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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)**

### **MAJOR TRANSACTION AND RESUMPTION OF TRADING**

On 6 November 2006, the Vendor, a wholly-owned subsidiary of the Company, entered into the Agreement with the Purchaser and the Guarantor, pursuant to which the Vendor conditionally agreed to sell, and the Purchaser conditionally agreed to purchase, (i) the entire issued shares of Telesuccess; and (ii) the benefit of and the interest in the Loan, and the Guarantor agreed to guarantee the obligations of the Purchaser under the Agreement.

The Telesuccess Group comprises Telesuccess itself as an investment holding company and Sky City as the operating company. Sky City is principally engaged in the business of providing integrated telecommunication network services to online game developers and broadband media providers in Guangzhou, the PRC.

The Disposal constitutes a major transaction for the Company under the Listing Rules and is therefore subject to the Shareholders' approval. A circular containing, among other things, further details of the Disposal together with a notice of the special general meeting to be convened to approve the Disposal will be despatched to the Shareholders as soon as practicable.

Trading in the Shares on the Stock Exchange was suspended at the request of the Company with effect from 9:30 a.m. on 7 November 2006 pending the release of this announcement. An application has been made by the Company for the resumption of trading in the Shares on the Stock Exchange from 9:30 a.m. on 24 November 2006.

On 6 November 2006, the Vendor, a wholly-owned subsidiary of the Company, entered into the Agreement with the Purchaser and the Guarantor, pursuant to which the Vendor conditionally agreed to sell, and the Purchaser conditionally agreed to purchase, (i) the Sale Shares; and (ii) the benefit of and the interest in the Loan at the Consideration of HK\$50 million, details of which are set out below.

#### **THE AGREEMENT DATED 6 NOVEMBER 2006**

##### **Parties:**

Vendor : China Land Realty Investment (B.V.I) Limited, a wholly-owned subsidiary of the Company and an investment holding company

Purchaser : Gain Idea, the principal activity of which is investment holding

Guarantor : Mr. Luo, guaranteeing the obligations of the Purchaser under the Agreement

As far as the Directors are aware, the Purchaser is an investment holding company acquired by Mr. Luo for the sole purpose of this acquisition. Mr. Luo has extensive experience in information technology related operations and investments for over 20 years. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, both the Purchaser and Mr. Luo are third parties independent of the Company and its connected persons (as defined in the Listing Rules).

**Assets to be disposed of:**

The Sale Shares represented the entire issued share capital of Telesuccess as at the date of the Agreement and the Loan represented the net inter-company balance payable to the Group by the Telesuccess Group in an amount of approximately HK\$68.6 million. This amount is primarily attributable to the investment cost of Telesuccess for acquiring the minority interests of Sky City in February 2005.

The Telesuccess Group comprises Telesuccess itself as an investment holding company and Sky City as the operating company. Sky City is principally engaged in the business of providing integrated telecommunication network services to online game developers and broadband media providers in Guangzhou, the PRC.

Since Telesuccess is not required to prepare any statutory accounts, no audited financial statements have been prepared. Based on the unaudited consolidated management accounts of Telesuccess prepared in accordance with accounting principles generally accepted in Hong Kong, the consolidated losses before and after taxation, extraordinary items and minority interests of the Telesuccess Group for the year ended 31 December 2005 were both approximately HK\$25.1 million, and the consolidated profits before and after taxation, extraordinary items and minority interests of the Telesuccess Group for the year ended 31 December 2004 were approximately HK\$87.1 million and HK\$88.8 million respectively. During the year ended 31 December 2004, the Telesuccess Group recorded consolidated income of approximately HK\$108.0 million which was not trading revenue but was a gain recognised on waiver of a debt due to Mr. Man O Fu who is the former shareholder of Telesuccess. Excluding such one-off income, the respective consolidated profits before and after taxation, extraordinary items and minority interests of the Telesuccess Group for the year ended 31 December 2004 of approximately HK\$87.1 million and HK\$88.8 million would both drop by approximately HK\$108.0 million and the Telesuccess Group would therefore suffer losses. According to the unaudited consolidated management accounts of Telesuccess, the unaudited consolidated losses before and after taxation, extraordinary items and minority interests of the Telesuccess Group for the six months ended 30 June 2006 were both approximately HK\$7.6 million and the unaudited consolidated net assets of the Telesuccess Group were approximately HK\$57.2 million as at 30 June 2006.

