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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) PROPOSED CAPITAL REORGANISATION;
(2) MAJOR TRANSACTION;
(3) PROPOSED RIGHTS ISSUE OF NEW SHARES ON THE BASIS OF
ONE RIGHTS SHARE FOR EVERY TWO CONSOLIDATED SHARES HELD
ISSUED WITH TWO BONUS SHARES FOR EVERY FULLY-PAID RIGHTS
SHARE; AND
(4) AMENDMENT TO BYE-LAWS**

Capital Reorganisation:

The Board proposes the Share Consolidation involving a consolidation of every 10 shares of HK\$0.02 each into one share of HK\$0.20.

In order to facilitate the issue of the Rights Shares and the Bonus Shares under the Rights Issue as mentioned under the section headed "Rights Issue" below, the Board proposes to increase the authorised share capital of the Company 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.

The Acquisition:

The Purchaser, a wholly-owned subsidiary of the Company, has conditionally agreed to acquire from the Vendor the Sale Shares, representing 70% of the issued share capital of Apollo, at a consideration of HK\$150,000,000. The remaining 30% interests in Apollo will be held as to 20% by the Vendor and as to 10% by Mr. Cheng upon Completion. It is intended that the Consideration will be funded (i) as to HK\$94.7 million by the internal resources of the Group; and (ii) as to HK\$55.3 million by the net proceeds to be raised from the Rights Issue, details of which is set out in the section headed "Rights Issue" below.

Based on information provided by the Warrantors, the sole assets of Apollo as at the date of the Acquisition Agreement are the Operating Rights, which represent the exclusive rights to operate passenger liner services between Guangzhou and Hong Kong as approved by the Ministry of Communications of the PRC (中華人民共和國交通部) and Department of Communications of Guangdong Province (廣東省交通廳). The principal activities of Apollo are the development and operation of cruise line and passenger cruise liner services.

The Warrantors have agreed under the Acquisition Agreement 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.

The Acquisition Agreement constitutes a major transaction for the Company under the Listing Rules. Accordingly, the Acquisition Agreement is subject to the approval of Shareholders in the general meeting of the Company. However, each of High Rank Enterprises Limited, Morgan Estate Assets Limited, On Tai Profits Limited, Morcambe Corporation, Successful Future Services Limited (which are in aggregate interested in approximately 36.2% of the existing issued share capital of the Company) and their respective associates will abstain from voting on the relevant resolution(s) in relation to the Acquisition Agreement. The Independent Board Committee will be established to advise the Independent Shareholders regarding the Acquisition. An independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

Rights Issue and Bonus Issue:

The Company proposes to raise approximately HK\$58.8 million (assuming no conversion of the Convertible Bond) before expenses by way of the Rights Issue by issuing not less than 235,120,650 Rights Shares and not more than 245,120,650 Rights Shares, at a price of HK\$0.25 each payable in full on acceptance. The Rights Shares will be provisionally allotted to the Qualifying Shareholders on the basis of one nil-paid Rights Share for every two Consolidated Shares held by the Qualifying Shareholders whose names appear on the register of members of the Company on the Record Date. The first registered holders of fully-paid Rights Shares will be issued with two Bonus Shares for each fully-paid Rights Share.

Net proceeds of the Rights Issue are expected to be in the amount of approximately HK\$55.3 million (assuming no conversion of the Convertible Bond) which are intended to be used to finance the Acquisition.

The Independent Board Committee will be established to advise the Independent Shareholders regarding the Rights Issue. An independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

The Rights Issue is conditional and is fully underwritten. In particular, it is subject to shareholders' approval of the Capital Reorganisation, Rights Issue, Bonus Issue and amendment to Bye-laws being obtained and the Underwriter not terminating the Underwriting Agreement. If the conditions of the Rights Issue cannot be fulfilled or waived (as the case may be), the Rights Issue will not proceed.

Any Shareholders or other persons contemplating selling or purchasing Existing Shares and/or Consolidated Shares and/or nil-paid Rights Shares up to the date when the conditions of the Rights Issue are fulfilled will bear the risk that the Rights Issue could not become unconditional and may not proceed.

The expected timetable for the implementation of the Capital Reorganisation, the Rights Issue and the associated trading arrangements will be announced by the Company in due course.

Amendment to Bye-laws:

As the Bonus Shares will only be issued to first registered holders of the fully-paid Rights Shares, it is necessary for the Company to amend article 148 of the Bye-laws to allow a distribution to members of the Company on a non pro-rata basis. Accordingly, a resolution will be proposed at the SGM to approve the relevant amendment to the Bye-laws.

General:

A circular containing (i) details of the Capital Reorganisation, the Acquisition, the Rights Issue (and associated Bonus Issue) and the amendment to Bye-laws; (ii) financial information of the Group and Apollo; (iii) a valuation report of the Vessel; (iv) a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders on the Acquisition and the Rights Issue (and associated Bonus Issue); (v) a letter of recommendation from the Independent Board Committee to the Independent Shareholders; and (vi) the notice of the SGM will be sent to the Shareholders as soon as possible.

If the Capital Reorganisation, the Rights Issue (and associated Bonus Issue) and amendment to Bye-laws are approved at the SGM, the Company will then send a prospectus containing details of the Rights Issue to the Qualifying Shareholders and, for information only, to the Excluded Shareholders. PALs and EAFs will also be sent to the Qualifying Shareholders.

At the request of the Company, trading in the Existing Shares was suspended with effect from 9:30 a.m. on Thursday, 30th June, 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 Wednesday, 20th July, 2005.

Reference is made to the announcements of the Company (i) dated 18th May, 2005 in relation to, among others, the placing of new Existing Shares; and (ii) dated 27th May, 2005 in relation to, among others, the possible acquisition of a controlling stake of a cruise liner and operating rights of cruise line.

CAPITAL REORGANISATION

(I) SHARE CONSOLIDATION

As set out in the Placing Announcement, as the market price of Existing Shares approaches the extremity of HK\$0.01 per Existing Share, in compliance with Rule 13.64 of the Listing Rules, the Company will convene a special general meeting of Shareholders within 3 months from 18th May, 2005 for the purpose of considering and approving a consolidation of the Existing Shares.

The Board proposes the Share Consolidation involving a consolidation of every 10 shares of HK\$0.02 each into one share of HK\$0.20. No certificates for fractions of Consolidated Shares will be issued to any Shareholder. However, fractions of Consolidated Shares will be aggregated and, if possible, sold for the benefit of the Company.

Effects of the Share Consolidation

As at the date of this announcement, the authorised share capital of the Company amounted to HK\$120,000,000 comprising 6,000,000,000 Existing Shares, of which 4,702,413,009 Existing Shares have been allotted and issued as fully-paid or credited as fully-paid. Upon the Share Consolidation taking effect and on the basis that the Company does not allot and issue any further Existing Shares prior to, the authorised share capital of the Company will remain at HK\$120,000,000 but will comprise 600,000,000 Consolidated Shares of which 470,241,300 Consolidated Shares will be in issue. The Consolidated Shares will rank *pari passu* in all respects with each other.

