

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

**If you are in doubt** as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountants or other professional adviser.

**If you have sold or otherwise transferred** all your shares in Zhongda International Holdings Limited, you should at once hand this circular with the enclosed form of proxy to the purchaser or other transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



**ZHONGDA INTERNATIONAL HOLDINGS LIMITED**

**中大國際控股有限公司\***

*(Incorporated in Bermuda with limited liability)*

**CONNECTED TRANSACTIONS**

**Independent financial adviser to the Independent Board Committee**



**MasterLink Securities (Hong Kong) Corporation Limited**

A letter from the Board of Zhongda International Holdings Limited is set out on pages 4 to 14 of this circular.

A letter from the Independent Board Committee of Zhongda International Holdings Limited is set out on page 15 of this circular.

A letter from MasterLink Securities (Hong Kong) Corporation Limited containing its opinions and recommendations to the Independent Board Committee is set out on pages 16 to 28 of this circular.

A notice convening a special general meeting of Zhongda International Holdings Limited to be held at 2:45 p.m. on Tuesday, 5th August, 2003 at Nikko Hotel, 72 Mody Road, Tsimshatsui East, Kowloon, Hong Kong (or as soon as practicable immediately after the conclusion or adjournment of the annual general meeting of the Company convened at the same place and date at 2:30 p.m.) is set out on pages 33 to 34 of this circular.

A form of proxy for use at the special general meeting is enclosed. Whether or not you intend to attend, you are requested to complete and return the accompanying form of proxy in accordance with the instructions contained therein and return it to the Company's branch share registrar and transfer office, Standard Registrars Limited, situated at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time scheduled for holding such meeting (or any adjourned meeting thereof). Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the special general meeting or an adjourned meeting if you so desire.

\* For identification purpose only

14th July, 2003

# CONTENTS

	<i>Pages</i>
Definitions .....	1
Letter from the Board .....	4
Letter from the Independent Board Committee .....	15
Letter from MasterLink .....	16
Appendix – General Information .....	29
Notice of special general meeting .....	33

## DEFINITIONS

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

“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Company”	Zhongda International Holdings Limited (“中大國際控股有限公司*”), an exempted company with limited liability incorporated on 14th September, 2002 in Bermuda whose Shares are listed on the Stock Exchange
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Independent Board Committee”	an independent board committee of the Directors comprising the independent non-executive Directors, namely Mr. Gu Yao Tian and Mr. Chan Wai Dune, to advise the Independent Shareholders in respect of the advances from Zhongda Industrial Group, collection of account receivables by Zhongda Industrial Group, payment of expenses on behalf of Zhongda Industrial Group and the On-going Connected Transactions
“Independent Shareholders”	the Shareholders other than Zhongda (BVI), Mr. Xu Lian Guo (“徐連國先生”), Mr. Xu Lian Kuan (“徐連寬先生”), Mr. Zhang and their respective associates
“Independent Third Party” or “Independent Third Parties”	independent third party or parties which is/are not connected with any of the directors, the chief executive, the substantial shareholders and the management shareholders of the Company and any of its subsidiaries or their respective associates
“Latest Practicable Date”	11th July, 2003, being the latest practicable date for ascertaining certain information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“MasterLink”	MasterLink Securities (Hong Kong) Corporation Limited, a deemed licensed corporation for types 1, 4, 6 and 9 regulated activities under the SFO, which has been appointed as the independent financial adviser to the Independent Board Committee in relation to the advances from Zhongda Industrial Group, the collection of account receivables by Zhongda Industrial Group, the payment of expenses by the Group on behalf of Zhongda Industrial Group and the On-going Connected Transactions

\* For identification purpose only

## DEFINITIONS

“Mr. Zhang”	Mr. Zhang Yuqing (“張玉清先生”), the vice-chairman and an executive Director of the Company. He is also a director of Zhongda Industrial Group and has approximately 4.4% shareholding in the issued share capital of the Company. In view of his interest in the connected transactions, he is not considered an Independent Shareholder and will abstain from voting
“On-going Connected Transactions”	the continual sales of products (including various production facilities, machineries and equipments) to Shanghai Guanghui, Zhongda Yanjing, the sales of raw materials and products (including various production facilities, machineries and equipments) to Zhongwei Bus and the sales of raw materials and products (including ballast, circuit boards, switches, pattern boards, pneumatic lifts, hydraulic tools, steels, stainless steels) to Yancheng Celette
“PRC”	the People’s Republic of China
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	a special general meeting of the Company to be convened to consider and approve, among others, the On-going Connected Transactions
“Shanghai Guanghui”	Shanghai Guanghui Bus Manufacturing Co., Ltd. (“上海光輝客車廠有限公司”), established with limited liability under the laws of the PRC on 31st December, 1981, in which Zhongda Industrial Group has an interest of approximately 67% after Shanghai Guanghui changed its name from Shanghai Guanghui Bus Manufacturing Company (“上海光輝客車廠”) and increased its registered capital from RMB5,042,000 to RMB10,000,000 on 26th December, 2002
“Shareholder(s)”	the shareholder(s) of the Company
“Shares”	shares of HK\$0.10 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Warrant(s)”	warrant(s) issued by the Company entitling the holders thereof to subscribe for new Shares, at an initial subscription price of HK\$0.675 per Share (subject to adjustment)
“Warrantholder(s)”	holder(s) of the Warrants
“Yancheng Celette”	Yancheng Celette Body Repairing Equipment Co., Ltd. (“鹽城使力得整形設備有限公司”), a sino-foreign equity joint enterprise established under the laws of the PRC on 25th December, 1995, in which Zhongda Industrial Group has an interest of approximately 49%

## DEFINITIONS

“Zhongwei Bus”	Yancheng Zhongwei Bus Manufacturing Co., Ltd., (“鹽城中威客車有限公司”), a joint stock company with limited liability incorporated under the laws of the PRC on 11th October, 1996, in which Zhongda Industrial Group has an interest of approximately 65%
“Zhongda (BVI)”	Zhong Da (BVI) Limited is a company incorporated in the British Virgin Islands with limited liability and has approximately 58.7% shareholding in the issued share capital of the Company. Its issued share capital is owned by Mr. Xu Lian Guo (“徐連國先生”) and Mr. Xu Lian Kuan (“徐連寬先生”) as to 57.22% and 42.78% respectively. Mr. Xu Lian Guo is the chairman of the Company and Mr. Xu Lian Kuan is the vice chairman of the Company and the younger brother of Mr. Xu Lian Guo. In view of the positions of and shareholdings by Mr. Xu Lian Guo and Mr. Xu Lian Kuan and their interest in the connected transactions, Zhongda (BVI) is not considered an Independent Shareholder and will abstain from voting
“Zhongda Industrial Group”	Zhongda Industrial Group Corporation (“中大工業集團公司”), a joint stock company with limited liability established in 1995. The equity interest of Zhongda Industrial Group is collectively owned by Mr. Xu Lian Guo (“徐連國先生”) and Mr. Xu Lian Kuan (“徐連寬先生”) as to 52.64%, Shenyang County Xinyang Village collective enterprise (“射陽縣新洋鄉村集體股”), which is an Independent Third Party as to 5% and the employees of Zhongda Industrial Group as to 42.36%
“Zhongda Machinery”	Zhongda Automobile Machinery Manufacture Co., Ltd. (“中大汽車機械製造有限公司”), a sino-foreign equity joint venture enterprise established under the laws of the PRC on 15th December, 1993 in which the Company has an indirect interest of approximately 86.7% while Zhongda Industrial Group has an interest of approximately 13.3%
“Zhongda Yanjing”	Beijing Zhongda Yanjing Bus Manufacturing Co., Ltd. (“北京中大燕京汽車有限公司”), a company with limited liability incorporated on 2nd January, 2003 under the laws of the PRC, in which Zhongda Industrial Group has an interest of 80%
“RMB”	Renminbi, the lawful currency of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region of the PRC
“%”	per cent.

*For the purpose of this circular, all amounts stated in RMB are translated into HK\$ at an exchange rate of RMB1.07 : HK\$1.00.*

## LETTER FROM THE BOARD



# ZHONGDA INTERNATIONAL HOLDINGS LIMITED

## 中大國際控股有限公司\*

*(Incorporated in Bermuda with limited liability)*

*Directors:*

Mr. Xu Lian Guo (*Chairman*)  
Mr. Xu Lian Kuan  
Mr. Zhang Yuqing  
Mr. Gu Yao Tian<sup>#</sup>  
Mr. Chan Wai Dune<sup>#</sup>

<sup>#</sup> *Independent non-executive Director*

*Registered Office:*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Principal place of business:*

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

14th July, 2003

*To the Shareholders and  
for information only, the Warrantholders*

Dear Sirs or Madams,

### CONNECTED TRANSACTIONS

#### INTRODUCTION

The Board announced on 23rd June, 2003 that the Company, during the year ended 31st December, 2002 conducted certain connected transactions including advances from Zhongda Industrial Group to the Group of approximately RMB29.9 million (approximately HK\$27.9 million) by making payments on behalf of the Group to a construction company which is an independent third party not connected to any of the directors, the chief executive, the substantial shareholders of the Group and Zhongda Industrial Group or any of their associates, in respect of the relocation and land preparation costs in relation to the proposed land development project in Yancheng Economic Development Zone of Jiangsu Province (the “**Advances**”), selling products and raw materials to Shanghai Guanghui, Yancheng Celette, Zhongwei Bus and Zhongda Yanjing for each of the year ended 31st December, 2002 and the year ending 2003 on normal commercial terms in the ordinary course of business, collection of account receivables by Zhongda Industrial Group on behalf of the Group for the year ended 31st December, 2002 amounted to approximately RMB19.3 million (approximately HK\$18.0 million) which was settled through direct cash repayment by Zhongda Industrial Group and paying expenses by the Group on behalf of Zhongda Industrial Group amounted to RMB16.9 million (approximately HK\$15.8 million). The Company due to

\* *For identification purpose only*

## LETTER FROM THE BOARD

oversight, had not complied with the relevant connected transaction requirements under Rules 14.25 and 14.26 of the Listing Rules in respect of the abovementioned connected transactions, which constituted breaches of the Listing Rules. The Stock Exchange has stated that it reserves the right to take any appropriate action against the Company and its Directors for such breaches of Rules 14.25 and 14.26 of the Listing Rules.

