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ZHONGDA INTERNATIONAL HOLDINGS LIMITED

中大國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 909)

ANNOUNCEMENT

DISCLOSEABLE AND CONNECTED TRANSACTION

IN RESPECT OF THE ACQUISITION OF A 20% EQUITY INTEREST IN ZHONGWEI BUS

AND

DISCLOSEABLE AND CONNECTED TRANSACTION

INVOLVING PROPOSED ISSUE OF ZERO COUPON CONVERTIBLE BONDS DUE 2013

Financial adviser to Zhongda International Holdings Limited

TANRICH
Tanrich Capital Limited

On 24 July 2008, the Purchaser, a wholly-owned subsidiary of the Company (as purchaser) and the Vendor (as vendor) entered into the Acquisition Agreement pursuant to which the Purchaser shall purchase from the Vendor a 20% equity interest in Zhongwei Bus at a consideration of RMB18,460,000 (equivalent to approximately HK\$21,000,000). The consideration shall be satisfied by the Purchaser entirely in cash, which is expected to be funded by internal resources of the Group.

On 24 July 2008, Zhong Da (BVI) Limited, the substantial shareholder of the Company, and the Company entered into the Subscription Agreement to subscribe for the Convertible Bonds in the principal amount of HK\$21,000,000 for general working capital of the Group. The principal terms of the Acquisition Agreement and the Subscription Agreement are set out below in this announcement.

As the applicable ratios of each of the Acquisition and the Subscription exceed 5% but are less than 25%, each of the Acquisition and the Subscription constitutes a discloseable transaction for the purposes of, and is subject to the reporting and announcement requirements under, Chapter 14 of the Listing Rules. Further, as the transactions contemplated under each of the Acquisition Agreement and the Subscription Agreement also constitute connected transactions of the Company for the purposes of Chapter 14A of the Listing Rules, the entering into of each of the Acquisition Agreement and the Subscription Agreement is also subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

A circular containing, amongst other things, further details of the Acquisition Agreement, the Subscription Agreement and the particulars required by the Listing Rules concerning discloseable and connected transactions will be dispatched to the Shareholders as soon as practicable.

INTRODUCTION

The Board announces that on 24 July 2008, the Purchaser, being a wholly-owned subsidiary of the Company (as purchaser) and the Vendor (as vendor) entered into the Acquisition Agreement pursuant to which the Purchaser shall purchase from the Vendor a 20% equity interest in Zhongwei Bus. The principal terms of the Acquisition Agreement are summarized as follows:

ACQUISITION AGREEMENT

a. Date: 24 July 2008

b. Parties:

- (i) 鹽城奧申工業裝備製造有限公司 (Yancheng Aoshen Industrial Equipment Manufacturing Co., Ltd.*), a wholly-owned subsidiary of the Company, as purchaser; and
- (ii) 中大工業集團公司 (Zhongda Industrial Group Corporation), as vendor.

c. Subject matter:

The Vendor has agreed to transfer a 20% equity interest in Zhongwei Bus to the Purchaser subject to the terms and conditions of the Acquisition Agreement. The Equity Interests shall be free from potential and actual rights disputes or title defects in connection therewith, and free from any third party's rights and interests, pledge, and other legal restraints on the registration of equity transfer.

Zhongwei Bus is a 65% owned subsidiary of the Vendor. The registered capital of Zhongwei Bus is RMB92,300,000, as to 65% was contributed by the Vendor.

d. Consideration:

The consideration for the Acquisition is RMB18,460,000 (equivalent to approximately HK\$21,000,000) which was determined after arm's length negotiations between the parties with reference to the lower of 20% of the paid-up capital or the appraised value of the entire equity interest in Zhongwei Bus as at the Valuation Date of approximately HK\$162 million calculated based on discounted cashflow method as shown in the Appraisal Report conducted by the HK Appraiser, which is a third party independent of the Group and the connected persons of the Group.