Other than the expenses incurred in relation to the Share Consolidation, the implementation thereof will not alter the underlying assets, business operations, management or financial position of the Company or the interests or rights of the Shareholders, save that Shareholders will not have any entitlement to fractions of Consolidated Shares.

An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, Consolidated Shares in issue upon the Share Consolidation taking effect.

Conditions of the Share Consolidation

The Share Consolidation is conditional on:

- (i) the passing by the Shareholders of a resolution to approve the Share Consolidation at the SGM; and
- (ii) the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the Consolidated Shares in issue immediately upon the Share Consolidation taking effect.

The Share Consolidation is expected to take effect on the day on which all of the above conditions are fulfilled. A detailed timetable in respect of the Share Consolidation including the associated trading arrangements will be announced in due course.

Reasons for the Share Consolidation

As set out in the Placing Announcement, as the market price of the Existing Shares approaches the extremity of HK\$0.01 per Existing Share, in compliance with Rule 13.64 of the Listing Rules, the Board proposes the Share Consolidation. Furthermore, in view of the relatively low market value for each existing board lot of the Existing Shares, the Board believes that the Share Consolidation will increase the par value per share and reduce the transaction costs for dealing in the shares in the Company including charges with reference to the number of share certificates issued.

(II) INCREASE IN AUTHORISED SHARE CAPITAL

As mentioned above, upon completion of the Share Consolidation, the authorised share capital of the Company will be at HK\$120,000,000 comprising 600,000,000 Consolidated Shares. In order to facilitate the issue of the Rights Shares and the Bonus Shares under the Rights Issue as mentioned under the section headed "Rights Issue" below, an ordinary resolution will be proposed at the SGM to increase the authorised share capital of the Company 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.

THE ACQUISITION AGREEMENT DATED 30TH JUNE, 2005

Parties

Purchaser	:	Zhong Hua Entertainment Holdings Limited, a wholly-owned subsidiary of the Company
Vendor and warrantor	:	Mr. Frank Wong
Another warrantor	:	Mr. Cheng
Target company	:	Apollo Luxury Cruises Co. Ltd., which is held as to 90% by the Vendor and 10% by Mr. Cheng as at the date of this announcement

The Directors confirm that to the best of their knowledge, information and belief and having made all reasonable enquiries, each of the Vendor and Mr. Cheng is a third party independent of the Company and its connected persons (as defined in the Listing Rules).

Asset to be acquired

The Purchaser has conditionally agreed to acquire from the Vendor the Sale Shares, being 7,000 shares of US\$1.00 each as at the date of the Acquisition, in Apollo representing 70% of its issued share capital. Upon Completion, Apollo will be held as to (i) 70% by the Purchaser; (ii) 20% by the Vendor; and (iii) 10% by Mr. Cheng.

The Sale Shares shall be acquired from the Vendor free from all liens, rights of pre-emption, charges, encumbrances, equities and third-party rights of any kind and together with all dividends, interest, bonuses, distributions or other rights now or hereafter attaching thereto.

Conditions

Completion of the Acquisition Agreement is conditional upon the following conditions being fulfilled or waived by the Purchaser in writing:

- (i) the Purchaser being satisfied with the results of the due diligence exercise to be conducted by the Group and other professional parties (as appropriate) on Apollo, including without limitation to the

generality of the foregoing, evidence to the satisfaction of the Purchaser as to the sole and exclusive ownership by Apollo of the Operating Rights and the assets and liabilities of Apollo;

- (ii) the Purchaser being satisfied with the results of the due diligence exercise to be conducted on the Vessel free of all encumbrances and third party rights;
- (iii) the Purchaser having received one or more legal opinions to be issued by lawyers duly qualified to advise on the laws of the relevant jurisdiction and acceptable to the Purchaser and each such opinion to be in form and substance to the satisfaction of the Purchaser;
- (iv) the passing by shareholders of the Company at the SGM, in compliance with the Listing Rules, of ordinary resolutions to approve, the Acquisition Agreement and the Acquisition;
- (v) there not having been any material adverse change to the financial position or prospects of Apollo or any breach of any warranty in any material respect by either of the Warrantors; and
- (vi) the completion of the Rights Issue.

In the event that the above conditions are not being fulfilled or waived by the Purchaser in writing (as regards conditions (i), (ii), (iii), (v) and (vi) only) on or before the 31st March, 2006, the Acquisition Agreement shall terminate immediately thereafter and none of the parties thereto shall have any claim against the others for costs, losses, damages, compensation or otherwise.

Consideration

The Consideration for the Acquisition is HK\$150,000,000, which is payable as follows:-

- (i) as to HK\$46,000,000 shall be paid by way of initial deposit within 15 business days immediately following the date of the Acquisition Agreement, in respect of which as at the date of this announcement an amount equal to HK\$6,000,000 has been paid to the Vendor;
- (ii) as to HK\$30,000,000 shall be paid by way of further deposit within three business days immediately following the day on which the Purchaser notifies the Vendor in writing that condition (i) as set out in the paragraph headed "Conditions" above has been fulfilled;
- (iii) as to HK\$24,000,000 shall be paid by way of a third deposit within third business days immediately following the day on which the condition (iv) as set out in the paragraph headed "Conditions" above has been fulfilled; and
- (iv) as to the remaining balance of HK\$50,000,000 upon Completion.

In the event that Completion 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 (without interest).

Pursuant to the Acquisition Agreement, the Warrantors have undertaken to procure that Apollo purchases the Vessel before Completion. Following the Completion, it is the Group's intention to renovate the Vessel to include casino and related facilities. Details of the Vessel are set out in the paragraphs headed "Information on Apollo and the Vessel" below.

The Consideration under the Acquisition Agreement has been arrived at after arm's length negotiations, having taken into account the (i) fair market value of the Vessel estimated by the Directors with reference to the capacity, size and age of the Vessel to be acquired by Apollo before Completion; (ii) the Operating Rights possessed by Apollo and the business potential and growth prospects of Apollo as mentioned in the paragraphs headed "Reasons for the Acquisition" below; and (iii) the income which may be generated from the operation of the Vessel (the commencement of which is expected to be in the third quarter of 2006 after renovation of the Vessel to include relevant casino and related facilities) with reference to the estimated number of customers, the estimated passenger ticket price to be charged and the estimated rental income to be received from leasing the casino and related facilities.

Based on publicly available information and enquiries made by the Directors, the Directors have noted that rental for gaming premises may be charged at a fixed fee, a turnover based fee or a profit and/or expenses sharing basis or a combination of some or all of the above. The Directors noted, based on published information, that the licence fees or rental for gaming premises on two passenger cruise liners operated or proposed to be operated by two other listed companies in Hong Kong had been or is proposed to be charged at HK\$7,600,000 per month (for a two year term) in respect of a cruise liner with capacity of 700 guests and HK\$9,000,000 per month plus an amount equal to 30% of the net profit after tax of the casino operations (for a one year term) in respect of a cruise liner with capacity of 570 guests. The average monthly operating expense of the cruise liner with capacity of 700 guests is approximately HK\$6,150,000 whereas that of the cruise liner with capacity of 570 guests is approximately HK\$7,000,000.

