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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)

Executive Directors:

HO Tsam Hung (*Chairman*)

HO Pak Hung (*Deputy Chairman*)

HO Kam Hung (*Managing Director*)

Registered office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Independent Non-executive Directors:

YOUNG Kwok Sui

ZHANG Jie

*Head office and principal
place of business:*

Unit 6307, 63/F.

The Center

99 Queen's Road Central

Hong Kong

To the shareholders of the Company

30 April 2004

Dear Sir or Madam,

**PROPOSED GENERAL MANDATE TO REPURCHASE SHARES
AND AMENDMENTS OF EXISTING BYE-LAWS**

1. INTRODUCTION

At the forthcoming annual general meeting of Zhong Hua International Holdings Limited (the "Company") to be held at The Park Lane Hong Kong, Gladiolus Room, 27th Floor, 310 Gloucester Road, Hong Kong, at 11:30 a.m. on Wednesday, 16 June 2004 (the "Annual

* For identification only

General Meeting”), it will be proposed that an ordinary resolution relating to a general mandate be given to the directors of the Company (the “Directors”) to exercise all the powers of the Company to purchase issued and fully paid shares of HK\$0.02 each in the capital of the Company (the “Shares”) up to a maximum of 10 per cent. of the issued share capital of the Company as at the date of the resolution granting the general mandate.

In view of the recent amendments to the Appendix 3 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) which has come into force as of 31 March 2004, it is proposed to amend the existing Bye-laws of the Company to bring them in line with the Listing Rules.

This circular sets out the information required by the Listing Rules relating to repurchase of securities on the Stock Exchange by companies whose primary listing is on the Stock Exchange and the proposed amendments to the Bye-laws of the Company, and to seek your approval of the resolutions relating to these matters at the Annual General Meeting.

2. GENERAL MANDATE TO REPURCHASE SHARES

This is the explanatory statement required to be sent to shareholders of the Company under Rule 10.06 (1)(b) of the Listing Rules in connection with the proposed ordinary resolution no. 4A set out in the Notice of Annual General Meeting (the “AGM Notice”) dated 30 April 2004 for the approval of the renewal of the general mandate for repurchase of shares (the “Repurchase Mandate”).

(a) Relevant law and provisions of the Listing Rules

The Listing Rules permit companies whose primary listings are on the Stock Exchange to repurchase in cash their shares which are fully paid-up on the Stock Exchange subject to certain restrictions. The following is a summary of the relevant law and the principal provisions of the Listing Rules concerning the repurchase by the Company of its own shares.

(i) Shareholders’ approval

All repurchases of shares by a company with its primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval in relation to specific transactions.

(ii) Source of funds

Repurchases may only be funded out of funds legally available for the purpose in accordance with the Company’s memorandum of association, bye-laws and the applicable laws of Bermuda. Under Bermuda law, any repurchases by the Company may be made out of capital paid up on the Shares to be repurchased, or out of funds of the Company which would otherwise be available for dividend or distribution or out of the proceeds of a fresh issue of Shares made for the purpose and, in the case of premiums payable on repurchase, funds of the Company which would otherwise be available for dividend or distribution or out of the share premium account of the Company.

(iii) Trading restrictions

The total number of shares which a company is authorised to repurchase on the Stock Exchange is shares representing up to a maximum of 10 per cent. of the issued share capital of the Company as at the date of the resolution granting the Repurchase Mandate. A company may not issue or announce an issue of shares of the type that has been repurchased for a period of 30 days immediately following a repurchase (except pursuant to the exercise of share options or similar instruments outstanding prior to the repurchase). In addition, all repurchases of shares on the Stock Exchange in any given calendar month are limited to a maximum of 25 per cent. of the trading volume of such shares in the immediately preceding calendar month. A company is also prohibited from making share repurchase on the Stock Exchange if the repurchase would result in the number of listed shares in the hands of the public falling below 25 per cent. or the relevant prescribed minimum percentage as required by the Stock Exchange.

As at 27 April 2004, the latest practicable date prior to the printing of this circular (the “Latest Practicable Date”), the Directors were collectively taken to be interested in 1,960,000,000 Shares, representing about 65.77 per cent. of the issued share capital of the Company. Any repurchase of Shares pursuant to the Repurchase Mandate will further increase the Directors’ interest in the Company and cause the public shareholding to fall below 25 per cent. of the Company’s issued share capital. However, the Directors have no intention to exercise the Repurchase Mandate to such an extent as will result in the number of Shares in the hands of the public falling below 25 per cent. of the issued share capital of the Company.