The consideration will be payable by the Purchaser on the Completion Date of Acquisition and satisfied by the Purchaser entirely in cash, which is expected to be funded by internal resources of the Group.

e. Condition precedents:

Completion of the Acquisition Agreement is conditional upon, amongst other things, the fulfillment or waiver of the following conditions on or before 31 December 2008, or such other date as the parties to the Acquisition Agreement may agree:—

- (i) the passing of resolutions of the board of directors and/or the shareholders of the Vendor approving the transfer of the Equity Interests as required by its articles of association;
- (ii) the passing of resolutions of the board of directors and/or the shareholders of the Purchaser approving the purchase of the Equity Interests as required by its articles of association;
- (iii) the waiver of pre-emptive rights from the remaining shareholder of Zhongwei Bus in respect of the transfer of the Equity Interests having been obtained;
- (iv) the change in shareholders of Zhongwei Bus as a result of the transfer of the Equity Interests having been properly filed, approved and/or registered with all PRC government authorities, and Zhongwei Bus having received the business licence showing the Purchaser as a 20% shareholder in Zhongwei Bus;
- (v) the production of a PRC legal opinion issued by a PRC legal counsels (in all respects acceptable to the Company) confirming that the Acquisition complies with the articles of association of the Vendor, the Purchaser and Zhongwei Bus and all applicable PRC laws and regulations, and all necessary consents, and approvals from and notices to any PRC governmental authorities in connection therewith having been obtained;
- (vi) the approval by the Independent Shareholders at the SGM of the Acquisition; and
- (vii) the Company being satisfied with the results of the due diligence investigation through an independent Hong Kong Certified Public Accountants firm into the affairs of Zhongwei Bus.

The Acquisition Agreement shall terminate if such condition is not satisfied or waived on or before 31 December 2008 or such other date as agreed by the parties to the Acquisition Agreement in writing.

f. Completion:

Completion of the Acquisition Agreement will take place on the Completion Date of Acquisition which will fall on or before the 15th Business Day following the satisfaction or waiver of the conditions set out therein.

Upon completion of the Acquisition Agreement, the Company will be interested in a 20% equity interest in Zhongwei Bus, and Zhongwei Bus will be accounted for as an associated company of the Company.

Financial information of Zhongwei Bus

The following table sets out the audited net asset value of Zhongwei Bus as at 31 December 2007 and its net profit before and after taxation for the two financial years ended 31 December 2007 according to the audited financial statements of Zhongwei Bus based on PRC GAAP for the year ended 31 December 2007:

	As at 31 December 2007	
	<i>(RMB)</i>	
Net asset value of Zhongwei Bus	214,418,000	
	For the year ended 31 December 2006	For the year ended 31 December 2007
	<i>(RMB)</i>	<i>(RMB)</i>
Net profit attributable to the 20% equity interest in Zhongwei Bus before the taxation and extraordinary items <i>(Note 1)</i>	3,442,000	3,512,000
Net profit attributable to the 20% equity interest in Zhongwei Bus after the taxation and extraordinary items <i>(Note 2)</i>	2,306,000	2,353,148

Note 1: The net profits attributable to the entire equity interest in Zhongwei Bus before the taxation and extraordinary items for the year ended 31 December 2006 and 31 December 2007 based on PRC GAAP are approximately RMB17,210,000 and RMB17,561,000, respectively.

Note 2: The net profit attributable to the entire equity interest in Zhongwei Bus after the taxation and extraordinary items for the year ended 31 December 2006 and 31 December 2007 based on PRC GAAP are approximately RMB1,153,000 and RMB11,766,000, respectively.

SUBSCRIPTION AGREEMENT

a. **Date:** 24 July 2008

b. **Parties:**

(i) Zhong Da (BVI) Limited, the substantial shareholder of the Company, as subscriber. Zhong Da (BVI) Limited is beneficially owned as to 57.22% and 42.78% by Mr. Xu Lian Guo and Mr. Xu Lian Kuan, respectively, both of whom are Directors; and

(ii) the Company, as issuer.

c. **Subject matter:**

Zhong Da (BVI) Limited agrees to subscribe for the Convertible Bonds in the principal amount of HK\$21,000,000 for general working capital of the Group.