The Directors have also noted that the passenger ticket price of the cruise liners will depend on a number of factors including, among others, the size of the cruise liners, the variety of entertainment on-board, the length and route of the cruise and the room type. Based on publicly available information and enquiries made by the Directors, the passenger ticket price per room may vary from several hundred Hong Kong dollars to several thousand Hong Kong dollars.

The Warrantors have not confirmed as at the date hereof which Vessel will be acquired by Apollo before Completion. Given the agreed criteria of the Vessel as stipulated in the Acquisition Agreement, the Directors estimate that the fair market value of the Vessel would be in a range of approximately HK\$50 million to HK\$65 million.

It is intended that the Consideration will be funded (i) as to HK\$94.7 million by the internal resources of the Group; and (ii) as to HK\$55.3 million by the net proceeds to be raised from the Rights Issue, details of which is set out in the section headed "Rights Issue" below. As at the date of this announcement, the Group has cash and bank balances of approximately HK\$80.9 million. Reference is made to the announcement of the Company dated 26th January, 2005. As stipulated in the second supplemental agreement dated 26th January, 2005 entered into between China Land Realty Investment (BVI) Limited, a wholly-owned subsidiary of the Company, and Guangdong Properties Investment Ltd., payment of balance of the consideration of HK\$90 million in relation to the disposal of 51% equity interest in Ample Dragon Limited is due to the Group on or before 26th July, 2005. Accordingly, the Group expects to have sufficient internal resources to fund the aforesaid part of the Consideration.

Completion

Completion shall take place on the date falling on the third business day following the day on which all of the conditions precedent to the Acquisition Agreement have been fulfilled or (as the case may be) waived by the Purchaser or such later date (which must be a business day) as mutually agreed by the Vendor and the Purchaser in writing.

Upon Completion, Apollo will be held as to (i) 70% by the Purchaser; (ii) 20% by the Vendor; and (iii) 10% by Mr. Cheng. The board of directors of Apollo will comprise three directors, two of which will be appointed by the Purchaser. Apollo will become an indirect non wholly-owned subsidiary of the Company and its accounts will be consolidated into the Group's accounts.

Subject to the Completion taking place, each of the Warrantors has undertaken to provide financing (whether by way of equity or shareholders loans) at the same time and on the same terms as that provided by the Purchaser at any time and from time to time as may be resolved by Apollo.

Information on Apollo and the Vessel

Apollo is an investment holding company incorporated in the British Virgin Islands on 29th December, 2000. The principal activities of Apollo are development and operation of cruise line and passenger cruise liner services. Based on information provided by the Warrantors, the sole assets of Apollo as at the date of the Acquisition Agreement are the Operating Rights, which represent the exclusive rights to operate passenger liner services between Guangzhou and Hong Kong as approved by (i) Ministry of Communications of the PRC (中華人民共和國交通部) on 9th May, 2002 valid until 9th May, 2012; and (ii) Department of Communications of Guangdong Province (廣東省交通廳) on 25th March, 2004 valid until the end of March 2009. The Company has been advised by its PRC legal adviser that Apollo could apply for the renewal of the aforesaid approvals and shall be given the right to continue operation of the cruise line

between Guangzhou and Hong Kong provided that Apollo is in compliance with the relevant laws and regulation in the PRC during its operation. However, Shareholders should note that there is no assurance that renewal of the aforesaid approvals will be obtained after their respective expiry and that the operating rights will continue to be exclusive.

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. Accordingly, the fair market value of the Vessel shall be determined by the Purchaser. Pursuant to the Acquisition Agreement, the acquisition cost of the Vessel will be borne by the Vendor and Apollo shall as at Completion have no liability whatsoever which directly or indirectly relates to the financing of the purchase of the Vessel. Accordingly, it is intended that Apollo will also wholly own the Vessel upon Completion. In the event that Apollo purchases the Vessel from connected persons of the Company, the Company will comply with relevant provision of the Listing Rules.

Following the Completion, it is the Group's intention to renovate the Vessel. After renovation of the Vessel, it is proposed that the Vessel will have casino and related facilities. At present, the Group does not intend itself to operate the gaming activities on the Vessel. It is the Group's intention to lease the casino and related facilities on the Vessel to a casino operator which will be a third party independent of the Company and its connected persons. Such casino operator will be solely engaged in the operation of the gaming related activities on the Vessel. The Group is in the process of identifying a suitable casino operator in this regard. Relevant information on the casino operator including, among others, the estimated rental income from the leasing of casino and related facilities will be included in the circular to be despatched to the Shareholders. No relevant undertaking, warranty or guarantee from the Vendor in relation to the casino and/or casino operator has been provided in the Acquisition Agreement. The Operating Rights do not include any gaming licence. It is intended that the gaming activities will only be conducted in international waters. The Company has been advised by its Hong Kong and PRC legal advisers that no licence is required under the laws of Hong Kong and the PRC for the operation of such gaming activities provided that such gaming activities are conducted exclusively outside Hong Kong and PRC territorial waters and that no promotion of such gaming activities are carried out in Hong Kong or the PRC. The Company has also been advised by its PRC legal adviser that the operation of gaming activities on the Vessel outside PRC territorial waters will not affect the validity of the Operating Rights.

The Vessel will not commence operation until the renovation work is completed. It is expected that the renovation work will take approximately four to five months to complete and the Vessel will commence operation by the third quarter of 2006. The total renovation cost is estimated to be approximately HK\$50 million. The Group intends to finance the renovation cost through its internal resources and/or debt financing and/or equity fund raising exercises. Further announcement will be made by the Company as and when appropriate.

At present, the Group intends to engage one or more ship management companies as the manager(s) of the Vessel to provide operational services including crewing, technical management, management services and procurement services. The Group has identified several suitable ship management companies in this regard and is in the progress of negotiating terms with them. The Directors will engage ship management companies with relevant experience and expertise before the commencement of the operation of the Vessel in the third quarter of 2006.

Given the Operating Rights possessed by Apollo, the Group will focus initially on providing cruise liner service between Guangzhou and Hong Kong. The Group also plans to cooperate with the mainland travel agents to provide the cruiser liner service. It is expected that the major source of revenue to be generated from the operation of the Vessel will comprise sales of passenger tickets and rental income from leasing the casino and related facilities on the Vessel.

