



# ZHONG HUA INTERNATIONAL HOLDINGS LIMITED

## 中華國際控股有限公司\*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1064)

### UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

The Board of Directors (the “Directors”) of Zhong Hua International Holdings Limited (the “Company”) would like to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2006 (the “Interim Results”), together with the comparative figures for the corresponding period in 2005, as follows:

#### CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
		2006	2005
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
<b>TURNOVER</b>	2	<b>6,399</b>	11,139
Cost of sales		<u>(9,248)</u>	<u>(10,897)</u>
Gross profit/(loss)		(2,849)	242
Other income		1,048	751
Change in fair value of investment properties		–	10,700
Administrative expenses		(11,456)	(9,831)
Other operating expenses, net		575	(5,361)
Finance costs	3	<u>(2,587)</u>	<u>(3,091)</u>
<b>LOSS BEFORE TAX</b>	4	<b>(15,269)</b>	(6,590)
Tax	5	<u>(1,383)</u>	<u>(3,601)</u>
<b>LOSS FOR THE PERIOD</b>		<b>(16,652)</b>	(10,191)
<b>ATTRIBUTABLE TO:</b>			
Equity holders of the Company		(16,652)	(10,202)
Minority Interests		<u>–</u>	<u>11</u>
		<u><b>(16,652)</b></u>	<u>(10,191)</u>
<b>LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY</b>			
– BASIC	7	<u><b>HK(3.21) cents</b></u>	<u>HK(2.48) cents</u>
– DILUTED		<u><b>N/A</b></u>	<u>HK(2.31) cents</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

		<b>30 June 2006 (Unaudited) HK\$'000</b>	31 December 2005 (Audited) HK\$'000
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>114,959</b>	118,176
Investment properties		<b>286,890</b>	285,000
Intangible assets		<b>13,860</b>	16,490
Goodwill		<b>79,788</b>	79,788
Prepaid rental		<b>16,842</b>	17,179
Deposits and other receivable		–	40,000
Pledged deposits		<b>401</b>	354
		<hr/>	<hr/>
Total non-current assets		<b>512,740</b>	556,987
		<hr/>	<hr/>
<b>CURRENT ASSETS</b>			
Trade receivables	8	<b>32,365</b>	45,954
Prepayments, deposits and other receivables		<b>66,393</b>	18,541
Cash and cash equivalents		<b>154,443</b>	133,151
		<hr/>	<hr/>
Total current assets		<b>253,201</b>	197,646
		<hr/>	<hr/>
<b>CURRENT LIABILITIES</b>			
Trade payables	9	<b>(31,526)</b>	(31,333)
Tax payable		<b>(18,424)</b>	(16,895)
Other payables and accruals		<b>(27,456)</b>	(22,773)
Interest-bearing bank and other borrowings		<b>(32,781)</b>	(31,762)
Convertible Bond		–	(29,782)
Deferred income		<b>(18,057)</b>	(18,057)
		<hr/>	<hr/>
Total current liabilities		<b>(128,244)</b>	(150,602)
		<hr/>	<hr/>
<b>NET CURRENT ASSETS</b>		<b>124,957</b>	47,044
		<hr/>	<hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>637,697</b>	604,031
		<hr/>	<hr/>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings		<b>(22,811)</b>	(22,893)
Deferred tax liabilities		<b>(55,242)</b>	(55,093)
		<hr/>	<hr/>
Total non-current liabilities		<b>(78,053)</b>	(77,986)
		<hr/>	<hr/>
Net assets		<b>559,644</b>	526,045
		<hr/> <hr/>	<hr/> <hr/>
<b>CAPITAL AND RESERVES</b>			
<b>Equity attributable to equity holders of the Company</b>			
Issued capital		<b>113,248</b>	98,048
Reserves		<b>446,396</b>	427,997
		<hr/>	<hr/>
Total equity		<b>559,644</b>	526,045
		<hr/> <hr/>	<hr/> <hr/>

Notes:

## 1. Significant accounting policies

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2005, except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) that affect the Group and are mandatory for accounting period beginning on or after 1 January 2006:

HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS – Int 4	Determining whether an Arrangement contains a Lease

The adoption of the above HKFRSs did not result in material impact on the accounting policies of the Group’s condensed consolidated interim financial statements.