Principal terms of the Convertible Bonds

The principal terms of the Convertible Bonds are summarized as follows:

Issuer:	the Company
Principal Amount:	HK\$21,000,000
Interest:	Zero coupon
Conversion period:	Bondholder(s) may exercise their conversion rights at any time during the period commencing from the expiry of the 6th month of the date of issue of the Convertible Bonds up to the date 7 days before and excluding the Maturity Date.
Conversion Price:	HK\$0.84 per Conversion Share
Conversion Shares:	If the Convertible Bonds are fully converted at the Conversion Price of HK\$0.84 each, there will be 25,000,000 Conversion Shares.
Ranking of Conversion Shares:	Conversion Shares will rank pari passu in all respects with the Shares then in issue on the relevant conversion date other than in respect of any dividends, entitlements or distributions, the record date for which falls prior to such conversion date.

Redemption at option of the Company:	At any time prior to the Maturity Date, the Company may, having giving not less than 30 nor more than 60 days' notice to the bondholders, redeem all or, from time to time, some only of the Convertible Bonds at a redemption price equal to 115% of the outstanding principal amount of the Convertible Bonds.
Redemption for change of control:	Following the occurrence of a change in control of the Company (as specified in the document governing the Convertible Bonds issue), each bondholder will have the right at such bondholder's option, to require the Company to redeem in whole but not in part such holder's Convertible Bonds.
Maturity:	Unless previously redeemed, converted or purchased and cancelled, each Convertible Bond shall be redeemed at their principal amount on the Maturity Date.
Voting rights:	Bondholders will not have any right to attend or vote in any meeting of the Company by virtue of their being bondholders.
Transferability:	Convertible Bonds may not be transferable without the prior written consent of the Company.
Application for listing:	Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in the Conversion Shares which may be issued under the Convertible Bonds. However, no application will be made for the listing of the Convertible Bonds on the Stock Exchange or any other stock exchange.

The exercise price for the Conversion Shares is HK\$0.84 per Share, which has been determined by the parties with reference to the net asset value per Share, the recent Share price and future prospects of the Group and represents:

- a premium of approximately 252.9% to the closing price of HK\$0.238 per Share as quoted on the Stock Exchange on the Last Trading Date;
- a premium of approximately 245.7% to the average closing price of HK\$0.243 per Share for the five consecutive trading days up to and including the Last Trading Date;
- a premium of approximately 237.4% to the average closing price of HK\$0.249 per Share for the ten consecutive trading days up to and including the Last Trading Date; and
- a premium of approximately 1.15 times of the audited consolidated net asset value per Share as at 31 December 2007 of approximately HK\$0.73.

Given the 5-year tenure of the Convertible Bonds, and the enhancement in the net asset value per Share upon completion of the Subscription, the Directors consider the Conversion Price to be fair and reasonable as far as the Company and the Independent Shareholders are concerned.

The 25,000,000 Conversion Shares to be issued under the Convertible Bonds represent approximately 4.7% of the existing issued share capital of the Company and approximately 4.5% of the issued share capital of the Company immediately upon completion of the Subscription and assuming full conversion of the Conversion Shares (and that there are no changes other than those contemplated in the Subscription Agreement) respectively.

The bondholder(s) will comply with the requirements under the Code on Takeovers and Mergers upon the exercise of the conversion rights attached to the Convertible Bonds. Notwithstanding the conversion rights attached to the Convertible Bonds, the bondholder(s) will not exercise the Convertible Bonds and the Company shall not issue any Shares if, upon such issue, the public float of the Company will fall below 25% of its total issued share capital.

