



# ZHONG HUA INTERNATIONAL HOLDINGS LIMITED

## 中華國際控股有限公司\*

(Incorporated In Bermuda with limited liability)

(Stock Code: 1064)

### FINAL AUDITED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2003

#### RESULTS

	<i>Notes</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i> (Restated)
TURNOVER	2	5,507	172,511
Cost of sales		(920)	(102,180)
Gross profit		4,587	70,331
Other revenue		315	99
Gain on disposal of interests in subsidiaries		22,568	9,028
Selling and distribution costs		(142)	(40,571)
Administrative expenses		(11,494)	(26,266)
Other operating expenses		(28,377)	(16,994)
LOSS FROM OPERATING ACTIVITIES	3	(12,543)	(4,373)
Finance costs	4	(2,563)	(6,301)
Share of losses of jointly-controlled entities		–	(160)
Amortisation and impairment of goodwill on acquisition of jointly-controlled entities		(133,030)	(176,350)
LOSS BEFORE TAX		(148,136)	(187,184)
Tax	5	(126)	(12,564)
LOSS BEFORE MINORITY INTERESTS		(148,262)	(199,748)
Minority interests		–	7,340
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(148,262)	(192,408)
LOSS PER SHARE	6		
Basic		<u>HK(4.98) cents</u>	<u>HK(6.46) cents</u>
Diluted		<u>N/A</u>	<u>N/A</u>

Notes:

## 1. Adoption of a revised Hong Kong Statement of Standard Accounting Practice

In current year, the Group has adopted, for the first time, the following revised Hong Kong Statement of Standard Accounting Practice (“SSAPs”) and related interpretation:

SSAP 12 (Revised): “Income Taxes”

Interpretation 20: “Income Taxes – Recovery of revalued non-depreciable assets”

This SSAP and the Interpretation prescribe new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in the financial statements of adopting this SSAP and the Interpretation are summarised as follows:

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future;
- a deferred tax liability has been recognised on the revaluation of the Group’s investment properties;
- a deferred tax asset has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised; and

Disclosures:

- deferred tax assets and liabilities are presented separately on the balance sheet, whereas previously they were presented on a net basis; and
- the related note disclosures are now more extensive than previously required.

Interpretation 20 requires that a deferred tax asset or liability that arises from the revaluation of certain non-depreciable assets and investment properties is measured based on the tax consequences that would follow from the recovery of the carrying amount of that asset through sale. This policy has been applied by the Group in respect of the revaluation of its investment properties in the deferred tax calculated under SSAP 12.

This change in accounting policy has been applied retrospectively such that the comparative amounts presented have been restated to conform to the changed policy. As a result, the previously reported net loss of the Group for the year ended 31 December 2002 has been increased by HK\$658,000.

## 2. Turnover and segment information

Turnover represents the aggregate of the gross amounts of proceeds from the sale and pre-sale of properties, adjusted to reflect the stage of construction, to the extent that they were not previously recognised, the net invoiced value of goods sold, after allowances for returns and trade discounts, and gross rental income, after elimination of all significant intra-group transactions less any applicable turnover taxes.

The following table presents revenue and results for the Group's business segments.

	Sale and pre-sale of properties		Property investment		Corporate		Sale of online English learning courses		Leasing of equipment		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Restated)						(Restated)					
Segment revenue:												
Sales to external customers	-	165,799	3,219	5,912	-	-	1,379	800	909	-	5,507	172,511
Other revenue and gains	-	-	-	-	22,568	9,028	-	-	-	-	22,568	9,028
Total	<u>-</u>	<u>165,799</u>	<u>3,219</u>	<u>5,912</u>	<u>22,568</u>	<u>9,028</u>	<u>1,379</u>	<u>800</u>	<u>909</u>	<u>-</u>	<u>28,075</u>	<u>181,539</u>
Segment results	<u>-</u>	<u>10,751</u>	<u>2,049</u>	<u>3,097</u>	<u>6,699</u>	<u>(10,846)</u>	<u>(20,825)</u>	<u>(7,474)</u>	<u>(781)</u>	<u>-</u>	<u>(12,858)</u>	<u>(4,472)</u>
Interest income											315	99
Loss from operating activities											(12,543)	(4,373)
Finance costs											(2,563)	(6,301)
Share of losses of jointly-controlled entities and amortisation and impairment of goodwill on acquisition of jointly-controlled entities											(133,030)	(176,510)
Loss before tax											(148,136)	(187,184)
Tax											(126)	(12,564)
Loss before minority interests											(148,262)	(199,748)
Minority interests											-	7,340
Net loss from ordinary activities attributable to shareholders											<u>(148,262)</u>	<u>(192,408)</u>

No geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in the People's Republic of China (the "PRC").

### 3. Loss from operating activities

The Group's loss from operating activities is arrived at after charging/(crediting):

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Cost of inventories sold	920	102,180
Depreciation	769	1,216
Amortisation of intangible assets	1,318	–
Impairment of goodwill arising during the year	21,000	7,000
Gross and net rental income from investment properties	(3,219)	(5,912)
Exchange losses, net	691	879
Interest income	<u>(315)</u>	<u>(99)</u>

### 4. Finance costs

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Interest expense on bank loans and overdrafts wholly repayable within five years	2,563	13,261
Less: Interest capitalised on properties under development	<u>–</u>	<u>(6,960)</u>
	<u>2,563</u>	<u>6,301</u>

### 5. Tax

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i> (Restated)
Provision for the year:		
Current – Hong Kong	22	–
Elsewhere	–	12,048
Deferred	<u>104</u>	<u>516</u>
Total tax charge for the year	<u>126</u>	<u>12,564</u>

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong during the year. The applicable Hong Kong profits tax rate for the prior year was 16.0%. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003.

No provision for Hong Kong profits tax had been made as the Group did not generate any taxable profits in Hong Kong during the year ended 31 December 2002. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

### 6. Loss per share

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK\$148,262,000 (2002: HK\$192,408,000 (as restated)) and the weighted average of 2,980,016,725 (2002: 2,980,016,725) ordinary shares in issue during the year.

Diluted loss per share for the years ended 31 December 2003 and 2002 has not been disclosed as the potential ordinary shares outstanding during these years had an anti-dilutive effect on the basic loss per share for these years.

## **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.

## **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.

## **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.

### **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)).

### **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.

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.

## **PURCHASE, SALE AND REDEMPTION OF THE COMPANY’S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries had repurchased, sold or redeemed any of the Company’s listed securities during the year under review.

## **CODE OF BEST PRACTICE**

In the opinion of the Directors, the Company has complied with the Code of Best Practice (the “Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) during the year, except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company’s articles of association.

## **DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE**

The annual report of the Group for the year ended 31 December 2003 containing all information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the web site of the Stock Exchange in due course.

On behalf of the Board

**Ho Tsam Hung**

*Chairman*

Hong Kong, 28 April 2004

*As at the date of this announcement, the board of Directors comprises Mr. Ho Tsam Hung, Mr. Ho Pak Hung and Mr. Ho Kam Hung who are executive Directors, and Mr. Zhang Jie and Mr. Young Kwok Sui who are independent non-executive Directors.*

\* *for identification purpose only*