

IMPORTANT

If you are in doubt as to any aspect of this circular or as to the actions to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Zhongda International Holdings Limited, you should at once hand this circular to the purchaser or the bank or stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser.

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ZHONGDA INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

DISCLOSEABLE TRANSACTION

ACQUISITION OF LAND USE RIGHTS IN RELATION TO THE INVESTMENT PROJECTS IN YANCHENG ECONOMIC DEVELOPMENT ZONE OF JIANGSU PROVINCE IN THE PEOPLE'S REPUBLIC OF CHINA

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DEFINITIONS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

“Administrative Committee”	means 江蘇省鹽城經濟開發區管理委員會 (Administrative Committee for the Yancheng Economic Development Zone of Jiangsu Province)
“Agreement”	means the project investment agreement dated 2 January 2003 entered into between the Administrative Committee and the Investor in relation to the investment in three projects in Yancheng Economic Zone and the acquisition of the Land as described in the section headed “The Agreement” in the letter from the Board in this circular
“Board”	means the board of directors of the Company
“Company”	means Zhongda International Holdings Limited, a company incorporated in Bermuda with limited liability whose Shares are listed on the Stock Exchange
“Directors”	means the director(s), including the independent non-executive directors of the Company
“Group”	means the Company and its subsidiaries
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC
“HK\$”	means Hong Kong dollars, the lawful currency of Hong Kong
“Investment Amount”	means the aggregate investment of approximately RMB42,000,000 (approximately HK\$39,600,000) to be invested by Zhongda Machinery in the three projects in Yancheng Economic Development Zone pursuant to the Agreement as described in the section headed “Investment in projects” in this circular
“Investor”	means Zhongda Machinery
“Land”	means the land use right(s) to a piece or parcels of land situate at Yancheng Economic Development Zone
“Land Price”	means the total consideration of not more than RMB18,000,000 (approximately HK\$16,900,000) for the acquisition of the Land pursuant to the Agreement
“Latest Practicable Date”	means 24 January 2003, being the latest practicable date for ascertaining information herein prior to the printing of this circular

DEFINITIONS

“Listing Rules”	means the Rules Governing the Listing of Securities on the Stock Exchange
“Model Code”	means the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules
“PRC”	means the People’s Republic of China
“RMB”	means Renminbi, the lawful currency of the PRC
“SDI Ordinance”	means the Securities (Disclosure of Interests) Ordinance, Chapter 396 of the Laws of Hong Kong
“Share(s)”	means share(s) of nominal value of HK\$0.10 each in the share capital of the Company
“Shum Yip”	means Shum Yip (Holdings) Company Limited
“State”	means the PRC government
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“Yancheng Economic Development Zone”	means 中國江蘇省鹽城市經濟開發區 (Yancheng Economic Development Zone of Jiangsu Province in the PRC)
“Zhong Da (BVI)”	means Zhong Da (BVI) Limited
“Zhong Da (BVI) Investments”	means Zhong Da (BVI) Investments Limited
“Zhong Da International”	means Zhong Da International Limited (香港中大國際有限公司)
“Zhongda Industrial Group”	means Zhongda Industrial Group Corporation (中大工業集團公司)
“Zhongda Machinery”	means Zhongda Automobile Machinery Manufacture Co., Ltd. (中大汽車機械制造有限公司)

For the purpose of this circular, the exchange rate adopted for Hong Kong dollar to Renminbi is HK\$1 to RMB1.0613 and the measurement of 1 mu is equivalent to 666.67 square metres.

LETTER FROM THE BOARD



ZHONGDA INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Directors:

Xu Lian Guo (*Chairman*)
Xu Lian Kuan
Zhang Yuqing
* Gu Yao Tian
* Chan Wai Dune

* *Independent non-executive directors*

Registered Office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal place of business in Hong Kong:

Unit 702
7th Floor
Concordia Plaza
1 Science Museum Road
Tsim Sha Tsui East
Kowloon
Hong Kong

27 January 2003

To the shareholders

Dear Sir/Madam,

DISCLOSEABLE TRANSACTION

INTRODUCTION

On 6 January 2003, the Company announced that Zhongda Machinery, a non-wholly owned subsidiary of the Company, has entered into a project investment agreement with the Administrative Committee on 2 January 2003 for the investment in three projects in Yancheng Economic Development Zone at an aggregate investment amount of RMB60,000,000 (approximately HK\$56,500,000), representing the Investment Amount of approximately RMB42,000,000 (approximately HK\$39,600,000) for investment in three projects in Yancheng Economic Development Zone and the acquisition of the land use rights of a piece or parcels of land located at Yancheng Economic Development Zone for a total consideration of approximately RMB18,000,000 (approximately HK\$16,900,000).

