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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)**

### **SUPPLEMENTAL AGREEMENT ON THE SUBSCRIPTION OF SUBSCRIPTION SHARES AND GRANT OF OPTION REVISED EXPECTED TIMETABLE FOR CAPITAL REORGANIZATION DELAY IN PUBLICATION OF INTERIM RESULTS**

#### **The Subscription Agreement**

On 31 August 2005, the Company, the Subscriber and the Guarantor entered into the Subscription Agreement, pursuant to which the Subscriber has conditionally agreed to subscribe for the Subscription Shares to be allotted and issued by the Company; and (ii) the Original Option to be granted by the Company.

#### **The Supplemental Agreement**

On 23rd September 2005, the Company, the Subscriber and the Guarantor agreed to enter into the Supplemental Agreement, pursuant to which the parties agreed to revise (i) the maximum number of new Shares which fall to be issued upon exercise of the Revised Option by the Subscriber; (ii) the consideration of the Revised Option; and (iii) the exercise price of the Revised Option.

Upon completion of the Supplemental Agreement, 200,000,000 Subscription Shares will be allotted and issued which represent approximately 4.25% of the Company's existing issued share capital and approximately 4.08% of the Company's issued share capital as enlarged thereby. The subscription price is HK\$0.036 per Subscription Share and an aggregate proceed of HK\$7,200,000 will be raised by the Company.

Upon exercise of the Revised Option, the Company shall be required to allot and issue to the Subscriber and the Subscriber shall subscribe from the Company for a maximum of 570,000,000 Option Shares, which represent approximately 12.12% of the Company's existing issued share capital and approximately 10.81% of the Company's issued share capital as enlarged thereby. The exercise price of the Option is HK\$0.038 per Option Share (subject to adjustment). In the case of the maximum number of 570,000,000 Option Shares being exercised, an aggregate proceed of HK\$21,660,000 will be raised by the Company.

The aggregate of the maximum number of 200,000,000 Subscription Shares and 570,000,000 Option Shares will be issued under the general mandate granted to the Board by the Shareholders at the annual general meeting of the Company held on 3 June 2005.

### **Revised expected timetable and trading arrangements for the Capital Reorganisation:**

Since the Company, the Subscriber and the Guarantor have entered into the Supplemental Agreement, the expected timetable and trading arrangements for the Capital Reorganization have to be revised. Details of the revised expected timetable and trading arrangements for the implementation of the Capital Reorganisation are included in this announcement.

### **General:**

The SGM will be re-scheduled to be held on 8th November, 2005 to consider, if thought fit, to approve the resolution(s) to be proposed in respect of the Capital Reorganisation. No Shareholders are required to abstain from voting at the SGM.

A circular containing details of the Capital Reorganisation and other necessary information will be despatched to the Shareholders as soon as practicable.

### **Delay in publication of Interim Results and Interim Report**

Due to the dispute between the management of the Company and one of its major subsidiary company, the senior management of the Group was unable to obtain certain financial information from that subsidiary company until late September 2005 and the Company therefore failed to publish the Interim Results and the Interim Report by 30th September, 2005. In this regard the Company is in breach of Rules 13.48(1) and 13.49(6) of the Listing Rules. The Directors will use their best endeavour to seek full co-operation of the management of that subsidiary company with a view to publish the Interim Results and the Interim Report not later than 28th October 2005. Further notice will be made by the Company once the timetable of results announcement is determined.

### **Continued suspension of trading**

At the request of the Company, trading in shares in the Company was suspended with effect from 9:32 a.m. on Monday, 26th September 2005. The suspension of trading in shares in the Company will continue until and when the Company publishes the Interim Results.

## **THE SUBSCRIPTION AGREEMENT**

On 31st August 2005, the Company, the Subscriber and the Guarantor entered into the Subscription Agreement, pursuant to which the Subscriber has conditionally agreed to subscribe for 200,000,000 Subscription Shares to be allotted and issued by the Company; and (ii) the Original Option to be granted by the Company.

## **THE SUPPLEMENTAL AGREEMENT**

The Company, the Subscriber and the Guarantor have entered into the Supplemental Agreement on 23rd September 2005, pursuant to which the parties agreed to revise (i) the maximum number of new Shares which fall to be issued upon exercise of the Revised Option by the Subscriber; (ii) the consideration of the Revised Option; and (iii) the exercise price of the Revised Option. On 30th September 2005, the Company, the Subscriber and the Guarantor agreed to extend the expected date of Completion to 15th October 2005 (or such other date subject to mutual agreement).

