



ZHONG HUA INTERNATIONAL HOLDINGS LIMITED

中華國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1064)

FINAL AUDITED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2005

The Board of Directors (the “Directors”) of Zhong Hua International Holdings Limited (the “Company”) would like to announce the audited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2005, together with the comparative figures for the corresponding period in 2004 as follows:

CONSOLIDATED INCOME STATEMENT

	Notes	2005 HK\$'000	2004 HK\$'000 (Restated)
REVENUE	3	17,213	25,145
Cost of sales		(21,292)	(19,545)
Gross profit/(loss)		(4,079)	5,600
Other income		1,613	1,157
Change in fair value of investment properties		97,932	–
Gain on disposal of interests in subsidiaries		22,568	85,763
Selling and distribution costs		–	(12)
Administrative expenses		(24,792)	(9,657)
Other operating expenses, net		(66,744)	(33,437)
Finance costs	4	(6,168)	(4,540)
PROFIT BEFORE TAX	5	20,330	44,874
Tax	6	(34,090)	(2,320)
PROFIT/(LOSS) FOR THE YEAR		(13,760)	42,554
ATTRIBUTABLE TO:			
Equity holders of the Company		(13,771)	46,131
Minority interests		11	(3,577)
		(13,760)	42,554
EARNINGS/(LOSS) PER SHARE			
ATTRIBUTABLE TO ORDINARY			
EQUITY HOLDERS OF THE COMPANY	7		
– BASIC		HK(3.10) cents	HK13.98 cents
– DILUTED		N/A	HK13.82 cents

CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment		118,176	130,186
Investment properties		285,000	183,600
Intangible assets		16,490	23,303
Goodwill		79,788	84,882
Interests in jointly-controlled entities		–	–
Trade receivables	8	–	10,055
Prepaid rental		17,179	17,808
Deposits and other receivable		40,000	64,003
Pledged deposits		354	776
Total non-current assets		556,987	514,613
CURRENT ASSETS			
Trade receivables	8	45,954	35,689
Prepayments, deposits and other receivables		18,541	101,886
Cash and cash equivalents		133,151	106,254
Total current assets		197,646	243,829
CURRENT LIABILITIES			
Trade payables	9	(31,333)	(31,486)
Tax payable		(16,895)	(14,884)
Other payables and accruals		(22,773)	(17,065)
Interest-bearing bank and other borrowings		(31,762)	(50,322)
Deferred income		(18,057)	(40,625)
Convertible bond		(29,782)	–
Total current liabilities		(150,602)	(154,382)
NET CURRENT ASSETS		47,044	89,447
TOTAL ASSETS LESS CURRENT LIABILITIES		604,031	604,060
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		(22,893)	(27,601)
Convertible bond		–	(29,426)
Deferred tax liabilities		(55,093)	(22,502)
Total non-current liabilities		(77,986)	(79,529)
Net assets		526,045	524,531
CAPITAL AND RESERVES			
Equity attributable to equity holders of the Company			
Issued capital		98,048	78,388
Reserves		427,997	430,060
		526,045	508,448
Minority interests		–	16,083
Total equity		526,045	524,531

(b) Effect on opening balance of total equity at 1 January 2005 and 1 January 2004

At 1 January	Effect of adopting							
	HKAS 32		HKAS 40		HK(SIC)-Int21		Total	
	Convertible bond		Investment properties		Deferred tax arising from revaluation of investment properties			
	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Investment properties revaluation reserve	-	-	(40,964)	(40,964)	-	-	(40,964)	(40,964)
Equity component of a convertible bond	707	-	-	-	-	-	707	-
Retained profits	(133)	-	40,964	40,964	(3,805)	(3,805)	37,026	37,159
							<u>(3,231)</u>	<u>(3,805)</u>

(c) Effect on the consolidated income statement for the year ended 31 December 2005 and 31 December 2004

At 31 December	Effect of adopting									
	HKFRS 3		HKAS 32		HKAS 40		HK(SIC)-Int21		Total	
	Amortisation of goodwill		Convertible bond		Investment properties		Deferred tax arising from revaluation of investment properties			
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Increase in finance costs	-	-	(355)	(133)	-	-	-	-	(355)	(133)
Change in fair value of investment properties	-	-	-	-	97,932	-	-	-	97,932	-
Decrease in other operating expenses	9,016	-	-	-	-	-	-	-	9,016	-
Increase in tax	-	-	-	-	-	-	(32,317)	-	(32,317)	-
									<u>74,276</u>	<u>(133)</u>

3. TURNOVER AND SEGMENT INFORMATION

The following table presents revenue and results information for the Group's business segments.