## 2. Segment information

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

### For the six months ended 30 June (Unaudited)

	Property investment		Leasing of equipment		Telecommunication and other related services		Corporate and others		Consolidated	
	2006 (Unaudited) HK\$’000	2005 (Unaudited) HK\$’000	2006 (Unaudited) HK\$’000	2005 (Unaudited) HK\$’000	2006 (Unaudited) HK\$’000	2005 (Unaudited) HK\$’000	2006 (Unaudited) HK\$’000	2005 (Unaudited) HK\$’000	2006 (Unaudited) HK\$’000	2005 (Unaudited) HK\$’000
<b>Segment revenue:</b>										
Sales to external customers	4,355	2,909	1,868	1,824	176	6,406	-	-	6,399	11,139
Other revenue and gains	-	10,700	-	-	-	-	-	-	-	10,700
<b>Total</b>	<b>4,355</b>	<b>13,609</b>	<b>1,868</b>	<b>1,824</b>	<b>176</b>	<b>6,406</b>	<b>-</b>	<b>-</b>	<b>6,399</b>	<b>21,839</b>
<b>Segment results</b>	<b>4,199</b>	<b>13,225</b>	<b>(2,280)</b>	<b>(2,124)</b>	<b>(6,266)</b>	<b>(8,004)</b>	<b>(9,383)</b>	<b>(7,347)</b>	<b>(13,730)</b>	<b>(4,250)</b>
Interest income									1,048	751
Finance costs									(2,587)	(3,091)
Loss before tax									(15,269)	(6,590)
Tax									(1,383)	(3,601)
<b>Loss for the period</b>									<b>(16,652)</b>	<b>(10,191)</b>

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”).

### 3. Finance costs

	For the six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans	2,411	2,353
Interest on finance lease	–	150
Interest on convertible bond	176	588
	<u>2,587</u>	<u>3,091</u>

### 4. Loss before tax

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

	For the six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation	7,315	7,184
Amortisation of intangible assets	2,828	3,840
Provision for doubtful debts	–	5,880
Interest income	(1,013)	(751)
Net rental income	(4,355)	(2,909)
Write back of other receivables	(575)	(519)
	<u>(575)</u>	<u>(519)</u>

### 5. TAX

	For the six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Provision for the period:		
Hong Kong	–	–
Elsewhere	1,383	70
Deferred taxation	–	3,531
	<u>1,383</u>	<u>3,601</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 six months ended 30 June 2006 (the "Period") (2005: Nil).

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.

### 6. INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the Period (2005: Nil).

### 7. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic loss per share for the Period is based on the loss attributable to ordinary equity holders of the Company of HK\$16,652,000 (2005: net loss of HK\$10,202,000) and the weighted average number of 518,103,178 (2005: 411,408,151, adjusted to reflect the capital reorganisation on 27 April 2006 as further detailed in the section "Capital reorganisation" below) ordinary shares in issue during the Period.

A diluted loss per share for the Period has not been disclosed as the share option outstanding during the Period had an anti-dilutive effect on the basic loss per share for the Period.

The calculation of diluted loss per share for the six months ended 30 June 2005 is based on the loss attributable to ordinary equity holders of the Company of HK\$9,716,000, after adjusting for the interest saved upon the deemed conversion of all convertible bond. The weighted average number of ordinary shares used in the calculation is the 411,408,151 ordinary shares in issue during the six months ended 30 June 2005, as used in the basic loss per share calculation; and the weighted average of 10,000,000 ordinary shares assumed to have been issued on the deemed conversion of all convertible bonds during the six months ended 30 June 2005. The above number of shares has been adjusted to reflect the capital reorganisation on 27 April 2006 as further detailed in the section "Capital reorganisation" below.

## 8. TRADE RECEIVABLES

The aged analysis of the trade receivables at the balance sheet date, net of provisions, is as follows:

	30 June 2006 (Unaudited)		31 December 2005 (Audited)	
	HK\$'000	Percentage	HK\$'000	Percentage
Within 6 months	2,002	6	5,088	11
More than 6 months but within 1 year	5,140	16	5,986	13
More than 1 year but within 2 years	6,046	19	16,895	37
More than 2 years	15,089	47	13,938	30
Not due at balance sheet date	4,088	12	4,047	9
	<u>32,365</u>	<u>100</u>	<u>45,954</u>	<u>100</u>
Portion classified as current assets	<u>(32,365)</u>		<u>(45,954)</u>	
Non-current assets	<u>-</u>		<u>-</u>	

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

The legal titles of the properties sold are retained by the Group until the contracted amounts and the related expenses of the property have been fully settled.

