ZHONGDA INTERNATIONAL HOLDINGS LIMITED
中 大 國 際 控 股 有 限 公 司 *

(Incorporated in Bermuda with limited liability)

CONNECTED TRANSACTIONS

During the period from 20th May, 2002 to 9th December, 2002, Zhongda Industrial Group made advances to the Group of approximately RMB29.9 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"). Such Advances represented approximately 21.09% of the audited consolidated net tangible assets 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 turnover of the Group of approximately RMB180.2 million (approximately HK$168.4 million) for the year ended 31st December, 2001. The Advances were unsecured, non-interest bearing and had no fixed term for repayment.

The Group has settled these Advances through various kinds of offsetting arrangement. This transaction constituted a connected transaction under the Listing Rules and should be subject to independent shareholders' approval (with Zhongda (BVI), Mr. Xu Lian Guo, Mr. Xu Lian Kuan and Mr. Zhang abstained from voting) and the disclosure requirements applicable to connected transactions under Rule 14.26 of the Listing Rules.

For the purpose of the Listing Rules, these temporary advances should require disclosure and independent shareholders' approval before the time the Advances were made pursuant to Rule 14.26 of the Listing Rules, i.e. before May 2002.

The Group sold 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.

For the purpose of the Listing Rules, the aggregate amount of the connected transactions amounted to approximately RMB13,767,000 (approximately HK$12,866,000) and approximately RMB3,419,000 (approximately HK$3,195,000) to Shanghai Guanghui, Yancheng Celette, Zhongwei Bus and Zhongda Yanjing for the year ended 31st December, 2002 and the year ending 2003, representing about 7.64% and 1.90% of the audited consolidated turnover of the Group for the year ended 31st December, 2001 respectively and about 9.71% and 2.41% of the audited consolidated net tangible assets of the Group as at 31st December, 2001 respectively.

* *For identification purpose only*

As a result of the relationship between the Company, Zhongda Industrial Group, Shanghai Guanghui, Yancheng Celette, Zhongwei Bus and Zhongda Yanjing, these transactions constituted connected transactions of the Company under the Listing Rules and are normally subject to disclosure requirements.

During the financial year 2002, Zhongda Machinery adopted a practice in respect of some customers 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 million) which was settled through direct cash repayments by Zhongda Industrial Group.

The collection of account receivables by Zhongda Industrial Group on behalf of the Group would have fallen within Rule 14.26 of the Listing Rules, which should have been subject to the approval by the independent shareholders in general meeting (with Zhongda (BVI), Mr. Xu Lian Guo, Mr. Xu Lian Kuan and Mr. Zhang abstained from voting).

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 11.95% of the audited consolidated net tangible assets of the Group as at 31st December, 2001 or about 9.40% of the audited consolidated turnover of the Group for the year ended 31st December, 2001. This transaction also constituted a connected transaction and should be subject to independent shareholders' approval (with Zhongda (BVI), Mr. Xu Lian Guo, Mr. Xu Lian Kuan and Mr. Zhang abstained from voting) and the disclosure requirements applicable to connected transactions under Rule 14.26 of the Listing Rules. The aggregate amount of the payment were applied for the purpose of offsetting the Advances from Zhongda Industrial Group made in 2002.

However, due to oversight, the above connected transactions were not reported on time and the Company has not complied with the relevant connected transaction requirements under the Rule 14.26 and Rule 14.25 of the Listing Rules, which constituted 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.

In addition, the Directors anticipate that the Group and the affiliates of Zhongda Industrial Group will enter into certain future on-going connected transactions. An application will be made to the Stock Exchange for a waiver from strict compliance with the relevant disclosure and shareholders’ approval requirements under the Listing Rules in respect of the On-going Connected Transactions.

A circular containing, inter alia, details of the connected transactions, the letter from an independent financial adviser containing its advice to the independent board committee, the recommendation of the independent board committee and a notice convening the special general meeting to consider the connected transactions will be despatched to the shareholders of the Company as soon as practicable.