The Agreement constitutes a discloseable transaction for the Company under the Listing Rules. The purpose of this circular is to give you further information on the Agreement.

LETTER FROM THE BOARD

THE AGREEMENT

Date: 2 January 2003

Investor: Zhongda Machinery

It is a non-wholly owned subsidiary of the Company, and is a sino-foreign equity joint venture enterprise established under the laws of the PRC on 15 December 1993. The Company indirectly holds approximately 86.7% of the equity interest in Zhongda Machinery through Zhong Da (BVI) Investments and Zhong Da International, whilst Zhongda Industrial Group directly holds approximately 13.3% of the remaining equity interest in Zhongda Machinery.

Zhong Da (BVI) Investments is a wholly owned subsidiary of the Company incorporated in the British Virgin Islands with limited liability on 17 May 1999. Zhong Da International is a wholly owned subsidiary of the Company incorporated in Hong Kong with limited liability on 23 February 1993 and a wholly owned subsidiary of Zhong Da (BVI) Investments.

Zhongda Industrial Group is a joint stock company with limited liability established in the PRC in 1995. The equity interest of Zhongda Industrial Group is collectively owned as to an aggregate of 52.64% by Mr. Xu Lian Kuan and Mr. Xu Lian Guo, both the shareholders of Zhong Da (BVI) owning as to 57.22% by Mr. Xu Lian Guo and 42.78% by Mr. Xu Lian Kuan respectively, which is the controlling shareholder of the Company owning as to 58.7% of the issued share capital of the Company, and as to 5% by Sheyang County Xinyang Village collective enterprise (射陽縣新洋鄉鄉村集體股) and as to 42.36% by the employees of Zhongda Industrial Group.

Administrative Committee: 江蘇省鹽城經濟開發區管理委員會 (Administrative Committee for the Yancheng Economic Development Zone of Jiangsu Province)

The Administrative Committee, the ultimate beneficial owner of which is the State, is an independent third party not connected with the Company, any director, chief executive or substantial shareholder of the Company or any of its subsidiaries or their respective associates as defined in the Listing Rules.

LETTER FROM THE BOARD

Investment in projects

An Investment Amount of approximately RMB42,000,000 (approximately HK\$39,600,000) is intended to be invested by Zhongda Machinery in the following three projects in Yancheng Economic Development Zone:–

- (1) Production lines of painting and coating with an investment amount of approximately RMB26,500,000 (approximately HK\$25,000,000). Such production lines will be used mainly for the provision of industrial surface treatment engineering equipment to the automobile industry and also for various other industries such as aircraft engineering and military industries;
- (2) Production line of car wash system with an investment amount of approximately RMB6,200,000 (approximately HK\$5,800,000); and
- (3) Production of lacquer room(s) for export with an investment amount of approximately RMB9,300,000 (approximately HK\$8,800,000).

The above investment projects are to be wholly developed by Zhongda Machinery and to be wholly-owned by Zhongda Machinery. Zhongda Machinery has already developed the production lines of painting and coating in Yancheng Economic Development Zone and the amount of investment mentioned in (1) above is to be used for further expansion of such production lines. Except for the painting and coating production lines, Zhongda Machinery has not developed the production lines of car wash system and lacquer room(s) in Yancheng Economic Development Zone.

Assets being acquired

The land use rights to a piece or parcels of land situate at Yancheng Economic Development Zone. The land use rights of the Land is to be acquired by Zhongda Machinery from the State. As at the Latest Practicable Date, the location of the Land has not yet been determined. It is expected that the parties will agree on the location of the Land no later than 20 February 2003, the Company will make further announcement in this respect upon determination of the same.

