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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)

- (1) SUBSCRIPTION OF SUBSCRIPTION SHARES AND GRANT OF OPTION**
- (2) TERMINATION OF THE ACQUISITION AND THE RIGHTS ISSUE;**
- (3) REVISED TERMS OF INCREASE IN AUTHORISED SHARE CAPITAL;**
- (4) EXPECTED TIMETABLE AND TRADING ARRANGEMENTS**
- FOR THE CAPITAL REORGANISATION**
- (5) LITIGATION**

The Subscription Agreement for the Subscription and the grant of Option :

On 31st August, 2005, the Company, the Subscriber and the Guarantor entered into the Subscription Agreement, pursuant to which, the Subscriber has conditionally agreed to subscribe for (i) the Subscription Shares to be issued and allotted by the Company; and (ii) the Option to be granted by the Company.

Upon completion of the Subscription Agreement, 200 million, Subscription Shares will be issued and allotted which represent approximately 4.3% of the Company's existing issued share capital and approximately 4.1% of the Company's issued share capital as enlarged thereby. The subscription price is HK\$0.036 per Subscription Share and an aggregate proceed of HK\$7.2 million will be raised by the Company.

Upon exercise of the Option, the Company shall be required to issue and allot to the Subscriber and the Subscriber shall subscribe from the Company for a maximum of 740 million Option Shares, which represent approximately 15.7% of the Company's existing issued share capital and approximately 13.1% of the Company's issued share capital as enlarged thereby. The exercise price of the Option is HK\$0.04 per Option Share (subject to adjustment). In the case of the maximum number of 740 million Option Shares being issued, the aggregate proceeds of HK\$29.6 million will be raised by the Company.

The aggregate of the maximum number of 200 million Subscription Shares and 740 million Option Shares will be issued under the general mandate granted to the Board by the Shareholders at the annual general meeting of the Company held on 3rd June, 2005.

The termination of the Acquisition and the Rights Issue:

The following proposals/transactions were terminated:

- (i) the Acquisition Agreement in relation to the proposed acquisition of 70% interest of Apollo;
- (ii) the Underwriting Agreement in relation to the proposed Rights Issue (and associated Bonus Issue); and
- (iii) the amendment to Bye-laws for the purpose of the Bonus Issue.

Revised terms of increase in authorised share capital:

Due to the termination of the Rights Issue (and the associated Bonus Issue), it is not necessary to increase the authorised share capital of the Company to such extent. Accordingly, the Directors propose to revise the amount of increase in the authorised share capital of the Company. The authorised share capital is currently proposed to increase from HK\$120 million divided into 600 million, Consolidated Shares to HK\$200 million divided into 1,000 million Consolidated Shares by the creation of an additional 400 million Consolidated Shares.

Expected timetable and trading arrangements for the Capital Reorganisation:

Details of the expected timetable and trading arrangements for the implementation of the Capital Reorganisation are included in this announcement.

General:

The SGM will be held on 12th October, 2005 to consider, if thought fit, to approve the resolution(s) to be proposed in respect of the Capital Reorganisation. No Shareholders are required to abstain from voting at the SGM.

A circular containing the details of the Capital Reorganisation and other necessary information will be despatched to the Shareholders as soon as practicable.

Suspension and resumption of trading

At the request of the Company, trading in the Existing Shares was suspended with effect from 9:30 a.m. on Wednesday, 31st August, 2005 pending the release of this announcement. Application has been made by the Company to the Stock Exchange for resumption of trading in the Existing Shares with effect from 9:30 a.m. on Tuesday, 13th September, 2005.

THE SUBSCRIPTION AGREEMENT FOR THE GRANT OF OPTION AND THE SUBSCRIPTION**Date**

31st August, 2005

Parties

- (i) Hero Grand as the Subscriber;
- (ii) the Company; and
- (iii) Mr. Leung as the Guarantor for the performance of the Subscriber's obligations under the Subscription Agreement

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, both the Subscriber and the Guarantor are third parties independent of the Company and its connected persons and are not parties acting in concert with its connected persons, and are independent of and not connected with the Vendor and Mr. Cheng Lok Wah Adrian, the beneficial owner of 10% of the entire issued share capital of Apollo, the target company of the Acquisition, and are independent of and not connected with the holder of the Convertible Bond. Mr. Leung is a businessman with extensive business experiences and network in the Mainland China, Hong Kong and Malaysia. He is a director and major shareholder of Henan Province Luoyang City Yu Gang Electricity Company Limited 河南省洛陽市豫港電力有限公司, one of the largest power companies in the Henan Province, and the chairman of Guangzhou City Yi Shun Properties Company Limited 廣州市怡順房地產公司. He does not hold any directorship in any listed companies at present or in the past.

