



ZHONG HUA INTERNATIONAL HOLDINGS LIMITED

中華國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1064)

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE, 2004

The Board of Directors (the “Directors”) of Zhong Hua International Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June, 2004 (the “Interim Results”), together with the comparative figures for the corresponding period in 2003 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		For the six months ended 30 June,	
		2004	2003
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
TURNOVER	2	7,292	2,847
Cost of sales		(5,603)	(820)
Gross profit		1,689	2,027
Other revenue		313	93
Gain on disposal of interests in subsidiaries		85,763	–
Selling and distribution costs		(12)	(103)
Administrative expenses		(4,386)	(5,729)
Other operating expenses		(7,732)	–
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	4	75,635	(3,712)
Finance costs	5	(1,375)	(1,353)
Amortisation of goodwill on acquisition of jointly-controlled entities		–	(10,675)
PROFIT/(LOSS) BEFORE TAX		74,260	(15,740)
Tax	6	(62)	–
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		74,198	(15,740)
Minority interests		(16)	–
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		74,182	(15,740)
EARNINGS/(LOSS) PER SHARE	8		
– BASIC		HK2.45 cent	HK(0.53) cent
– DILUTED		N/A	N/A

2003

Segment revenue:

Sales to external customers	-	1,611	1,236	-	-	-	-	2,847
Other revenue and gains	-	-	-	-	-	-	-	-
Total	-	1,611	1,236	-	-	-	-	2,847
Segment results	-	1,059	70	-	-	-	(4,881)	(3,752)
Interest income								40
Loss from operating activities								(3,712)
Finance costs								(1,353)
Amortisation of goodwill on acquisition of jointly-controlled entities								(10,675)
Loss before tax								(15,740)
Tax								-
Loss before minority interests								(15,740)
Minority interests								-
Net loss from ordinary activities attributable to shareholders								(15,740)

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

4. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	For the six months ended 30 June,	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold	220	820
Depreciation	2,210	222
Impairment of goodwill arising in the Period	7,000	-
Amortisation of intangible assets	3,891	-
Amortisation of goodwill on acquisition of jointly-controlled entities	-	10,675
Amortisation of goodwill on acquisition of subsidiaries	724	-
Interest income	(313)	(40)
Net rental income	(2,906)	(1,611)

5. FINANCE COSTS

	For the six months ended 30 June,	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest expense on bank loans wholly repayable within five years	<u>1,375</u>	<u>1,353</u>

6. TAX

	For the six months ended 30 June,	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Provision for the period:		
Hong Kong	–	–
Elsewhere	<u>62</u>	<u>–</u>
	<u>62</u>	<u>–</u>

No provision for Hong Kong profits tax has been made as the Group did not generate any taxable profits in Hong Kong during the Period (30 June 2003: Nil).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

7. INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2004 (2003: Nil).

8. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net profit from ordinary activities attributable to shareholders for the Period of HK\$74,182,000 (30 June 2003: net loss of HK\$15,740,000) and the weighted average of 3,028,497,656 (30 June 2003: 2,980,016,725) ordinary shares in issue during the Period.

Diluted earning per share for the Period and diluted loss per share for the six months ended 30 June 2003 have not been disclosed as the potential ordinary shares outstanding during these periods had an anti-dilutive effect on the basic earnings per share for the Period and the basic loss per share for the six months ended 30 June 2003.

MANAGEMENT DISCUSSION & ANALYSIS

Review of Results

The Directors are pleased to report that the Group recorded a turnover of HK\$7,292,000 (30 June 2003: HK\$2,847,000) for the six months ended 30 June 2004, representing an increase of 156% compared with the corresponding period. Net profit from ordinary activities attributable to shareholders was HK\$74,182,000 (30 June 2003: net loss of HK\$15,740,000) for the Period.

BUSINESS REVIEW

The Group's turnover in the Period mainly comprised the rental income generated from the commercial podium in Chongqing, the People's Republic of China (the "PRC"), the leasing of Point-of-sale ("POS") equipment in Guangzhou and the provision of telecommunication and other related services in the PRC. In addition, the Group received settlements of a total of HK\$190,000,000 from the disposal of 51% equity interest in former subsidiaries in 2002, during the Period, and recognized a gain on disposal of HK\$85,763,000 thereon.

Property investment

The rental income generated from leasing of the commercial units in Gang Yu Square in Chongqing, the PRC, increased in the Period compared with the corresponding period. The occupancy rate of the square in the Period was highly satisfactory. It is expected that the business will continue to generate a steady stream of income to the Group.

Provision of online English learning services

The Group was engaged in the provision of online English learning courses in the region of the PRC including Hong Kong and Macau since 2001. Due to the substantial increases in the cost of services, the Group has not renewed the engagement since the expiry of prior engagement in early 2004. In view of the increased popularity of online English learning services, the Group will continue to evaluate the returns on the business.

Leasing of equipment

Since 2003, the Group started to be engaged in leasing of corded and cordless POS equipment in Guangzhou for a term of five years with an option to extend till 17 July 2011. Monthly leasing income will be received on POS equipment each leased out. Other than leasing of POS equipment, the Group has the rights to operate the value-added services generated from the application of POS equipment. The business is now at its start-up of operation and the Group expects that the income from the business will increase in the future.

