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ZHONG HUA INTERNATIONAL HOLDINGS LIMITED

中華國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 1064)

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

The Purchaser, a wholly-owned subsidiary of the Company, and the Vendor entered into the Agreement on 14th December, 2004 whereby the Purchaser agreed to acquire and the Vendor agreed to sell the Sale Equity, being the remaining 19.1% equity interest in Sky City at a consideration of HK\$60,000,000, the entire amount of which will be satisfied by cash.

In aggregating the First Acquisition in accordance with Rule 14.22 of the Listing Rules, the transactions under the Agreement constitute a very substantial acquisition for the Company under the Listing Rules. As at the date of entering into the Agreement, Sky City was owned as to 80.9% by the Purchaser and 19.1% by the Vendor. The Vendor is a substantial shareholder of Sky City which is a non wholly-owned subsidiary of the Company. By virtue of the Vendor's interest in Sky City, the Acquisition constitutes a connected transaction of the Company under the Listing Rules. Accordingly, the Agreement is subject to approval of the Shareholders in a general meeting of the Company. No Shareholders are required to abstain from voting in such meeting.

A circular will be despatched as soon as practicable to the Shareholders containing, among other things, (i) details of the Agreement; (ii) a letter of recommendation from the independent board committee of the Company to the Shareholders; (iii) a letter of advice from the independent financial adviser to the independent board committee of the Company and the Shareholders; (iv) an accountants' report on Sky City; (v) the pro forma financial information of the Group as enlarged by the Acquisition; and (vi) a property valuation report on the properties of the Group as enlarged by the Acquisition.

Trading in the Shares has been suspended at the request of the Company with effect from 9:30 a.m. on Wednesday, 15th December, 2004 pending the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on Friday, 17th December, 2004.

INTRODUCTION

Reference is made to the announcement of the Company dated 1st December, 2004 regarding the negotiations in relation to a possible acquisition for the remaining 19.1% interest in Sky City from the minority shareholder of Sky City.

On 26th March, 2004, the Directors announced that China Land Realty Investment (BVI) Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with the First Vendor to acquire, through the Purchaser, an 80.9% indirect equity interest in Sky City. The consideration for the First Acquisition of HK\$200 million was satisfied as to HK\$140 million by cash and as to HK\$60 million by the issue and allotment of 464,396,284 Shares at an issue price of HK\$0.1292 per Share by the Company to the First Vendor. Details of the First Acquisition are set out in the announcement of the Company dated 26th March, 2004 and the Circular. The First Acquisition was completed in June 2004.

The Directors are pleased to announce that on 14th December, 2004, the Purchaser conditionally agreed to acquire from the Vendor the remaining 19.1% interest in Sky City at a consideration of HK\$60,000,000. Set out below are the principal terms of the Agreement.

THE AGREEMENT DATED 14TH DECEMBER, 2004

Parties to the Agreement

Vendor: 廣東中訊科技有限公司 (“GuangDong Zhong Xun Technology Limited”), the legal and beneficial owner of the Sale Equity

Purchaser: Telesuccess International Limited, an indirect wholly-owned subsidiary of the Company

To the best knowledge of the Directors, the Vendor is principally engaged in the provision of telecom and information technology products, computer information system and network integration services; including communication equipments, telecom terminal equipments, OA equipments; computer hardware and software, system integration; communication and technology information inquiry technical services, computer information businesses.

Subject matter of sale and purchase

Pursuant to the Agreement, the Purchaser agreed to acquire and the Vendor agreed to sell the Sale Equity, representing 19.1% equity interest and rights of the Vendor in Sky City. As at the date of this announcement, Sky City is held as to 80.9% by the Purchaser and 19.1% by the Vendor. Upon Completion, Sky City will become an indirect wholly-owned subsidiary of the Company.

The Sale Equity shall be acquired by the Purchaser free from all liens, rights of pre-emption, charges, encumbrances, equities and third party's rights of any kind and together with all dividends, interest, bonuses, distributions or other rights now or hereafter attaching thereto.

Consideration

The consideration for the Sale Equity of HK\$60,000,000 is arrived at after arm's length negotiations between the Company and the Vendor with reference to the growth potential of Sky City in respect of its business of provision of online games infrastructure platform and distribution channels.