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**"). The Advances were made to purport the intention to acquire the land use rights and also allow the construction company to access the land preparation feasibility for any target land area. Such Advances represented approximately 21.09% of the audited consolidated net tangible assets 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 turnover of the Group of approximately RMB180.2 million (approximately HK$168.4 million) for the year ended 31st December, 2001. The Advances were unsecured, non-interest bearing and had no fixed term for repayment. This transaction constituted a connected transaction and should be subject to independent shareholders' approval (with Zhongda (BVI), Mr. Xu Lian Guo, Mr. Xu Lian Kuan and Mr. Zhang abstained from voting) and the disclosure requirements applicable to connected transactions under Rule 14.26 of the Listing Rules.

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 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.

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

I. Sale of product to Shanghai Guanghui

The Group has entered into a sales agreement to sell product to Shanghai Guanghui on normal commercial terms in the ordinary course of business in 2002. Shanghai Guanghui is a company established in the PRC with limited liability owned as to 67% by Zhongda Industrial Group, and as to 30% by Shanghai Ruizhao Digital Technology Limited ("上海瑞兆數碼科技有限公司") and 3% by Shanghai Zhabei Transportation Corporation ("上海市閘北區交通運輸總公司"), which are Independent Third Parties. Shanghai Guanghui is a connected party of the Company under the Listing Rules.

Pursuant to a sales agreement dated 28th September, 2002 entered into between the Group and Shanghai Guanghui, Shanghai Guanghui agreed to purchase a lacquer room ("噴烤漆房") ("**Shanghai Guanghui Product**") from the Group of RMB4,000,000 (approximately HK$3,738,000) inclusive of the value added tax. As at the date of this announcement, the lacquer room contemplated under the sales agreement have not yet been fully delivered. Lacquer rooms are frequently used by automobile body shops, garages and services centre to provide a controlled environment for the process of replenishing or renewing automobile lacquers by heat. After applying lacquers on an automobile, technicians place the automobile into a lacquer room for lacquer roasting in order to secure a finishing. Shanghai Guanghui used the lacquer room in the production process of motor vehicles.

The consideration to be paid by Shanghai Guanghui in cash in relation to a lacquer room based on market price which are the subject matter of the sales agreement amounted to approximately RMB3,419,000 (approximately HK$3,195,000) before value added taxes of 17%, represented about 2.41% of the audited consolidated net tangible assets of the Group as at 31st December, 2001 or about 1.90% of the audited consolidated turnover of the Group for the year ended 31st December, 2001. The sale is expected to complete by the end of October 2003 and payment has to be made within three months from the date of completion.

II. Sales of products and raw materials to Yancheng Celette

The Group has sold products and raw materials including ballast, circuit boards, switches, pattern boards, pneumatic lifts, hydraulic tools, steels and stainless steels (the "**Yancheng Celette Products**") to Yancheng Celette on normal commercial terms in the ordinary course of business during the financial year ended 2002. Yancheng Celette is a sino-foreign joint venture enterprise owned as to 49% by Zhongda Industrial Group and 51% by Tack Sang Machinery and Metal Co. Ltd., an Independent Third Party. Yancheng Celette is a connected party of the Company under the Listing Rules.

For the year ended 31st December, 2002, the aggregate consideration paid by Yancheng Celette for the Yancheng Celette Products based on market price amounted to approximately RMB6,618,000 (approximately HK$6,185,000) before value added tax of 17%, represented about 4.67% of the audited consolidated net tangible assets of the Group as at 31st December, 2001 or about 3.67% of the audited consolidated turnover for the year ended 31st December, 2001 respectively. The Yancheng Celette Products are used primarily for the production of automobile repair machineries by Yancheng Celette. No sales agreement was entered into between the Group and Yancheng Celette for the sales of the products and raw materials from the Group to Yancheng Celette as mentioned above. The sales to Yancheng Celette were offset by the purchases of various parts of "wheel alignors" products, which is one of the components in the production process of the Group from Yancheng Celette. For the year ended 31st December, 2002, total purchases from Yancheng Celette were approximately RMB8.0 million (approximately HK$7.5 million). A cap amount of RMB12 million was obtained and a waiver was granted by the Stock Exchange in respect of the purchases from Yancheng Celette for the Company to comply with the disclosures and shareholders' approval requirements under the Listing Rules up to the year ending December 2005.

