



ZHONG HUA INTERNATIONAL HOLDINGS LIMITED

中華國際控股有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 1064)

ISSUE OF HK\$30,000,000 2.75% CONVERTIBLE BOND DUE 2006

On 16th July, 2004, the Company entered into a Subscription Agreement with the Subscriber in relation to subscription of the Bond in a principal amount of HK\$30 million. The Completion is subject to, among others, the Stock Exchange approving the Issue (if necessary) and granting the listing of, and permission to deal in, the New Shares upon conversion of the Bond by the Subscriber. Further terms of the Subscription Agreement and the Bond are set out below.

Assuming full conversion of the Bond at the initial conversion price of HK\$0.15 per New Share (subject to adjustment from time to time), being a premium of 11.1% over the closing price of the Shares as quoted on the Stock Exchange on the Last Trading Day, 200,000,000 New Shares will be issued, representing approximately 5.8% of the issued share capital of the Company as at the date of this announcement and approximately 5.5% of the issued share capital of the Company as enlarged by the Conversion. The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the New Shares.

The estimated net proceeds from the Subscription, after netting off all fees and expenses (amounting to approximately HK\$150,000), of approximately HK\$29.85 million, will be used for the purpose of financing the Company's online games businesses (including but not limited to the provisions of online games infrastructure platform and distribution channels) operating in the PRC.

At the request of the Company, trading in the Shares on the Stock Exchange was suspended as from 9:30 a.m. on Monday, 19th July, 2004 pending release of this announcement. Application has been made by the Company for the resumption of trading in the Shares with effect from 9:30 a.m. on Tuesday, 20th July, 2004.

SUBSCRIPTION AGREEMENT DATED 16TH JULY, 2004

Issuer: Zhong Hua International Holdings Limited
Subscriber: CNC Broadband Entertainment Corporation Limited, a company incorporated in Hong Kong

The Company confirms that, to the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, the Subscriber and its ultimate beneficial owner are third parties independent of the Company and connected persons (as defined in the Listing Rules) of the Company.

As far as the Directors are aware, CNC Broadband Entertainment Corporation Limited is principally engaged in the sourcing, development, sales, distribution and services of online games in the PRC market. As present, the Subscriber has no shareholding in the Company.

Pursuant to the Subscription Agreement, the Company shall issue and the Subscriber shall subscribe for or procure its wholly-owned subsidiary to subscribe for at the face value of the Bond of HK\$30,000,000 in cash. The terms of Subscription Agreements were agreed between the parties based on arm's length negotiations.

Set out below are the principal terms of the Subscription Agreement.

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| Conditions | Completion of the Subscription Agreement is subject to: |
| (a) | the completion of a due diligence exercise on the business and records and other relevant matters of the Group and the results of such due diligence exercise, being satisfactory to the Subscriber in its sole and absolute discretion; and |
| (b) | the application having been made by or on behalf of the Company to the Listing Committee of the Stock Exchange and such Listing Committee having granted: |
| (i) | listing of, and permission to deal in, the Conversion Shares to be issued upon Conversion; and |
| (ii) | approval for the issue of the Bond (if required). |

As at the date of this announcement, none of the conditions of the Subscription Agreement has been fulfilled.

In the event that the above conditions are not fulfilled or waived (as the case may be) on or before 15th August, 2004 or such later date as may be agreed between the Company and the Subscriber, the Subscription Agreement shall become null and void and cease to have any effect whatsoever and neither party shall have any claims against the other for costs, damages, compensations or otherwise (save for liabilities for any antecedent breaches of the Subscription Agreement).

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| Deposit | The Subscriber shall pay a deposit of an amount of HK\$15 million to the Company on the business day this announcement is published. In the event that the Subscription Agreement lapses, such deposit will be refunded to the Subscriber without interest. |
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| Completion | Completion of the subscription of the Bond will take place within 15 business days from the date of fulfillment or waiver of the conditions of the Subscription Agreement. |
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PRINCIPAL TERMS OF THE BOND

Set out below is the principal terms of the Bond.