In addition, the Directors anticipate that the sales of products (including various production facilities, machineries and equipments) to Shanghai Guanghui, Zhongda Yanjing and Zhongwei Bus, and the sales of raw materials and products (including ballast, circuit boards, switches, pattern boards, pneumatic lifts, hydraulic tools, steels, stainless steels) to Yancheng Celette are expected to continue in the future at comparable market rates taking into account the direct costs to be incurred by the Group in respect of the On-going Connected Transactions.

The On-going Connected Transactions may require disclosure by way of press announcement, circular to Shareholders and/or prior Independent Shareholders' approval under the Listing Rules on each occasion when they arise. In view of the expected frequency of the On-going Connected Transactions, the Board considers that this requirement is burdensome to the Company if it is to be complied with for each of the On-going Connected Transactions. The Company has made an application to the Stock Exchange for a waiver from strict compliance with the disclosure and Shareholders' approval requirements under Rule 14.26 of the Listing Rules for the On-going Connected Transactions for each of the respective financial years up to 31st December, 2005.

The purpose of this circular is to provide you with the details relating to the breaches of the Listing Rules by the Company in relation to the past connected transactions as mentioned below and the On-going Connected Transactions, to set out the advice of MasterLink to the Independent Board Committee and the recommendation of the Independent Board Committee in respect of the Advances, collection of account receivables by Zhongda Industrial Group, payment of expenses on behalf of Zhongda Industrial Group and the On-going Connected Transactions, and to give notice of the SGM (at which Zhongda (BVI), Mr. Xu Lian Guo, Mr. Xu Lian Kuan and Mr. Zhang will abstain from voting) to approve the On-going Connected Transactions.

### **ADVANCES FROM ZHONGDA INDUSTRIAL GROUP**

Reference is made to the circular dated 27th January, 2003 and the announcement dated 24th April, 2003 made by the Company relating to the discloseable transaction of acquisition of land use rights in relation to the investment projects in Yancheng Economic Development Zone of Jiangsu Province in the PRC. During the period from 20th May, 2002 to 9th December, 2002, Zhongda Industrial Group made advances to the Group of approximately RMB29.9 million (approximately HK\$27.9 million) by making payments on behalf of the Group to a construction company which is an independent third party not connected to any of the directors, the chief executive, the substantial shareholders of the Group and Zhongda Industrial Group or any of their associates, in respect of the relocation and land preparation costs in relation to the proposed land development project in Yancheng Economic Development Zone of Jiangsu Province. The Advances were made for the purposes of acquiring the land use rights and allowing the construction company to assess the land preparation feasibility for any target land area. The Advances were unsecured, non-interest bearing and had no fixed term for repayment.

Prior to the time the Advances were made, the Group had the following intercompany transactions with Zhongda Industrial Group: sales by the Group to the affiliates of Zhongda Industrial Group; expenses paid by the Group on Zhongda Industrial Group's behalf (comprised of salaries, various purchases, loan interests, miscellaneous travelling, entertainment and administrative

## LETTER FROM THE BOARD

expenses); fees (including integrated service fee, trademark fee, patent fee and office licence fee) payable to Zhongda Industrial Group which have already obtained waiver from compliance with normal disclosure and Shareholders' approval requirements under the Listing Rules from the Stock Exchange when the Company was listed in November 2001 and the collection of account receivables of the Group by Zhongda Industrial Group. These intercompany transactions continued throughout the year 2002. The resulting amount owed by Zhongda Industrial Group were applied to settle the Advances through various kinds of offsetting arrangements including, inter alia, offsetting the sales by the Group to the affiliates of Zhongda Industrial Group; direct cash payment by the Group to repay part of the Advances and payment of expenses by the Group on behalf of Zhongda Industrial Group.

Pursuant to the agency agreement between Zhongda Machinery and Zhongda Industrial Group dated 29th April, 2002 (the "**Agency Agreement**"), Zhongda Machinery is of the view that since Zhongda Industrial Group has a well-established reputation and status in the Yancheng region and was also planning itself to acquire a total site area of 1000 mu at Yancheng Economic Development Zone, the appointment of Zhongda Industrial Group to centralize the negotiations and monitor the demolition and relocation and the procurement for and execution of the basic infrastructural works for Zhongda Machinery's investment and land acquisition projects in the Yancheng Economic Development Zone can achieve better terms and economic results for Zhongda Machinery than if it were to carry out the same on its own without such assistance support from Zhongda Industrial Group or leveraging off the collective resources of Zhongda Industrial Group. In a supplement to the Agency Agreement mentioned above, on 15th May, 2002, Zhongda Industrial Group has agreed to effect on behalf of Zhongda Machinery payment of the relevant costs required for preparing Zhongda Machinery's site at Yancheng Economic Development Zone to satisfy the basic development requirement. There is no compensation or remuneration payable to Zhongda Industrial Group under the Agency Agreement for its assistance and support, and specifically with respect to payments of development costs on behalf of Zhongda Machinery, eventually effected in the form of the Advances, the supplement to the Agency Agreement has not stipulated any fixed repayment terms and does not provide for any interest to be payable on such Advances.

The Directors are of the view that the Advances, which stemmed from the acquisition of land use right and proposed land development project in Yancheng Economic Development Zone of Jiangsu Province and were made to facilitate the performance of the contract made on 18th May, 2002 by Zhongda Machinery with the construction company which is an independent third party not connected to any of the directors, the chief executive, the substantial shareholders of the Group and Zhongda Industrial Group or any of their associates relating to demolition and resettlement and basic infrastructural works, were received and enjoyed by Zhongda Machinery on terms more favorable to the Group than the terms available from Independent Third Parties. Approximately 90% of the Advances were made by Zhongda Industrial Group between 20th May, 2002 and 21st June, 2002, and the Directors consider that the provision of such Advances by Zhongda Industrial Group to Zhongda Machinery, and the arrangement of allowing the Group to settle the amounts due to Zhongda Industrial Group by means of separate and indefinite amounts in various modes spread over a period of time enhanced the Group's cash flow position during the period from May to December 2002.

Although discussions and preparations for the commencement of Zhongda Machinery's investment and land acquisition projects commenced in 2002 several delays beyond the control of the Group including a change of responsible persons in the Administrative Committee of the Yancheng Economic Development Zone led to delays in the start date for such projects. Eventually the investment agreement was only executed on 2nd January, 2003 and the precise location of the land was only announced in April 2003. As a result of the delay, Zhongda Machinery arranged



## LETTER FROM THE BOARD

through Zhongda Industrial Group for the construction company to return to the Group the Advances made by Zhongda Industrial Group (in the amount of approximately RMB29.7 million (approximately HK\$27.8 million) after deduction of certain expenses in the amount of RMB200,000 (approximately HK\$187,000) already incurred by the construction company), which occurred on 17th April, 2003. The construction company had performed some feasibility studies and consultation services on the land preparation and relocation and miscellaneous materials for basic requirements, the expenses of RMB200,000 (approximately HK\$187,000) were used to cover the cost incurred by the construction company. The Directors advised that application for the land use rights in relation to the land development project is underway. However, no definite timetable can be drawn up to the date of this circular.

To avoid unnecessary possible connected transactions between the Group and Zhongda Industrial Group in the future, the Directors are determined to terminate the agency relationship with Zhongda Industrial Group in respect of the land development project in Yancheng Economic Development Zone. Zhongda Industrial Group will continue to assist the Group on a free-of-charge basis to accomplish the project while all agreements required to be entered into and payments required to be paid by Zhongda Machinery will be handled by Zhongda Machinery itself.

For the purpose of the Listing Rules, as the Advances constituted a connected transaction, representing about 21.09% of the audited consolidated net tangible assets value of the Group as at 31st December, 2001 and exceeding the higher of HK\$10 million or 3% of the latest published consolidated net tangible assets of the Group, the Advances should have been subject to the approval by the Independent Shareholders in general meeting and the disclosure requirements applicable to connected transactions under Rule 14.26 of the Listing Rules.

### **SALES OF PRODUCTS AND RAW MATERIALS TO SHANGHAI GUANGHUI, YANCHENG CELETTE, ZHONGWEI BUS AND ZHONGDA YANJING**

The Group had entered into sales agreements with Shanghai Guanghui and Zhongda Yanjing on normal commercial terms in the ordinary course of business on 28th September, 2002 and 5th September, 2002 respectively. The sum of the connected transactions in relation to the sales of lacquer rooms to Shanghai Guanghui and Zhongda Yanjing were approximately RMB8,547,000 (approximately HK\$7,988,000) for the year ended 31st December, 2002, represented about 6.03% of the audited consolidated net tangible assets value of the Group as at 31st December, 2001 or about 4.74% of the audited consolidated turnover of the Group for the year ended 31st December, 2001. The transactions amounts were below the higher of HK\$10 million or 3% of the latest published consolidated net tangible assets of the Group, under Rule 14.25 of the Listing Rules, these connected transactions would have been subject to disclosure requirements.