III. Sales of products and raw materials to Zhongwei Bus

The Group has sold products and raw materials to Zhongwei Bus on normal commercial terms in the ordinary course of business in 2002. Zhongwei Bus is a joint stock company owned as to 65% by Zhongda Industrial Group and 35% by Yangbu Toll-road Transportation Holdings Limited ("鹽埠公路運輸集團公司"), an Independent Third Party.

Pursuant to a sales agreement dated 8th September, 2002 entered into between the Group and Zhongwei Bus, Zhongwei Bus agreed to purchase automobile maintenance equipments and raw materials including car washing machines, fibre glassteel, zinc plates, drill heads, set squares and spring cushions (the "**Zhongwei Bus Products**") from the Group of approximately RMB2,382,000 (approximately HK$2,226,000) inclusive of the value added tax of 17%.

For the year ended 31st December, 2002, the aggregate consideration paid by Zhongwei Bus in relation to the Zhongwei Bus Products based on market price, which are subject matter of the sales agreement amounted to RMB2,021,000 (approximately HK$1,889,000) before value added tax of 17%, represented about 1.43% of the audited consolidated net tangible assets of the Group as at 31st December, 2001 or about 1.12% of the audited consolidated turnover of the Group for the year ended 31st December, 2001. All sales with Zhongwei Bus were settled in cash and received by the Group in January 2003.

IV. Sale of product to Zhongda Yanjing

The Group has sold product to Zhongda Yanjing on normal commercial terms in the ordinary course of business in 2002. Zhongda Yanjing is a company established in the PRC with limited liability owned as to 80% by Zhongda Industrial Group and 20% by Beijing Yanjing Bus Manufacturing Co., Ltd. ("北京燕京汽車廠"), an Independent Third Party. Zhongda Yanjing is a connected party of the Company under the Listing Rules.

Pursuant to a sales agreement dated 5th September, 2002, between the Group and Zhongda Yanjing, Zhongda Yanjing agreed to purchase a lacquer room ("噴烤漆房") from the Group. The contract sum of the lacquer room sales was RMB6,000,000 (approximately HK$5,607,000) inclusive of the value added tax of 17%.

For the year ended 31st December, 2002, the aggregate consideration to be paid by Zhongda Yanjing in cash in relation to the lacquer room ("**Zhongda Yanjing Products**") based on market price which are subject matter of the sales agreement amounted to approximately RMB5,128,000 (approximately HK$4,793,000) before value added tax of 17%, represented about 3.62% of the audited consolidated net tangible assets of the Group as at 31st December, 2001 or about 2.85% of the audited consolidated turnover of the Group for the year ended 31st December, 2001. The cash settlement was received in January 2003 after the completion of the transaction in December 2002.

V. Basis of considerations and reasons for the sales of raw materials and products to Shanghai Guanghui, Yancheng Celette, Zhongwei Bus and Zhongda Yanjing

The connected transactions entered into between the Group and Shanghai Guanghui, Yancheng Celette, Zhongwei Bus and Zhongda Yanjing were entered into in the ordinary course of business of the Group and on a frequent but irregular basis. The prices and terms were determined with reference to the relevant industrial practices, the actual cost of the production incurred by the Group plus the average profit margin ranged from 35% to 40% in respect of the sales with Shanghai Guanghui, Zhongwei Bus and Zhongda Yanjing and about 5% in respect of the raw materials and products sold to Yancheng Celette. The profit margin charged by the Group in respect of the connected transactions with Shanghai Guanghui, Yancheng Celette, Zhongwei Bus and Zhongda Yanjing were comparable to those charged to other customers which are Independent Third Parties. The Directors consider that it is in the interest of the Group since entering into those transactions can increase the Group's turnover as well as operating profit.