Save for the abovementioned changes, other terms in the Supplemental Agreement remain the same as those of the Subscription Agreement.

Pursuant to the Supplemental Agreement, the principal terms relating to the grant of Revised Option are as follows:

Grantor	:	The Company
Grantee	:	The Subscriber
Underlying securities	:	a maximum number of 570,000,000 Option Shares (subject to adjustment resulting from share consolidation, sub-division, issue of new shares, capitalization of profits, etc.)
Option Price	:	HK\$0.004 per Option Share, totaling to an amount of HK\$2,280,000, which will be payable on the earlier of (a) the period of one month after Completion; and (b) the date of completion for the first exercise of the Revised Option
Exercise price	:	HK\$0.038 per Option Share (subject to adjustment resulting from share consolidation, sub-division, issue of new shares, capitalization of profits, etc.)
Option period	:	commencing from the date of completion of the Supplemental Agreement and ending on 31st December, 2006
Assignment	:	the Revised Option shall not be assigned by the Company or the Subscriber without the prior written consent of the other party

#### *The Option Shares*

Upon the exercise of the Revised Option, the Company shall be required to allot and issue to the Subscriber and the Subscriber shall subscribe from the Company for a maximum number of 570,000,000 new Shares which represent approximately 12.12% of the Company's existing issued share capital and approximately 10.81% of the Company's issued share capital as enlarged by the maximum number of Option Shares.

#### *Exercise price*

The exercise price of HK\$0.038 per Option Share, together with the option price of HK\$0.004 per Option Share:

- (i) represents a premium of approximately 27.3% over the closing price of HK\$0.033 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) represents a premium of 25% over the average closing price of HK\$0.0336 per Share for the last 5 consecutive trading days up to and including the Last Trading Day; and
- (iii) represents a premium of approximately 18.0% over the average closing price of HK\$0.0356 per Share for the last 10 consecutive trading days up to and including the Last Trading Day; and
- (iv) a premium of 68% over the subscription price of HK\$0.025 (as adjusted prior to the Shares Reorganisation) for each rights share pursuant to the terms and conditions of the Rights Issue as announced in the Announcement.

In the case of the maximum number of 570,000,000 Option Shares being issued upon exercise of the Option in full, an aggregate proceed of HK\$21,660,000 (not including the consideration of subscribing for the Revised Option) will be raised by the Company.

## General mandate

The aggregate of 200,000,000 Subscription Shares and the maximum number of 570,000,000 Option Shares, representing approximately 16.37% of the Company's existing issued share capital and approximately 14.07% of the Company's enlarged issued share capital by then, will be issued under the general mandate granted to the Board by the Shareholders at the annual general meeting of the Company held on 3 June 2005.

## 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 Subscription Shares and the Option Shares.

## Shareholding structure of the Company

The table below sets out the Company's existing shareholding structure and the shareholding structure upon completion of the Supplemental Agreement, full exercise of the Revised Option, full conversion of the Convertible Bond and the Capital Reorganization:

	At the date of this announcement		Upon completion of the Supplemental Agreement but prior to the exercise of the Revised Option		Upon completion of the Supplemental Agreement and assuming full conversion of the Convertible Bonds but prior to the exercise of the Revised Option		Upon completion of the Supplemental Agreement and assuming full exercise of the Revised Option but prior to conversion of any Convertible Bonds		Upon completion of the Supplemental Agreement and assuming full conversion of the Convertible Bonds and full exercise of the Revised Option	
	Shares	(%)	Shares	(%)	Shares	(%)	Shares	(%)	Shares	(%)
High Rank Enterprises Limited (Note 1)	317,000,000	6.7	317,000,000	6.5	317,000,000	6.2	317,000,000	5.8	317,000,000	5.6
On Tai Profits Limited (Note 2)	270,000,000	5.7	270,000,000	5.5	270,000,000	5.3	270,000,000	4.9	270,000,000	4.8
Morcambe Corporation (Note 3)	270,000,000	5.7	270,000,000	5.5	270,000,000	5.3	270,000,000	4.9	270,000,000	4.8
Morgan Estate Assets Limited (Note 4)	155,000,000	3.3	155,000,000	3.2	155,000,000	3.0	155,000,000	2.8	155,000,000	2.7
Sub-total	1,012,000,000	21.5	1,012,000,000	20.6	1,012,000,000	19.8	1,012,000,000	18.5	1,012,000,000	17.8
Subscriber	0	0.0	200,000,000	4.1	200,000,000	3.9	770,000,000	14.1	770,000,000	13.6
Noble Idea Investments Limited (Note 5)	441,000,000	9.4	441,000,000	9.0	441,000,000	8.6	441,000,000	8.1	441,000,000	7.8
CB conversion	0	0.0	0	0.0	200,000,000	3.9	0	0.0	200,000,000	3.5
Public shareholders (Note 6)	3,249,413,009	69.1	3,249,413,009	66.3	3,249,413,009	63.7	3,249,413,009	59.4	3,249,413,009	57.3
Total (Note 7)	4,702,413,009	100.0	4,902,413,009	100.0	5,102,413,009	100.0	5,472,413,009	100.0	5,672,413,009	100.0

