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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)

### **PROPOSED CAPITAL REORGANISATION AND PROPOSED CHANGE OF BOARD LOT SIZE**

#### **PROPOSED CAPITAL REORGANISATION**

The Board proposes to put forward a proposal to the Shareholders to effect the Capital Reorganisation which involves:

- (i) Capital Reduction: the par value of each Existing Share will be reduced from HK\$0.20 to HK\$0.01 by the cancellation of HK\$0.19 of the paid-up capital on each Existing Share;
- (ii) Sub-division: each of the authorised but unissued Shares in the capital of the Company of par value HK\$0.20 shall be sub-divided into 20 Shares of par value HK\$0.01 each;
- (iii) Diminution of Authorised Share Capital: immediately following the Capital Reduction and the Sub-division, the authorised share capital of the Company shall be diminished from HK\$2,000,000,000 to HK\$100,000,000 divided into 10,000,000,000 Shares of par value HK\$0.01 each by the cancellation of 190,000,000,000 Shares of par value HK\$0.01 each in the authorised but unissued share capital of the Company; and
- (iv) Share Consolidation: upon completion of the Capital Reduction, the Sub-division and the Diminution of Authorised Share Capital becoming effective, every ten (10) shares of HK\$0.01 each in both the issued and unissued share capital of the Company will be consolidated into one (1) Consolidated Share of HK\$0.10 each.

Following the implementation of the Capital Reorganisation set out above, the Company's authorised share capital shall be HK\$100,000,000 divided into 1,000,000,000 Consolidated Shares of par value HK\$0.10 each, and its issued share capital shall be HK\$12,640,413 divided into 126,404,130 Consolidated Shares of par value HK\$0.10 each.

Based on the 1,264,041,300 Shares currently in issue, the aggregate amount of HK\$240,167,847 arising from the above Capital Reduction will be applied to set-off the accumulated losses of the Company as of the effective date of the Capital Reduction with the balance (if any) to be transferred to the contributed surplus account of the Company. The accumulated losses of the Company stood at approximately HK\$612.8 million as at 31 December 2007.

An SGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Capital Reorganisation. The Capital Reorganisation is conditional upon (i) the passing of the necessary resolution(s) by the Shareholders to approve the Capital Reorganisation at the SGM; (ii) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Consolidated Shares; (iii) compliance with Section 46(2) of the Companies Act 1981 of Bermuda to effect the Capital Reduction, which includes, the publication of a notice in relation to the Capital Reorganisation in Bermuda; and (iv) on the date on which the Capital Reduction takes effect, there are no reasonable grounds for believing the Company is, or after the Capital Reduction, would be unable to pay its liabilities as they fall due. As no Shareholder has any material interest in the Capital Reorganisation, no Shareholder is required to abstain from voting in respect of the proposed resolution(s) to approve the Capital Reorganisation at the SGM. A circular containing, among other things, details of the proposed Capital Reorganisation together with a notice convening the SGM will be sent to the Shareholders as soon as practicable.

#### **PROPOSED CHANGE OF BOARD LOT SIZE**

The Board also proposes to change the board lot size for trading in the Shares from 10,000 Existing Shares to 5,000 Consolidated Shares following the Capital Reorganisation.

#### **PROPOSED CAPITAL REORGANISATION**

The Board proposes to put forward a proposal for approval by the Shareholders to effect the Capital Reorganisation which involves:

- (i) Capital Reduction: the par value of each Existing Share will be reduced from HK\$0.20 to HK\$0.01 by the cancellation of HK\$0.19 of the paid-up capital on each Existing Share;

- (ii) Sub-division: each of the authorised but unissued Shares in the capital of the Company of par value HK\$0.20 shall be sub-divided into 20 shares of par value HK\$0.01 each;
- (iii) Diminution of Authorised Share Capital: immediately following the Capital Reduction and the Sub-division, the authorised share capital of the Company shall be diminished from HK\$2,000,000,000 to HK\$100,000,000 divided into 10,000,000,000 Shares of par value HK\$0.01 each by the cancellation of 190,000,000,000 Shares of par value HK0.01 each in the authorised but unissued share capital of the Company; and
- (iv) Share Consolidation: upon completion of the Capital Reduction, the sub-division and the Diminution of Authorised Share Capital becoming effective, every ten (10) shares of HK\$0.01 each in both the issued and unissued share capital of the Company will be consolidated into one (1) Consolidated Share of HK\$0.10 each.