The Group had sold products and raw materials including ballast, circuit boards, switches, pattern boards, pneumatic lifts, hydraulic tools, steels and stainless steels to Yancheng Celette. Pursuant to a sales agreement dated 8th September, 2002 entered into between the Group and Zhongwei Bus, the Group agreed to sell automobile maintenance equipment and raw materials including car washing machines, fibre glassteel, zinc plates, drill heads, set squares and spring cushions to Zhongwei Bus. The aggregate value of the sales of raw materials and products to Yancheng Celette and Zhongwei Bus for the year ended 31st December, 2002 was approximately RMB8,639,000 (approximately HK\$8,074,000). The aggregate sales represented about 6.09% of the audited consolidated net tangible assets of the Company as at 31st December, 2001 or about 4.79% of the audited consolidated turnover for the year ended 31st December, 2001. As the transactions amounts were below the higher of HK\$10 million or 3% of the latest published consolidated net tangible assets of the Group, these connected transactions fell within Rule 14.25 of the Listing Rules and would have been subject to disclosure requirements.

## LETTER FROM THE BOARD

### **COLLECTION OF ACCOUNT RECEIVABLES BY ZHONGDA INDUSTRIAL GROUP**

During the financial year ended 31st December, 2002, Zhongda Machinery adopted a practice in respect of common customers with Zhongda Industrial Group whereby collection of account receivables owed by them were directed to Zhongda Industrial Group. The accumulated collections by Zhongda Industrial Group on behalf of the Group for the year ended 31st December, 2002 amounted to approximately RMB19.3 million (approximately HK\$18.0 million) which was fully settled through direct cash repayments by Zhongda Industrial Group in December 2002 and this transaction constituted a connected transaction.

The collection of account receivables by Zhongda Industrial Group on behalf of the Group was a strategic move since Zhongda Industrial Group has a comparative larger asset base and established reputation which gave the Group's customers better quality assurance. With the combined sales efforts and networking of Zhongda Industrial Group, the Group will be introduced to potential customers or existing customers of Zhongda industrial Group. Also, as the Group was part of Zhongda Industrial Group (before the Company was listed on the Stock Exchange in November 2001), the collection of account receivables is a commercial arrangement to reinforce the view of customers that the Group and the whole Zhongda Industrial Group are closely related, which leads to the impression that the Group still enjoys the sound backup of Zhongda Industrial Group. As such, customers would settle the account receivables to Zhongda Industrial Group.

Moreover, the collection of account receivables by Zhongda Industrial Group on behalf of the Group has allowed the Group to leverage off the better business connections between Zhongda Industrial Group and some customers of the Group to ensure a better recovery rate and less wastage of resources than if the Group were to directly chase for payment. The Directors have determined to arrange and rectify the past practice by setting up of a new payment arrangement, i.e. collection of account receivables by Zhongda Machinery itself. The Group had focus on devoting more resources to build up its own reputation and also established sound relationship with customers. No such collection is made since the end of December 2002 up to the Latest Practicable Date.

The amounts of the collection of account receivables by Zhongda Industrial Group on behalf of the Group for the year ended 2002 of approximately RMB19.3 million (approximately HK\$18.0 million), represented about 13.61% of the audited consolidated net tangible assets of the Group as at 31st December, 2001 or about 10.71% of the audited consolidated turnover of the Group for the year ended 31st December, 2001. The transaction had annual amounts more than the higher of HK\$10 million or 3% of the latest published consolidated net tangible assets of the Group and therefore, would have fallen within Rule 14.26 of the Listing Rules, which must be made conditional on approval by the Independent Shareholders in general meeting and comply with the disclosure requirements applicable to connected transactions under Rule 14.26 of the Listing Rules.

### **PAYMENT OF EXPENSES BY THE GROUP ON BEHALF OF ZHONGDA INDUSTRIAL GROUP**

During the financial year ended 31st December, 2002, the Group had paid expenses on behalf of Zhongda Industrial Group of approximately RMB16.9 million (approximately HK\$15.8 million). The amount represented about 11.92% of the audited consolidated net tangible assets of the Group as at 31st December, 2001 or about 9.38% of the audited consolidated turnover of the Group for the year ended 31st December, 2001. The aggregate amount of the payment was applied for the purpose of offsetting the Advances from Zhongda Industrial Group made in 2002. The expenses paid by the Group on behalf of Zhongda Industrial Group mainly comprised of salaries,

## LETTER FROM THE BOARD

various purchases, loan interests, miscellaneous travelling, entertainment and administrative expenses. All the expenses were paid on actual basis and there is no handling fee charged by the Group in this respect.

The transaction amounts exceeded the higher of HK\$10 million or 3% of the latest published consolidated net tangible assets of the Group. Under 14.26 of the Listing Rules, this transaction should be subject to Independent Shareholders' approval and the disclosure requirements applicable to connected transactions under the Listing Rules.

### **BREACH OF THE LISTING RULES REQUIREMENTS**

Due to an inadvertent oversight of the Company, the Company had failed to comply with the abovementioned connected transactions requirements under the Listing Rules as described above, which constituted breaches of the Listing Rules. The management of the Group realised the aggregate amounts of the abovementioned connected transactions and the resulted breaches of the Listing Rules when the draft annual report was available for their review in April 2003. The Company has as a result of its realization of these requirements now instituted stricter internal compliance procedures to prevent similar breach in the future and details of which are summarised as follows:

- audit committee meetings (comprising two independent non-executive Directors) will be held quarterly or on occasions when required to obtain updated information from members of the board of Directors if there is any potential transaction to be entered into between the Group and any of the connected persons of the Group.
- immediate actions will be taken by the Board to inform or consult the Stock Exchange, legal advisor and/or financial adviser for the necessary steps to be taken for any potential connected transactions within the definition of the Listing Rules.

The Company admitted its breaches of the Listing Rules. The Stock Exchange has stated that it reserves the right to take appropriate actions against the Company and its Directors for such breaches of the Listing Rules.

The Independent Board Committee having taken into account the advice of MasterLink, is of the opinion that the Advances, the collection of account receivables by Zhongda Industrial Group and the payment of expenses on behalf of Zhongda Industrial Group, as a whole, are fair and reasonable so far as the Independent Shareholders generally are concerned.

### **WAIVER APPLICATION ON ON-GOING CONNECTED TRANSACTIONS**

The sales of products (including various production facilities, machineries and equipments) to Shanghai Guanghui, Zhongda Yanjing and Zhongwei Bus, and the sales of raw materials and products (including ballast, circuit boards, switches, pattern boards, pneumatic lifts, hydraulic tools, steels, stainless steels) to Yancheng Celette are expected to continue in the future at comparable market rates taking into account the direct costs to be incurred by the Group in respect of the On-going Connected Transactions.

The On-going Connected Transactions may require disclosure by way of press announcement, circular to Shareholders and/or prior Independent Shareholders' approval under the Listing Rules on each occasion when they arise. In view of the expected frequency of the On-going Connected Transactions, the Board considers that this requirement is burdensome to the Company if it is to be

## LETTER FROM THE BOARD

complied with for each of the On-going Connected Transactions. The Company has made an application to the Stock Exchange for a waiver from strict compliance with the disclosure and Shareholders' approval requirements under Rule 14.26 of the Listing Rules for the On-going Connected Transactions for each of the respective financial years up to 31st December, 2005 subject to the following conditions:

- (a) the On-going Connected Transactions shall be conducted (i) either on normal commercial terms or if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) Independent Third Parties; (ii) in the ordinary and usual course of business of the Group; and (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (b) the aggregate amount of the sales to Shanghai Guanghui, Yancheng Celette, Zhongwei Bus and Zhongda Yanjing and their associates (as defined in the Listing Rules) shall not exceed the respective amounts stated in the table below for each of the three financial years ending 31st December, 2005 (the "Cap"):

	<b>For the year ending 31st December, 2003 <i>RMB'000</i></b>	<b>For the year ending 31st December, 2004 <i>RMB'000</i></b>	<b>For the year ending 31st December, 2005 <i>RMB'000</i></b>
Transactions with Shanghai Guanghui			
– Sales of products	5,000	10,000	5,000
Transactions with Yancheng Celette			
– Sales of products and raw materials	3,000	3,000	3,000
Transactions with Zhongwei Bus			
– Sales of products and raw materials	40,000	20,000	30,000
Transactions with Zhongda Yanjing			
– Sales of products	15,000	15,000	15,000

- (c) the independent non-executive Directors shall review the On-going Connected Transactions annually and confirm in the Company's next and each successive annual report that the On-going Connected Transactions have been entered into in the manner as stated in paragraphs (a) and (b) above;
- (d) the Company's auditors shall review the On-going Connected Transactions annually and confirm in a letter (the "Letter") to the Directors (a copy of which shall be provided to the Listing Division of the Stock Exchange) stating whether:
- (i) the On-going Connected Transactions have been approved by the Board;
- (ii) the On-going Connected Transactions are in accordance with the pricing policies as stated in the Company's annual report;
- (iii) the On-going Connected Transactions have been entered into in accordance with the terms and conditions of the agreements governing such On-going Connected Transactions; and

## LETTER FROM THE BOARD

- (iv) the relevant Cap referred to in condition (b) above has not been exceeded, and if, for whatever reason, the auditors decline to accept the engagement or are unable to provide the Letter, the Directors shall contact the Listing Division of the Stock Exchange immediately;
- (e) details of the On-going Connected Transactions in each financial year shall be disclosed as required under Rule 14.25(1)(A) to (D) of the Listing Rules in the annual report of the Company for that financial year together with a statement of the opinion of the independent non-executive Directors referred to in paragraph (c) above; and
- (f) For the purpose of the above review by the Company's auditors, Shanghai Guanghui, Yancheng Celette, Zhongwei Bus and Zhongda Yanjing undertake to the Company that they will provide the Company's auditors with access to their appropriate records.