## 9. TRADE PAYABLES

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

	30 June 2006 (Unaudited)		31 December 2005 (Audited)	
	HK\$'000	Percentage	HK\$'000	Percentage
Within 6 months	-	-	-	-
More than 6 months but within 1 year	-	-	-	-
More than 1 year but within 2 years	-	-	105	1
More than 2 years but within 3 years	81	1	-	-
Over 3 years	31,445	99	31,228	99
	<u>31,526</u>	<u>100</u>	<u>31,333</u>	<u>100</u>

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

## **REVIEW OF RESULTS**

The Directors would like to report that the Group recorded a turnover of HK\$6,399,000 (30 June 2005: HK\$11,139,000) for the six months ended 30 June 2006 (the “Period”), representing a decrease of 43% compared with the corresponding period. Loss attributable to ordinary equity holders of the Company was HK\$16,652,000 (30 June 2005: net loss of HK\$10,202,000) for the Period.

## **REVIEW OF OPERATIONS**

The Group’s turnover during the Period mainly comprised of rental income generated from the commercial podium in Chongqing, the People’s Republic of China (the “PRC”), the leasing of point-of-sale (“POS”) equipment in Guangzhou, the PRC and the provision of telecommunication and other related services in the PRC.

### **Property investment**

The rental income generated from leasing of the commercial units in Gang Yu Square in Chongqing in the PRC increased in the Period compared with 2005.

The occupancy rate of the square remained satisfactory during the Period. It was expected that the business would continue to generate a steady stream of income to the Group.

### **Leasing of POS equipment**

Since 2003, the Group had engaged in the business of leasing corded and cordless POS equipment in Guangzhou, the PRC. The demand for POS equipment remained steady during the Period. 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. 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. Since late 2005, the management of the Group’s telecommunication division has been focusing on developing new business models and, if practicable, to identify strategic investors to co-invest in new business developments.

### **Conversion of Convertible Bond**

On 24 February 2006, Asia Pacific Broadband Entertainment Corporation Limited (formerly known as CNC Broadband Entertainment Corporation Limited), the holder of the Convertible Bond, exercised the conversion rights of the Convertible Bond. 20,000,000 shares with a par value of HK\$0.2 each of the Company were converted at the conversion price of HK\$1.5 per share.

The above number of shares and conversion price have been adjusted to reflect the capital reorganisation on 27 April 2006 as further detailed in the section “Capital reorganisation” below.

## **Placement of new shares**

On 28 March 2006, the Company entered into a subscription agreement with an independent third party which had conditionally agreed to subscribe for 17,000,000 shares to be issued and allotted by the Company at a subscription price of HK\$0.3 per share. On 25 April 2006, the Company issued and allotted 17,000,000 shares at HK\$0.3 per share resulting in raising a gross proceed of HK\$5.1 million, which will be used for general working capital of the Group.

The above number of shares and subscription price have been adjusted to reflect the capital reorganisation on 27 April 2006 as further detailed in the section “Capital reorganisation” below.

## **Subscription of new shares and grant of option**

On 31 August and 23 September 2005, a subscription agreement and a supplemental agreement were respectively entered into between the Company, a subscriber and a guarantor who are both independent third parties, pursuant to which the subscriber had conditionally agreed to subscribe for 20,000,000 new shares (the “Subscription Shares”) at a subscription price of HK\$0.36 per share, and the Company had conditionally agreed to grant an option (the “Option”) to the subscriber at a price of HK\$2,280,000. Pursuant to the terms of the deed of the Option, the subscriber will be entitled to subscribe a maximum of 57,000,000 new shares (the “Option Shares”) at an exercise price of HK\$0.38 per share anytime from the date of the completion of the supplemental agreement and up to 31 December 2006. The Subscription Shares were allotted and issued to the subscriber in October 2005.

On 18 April 2006, the subscriber served the notice for subscription of 10,000,000 Option Shares at an exercise price of HK\$0.38. The 10,000,000 Option Shares were allotted and issued on 25 April 2006, and a gross proceed of HK\$3,800,000 was raised by the Company.

Subsequent to the balance sheet date, on 11 August 2006 and 22 August 2006, the subscriber served notices for subscription of 25,000,000 and 22,000,000 Option Shares respectively at an exercise price of HK\$0.38. The 25,000,000 and 22,000,000 Option Shares were allotted and issued on 14 August 2006 and 23 August 2006 respectively, and a gross proceed of HK\$17,860,000 was raised by the Company. The Option had been fully exercised.