Following the implementation of the Capital Reorganisation set out above, the Company's authorised share capital shall be HK\$100,000,000 divided into 1,000,000,000 Consolidated Shares of par value HK\$0.10 each, and its issued share capital shall be HK\$12,640,413 divided into 126,404,130 Consolidated Shares of par value HK\$0.10 each.

Based on the 1,264,041,300 Shares currently in issue, a credit of HK\$240,167,847 will arise from the Capital Reduction and will be applied to set-off the accumulated losses of the Company as of the effective date of the Capital Reduction with the balance (if any) to be transferred to the contributed surplus account of the Company. The accumulated losses of the Company stood at approximately HK\$612.8 million as at 31 December 2007.

The Directors consider that, other than the expenses relating to the Capital Reorganisation, implementation of the Capital Reorganisation will not, of itself, affect the underlying assets, liabilities, business operations, management operations and financial position of the Company, or the interests or rights of the Shareholders. The Board believes that the Capital Reorganisation will not have any adverse effect on the financial position of the Group.

Set out below is a table illustrating the information in respect of the authorised share capital and issued share capital of the Company before and after the Capital Reorganisation and assuming there will be no change to the issued share capital of the Company from the date of this announcement to the effective date of the Capital Reorganisation:

	<b>Authorised share capital</b>	<b>Issued share capital</b>
Before Capital Reorganisation	HK\$2,000,000,000 divided into 10,000,000,000 Shares of par value HK\$0.20 each	HK\$252,808,260 divided into 1,264,041,300 Shares of par value HK\$0.20 each
After Capital Reorganisation	HK\$100,000,000 divided into 1,000,000,000 Shares of par value HK\$0.10 each	HK\$12,640,413 divided into 126,404,130 Shares of par value HK\$0.10 each

### **Conditions of the Capital Reorganisation**

The Capital Reorganisation is subject to the following conditions:

- (i) the passing of the necessary resolution(s) by the Shareholders to approve the Capital Reorganisation at the SGM;
- (ii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Consolidated Shares;
- (iii) compliance with Section 46(2) of the Companies Act 1981 of Bermuda to effect the Capital Reduction, which includes, the publication of a notice in relation to the Capital Reorganisation in Bermuda in accordance with the Companies Act 1981 of Bermuda; and
- (iv) on the date on which the Capital Reduction takes effect, there are no reasonable grounds for believing the Company is, or after the Capital Reduction, would be unable to pay its liabilities as they fall due.

### **Reasons for the Capital Reorganisation**

Since the Shares have recently been trading at below their nominal value and the Company is not permitted under the laws of Bermuda to issue new Shares below their nominal value, the Board believes that the Capital Reorganisation will give greater flexibility to the Company to raise funds through the issue of new Shares in the future should the market price of the Shares still remain below their current nominal value. In addition, the Company can apply the credit arising from the Capital Reduction to offset the accumulated losses of the Company. Therefore, the Board considers that the Capital Reorganisation is in the interests of the Company and the Shareholders as a whole.

## **PROPOSED CHANGE OF BOARD LOT SIZE**

The Board also proposes to change the board lot size for trading in the Shares from 10,000 Existing Shares to 5,000 Consolidated Shares following the Capital Reorganisation.

Based on the last closing price of HK\$0.10 per Share as quoted on the Stock Exchange on 30 October 2008, being the last trading day immediately before the date of this announcement, the theoretical market value of each new board lot of Consolidated Shares shall be HK\$5,000 while the value of one board lot of Consolidated Shares before effecting the change in board lot size would be HK\$10,000. Such change in the board lot size shall allow the public to have a reasonable entry level to invest in the Consolidated Shares.