The Subscription

Pursuant to the Subscription Agreement, the Subscriber conditionally agreed to subscribe for, and the Company agreed to issue and allot to the Subscriber, the Subscription Shares free from all encumbrances, third party rights and interests together with all dividends and rights attaching to the Subscription Shares as at the completion of the Subscription Agreement.

Number of Subscription Shares

200,000,000 Subscription Shares, representing approximately 4.3% of the Company's existing issued share capital and approximately 4.1% of the Company's issued share capital as enlarged by the Subscription Shares.

Subscription price

The price of HK\$0.036 per Subscription Share represents:

- (i) a premium of approximately 2.9% over the closing price of HK\$0.0350 per Existing Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 2.9% over the average closing price of HK\$0.0350 per Existing Share for the last 5 consecutive trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 2.3% over the average closing price of HK\$0.0352 per Existing Share for the last 10 consecutive trading days up to and including the Last Trading Day;
- (iv) a premium of 44% over the subscription price of HK\$0.025 (as adjusted prior to the Shares Reorganisation) for each rights share pursuant to the terms and conditions of the Rights Issue as announced in the Announcement; and
- (v) a premium of 80% over the subscription price of HK\$0.02 per Existing Share pursuant to the terms and conditions of the placement agreement of the Company dated 17th May 2005.

Upon completion of the Subscription Agreement, an aggregate proceed of HK\$7,200,000 will be raised by the Company.

Conditions

Completion of the Subscription Agreement shall be conditional upon fulfillment of the following conditions:

- (i) the Stock Exchange agreeing to grant a listing of, and permission to deal in, the Subscriptions Shares and the Option Shares; and
- (ii) the consent of the Bermuda Monetary Authority, if required, to the allotment and issue of the Subscription Shares and the Option Shares by the Company.

The Subscription and the grant of Option are inter-conditional to each other. If any of the above conditions has not been fulfilled on or before the date falling two business days prior to 30th September, 2005 or such other date as the parties agree in writing, then any of the parties may by notice to the other parties elect to rescind the Subscription Agreement. All rights and obligations of each of the parties to the other parties thereunder shall cease to have effect immediately upon rescission, and none of the parties shall have any rights or claims against the other parties save for any antecedent breaches of the Subscription Agreement.

The grant of Option

Pursuant to the Subscription Agreement, the principal terms relating to the grant of Option are as follows:

Grantor	:	The Company
Grantee	:	The Subscriber
Underlying securities	:	a maximum number of 740,000,000 Option Shares (subject to adjustments resulting from share consolidation, sub-division, issue of new shares, capitalization of profits, etc.)
Exercise price	:	HK\$0.04 per Option Share (subject to adjustment resulting from share consolidation, sub-division, issue of new shares, capitalization of profits, etc.)
Option period	:	commencing from the date of completion of the Subscription Agreement and ending on 31st December, 2006
Assignment	:	the Option shall not be assigned by the Company or the Subscriber without the prior written consent of the other party

Save for the Convertible Bond, there are no other outstanding convertible securities, options or warrants issued by the Company. As at the date of this announcement, the outstanding amount under the Convertible Bond is HK\$30,000,000. Assuming the Convertible Bond is fully converted, 200,000,000 new Existing Shares will be issued, representing approximately 4.3% of the existing issued share capital of the Company. When the Convertible Bond and Option are fully exercised, the new Existing Shares to be issued will not exceed 20% of the issued share capital of the Company at the time of issue of the Option.

The Option Shares

Upon the exercise of the Option, the Company shall be required to issue and allot to the Subscriber and the Subscriber shall subscribe from the Company for a maximum number of 740,000,000 new Existing Shares which represent approximately 15.7% of the Company's existing issued share capital and approximately 13.1% of the Company's issued share capital as enlarged by the maximum number of Option Shares.

Exercise of Option

The Option may be exercised by the Subscriber at any time during the option period as stated above by serving an option notice to the Company. The option notice, once issued, is binding on the parties and shall not be withdrawn. The Option may be exercised in part or in whole, provided always that the Option shall only be exercised in respect of:

- (i) 50,000,000 Option Shares or an integral multiple thereof; or
- (ii) the number of Option Shares being the difference between (a) the maximum number of 740,000,000 Option Shares and (b) the aggregate of (A) the number of Option Shares already issued and allotted to the Subscriber on or prior to the exercise date which the current option notice relates and (B) the number of Option Shares which are yet to be issued and allotted to the Subscriber pursuant to exercise of the Option on or prior to the exercise date which the current option notice relates.