Condition precedents

Completion of the Subscription Agreement is conditional upon, amongst other things, the fulfillment or waiver of the following conditions on or before 31 December 2008, or such other date as the parties to the Subscription Agreement may agree:–

- (i) the approval by the Independent Shareholders at the SGM of the Subscription and the issue of the Convertible Bonds and the allotment and issue of the Conversion Shares upon the exercise of the conversion rights attaching to the Convertible Bonds;
- (ii) the listing committee of the Stock Exchange granting the listing of, and the permission to deal in, the Conversion Shares upon the exercise of the conversion rights attaching to the Convertible Bonds;
- (iii) the issue and subscription of the Convertible Bonds not being prohibited by any statute, order, rule, regulation or directive promulgated or issued after the date of the Subscription Agreement by any legislative, executive or regulatory body or authority of Hong Kong or elsewhere which is applicable to the Company or Zhong Da (BVI) Limited;
- (iv) the Acquisition having been completed; and
- (v) the representations and warranties of the Company being true, accurate and correct in a material respect as if made on the completion date of the Subscription Agreement, with reference to the then existing circumstances and the Company having performed in all material respects all of its obligations under the Subscription Agreement which are required hereunder to be performed on or before the completion date of the Subscription Agreement.

Completion

Completion of the Subscription Agreement will take place on or before the 15th Business Day following the satisfaction or waiver of the conditions set out therein.

As each of the Acquisition and the Subscription is subject to approval of the Independent Shareholders and may or may not proceed, Shareholders and the public investors should exercise caution when dealing with securities of the Company.

SHAREHOLDING STRUCTURE

The shareholding structure of the Company before and immediately after completion of the Subscription and assuming full conversion of the Convertible Bonds (and that there are no changes other than those contemplated in the Subscription Agreement) is as follows:

Name of Shareholder	Existing shareholding structure		Upon completion and assuming full conversion of the Convertible Bonds (Note 1)	
	No of Shares	%	No of Shares	%
Zhong Da (BVI) Limited (note 1)	204,004,000	38.5%	229,004,000	41.2%
Shum Yip Holdings Company Limited	39,576,000	7.5%	39,576,000	7.1%
Penta Investment Advisers Limited	96,024,000	18.1%	96,024,000	17.3%
L-R Global Partners, L.P.	26,606,000	5.0%	26,606,000	4.8%
Public	163,794,200	30.9%	163,794,200	29.5%
	<u>530,004,200</u>	<u>100.0%</u>	<u>555,004,200</u>	<u>100.0%</u>

Note:

1. The bondholders will comply with the requirements under the Code on Takeovers and Mergers upon the exercise of the conversion rights attached to the Convertible Bonds. There is a restriction in the Convertible Bonds whereby the bondholders cannot exercise their conversion rights under the Convertible Bonds such that the 25% public float cannot be met by the Company following such conversion.

Shareholders should be aware of the dilution effect to their shareholding upon the issue of the Conversion Shares upon conversion of the Convertible Bonds.

IMPLICATIONS UNDER THE LISTING RULES

Discloseable transactions

As some of the applicable ratios of the Acquisition exceed 5% but are less than 25%, the Acquisition constitutes a discloseable transaction for the purposes of, and is subject to the reporting and announcement requirements under, Chapter 14 of the Listing Rules. As some of the applicable ratios of the Subscription exceed 5% but are less than 25%, the Subscription constitutes a discloseable transaction for the purposes of, and is subject to the reporting and announcement requirements under, Chapter 14 of the Listing Rules.

Connected transactions

Zhongwei Bus is owned as to 65% by Zhongda Industrial Group. Zhongda Industrial Group is controlled by both Mr. Xu Lian Guo and Mr. Xu Lian Kuan, the Directors and substantial shareholders of the Company. As such, the Vendor is a connected person of the Company as defined under the Listing Rules. Therefore, the transactions contemplated under each of the Acquisition Agreement and the Subscription Agreement, namely the proposed acquisition by the Purchaser of the Equity Interests and the Subscription by, and the issue of the Convertible Bonds to, Zhong Da (BVI) Limited, constitute connected transactions of the Company for the purposes of Chapter 14A of the Listing Rules. Each of the Acquisition and the Subscription is therefore subject to the reporting, announcement and independent shareholders' approval requirements set out in Chapter 14A of the Listing Rules.