Notes :

1. Each of Mr. Ho Tsam Hung (an 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 respectively. Mr. Ho Tsam Hung and Mr. Ho Kam Hung are brotherhood.
2. On Tai Profits Limited is wholly owned by a former Director.
3. Morcambe Corporation is wholly owned by Mr. Ho Kam Hung, an executive Director.
4. Morgan Estate Assets Limited is wholly owned by Mr. Ho Tsam Hung, an executive Director.
5. Noble Idea Investments Limited is independent of and not connected with the Directors, the Subscriber and the Guarantor.
6. These figures are based on the latest information available to the Company.
7. After the Capital Reorganization, the number of shares of the Company will reduce to one-tenth of the original number of shares of the Company and there will not be any impact on the respective equity interests of the shareholders of the Company.

### **Reasons for the Supplemental Agreement and Use of Proceeds**

Assuming the Option Shares are fully exercised by the Subscriber within the exercise period, the total funds to be raised by the Company under the Subscription Agreement will be HK\$31,140,000, out of which HK\$9,480,000 will be received within one month after Completion. The Directors presently intend to use HK\$23,340,000 to reduce bank loans while the balance of HK\$7,800,000 will be used as the Group's general working capital. The Directors are of the view that the Supplemental Agreement represents a good opportunity to raise additional funds for the Group's working capital purpose and at the same time strengthen its capital base. Pursuant to the terms of the Supplemental Agreement, the Subscriber will reduce its capital commitment by 170,000,000 Option Shares, while the Company is able to raise more funds per Option Share (taking into account of increases in option price and exercise price), as well as to receive an Option Price of HK\$2,280,000 upfront. The Directors are of the view that the terms of the Revised Option are fair and reasonable and in the interests of the Company.

### **REVISED EXPECTED TIMETABLE FOR THE CAPITAL REORGANISATION**

As set out in the Announcement, the Capital Reorganisation involves the increase in authorised share capital and the Share Consolidation on the basis of every 10 Existing Shares of HK\$0.02 each into one Consolidated Share of HK\$0.20.

Since the Company, the Subscriber and the Guarantor have entered into the Supplemental Agreement, the timetable for the Capital Reorganization will be revised.

Set out below is a revised indicative timetable for the implementation of the Capital Reorganisation. **The Company will notify the Shareholders of any changes to the following expected timetable as and when it is appropriate.**

- Despatch of Circular ..... on or about Tuesday, 18th October
- SGM ..... 10:00 a.m. on Tuesday, 8th November
- Effective date of the Capital Reorganisation ..... 4:00 p.m. on Tuesday, 8th November
- Existing counter for trading in Existing Shares  
in board lots of 10,000 Shares closes ..... 9:30 a.m. on Wednesday, 9th November
- Temporary counter for trading in  
Consolidated Shares in board lots of 1,000  
Consolidated Shares (in the form of existing  
PURPLE share certificates) opens ..... 9:30 a.m. on Wednesday, 9th November
- Free exchange of existing PURPLE share  
certificates for new GREEN share  
certificates commences ..... Wednesday, 9th November
- Existing counter for trading in  
Consolidated Shares in board lots of 10,000  
Consolidated Shares (in the form of new  
GREEN share certificates) opens ..... 9:30 a.m. on Wednesday, 23rd November
- Parallel trading in Consolidated Shares  
(in the form of new GREEN and existing  
PURPLE share certificates) commences ..... 9:30 a.m. on Wednesday, 23rd November
- Designated broker starts to stand in the  
market to provide matching services for  
odd lots of shares ..... Wednesday, 23rd November
- Parallel trading in Consolidated Shares  
(in the form of new GREEN and existing  
PURPLE share certificates) ends ..... 4:00 p.m. on Wednesday, 14th December
- Temporary counter for trading in  
Consolidated Shares in board lots of 1,000  
Consolidated Shares (in the form of existing  
PURPLE share certificates) closes ..... 4:00 p.m. on Wednesday, 14th December
- Designated broker standing in the market  
to provide matching services for odd lots  
of shares ends ..... Wednesday, 14th December
- Free exchange of existing PURPLE share  
certificates for new GREEN share  
certificates ends ..... Monday, 19th December