The Land has a total site area of approximately 200 mu and, subject to the obtaining of all the relevant PRC governmental approval(s) in relation to the investment projects by Zhongda Machinery, is intended to be developed for the following investment projects:

- (1) New factory for the production lines of painting and coating, occupying a useable area of approximately 150 mu, the construction work is estimated to commence in mid-February 2003 and to complete at the end of March 2004. The consideration for the acquisition of the land use rights of such project shall be approximately RMB13,500,000 (approximately HK\$12,700,000);
- (2) New factory for the production line of car wash system, occupying a useable area of approximately 20 mu, the construction work is estimated to commence in mid-April 2003 and to complete at the end of June 2004. The consideration for the acquisition of the land use rights of such project shall be approximately RMB1,800,000 (approximately HK\$1,700,000); and

LETTER FROM THE BOARD

- (3) New factory for the production of lacquer room(s) for export, occupying a useable area of approximately 30 mu, the construction work is estimated to commence in June 2003 and to complete at the end of September 2004. The consideration for the acquisition of the land use rights of such project shall be approximately RMB2,700,000 (approximately HK\$2,500,000).

The aggregate useable area of the Land is approximately 200 mu which is to be determined by the designated redline areas in Yancheng Economic Development Zone. The location of the Land is to be mutually agreed by the parties. The Land is to be used for industrial purposes. The land use rights to the Land shall be for a term of 50 years.

Land Price

The Land Price for the acquisition of the land use rights to the Land shall not be more than RMB90,000 per mu and the aggregate amount of the Land Price shall not be more than RMB18,000,000 (approximately HK\$16,900,000).

In addition, Zhongda Machinery shall be responsible for any demolition and relocation costs on the Land that may incur and all costs required so as to satisfy the basic development requirements of the Land. Since the location of the Land is yet to be determined, the demolition and relocation costs cannot be ascertained as at the Latest Practicable Date. It is estimated that the costs that will be required to satisfy the basic development requirements of the Land will be approximately RMB70,000 per mu.

Aggregate investment amount

The aggregate investment amount of RMB60,000,000 (approximately HK\$56,500,000), representing the Investment Amount of approximately RMB42,000,000 (approximately HK\$39,600,000) for investment in the above projects in Yancheng Economic Development Zone and the acquisition of the land use rights of a piece or parcels of land located at Yancheng Economic Development Zone for a total consideration of approximately RMB18,000,000 (approximately HK\$16,900,000), is intended to be invested in the above investment projects in Yancheng Economic Development Zone.

The aggregate investment amount was arrived at after arm's length negotiations by the parties and was determined with reference to the present economic and property market condition of Yancheng which was based on the different types of industries invested in Yangcheng Economic Development Zone and the size of their respective investment amounts.

The full amount of the Land Price shall be paid 7 days after Zhongda Machinery has obtained all the relevant governmental approval(s) in relation to the above investment projects and shall be paid under the direction of the Administrative Committee. It is expected that Zhongda Machinery will obtain the relevant governmental approval(s) within one month after the Administrative Committee has submitted the applications. Thereafter, the land use rights of the Land shall be assigned to Zhongda Machinery.

Pursuant to the Agreement, the Administrative Committee has agreed that it will (i) complete the determination of the abovementioned designated redline areas within one week after the signing of the Agreement; and (ii) submit the applications for Zhongda Machinery to the relevant PRC governmental authorities for obtaining the approval(s) in relation to the planning of the usage of the Land and for granting of the land use right(s) to the Land and other procedural requirements.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the Administrative Committee has not yet completed the determination of the designated redline areas. After the determination of the designated redline areas, the Administrative Committee will submit the applications for Zhongda Machinery to the relevant PRC governmental authorities for obtaining the aforementioned approval(s).

Conditions for completion for the acquisition of the Land

Completion for the acquisition of the Land shall take place subject to and conditional upon the following matters, including but not limited to:

- (1) the application for and obtaining of the certificate for construction and land usage planning in respect of the Land;
- (2) the entering into the granting of the land use rights contract in respect of the Land with the Administrative Committee;
- (3) the obtaining of PRC government approval(s) for the three investment projects;
- (4) the payment in full of the Land Price 7 days after Zhongda Machinery has obtained all the relevant governmental approval(s) as aforementioned; and
- (5) the obtaining of the certificate for state-owned land use rights in respect of the Land.

Termination of the Agreement

If all the necessary PRC governmental approval(s) for the three investment projects cannot be obtained prior to 30 June 2003, the Agreement shall be terminated by both parties provided that Zhongda Machinery shall have the right to acquire the land use rights, the exercise of which shall be at the full discretion of Zhongda Machinery in relation to the painting and coating and car wash system projects until 31 December 2003 at a price of RMB90,000 per mu.