### **BASIS OF CAP AMOUNTS**

Each of Shanghai Guanghui, Yancheng Celette, Zhongwei Bus and Zhongda Yanjing (collectively the "Connected Parties") had communicated their future expansion plans to the Directors in form of feasibility studies, development plan proposals and building of new manufacturing plants. Based on the information provided by the Connected Parties, the Directors had discussed and conducted projection on the future level of demand for the Group's supplies from the Connected Parties and sought the cap amounts proposed.

The basis of the cap amounts as stated above are determined principally with reference to (1) the projected continuous growth in the automobile industry in the PRC in terms of production volume and demand for automobiles and the rising automobile ownership which foster a strong development of the industry; (2) anticipated business growth of Shanghai Guanghui, Zhongwei Bus and Zhongda Yanjing in the next three years ending 2005 which will result in an increase in the level of products sourced by them from the Group; and (3) the expected market rates for the anticipated products and materials to be sold to Shanghai Guanghui, Zhongwei Bus, Zhongda Yanjing and Yancheng Celette under the waiver period will remain stable.

In particular, the basis for determining the cap amounts of each of Shanghai Guanghui, Yancheng Celette, Zhongwei Bus and Zhongda Yanjing are set out below:

#### **I. Shanghai Guanghui**

In determining the caps for the three years ending 2005, the Directors and Shanghai Guanghui have taken into account the projected growth in the automobile industry and potential sales growth of Shanghai Guanghui in order to formulate a development plan for Shanghai Guanghui. The expected production capacity of Shanghai Guanghui will continue to grow from 2003 onwards, thus maintaining a stable level of demand from the Group. As formulated in the development plan of Shanghai Guanghui, Shanghai Guanghui will be positioned to be the research and testing centre of automobiles in the year 2004. For the year ending 2003, Shanghai Guanghui will streamline and relocate the existing production facilities as well as purchase additional painting and coating line, testing and repair facilities from the Group. In 2004, Shanghai Guanghui is expected to accomplish a new manufacturing plant and will invest approximately RMB12 million in various new automobile production lines, painting and coating lines, testing and repair facilities and other general set up of which purchases from the Group will be amounted to approximately RMB10 million.

## LETTER FROM THE BOARD

Therefore, the cap amount will jump from RMB5 million in the year ending 2003 to RMB10 million in the year ending 2004 to reflect the need for supplies from the Group to cope with the expansion. As the major expansion plan is anticipated to complete by early 2005, less capital investment, especially automobile production lines will be demanded by Shanghai Guanghui in 2005 and thus the cap sought will fall as compared to that of 2004.

### **II. Yancheng Celette**

The Directors determined the caps to be sought based on the projected normal production needs of Yancheng Celette for each of the three years ending 2005. No ad hoc unplanned demand is anticipated in the future to prevent fluctuations in sales with Yancheng Celette which may exceed the caps amounts applied.

### **III. Zhongwei Bus**

The caps applied for up to the year ending 2005 for Zhongwei Bus are based on the projected expansion scale of Zhongwei Bus which is not directly comparable to the purchase of raw materials and products from the Group in 2002. The expansion plan of Zhongwei Bus was formulated in light of the development of automobile industry in the PRC and corresponding forecast annual sales growth in the three years ending 2005. The substantial increase in the annual cap sought as compared to the historical transactions amounts is mainly due to the expected accomplishment of a new manufacturing plant of Zhongwei Bus in the second half of 2003.

The Directors confirmed that the work for a new manufacturing plant of Zhongwei Bus has commenced in around mid June 2003 and target to complete this within the second half of 2003. Such manufacturing facility will equip Zhongwei Bus with new machineries and equipment including bus production lines, painting and coating lines, automobile testing and repair facilities and other peripheral production lines to streamline the production process. Annual production capacity is expected to increase from 1,500 automobiles in 2002 to 3,000 automobiles in 2003. The manufacturing plant is anticipated to attain a maximum production capacity of 10,000 automobiles per annum in the year 2005.

Taking into account the on-going expansion plan of Zhongwei Bus, the cap sought will be the largest in 2003 during the three years ending 2005 as the accomplishment of a new manufacturing plant will require the largest amount of capital investments in new manufacturing facilities. Upon completion of the new manufacturing plant, Zhongwei Bus does not anticipate the similar large scale of expansion in 2004, however, painting and coating lines, testing and repair facilities will be further acquired to consolidate the fast expansion in 2003. In this respect, the cap sought for the year ending 2004 will be lower than that for 2003. In order to achieve the target production capacity of 10,000 automobiles per annum in the year 2005, further expansion is scheduled for 2005 involving purchase for more new production lines, printing and coating lines, testing and repair facilities. As the capital investment for 2005 comprises of additional production lines which are not purchased in 2004, the cap amount applied will be higher in 2005.

### **IV. Zhongda Yanjing**

The projected cap for the sales with Zhongda Yanjing is determined based on the future expansion plan of Zhongda Yanjing. The Directors are given to understand that Zhongda

## **LETTER FROM THE BOARD**

Yanjing will increase the level of demand for the Group's products from 2003 onwards to cope with the renewal and expansion production facilities according to its development plan. In particular, a new extension will be constructed in the same location adjacent to the existing manufacturing plant. Such extension requires Zhongda Yanjing to purchase additional production facilities, painting and coating lines, testing and repair equipment from the Group evenly in each of the three years ending 2005. Constant annual capital expenditure is projected by Zhongda Yanjing, as the gradual increase in production facilities and capacity is subject to the availability of financial resources as well as the forecast growth in annual sales of Zhongda Yanjing. On the above basis, a constant cap is sought for each of the three years ending 2005.

### **INFORMATION FOR SHAREHOLDERS**

The Group is principally engaged in the development, manufacture and sale of automobile equipment and in the 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 being used for the repairing, testing and maintenance of automobiles.

Zhongda Industrial Group focuses its operations in the manufacture and sale of automobiles and providing steel structure design.

Shanghai Guanghui is principally engaged in the production, repair and sales of motor vehicles and sales of automobile spare parts.

Yancheng Celette is principally engaged in the production of motor vehicles repair machineries.

Zhongwei Bus is principally engaged in the manufacture and sale of motor vehicles and automobile spare parts, trading of metals and the provision of maintenance services for motor vehicles.

Zhongda Yanjing is principally engaged in the manufacture of motor vehicles and automobile spare parts, the sales of motor vehicles, automobile spare parts, merchandise, metals, construction materials, computer equipment, chemical products and property management.

### **SPECIAL GENERAL MEETING**

The purpose of this circular is to provide you with details relating to the On-going Connected Transactions, to set out the advice of MasterLink to the Independent Board Committee and the recommendation of the Independent Board Committee in respect of the On-going Connected Transactions, and to give notice of the SGM (at which Zhongda (BVI), Mr. Xu Lian Guo, Mr. Xu Lian Kuan and Mr. Zhang will abstain from voting) to approve the On-going Connected Transactions.

You will find on pages 33 to 34 of this circular a notice of the SGM to be held on Tuesday, 5th August, 2003 at 2:45 p.m. at Nikko Hotel, 72 Mody Road, Tsimshatsui East, Kowloon, Hong Kong (or as soon as practicable immediately after the conclusion or adjournment of the annual general meeting of the Company convened at the same place and date at 2:30 p.m.) for the purpose of considering and, if thought fit, passing the ordinary resolution to approve the On-going Connected Transactions.

## LETTER FROM THE BOARD

A form of proxy for use at the SGM is enclosed. Whether or not you intend to attend, you are requested to complete and return the accompanying form of proxy in accordance with the instructions contained therein and return it to the Company's branch share registrar and transfer office, Standard Registrars Limited, situated at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time scheduled for holding such meeting (or any adjourned meeting thereof). Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the SGM or an adjourned meeting if you so desire.

### OPINION OF THE INDEPENDENT BOARD COMMITTEE

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 15 of this circular which contains the recommendation of the Independent Board Committee to the Independent Shareholders concerning the On-going Connected Transactions; and (ii) the letter from MasterLink set out on pages 16 to 28 of this circular which contains the advice of MasterLink given to the Independent Board Committee in relation to the On-going Connected Transactions and the principal factors and reasons considered by MasterLink in arriving at its opinion.

Having taken into account the advice from MasterLink and in particular the principal factors and reasons set out in the letter from MasterLink, the Independent Board Committee considers that the On-going Connected Transactions are in the interest of the Company and its Shareholders as a whole and the On-going Connected Transactions are fair and reasonable so far as the Independent Shareholders generally are concerned. The Independence Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution which will be proposed at the SGM to approve the On-going Connected Transactions contemplated thereunder.

### ADDITIONAL INFORMATION

Your attention is drawn to the general information set out in Appendix to this circular.

Yours faithfully,  
For and on behalf of  
**Zhongda International Holdings Limited**  
**Xu Lian Guo**  
*Chairman*



# LETTER FROM THE INDEPENDENT BOARD COMMITTEE



## ZHONGDA INTERNATIONAL HOLDINGS LIMITED

中大國際控股有限公司\*

*(Incorporated in Bermuda with limited liability)*

14th July, 2003

*To the Independent Shareholders,  
for information only, the Warrantholders*

### CONNECTED TRANSACTIONS

Dear Sirs or Madams,

We refer to the circular (the “Circular”) dated 14th July, 2003 of Zhongda International Holdings Limited, of which this letter forms a part. The terms used in the Circular shall have the same meanings in this letter unless the context otherwise requires.

As independent non-executive Directors who are independent of the parties to the On-going Connected Transactions, we have been appointed by the Board to advise you as to whether, in our opinion, the On-going Connected Transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders generally are concerned and are in the interests of the Company and its Shareholders as a whole.

Having taken into account the advice of MasterLink, we are of the opinion that the Advances, the collection of account receivables by Zhongda Industrial Group and the payment of expenses by the Group on behalf of Zhongda Industrial Group, as a whole, are fair and reasonable so far as the Independent Shareholders generally are concerned.