As detailed in the section headed “Information on Sky City” below, Sky City had made an operating loss of approximately HK\$2.2 million for the year ended 31st December, 2003 in view of certain exceptional business environments. However, after having transformed itself into an integrated service provider in providing integrated service to online game developers and other broadband media providers, Sky City has turned around in 2004 and recorded an operating profit of approximately HK\$8.3 million for the nine months ended 30th September, 2004. Given the aforesaid, the Directors consider Sky City has demonstrated that it has tapped into the rapidly growing market of online business in the PRC and are confident about the prospect of the future growth of Sky City. As the time of the First Acquisition, Sky City has just passed a difficult time in transforming its business model to become an integrated service provider, the results of which were yet to be proved. However,

the growth potential and results of such transformation have recently been proved by its promising results achieved in the first nine months in 2004. Accordingly, the Acquisition being currently contemplated by the Group could demand a higher valuation as compared with the First Acquisition.

The Consideration has been/will be satisfied as follows:

- (a) HK\$36,000,000, being the deposit which was paid in cash upon signing of the Agreement; and
- (b) HK\$24,000,000, being the balance of the Consideration which shall be paid in cash on Completion.

The Group intends to satisfy the Consideration by the internal resources of the Group. As set out in the 2004 interim report of the Company, the Group had a cash and bank balance of approximately HK\$102 million as at 30th June, 2004. The Directors confirm that the Group has sufficient internal resources, having taken into account the existing cash balance and the net proceeds of about HK\$42.5 million from the placing of Shares in November 2004, to finance the Acquisition and the operation of Sky City.

Information on Sky City

廣州天城網絡通訊有限公司 (GuangZhou Sky City Network Communication Ltd.) or Sky City (as defined herein) was established in the PRC on 9th May, 1997 as a sino-foreign co-operative joint venture. Upon Completion, Sky City will become a wholly foreign owned enterprise in the PRC.

As at the date of this announcement, Sky City has a registered capital of RMB110,000,000 (or approximately HK\$103.8 million). The total investment amount of Sky City is RMB200,000,000 (or approximately HK\$188.7 million). According to the memorandum and articles of association of Sky City, the amount of total investment over the registered capital of RMB90,000,000 (or approximately HK\$84.9 million) is not a capital commitment and will only be funded by the Purchaser if the shareholders of Sky City consider that such funding is necessary for the business development of Sky City in future. In the event that the Purchaser decides to provide further funding to Sky City after Completion, the Company intends to finance such funding by internal resources of the Group and/or debt financing and/or equity fund raising exercises.

The scope of business of Sky City involves the design and installation of communication technology system and related communication network, the provision of up-grading services, technology maintenance, consultation advice, and training of technicians services in relation to the said communication technology system, development of software computer products, integration of computer communication system, development of communication technology, the provision of agency services in relation to telecommunication business and sale of Sky City's products.

During previous years, Sky City has been focusing on the provision of internet data center services, design and installation of communication technology system and related communication network in the PRC. Sky City had developed business partnership with various telecommunication service providers, technology equipment providers and other technique developers.

In 2003, with leveraging on its expertise in providing internet data center services and the business opportunities arisen from the increasing demand of broadband services and online games in PRC, Sky City has been transformed into an integrated service provider to provide integrated service to online game developers and other broadband media providers. In addition, it started to be engaged in the provision of agency services in relation to telecommunication business. Through the delivery of game data and content to Internet Café, Sky City could establish a physical distribution channel for game contents owned by the game developers. By bundling its online game infrastructure platform and distribution channels to the game developers, Sky City could benefit from sharing the profits generated by the game developers. In view of the increasing demand for online games in the PRC, Sky City is considering to operate Internet Café offering a variety of refreshments, snacks, personal computers with Internet access and a selection of online games in PRC, which could allow Sky City to achieve a vertical integration among its online game related business.