**Consideration:**

The Consideration is HK\$50 million, payable by the Purchaser to the Vendor upon Completion.

The terms of the Agreement, including the Consideration, were determined after arm's length negotiations. In determining the Consideration, the Directors made reference to the net asset value of the Telesuccess Group as at 30 June 2006, the prospects of the Telesuccess Group and the immediate cash to be received upon Completion. Further information on the prospects of the Telesuccess Group is set out in the section headed "Reasons for the Disposal" below.

**Condition:**

Completion of the Agreement is conditional upon the approval of the Agreement by the Shareholders in the special general meeting in compliance with the Listing Rules.

If the above condition is not fulfilled before 31 December 2006 (or such later date as may be agreed between the Vendor and the Purchaser in writing), the Agreement shall terminate and no party shall have any claim against any other for costs, damages, compensation or otherwise (save in respect of any antecedent breach of the Agreement).

**Completion:**

Completion is to take place on the third business day after the fulfilment of the above condition. Upon Completion, the Vendor will no longer hold any interests in Telesuccess and Telesuccess will cease to be a subsidiary of the Company. The Group will also cease to engage in the provision of telecommunication and other related services.

**REASONS FOR THE DISPOSAL**

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 PRC.

The Group acquired the entire interest of Telesuccess which in turn held 80.9% interest in Sky City in June 2004 for a consideration of HK\$200 million. In February 2005, Telesuccess acquired the remaining 19.1% interest in Sky City for a consideration of HK\$60 million. Following the acquisition, the performance of the Telesuccess Group fell below the expectation of the management of the Group. For the year ended 31 December 2004, the unaudited consolidated turnover of the Telesuccess Group was approximately 26.2 million, but its unaudited consolidated turnover declined to approximately HK\$6.8 million for the year ended 31 December 2005. As set out in the paragraph headed "Assets to be disposed of" above, excluding the one-off income of approximately HK\$108.0 million, the respective consolidated profits before and after taxation, extraordinary items and minority interests of the Telesuccess Group for the year ended 31 December 2004 of approximately HK\$87.1 million and HK\$88.8 million would both drop by approximately HK\$108.0 million and the Telesuccess Group would therefore suffer losses. The Telesuccess Group also recorded unaudited consolidated losses before and after taxation, extraordinary items and minority interests of both approximately HK\$25.1 million for the year ended 31 December 2005. The poor results were primarily attributable to cut-throat market competition in the online business market in Guangzhou, the PRC. Since late July 2005, the management of the Company and Sky City have had diverse views on developing the new business model and corporate direction of Sky City. The management of Sky City has been pressing the Group to inject fresh working capital to Sky City so that they could attempt to develop a new business model and procure better business opportunities. The Company had little confidence in the benefit of further capital commitment to a new business model. In this connection, an impairment loss of HK\$49 million was recognised in the consolidated accounts of the Company for the year ended 31 December 2005. The operating environment of Sky City remained gloomy in 2006 and the unaudited turnover of Sky City for the six months ended 30 June 2006 further shrank to approximately HK\$0.2 million and its losses after taxation for the same period was approximately HK\$7.6 million. At this stage, the Board is of the view that the business environment of Sky City will remain difficult and competitive and it is difficult to predict any turnaround in the foreseeable future and as a result, the recoverability of the Loan is in doubt. Based on the above and in accordance with the applicable accounting standards, the fair value of the Loan as at the date of the Agreement was nil. The Board therefore considers appropriate to liquidate the investment in the Telesuccess Group for immediate cash and focus its resources on other more promising investment opportunities in future. Taking into account the unaudited consolidated net asset value of the Telesuccess Group as at 30 June 2006, the unamortised