EFFECT OF THE ACQUISITION

The investment projects are intended to be funded as to 30% by internal resources of the Group and as to 70% by bank borrowings of the Group. Accordingly, it is expected that the debt to equity ratio of the Group will be increased from approximately 24.3% to approximately 53.9% based on the latest published audited consolidated balance sheet of the Group as at 31 December 2001. It is also expected that the production capacity of the Group will be increased by approximately 30%, which will enhance the earning potentials of the Group as a result of the Agreement.

REASONS FOR ENTERING INTO THE PROJECT INVESTMENT AGREEMENT

The Directors believe that the Agreement is in the interest of the Company and the shareholders of the Company as it is a good investment opportunity and will further improve the Group's medium to long-term profit and strengthen the earning capacity of the production division and businesses of the Group.

LETTER FROM THE BOARD

GENERAL

The Group is principally engaged in the development, manufacture and sale of automobile equipment and provision of industrial surface treatment engineering equipment to various industries including the automobile, aircraft engineering and military industries. The automobile equipment and the surface treatment engineering equipment are for the repairing, testing and maintenance of automobiles. The Group's main business is carried out through Zhongda Machinery.

Your attention is also drawn to the general information as set out in the appendix to this circular.

By order of the Board,
Zhongda International Holdings Limited
Xu Lian Guo
Chairman

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests of the Directors in the issued share capital of the Company, which were required to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including the interests which they were deemed or taken to have under section 31 of or Part I of the Schedule to the SDI Ordinance) or which were required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Name of directors	Number of ordinary shares	
	Personal interests	Corporate interests
Mr. Xu Lian Guo (<i>Note 1</i>)	–	234,720,000
Mr. Xu Lian Kuan (<i>Note 1</i>)	–	234,720,000
Mr. Zhang Yuqing	17,600,000	–

Note:

- (1) These shares are held by Zhong Da (BVI), a company incorporated in the British Virgin Islands, in which Mr. Xu Lian Guo and his younger brother, Mr. Xu Lian Kuan beneficially own as to 57.22% and 42.78% of its issued share capital respectively.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors has any interest in the issued share capital of the Company or any of its associated corporations which were required to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including the interests which they were deemed or taken to have under section 31 of or Part I of the Schedule to the SDI Ordinance) or pursuant to the Model Code or which were required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, according to the register kept by the Company under section 16(1) of the SDI Ordinance and so far as was known to the Directors and the chief executive of the Company, the following persons other than the Directors, were interested or taken or deemed to be interested in 10 per cent. or more of the nominal value of the issued share capital of the Company:

Name of shareholders	Number of Issued shares	Percentage of holding
Mr. Xu Lian Guo	234,720,000 ⁽¹⁾	58.7%
Mr. Xu Lian Kuan	234,720,000 ⁽¹⁾	58.7%
Zhong Da (BVI)	234,720,000 ⁽²⁾	58.7%
Shum Yip	43,596,000 ⁽³⁾	10.9%

- (1) This interest represents the number of Shares held by Zhong Da (BVI) where Mr. Xu Lian Guo and Mr. Xu Lian Kuan are taken to be interested in such Shares under Section 8 of the SDI Ordinance. The entire issued share capital of Zhong Da (BVI) is beneficially owned as to 57.22% and 42.78% by Mr. Xu Lian Guo and Mr. Xu Lian Kuan respectively.
- (2) This interest of Zhong Da (BVI) is duplicated with the interest of Mr. Xu Lian Guo and Mr. Xu Lian Kuan respectively.
- (3) This interest of Shum Yip is held indirectly through Gainful Outcome Holdings Limited and Outstanding Management Limited, both of which are wholly owned subsidiaries of Shum Yip.

Save as disclosed herein, the Directors and the chief executive of the Company were not aware of any person, who was, directly or indirectly, interested in 10 per cent. or more of the nominal value of the issued share capital of the Company or any of its subsidiaries as at the Latest Practicable Date.

4. LITIGATION

As at the Latest Practicable Date, none of the Company nor any other members of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

5. SERVICE CONTRACTS

There is no existing or proposed service contract between, respectively, any of the Directors and the Company or any of its subsidiaries, other than contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

6. MISCELLANEOUS

- (a) The secretary of the Company is Mr. Wu Tai Cheung, ACCA.
- (b) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.
- (c) The principal share registrars of the Company are The Bank of Bermuda Limited, Bank of Bermuda Building, 6 Front Street, Hamilton HM11, Bermuda. The branch share registrars and transfer office of the Company are Standard Registrars Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.