Exercise price

The exercise price of HK\$0.04 per Option Share represents:

- (i) a premium of approximately 14.3% over the closing price of HK\$0.0350 per Existing Share as quoted on the Stock Exchange on the Last Trading Day;

- (ii) a premium of approximately 14.3% over the average closing price of HK\$0.0350 per Existing Share for the last 5 consecutive trading days up to and including the Last Trading Day; and
- (iii) a premium of 13.6% over the average closing price of HK\$0.0352 per Existing Share for the last 10 consecutive trading days up to and including the Last Trading Day; and
- (iv) a premium of 60% over the subscription price of HK\$0.025 (as adjusted prior to the Shares Reorganisation) for each rights share pursuant to the terms and conditions of the Rights Issue as announced in the Announcement.

In the case of the maximum number of 740,000,000 Option Shares being issued upon exercise of the Option in full, the aggregate proceeds of HK\$29,600,000 will be raised by the Company.

Completion

Completion of the grant of Option shall be conditional on and simultaneous with the completion of the Subscription. It shall take place on or before 30th September, 2005.

Rights of the Subscription Shares and the Option Shares

The Subscription Shares and the Option Shares, when fully paid and issued, will rank pari passu with all existing shares in the Company free from all encumbrances, third party rights and interest.

General mandate

The aggregate of 200,000,000 Subscription Shares and the maximum number of 740,000,000 Option Shares, representing approximately 19.99% of the Company's existing issued share capital and approximately 16.7% of the Company's issued share capital as enlarged thereby, will be issued under the general mandate granted to the Board by the Shareholders at the annual general meeting of the Company held on 3rd June, 2005.

Application for listing

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares and the Option Shares.

Undertakings of the Subscriber

The Subscriber undertakes with and warrants to the Company that it shall not, at any time prior to 1st January, 2006:

- (i) sell, transfer or otherwise dispose of or encumber all or any of the Subscription Shares and the Option Shares or any legal or beneficial interest therein;
- (ii) assign or otherwise purport to deal with all or any of the Subscription Shares and Option Shares or any legal or beneficial interest therein;
- (iii) create any third party rights, options or interests in or over any and/or all of the Subscription Shares and the Option Shares; and
- (iv) enter into any arrangement, agreement or understanding, whether conditional or unconditional, cash or physical settlement, relating to any of the foregoing, including but not limited to placing agreements.

Shareholding structure of the Company

The table below sets out the Company's existing shareholding structure and the shareholding structure upon completion of the Subscription Agreement, full exercise of the Option, full conversion of the Convertible Bond and the Capital Reorganization:

	At the date of this announcement		Upon completion of the Subscription Agreement but prior to the exercise of the Option		Upon completion of the Subscription Agreement and assuming full conversion of the Convertible Bond but prior to the exercise of the Option		Upon completion of the Subscription Agreement and assuming full exercise of the Option but prior to conversion of any Convertible Bond		Upon completion of the Subscription Agreement and assuming full conversion of the Convertible Bond and full exercise of the Option	
	Existing Shares	(%)	Existing Shares	(%)	Existing Shares	(%)	Existing Shares	(%)	Existing Shares	(%)
Noble Idea Investments Limited (Note 1)	441,000,000	9.4	441,000,000	9.0	441,000,000	8.6	441,000,000	7.8	441,000,000	7.5
High Rank Enterprises Limited (Note 2)	317,000,000	6.7	317,000,000	6.5	317,000,000	6.2	317,000,000	5.6	317,000,000	5.4
On Tai Profits Limited (Note 3)	270,000,000	5.7	270,000,000	5.5	270,000,000	5.3	270,000,000	4.8	270,000,000	4.6
Morcambe Corporation (Note 4)	270,000,000	5.7	270,000,000	5.5	270,000,000	5.3	270,000,000	4.8	270,000,000	4.6
Morgan Estate Assets Limited (Note 5)	155,000,000	3.3	155,000,000	3.2	155,000,000	3.0	155,000,000	2.7	155,000,000	2.7
Sub-total	1,453,000,000	30.9	1,453,000,000	29.6	1,453,000,000	28.5	1,453,000,000	25.8	1,453,000,000	24.9
Subscriber	0	0.0	200,000,000	4.1	200,000,000	3.9	940,000,000	16.7	940,000,000	16.1
CB conversion	0	0.0	0	0.0	200,000,000	3.9	0	0.0	200,000,000	3.4
Other shareholders	3,249,413,009	69.1	3,249,413,009	66.3	3,249,413,009	63.7	3,249,413,009	57.6	3,249,413,009	55.6
Total	<u>4,702,413,009</u>	<u>100.0</u>	<u>4,902,413,009</u>	<u>100.0</u>	<u>5,102,413,009</u>	<u>100.0</u>	<u>5,642,413,009</u>	<u>100.0</u>	<u>5,842,413,009</u>	<u>100.0</u>