We wish to draw your attention to the letter from the Board, as set out on pages 4 to 14 of the Circular, and the letter from MasterLink, as set out on pages 16 to 28 of the Circular, both of which provide details of the On-going Connected Transactions contemplated thereunder. Having considered the opinion given by MasterLink and the principal factors and reasons taken into consideration by them in arriving at their opinion, we are of the opinion that the On-going Connected Transactions are in the interests of the Company and the Independent Shareholders as a whole and the On-going Connected Transactions are fair and reasonable as far as the Independent Shareholders generally are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution which will be proposed at the SGM to approve the On-going Connected Transactions contemplated thereunder.

Yours faithfully,  
Independent Board Committee

**Mr. Gu Yao Tian**  
*Independent non-executive  
Director*

**Mr. Chan Wai Dune**  
*Independent non-executive  
Director*

\* For identification purpose only

## LETTER FROM MASTERLINK

*The following is the text of a letter of advice to the Independent Board Committee from MasterLink setting out its opinion regarding the Advances from Zhongda Industrial Group, the collection of account receivables by Zhongda Industrial Group, the payment of expenses by the Group on behalf of Zhongda Industrial Group and the On-going Connected Transactions prepared for the purpose of incorporation in this circular:*



### **MasterLink Securities (Hong Kong) Corporation Limited**

Unit 2603, 26th Floor  
The Center  
99 Queen's Road Central  
Central  
Hong Kong

14th July, 2003

*To the Independent Board Committee of  
Zhongda International Holdings Limited*

Dear Sirs,

### **CONNECTED TRANSACTIONS**

#### **INTRODUCTION**

We refer to our engagement to advise the Independent Board Committee in respect of the Advances from Zhongda Industrial Group, the collection of account receivables by Zhongda Industrial Group, the payment of expenses by the Group on behalf of Zhongda Industrial Group and the On-going Connected Transactions. Details of the Advances from Zhongda Industrial Group, the collection of account receivables by Zhongda Industrial Group, the payment of expenses by the Group on behalf of Zhongda Industrial Group and the On-going Connected Transactions are set out in the letter from the Board (the "Letter") contained in the circular of the Company dated 14th July, 2003 (the "Circular") to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires. Unless otherwise specified, translation of RMB into HK\$ in this letter is based on the approximate exchange rate of HK\$1.00 to RMB1.07.

Zhongda Industrial Group is collectively owned by Mr. Xu Lian Guo, the chairman of the Company and Mr. Xu Lian Kuan, the vice chairman of the Company and the younger brother of Mr. Xu Lian Guo as to 52.64%, Shenyang County Xinyan Village collective enterprise ("射陽縣新洋鄉村集體股"), which is an Independent Third Party as to 5% and the employees of Zhongda Industrial Group as to 42.36%. In addition, Zhongda Industrial Group has equity interests of approximately 13.3% in Zhongda Machinery. Therefore, Zhongda Industrial Group is a connected person of the Company under the Listing Rules. Accordingly, the Advances from Zhongda Industrial Group, the collection of account receivables by Zhongda Industrial Group and the payment of expenses by the Group on behalf of Zhongda Industrial Group constituted connected transactions of the Company under the Listing Rules. However, due to an inadvertent oversight of the Company, the Advances from Zhongda Industrial Group, the collection of account receivables by Zhongda Industrial Group and the payment of expenses by the Group on behalf of Zhongda Industrial

## LETTER FROM MASTERLINK

Group were not reported on time and the Company has failed to comply with the relevant requirements under Rule 14.26 of the Listing Rules in respect of the aforesaid transactions, which constituted breaches of the Listing Rules. Zhongda Industrial Group has equity interests of approximately 67%, 49%, 65% and 80% in Shanghai Guanghui, Yancheng Celette, Zhongwei Bus and Zhongda Yanjing respectively. Accordingly, the On-going Connected Transactions will also constitute connected transactions of the Company and will be subject to the approval of the Independent Shareholders for the purposes of the Listing Rules. In our capacity as the independent financial adviser to the Independent Board Committee for the purposes of the Listing Rules, our role is to give you an independent opinion as to whether the Advances from Zhongda Industrial Group, the collection of account receivables by Zhongda Industrial Group, the payment of expenses by the Group on behalf of Zhongda Industrial Group and the On-going Connected Transactions are fair and reasonable so far as the Independent Shareholders generally are concerned. We have not been requested to opine on, and our opinion does not in any manner address, the Company's own decision to proceed with the On-going Connected Transactions.

In formulating our opinion, we have relied on the accuracy of the information and facts supplied, and the opinions and representations expressed, to us by the Directors, the Company and its management. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due and careful enquiry and are based on honestly-held opinions. We have no reason to doubt the truth, accuracy and completeness of the information and representations referred to in the Circular and provided to us by the Company and the Directors, and have been advised by the Directors that no material facts have been omitted from the information provided to us and referred to in the Circular. We have also assumed that all statements of intention of the Company or its Directors as set out in the Circular will be implemented. We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have assumed that all information and representations made or referred to in the Circular and provided to us by the Company and the Directors, for which they were solely and wholly responsible, were true, complete and accurate at the time they were made and continue to be true, complete and accurate at the date of the SGM. We have not, however, carried out any independent verification of the information and representations provided to us nor have we conducted any form of independent investigation into the businesses and affairs, financial position or the future prospects of the Company, Zhongda Industrial Group, Shanghai Guanghui, Yancheng Celette, Zhongwei Bus and Zhongda Yanjing, or their respective subsidiaries or associates.

Our opinion is necessarily based upon the financial, economic, market, regulatory and other conditions as they existed on, and the facts, information, representations and opinions made available to us as of, the Latest Practicable Date. We disclaim any undertaking or obligation to advise any person of any change in any fact or matter affecting the opinion expressed herein which may come or be brought to our attention after the Latest Practicable Date.

## LETTER FROM MASTERLINK

### ADVANCES FROM ZHONGDA INDUSTRIAL GROUP, COLLECTION OF ACCOUNT RECEIVABLES BY ZHONGDA INDUSTRIAL GROUP AND PAYMENT OF EXPENSES BY THE GROUP ON BEHALF OF ZHONGDA INDUSTRIAL GROUP

#### Principal factors and reasons considered

In arriving at our opinion in relation to the advances from Zhongda Industrial Group, the collection of account receivables by Zhongda Industrial Group and the payment of expenses by the Group on behalf of Zhongda Industrial Group, we have taken into consideration the following principal factors and reasons:

#### *I. Advances from Zhongda Industrial Group*

##### (a) Background

As stated in the Letter, during the period from 20th May, 2002 to 9th December, 2002, Zhongda Industrial Group made advances to the Group of RMB29.9 million (approximately HK\$27.9 million) by making payments on behalf of the Group to a construction company which is an Independent Third Party and not connected with any of the directors, the chief executive, the substantial shareholders of the Company and Zhongda Industrial Group or any of their respective associates (the “Independent Construction Company”), in respect of the relocation and land preparation costs in relation to the proposed land development project in Yancheng Economic Development Zone of Jiangsu Province. The Advances were made to purport the intention to acquire the land use rights and allow the Independent Construction Company to assess the land preparation feasibility for any target land area. Such Advances represented approximately 21.09% of the audited consolidated net tangible asset value of the Group of approximately RMB141.8 million (approximately HK\$132.5 million) as at 31st December, 2001 and approximately 16.59% of the audited consolidated turnover of the Group of approximately RMB180.2 million (approximately HK\$168.4 million) for the year ended 31st December, 2001.

##### (b) Terms of the Advances

Pursuant to the Agency Agreement, Zhongda Machinery is of the view that since Zhongda Industrial Group has a well-established reputation and status in the Yancheng region and was also planning itself to acquire a total site area of 1,000 mu in Yancheng Economic Development Zone, the appointment of Zhongda Industrial Group to centralize the negotiations and monitor the demolition and relocation and the procurement for and execution of the basic infrastructural works for Zhongda Machinery’s investment and land acquisition projects in Yancheng Economic Development Zone can achieve better terms and economic results for Zhongda Machinery than if it were to carry out the same on its own without such assistance and support from Zhongda Industrial Group or leveraging off the collective resources of Zhongda Industrial Group. Pursuant to the supplemental agreement dated 15th May, 2002 to the Agency Agreement (the “Supplemental Agreement”), Zhongda Industrial Group has agreed to effect on behalf of Zhongda Machinery payment of the relevant costs required for preparing Zhongda Machinery’s site in Yancheng Economic Development Zone to satisfy the basic development requirement. There is no compensation or remuneration payable to Zhongda Industrial Group under the Agency

## LETTER FROM MASTERLINK

Agreement and the Supplemental Agreement for its assistance and support, and specifically with respect to payment of development costs on behalf of Zhongda Machinery, eventually effected in the form of the Advances. The Supplemental Agreement does not stipulate any fixed repayment terms and does not provide for any interest to be payable on such Advances. In addition, the Advances are unsecured. As stated in the Letter, the Directors are of the view that the Advances were received and enjoyed by Zhongda Machinery on terms more favorable to the Group than the terms available from Independent Third Parties.

Due to the delays in the start date of the projects in Yancheng Economic Development Zone as described in the Letter, Zhongda Machinery arranged through Zhongda Industrial Group for the Independent Construction Company to return to the Group the Advances made by Zhongda Industrial Group (in the amount of RMB29.7 million (approximately HK\$27.8 million) after deduction of expenses in the amount of RMB200,000 (approximately HK\$187,000) already incurred by the Independent Construction Company), and such return of RMB29.7 million occurred on 17th April, 2003. The Independent Construction Company has performed some feasibility studies and consultation services on the land preparation and relocation and miscellaneous materials for basic requirements. The expenses in the amount of RMB200,000 (approximately HK\$187,000) were used to cover the costs incurred by the Independent Construction Company.