## Trading arrangements

Upon the Capital Reorganisation becoming effective, all existing purple share certificates for any number of Existing Shares in issue immediately before the effective date will be deemed to be certificates, and will be effective as documents of title, for one-tenth of that number of Existing Shares. New share certificates (which will be green in colour) will be issued for Consolidated Shares. Parallel trading arrangements will be established on the Stock Exchange for dealings in Consolidated Shares in the form of the existing purple share certificates and in the form of the new green share certificates. The trading arrangements proposed for dealings in Consolidated Shares are set out as follows:

- (i) with effect from 9:30 a.m. on Wednesday, 9th November, 2005, the original counter for trading in Existing Shares in existing board lot of 10,000 Existing Shares will close temporarily. A temporary counter for trading in Consolidated Shares represented by existing purple share certificates in board lot of 1,000 Consolidated Shares will be established. Every existing certificate for whatever number of Existing Shares will be deemed to be a certificate, and will be effective as a document of title valid for settlement and delivery for trading transacted from 9:30 a.m. on Wednesday, 9th November, 2005 to 4:00 p.m. on Wednesday, 14th December, 2005 for Consolidated Shares, in the amount equivalent to one-tenth of that number of Existing Shares. The existing purple share certificates for Existing Shares can only be traded at this temporary counter;
- (ii) with effect from 9:30 a.m. on Wednesday, 23rd November, 2005, the original counter will re-open for trading in Consolidated Shares in new board lot of 10,000 Consolidated Shares. Only new green share certificates for Consolidated Shares can be traded at this counter;
- (iii) with effect from 9:30 a.m. on Wednesday, 23rd November, 2005 to 4:00 p.m. on Wednesday, 14th December, 2005 (both dates inclusive), there will be parallel trading at the counters mentioned in (i) and (ii) above; and
- (iv) the temporary counter for trading in Consolidated Shares represented by the existing purple share certificates in the board lot of 1,000 Consolidated Shares will be removed after the close of trading on Wednesday, 14th December, 2005. Thereafter, trading will only be in Consolidated Shares represented by new green share certificates in new board lot of 10,000 Consolidated Shares and the existing purple share certificates for Existing Shares will cease to be marketable and will not be acceptable for dealing and settlement purposes.

Subject to the Capital Reorganisation becoming effective on Tuesday, 8th November, 2005, Shareholders may, during Wednesday, 9th November, 2005, to Monday, 19th December, 2005 (both dates inclusive), submit existing purple share certificates for Existing Shares to Tengis Limited, being the branch share registrar and transfer office of the Company in Hong Kong, in exchange, at the expense of the Company, for new green share certificates for Consolidated Shares (on the basis of 10 Existing Shares for one Consolidated Share). Thereafter, certificates for Existing Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher amount as may be allowed by the Stock Exchange from time to time) for each share certificate for Existing Shares cancelled or each new share certificate issued for Consolidated Shares, whichever number of certificates cancelled/issued is higher. Nevertheless, certificates for Existing Shares will continue to be good evidence of legal title and may be exchanged for certificates for Consolidated Shares at any time.

It is expected that new certificates for Consolidated Share will be available for collection within 10 business days after the submission of the existing share certificates for Existing Shares to the Registrar for exchange. Unless otherwise instructed, new share certificates will be issued in board lot of 10,000 Consolidated Shares each.

Odd lots of Consolidated Shares may arise as a result of the Share Consolidation. In order to alleviate the difficulties in trading odd lots of Consolidated Shares, the Company will appoint a securities company to act as the agent to match, on a “best effort” basis, the sale and purchase of odd lots of Consolidated Shares arising from the Share Consolidation from Wednesday, 23rd November, 2005 up to and including Wednesday, 14th December, 2005. Such arrangement is to facilitate Shareholders who wish to dispose of or top up their odd lots of Consolidated Shares. Details of the designated securities company will be disclosed in the Circular. Shareholders should note that the successful matching of the sale and purchase of odd lots of Consolidated Shares is not guaranteed. Shareholders are recommended to consult their licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser if they are in doubt about the facility described above.

### **ADJUSTMENT OF CONVERSION PRICE OF THE CONVERTIBLE BOND**

Subject to completion of the Capital Reorganisation, 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.