Notes :

- Noble Idea Investments Limited is independent of and not connected with the Directors, the Subscriber and the Guarantor.
- Each of Mr. Ho Tsam Hung (an executive Director) and Mr. Ho Kam Hung (an executive Director) is interested in approximately 31.58% of the issued share capital of High Rank Enterprises Limited. Mr. Ho Tsam Hung and Mr. Ho Kam Hung are brotherhood.
- On Tai Profits Limited is wholly owned by a former executive Director.
- Morcambe Corporation is wholly owned by Mr. Ho Kam Hung, an executive Director.
- Morgan Estate Assets Limited is wholly owned by Mr. Ho Tsam Hung, an executive Director.
- After the Capital Reorganization, the number of shares of the Company will reduce to one-tenth of the original number of shares of the Company and there will not be any impact on the respective equity interests of the shareholders of the Company.

Reasons for the Subscription Agreement and use of proceeds

The Group is principally engaged in property investment, the leasing of point-of-sale equipment and the provision of telecommunication and other related services in the Mainland China. Given the Group has long experience in property development and investment in the Mainland China since 1992, the Directors consider that they should capitalize its experience and connections in this sector and put more focus in the property market in the Mainland China. As such, the Directors have been looking for attractive property investment opportunities from time to time. Taking into consideration of the extensive business network and experience of Mr. Leung in the property sector in Guangzhou, Chengdu and Beijing regions through which Mr. Leung has great access to ample property investment opportunities in these regions, the Directors consider that it will be in the interest and benefits of the

Group for introducing Mr. Leung as a major strategic shareholder of the Company, and the Directors will invite Mr. Leung to join the Board if he exercises all the Option Shares in full. Further announcements will be made by the Company if concrete business plan is formulated in relation to the property investment opportunities procured by the Subscriber and concluded by the Company. The Subscriber confirmed to the Company that it intended to hold the Subscription Shares and the Option Shares, if exercised, for long term investment. Upon the exercise of the Option, if applicable, there will be no significant change to both the business of the Company and the composition of the Board.

Assuming the Option Shares are fully exercised by the Subscriber within the exercise period, the total funds to be raised by the Company will be \$36.8 million, out of which HK\$7.2 million will be received upon completion of the Subscription Agreement. The Directors intend to use HK\$29 million to reduce bank loans while the balance of HK\$7.8 million will be used as the Group's general working capital. The Directors are of the view that the Subscription Agreement represents a good opportunity to raise additional funds for the Group's working capital purpose and at the same time strengthen its capital base.

The arrangement in respect of the issue of the Subscription Shares and the Option and the terms of the Subscription Agreement were determined after arm's length negotiations between the Company and the Subscriber. After taking into consideration of (i) the subscription price of HK\$0.036 per Subscription Share and the subscription price of HK\$0.04 per Option Share represent a premium of approximately 2.3% and approximately 14.3% respectively over the average closing price of HK\$0.0352 per Existing Share for the last 10 consecutive trading days up to and including the Last Trading Day; (ii) the subscription price of HK\$0.036 per Subscription Share and the subscription price of HK\$0.04 per Option Share represent a premium of 44% and 60% respectively over the subscription price of HK\$0.025 (as adjusted before the Capital Reorganisation) for each rights share pursuant to the terms and conditions of the Rights Issue as announced on 19 July, 2005; (iii) the relatively low liquidity of the shares turnover of the Company for the last 20 consecutive days up to and including the last Trading Day; (iv) the grant of the Option is made conditional upon the completion of the Subscription Agreement and the payment of HK\$7,200,000 in cash for subscription of the 200,000,000 Subscription Shares; (v) the Subscriber undertakes not to dispose of any of its Subscription Shares and Option Shares, if any, prior to 1 January 2006; (vi) the introduction of Mr. Leung as a strategic shareholder of the Company and his extensive business network and opportunities in the property sector in the Mainland China that may be referred to the Group; (vii) both the Subscriber and the Guarantor's commitment of holding the Company's shares for long term investment; and (viii) the issue and allotment of the Subscription Shares and the grant of the Option are authorized pursuant to the general mandate granted to the Board by the Shareholders at the annual general meeting of the Company held on 3 June 2005, the Directors consider that the terms of the Subscription Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Fund raising in the past twelve months