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|--------------------------|---|
| Principal amount | HK\$30,000,000 |
| Maturity Date | On the second anniversary from the date of Issue. Save with the prior written consent of the Bondholder, the Company may not redeem any part of the Bond prior to the Maturity Date. Unless previously converted, the Bond will be redeemed on the Maturity Date at the principal amount of the Bond with all accrued interest. |
| Transferability | Save for transferring to the Bondholder's group companies, the Bond is not transferable at all time. |
| Listing | No application will be made for the listing of, or permission to deal in, the Bond on the Stock Exchange or any other stock exchange, but listing application will be made for the New Shares to be allotted and issued pursuant to the Conversion. |
| Voting | The Bondholder will not be entitled to attend or vote at any meetings of the Company by reason only of it being the Bondholder. |
| Interest | The Bond bears an interest from the date of the Issue until the date of redemption or Conversion at the rate of 2.75% per annum on the principal amount of the Bond outstanding. The interest will be payable by the Company annually in arrears on each of the anniversary of the date of the Issue and, as appropriate, on the date of Conversion, the date of redemption or the Maturity Date. |
| Conversion period | No Conversion will be allowed during the first three months after the date of the Issue. After the expiry of the first three months from the date of Issue, the Subscriber has the right to convert the whole or part of the principal amount of the Bond in multiples of HK\$5,000,000 into New Shares at any time and from time to time up to and including the date 14 days prior to and excluding the Maturity Date. |
| Conversion price | The Bond can be converted into New Shares at the initial conversion price of HK\$0.15 per New Share (subject to adjustments in accordance with the terms of the Bond) during the conversion period as stated above. Conversion price of HK\$0.15 per New Share represents: <ul style="list-style-type: none"> • a premium of 11.1% over the closing price of the Shares of HK\$0.135 as quoted on the Stock Exchange on the Last Trading Day; • a premium of 20.0% over the average closing price of HK\$0.125 per Share for the last 10 consecutive trading days up to and including the Last Trading Day; • a premium of 19.0% over the average closing price of HK\$0.126 per Share for the last 30 consecutive trading days up to and including the Last Trading Day; and • a premium of 40.2% over the audited consolidated net tangible asset value of the Company of HK\$0.107 per Share as at 31st December, 2003. <p>The conversion price is subject to adjustment from time to time in accordance with the provisions set out in the Bond instrument, including, among other things, Shares become of a different nominal amount by reason of any consolidation or subdivision; issue of new Shares by capitalization of profit or reserves; capital distribution; rights issue; grant of option or warrants to subscribe for new Shares and other events that may have a dilution effect on the Bondholder's interest under the Bond.</p> |
| New Shares | New Shares issued upon Conversion shall rank pari passu in all respects with all the Shares then in issue and be entitled to all dividends and other distributions the record date of which falls on or after the date of the Conversion. Based on the initial conversion price of HK\$0.15 per New Share and assumed full Conversion, 200,000,000 New Shares will be issued, representing approximately 5.8% of the existing issued share capital of the Company and approximately 5.5% of the issued share capital of the Company as enlarged by the Conversion. The New Shares will be issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 16th June, 2004 |

EFFECT ON THE SHAREHOLDING STRUCTURE

Assuming full Conversion at the initial conversion price of HK\$0.15 per Share, the change in the shareholding structure upon full conversion of the Bond will be as follows:

| Shareholders | Before Conversion | | Immediately after Conversion | |
|---|----------------------|--|------------------------------|--|
| | Number of Shares | % of issued share capital of the Company | Number of Shares | % of the issued share capital of the Company as enlarged by the Conversion |
| High Rank Enterprises Limited (Note 1) | 1,140,000,000 | 33.10% | 1,140,000,000 | 31.28% |
| Morgan Estate Assets Limited (Note 2) | 270,000,000 | 7.84% | 270,000,000 | 7.41% |
| On Tai Profits Limited (Note 3) | 270,000,000 | 7.84% | 270,000,000 | 7.41% |
| Morcambe Corporation (Note 4) | 270,000,000 | 7.84% | 270,000,000 | 7.41% |
| Successful Future Services Limited (Note 5) | 10,000,000 | 0.29% | 10,000,000 | 0.27% |
| Mr. Man O Fu | 464,396,284 | 13.48% | 464,396,284 | 12.74% |
| Subscriber | - | - | 200,000,000 | 5.49% |
| Other public shareholders | 1,020,016,725 | 29.61% | 1,020,016,725 | 27.99% |
| Total | 3,444,413,009 | 100.00% | 3,644,413,009 | 100.00% |