A company shall not purchase its own shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. A company shall procure that any broker appointed by it to effect the purchase of its own shares shall disclose to the Stock Exchange such information with respect to purchases made on behalf of the company as the Stock Exchange may request.

(iv) Status of repurchased shares

The listing of all Shares purchased by the Company (whether on the Stock Exchange or otherwise) is automatically cancelled and the certificates of those Shares must be destroyed. Under Bermuda law, a company’s purchased Shares shall be treated as cancelled, and its issued share capital will be diminished by the nominal value of such Shares accordingly, but the aggregate amount of the authorised share capital will not be reduced.

(v) Suspension of repurchases

Any share repurchase programme is required to be suspended after a price sensitive development has occurred or been the subject of a decision until the price sensitive information has been publicly announced. A company is also prohibited from making any repurchase of shares on the Stock Exchange during the period of one month immediately preceding either the preliminary announcement of the company’s annual results or the publication of the company’s interim report, unless the circumstances are exceptional. In addition, the Stock Exchange reserves the right to suspend a share repurchase programme on the Stock Exchange if a company has breached the Listing Rules.

(vi) Reporting requirements

Repurchase of shares on the Stock Exchange must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a company's annual report is required to disclose details regarding the share repurchases made during the year, including the number of shares repurchased each month, the purchase price for the shares or the highest and lowest price paid for all such shares purchases and the aggregate price paid by the company for such repurchases. Furthermore, the directors' report shall contain a reference to the repurchases made during the year and a statement by the directors of the reasons for such repurchases.

(vii) Connected parties

A company is prohibited from knowingly repurchasing shares on the Stock Exchange from a "connected person", that is, a director, chief executive or substantial shareholder of the company, or any of its subsidiaries or their respective associates (as defined in the Listing Rules) and a connected person is prohibited from knowingly selling his shares to the company.

(b) Shares of the Company

It is proposed that up to 10 per cent. of the Shares in issue at the date of the passing of the ordinary resolution no. 4A set out in the AGM Notice may be repurchased. As at the Latest Practicable Date, 2,980,016,725 Shares were in issue. Subject to the passing of the relevant resolution and on the basis that no further Shares are issued or repurchased prior to the Annual General Meeting, the Company would be allowed under the Repurchase Mandate to repurchase up to 298,001,673 Shares during the period up to the next annual general meeting in 2005 or the expiration of the period within which the next annual general meeting of the Company is required by its memorandum of association, bye-laws and/or the relevant laws enforced in Bermuda to be held or the revocation or variation of the Repurchase Mandate by an ordinary resolution of the shareholders in general meeting of the Company, whichever occurs first.

(c) Reasons for repurchases

Repurchases of Shares will only be made when the Directors believe that such a repurchase will benefit the Company and its shareholders. Such repurchases may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share.

Whilst the Directors do not presently intend to repurchase any Shares, they believe that the flexibility afforded by the mandate granted to them, if the resolution authorising the Repurchase Mandate is passed, would be beneficial to the Company.

(d) Funding of repurchases

Repurchases pursuant to the proposed Repurchase Mandate would be financed entirely from the Company's available cash flow or working capital facilities. Any repurchases will be made out of funds of the Company legally permitted to be utilised in this connection in accordance with its memorandum of association, bye-laws and applicable laws of Bermuda.

There might be a material adverse impact on the working capital, or gearing position of the Company (as compared with the position disclosed in its most recent published audited consolidated accounts for the year ended 31 December 2003) in the event that the Repurchase Mandate is exercised in full at any time during the proposed repurchase period. However, the Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements or gearing levels of the Company which, in the opinion of the Directors, are from time to time appropriate for the Company.

(e) Disclosure of interests

None of the Directors, to the best of their knowledge, after having made all reasonable enquires, nor their associates (as defined in the Listing Rules), have any present intention, if the Repurchase Mandate is approved by shareholders of the Company, to sell any Shares to the Company or its subsidiaries.

No connected persons (as defined in the Listing Rules) of the Company have notified the Company that they have a present intention to sell Shares held by them to the Company, or have undertaken not to do so, if the Repurchase Mandate is approved by shareholders of the Company.

