, respectively when compared to 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 for the year ended 31 December 2001. The diluted earnings per share was HK1.06 cents for the year ended 31 December 2001.

DIVIDEND

The Directors do not recommend the payment of any dividend for the year ended 31 December 2002.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be temporarily closed from Wednesday, 28 May 2003 to Thursday, 29 May 2003, 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 Thursday, 29 May 2003, 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 28th Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Tuesday, 27 May 2003.

BUSINESS REVIEW

The Group's turnover in the year ended 31 December 2002 mainly comprised pre-sale of Phase III of the residential units currently under construction at Haizhu Peninsula Garden in Guangzhou, the People's Republic of China (the "PRC"), together with rental income generated from the commercial podiums located in Guangzhou and Chongqing, the PRC.

The net loss of the Group for the year was mainly resulted from an impairment of goodwill arising on the acquisition of I-Action Agents Limited and its subsidiaries, which are engaged in the provision of technology consultancy services for the operation of the phone payment gateway, together with the impairment of goodwill arising on the acquisition of a subsidiary which is engaged in the sale of online English learning courses.

CHAIRMAN'S STATEMENT

Property development and investment

The residential units of Phase III of Haizhu Peninsula Garden had been sold up to 64% up to the end of 2002. During the year, the Group had disposed of the equity interests in Ample Dragon Limited and its subsidiaries, which are principally engaged in the property development and investment in Haizhu Peninsula Garden. The Group ceased to own any shares or have any interest in Ample Dragon Limited upon the completion of the disposal on 31 December 2002.

The commercial units in Gang Yu Square in Chongqing, the PRC, were leased out in the year ended 31 December 2002 and the occupancy rate was highly satisfactory.

Sale of online English learning courses

The Group is engaged in the sale 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.

The Group, after conducting extensive researches, commenced the business since 2002. The Group had entered into contracts with several large-scale corporate customers and sub-distributors and has been negotiating with several multinational clients in recent months.

Provision of exclusive technology consultancy services

In early 2002, the Group had conducted large-scale marketing campaign with GNET(廣東省銀行卡網絡服務中心) to promote the use of phone banking services in Guangzhou, the PRC. Service contracts with major telecommunication and other companies to serve as their phone banking payment service provider in Guangdong Province excluding Shenzhen had been obtained during the year. The business is still in the early stage of development and the Group expects that the income from the services will increase in the 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 2002 amounted to HK\$40,857,000 (31 December 2001: HK\$55,174,000) and pledged deposits of HK\$2,200,000 (2001: HK\$4,071,000) while interest-bearing bank loans and borrowings for the Group amounted to HK\$51,126,000 (31 December 2001: HK\$193,451,000) of which 21%, 19%, 30% and 30% respectively are repayable within one year or on demand, in the second year, in the third to fifth years, inclusive, and beyond five years. No bank loan and borrowings (31 December 2001: HK\$181,751,000) is charged at fixed interest rates as at 31 December 2002.

The Group's gearing ratio as at 31 December 2002 was 0.16 (31 December 2001: 0.33), calculated based on the Group's total liabilities, excluding deferred income, of HK\$119,529,000 (31 December 2001: HK\$574,620,000) over total assets of HK\$765,242,000 (31 December 2001: HK\$1,719,354,000).

CHAIRMAN'S STATEMENT

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\$51,126,000 (31 December 2001: HK\$193,451,000) as at 31 December 2002. The bank loans were secured by certain of the Group's investment properties and a corporate guarantee executed by the Company.

Contingent Liabilities

As at 31 December 2002, guarantees given for mortgage loans granted by banks to certain purchasers of the Group's properties amounted to HK\$22,006,000 (31 December 2001: HK\$353,791,000).

Material Acquisitions and Disposals of Subsidiaries

On 25 October 2002, the Group entered into a conditional agreement for the disposal of 51% equity interest of Ample Dragon Limited for a consideration of HK\$350 million. The principal activities of Ample Dragon Limited and its subsidiaries are mainly engaged in property development and investment in Haizhu Peninsula Garden in Guangzhou, the PRC.

Details of the disposal of Ample Dragon Limited had been set out in a circular of the Company dated 13 December 2002. The transaction was completed on 31 December 2002 and the Group ceased to own any shares or have any interest in Ample Dragon Limited and its subsidiaries. The total gain on disposal is HK\$160 million, of which HK\$9 million had been reflected in the Group's consolidated profit and loss account and HK\$151 million had been recorded as deferred income in the consolidated balance sheet.

Employee and Remuneration Policy

The Group employed approximately 21 full time staff in Hong Kong and Chongqing, the PRC, as at 31 December 2002. 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 Chongqing, 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 employee share option scheme.

CHAIRMAN'S STATEMENT

PROSPECTS

The Group is optimistic with the significant economic growth in the PRC and therefore creates numerous investment opportunities. The Group will continue its diversification with a view to broaden its business scope and increase sources of revenue. With a capacity of free up capital resulted from the disposal of Ample Dragon Limited, the Group is now continuing to evaluate attractive investment opportunities in the PRC with an aim to maximize shareholders' return and lead to encouraging results to the Group in long run.

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, 28 April 2003