### **MINIMUM NUMBER OF INDEPENDENT NON-EXECUTIVE DIRECTOR**

On 23rd September 2005, an independent non-executive director of the Company tendered his resignation upon completion of one year’s service with the Board the Company, the details of which were disclosed in the announcement of the Company dated 23rd September 2005. After his resignation, the Board only has two independent non-executive directors and the Company fails to meet the requirements under Rules 3.10(1) and 3.10(2) of the Listing Rules, which require the Company must include at least three independent non-executive directors and at least one of them must have appropriate professional qualifications or accounting or related financial management expertise. The Directors will use their best endeavour to appoint additional independent non-executive director(s) to fill the vacancy as soon as practicable but in any event not more than three months from 23 September 2005. Further announcement will be made by the Company as and when it is appropriate.

### **DELAY IN PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT**

Pursuant to Rules 13.48(1) and 13.49(6), the Company is required to publish the Interim Results and the Interim Report not later than 30th September 2005, failing which the shares in the Company will be suspended until and when the Company is able to publish the requisite financial information. Due to the dispute between the management of the Company and one of its major subsidiary company, the senior management of the Group was unable to obtain certain financial information from that subsidiary company until late September 2005 and the Company therefore failed to publish both the Interim Results and the Interim Report by 30th September, 2005. However, the Directors will use their best endeavour to seek full co-operation of the management of that subsidiary company with a view to publish the Interim Results and the Interim Report not later than 28th October 2005. Further notice will be made by the Company once the timetable of results announcement is determined.

The Stock Exchange reserves its right to take appropriate action against the Company and its Directors in respect of such breaches.



## **REFUND UPON TERMINATION OF THE ACQUISITION AGREEMENT**

Reference is made to the Acquisition Agreement. Upon entering into the Acquisition Agreement, the Company has paid HK\$46 million as deposit. The Acquisition Agreement was terminated on 31st August 2005. HK\$40 million of the deposit has been refunded to the Company and the Company will continue to pursue for the refund of the balance of HK\$6 million. If the Company cannot receive such balance by the end of 31st October, 2005, the Company will commence legal proceedings against the Vendor.

## **GENERAL**

The SGM will be re-scheduled to be held on 8th November, 2005 to consider, if thought fit, to approve the resolution(s) to be proposed in respect of the Capital Reorganisation. No Shareholders are required to abstain from voting at the SGM.

A circular containing details of the Capital Reorganisation and other necessary information will be despatched to the Shareholders as soon as practicable.

## **CONTINUED SUSPENSION OF TRADING**

At the request of the Company, trading in shares in the Company was suspended with effect from 9:32 a.m. on Monday, 26th September 2005 pending the release of this announcement. Suspension of trading in shares in the Company will continue until and when the Company publishes the Interim Results. Further announcement will be made by the Company as and when it is appropriate.

## **DEFINITIONS**

Unless defined hereunder otherwise, the terms in this announcement shall have the same meanings as set out in the announcement of the Company dated 12th September 2005:

“Hero Grand” or “Subscriber”	Hero Grand Investments Limited, a company incorporated in the British Virgin Islands with limited liability and the subscriber of the Revised Option and the Subscription Shares
“Interim Report”	the interim report of the Company for the six months ended 30th June 2005
“Interim Results”	the interim results of the Company for the six months ended 30th June 2005
“Last Trading Day”	23rd September 2005, being the last day on which the Shares were traded on the Stock Exchange prior to the release of this announcement
“Original Option”	the option to be granted by the Company to the Subscriber pursuant to the Subscription Agreement, pursuant to which a maximum of 740,000,000 new Shares will be issued upon exercise of the option by the Subscriber
“Option Shares”	a maximum of 570,000,000 new Shares which fall to be issued upon exercise of the Revised Option by the Subscriber under the Supplemental Agreement

“Revised Option”	the option to be granted by the Company to the Subscriber pursuant to the Supplemental Agreement, pursuant to which a maximum of 570,000,000 new Shares will be issued upon exercise of the option by the Subscriber
“Share(s)”	shares of HK\$0.02 each in the capital of the Company
“Subscription”	subscription of Subscription Shares by the Subscriber pursuant to the Supplemental Agreement
“Subscription Agreement”	the agreement for subscription of option and new shares dated 31st August 2005 entered into between the Subscriber, the Company and the Guarantor
“Supplemental Agreement”	the supplemental agreement for subscription of Revised Option and new shares dated 23rd September 2005 entered into between the Subscriber, the Company and the Guarantor

By Order of the Board  
**Zhong Hua International Holdings Limited**  
**Ho Kam Hung**  
*Executive Director*

Hong Kong, 6th October, 2005

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