Notes:

- Each of Mr. Ho Tsam Hung, Mr. Ho Pak Hung and Mr. Ho Kam Hung, being the executive Directors, is interested in approximately 31.58% of the issued share capital of High Rank Enterprises Limited. Mr. Ho Tsam Hung, Mr. Ho Pak Hung and Mr. Ho Kam Hung are brotherhood.
- Morgan Estate Assets Limited is wholly owned by Mr. Ho Tsam Hung.
- On Tai Profits Limited is wholly owned by Mr. Ho Pak Hung.
- Morcambe Corporation is wholly owned by Mr. Ho Kam Hung.
- Each of Mr. Ho Tsam Hung, Mr. Ho Pak Hung and Mr. Ho Kam Hung, being the executive Directors, is interested in 25% of the issued share capital of Successful Future Services Limited.

REASONS FOR THE ISSUE AND THE USE OF PROCEEDS

The Group is principally engaged in property investment, leasing of equipment in the PRC and provision of integrated service to online game developers and other broadband media provider in the PRC.

The Group has recently acquired a 80.9% equity interest in Guangzhou Sky City Network Communication Ltd. ("JV"), which is principally engaged in the provision of telecommunication and other related services and software licensing services. As set out in the circular of the Company dated 31st May, 2004, JV is an integrated service provider to provide integrated service to online game developers and other broadband media providers. Through the delivery of game data and content to Internet Cafam, JV could establish a physical distribution channel for game contents owned by the game developers. JV is also considering to operate Internet Cafam offering a variety of refreshments, snacks, personal computers with Internet access and a selection of online games in PRC in 2004.

The Issue provides the Company with a good opportunity to raise funds to finance the new project as mentioned above. The proceeds from the Subscription, after netting off all fees and expenses (amounting to approximately HK\$150,000), of approximately HK\$29.85 million will be used for the purpose of financing the Company's online games businesses (including but not limited to the provisions of online games infrastructure platform and distribution channels) operating in the PRC.

The Company has not conducted any fund raising exercise in the past twelve months.

GENERAL

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 and Mr. Young Kwok Sui who are independent non-executive Directors.

SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange was suspended as from 9:30 a.m. on Monday, 19th July, 2004 pending release of this announcement. Application has been made by the Company for the resumption of trading in the Shares with effect from 9:30 a.m. on Tuesday, 20th July, 2004.

TERMS USED IN THE ANNOUNCEMENT

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

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| "Bond" | the bond to be issued to the Subscriber which is convertible into New Shares in accordance with the terms of the Subscription Agreement |
| "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 |
| "Conversion" | conversion of the Bond by the Bondholder in accordance with the terms of the Bond |
| "Director(s)" | the director(s) of the Company |
| "Group" | the Company and its subsidiaries |
| "Hong Kong" | Hong Kong Special Administrative Region of the People's Republic of China |
| "Issue" | issue of the Bond |
| "Last Trading Day" | 16th July, 2004, being the last trading day of the Shares prior to the suspension of trading in the Shares on 19th July, 2004 pending release of this announcement |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "Maturity Date" | the second anniversary from the date of Issue |
| "New Shares" | new Shares to be allotted and issued by the Company upon Conversion |
| "Share(s)" | ordinary share(s) of HK\$0.02 each in the capital of the Company |
| "Shareholder(s)" | holder(s) of the Share(s) |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Subscriber" or "Bondholder" | CNC Broadband Entertainment Corporation Limited, a company incorporated in Hong Kong with limited liability which entered into the Subscription Agreement with the Company |
| "Subscription Agreement" | the subscription agreement dated 16th July, 2004 entered into between the Company and the Subscriber in relation to the subscription of the Bond |
| "HK\$" | Hong Kong dollar(s) |
| "%" | per cent. |

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

Hong Kong, 19th July, 2004

* For identification purpose only

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