Financial information of Apollo

According to the management accounts of Apollo, Apollo had unaudited net liabilities of US\$10,686 (or approximately HK\$83,351) as at 31st December, 2004. For the year ended 31st December, 2004, Apollo recorded nil turnover and same amount of unaudited loss before tax and loss after tax of US\$3,598 (or approximately HK\$28,064). For the year ended 31st December, 2003, Apollo recorded nil turnover and same amount of unaudited loss before tax and loss after tax of US\$9,404 (or approximately HK\$73,351).

Reasons for the Acquisition

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. Following completion of acquisition of the remaining 19.1% interest in 廣州天城網絡通訊有限公司 (GuangZhou Sky City Network Communication Ltd) in February 2005, the Group is satisfied with its performance (in terms of both turnover and net profit) generated so far. 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 the provision of online game business will continue to contribute to the Group.

For each of the two years ended 31st December, 2003 and 2004, the Group recorded an audited turnover of approximately HK\$5.5 million and HK\$25.1 million respectively. For each of the two years ended 31st December, 2003 and 2004, the Group recorded an audited net loss of approximately HK\$148.3 million and an audited net profit of HK\$46.3 million respectively. As at 31st December, 2004, the audited consolidated net asset value of the Group was approximately HK\$511.7 million.

As set out in the annual report of the Company for the year ended 31st December, 2004, given the Group is confident in the continuing and encouraging economic growth in the PRC, the Group has been looking for attractive investment opportunities in the PRC. The Acquisition is in line with such business strategy of the Group and represents a good opportunity for the Group to diversify into the cruise liner business in the PRC and Hong Kong.

The Company believes that as a result of rising levels of disposable income and improvements in the standard of living in the PRC in recent years, leisure and “lifestyle” pursuits, including foreign travel, will become increasingly popular among mainland residents. Hong Kong’s proximity to the mainland, together with its reputation as a shopping centre and the absence of language barriers, make it an attractive destination for many mainland residents.

The China National Tourist Office has reported that Chinese outbound travelers have increased from 10.5 million in 2000 to 20.2 million in 2003. In particular, according to Bureau of Statistics of Guangdong Province, the Chinese outbound travelers from Guangdong Province to Hong Kong have increased from 346,438 in 2000 to 600,353 in 2003. Since the relaxation of restrictions on individual mainland Chinese travelers from the PRC to Hong Kong in July 2003, Hong Kong has recorded significant growth in the number of mainland travelers to the territory.

The Directors have also noted that passenger cruises, as a sector of the global travel and tourism industry, has been one of the fastest growth sectors over the past decade. In view of the growth of mainland residents travelling to Hong Kong, in particular those from the Southeast China as outlined above, the Directors believe that passenger cruises to Hong Kong could be an attractive alternative way of travelling to Hong Kong in addition to the more conventional modes of travel by air or over land. They also believe that the grand opening of Disneyland in Hong Kong which is scheduled to take place in September 2005 could stimulate continued increase in mainland Chinese visitors to Hong Kong. Based on foregoing and (i) the Warrantors’ representations that the Operating Rights in respect of passenger cruise liner service between Guangzhou and Hong Kong being exclusive to Apollo; and (ii) the barrier to entry into the provision of passenger cruise liner services from PRC waters in view of the need to secure requisite PRC regulatory approvals, the Directors have confidence in the business prospects of Apollo after its passenger cruise liner operations become fully operational and Apollo’s ability to contribute positively to the Group’s earning base and results in such circumstances if Completion takes place.

Upon Completion, the Group will be interested in 70% of Apollo. The remaining interests will be held by as to 20% by the Vendor and as to 10% by Mr. Cheng. Both the Vendor and Mr. Cheng has over 15 years experience in the cruise liner business. By its alliances with the Vendor and Mr. Cheng who have extensive experience and business connections in the cruise liner industry, the Directors believe that the Group is well positioned to diversify into the cruise liner business.

Taken into account the aforesaid, the Directors (including independent non-executive Directors) are of the view that the terms of the Acquisition Agreement are fair and reasonable and the transactions contemplated under the Acquisition Agreement are in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS OF THE LAWS OF HONG KONG AND THE LISTING RULES IN RESPECT OF THE GAMING ACTIVITIES

Shareholders should be aware that under the guidelines issued by the Stock Exchange in relation to “Gambling activities undertaken by listed applicants and/or listed issuers” dated 11th March, 2003, should the Group be engaged in gambling activities and operation of such gambling activities (i) fail to comply with the applicable laws in the areas with such activities operate and/or (ii) contravene the Gambling Ordinance of Hong Kong such that the Company or its business may be considered unsuitable for listing under Rule 8.04 of the Listing Rules. Depending on the circumstances of the case, the Stock Exchange may direct the Company to take remedial action, and/or may suspend the dealings in, or may cancel the listing of, its securities on the Stock Exchange pursuant to Rule 6.01 of the Listing Rules. However, the Group does not intend itself to engage any gambling activities.

RIGHTS ISSUE

(I) TERMS:

Basis of the Rights Issue	:	one Rights Share for every two Consolidated Shares held on the Record Date issued with two Bonus Shares for one fully-paid Rights Share
Existing issued share capital of the Company	:	4,702,413,009 Existing Shares (equivalent to 470,241,300 Consolidated Shares upon the Share Consolidation taking effect)
Number of Rights Shares		
– Minimum	:	235,120,650 Rights Shares
– Maximum (<i>Note</i>)	:	245,120,650 Rights Shares
Number of Bonus Shares		
– Minimum	:	470,241,300 Bonus Shares
– Maximum (<i>Note</i>)	:	490,241,300 Bonus Shares
Enlarged issued share capital of the Company upon completion of the Rights Issue		
– assuming no conversion of the Convertible Bond	:	1,175,603,250 Consolidated Shares
– assuming the outstanding Convertible Bond that will be converted in full	:	1,225,603,250 Consolidated Shares
Subscription Price	:	HK\$0.25 for each Rights Share

Note:

As at the date of this announcement, there is outstanding a Convertible Bond with principal amount of HK\$30,000,000 which is convertible into 200,000,000 Existing Shares in aggregate at a conversion price of HK\$0.15 per Existing Share, subject to adjustment. Assuming full conversion of the outstanding Convertible Bond before the Record Date, a total of 200,000,000 new Existing Shares (equivalent to 20,000,000 Consolidated Shares) may fall to be issued and hence an additional 10,000,000 Rights Shares would be issued, in which event the maximum number of Rights Shares that may be issued by the Company will be 245,120,650 Rights Shares. Correspondingly, the number of Bonus Shares which fall to be issued will also increase.

Save for the outstanding Convertible Bond, the Company has no other outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Existing Shares as at the date of this announcement.

Basis of provisional allotment:

One Rights Share in nil-paid form for every two Consolidated Shares to be held by a Qualifying Shareholder on the Record Date.

Qualifying Shareholders:

The Company will send PALs and EAFs to the Qualifying Shareholders only.