## **STATUS OF THE CONSOLIDATED SHARES**

The Consolidated Shares will rank pari passu in all respects with each other and the Share Consolidation will not result in any change in the relative rights of the Shareholders, save that fractional Consolidated Shares will not be issued by the Company to Shareholders but will be aggregated, sold and retained for the benefit of the Company.

## **APPLICATION FOR LISTING OF THE CONSOLIDATED SHARES**

Application will be made by the Company to the Listing Committee of the Stock Exchange for the grant of the listing of, and permission to deal in, the Consolidated Shares to be issued forthwith upon the Capital Reorganisation becoming effective.

## **Expected timetable for the Capital Reorganisation**

Circular to be despatched on . . . . . 14 November 2008

Date of the SGM . . . . . 10 December 2008

Effective date of the Capital Reorganisation . . . . . 11 December 2008

Consolidated Shares commence trading on the  
Stock Exchange . . . . . 9:30 a.m. on 11 December 2008

Original counter for trading in the Shares  
in board lots of 10,000 Shares  
temporarily closes . . . . . 9:30 a.m. on 11 December 2008

Temporary counter for trading in the Consolidated  
Shares in board lots of 1,000 Consolidated Shares  
(in the form of existing share certificates)  
opens . . . . . 9:30 a.m. on 11 December 2008

First day of free exchange of share certificates for  
existing Shares for new share certificates for  
Consolidated Shares . . . . . 11 December 2008

Original counter for trading in the Consolidated  
Shares in board lots of 5,000 Consolidated Shares  
(in the form of new share certificates)  
re-opens. . . . . 9:30 a.m. on 29 December 2008

Parallel trading in the Consolidated Shares  
(in the form of new share certificates and  
existing share certificates) commences . . . . . 9:30 a.m. on 29 December 2008

Designated broker starts to stand in the market  
to provide matching services. . . . . 9:30 a.m. on 29 December 2008

Temporary counter for trading in the Consolidated  
Shares in board lots of 1,000 Consolidated Shares  
(in the form of existing share certificates)  
closes . . . . . 4:10 p.m. on 19 January 2009

Parallel trading in the Consolidated Shares  
(in the form of new share certificates and  
existing share certificates) ends. . . . . 4:10 p.m. on 19 January 2009

Designated broker ceases to stand in the  
market to provide matching services . . . . . 4:10 p.m. on 19 January 2009

Last day of free exchange of the share certificates for  
existing Shares for new share certificates for  
Consolidated Shares . . . . . 21 January 2009

Further announcement(s) will be made by the Company if there is any change to the  
above expected timetable.

## **EXCHANGE OF CERTIFICATES FOR CONSOLIDATED SHARES AND TRADING ARRANGEMENTS**

Subject to the Share Consolidation becoming effective, which is currently expected to be 11 December 2008, being the business day immediately after the date of the SGM, Shareholders may on or after 11 December 2008 and until 4:00 p.m. on 21 January 2009 (both days inclusive), submit their existing share certificates in green for the Existing Shares to the Registrar for exchange for share certificates in pink for the Consolidated Shares at the expense of the Company.

Shareholders should note that after the prescribed time for free exchange of share certificates, a fee of HK\$2.50 (or such higher amount as may from time to time be allowed by the Stock Exchange) will be payable by the Shareholders to the Registrar for exchange of share certificates.

With effect from 20 January 2009, trading will only be in Consolidated Shares which share certificates will be issued in pink. The Consolidated Shares are to be consolidated on the basis of ten (10) Existing Shares to one (1) Consolidated Share. Existing share certificates in green for the Existing Shares will cease to be valid for trading and settlement purpose, but will remain valid and effective as documents of title.

