

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 2004.

REVIEW OF RESULTS

The Directors are pleased to report that the Group recorded a turnover of HK\$25,145,000 (31 December 2003: HK\$5,507,000) for the year ended 31 December 2004, representing an increase of 357% compared with 2003. Net profit from ordinary activities attributable to shareholders was HK\$46,264,000 (31 December 2003: net loss of HK\$148,262,000) for the year.

FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2004.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be temporarily closed from Thursday, 2 June 2005 to Friday, 3 June 2005, 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 Friday, 3 June 2005, 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 Wednesday, 1 June 2005.

BUSINESS REVIEW

The Group's turnover in the year mainly comprised the rental income generated from the commercial podium in Chongqing in Mainland China, the leasing of Point-of-sale ("POS") equipment in Guangzhou and the provision of telecommunication and other related services in Mainland China. The increase in turnover was mainly attributable to the acquisition of 80.9% equity interest in 廣州天城網絡通訊有限公司 ("Sky City") in the year, which provides integrated telecommunication network services to online game developers and other broadband media providers.

In addition, the Group received HK\$190,000,000 from the disposal of 51% equity interest in former subsidiaries in the year, which recognised a gain on disposal of HK\$85,763,000.

Property investment

The rental income generated from leasing of the commercial units in Gang Yu Square in Chongqing in Mainland China, was increased in the year compared with 2003. The occupancy rate of the square in the year 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

The Group was engaged in the provision of online English learning courses in the region of Mainland China including Hong Kong and Macau since 2001. Due to the substantial increases in the cost of services, the Group had not renewed the engagement since the expiry of prior engagement in early 2004. In view of the increased popularity of online English learning services, especially in Mainland China, the Group will continue to evaluate the returns on the business.

Leasing of equipment

Since late 2003, the Group started to be engaged in leasing of corded and cordless POS equipment in Guangzhou for a term of five years with an option to extend till 17 July 2011. Monthly leasing income will be received on POS equipment each leased out. Other than leasing of POS equipment, the Group has the rights to operate the value-added services generated from the application of POS equipment.

Provision of telecommunication and other related services

In the year, the Group has acquired 80.9% equity interest in Sky City, which provides integrated telecommunication network services to online game developers and other broadband media providers. Sky City has demonstrated that it has tapped into the rapidly growing market of on-line business in Mainland China and the Group is satisfied with its financial performance so far generated. With the continuing economic growth in Mainland China, the growth in the internet population and the increasing demand for online games in Mainland China, the Directors are of the view that Sky City would continue to provide a very positive contribution to the Group and more resources would be put into this business in order to further strengthen its market position.

In order to maximize the shareholders' return, the Group had further acquired the remaining 19.1% equity interest in Sky City (the "Acquisition") and the Acquisition was completed in February 2005. With a streamlined management and operational structure through full control of Sky City by the Group, it is expected that the business of Sky City will be operated more effectively in the future.

FINANCIAL REVIEW

Liquidity and financial resources

In the year ended 31 December 2004, the Group generally financed its businesses with internally generated cash flows, banking facilities, net proceeds from placing of new shares and issue of convertible bonds in the year.

Cash and bank balances for the Group as at 31 December 2004 amounted to HK\$106,254,000 (31 December 2003: HK\$41,312,000) and pledged deposits of HK\$776,000 (31 December 2003: HK\$553,000).

As at 31 December 2004, the Group had outstanding borrowings of approximately HK\$107,300,000 comprising interest-bearing bank loans and borrowings amounted to HK\$77,300,000 (31 December 2003: HK\$41,045,000) and convertible bond payable amounted to HK\$30,000,000 (31 December 2003: Nil). Of the Group's interest-bearing bank loans and borrowings, 65%, 6%, 21% and 8% respectively are repayable within one year or on demand, in the second year, in the third to fifth years, inclusive, and beyond five years. An amount of HK\$45,120,000 bank loans as at 31 December 2004 were charged at fixed interest rates (31 December 2003: Nil).

The Group's gearing ratio as at 31 December 2004 was 0.25 (31 December 2003: 0.20), calculated based on the Group's total liabilities, excluding deferred income, of HK\$190,055,000 (31 December 2003: HK\$117,084,000) over total assets of HK\$758,442,000 (31 December 2003: HK\$599,059,000).

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\$77,300,000 (31 December 2003: HK\$41,045,000) as at 31 December 2004. The bank loans were supported by certain of the Group's investment properties, corporate guarantees executed by the Company and certain entities in Mainland China.

Contingent liabilities

As at 31 December 2004, guarantees given for mortgage loans granted by banks to certain purchasers of the Group's properties amounted to HK\$7,763,000 (31 December 2003: HK\$5,529,000).

Material acquisitions of subsidiaries

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 purchase consideration for the acquisition was settled by cash of HK\$140,000,000 and issue and allotment of 464,396,284 new shares of the Company. The sole asset of Telesuccess is its 80.9% equity interest in Sky City. Sky City is an integrated service provider to provide integrated service to online game developers and other broadband media providers. Details of the acquisition of Telesuccess had been set out in a circular of the Company dated 31 May 2004. The transaction was completed in June 2004.

On 14 December 2004, Telesuccess entered into an agreement with the existing shareholder of Sky City, Guangdong Zhang Xun Technology Limited 廣東中訊科技有限公司 to acquire the remaining 19.1% equity interest in Sky City at a cash consideration of HK\$60,000,000. The Acquisition was completed in February 2005 and details had been set out in a circular of the Company dated 21 January 2005.

Issue of convertible bonds

The Group had entered into a conditional subscription agreement in relation to the issue of bond in a principal amount of HK\$30,000,000 (the "Bond") to CNC Broadband Entertainment Corporation Limited during the year. The maturity date of the Bond will be on the second anniversary from the date of the issue of the Bond. The proceeds was used for financing the Group's online games business operating in Mainland China. The transaction was completed on 19 August 2004. As at 31 December 2004, the conversion rights were not exercised.

Placing of new shares

In November 2004, the Group raised net proceeds of approximately HK\$42,500,000 from the placing of 475,000,000 new shares of the Company at HK\$0.09 per share, of which HK\$37,500,000 was used to develop the Group's online games business in Mainland China and the remaining balance of HK\$5,000,000 was used as the Group's general working capital.

Employee and remuneration policy

The Group employed approximately 53 full time staff in Hong Kong, Chongqing and Guangzhou, as at 31 December 2004. 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.

PROSPECTS

The Group is confident with the continuing and encouraging economic growth in Mainland China and therefore creates numerous investment opportunities. The Group will continue to build on strength and expertise of its principal businesses and look for attractive investment opportunities in Mainland China 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, 26 April 2005