To qualify for the Rights Issue, Shareholders must, at the close of business on the Record Date, be registered as a member of the Company. Shareholders having an address in Hong Kong on the register of members of the Company at the close of business on the Record Date are qualified for the Rights Issue. Shareholders having an address outside Hong Kong on the register of members of the Company at the close of business on the Record Date will not be excluded from participating in the Rights Issue only if the Board, after making relevant enquiry pursuant to Rule 13.36(2)(a) of the Listing Rules, considers that the offer to these Shareholders would not contravene any legal restriction under the laws of the relevant place or any requirement of the relevant regulatory body or stock exchange in that place and such offer will not require any relevant registration.

In order to be registered as a member of the Company on the Record Date, Shareholders must lodge the relevant transfers of Existing Shares and/or Consolidated Shares (with the relevant share certificates) with the Registrar, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, by 4:00 p.m. on a date to be announced by the Company in due course.

The Record Date and the dates for the closure of the register of members of the Company (during which no transfer of Existing Shares and/or Consolidated Shares will be registered) will be announced by the Company in due course.

Rights of Overseas Shareholders:

If at the close of business on the Record Date, a Shareholder's address on the Company's register of members is in a place outside Hong Kong, such Shareholder may not be eligible to take part in the Rights Issue as documents to be issued in connection with the Rights Issue will not be registered and/or filed under the applicable securities legislation of any jurisdictions other than Hong Kong and Bermuda. The Board will make enquiries as to whether the issue of Rights Shares to the Overseas Shareholders may contravene the applicable securities legislation of the relevant overseas places or the requirements of the relevant regulatory body or stock exchange pursuant to Rule 13.36(2)(a) of the Listing Rules. If, after making such enquiry, the Board is of the opinion that it would be necessary or expedient, on account either of the legal restrictions under the laws of the relevant place or any requirement of the relevant regulatory body or stock exchange in that place, not to offer Rights Shares to such Overseas Shareholders, no provisional allotment of nil-paid Rights Shares or allotment of fully-paid Rights Shares will be made to such Overseas Shareholders. Accordingly, the Rights Issue will not be extended to the Excluded Shareholders. The Company will send the Rights Issue prospectus to the Excluded Shareholders for their information only but will not send PALs or EAFs to them. The basis of exclusion of the Excluded Shareholders, if any, from the Rights Issue will be disclosed in the prospectus to be issued in relation to the Rights Issue.

Arrangements will be made for the Rights Shares which would have otherwise been provisionally allotted to the Excluded Shareholders to be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence on the Stock Exchange and in any event before the last date for acceptance of Rights Shares and payment, if a premium (net of expenses) can be obtained. The proceeds of each sale, less expenses and stamp duty, of HK\$100 or more will be paid to the relevant Excluded Shareholder in Hong Kong dollars. The Company will retain individual amounts of less than HK\$100 for the benefits of the Company.

Subscription Price:

HK\$0.25 per Rights Share, payable in full when a Qualifying Shareholder accepts the provisional allotment of Rights Shares or applies for excess Rights Shares or when a transferee of nil-paid Rights Shares applies for the relevant Rights Shares.

The Subscription Price represents:

- (i) a discount of approximately 65.8% to the closing price of HK\$0.73 per Consolidated Share (based on the closing price of HK\$0.073 per Existing Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Share Consolidation);
- (ii) a discount of approximately 59.6% to the average closing price of HK\$0.619 per Consolidated Share (based on the average closing price of HK\$0.0619 per Existing Share for the ten trading days ended on the Last Trading Day and adjusted for the effect of the Share Consolidation);
- (iii) a discount of approximately 26.9% to the theoretical ex-rights price of approximately HK\$0.342 per Consolidated Share (based on the closing price of HK\$0.073 per Existing Share as quoted on the Stock Exchange on the Last Trading Day taking into account the Bonus Shares and adjusted for the effect of the Share Consolidation); and
- (iv) a discount of approximately 80.9% to the net asset value per Consolidated Share of HK\$1.31 (based on the audited consolidated net asset value of the Group as at 31st December, 2004 and the then issued share capital of 3,919,413,009 Existing Shares and adjusted for the effect of the Share Consolidation).

The Subscription Price was agreed based on arm's length negotiations between the Company and the Underwriter with reference to the market price of the Existing Shares prior to the Last Trading Day.

Status of the Rights Shares:

When issued and fully paid, the Rights Shares will rank pari passu in all respects with the then Consolidated Shares in issue. Holders of the fully-paid Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment and issue of the Rights Shares in their fully-paid form.

Share certificates:

Subject to the fulfillment of the conditions of the Rights Issue, share certificates for all fully-paid Rights Shares will be posted on a date to be announced by the Company in due course.

Application for excess Rights Shares:

Qualifying Shareholders may apply for any unsold entitlements of the Excluded Shareholders and any Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders or otherwise subscribed for by transferees of nil-paid Rights Shares. Application can be made by completing the EAF and lodging the same with appropriate remittance for the excess Rights Shares. The Directors will allocate the excess Rights Shares at their discretion and on a fair and equitable basis and will give preference to topping up odd lots to whole board lots.

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 Rights Shares in both nil-paid and fully-paid forms and the Bonus Shares.

Dealings in the Rights Shares in their nil-paid and fully-paid forms on the Hong Kong branch register of members of the Company will be subject to the payment of stamp duty in Hong Kong.

Reasons of the Rights Issue and use of proceeds:

Net proceeds of the Rights Issue are expected to be in the amount of approximately HK\$55.3 million (assuming no conversion of the Convertible Bond) which are intended to be used to finance the Acquisition as mentioned above.

The Rights Issue is not conditional on completion of the Acquisition Agreement. In the event that the Acquisition Agreement is not completed, the Group will look for other suitable investment opportunities. Further announcement will be made as and when appropriate.

(II) BONUS ISSUE

Basis of the Bonus Issue:

Two Bonus Shares will be issued to the first registered holders of the fully-paid Rights Shares for every fully-paid Rights Share issued under the Rights Issue.

The Bonus Shares will be credited as fully paid by way of capitalisation of an appropriate amount (being equal to the aggregate nominal value of the Bonus Shares issued) from the contributed surplus account of the Company. The Bonus Shares will rank pari passu in all respects with the Consolidated Shares from the date of their issue.

Based on the 235,120,650 Rights Shares to be issued (assuming no conversion of the outstanding Convertible Bond) under the Rights Issue, 470,241,300 Bonus Shares will be issued. Based on the 245,120,650 Rights Shares to be issued (assuming full conversion of the outstanding Convertible Bond) under the Rights Issue, 490,241,300 Bonus Shares will be issued.

Conditions of the Bonus Issue:

The Bonus Issue is conditional on, inter alia, (i) the approval of the Independent Shareholders at the SGM of the Rights Issue and the Bonus Issue; (ii) the approval of the Shareholders at the SGM of the amendment to Bye-laws to permit the Bonus Issue on the basis proposed, details of which are set out in the section headed "Bye-laws amendment" below; and (iii) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Bonus Shares.