	Property investment		Leasing of equipment		Telecommunication and other related services		Corporate and others		Total	
	2005 HK\$'000	2004 HK\$'000 (Restated)	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000 (Restated)	2005 HK\$'000	2004 HK\$'000 (Restated)
Segment revenue:										
Sales to external customers	6,722	5,804	3,678	3,639	6,813	15,382	–	320	17,213	25,145
Other revenue and gains	97,932	–	–	–	–	–	22,568	85,763	120,500	85,763
Total	104,654	5,804	3,678	3,639	6,813	15,382	22,568	86,083	137,713	110,908
Segment results	103,683	4,940	(4,192)	(13,047)	(71,061)	(12,782)	(3,545)	69,146	24,885	48,257
Interest income									1,613	1,157
Finance costs									(6,168)	(4,540)
Profit before tax									20,330	44,874
Tax									(34,090)	(2,320)
Profit/(loss) for the year									(13,760)	42,554

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

4. FINANCE COSTS

	2005 HK\$'000	2004 HK\$'000 (Restated)
Interest on :		
Bank loans	4,836	4,043
Finance lease	151	64
Convertible bond	1,181	433
	6,168	4,540

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting) the following:

	2005 HK\$'000	2004 HK\$'000
Cost of inventories sold	–	220
Cost of services provided	21,292	19,325
Depreciation	14,453	9,456
Impairment of goodwill	49,000	7,000
Amortisation of prepaid rental	1,000	580
Amortisation of intangible assets	7,356	8,429
Amortisation of goodwill on acquisition of subsidiaries	–	5,281
Bank interest income	(1,613)	(1,157)
Gross and net rental income	(6,722)	(5,804)

6. TAX

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Provision for the year:		
Current - elsewhere	1,773	2,071
Deferred taxation	<u>32,317</u>	<u>249</u>
Total tax charge for the year	<u><u>34,090</u></u>	<u><u>2,320</u></u>

No provision for Hong Kong profits tax has been made as the Group did not generate any taxable profits in Hong Kong during the year.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. The subsidiaries established in Mainland China are subject to income taxes at the tax rate of 33%.

7. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic loss per share is based on the net loss for the year attributable to ordinary equity holders of the Company of HK\$13,771,000 (2004: net profit for the year attributable to ordinary equity holders of the Company of HK\$46,131,000 (restated)), and the weighted average number of 444,847,328 (2004: 329,985,782) ordinary shares in issue during the year, adjusted to reflect the capital reorganisation on 27 April 2006 as further detailed note 10(f).

A diluted loss per share for the year ended 31 December 2005 has not been disclosed as the convertible bond and share option outstanding during the year had anti-dilutive effects on the basic loss per share for the year.

The calculation of diluted earnings per share for the year ended 31 December 2004 is based on the net profit for that year attributable to ordinary equity holders of the Company of HK\$46,131,000, adjusted to reflect the interest on the convertible bond of HK\$433,000, and the weighted average number of 337,031,275 ordinary shares in issue during that year, adjusted to reflect the capital reorganisation on 27 April 2006 as further detailed in note 10(f).