Description	Announcement date	Net amount raised	Date of mandates granted	Intended use of proceeds as announced	Actual use of proceeds
Placing of 475,000,000 new Existing Shares	2nd November, 2004	HK\$42.5 million	16th June, 2004	HK\$37.5 million intended be used to further develop the Company's online games business operating in Mainland China and the remaining balance of HK\$5 million to be used as the Group's general working capital	Utilised as intended
Placing of 783,000,000 new Existing Shares	18th May, 2005	HK\$15.2 million	7th February, 2005	General working capital	Utilised as intended

Reference is further made to the Announcement and the announcement of the Company dated 9th August, 2005 regarding the Capital Reorganisation, the Acquisition, the Rights Issue (and the associated Bonus Issue) and the amendment to the Bye-laws.

TERMINATION OF THE ACQUISITION AND THE RIGHTS ISSUE

As set out in the Announcement, pursuant to the Acquisition Agreement, the Warrantors have undertaken to procure that Apollo purchases at not more than fair market value a sea worthy passenger cruise liner having a capacity of not less than 800 passengers and not less than 15,000 dead weight tonnage and being of an age of not more than 30 years of such classification to the satisfaction of the Purchaser and on terms acceptable to the Purchaser. It is the Group's intention to renovate the Vessel after completion of the Acquisition. After renovation of the Vessel, it is proposed that the Vessel will have casino and related facilities. After exercising due care, the Directors estimated that the total renovation cost was approximately HK\$50 million. As advised by the Vendor, since the entering into of the Acquisition Agreement, the Vendor has been trying to identify a suitable Vessel to be acquired by Apollo. However, as informed by the Vendor, taking into account the budgeted renovation cost HK\$50 million, it may not be possible to identify a suitable Vessel to meet the Group's business plan within a prescribed time frame. Save as disclosed in this announcement, there is no other reason for termination of the Acquisition Agreement. Accordingly, the Directors consider that it is in the interests of the Company not to proceed with the Acquisition. Since the substantial portion of the net proceeds to be raised from the Rights Issue is for the purpose of financing the Acquisition, in view of the termination of the Acquisition, the Rights Issue will not proceed accordingly.

Clause 4.1 of the Acquisition Agreement provides that completion of the Acquisition Agreement is conditional upon completion of the Rights Issue. Given such condition precedent has not been fulfilled, the Acquisition Agreement has terminated. An aggregate of HK\$46.0 million has been paid by the Group as deposits to the Vendor. In accordance with the Acquisition Agreement, in the event that completion of the Acquisition Agreement does not take place for any reason (save for default solely on the part of the Purchaser), the Vendor shall on demand repay to the Purchaser the full amount of the aggregate deposits paid (with interest). The Purchaser has demanded full repayment of the deposits from the Vendor within 14 days of the demand.

On 6th September, 2005, the parties to the Underwriting Agreement entered into a termination agreement to terminate the Underwriting Agreement. Accordingly, the Rights Issue (and the associated Bonus Issue) will not proceed. The Company will also not proceed with the amendment of Bye-laws which is for the purpose of the Bonus Issue. There are no claims amongst the parties to the Underwriting Agreement for costs, losses, damages, compensation or otherwise, as a result of the termination thereof.

The circular containing details of the Acquisition, the Rights Issue (and associated Bonus Issue) and the amendment to Bye-laws will not be sent to the Shareholders. The prospectus and the relevant application forms containing details of the Rights Issue will not be sent to the Shareholders.

REVISED TERMS OF INCREASE IN AUTHORISED SHARE CAPITAL

As set out in the Announcement, the Directors proposed that in order to facilitate the issue of the Rights Shares (and the associated Bonus Issue), the authorised share capital of the Company shall increase from HK\$120,000,000 divided into 600,000,000 Consolidated Shares to HK\$500,000,000 divided into 2,500,000,000 Consolidated Shares by the creation of an additional 1,900,000,000 Consolidated Shares. Due to the termination of the Rights Issue (and the associated Bonus Issue), it is not necessary to increase the authorised share capital of the Company to such extent. Accordingly, the Directors propose to revise the amount of increase in the authorised share capital of the Company. The authorised share capital is currently proposed to increase from HK\$120,000,000 divided into 600,000,000 Consolidated Shares to HK\$200,000,000 divided into 1,000,000,000 Consolidated Shares by the creation of an additional 400,000,000 Consolidated Shares.