Board's view and Independent Shareholders' approval

The Board believes that the transactions under each of the Acquisition Agreement and the Subscription Agreement are on normal commercial terms, which are fair and reasonable and in the interests of the Shareholders as a whole. As each of the Acquisition and the Subscription is subject to Independent Shareholders' approval, a SGM will be convened for the Independent Shareholders to consider and, if thought fit, approve the Acquisition, the Subscription and the issue of Convertible Bonds. Votes for the resolutions at the SGM shall be taken by way of poll.

An independent board committee of the Company comprising all the independent non-executive Directors will be established to advise the Independent Shareholders regarding the Acquisition and the Subscription. An independent financial advisor will be appointed to advise the independent board committee of the Company and the Independent Shareholders regarding the Acquisition and the Subscription.

As at the date hereof, both Mr. Xu Lian Guo and Mr. Xu Lian Kuan are commonly interested in 204,004,000 Shares, representing approximately 38.5% of the issued share capital of the Company, and Mr. Zhang Yuqing is interested in 17,600,000 Shares, representing approximately 3.3% of the issued share capital of the Company respectively. As Mr. Xu Lian Guo, Mr. Xu Lian Kuan and Mr. Zhang Yuqing, the Directors, are also directors of Zhongda Industrial Group, each of Mr. Xu Lian Guo, Mr. Xu Lian Kuan and Mr. Zhang Yuqing is required to abstain from voting in respect of the Acquisition. Meanwhile, each of Mr. Xu Lian Guo and Mr. Xu Lian Kuan is required to abstain from voting in respect of the Subscription. Mr. Xu Lian Guo, Mr. Xu Lian Kuan and Mr. Zhang Yuqing and their respective associates shall abstain from voting in respect of their shareholding at the SGM regarding the Acquisition and/or Subscription (as the case may be).

REASONS FOR THE ACQUISITION AND THE SUBSCRIPTION AND BENEFITS EXPECTED TO ACCRUE TO THE GROUP

The Board is of the view that the Acquisition would enhance the revenue stream of the Group. The Group has diversified into bus manufacturing by acquiring Nanjing Zhongda Jinling Double-decker Bus Manufacture Co. Ltd. in year 2004. The purchase of 20% equity interest in Zhongwei Bus could allow the Group to enter into the coach manufacturing business. It would further diversify the Group's business. The coach-making sector in the PRC has been growing tremendously during the past few years especially in the export business. According to industry analysis, the PRC has exported 42,500 units of medium to large coaches during year 2007 amounting to US\$910 million. It represents a growth of 229.10% compared with last year. It is expected that Zhongwei Bus would be benefited from the booming business.

The Board is of the view that the Subscription would enable the Company to raise about HK\$21,000,000 for general working capital of the Group and increase the cash flow of the Group.

INFORMATION OF THE GROUP

The Group is principally engaged in design, manufacture and sale of automobile manufacture, repair and maintenance equipment and provision of industrial surface treatment engineering equipment. The Group has also been diversifying into the manufacturing of commercial vehicles.

The Purchaser is a wholly foreign owned enterprise established in the PRC and is principally engaged in the manufacture and sale of automobile equipment.

INFORMATION OF THE VENDOR

The Vendor is a joint stock company with limited liability established in the PRC, which focuses its operation in the manufacture and sale of automobiles and providing steel structure design.

INFORMATION OF ZHONGWEI BUS

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. Its annual production capacity can be up to a maximum of 5,000 units coaches and buses. All the vehicles produced by Zhongwei Bus comply with Euro III or IV standards as required by the PRC Government for environmental protection.

INFORMATION OF ZHONG DA (BVI) LIMITED

Zhong Da (BVI) Limited is a limited liability company incorporated in the British Virgin Islands. It is principally engaged in investment holding.