A reconciliation of the weighted average number of shares used in the basic earnings per share calculation for the year ended 31 December 2004 to that used in the diluted earnings per share calculation is as follows:

Shares	<i>Number of shares</i>
Weighted average number of ordinary shares used in the basic earnings per share calculation	329,985,782
Weighted average number of ordinary shares assumed to have been issued on the conversion of bond	<u>7,045,493</u>
	<u><u>337,031,275</u></u>

8. TRADE RECEIVABLES

An aged analysis of the trade receivables at the balance sheet date is as follows:

	2005		2004	
	HK\$'000	Percentage	HK\$'000	Percentage
Within 6 months	5,088	11	17,639	39
More than 6 months but within 1 year	5,986	13	11,735	26
More than 1 year but within 2 years	16,895	37	3,847	8
More than 2 years	13,938	30	4,598	10
Not due at 31 December	4,047	9	7,925	17
	<u>45,954</u>	<u>100</u>	<u>45,744</u>	<u>100</u>
Portion classified as current assets	<u>(45,954)</u>		<u>(35,689)</u>	
Non-current assets	<u>–</u>		<u>10,055</u>	

The Group generally grants credit terms of 3 to 12 months to its customers.

The age of the Group's trade receivables are based on the date of recognition of turnover and the due date of instalments as stipulated in the sales contracts.

HK\$19,415,000 (2004: HK\$19,524,000) included in the total trade receivables are attributable to properties sold in prior years. The legal titles of the properties sold are retained by the Group until the contracted amounts and the related expenses of the properties have been fully settled.

9. TRADE PAYABLES

An aged analysis of the trade payables at the balance sheet date is as follows:

	2005		2004	
	HK\$'000	Percentage	HK\$'000	Percentage
Within 6 months	–	–	195	1
More than 6 months but within 1 year	–	–	343	1
More than 1 year but within 2 years	105	1	3	–
More than 2 years but within 3 years	–	–	195	1
Over 3 years	31,228	99	30,750	97
	<u>31,333</u>	<u>100</u>	<u>31,486</u>	<u>100</u>

The age of the Group's trade payables are based on the date of the goods received or services rendered.

10. POST BALANCE SHEET EVENTS

- (a) On 23 January 2006, the Group entered into an agreement with the purchaser of certain former subsidiaries to reschedule the repayment date of the remaining consideration receivable of HK\$40,000,000 to a date not later than 31 January 2007. As at the balance sheet date, the Group has received an aggregate amount of HK\$310,000,000 from the purchaser.
- (b) On 24 February 2006, Asia Pacific Broadband Entertainment Corporation Limited (formerly known as CNC Broadband Entertainment Corporation Limited) ("APBEC"), the holder of convertible bond, exercised the conversion rights attached to the convertible bond. Accordingly, 200,000,000 new shares at HK\$0.02 each in the capital of the Company were allotted and issued to APBEC at an issue price of HK\$0.15 per share on 24 February 2006.

- (c) On 10 February 2006, a total of 260,000,000 share options were granted to certain eligible persons (other than directors of the Company and their respective associates) as defined in the rules of a share option scheme of the Company (the “Share Option Scheme”) adopted in 2002. These share options were vested on 10 February 2006, and had an exercise price of HK\$0.02 per share and an exercise period from 10 February 2006 to 9 February 2009. All share options were subsequently exercised and 22,000,000 Consolidated Shares (as defined below) and 4,000,000 Consolidated Shares (as defined below) were issued and allotted on 5 June 2006 and 20 June 2006 respectively.

On 30 March 2006, a total of 38,000,000 share options were granted to certain eligible persons (other than directors of the Company and their respective associates) as defined in the Share Option Scheme. These share options were vested on 30 March 2006, and had an exercise price of HK\$0.032 per share and an exercise period from 30 March 2006 to 29 March 2009. 30,000,000 share options were subsequently exercised and 3,000,000 Consolidated Shares (as defined below) were issued and allotted on 5 June 2006.

As a result, cash proceeds of HK\$6,160,000 were raised from the exercise of share options.