We further note from the Letter that the Directors have determined to terminate the agency relationship with Zhongda Industrial Group in respect of the proposed land development project in Yancheng Economic Development Zone. Zhongda Industrial Group will continue to assist the Group on a free-of-charge basis in accomplishing the project while all agreements to be entered into and payments to be paid by Zhongda Machinery will be handled by Zhongda Machinery itself.

In light of the fact that there was and will be no compensation or remuneration payable to Zhongda Industrial Group for its assistance and support provided and to be provided in the proposed land development project in Yancheng Economic Development Zone, and there were no fixed repayment terms, no interest charged on the Advances and no security against the Advances, we consider that the Advances were made on terms that are favourable to the Company.

### *II. Collection of account receivables by Zhongda Industrial Group*

#### *(a) Background*

During the financial year ended 31st December, 2002, Zhongda Machinery adopted a practice in respect of common customers with Zhongda Industrial Group whereby collection of account receivables owed by them were directed to Zhongda Industrial Group. The accumulated amount collected by Zhongda Industrial Group on behalf of the Group for the year ended 31st December, 2002 amounted to approximately RMB19.3 million (approximately HK\$18.0 million) which was fully settled through direct cash repayments by Zhongda Industrial Group in December 2002. The amount represented approximately 13.61% of the audited consolidated net tangible assets of the Group as at 31st December, 2001 and approximately 10.71% of the audited consolidated turnover of the Group for the year ended 31st December, 2001.

## LETTER FROM MASTERLINK

### (b) Rationale of the transaction

Collection of account receivables by Zhongda Industrial Group on behalf of the Group was a strategic move since Zhongda Industrial Group has a comparatively larger asset base and an established reputation which gives the Group's customers better quality assurance. With the combined sales efforts and networking of Zhongda Industrial Group, the Group will be introduced to potential customers or existing customers of Zhongda Industrial Group. Also, as the Group was part of Zhongda Industrial Group (before listing of the shares of the Company on the Stock Exchange in November 2001), the collection of account receivables is a commercial arrangement to reinforce the view of customers that the Group and Zhongda Industrial Group are closely related, which leads to the impression that the Group still enjoys the sound backup of Zhongda Industrial Group. As such, customers would settle account receivables owed by them to the Group through Zhongda Industrial Group.

Moreover, collection of account receivables by Zhongda Industrial Group on behalf of the Group allowed the Group to leverage off the better business connections between Zhongda Industrial Group and some customers of the Group and to ensure a better recovery rate and less wastage of resources than if the Group were to directly chase for payment. As confirmed by the Directors, collection of account receivables by Zhongda Industrial Group was done on a handling-charge-free basis.

We note that the Group has set up a new arrangement, i.e. collection of account receivables by Zhongda Machinery itself, in order to rectify the past practice. Since the beginning of 2003, the Group has devoted more resources to build up its own reputation and has also established a sound relationship with customers. No collection of account receivables by Zhongda Industrial Group has been made since the end of December 2002 up to the Latest Practicable Date.

### *III. Payment of expenses by the Group on behalf of Zhongda Industrial Group*

As stated in the Letter, during the financial year ended 31st December, 2002, the Group paid expenses on behalf of Zhongda Industrial Group of approximately RMB16.9 million (approximately HK\$15.8 million) (the "Payments") which represented approximately 11.92% of the audited consolidated net tangible assets of the Group as at 31st December, 2001 and approximately 9.38% of the audited consolidated turnover of the Group for the year ended 31st December, 2001. The expenses mainly comprised salaries, various purchases, loan interests, miscellaneous travelling, entertainment and administrative expenses.

All of these expenses were paid on an actual basis and there was no handling fee charged by the Group in this respect. The aggregate amount of the Payments was applied for the purpose of offsetting the Advances from Zhongda Industrial Group made in 2002. We note that the Payments were fully offset by the Advances.

### **Opinion in relation to the Advances, the collection of account receivables by Zhongda Industrial Group and the Payments**

We note that there was no interest paid or charged in respect of the Advances, the account receivables collected and withheld by Zhongda Industrial Group during the year ended 31st December, 2002 and the Payments made. For illustration purpose only, the interest payable or receivable in respect of the aforesaid transactions would have to be calculated at 6.5% per annum

## LETTER FROM MASTERLINK

which is comparable to the market interest rate for an unsecured loan in the PRC during the same period. Should the Advances, the account receivables collected and withheld by Zhongda Industrial Group and the Payments made be interest-bearing at 6.5% per annum, the Directors have confirmed that the Group would have to pay an interest of approximately RMB1.28 million (approximately HK\$1.20 million) to Zhongda Industrial Group for the Advances and, on the other hand, the Group would have to charge Zhongda Industrial Group interests (i) of approximately RMB0.70 million (approximately HK\$0.65 million) for the account receivables that were received by Zhongda Industrial Group earlier than December 2002; and (ii) of approximately RMB0.58 million (approximately HK\$0.54 million) for the Payments made, resulting in a net interest receivable from Zhongda Industrial Group being approximately RMB7,000 (approximately HK\$6,500) which represents approximately 0.005% of the audited consolidated net tangible assets of the Group as at 31st December, 2001 and approximately 0.004% of the audited consolidated turnover of the Group for the year ended 31st December, 2001. The Directors consider that such net interest in both absolute amount and percentage is not significant. We concur with the Directors' view in this respect.

Having considered the abovementioned principal factors and reasons, in particular, (i) the Advances were made on terms that are favourable to the Company; (ii) the collection of account receivables on behalf of the Group and the Payments were made on a handling-charge-free basis; (iii) all the amounts collected were settled with Zhongda Machinery in December 2002; (iv) the Payments were fully offset by the Advances; and (v) the net interest of approximately RMB7,000 (approximately HK\$6,500) that would have to be receivable from Zhongda Industrial Group is not significant if an interest element at market rate were involved in the aforesaid transactions, we consider that the Advances, the collection of account receivables by Zhongda Industrial Group and the Payments, as a whole, are fair and reasonable so far as the Independent Shareholders generally are concerned and accordingly, we have advised the Independent Board Committee of our opinion.

### ON-GOING CONNECTED TRANSACTIONS

#### Principal factors and reasons considered

In arriving at our opinion regarding the On-going Connected Transactions, we have considered the following principal factors and reasons:

##### *I. Background information*

The Group is principally engaged in the development, manufacture and sale of automobile equipment and in the 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 being used for the repairing, testing and maintenance of automobiles.

Zhongda Industrial Group focuses its operations in the manufacture and sale of automobiles and providing steel structure design.

Shanghai Guanghui is principally engaged in the production, repair and sales of motor vehicles and sales of automobile spare parts.

Yancheng Celette is principally engaged in the production of motor vehicles repair machineries.

## LETTER FROM MASTERLINK

Zhongwei Bus is principally engaged in the manufacture and sale of motor vehicles and automobile spare parts, trading of metals and the provision of maintenance services for motor vehicles.

Zhongda Yanjing is principally engaged in the manufacture of motor vehicles and automobile spare parts, the sales of motor vehicles, automobile spare parts, merchandise, metals, construction materials, computer equipment, chemical products and property management.

### *II. The waiver application and the conditions precedent*

As mentioned in the Letter, the sales of products (including various production facilities, machineries and equipment) to Shanghai Guanghui, Zhongda Yanjing and Zhongwei Bus, and the sales of raw materials and products (including ballast, circuit boards, switches, pattern boards, pneumatic lifts, hydraulic tools, steels and stainless steels) to Yancheng Celette are expected to continue in the future at comparable market rates taking into account the direct costs to be incurred by the Group in respect of the On-going Connected Transactions. As advised by the Directors, the On-going Connected Transactions will be entered into in its ordinary and usual course of business of the Group and will be carried out on normal commercial terms.

The On-going Connected Transactions may require disclosure by way of press announcement, circular to the Shareholders and/or prior independent shareholders' approval under the Listing Rules on each occasion when they arise. In view of the expected frequency of the On-going Connected Transactions, the Board considers that this requirement is burdensome to the Company if it is to be complied with for each of the On-going Connected Transactions. The Company has made an application to the Stock Exchange for a waiver from strict compliance with the disclosure and shareholders' approval requirements under Rule 14.26 of the Listing Rules for the On-going Connected Transactions for each of the respective financial year up to 31st December, 2005 subject to the following conditions:

- (a) the On-going Connected Transactions shall be conducted (i) either on normal commercial terms or if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) Independent Third Parties; (ii) in the ordinary and usual course of business of the Group; and (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;



## LETTER FROM MASTERLINK

- (b) the aggregate amount of the sales to Shanghai Guanghai, Yancheng Celette, Zhongwei Bus and Zhongda Yanjing and their associates (as defined in the Listing Rules) shall not exceed the respective amounts stated in the table below for each of the three financial years ending 31st December, 2005 (the “Caps”):

	For the year ending 31st December, 2003 <i>RMB'000</i>	For the year ending 31st December, 2004 <i>RMB'000</i>	For the year ending 31st December, 2005 <i>RMB'000</i>
Transactions with Shanghai Guanghai			
– Sales of products	5,000	10,000	5,000
Transactions with Yancheng Celette			
– Sales of products and raw materials	3,000	3,000	3,000
Transactions with Zhongwei Bus			
– Sales of products and raw materials	40,000	20,000	30,000
Transactions with Zhongda Yanjing			
– Sales of products	15,000	15,000	15,000

- (c) the independent non-executive Directors of the Company shall review the On-going Connected Transactions annually and confirm in the Company’s next and each successive annual report that the On-going Connected Transactions have been entered into in the manner as stated in paragraphs (a) and (b) above;
- (d) the Company’s auditors shall review the On-going Connected Transactions annually and confirm in a letter (the “Letter from auditors”) to the Directors (a copy of which shall be provided to the Listing Division of the Stock Exchange) stating whether:
- (i) the On-going Connected Transactions have been approved by the Board;
  - (ii) the On-going Connected Transactions are in accordance with the pricing policies as stated in the Company’s annual report;
  - (iii) the On-going Connected Transactions have been entered into in accordance with the terms and conditions of the agreements governing such On-going Connected Transactions; and
  - (iv) the relevant Caps referred to in paragraph (b) above have not been exceeded,

and if, for whatever reason, the auditors decline to accept the engagement or are unable to provide the Letter from auditors, the Directors shall contact the Listing Division of the Stock Exchange immediately;

## LETTER FROM MASTERLINK

- (e) details of the On-going Connected Transactions in each financial year shall be disclosed as required under Rule 14.25(1)(A) to (D) of the Listing Rules in the annual report of the Company for that financial year together with a statement of the opinion of the independent non-executive Directors referred to in paragraph (c) above; and
- (f) for the purpose of the above review by the Company's auditors, Shanghai Guanghui, Yancheng Celette, Zhongwei Bus and Zhongda Yanjing undertake to the Company that they will provide the Company's auditors with access to their appropriate records.