Set out below is the audited financial information of Sky City for the three years ended 31st December, 2003 extracted from the accountants' report on the Purchaser contained in the Circular:

(a) Results

	Year ended 31st December,		
	2001	2002	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	17,825	26,559	18,477
Cost of sales	(7,484)	(11,381)	(15,047)
Gross profit	10,341	15,178	3,430
Other revenue	40	31	37
Administrative expenses	(3,065)	(2,338)	(2,951)
Other operating expenses	(25,620)	(5,180)	(2,670)
Profit/(loss) from operating activities	(18,304)	7,691	(2,154)
Finance costs	–	(331)	(1,751)
Waiver of an amount due to the then ultimate holding company	–	–	15,710
Waiver of a loan from the then ultimate holding company	–	–	825
Profit/(loss) before tax	(18,304)	7,360	12,630
Tax	–	(1,665)	(2,383)
Net profit/(loss) for the year	<u>(18,304)</u>	<u>5,695</u>	<u>10,247</u>

(b) **Balance sheet**

	As at 31st December,		
	2001	2002	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Fixed assets	82,650	103,861	98,178
Intangible assets	7,769	5,742	3,715
Prepayment and deposits	–	18,866	44,515
	<u>90,419</u>	<u>128,469</u>	<u>146,408</u>
Current Assets			
Trade receivables	2,805	12,425	22,349
Prepayments, deposits and other receivables	705	1,886	2,064
Cash and bank balances	5,269	2,119	3,155
	<u>8,779</u>	<u>16,430</u>	<u>27,568</u>
Current liabilities			
Loan from a then fellow subsidiary	–	–	2,434
Due to the then ultimate holding company	12,795	15,710	–
Loan from the then ultimate holding company	59,978	38,561	–
Interest-bearing bank borrowings, unsecured	–	18,868	56,604
Other payables and accruals	1,362	5,226	4,891
Finance lease payables	–	–	436
Tax payable	–	1,342	3,714
	<u>74,135</u>	<u>79,707</u>	<u>68,079</u>
Net current liabilities	<u>(65,356)</u>	<u>(63,277)</u>	<u>(40,511)</u>
Total assets less current liabilities	25,063	65,192	105,897
Non-current liabilities			
Loan from a then fellow subsidiary	–	8,019	–
Finance lease payables	–	–	741
	<u>–</u>	<u>8,019</u>	<u>741</u>
	<u>25,063</u>	<u>57,173</u>	<u>105,156</u>
Capital and reserve			
Paid-up capital	39,623	66,038	103,774
Retained profits/(accumulated losses)	(14,560)	(8,865)	1,382
	<u>25,063</u>	<u>57,173</u>	<u>105,156</u>

As shown in the results of Sky City above, the operating profit of Sky City was approximately HK\$7.7 million for the year ended 31st December, 2002. However, Sky City had made an operating loss of approximately HK\$2.2 million for the year ended 31st December, 2003. The reasons for such decrease were mainly due to (i) the decrease in the profit margin of the provision of internet data services; (ii) Sky City was under a transitional period to transform into an integrated service provider in providing integrated service to online game developers and other broadband media providers; and (iii) the outbreak of Severe Acute Respiratory Syndrome, in particular, in the PRC. For the year ended 31st December, 2003, Sky City had recorded a gain of approximately HK\$16.5 million in relation to waivers of certain amount and loan due to the former ultimate holding company of Sky City which disposed of its interest in Sky City to the First Vendor in January 2004. The Directors consider such waivers, representing PRC/HK generally accepted accounting principal adjustments when compiling the accountants' report of Sky City, are one-off in nature and will not happen in future.

After the exceptional business environment in 2003, Sky City has turned around and recorded a promising result in 2004. According to the unaudited management accounts of Sky City, Sky City had unaudited total assets and net asset value of approximately HK\$201.2 million and HK\$109.4 million as at 30th September, 2004, respectively. For the nine months ended 30th September, 2004, Sky City recorded an unaudited turnover of approximately HK\$20 million, unaudited operating profit of approximately HK\$8.3 million, unaudited profit before tax of approximately HK\$5.7 million and unaudited profit after tax of approximately HK\$4.8 million. No extraordinary items were recorded for the nine months ended 30th September, 2004.

Upon Completion, Sky City will become an indirect wholly-owned subsidiary of the Company and its accounts will remain to be consolidated into the accounts of the Company. The Directors believe that given the track record, earning ability and promising prospects of Sky City as mentioned above, the Acquisition could further benefit the results of the Group in future.