(III) UNDERWRITING AGREEMENT

Undertaking from the existing Shareholders:

As at the date of this announcement, each of Morgan Estate Assets Limited and Morcambe Corporation holds 270,000,000 Existing Shares (equivalent to 27,000,000 Consolidated Shares taking into account the Share Consolidation), each representing approximately 5.7% of the issued share capital of the Company. Each of Morgan Estate Assets Limited and Morcambe Corporation has irrevocably undertaken to the Company and the Underwriter that they will each subscribe for the 13,500,000 Rights Shares which will be provisionally allotted to them under the Rights Issue. Up to the date hereof, both Morgan Estate Assets Limited and Morcambe Corporation have not decided whether they will subscribe for any excess Rights Shares.

Pursuant to the Underwriting Agreement, the Underwriter agreed to fully underwrite the Rights Shares (other than the Rights Shares to be provisionally allotted to Morgan Estate Assets Limited and Morcambe Corporation), which will amount to a minimum of 208,120,650 Rights Shares and a maximum of 218,120,650 Rights Shares.

Principal terms:

Date	:	4th July, 2005
Underwriter	:	Orient Securities Limited
Minimum number of Rights Shares underwritten	:	208,120,650 Rights Shares
Maximum number of Rights Shares underwritten	:	218,120,650 Rights Shares
Commission	:	2% of the aggregate Subscription Price for the Underwritten Shares, which is expected to range from approximately HK\$1.0 million to HK\$1.1 million

The Underwriter and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

The Underwriter has undertaken in the Underwriting Agreement that it shall procure that none of the Underwritten Shares is subscribed by any person or company who by reason of accepting such underwritten Shares will be required under Rule 26 of the Hong Kong Code on Takeovers and Mergers to make a mandatory offer for all the securities of the Company not already owned by it or its concert parties.

The Underwriter has undertaken to the Company that it shall use all reasonable endeavours to provide that the subscribers or purchasers of Underwritten Shares procured by it shall not be connected persons of the Company.

Termination of the Underwriting Agreement:

The Underwriter may terminate the arrangements set out in the Underwriting Agreement by notice in writing issued to the Company at any time prior to 4:00 p.m. on the Latest Date for Termination if there occurs:

- (i) an introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof); or
- (ii) any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the United States of America) or other nature (whether or not such are of the same nature as any of the foregoing) or of the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities market; or
- (iii) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or
- (iv) any material adverse change in the financial or trading position of the Group as a whole,

and in the reasonable opinion of the Underwriter, such change would have a material and adverse effect on the business, financial or trading position or prospects of the Group as a whole or the success of the Rights Issue or make it inadvisable or inexpedient to proceed with the Rights Issue.

If, at or prior to 4:00 p.m. on the Latest Date for Termination:

- (i) the Company commits any material breach of or omits to observe any of the obligations, undertakings, representations or warranties expressed to be assumed by it under the

Underwriting Agreement which breach or omission will have a material and adverse effect on its business, financial or trading position; or

- (ii) the Underwriter shall receive notification under the Underwriting Agreement of, or shall otherwise become aware of, the fact that any of the representations or warranties contained in the Underwriting Agreement was, when given, untrue or inaccurate or would be untrue or inaccurate if repeated as provided in the Underwriting Agreement, and the Underwriter shall, in their reasonable opinion, determine that any such untrue representation or warranty represents or is likely to represent a material adverse change in the business, financial or trading position or prospects of the Group taken as a whole or is otherwise likely to have a materially prejudicial effect on the Rights Issue; or
- (iii) the Company shall, after any matter or event referred to in the relevant clause of the Underwriting Agreement has occurred or come to the Underwriter's attention, fail promptly to send out any announcement or circular (after the despatch of the Prospectus Documents), in such manner (and as appropriate with such contents) as the Underwriter may reasonably request for the purpose of preventing the creation of a false market in the securities of the Company,

the Underwriter shall be entitled (but not bound) by notice in writing to the Company to elect to treat such matter or event as releasing and discharging the Underwriter from its obligations under the Underwriting Agreement.

If the Underwriter terminates the Underwriting Agreement in accordance with the terms set out above, the Rights Issue will not proceed.

Conditions:

The obligations of the Underwriter under the Underwriting Agreement are conditional, among other things, on the following conditions being fulfilled and/or waived:

- (i) the delivery to the Stock Exchange and registration by the Registrar of Companies in Hong Kong respectively on or prior to the Posting Date of one copy of each of the Prospectus Documents each duly certified in compliance with section 342C of the Companies Ordinance (and all other documents required to be attached thereto) and the delivery and filing with the Registrar of Companies in Bermuda in accordance with the requirements of the Companies Act of one copy of each of the Prospectus Documents each duly certified as required by the Companies Act and otherwise complying with the requirements of the Companies Ordinance, the Companies Act and the Listing Rules;
- (ii) the posting on the Posting Date of copies of the Prospectus Documents to the Qualifying Shareholders;
- (iii) compliance by the Company with its obligations under relevant clauses of the Underwriting Agreement;
- (iv) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Consolidated Shares, Bonus Shares and the Rights Shares in their nil-paid and fully-paid forms either unconditionally or subject to such conditions which the Company accepts and the satisfaction of such conditions (if any and where relevant) by no later than the dates specified in such approval and not having withdrawn or revoked such listings and permission on or before 4:00 p.m. on the Latest Date for Termination;
- (v) the shares in the Company remaining listed on the Stock Exchange at all times prior to the Latest Date for Termination and the current listing of the shares in the Company not having been withdrawn or the trading of the shares in the Company not having been suspended for a consecutive period of more than 5 trading days (other than any suspension pending clearance of this announcement) and no indication being received before 4:00 p.m. on the Latest Date for Termination from the Stock Exchange to the effect that such listing may be withdrawn or objected to (or conditions will or may be attached thereto) including but not limited to as a

result of the Rights Issue or in connection with the terms of the Underwriting Agreement or for any other reason;

- (vi) the passing of the relevant resolutions by the Shareholders or Independent Shareholders (as the case may be) approving, among other things, the Capital Reorganisation, the Rights Issue, the Bonus Issue and amendments to the Bye-laws at the SGM;
- (vii) the obligations of the Underwriter under the Underwriting Agreement not being terminated by the Underwriter in accordance with the terms thereof;
- (viii) if required, the Bermuda Monetary Authority granting its consent to the issue of Rights Shares and Bonus Shares; and
- (ix) the Capital Reorganisation and amendments to Bye-laws becoming effective.

In the event that the above conditions (other than conditions (iv) and (vi) which cannot be waived) have not been satisfied and/or waived in whole or in part by the Underwriter on or before the Posting Date or in the event that condition (iv) has not been satisfied on or before 4.00 p.m. on the Latest Date for Termination or in the event that condition (vi) has not been satisfied on or before the Record Date (or in each case, such later date as the Underwriter and the Company may agree), the Rights Issue will not proceed.