EXPECTED TIMETABLE FOR THE CAPITAL REORGANISATION

As set out in the Announcement, the Capital Reorganisation involves the increase in authorised share capital and the Share Consolidation on the basis of every 10 Existing Shares of HK\$0.02 each into one Consolidated Share of HK\$0.20.

Set out below is an indicative timetable for the implementation of the Capital Reorganisation. **The Company will notify the Shareholders of any changes to the following expected timetable as and when it is appropriate.**

2005

Despatch of Circular	on or about 23rd September
SGM	10:00 a.m. on Wednesday, 12th October
Effective date of the Capital Reorganisation	4:00 p.m. on Wednesday, 12th October
Existing counter for trading in Existing Shares in board lots of 10,000 Shares closes	9:30 a.m. on Thursday, 13th October
Temporary counter for trading in Consolidated Shares in board lots of 1,000 Consolidated Shares (in the form of existing share certificates) opens	9:30 a.m. on Thursday, 13th October
Free exchange of existing PURPLE share certificates for new GREEN share certificates commences	Thursday, 13th October
Existing counter for trading in Consolidated Shares in board lots of 10,000 Consolidated Shares (in the form of new GREEN share certificates) opens	9:30 a.m. on Thursday, 27th October
Parallel trading in Consolidated Shares (in the form of new GREEN and existing PURPLE share certificates) commences	9:30 a.m. on Thursday, 27th October
Designated broker starts to stand in the market to provide matching services for odd lots of shares	Thursday, 27th October
Parallel trading in Consolidated Shares (in the form of new GREEN and existing PURPLE share certificates) ends	4:00 p.m. on Thursday, 17th November
Temporary counter for trading in Consolidated Shares in board lots of 1,000 Consolidated Shares (in the form of existing PURPLE share certificates) closes	4:00 p.m. on Thursday, 17th November
Designated broker standing in the market to provide matching services for odd lots of shares ends	Thursday, 17th November
Free exchange of existing PURPLE share certificates for new GREEN share certificates ends	Tuesday, 22nd November

Trading arrangements

Upon the Capital Reorganisation becoming effective, all existing purple share certificates for any number of Existing Shares in issue immediately before the effective date will be deemed to be certificates, and will be effective as documents of title, for one-tenth of that number of Existing Shares. New share certificates (which will be green in colour) will be issued for Consolidated Shares. Parallel trading arrangements will be established on the Stock Exchange for dealings in Consolidated Shares in the form of the existing purple share certificates and in the form of the new green share certificates. The trading arrangements proposed for dealings in Consolidated Shares are set out as follows:

- (i) with effect from 9:30 a.m. on Thursday, 13th October, 2005, the original counter for trading in Existing Shares in existing board lot of 10,000 Existing Shares will close temporarily. A temporary counter for trading in Consolidated Shares represented by existing purple share certificates in board lot of 1,000 Consolidated Shares will be established. Every existing certificate for whatever number of Existing Shares will be deemed to be a certificate, and will

be effective as a document of title valid for settlement and delivery for trading transacted from 9:30 a.m. on Thursday, 13th October, 2005 to 4:00 p.m. on Thursday, 17th November, 2005 for Consolidated Shares, in the amount equivalent to one-tenth of that number of Existing Shares. The existing purple share certificates for Existing Shares can only be traded at this temporary counter;

- (ii) with effect from 9:30 a.m. on Thursday, 27th October, 2005, the original counter will re-open for trading in Consolidated Shares in new board lot of 10,000 Consolidated Shares. Only new green share certificates for Consolidated Shares can be traded at this counter;
- (iii) with effect from 9:30 a.m. on Thursday, 27th October, 2005 to 4:00 p.m. on Thursday, 17th November, 2005 (both dates inclusive), there will be parallel trading at the counters mentioned in (i) and (ii) above; and
- (iv) the temporary counter for trading in Consolidated Shares represented by the existing purple share certificates in the board lot of 1,000 Consolidated Shares will be removed after the close of trading on Thursday, 17th November, 2005. Thereafter, trading will only be in Consolidated Shares represented by new green share certificates in new board lot of 10,000 Consolidated Shares and the existing purple share certificates for Existing Shares will cease to be marketable and will not be acceptable for dealing and settlement purposes.