- (d) On 28 March 2006, the Company entered into a subscription agreement with an independent third party pursuant to which the subscriber agreed to subscribe 170,000,000 new shares at HK\$0.02 each in the capital of the Company at an issue price of HK\$0.03 per share. On 25 April 2006, 170,000,000 new shares were issued and allotted to the subscriber, and a gross proceed of HK\$5,100,000 was raised by the Company, which would be used for general working capital of the Company.
- (e) On 18 April 2006, Hero Grand Investments Limited (“Hero Grand”), the holder of an option with entitlement to subscribe for a maximum of 570,000,000 new shares of HK\$0.02 cash in the capital of the Company (“Option Shares”) at an exercise price of HK\$0.038 per share, subject to adjustments, served the notice for subscription of 100,000,000 Option Shares at an exercise price of HK\$0.038. The 100,000,000 Option Shares were allotted and issued on 25 April 2006, and a gross proceed of HK\$3,800,000 was raised by the Company.
- (f) On 10 April 2006, the Company proposed a capital reorganisation (the “Reorganisation”) to consolidate every ten shares of HK\$0.02 each in the issued and unissued share capital of the Company into one share of HK\$0.20 each in the issued and unissued share capital of the Company (the “Consolidated Shares”). Pursuant to the Reorganisation, the authorised share capital of the Company was also increased from HK\$120 million to HK\$ 200 million by the creation of an additional 400 million Consolidated Shares. The Reorganisation was approved by shareholders at the special general meeting of the Company held on 27 April 2006.

FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2005.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be temporarily closed from Monday, 28 August 2006 to Tuesday, 29 August 2006, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the attendance at the Company’s annual general meeting to be held on Wednesday, 30 August 2006 all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Friday, 25 August 2006.

BUSINESS REVIEW

The Group recorded a turnover of HK\$17,213,000 (31 December 2004: HK\$25,145,000) for the year ended 31 December 2005, representing a decrease of 32% compared with 2004. Net loss for the year attributable to ordinary equity holders of the Company was HK\$13,771,000 (31 December 2004: net profit of HK\$46,131,000 (restated)).

The Group's turnover in the year mainly comprised the rental income generated from the commercial podium in Chongqing in Mainland China, the leasing of Point-of-sale ("POS") equipment in Guangzhou and the provision of telecommunication and other related services in Mainland China.

In addition, the Group received HK\$50,000,000 which formed part of the consideration receivable from the disposal of 51% equity interest in certain former subsidiaries in the year, which recognised a gain on disposal of HK\$22,568,000.

In June 2005, it was announced that the Group would engaged in passenger cruise operation between Guangzhou and Hong Kong, and in July 2005, the Company further proposed to carry out a rights issue with an objective to raise not less than HK\$58,800,000 to finance the cruise operation business. In September 2005, the Group did not proceed the rights issue and the proposed acquisition of passenger cruise vessel.

PROPERTY INVESTMENT

The rental income generated from leasing of the commercial units in Gang Yu Square in Chongqing in Mainland China, was increased in the year compared with 2004. The occupancy rate of the square in the year remained satisfactory. It is expected that the business will continue to generate a steady stream of income to the Group. HK\$97,932,000 was attributable to property revaluation surplus following the adoption of new accounting standards since January 2005.

LEASING OF EQUIPMENT

Since 2003, the Group had engaged in leasing of corded and cordless POS equipment in Guangzhou for a term of five years with an option to extend till 17 July 2011. The demand for POS equipment remained steady during the year. The Group will explore business opportunities for other value added services adhered to the leasing of the POS equipment.

PROVISION OF TELECOMMUNICATION AND OTHER RELATED SERVICES

Since 2004, the Group had engaged in the business of providing integrated telecommunication network services to online game developers and other broadband media providers via its operating subsidiary. In February 2005, the Group further acquired the remaining 19.1% equity interest at a cash consideration of HK\$60,000,000. Due to cut-throat competition in the dynamic online business market in Guangzhou, the PRC, it was difficult for integrated telecommunication network service providers to secure a steady profit margin unless new and attractive online games and/or related broadband media products kept emerging from the market to drum up demand for such services. In this connection, impairment of HK\$49,000,000 has been made to this investment project. The management of the Company will continue to focus on developing new business models and, if practicable, to identify strategic investors to co-invest in new business developments.

FINANCIAL REVIEW

In the year ended 31 December 2005, the Group generally financed its businesses with internally generated cash flows, banking facilities and net proceeds from placing of new shares in the year.

Cash and bank balances for the Group as at 31 December 2005 amounted to HK\$131,151,000 (31 December 2004: HK\$106,254,000) and pledged deposits of HK\$354,000 (31 December 2004: HK\$776,000).