The above number of shares, subscription price and exercise price have been adjusted to reflect the capital reorganisation on 27 April 2006 as further detailed in the section “Capital reorganisation” below.

## **Capital reorganisation**

On 10 April 2006, the Company proposed a capital reorganisation (the “Reorganisation”) to consolidate every ten ordinary shares of HK\$0.02 each in the issued and unissued share capital of the Company into one ordinary share of HK\$0.20 each (the “Consolidated Shares”). Pursuant to the Reorganisation, the authorised share capital of the Company was increased from HK\$120 million to HK\$200 million by the creation of 400 million additional Consolidated Shares of HK\$0.2 each in the capital of the Company. The Reorganisation was approved by shareholders at the special general meeting on 27 April 2006.

## **FINANCIAL REVIEW**

### **Liquidity and financial resources**

The Group generally financed its businesses with internally generated cash flows, banking facilities, net proceeds from placing of new shares and exercise of share options during the Period. Cash and bank balances of the Group as at 30 June 2006 amounted to HK\$154,443,000 (31 December 2005: HK\$133,151,000) and pledged deposits of HK\$401,000 (31 December 2005: HK\$354,000).

As at 30 June 2006, the Group had outstanding borrowings of approximately HK\$55,592,000 comprising interest-bearing bank loans amounted to HK\$52,216,000 (31 December 2005: HK\$54,140,000), convertible bonds payable amounted to HK\$nil (31 December 2005: HK\$29,782,000) and finance lease payable amounted to HK\$3,376,000 (31 December 2005: HK\$515,000). Of the Group's interest-bearing bank loans, 61%, 10% and 29% respectively are repayable within one year or on demand, in the second year, in the third to fifth years, inclusive. An amount of HK\$26,832,000 bank loans as at 30 June 2006 was charged at fixed interest rates (31 December 2005: HK\$26,564,000).

The Group's gearing ratio as at 30 June 2006 was 0.25 (31 December 2005: 0.28), calculated based on the Group's total liabilities, excluding deferred income, of HK\$188,240,000 (31 December 2005: HK\$210,531,000) over total assets of HK\$765,941,000 (31 December 2005: HK\$754,633,000).

### **Currency structure**

The Group had limited exposure to foreign exchange rate fluctuations as most of its transactions, including borrowings, were mainly conducted in Hong Kong dollars or Renminbi and the exchange rates of these currencies were relatively stable throughout the Period.

### **Pledge of assets**

The Group had utilized bank loan facilities amounting to approximately HK\$52,216,000 (31 December 2005: HK\$54,140,000) as at 30 June 2006. The bank loans were supported by certain of the Group's investment properties, corporate guarantees executed by the Company and corporate guarantees provided by certain entities in the PRC.

### **Contingent liabilities**

As at 30 June 2006, guarantees given for mortgage loans granted by banks to certain purchasers of the Group's properties amounted to HK\$4,014,000 (31 December 2005: HK\$3,395,000).

## **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 complied with the Code on Corporate Governance Practice (the “Code”) as set out in Appendix 14 of the Listing Rules throughout the Period, except for the following deviation:

### **Code Provision A.4.2**

The second part of Code A.4.2 stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

However, the Chairman of the Board and/or the Managing Director of the Company had retired and voluntarily offered themselves for re-election at general meetings in the past years. The Directors consider that this practice is in line with the spirit of the Code’s practice.

### **NON-COMPLIANCE WITH LISTING RULE 3.10(1)**

Following retirement of Mr. Wong Ting Kon, the former independent non-executive director, on 30 August 2006, the Company has only two independent non-executive directors and fails to meet the requirement under Rule 3.10(1) of the Listing Rules which requires the Company must include at least three independent non-executive directors. The Directors will use their best endeavour to appoint an additional independent non-executive director to fill the vacancy as soon as practicable but in any event not later than 30 November 2006.

## **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 had complied with required standard set out in the Model Code throughout the accounting period covered by the interim report.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES**

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

## **REVIEW BY AUDIT COMMITTEE**

The Interim Results had been reviewed and approved by the Audit Committee of the Company.

By order of the Board  
**Ho Kam Hung**  
*Executive Director*

Hong Kong, 14 September 2006

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

\* *For identification purpose only*