Taking into account of the conditions precedent attached to the On-going Connected Transactions, in particular (i) the restriction by way of the Caps (details and justification of which will be discussed in the next section below); and (ii) the on-going review by the independent non-executive Directors and the auditors of the Company on the terms of the On-going Connected Transactions, we consider that the Company has taken appropriate measures to govern the Company in carrying out the On-going Connected Transactions thereby safeguarding the interests of the Independent Shareholders as a whole thereunder.

### *III. Basis of the Caps*

Each of Shanghai Guanghui, Yancheng Celette, Zhongwei Bus and Zhongda Yanjing (collectively referred to as the "Connected Parties") has communicated their future expansion plans to the Directors in form of feasibility studies, development plan proposals and building of new manufacturing plants. Based on the information provided by the Connected Parties, the Directors have discussed and conducted projection on the future level of demand for the Group's raw materials and products from the Connected Parties and sought the Caps proposed.

As stated in the Letter, the basis of the Caps is determined principally with reference to (i) the projected continuous growth of the automobile industry in the PRC in terms of production volume and demand for automobiles and the rising automobile ownership which foster a strong development of the automobile industry; (ii) anticipated business growth of Shanghai Guanghui, Zhongwei Bus and Zhongda Yanjing in the next three years ending 2005 which will result in an increase in the level of products sourced by them from the Group; and (iii) the expected market rates for the anticipated products and materials to be sold to Shanghai Guanghui, Zhongwei Bus, Zhongda Yanjing and Yancheng Celette under the waiver period which will remain stable.

According to the statistics from the State Machinery Industry Bureau of the PRC (中國國家機械工業局), it is anticipated that the annual market demand for automobiles in the PRC will reach approximately between 2.71 million and 3.09 million by 2005, between 3.94 million and 4.45 million by 2010, and between 5.71 million and 6.10 million by 2015. In light of the aforesaid, the Directors believe that the market demand for automobiles in the PRC will increase over the next few years. We concur with the Directors' view in this respect.

## LETTER FROM MASTERLINK

In particular, each of the Caps is further elaborated as follows:

(a) Shanghai Guanghui

For the year ended 31st December, 2002, the total product (i.e. a lacquer room which has not yet been fully delivered as at the Latest Practicable Date) agreed to be sold by the Group to Shanghai Guanghui pursuant to a sales agreement dated 28th September, 2002 amounted to approximately RMB3,419,000 (approximately HK\$3,195,000) before value added tax of 17% represented approximately 2.41% of the audited consolidated net tangible asset value of the Group as at 31st December, 2001 and approximately 1.90% of the audited consolidated turnover of the Group for the year ended 31st December, 2001. The caps regarding the sales of products to Shanghai Guanghui for the three years ending 31st December, 2005 represent approximately 3.82%, 7.64% and 3.82% of the audited consolidated net tangible asset value as at 31st December, 2002 respectively, and approximately 2.88%, 5.76% and 2.88% of the audited consolidated turnover of the Group for the year ended 31st December, 2002 respectively. In determining the caps for the three years ending 2005, the Directors and Shanghai Guanghui have taken into account the projected growth of the automobile industry and potential sales growth of Shanghai Guanghui in order to formulate a development plan for Shanghai Guanghui. The expected production capacity of Shanghai Guanghui will continue to grow from 2003 onwards, thus maintaining a stable level of demand for the Group's products. As formulated in the development plan of Shanghai Guanghui, Shanghai Guanghui will be positioned to be the research and testing centre of automobiles in 2004. For the year ending 2003, Shanghai Guanghui will streamline and relocate its existing production facilities as well as purchase additional painting and coating line, testing and repair facilities from the Group. In 2004, Shanghai Guanghui is expected to accomplish a new manufacturing plant and will invest approximately RMB12 million in various new automobile production lines, painting and coating lines, testing and repair facilities and other general set up of which purchases from the Group will amount to approximately RMB10 million. Therefore, the cap will jump from RMB5 million in the year ending 2003 to RMB10 million in the year ending 2004 to reflect the need for supplies from the Group to cope with the expansion. As the major planned expansion is anticipated to be completed by early 2005, less capital investment, especially automobile production lines will be demanded by Shanghai Guanghui in 2005 and thus the cap sought for the year ending 2005 falls as compared to that of 2004.

Taking into account the abovementioned factors, in particular, the proposed setting up of a new plant in 2004 which leads to the increase in the demand for the Group's products, we are of the view that the caps for sales of products to Shanghai Guanghui for each of the three financial years ending 31st December, 2005 are reasonable and acceptable so far as the anticipated business growth of Shanghai Guanghui and the projected continuous growth of the automobile industry in the PRC are concerned.

(b) Yancheng Celette

For the year ended 31st December, 2002, the total products and raw materials sold by the Group to Yancheng Celette amounted to approximately RMB6,618,000 (approximately HK\$6,185,000) before value added tax of 17% represented

## LETTER FROM MASTERLINK

approximately 4.67% of the audited consolidated net tangible asset value of the Group as at 31 December, 2001 and approximately 3.67% of the audited consolidated turnover of the Group for the year ended 31st December, 2001. Each of the caps regarding the sales of products and raw materials to Yancheng Celette for the three years ending 31st December, 2005 represented approximately 2.29% of the audited consolidated net tangible asset value of the Group as at 31st December, 2002 and approximately 1.73% of the audited consolidated turnover of the Group for the year ended 31st December, 2002. The caps are principally determined with reference to the projected continuous growth of the automobile industry in the PRC and the anticipated stable market rates for the products and raw materials to be sold to Yancheng Celette as mentioned above, and no ad hoc or unplanned demand from Yancheng Celette for the three years ending 31st December, 2005. The Directors have advised that the increase in the level of demand for raw materials and products by Yancheng Celette during the year ended 2002 was due to ad hoc demand from Yancheng Celette. The Directors have determined that the caps to be sought in the amount of RMB3 million each year are based on the projected normal production needs of Yancheng Celette for each of the three years ending 2005. No ad hoc or unplanned demand is anticipated in the future to prevent fluctuations in sales to Yancheng Celette which may exceed the caps applied. In view of the aforesaid factors, we consider that the caps for sales of products and raw materials to Yancheng Celette for each of the three financial years ending 31st December, 2005 are reasonable and acceptable.

### (c) Zhongwei Bus

For the year ended 31st December, 2002, the total products and raw materials sold by the Group to Zhongwei Bus amounted to approximately RMB2,021,000 (approximately HK\$1,889,000) before value added tax of 17% represented approximately 1.43% of the audited consolidated net tangible asset value of the Group as at 31st December, 2001 and approximately 1.12% of the audited consolidated turnover of the Group for the year ended 31st December, 2001. The caps regarding the sale of products and raw materials to Zhongwei Bus for the three years ending 31st December, 2005 represent approximately 30.58%, 15.29% and 22.94% of the audited consolidated net tangible asset value as at 31st December, 2002 respectively, and approximately 23.07%, 11.53% and 17.30% of the audited consolidated turnover of the Group for the year ended 31st December, 2002 respectively. As stated in the Letter, the caps applied for the three years ending 2005 for Zhongwei Bus are based on the projected expansion scale of Zhongwei Bus which is not directly comparable to the purchase of raw materials and products from the Group in 2002. The expansion plan of Zhongwei Bus was formulated in light of the projected continuous development of the automobile industry in the PRC and corresponding forecast annual sales growth of automobiles in the three years ending 2005. The substantial increase in the caps sought as compared to the historical transaction amounts is mainly due to the expected accomplishment of a new manufacturing plant of Zhongwei Bus in the second half of 2003.

The Directors have confirmed that the work for a new manufacturing plant of Zhongwei Bus commenced in around the middle of June 2003 and target to complete this within the second half of 2003. Such manufacturing facility will equip Zhongwei Bus with new machineries and equipment including bus production lines, painting and coating lines, automobile testing and repair facilities and other peripheral production lines to streamline the production process. Annual production capacity of

## LETTER FROM MASTERLINK

Zhongwei Bus is expected to increase from 1,500 automobiles in 2002 to 3,000 automobiles in 2003. The manufacturing plant is anticipated to attain a maximum production capacity of 10,000 automobiles per annum in the year 2005.