Warning of the risks of dealing in Existing Shares, Consolidated Shares and nil-paid Rights Shares:

Any Shareholders or other persons contemplating selling or purchasing Existing Shares and/or Consolidated Shares and/or nil-paid Rights Shares up to the date when the conditions of the Rights Issue are fulfilled will bear the risk that the Rights Issue could not become unconditional and may not proceed.

(IV) SHAREHOLDING STRUCTURE

Set out below are the shareholding structures of the Company before and after completion of the Capital Reorganisation and the Rights Issue (and associated Bonus Issue):

Shareholders	Upon completion of the Capital Reorganisation and the Rights Issue (and associated Bonus Issue)											
	As at the date of this announcement		Upon completion of the Capital Reorganisation but prior to the Rights Issue (and associated Bonus Issue)		Assuming no conversion of the outstanding Convertible Bond				Assuming full conversion of the outstanding Convertible Bond			
	Existing Shares	(%)	Consolidated Shares	(%)	Consolidated Shares (Note 7)	(%)	Consolidated Shares (Note 8)	(%)	Consolidated Shares (Note 7)	(%)	Consolidated Shares (Note 8)	(%)
High Rank Enterprises Limited (Note 1)	883,000,000	18.9	88,300,000	18.9	88,300,000	7.6	220,750,000	18.9	88,300,000	7.2	220,750,000	18.0
Morgan Estate Assets Limited (Note 2)	270,000,000	5.7	27,000,000	5.7	67,500,000	5.7	67,500,000	5.7	67,500,000	5.5	67,500,000	5.5
On Tai Profits Limited (Note 3)	270,000,000	5.7	27,000,000	5.7	27,000,000	2.3	67,500,000	5.7	27,000,000	2.2	67,500,000	5.5
Morcambe Corporation (Note 4)	270,000,000	5.7	27,000,000	5.7	67,500,000	5.7	67,500,000	5.7	67,500,000	5.5	67,500,000	5.5
Successful Future Services Limited (Note 5)	10,000,000	0.2	1,000,000	0.2	1,000,000	0.1	2,500,000	0.2	1,000,000	0.1	2,500,000	0.2
Sub-total	1,703,000,000	36.2	170,300,000	36.2	251,300,000	21.4	425,750,000	36.2	251,300,000	20.5	425,750,000	34.7
CNC Broadband Entertainment Corporation Limited (Note 6)	0	0.0	0	0.0	0	0.0	0	0.0	20,000,000	1.6	50,000,000	4.1
The Underwriter and/or the Subscribers procured by it	0	0.0	0	0.0	624,361,950	53.1	0	0.0	654,361,950	53.4	0	0.0
Other Shareholders	2,999,413,009	63.8	299,941,300	63.8	299,941,300	25.5	749,853,250	63.8	299,941,300	24.5	749,853,250	61.2
Public Shareholders	2,999,413,009	63.8	299,941,300	63.8	924,303,250	78.6	749,853,250	63.8	974,303,250	79.5	799,853,250	65.3
Total	4,702,413,009	100.0	470,241,300	100.0	1,175,603,250	100.0	1,175,603,250	100.0	1,225,603,250	100.0	1,225,603,250	100.0

Notes :

1. Each of Mr. Ho Tsam Hung (an executive Director), Mr. Ho Pak Hung (a former 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, Mr. Ho Pak Hung and Mr. Ho Kam Hung are brotherhood.
2. Morgan Estate Assets Limited is wholly owned by Mr. Ho Tsam Hung.
3. On Tai Profits Limited is wholly owned by Mr. Ho Pak Hung.
4. Morcambe Corporation is wholly owned by Mr. Ho Kam Hung.
5. Each of Mr. Ho Tsam Hung, Mr. Ho Pak Hung and Mr. Ho Kam Hung is interested in 25% of the issued share capital of Successful Future Services Limited.
6. Being holder of the outstanding Convertible Bond.
7. Assuming that none of the Shareholders other than Morgan Estate Assets Limited and Morcambe Corporation will take up their provisional entitlements under the Rights Issue.
8. Assuming that all Shareholders will take up their provisional entitlements under the Rights Issue.

(V) SUMMARY OF EQUITY RAISING ACTIVITIES 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
Issue of Convertible Bond of HK\$30 million	19th July, 2004	HK\$30 million	16th June, 2004	General working capital intended to be used to finance the Company's online games business (including but not limited to the provisions of online games infrastructure platform and distribution channels) operating in the PRC	Fully utilized as intended, in particular for the development of the online games infrastructure platform and internet café project in the PRC
Placing of 475,000,000 new Existing Shares	2nd November, 2004	HK\$42.5 million	16th June, 2004	HK\$37.5 million intended to be used to further develop the Company's online games business (including the provision of online games infrastructure platform) operating in the PRC and the remaining balance of HK\$5 million to be used as the Group's general working capital	Fully utilized as intended, in particular for funding the consideration of the acquisition of the remaining 19.1% interest in GuangZhou Sky City Network Communication Ltd.
Placing of 783,000,000 new Existing Shares	18th May, 2005	HK\$15.2 million	7th February, 2005	General working capital	Will be utilized as intended

BYE-LAWS AMENDMENT

As the Bonus Shares will only be issued to first registered holders of the fully-paid Rights Shares, it is necessary for the Company to amend article 148 of the Bye-laws to allow a distribution to members of the Company on a non pro-rata basis. Accordingly, a resolution will be proposed at SGM to approve the amendment of the Bye-laws. No Shareholders will be required to abstain from voting on the relevant resolution in this regard.

IMPLICATION OF THE LISTING RULES

The Acquisition Agreement constitutes a major transaction for the Company under the Listing Rules. Accordingly, the Acquisition Agreement is subject to the approval of Shareholders in the general meeting of the Company. However, each of High Rank Enterprises Limited, Morgan Estate Assets Limited, On Tai Profits Limited, Morcambe Corporation, Successful Future Services Limited (which are in aggregate interested in approximately 36.2% of the existing issued share capital of the Company) and their respective associates will abstain from voting on the relevant resolution(s) in relation to the Acquisition Agreement.

In accordance with Rule 7.19(6) of the Listing Rules, the Rights Issue must be made conditional on approval by Shareholders in general meeting by a resolution on which any controlling Shareholders and their associates or, where there are no controlling shareholders, director (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour. As at the date of this announcement, High Rank Enterprises Limited, Morgan Estate Assets Limited, On Tai Profits Limited, Morcambe Corporation and Successful Future Services Limited are in aggregate interested in approximately 36.2% of the existing issued share capital of the Company. Accordingly, each of High Rank Enterprises Limited, Morgan Estate Assets Limited, On Tai Profits Limited, Morcambe Corporation, Successful Future Services Limited and their respective associates will abstain from voting in favour of the resolution to approve the Rights Issue (and associated Bonus Issue).