(f) Directors' undertaking

The Directors have undertaken to the Stock Exchange that, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of Bermuda.

(g) Share repurchase made by the Company

No repurchase of Shares have been made by the Company (whether on the Stock Exchange or otherwise) in the six months prior to the Latest Practicable Date.

(h) Takeovers Code consequences

If, as a result of a repurchase of Shares pursuant to the Repurchase Mandate, a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code"). As a result, a shareholder or group of shareholders of the Company acting in concert, depending on the level of increase of the shareholders' interest, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. The Directors are not aware of any mandatory offer obligation which may arise under Rules 26 and 32 of the Takeovers Code as a result of any repurchases made under the Repurchase Mandate.

(i) Market Prices

The highest and lowest prices at which the Shares have traded on the Stock Exchange during each of the previous twelve months prior to the Latest Practicable Date were as follows:

	Traded market price	
	Highest	Lowest
2003	<i>HK\$</i>	<i>HK\$</i>
April	0.110	0.085
May	0.100	0.070
June	0.160	0.088
July	0.140	0.079
August	0.115	0.060
September	0.080	0.045
October	0.059	0.051
November	0.055	0.028
December	0.045	0.030
2004		
January	0.046	0.035
February	0.072	0.045
March	0.136	0.070
April (up to the Latest Practicable Date)	0.167	0.120

3. EXTENSION OF SHARE ISSUE MANDATE

Pursuant to resolution no. 4C set out in the AGM Notice, it will also be proposed at the Annual General Meeting that the Directors be authorised to increase the maximum number of new Shares which may be issued under the general mandate for the Company to issue Shares by adding to it the nominal amount of the Shares repurchased pursuant to the Repurchase Mandate.

4. AMENDMENTS OF EXISTING BYE-LAWS

In addition, your attention is drawn to the special resolution to be proposed at the Annual General Meeting to approve certain amendments to the existing Bye-laws of the Company in order to bring the Bye-laws of the Company up to date and in line with the new requirements under the new Listing Rules which has come into force as of 31 March 2004. Such changes to the Listing Rules mainly relate to corporate governance and continuing listing obligation of companies listed on the Stock Exchange. Details of the proposed amendments to the Bye-laws of the Company are set out in the AGM Notice.

The proposed amendments to the Bye-laws mainly involve the following:

- (1) a new Bye-law 76(2) be inserted to the Bye-laws to provide that where any shareholder is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted;
- (2) the original Bye-law 88 be amended to provide that the minimum seven-day period for lodgment by shareholders of the notice to nominate a director shall commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting; and
- (3) the original Bye-law 103 be amended to provide that Directors shall abstain from voting at the board meeting on any matter in which they or any of their associates have a material interest and are not to be counted towards the quorum of the relevant board meeting. The definition of “associates” is proposed to be added after the definition of “Act” in existing Bye-law 1 to reflect the new definition of the Listing Rules.

5. RIGHT TO DEMAND A POLL

Pursuant to Bye-law 66 of the Bye-laws of the Company, a resolution put to the vote of a general meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (a) by the Chairman of the meeting; or
- (b) by at least three Members present in person (or in the case of a Member being a corporation by its duly authorized representative) or by proxy for the time being entitled to vote at the meeting; or
- (c) by a Member or Members present in person (or in the case of a Member being a corporation by its duly authorized representative) or by proxy and representing not less than one-tenth of the total voting rights of all Members having the right to vote at the meeting; or
- (d) by a Member or Members present in person (or in the case of a Member being a corporation by its duly authorized representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

6. ACTION TO BE TAKEN

The AGM Notice is contained in the 2003 Annual Report of the Company which accompanies this circular. A form of proxy for the Annual General Meeting is enclosed for your use. Whether or not you intend to attend the Annual General Meeting, you are requested to complete and return the proxy form in accordance with the instructions printed thereon. Proxy forms should be returned as soon as practicable and in any event so as to be received not later than 48 hours before the time appointed for the holding of the Annual General Meeting. Lodging a proxy form will not preclude you from attending and voting at the meeting should you desire.

7. RECOMMENDATION

The Directors consider that the proposals referred to above are in the best interests of the Company and its shareholders and recommend all shareholders to vote in favour of the resolution relating thereto.

Yours faithfully,
Ho Tsam Hung
Chairman