GENERAL INFORMATION

A circular containing, amongst other things, further details of the Acquisition Agreement, the Subscription Agreement and the particulars required by the Listing Rules concerning discloseable and connected transactions will be dispatched to the Shareholders as soon as practicable.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“Acquisition”	the acquisition of the Equity Interests subject to the terms and conditions of the Acquisition Agreement
“Acquisition Agreement”	the agreement entered into between the Purchaser and the Vendor on 24 July 2008, whereby the Vendor has agreed to transfer the Equity Interests to the Purchaser
“Appraisal Report”	the appraisal report prepared by the HK Appraiser in relation to the value of the equity interests in Zhongwei Bus as at the Valuation Date
“associate”	has the meaning as defined in the Listing Rules
“Board”	the board of directors of the Company
“Business Day”	a day other than Saturday, Sunday or any day on which licensed banks in Hong Kong are open for business

“Company”	Zhongda International Holdings Limited, an exempted company incorporated in Bermuda with limited liability and whose shares are listed on the Stock Exchange
“Completion Date of Acquisition”	date of completing the Acquisition pursuant to the Acquisition Agreement
“Convertible Bonds”	zero coupon convertible bonds in the principal amount of HK\$21,000,000 to be issued by the Company to Zhong Da (BVI) Limited, the principal terms of which are set out under the section headed “Subscription Agreement” of this announcement
“Conversion Price”	HK\$0.84 per Conversion Share
“Conversion Share(s)”	new Shares to be allotted and issued by the Company upon exercise of the conversion rights under the Convertible Bonds
“connected persons”	has the meaning as defined in the Listing Rules
“Directors”	the directors of the Company
“Equity Interests”	a 20% equity interest in Zhongwei Bus
“Group”	the Company and its subsidiaries from time to time
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Shareholders”	(in the case of the Acquisition) the Shareholders other than Mr. Xu Lian Guo, Mr. Xu Lian Kuan and Mr. Zhang Yuqing and their respective associates as defined under the Listing Rules, and (in the case of the Subscription) the Shareholders other than Mr. Xu Lian Guo and Mr. Xu Lian Kuan and their respective associates as defined under the Listing Rules
“Last Trading Date”	24 July 2008, being the last trading day of the Shares prior to the release of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	the fifth anniversary of the date of issue of the Convertible Bonds

“PRC”	the People’s Republic of China, and for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region and the Taiwan region
“PRC GAAP”	the PRC General Accepted Accounting Practices
“HK Appraiser”	a qualified Hong Kong appraiser which is independent of the Group and connected persons of the Group
“Purchaser”	鹽城奧申工業裝備製造有限公司 (Yancheng Aoshen Industrial Equipment Manufacturing Co., Ltd.*), a wholly foreign owned enterprise established in the PRC and an indirect wholly-owned subsidiary of the Company
“SGM”	the special general meeting to be held by the Company to approve the Acquisition, the Subscription and the issue of Convertible Bonds
“Share(s)”	ordinary share(s) of nominal value of HK\$0.10 each in the share capital of the Company
“Shareholders”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription by Zhong Da (BVI) Limited of the Convertible Bond pursuant to the terms and conditions of the Subscription Agreement
“Subscription Agreement”	the agreement entered into between Zhong Da (BVI) Limited and the Company on 24 July 2008 in relation to the subscription of the Convertible Bonds
“Valuation Date”	30 June 2008, being the assessment date adopted by the HK Appraiser in the Appraisal Report
“Zhongda Industrial Group” or the “Vendor”	中大工業集團公司 (Zhongda Industrial Group Corporation), a company established under the laws of the PRC and is controlled by Mr. Xu Lian Guo and Mr. Xu Lian Kuan
“Zhongwei Bus”	鹽城中威客車有限公司 (Yancheng Zhongwei Bus Manufacturing Co., Ltd.), a limited liability company established in the PRC and is directly owned as to 65% by the Vendor

“%”	per cent.
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC

By Order of the Board
ZHONGDA INTERNATIONAL HOLDINGS LIMITED
Xu Lian Guo
Chairman

Hong Kong, 24 July, 2008

As at the date of this announcement, the Board comprises Messrs. Xu Lian Guo, Xu Lian Kuan, Zhang Yuqing and Kwok Ming Fai as executive directors, and Messrs. Gu Yao Tian, Sun Ka Ziang Henry and Li Xinzhong as independent non-executive directors of the Company respectively.

** For identification purpose only*