Taking into account the on-going expansion plan of Zhongwei Bus, the cap sought in the amount of RMB40 million will be the largest in 2003 during the three years ending 2005 as the accomplishment of a new manufacturing plant will require the largest amount of capital investment in new manufacturing facilities. Upon completion of the new manufacturing plant, Zhongwei Bus does not anticipate the similar large scale of expansion in 2004, however, painting and coating lines, testing and repair facilities will be further acquired to consolidate the fast expansion in 2003. In this respect, the cap sought in the amount of RMB20 million for the year ending 2004 will be lower than that for 2003. In order to achieve the targeted production capacity of 10,000 automobiles per annum in the year 2005, further expansion is scheduled for 2005 involving purchase for more new production lines, printing and coating lines, testing and repair facilities. As the capital investment for 2005 comprises additional production lines which are not purchased in 2004, the cap sought in the amount of RMB30 million for the year ending 2005 will be higher than that for 2004.

Taking into account the abovementioned factors, we consider that the caps for sales of products and raw materials to Zhongwei Bus for each of the three financial years ending 31st December, 2005 are reasonable and acceptable so far as the anticipated business growth of Zhongwei Bus and the projected continuous growth of the automobile industry in the PRC are concerned.

(d) Zhongda Yanjing

For the year ended 31st December, 2002, the total product (i.e. a lacquer room) sold by the Group to Zhongda Yanjing amounted to approximately RMB5,128,000 (approximately HK\$4,793,000) before value added tax of 17% represented approximately 3.62% of the audited consolidated net tangible assets of the Group as at 31st December, 2001 and approximately 2.85% of the audited consolidated turnover of the Group for the year ended 31st December, 2001. The caps regarding the sale of products to Zhongda Yanjing for each of the three years ending 31st December, 2005 represents approximately 11.47% of the audited consolidated net tangible asset value of the Group as at 31st December, 2002 and approximately 8.65% of the audited consolidated turnover of the Group for the year ended 31st December, 2002. The caps for sales to Zhongda Yanjing are determined with reference to, other than the projected continuous growth of the automobile industry in the PRC and the anticipated stable market rates for products to be sold to Zhongda Yanjing as mentioned above, the future expansion plan of Zhongda Yanjing. The Directors are given to understand that Zhongda Yanjing will increase the level of demand for the Group's products from 2003 onwards to cope with the renewal and expansion of the production facilities according to the development plan of Zhongda Yanjing. In particular, a new extension will be constructed in the same location adjacent to the existing manufacturing plant. Such extension requires Zhongda Yanjing to purchase additional production facilities, painting and coating lines, testing and repair equipment from the Group evenly in each of the three years ending 2005. Constant annual capital expenditure are projected by Zhongda Yanjing, as the gradual increase in production facilities and capacity is subject to the availability of financial resources as well as the forecast growth of annual sales of Zhongda Yanjing.

## LETTER FROM MASTERLINK

In view of abovementioned factors, we are of the view that the caps for sales of products to Zhongda Yanjing for each of the three financial years ending 31st December, 2005 are reasonable and acceptable so far as the anticipated business growth of Zhongda Yanjing and the projected continuous growth of the automobile industry in the PRC are concerned.

### **Recommendation in relation to the On-going Connected Transactions**

Having taken into account the abovementioned principal factors and reasons, in particular, the conditions of the waiver in respect of the On-going Connected Transactions, we consider that the On-going Connected Transactions are fair and reasonable so far as the Independent Shareholders generally are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution regarding the On-going Connected Transactions to be proposed at the SGM.

Yours faithfully,  
For and on behalf of  
**MasterLink Securities (Hong Kong) Corporation Limited**  
**Jimmy Chan**  
*Director*

## 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 and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests or short positions which the Directors or the chief executives are taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules were as follows:

Name of Directors	Number of Shares* held	
	Personal interests	Corporate interests
Mr. Xu Lian Guo ( <i>Note</i> )	–	234,720,000
Mr. Xu Lian Kuan ( <i>Note</i> )	–	234,720,000
Mr. Zhang Yuqing	17,600,000	–

*Note:* These shares are held by Zhongda (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.

\* As defined in the SFO (section 311) a reference to interests in shares comprised in the relevant share capital of a listed corporation includes a reference in shares so comprised, which are the underlying shares of equity derivative.

Save as disclosed herein, as at the Latest Practicable Date, to the knowledge of the Directors, none of the Directors and the chief executives of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests or short positions which the Directors and the chief executives are taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which are required to be notified to the Company and the Stock Exchange pursuant to Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

Save as disclosed herein:

- (i) none of the Directors has any direct or indirect interest in any assets which have been, since 31st December, 2002, the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries.
- (ii) none of the Directors is materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries which contract or arrangement is subsisting at the date of this circular and which is significant in relation to the business of the Group.

### 3. SUBSTANTIAL SHAREHOLDER

So far as is known to any Director or chief executives of the Company, as at the Latest Practicable Date, the persons or companies (not being a Director or chief executive of the Company) who have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

Name of Shareholder	Attributable number of Shares	Approximate percentage of holding
Shum Yip (Holdings) Company Limited	43,596,000 <sup>(1)</sup>	10.9%

- (1) This interest of Shum Yip (Holdings) Company Limited is held indirectly through Gainful Outcome Holdings Limited and Outstanding Management Limited, both of which are wholly owned subsidiaries of Shum Yip (Holdings) Company Limited.

Save as disclosed herein, as at the Latest Practicable Date, the Directors are not aware of any other person who has an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who is directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

### 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. EXPERT**

The following is the qualification of the expert who has given opinion or advice which are contained in this circular:

<b>Name</b>	<b>Qualification</b>
MasterLink	a deemed licensed corporation for types 1, 4, 6 and 9 regulated activities under the SFO

As at the Latest Practicable Date, MasterLink did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did it have any direct or indirect interest in any assets which had been acquired or disposed of by or leased to, or which are proposed to be acquired, disposed of by or leased to any member of the Group since 31st December, 2002 (being the date to which the latest published audited accounts of the Company were made up).

**7. CONSENT**

MasterLink has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name and letter in the form and content in which they appear.

**8. MATERIAL CHANGES**

The Directors are not aware of any material adverse changes in the financing or trading position of the Group since 31st December, 2002, the date to which the latest audited financial statements of the Group were made up.

**9. GENERAL**

- (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 HM 11, Bermuda.
- (c) The principal share registrars of the Company are The Bank of Bermuda Limited, Bank of Bermuda Building, 6 Front Street, Hamilton HM 11, 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.
- (d) The English text of this circular and the form of proxy shall prevail over the Chinese text.

**10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours up to and including 31st July, 2003 at the principal place of business of the Company in Hong Kong at Unit 702, 7th Floor, Concordia Plaza, 1 Science Museum Road, Tsim Sha Tsui East, Kowloon, Hong Kong:

- (a) the Memorandum of Association and the bye-laws of the Company;
- (b) the letter of recommendation from the Independent Board Committee as set out on page 15 of this circular;
- (c) the letter of advice from MasterLink as set out on pages 16 to 28 of this circular;
- (d) the written consent referred to in the section headed "Consent" above;
- (e) the sales agreement with Shanghai Guanghui dated 28th September, 2002;
- (f) the sales agreement with Zhongda Yanjing dated 5th September, 2002;
- (g) the sales agreement with Zhongwei Bus dated 8th September, 2002;
- (h) the agency agreement between Zhongda Machinery and Zhongda Industrial Group dated 29th April, 2002;
- (i) the supplemental agreement to the agency agreement in (h) above dated 15th May, 2002; and
- (j) the contract dated 18th May, 2002 between Zhongda Machinery and the construction company.

## NOTICE OF SPECIAL GENERAL MEETING



### ZHONGDA INTERNATIONAL HOLDINGS LIMITED

中大國際控股有限公司\*

*(Incorporated in Bermuda with limited liability)*

**Notice is hereby** given that a special general meeting of Zhongda International Holdings Limited (the “Company”) will be held at 2:45 p.m. on Tuesday, 5th August, 2003 at Nikko Hotel, 72 Mody Road, Tsimshatsui East, Kowloon, Hong Kong (or as soon as practicable immediately after the conclusion or adjournment of the annual general meeting of the Company convened at the same place and date at 2:30 p.m.), for the purpose of considering and, if thought fit, passing the following ordinary resolution:

#### **Ordinary resolution:**

1. the On-going Connected Transactions, a copy of which has been produced to the SGM marked “A” and signed by the chairman of the meeting for the purpose of identification which is subject to the granting of waiver by the Stock Exchange from strict compliance with rule 14.26 of the Listing Rules and the transactions contemplated thereunder be and are hereby approved and confirmed.

By Order of the Board  
**Zhongda International Holdings Limited**  
**Xu Lian Guo**  
*Chairman*

Hong Kong, 14th July, 2003

\* For identification purpose only

## NOTICE OF SPECIAL GENERAL MEETING

*Principal place of business in Hong Kong:*

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

*Registered address of the Company:*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Notes:*

1. A member of the company entitled to attend and vote at the meeting covered by the above notice is entitled to appoint one or, if he holds two or more shares, more proxies to attend and, subject to the provisions of the bye-laws of the Company, vote in his stead. A proxy need not be a member of the Company.
2. A form of proxy for use at the meeting is enclosed.
3. To be valid, the form of proxy should be duly completed and signed in accordance with the instructions printed thereon and deposited, together with a power of attorney or other authority, if any, under which it is signed or a notorially certified copy of that power of attorney or authority at the Company's Hong Kong branch share registrar, Standard Registrars Limited, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time for holding the meeting (or any adjourned meeting thereof) and in default the form of proxy shall not be treated as valid. Completion and return of the form of proxy will not preclude members of the Company from attending in person and voting at the above meeting (or any adjourned meeting thereof) should they so wish.
4. Where there are joint registered holders of a share in the Company, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders shall be present at the meeting personally or by proxy, that one of the holders so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.