Subject to the Capital Reorganisation becoming effective on Wednesday, 12th October, 2005, Shareholders may, during Thursday, 13th October, 2005, to Tuesday, 22nd November, 2005 (both dates inclusive), submit existing purple share certificates for Existing Shares to Tengis Limited, being the branch share registrar and transfer office of the Company in Hong Kong in exchange, at the expense of the Company, for new green share certificates for Consolidated Shares (on the basis of 10 Existing Shares for one Consolidated Share). Thereafter, certificates for Existing Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher amount as may be allowed by the Stock Exchange from time to time) for each share certificate for Existing Shares cancelled or each new share certificate issued for Consolidated Shares, whichever number of certificates cancelled/issued is higher. Nevertheless, certificates for Existing Shares will continue to be good evidence of legal title and may be exchanged for certificates for Consolidated Shares at any time.

It is expected that new certificates for Consolidated Share will be available for collection within 10 business days after the submission of the existing share certificates for Existing Shares to the Registrar for exchange. Unless otherwise instructed, new share certificates will be issued in board lot of 10,000 Consolidated Shares each.

Odd lots of Consolidated Shares may arise as a result of the Share Consolidation. In order to alleviate the difficulties in trading odd lots of Consolidated Shares, the Company will appoint a securities company to act as the agent to match, on a “best effort” basis, the sale and purchase of odd lots of Consolidated Shares arising from the Share Consolidation from Thursday, 27th October, 2005 up to and including Thursday, 17th November, 2005. Such arrangement is to facilitate Shareholders who wish to dispose of or top up their odd lots of Consolidated Shares. Details of the designated securities company will be disclosed in the Circular. Shareholders should note that the successful matching of the sale and purchase of odd lots of Consolidated Shares is not guaranteed. Shareholders are recommended to consult their licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser if they are in doubt about the facility described above.

ADJUSTMENT OF CONVERSION PRICE OF THE CONVERTIBLE BOND

Subject to completion of the Capital Reorganisation, the conversion price of the Convertible Bond may be required to be adjusted in accordance with its terms as a result of the Capital Reorganisation. Further announcement will be made by the Company relating to any required adjustment in due course.

LITIGATION

A Writ of Summons was issued on 31 August 2005 by Ms. Suen Kwai Kam (“Ms. Suen”) against the Company, China Land Realty Investment (BVI) Limited (“China Land”), a wholly-owned subsidiary of the Company, and 4 other parties (including Mr. Ho Tsam Hung, an executive Director, two former staff and an existing staff) in which Ms. Suen claimed certain damages in relation to Ms. Suen’s sale of Ever Brain Inc. (“EBI”) to China Land (the “Transaction”) in December 2000. Ms. Suen was a former director of EBI who resigned in August 2003.

In the Indorsement of Claims, Ms. Suen claimed that a receipt signed by her in favour of China Land of the outstanding consideration of HK\$33.5 million in respect of the Transaction be set aside and demanded for payment of outstanding consideration in the sum of HK\$33.5 million. Ms. Suen also claimed damages in respect of the breach of an oral agreement made by China Land in favour of Ms. Suen to share 30% of the net profit of EBI for the financial years of 2001, 2002, 2003 and 2004 (the aggregate amount of which is less than HK\$1 million), and the aforesaid undertakings of China Land was jointly and severally guaranteed by the Company pursuant to an oral guarantee agreement.

The Company, China Land and all four defendants named in the Writ of Summons (including Mr. Ho Tsam Hung, an executive Director) deny Ms. Suen’s claims and will file an acknowledgement of service to defend the proceedings. Given that the aggregate amount under all the claims of Ms. Suen represent only approximately 6.5% of the audited net assets value of the Company for the year ended 31 December 2004 and the litigation will continue for a period of time before a judgment is made, the Company is of the view that the proceedings will not have any material adverse impact on the financial position, cashflow and business operation of the Group. Further announcement in relation to the proceedings will be made as and when necessary.

GENERAL

The SGM will be held on 12th October, 2005 to consider, if thought fit, to approve the resolution(s) to be proposed in respect of the Capital Reorganisation. No Shareholders are required to abstain from voting at the SGM.

A circular containing the details of the Capital Reorganisation and other necessary information will be despatched to the Shareholders as soon as practicable.

SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, trading in the Existing Shares was suspended with effect from 9:30 a.m. on Wednesday, 31st August, 2005 pending the release of this announcement. Application has been made by the Company to the Stock Exchange for resumption of trading in the Existing Shares with effect from 9:30 a.m. on Tuesday, 13th September, 2005.