Further, to alleviate the difficulties arising from the existence of odd lots of Consolidated Shares, Dao Heng Securities Limited has been appointed as an agent to provide matching services regarding the sale and purchase of odd lots of Consolidated Shares on a best efforts basis, during the period from 29 December 2008 to 19 January 2009 (both dates inclusive). Holders of the Consolidated Shares in odd lots who wish to take advantage of this matching facility either to dispose of their odd lots of Consolidated Shares or to top up to board lots of 5,000 Consolidated Shares, may contact Ms. Leung Wai Fong, Phoebe of 12th Floor, The Center, 99 Queen's Road Central, Hong Kong at telephone number (852) 2218-2918 during office hours. Shareholders should note that successful matching of the sale and purchase of odd lots of the Consolidated Shares is not guaranteed. The Shareholders are recommended to consult their professional advisers if they are in doubt about the above facility.

## **ADJUSTMENTS IN RELATION TO THE CONVERTIBLE BONDS AND THE SHARE OPTIONS**

Subject to the Capital Reorganisation taking effect, the subscription price and the number of Consolidated Shares to be issued under the Share Options and the conversion price of the Convertible Bonds will be adjusted in accordance with the terms and conditions of the Share Option Scheme and the instrument creating the Convertible Bonds respectively. Further announcement will be made by the Company in respect of such adjustments.

## **GENERAL**

An SGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Capital Reorganisation. As no Shareholder has any material interest in the Capital Reorganisation, no Shareholder is required to abstain from voting in respect of the proposed resolution(s) to approve the Capital Reorganisation at the SGM. A circular containing, among other things, details of the proposed Capital Reorganisation together with a notice convening the SGM will be sent to the Shareholders as soon as practicable.

## **TERMS USED IN THE ANNOUNCEMENT**

In this announcement, the following terms have the following meanings:

“associate(s)”	has the meaning ascribed to it in the definition of the Listing Rules
“Board”	the board of Directors
“Capital Reduction”	the proposed reduction of the par value of each issued Existing Share from HK\$0.20 to HK\$0.01 by cancelling the paid-up capital to extent of HK\$0.19 on each Existing Share
“Capital Reorganisation”	the proposed share capital reorganisation as more fully set out under the section headed “Proposed Capital Reorganisation” in this announcement
“Company”	Zhong Hua International Holdings Limited, a company incorporated in Bermuda with limited liability whose issued Shares are listed on the Main Board of the Stock Exchange
“Consolidated Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company immediately after the Capital Reorganisation becoming effective
“Convertible Bonds”	the zero-coupon convertible bonds of the Company with aggregate outstanding principal amount of HK\$84,000,000 which are convertible into new Shares starting from December 2007 at the conversion price of HK\$0.28 per Share (subject to adjustments)



“Diminution of Authorised Share Capital”	the proposed diminution of authorised share capital of the Company to HK\$100,000,000 divided into 10,000,000,000 Shares of par value HK\$0.01 each
“Director(s)”	director(s) of the Company
“Existing Shares”	ordinary shares of HK\$0.20 each in the existing issued share capital of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“SGM”	the special general meeting of the Company to be convened to approve the Capital Reorganisation
“Share(s)”	the Existing Shares prior to, Consolidated Shares after the Capital Reorganisation becoming effective (as the case may be)
“Shareholder(s)”	holder(s) of the Shares
“Share Consolidation”	the proposed consideration of every ten (10) issued and unissued Shares of HK\$0.01 each (after the Capital Reduction) in the capital of the Company into one (1) Consolidated Share of HK\$0.10 each
“Share Options”	the options to subscribe for Shares granted pursuant to the Share Option Scheme
“Share Option Scheme”	the share option scheme adopted by the Company on 11 June 2002

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

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

Hong Kong, 31 October 2008

*As at the date of this announcement, the Board comprises: (i) Mr. Ho Kam Hung as executive Director; (ii) Ms. Lam Kuo and Mr. Young Kwok Sui as non-executive Directors; and (iii) Mr. Lawrence K. Tam, Ms. Wong Miu Ting, Ivy and Mr. Wong Kui Fai as independent non-executive Directors.*

\* *For identification purpose only*