The Independent Board Committee comprising the three independent non-executive Directors namely Messrs Ng Kin Sun, Young Kwok Sui and Wong Ting Kon will be established to advise the Independent Shareholders regarding the Acquisition and the Rights Issue. An independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

GENERAL

The expected timetable for the implementation of the Capital Reorganisation, the Rights Issue and the associated trading arrangements will be announced by the Company in due course.

A circular containing (i) details of the Capital Reorganisation, the Acquisition, the Rights Issue (and associated Bonus Issue) and the amendment to Bye-laws; (ii) financial information of the Group and Apollo; (iii) a valuation report of the Vessel; (iv) a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders on the Acquisition and the Rights Issue (and associated Bonus Issue); (v) a letter of recommendation from the Independent Board Committee to the Independent Shareholders; and (vi) the notice of the SGM will be sent to the Shareholders as soon as possible.

If the Capital Reorganisation, the Rights Issue (and associated Bonus Issue) and amendment to Bye-laws are approved at the SGM, the Company will then send a prospectus containing details of the Rights Issue to the Qualifying Shareholders and, for information only, to the Excluded Shareholders. PALs and EAFs will also be sent to the Qualifying Shareholders.

ADJUSTMENT OF CONVERSION PRICE OF THE CONVERTIBLE BOND

Subject to completion of the Capital Reorganisation and the Rights Issue (and associated Bonus Issue), 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 and the Rights Issue (and associated Bonus Issue). Further announcement will be made by the Company relating to any required adjustment in due course.

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 Thursday, 30th June, 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 Wednesday, 20th July, 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 Purchaser of the Sale Shares, representing 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 Purchaser, Vendor and Mr. Cheng in relation to the Acquisition
“Apollo”	Apollo Luxury Cruises Co., Ltd., a company incorporated in the British Virgin Islands with limited liability on 29th December, 2000
“associate(s)”	shall have the meaning ascribed to it under the Listing Rules
“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
“Bonus Shares”	the new Consolidated Shares to be issued to the subscribers of the Rights Shares pursuant to the Bonus Issue
“Bye-laws”	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 by the creation of an additional 1,900,000,000 Consolidated Shares
“Companies Act”	the Companies Act 1981 of Bermuda
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	Zhong Hua International Holdings Limited, a company incorporated in the Bermuda with limited liability and the shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the Acquisition Agreement
“connected person(s)”	shall have the meaning ascribed to it under the Listing Rules
“Consideration”	HK\$150,000,000, being the consideration payable for the Sale Shares by the Purchaser to the Vendor pursuant to the Acquisition Agreement
“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

“EAF”	the excess application form for additional Rights Shares proposed to be issued to the Qualifying Shareholders
“Excluded Shareholders”	those Overseas Shareholders whom the Directors, after making relevant enquiry pursuant to Rule 13.36(2)(a) of the Listing Rules, consider their exclusion from the Rights Issue to be necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place
“Existing Share(s)”	existing share(s) of HK\$0.02 each in the capital of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company to be constituted by three independent non-executive Directors to advise the Independent Shareholders in relation to the Acquisition and the Rights Issue (and associated Bonus Issue)
“Independent Shareholders”	Shareholders other than High Rank Enterprises Limited, Morgan Estate Assets Limited, On Tai Profits Limited, Morcambe Corporation, Successful Future Services Limited and their respective associates
“Last Trading Day”	29th June, 2005, being the last day on which the Existing Shares were traded on the Stock Exchange prior to the release of this announcement
“Latest Date for Termination”	the third business day following the date on which payment for and acceptance of the Rights Shares can be made under the Rights Issue
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Cheng”	Mr. Cheng Lok Wah Adrian, one of the Warrantors
“Operating Rights”	the exclusive right to operate passenger liner services between Guangzhou and Hong Kong as approved by (i) Ministry of Communications of the PRC (中華人民共和國交通部) on 9th May, 2002; and (ii) Department of Communications of Guangdong Province (廣東省交通廳) on 25th March, 2004
“Overseas Shareholders”	Shareholders whose addresses on the register of members of the Company are outside Hong Kong on the Record Date
“PAL”	the provisional allotment letter for the Right Share(s) to be issued to the Qualifying Shareholders
“Placing Announcement”	the announcement of the Company dated 18th May, 2005 in relation to, among others, the placing of 783,000,000 new Existing Shares
“Posting Date”	the date of despatch of the Prospectus Documents
“PRC”	the People’s Republic of China
“Prospectus”	the prospectus to be despatched to the Shareholders in connection with the Rights Issue (and associated Bonus Issue)
“Prospectus Documents”	the Prospectus, PAL and EAF relating to the Rights Issue

“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
“Qualifying Shareholder(s)”	Shareholder(s) on the register of members of the Company on the Record Date other than the Excluded Shareholders
“Record Date”	the date with reference to which entitlements under the Rights Issue will be determined
“Registrar”	Tengis Limited, the branch register and transfer office of the Company in Hong Kong
“Rights Issue”	the proposed issue by way of rights issue of one Rights Share for every two Consolidated Shares to the Qualifying Shareholders according to the terms set out in this announcement
“Rights Share(s)”	the new Consolidated Share(s) proposed to be issued to the Qualifying Shareholders pursuant to the Rights Issue
“Sale Shares”	such number of shares of Apollo representing 70% of the entire issued share capital of Apollo as at Completion, being as at the date of the Acquisition Agreement, 7,000 shares of US\$1.00 each
“SGM”	the special general meeting of the Company to be held to consider and, if appropriate, approve the Capital Reorganisation, the Acquisition, the Rights Issue, the Bonus Issue and the amendments to Bye-laws
“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 Price”	the subscription price of HK\$0.25 per Rights Share pursuant to the Rights Issue
“Underwriter”	Orient Securities Limited, a licensed corporation to carry on regulated activities types 1 and 4 for the purpose of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Underwriting Agreement”	the underwriting agreement dated 4th July, 2005 entered into between the Company and the Underwriter in relation to the Rights Issue
“Underwritten Shares”	all the Rights Shares other than the Rights Shares to be provisionally allotted to Morgan Estate Assets Limited and Morcambe Corporation, being not less than 208,120,650 Rights Shares and not more than 218,120,650 Rights Shares
“Vendor”	Mr. Frank Wong, as the vendor under the Acquisition Agreement
“Vessel”	the passenger cruise liner to be acquired by Apollo before Completion
“Warrantors”	the Vendor and Mr. Cheng, being the warrantors of the Acquisition Agreement
“HK\$”	Hong Kong dollars

“US\$”

United States of American dollars

Amounts denominated in US\$ in this announcement have been converted into HK\$ at a rate of US\$1.0 = HK\$7.8 for illustration purpose.

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

Hong Kong, 19th July, 2005

As at the date of this announcement, the Board comprises (i) Mr. Ho Tsam Hung, Mr. Yang Jia Jian and Mr. Ho Kam Hung as executive Directors; (ii) Ms. Yeung Mo Sheung, Ann as non-executive Director; and (iii) Mr. 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
China Daily and Hong Kong Economic Times.*