DEFINITIONS

In this announcement, unless the context requires otherwise, the following terms have the meanings as set out below:

“Acquisition”	the proposed acquisition by the Group of the 70% of the issued share capital of Apollo pursuant to the Acquisition Agreement
“Acquisition Agreement”	the conditional sale and purchase agreement dated 30th June, 2005 entered into between the Group, Mr. Frank Wong and Mr. Cheng Lok Wah Adrian in relation to the Acquisition
“Announcement”	the announcement of the Company dated 19th July 2005 in relation to the Capital Reorganisation, the Acquisition, the Rights Issue (and the associated Bonus Issue) and the amendment to the Bye-laws
“Apollo”	Apollo Luxury Cruises Co., Ltd., a company incorporated in the British Virgin Islands with limited liability on 29th December, 2000

“Board”	the board of Directors
“Bonus Issue”	the issue of the bonus shares on the basis of two bonus shares for every fully-paid rights share issued under the Rights Issue
“Bye-laws”	The bye-laws of the Company
“Capital Reorganisation”	(i) the Share Consolidation; and (ii) the increase in authorised share capital of the Company from HK\$120,000,000 to HK\$500,000,000 (the extent of which is revised from HK\$120,000,000 to HK\$200,000,000 by the creation of an additional 400,000,000 Consolidated Shares as detailed in this announcement)
“Company”	Zhong Hua International Holdings Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	shall have the meaning ascribed to it under the Listing Rules
“Consolidated Share(s)”	new ordinary share(s) of HK\$0.20 each in the capital of the Company after the Share Consolidation has become effective
“Convertible Bond”	the bond with a principal amount of HK\$30,000,000 convertible into an aggregate of 200,000,000 Existing Shares at HK\$0.15 each (subject to adjustment) pursuant to the subscription agreement entered into between the Company and CNC Broadband Entertainment Corporation Limited on 16th July, 2004, details of which were set out in the announcement of the Company dated 19th July, 2004
“Director(s)”	the director(s) of the Company
“Existing Share(s)”	existing share(s) of HK\$0.02 each in the capital of the Company
“Group”	the Company and its subsidiaries
“Hero Grand” or “Subscriber”	Hero Grand Investments Limited, a company incorporated in the British Virgin Islands with limited liability and the subscriber of the Option and the Subscription Shares
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Last Trading Day”	30th August, 2005, being the last day on which the Existing Shares were traded on the Stock Exchange prior to the release of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Leung” or the “Guarantor”	Mr. Leung Po Wa, being the sole beneficial owner of the entire issued share capital of the Subscriber
“Option”	the option to be granted by the Company to the Subscriber pursuant to the Subscription Agreement
“Option Shares”	a maximum of 740,000,000 new Existing Shares which fall to be issued upon exercise of the Option by the Subscriber
“PRC”	the People’s Republic of China
“Purchaser”	Zhong Hua Entertainment Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and which is a wholly-owned subsidiary of the Company

“Rights Issue”	the proposed issue by way of rights issue of one rights share for every two Consolidated Shares as set out in the Announcement
“SGM”	the special general meeting of the Company to be held to consider, and if appropriate, to approve the Capital Reorganisation
“Share Consolidation”	the proposed consolidation of every 10 Existing Shares of HK\$0.02 each into one Consolidated Share of HK\$0.20
“Shareholder(s)”	holder(s) of the Existing Shares or Consolidated Shares (as the case may be)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	subscription of Subscription Shares by the Subscriber pursuant to the Subscription Agreement
“Subscription Agreement”	the agreement dated 31st August, 2005 entered into between the Company, Hero Grand and Mr. Leung Po Wa in relation to the grant of Option and the Subscription
“Subscription Share(s)”	200,000,000 new Existing Shares to be allotted and issued to the Subscriber by the Company
“Underwriting Agreement”	the underwriting agreement dated 4th July, 2005 entered into between the Company and Orient Securities Limited in relation to the Rights Issue
“Vendor”	Mr. Frank Wong as the vendor under the Acquisition Agreement
“Vessel”	the passenger cruise liner to be acquired by Apollo before completion of the Acquisition Agreement
“Warrantors”	the Vendor and Mr. Cheng, being the warrantors of the Acquisition Agreement
“HK\$”	Hong Kong dollars
“US\$”	United States dollars

By Order of the Board
Zhong Hua International Holdings Limited
Ho Kam Hung
Executive Director

Hong Kong, 12th September, 2005

As at the date of this announcement, the Board comprises: (i) Messrs. Ho Tsam Hung, Ho Kam Hung and Yang Jia Jian as executive Directors; (ii) Ms. Yeung Mo Sheung, Ann and Ms. Lam Kuo as non-executive Directors and (iii) Messrs. Ng Kin Sun, Mr. Young Kwok Sui and Mr. Wong Ting Kon as independent non-executive Directors.

* *For identification purpose only*

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