Provision of telecommunication and other related services

In the Period, the Group has acquired 80.9% equity interest in 廣州天城網絡通訊有限公司 ("Sky City"), which provides integrated telecommunication network services to online game developers and other broadband media providers. Sky City has demonstrated that it has tapped into the rapidly growing market of on-line business in the PRC and the Group is very satisfied with its financial performance so far generated. With the continuing economic growth in the PRC, the growth in the internet population and the increasing demand for online games in the PRC, the Directors are of the view that Sky City would continue to provide very good contribution to the Group and it is expected that more resources would be put into this business in order to further strengthen its market position.

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group generally financed its businesses with internally generated cash flows and banking facilities. Cash and bank balances of the Group as at 30 June 2004 amounted to HK\$101,853,000 (31 December 2003: HK\$41,312,000) and pledged deposits of HK\$772,000 (31 December 2003: HK\$553,000) while interest-bearing bank loans and borrowings for the Group amounted to HK\$92,069,000 (31 December 2003: HK\$41,045,000) of which 68%, 5%, 18% and 9% respectively are repayable within one year or on demand, in the second year, in the third to fifth years, inclusive, and beyond five years, respectively. An amount of HK\$56,310,000 bank loans as at 30 June 2004 were charged at fixed interest rates (31 December 2003: Nil).

The Group's gearing ratio as at 30 June 2004 was 0.25 (31 December 2003: 0.20), calculated based on the Group's total liabilities, excluding deferred income, of HK\$186,610,000 (31 December 2003: HK\$117,084,000) over total assets of HK\$744,050,000 (31 December 2003: HK\$599,059,000).

Currency Structure

The Group had limited exposure to foreign exchange rate fluctuations as most of its transactions, including borrowings, were mainly conducted in Hong Kong dollars or Renminbi and the exchange rates of these currencies were relatively stable throughout the Period.

Pledge of Assets

The Group had utilized bank loan facilities amounting to approximately HK\$92,069,000 (31 December 2003: HK\$41,045,000) as at 30 June 2004. The bank loans were supported by certain of the Group's investment properties, corporate guarantees executed by the Company and certain independent third parties.

Contingent Liabilities

As at 30 June 2004, guarantees given for mortgage loans granted by banks to certain purchasers of the Group's properties amounted to HK\$7,722,000 (31 December 2003: HK\$5,529,000).

Material Acquisitions of Subsidiaries

On 26 March 2004, the Group entered into a conditional agreement with an independent third party for the acquisition of 100% equity interest in Telesuccess International Limited ("Telesuccess") for a consideration of HK\$200,000,000. The sole asset of Telesuccess is its 80.9% equity interest in 廣州天城網絡通訊有限公司 ("Sky City"). Sky City is an integrated service provider to provide integrated service to online game developers and other broadband media providers in 2003.

Details of the acquisition of Telesuccess had been set out in a circular of the Company dated 31 May 2004. The transaction was completed on 11 June 2004.

Employee And Remuneration Policy

The Group employed approximately 54 full time staff in Hong Kong, Chongqing and Guangzhou, as at 30 June 2004. Employees are remunerated according to the nature of their job and market trend, with built-in merit components incorporated in the annual increment to reward and motivate individual performance. In Chongqing and Guangzhou, the Group provides staff welfare and bonuses to its employees in accordance with the prevailing labour law. In Hong Kong, other staff benefits include medical schemes, Mandatory Provident Fund Schemes and employee share option scheme.

Post Balance Sheet Event

Subsequent to the balance sheet date on 16 July 2004, the Company entered into a conditional subscription agreement in relation to the issue of bond in a principal amount of HK\$30,000,000 (the "Bond") to CNC Broadband Entertainment Corporation Limited. The maturity date of the Bond will be on the second anniversary from the date of the issue of the Bond. Assuming full conversion of the Bond at the initial conversion price of HK\$0.15 per share, subject to adjustment from time to time, 200,000,000 new shares will be issued by the Company. The proceeds will be used for the purpose of financing the Group's online games business operating in the PRC.

Details of the transaction were set out in the Company's press announcement dated 19 July 2004. The transaction was completed on 19 August 2004.

PROSPECTS

The Group is optimistic with the continuing economic growth in the PRC which creates numerous investment opportunities. The Group will continue to build on strength and expertise of its principal businesses and look for attractive investment opportunities in the PRC and prospects for growth. The Group will be more flexible in its future business expansion with aims to maximize shareholders' return.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the Period, except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company's Bye-laws.

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purpose of reviewing and supervising the Company's financial reporting process and internal controls. The audit committee currently comprises the two independent non-executive directors of the Company.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

A detailed Interim Results announcement containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 (in force prior to 31 March 2004 and applicable to this announcement under the transitional arrangement) of the Listing Rules will be published on the website of the Stock Exchange in due course.

By order of the Board
Ho Tsam Hung
Chairman

Hong Kong, 22 September 2004

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

* *for identification purpose only*