Conditions of the Agreement

The Agreement is conditional upon:

- (a) the passing of ordinary resolution(s) by the Shareholders at a special general meeting to be convened to approve the Agreement and the Acquisition contemplated thereunder;
- (b) the Purchaser's satisfaction in form and content of a legal opinion regarding, amongst other things, the sale of the Sale Equity and any other matters to complete and perfect the right, title and interest of the Purchaser and any other matters the Purchaser must be aware of for the Acquisition;
- (c) the Vendor has by board resolutions resolved to:
 - (i) approve the transfer of the Sale Equity to the Purchaser and/or its nominee;
 - (ii) cause all the existing directors of the Vendor's appointment in Sky City to resign without compensation or other payment for loss of office;
 - (iii) accept the resignation of the directors of the Vendor's appointment in Sky City;
 - (iv) appoint new directors nominated by the Purchaser to the board of directors of Sky City; and

- (v) obtain a confirmation document issued by the relevant local authority endorsing the changes in Sky City's ownership and directorship as stated above, if necessary and all necessary approval and consent by relevant PRC government authorities or departments on the Agreement, the Acquisition and any other matter in relation to the Acquisition in respect of which approval or consent is necessary in order to complete and perfect the right, title and interest of the Purchaser to and in the Sale Equity.

If there is any compensation or other payment for loss of office payable to the existing directors of the Vendor's appointment in Sky City as mentioned in condition (c)(ii) above, such compensation or other payment would have to be all settled by the time of resignation of such directors (i.e. on or before Completion).

In the event that the conditions set out above not being fulfilled or waived by the Purchaser (as regards condition (b) only) on or before the long stop date of 28th February, 2005, save and except for the Vendor's obligation to return the Deposit to the Purchaser in full as mentioned below, the Agreement shall be null and void and all obligations and liabilities of the parties shall cease and terminate and no party shall have any claim against the other in respect thereof or the Acquisition contemplated thereunder.

If any of the above conditions is not fulfilled or waived (as the case may be in respect of condition (b)) on or before the long stop date of 28th February, 2005, or if for any reason, the Completion does not take place in accordance with the terms of the Agreement, the Vendor shall refund the Deposit to the Purchaser in full without interest within two business days from the date it receives notice from the Purchaser confirming the termination of the Agreement.

Completion

Completion of the Agreement shall take place within three business days following fulfilment or waiver (as the case may be) of the conditions set out above or such other date (which must be a business day) as mutually agreed by the Vendor and the Purchaser in writing.

Reasons for the Agreement

The Group is principally engaged in property investment, the leasing of point-of-sale equipment and provision of telecommunication and other related services in the PRC.

On 26th March, 2004, the Company, through China Land Realty Investment (BVI) Limited, a wholly-owned subsidiary of the Company, acquired, through the Purchaser, an 80.9% indirect equity interest in Sky City, which provides integrated telecommunication network services to online game developers and other broadband media providers. According to the interim report of the Company for the six months ended 30th June, 2004, the turnover of the Group attributable to the provision of telecommunication and other related services and software licensing services amounted to approximately HK\$2.2 million with an operating profit of approximately HK\$0.69 million. This business segments contribute approximately 30.8% of the Group's total turnover and have an operating profit margin of approximately 31.4%. As evidenced by its promising results in 2004, Sky City has demonstrated that it has tapped into the rapidly growing market of online business in the PRC and the Group is very satisfied with its financial performance so far generated.

As at the date of entering into the Agreement, Sky City was owned as to 80.9% by the Purchaser and 19.1% by the Vendor. The board of directors of Sky City comprises three directors, two of whom were appointed by the Company. Upon Completion, Sky City will become an indirect wholly-owned subsidiary of the Company and its board of director will be entirely controlled by the Company. With such control, the Company will be able to integrate Sky City's operation fully with that of the Group providing a streamlined management and operational structure to more effectively operate the business of Sky City.

Taken into account of the aforesaid, the Directors (including independent non-executive Directors) are of the view that the terms of the Agreement are fair and reasonable and the transactions contemplated under the Agreement are in the interest of the Company and the Shareholders as a whole.

Implications under the Listing Rules

In aggregating the First Acquisition in accordance with Rule 14.22 of the Listing Rules, the transactions under the Agreement constitute a very substantial acquisition for the Company under the Listing Rules. As at the date of entering into the Agreement, Sky City was owned as to 80.9% by the Purchaser and 19.1% by the Vendor. The Vendor is a substantial shareholder of Sky City which is a non wholly-owned subsidiary of the Company. By virtue of the Vendor's interest in Sky City, the Acquisition constitutes a connected transaction of the Company under the Listing Rules. Accordingly, the Agreement is subject to approval of the Shareholders in a general meeting of the Company. No Shareholders are required to abstain from voting in such meeting.