As at 31 December 2005, the Group had outstanding borrowings of approximately HK\$84,437,000 comprising interest-bearing bank loans and borrowings amounted to HK\$54,140,000 (31 December 2004: HK\$77,300,000), convertible bonds payable amounted to HK\$29,782,000 (31 December 2004: HK\$29,426,000 (restated)) and finance lease payables amounted to HK\$515,000 (31 December 2004: HK\$623,000). Of the Group's interest-bearing bank loans and borrowings, 58%, 9% and 33% respectively are repayable within one year or on demand, in the second year and in the third to fifth years, inclusive. An amount of HK\$26,564,000 bank loans as at 31 December 2005 were charged at fixed interest rates (31 December 2004: HK\$45,120,000).

The Group's gearing ratio as at 31 December 2005 was 0.28 (31 December 2004: 0.25), calculated based on the Group's total liabilities, excluding deferred income, of HK\$210,531,000 (31 December 2004: HK\$193,286,000 (restated)) over total assets of HK\$754,633,000 (31 December 2004: HK\$758,442,000).

During the year, the Group carried out two fund raising exercises. In May 2005, 783,000,000 new shares were placed to independent third parties at HK\$0.02 per share, raising a gross proceed of HK\$15,660,000. The placing was completed in June 2005. In September 2005, 200,000,000 new shares were placed to an independent third party at HK\$0.036 per share, raising a gross proceed of HK\$7,200,000. In addition, the Company granted an option to the same party for a consideration of HK\$2,280,000, pursuant to which the third party is entitled to exercise the option to subscribe up to a maximum of 570,000,000 new shares at HK\$0.038 per share. As a result, an aggregate proceed of HK\$9,480,000 were raised. The new shares were allotted and issued in October 2005.

PROSPECTS

The Group is principally engaged in property investment, leasing of point-of-sale equipment and provision of telecommunication and other related services in the PRC. Given that the Group had extensive experience in property development and investment in the PRC since 1992, the Directors consider that they should capitalize their expertise and connections in this area for the Group's future business development. Hence, it is expected that the Group will consolidate its business sectors and formulate a new business direction in the coming year. In this respect, the Directors are optimistic that the continuing economic growth in the PRC will serve to facilitate the business growth of the Group.

CODE ON CORPORATE GOVERNANCE PRACTICE

In the opinion of the Directors, the Company has complied with the Code on Corporate Governance Practice (the "Code") as set out in Appendix 14 of the Listing Rules throughout the year, except for the deviations disclosed in the Company's latest interim report for the six months ended 30 June 2005. Detail information is set out in the Corporate Governance Report included in the Company's Annual Report to be despatched to the shareholders in due course.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company had adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by its directors. Having made specific enquiry of the Directors, the Company confirmed that the Directors have complied with required standard set out in the Model Code throughout the accounting period covered by the annual report.

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

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

AUDIT COMMITTEE

The Audit Committee comprises one non-executive Director and three independent non-executive directors of the Company. The Group's financial statements for the year ended 31 December 2005 have been reviewed by the Audit Committee, who are of the opinion that such statements comply with the applicable accounting standards and legal requirements and that adequate disclosures have been made.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

The annual report of the Group for the year ended 31 December 2005 containing all information required by Appendix 16 of the Listing Rules will be published on the web site of the Stock Exchange in due course.

SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, trading in the shares was suspended with effect from 28 April 2006 pending the release of the annual results of the Company for the year ended 31 December 2005. Application has been made by the Company to the Stock Exchange for resumption of trading in the shares of the Company with effect from 9:30 a.m. on Friday 7 July 2006.

By order of the Board
Ho Kam Hung
Executive Director

Hong Kong, 5 July 2006

As at the date of this announcement, the Board comprises: (i) Messrs. Ho Tsam Hung, Mr. Ho Kam Hung and Mr. Yang Jia Jian as executive directors; (ii) Ms. Yeung Mo Sheung, Ms. Lam Kuo and Mr. Young Kwok Sui as non-executive directors; and (iii) Messrs. Mr. Wong Ting Kon, Mr. Lawrence K. Tam and Ms. Wong Miu Ting, Ivy as independent non-executive directors.