goodwill in an amount of approximately HK\$39.3 million as at 30 June 2006, the release of exchange reserves of approximately HK\$2.4 million and the impairment loss of the Loan, it is expected that a loss in an amount of approximately HK\$112.7 million would be recognised in the consolidated accounts of the Company for the year ending 31 December 2006 in respect of the Disposal. Although the Consideration is less than the aggregate value of the net asset value of the Telesuccess Group as at 30 June 2006 and the amount of the Loan which lead to a substantial amount of loss in respect of Disposal, in light of the above factors, the Directors consider that the terms of the Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The net proceeds from the Disposal after deducting the related expenses are estimated to be approximately HK\$49 million. The Group intends to apply the net proceeds for future investment purposes. Should there be any future acquisition or investment, the Company will comply with the relevant disclosures and/or the Shareholders' approval requirements of the Listing Rules where appropriate.

## **GENERAL**

The Disposal constitutes a major transaction for the Company under the Listing Rules and is therefore subject to the Shareholders' approval. A circular containing, among other things, further details of the Disposal together with a notice of the special general meeting to be convened to approve the Disposal will be despatched to the Shareholders as soon as practicable.

Trading in the Shares on the Stock Exchange was suspended at the request of the Company with effect from 9:30 a.m. on 7 November 2006 pending the release of this announcement. An application has been made by the Company for the resumption of trading in the Shares on the Stock Exchange from 9:30 a.m. on 24 November 2006.

## **DEFINITIONS**

In this announcement, unless the context otherwise requires, the following terms have the following meanings:

“Agreement”	the conditional sale and purchase agreement dated 6 November 2006 entered into among the Vendor, the Purchaser and the Guarantor in relation to the sale and purchase of (i) the Sale Shares; and (ii) the benefit of and the interest in the Loan
“Board”	the board of the Directors
“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\$50 million, payable pursuant to the Agreement
“Director(s)”	director(s) of the Company
“Disposal”	the disposal by the Vendor of (i) the Sale Shares; and (ii) the benefit of and the interest in the Loan pursuant to the Agreement

“Group”	the Company and its subsidiaries
“Guarantor” or “Mr. Luo”	Mr. Luo Xing
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan”	net inter-company balances in an amount of approximately HK\$68.6 million as at the date of the Agreement outstanding and owing from the Telesuccess Group to the Group
“Purchaser” or “Gain Idea”	Gain Idea Investments Limited, a company incorporated in the British Virgin Islands with limited liability and wholly and beneficially owned by the Guarantor
“PRC”	the People’s Republic of China and for the purpose of this announcement shall exclude Hong Kong, the Macao Special Administrative Region and Taiwan
“Sale Shares”	the entire issued share capital of Telesuccess at Completion
“Share(s)”	ordinary share(s) of HK\$0.20 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Sky City”	廣州天城網絡通訊有限公司(Sky City Network Communication Limited), a wholly foreign-owned enterprise incorporated in the PRC and a wholly-owned subsidiary of Telesuccess
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Telesuccess”	Telesuccess International Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company as at the date of the Agreement
“Telesuccess Group”	Telesuccess and Sky City
“Vendor”	China Land Realty Investment (B.V.I) Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

By Order of the Board  
**ZHONG HUA INTERNATIONAL HOLDINGS LIMITED**  
**Ho Kam Hung**  
*Executive Director*

Hong Kong, 23 November 2006

*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. Lam Kuo and Mr. Young Kwok Sui as non-executive Directors; and (iii) Mr. Lawrence K. Tam and Ms. Wong Miu Ting, Ivy as independent non-executive Directors.*

\* *For identification purpose only*