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 2003.

## REVIEW OF RESULTS

The Directors are pleased to report that the Group recorded a turnover of HK$5,507,000 (31 December 2002: HK$172,511,000) for the year ended 31 December 2003, representing a decrease of 97% compared with 2002. Net Loss from ordinary activities attributable to shareholders was HK$148,262,000 (31 December 2002: HK$192,408,000 (as restated)) for the year.

## DIVIDEND

The Directors do not recommend the payment of any dividend for the year ended 31 December 2003.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be temporarily closed from Tuesday, 15 June, 2004 to Wednesday, 16 June 2004, 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 Wednesday, 16 June 2004, 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 Monday, 14 June 2004.

## BUSINESS REVIEW

The Group's turnover in the year ended 31 December 2003 comprised the rental income generated from the commercial podiums located in Chongqing, the People's Republic of China (the "PRC"), the sale of online English learning courses in the PRC and the leasing of Point-of-sale ("POS") equipment in Guangzhou, the PRC. In addition, the Group has recognized a gain on disposal of 51% equity interest in former subsidiaries of HK$22,568,000 in the year.

The decline in turnover was mainly attributable to the disposal of the Group's businesses in property development and investment in Haizhu Peninsula Garden in Guangzhou in prior year.

The net loss of the Group for the year was mainly resulted from the inclusion of impairment provision arising on the acquisition of I-Action Agents Limited and its jointly-controlled entities, which are engaged in the provision of technology consultancy services for the operation of the phone payment gateway, together with the impairment of goodwill on the investment in the business of provision of online English learning services previously eliminated against reserves.

## BUSINESS REVIEW (CONTINUED)

### Property investment

During the year, the commercial units in Gang Yu Square in Chongqing, the PRC, were leased out and the occupancy rate was highly satisfactory. It is expected that the business will continue to generate a steady stream of income to the Group.

### Provision of online English learning services

In the year ended 31 December 2003, the Group was engaged in the provision of online English learning courses, developed by GlobalEnglish Corporation in the United States of America, to customers in the region of the PRC including Hong Kong and Macau. During the year under review, the turnover has increased as the English Hit and the increase in the popularity of online English learning in the PRC. The Group is still negotiating with GlobalEnglish Corporation on the renewal terms. In view of fierce competition in the market of online English learning services and probable increases in the cost of services, the Group considered a provision in the impairment of goodwill on the acquisition in the year.

### Leasing of equipment

The Group started to be engaged in leasing of corded and cordless POS equipment in Guangzhou in 2003. Monthly leasing income will be received on POS equipment each leased out. Other than leasing of POS equipment, the Group can also operate the value-added services generated from the application of POS equipment. With the explosive growth potential of the business, the Group plans to enter other cities in the PRC through strategic partnerships and targets to offer tailor-made value-added services to large corporate customers with market leading positions. The business is now at its start-up stage of operation and the Group expects that the income from the business 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 2003 amounted to HK$41,312,000 (31 December 2002: HK$40,857,000) and pledged deposits of HK$553,000 (2002: HK$2,200,000) while interest-bearing bank loans and borrowings for the Group amounted to HK$41,045,000 (31 December 2002: HK$51,126,000) of which 22%, 11%, 38% and 29% 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 is charged at fixed interest rates as at 31 December 2003 and 2002.

The Group's gearing ratio as at 31 December 2003 was 0.20 (31 December 2002: 0.18 (restated)), calculated based on the Group's total liabilities, excluding deferred income, of HK$117,084,000 (31 December 2002: HK$134,026,000 (restated)) over total assets of HK$599,059,000 (31 December 2002: HK$765,595,000 (restated)).

## FINANCIAL REVIEW (CONTINUED)

### 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$41,045,000 (31 December 2002: HK$51,126,000) as at 31 December 2003. The bank loans were supported by certain of the Group's investment properties and a corporate guarantee executed by the Company.

### Contingent Liabilities

As at 31 December 2003, guarantees given for mortgage loans granted by banks to certain purchasers of the Group's properties amounted to HK$5,529,000 (31 December 2002: HK$22,006,000).

### Material Acquisitions and Disposals of Subsidiaries

During the year, there was no material acquisition and disposal of subsidiaries in the Group.

### Employee and Remuneration Policy

The Group employed approximately 27 full time staff in Hong Kong, Chongqing and Guangzhou, as at 31 December 2003. 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 and Guangzhou, 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.

### Post Balance Sheet Event

Subsequent to the balance sheet date on 26 March 2004, the Group entered into a conditional agreement with an independent third party for the acquisition of 100% equity interest in Telesuccess International Limited ("Telesuccess") for a consideration of HK$200,000,000. The consideration will be satisfied as to HK$140,000,000 by cash and as to the remaining HK$60,000,000 by the issue and allotment of new shares of the Company. The sole asset of Telesuccess is its 80.9% equity interest in 廣州天城網絡通訊有限公司 ("Sky City"). Sky City has been transformed into an integrated service provider to provide integrated service to online game developers and other broadband media providers in 2003. In addition, it starts to be engaged in the provision of agency services in relation to telecommunication business.

## FINANCIAL REVIEW (CONTINUED)

### Post Balance Sheet Event (Continued)

The acquisition of Telesuccess constitutes a major transaction for the Company pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and details of the transaction were set out in the Company's press announcement dated 1 April 2004 and a circular for the said transaction will be posted to our shareholders in due course.

On 26 March 2004, the Group entered into a supplementary agreement (the "Supplementary Agreement") with Guangdong Properties Investment Limited ("GD Properties"). GD Properties as purchaser entered into the sale and purchase agreement dated 25 October 2002 in relation to the disposal of 51% equity interest in Ample Dragon Limited for a total consideration of HK$350,000,000, including HK$120,000,000 in cash and the receiving of the completed units with the valuation of no less than HK$230,000,000.

Pursuant to the Supplementary Agreement, the Group and GD Properties agreed that the balance of consideration of HK$230,000,000 shall be satisfied by GD Properties in cash. The cash consideration of HK$140,000,000 was paid on 23 April 2004 and the balance thereof will be paid on or before 26 January 2005.

## PROSPECTS

The Group is optimistic with the significant economic growth in the PRC and therefore creates numerous investment opportunities.

With a capacity of free up capital resulted from the disposal of Ample Dragon Limited in prior year, the Group will continue to build on strength and expertise of its principal businesses and look for attractive investment opportunities in the PRC and prospects for growth. The Group will be more flexible in its future business expansion 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, 28 April 2004