GENERAL

A special general meeting will be convened by the Company at which a resolution will be proposed to seek approval of the Agreement. At such meeting, the votes of the Shareholders in relation to the Agreement will be taken by poll. An independent board committee will be constituted to advise the Shareholders relating to the Acquisition. An independent financial adviser will be appointed to advise the independent board committee of the Company and the Shareholders in this regard.

A circular will be despatched as soon as practicable to the Shareholders containing, among other things, (i) details of the Agreement; (ii) a letter of recommendation from the independent board committee of the Company to the Shareholders; (iii) a letter of advice from the independent financial adviser to the independent board committee of the Company and the Shareholders; (iv) an accountants' report on Sky City; (v) the pro forma financial information of the Group as enlarged by the Acquisition; and (vi) a property valuation report on the properties of the Group as enlarged by the Acquisition.

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, Mr. Young Kwok Sui and Mr. Ng Kin Sun who are independent non-executive Directors.

SUSPENSION AND RESUMPTION OF TRADING

Trading in the Shares has been suspended at the request of the Company with effect from 9:30 a.m. on Wednesday, 15th December, 2004 pending the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on Friday, 17th December, 2004.

DEFINITIONS

“Acquisition”	the acquisition of the remaining 19.1% equity interest in Sky City by the Purchaser from the Vendor pursuant to the Agreement
“Agreement”	the agreement dated 14th December, 2004 entered into between the Vendor and the Purchaser in relation to the acquisition of the Sale Equity
“associates”	has the meaning given to it in the Listing Rules
“Circular”	the circular of the Company dated 31st May, 2004 regarding the First Acquisition

“Company”	Zhong Hua International Holdings Limited, a company incorporated in Bermuda with limited liability whose issued Shares are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Agreement
“Consideration”	HK\$60,000,000, being the consideration payable for the Sale Equity by the Purchaser to the Vendor pursuant to the Agreement
“Deposit”	HK\$36,000,000, being the deposit which was paid in cash by the Purchaser to the Vendor upon signing of the Agreement
“Directors”	directors of the Company
“First Acquisition”	the acquisition of the indirect equity interest of 80.9% in Sky City by the Purchaser which was completed in June 2004, details of which are set out in the announcement of the Company dated 26th March, 2004 and the circular of the Company dated 31st May, 2004
“First Vendor”	Mr. Man O Fu, the vendor of the First Acquisition
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Internet Café”	a café providing a variety of refreshments, snacks, personal computers with internet access and a selection of online games
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China and for the purpose of this announcement, shall exclude Hong Kong, the Macau Special Administrative Region and Taiwan
“Purchaser”	Telesuccess International Limited, an indirect wholly-owned subsidiary of the Company which is interested in 80.9% equity interest in Sky City as at the date of this announcement
“Sale Equity”	the 19.1% equity interest and rights of the Vendor in Sky City, to be sold by the Vendor to the Purchaser pursuant to the Agreement
“Share(s)”	ordinary share(s) of HK\$0.02 each in the capital of the Company
“Shareholders”	holders of the Shares
“Sky City”	廣州天城網絡通訊有限公司 (GuangZhou Sky City Network Communication Ltd.), which is a sino-foreign co-operative joint venture established in the PRC on 9th May, 1997 as at the date of this announcement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendor”	廣東中訊科技有限公司 (“GuangDong Zhong Xun Technology Limited”), an enterprise incorporated under the Company Laws of the PRC and the vendor to the Agreement

“HK\$” Hong Kong dollars, the lawful currency of Hong Kong
“RMB” Renminbi, the lawful currency of the PRC
“%” per cent.

Amounts denominated in RMB in this announcement have been converted into HK\$ at a rate of RMB1.06 = HK\$1.0 for illustration purposes.

By Order of the Board
Zhong Hua International Holdings Limited
Ho Tsam Hung
Chairman

Hong Kong, 16th December, 2004

* *for identification purpose only*

*Please also refer to the published version of this announcement in
China Daily and Hong Kong Economic Times.*