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 million) which was fully settled through direct cash repayments by Zhongda Industrial Group in December 2002. The amount represented about 13.64% of the audited consolidated net tangible assets of the Group as at 31st December, 2001 or about 10.73% of the audited consolidated turnover of the Group for the year ended 31st December, 2001. This transaction constituted a connected transaction and should be subject to independent shareholders' approval (with Zhongda (BVI), Mr. Xu Lian Guo, Mr. Xu Lian Kuo and Mr. Zhang abstained from voting) and the disclosure requirements applicable to connected transactions under Rule 14.26 of the Listing Rules.

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 accounts receivable 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 enjoy the sound backup of Zhongda Industrial Group. As such, customers would settle the account receivables to Zhongda Industrial Group.

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 11.95% of the audited consolidated net tangible assets of the Group as at 31st December, 2001 or about 9.40% of the audited consolidated turnover of the Group for the year ended 31st December, 2001. This transaction also constituted a connected transaction and should be subject to independent shareholders' approval (with Zhongda (BVI), Mr. Xu Lian Guo, Mr. Xu Lian Kuan and Mr. Zhang abstained from voting) and the disclosure requirements applicable to connected transactions under Rule 14.26 of the Listing Rules. The aggregate amount of the payment were 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, 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.

REASONS FOR CONNECTED TRANSACTIONS

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 is 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 the 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 did 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 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 announcement.

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.

The Directors also consider that the On-going Connected Transactions entered into with the connected parties are in the ordinary course of business of the Group and on a frequent but irregular basis. The Directors consider that it is in the interest of the Group since entering those transactions allow the Group to increase turnover as well as operating profit.

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. 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 date of this announcement.

BREACH OF THE LISTING RULES REQUIREMENTS

For the purpose of the Listing Rules, as the Advances represented about 21.09% of the audited consolidated net tangible assets value of the Group as at 31st December 2001 and exceeded 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 (with Zhongda (BVI), Mr. Xu Lian Guo, Mr. Xu Lian Kuo and Mr. Zhang abstained from voting) and the disclosure requirements applicable before the time the Advances were made pursuant to Rule 14.26 of the Listing Rules, i.e. before May 2002.

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 aggregate value of the sales of raw materials and products to Yancheng Celette and Zhongwei Bus for the year ended 31st December, 2002 were 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.

In view of 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 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 (with Zhongda (BVI), Mr. Xu Lian Guo, Mr. Xu Lian Kuo and Mr. Zhang abstained from voting) and comply with the disclosure requirements applicable to connected transactions under Rule 14.26 of the Listing Rules.

As the aggregate amount of expenses paid by the Group on behalf of Zhongda Industrial Group comprised of salaries, various purchases, loan interests, miscellaneous travelling, entertainment and administrative expenses for the year ended 2002 was approximately RMB16.9 million (approximately HK$15.8 million), represented about 11.94% of the audited consolidated net tangible assets value of the Group as at 31st December, 2001 or about 11.92% of the audited consolidated turnover of the Group for the year ended 31st December, 2001. 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 (with Zhongda (BVI), Mr. Xu Lian Guo, Mr. Xu Lian Kuo and Mr. Zhang abstained from voting) and the disclosure requirements applicable to connected transactions under the Listing Rules.

Due to an inadvertent oversight of the Company, the Company has 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 of Directors 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 breach of the Listing Rules.

The On-going Connected Transactions will also constitute continuing connected transactions of the Company under the Listing Rules for the period after the date hereof and are therefore additionally subject to disclosure by way of press notice, circular to shareholders and/or prior independent shareholders' approval on each occasion as they are entered into. An application will be made to the Stock Exchange for a waiver from strict compliance with the relevant disclosure and shareholders' approval requirements under the Listing Rules in respect of the On-going Connected Transactions in respect of the period after the date hereof.

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 Bus 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 Ongoing 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. As the cap amounts in relation to the Ongoing Connected Transactions as set out in (b) below are expected to exceed the higher of HK$10,000,000 or 3% of the latest published consolidated net tangible assets of the Group, the Company will make 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 Company 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 of the Company 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**"):

	For the year ending 31st December, 2003	**For the year ending 31st December, 2004**	**For the year ending 31st December, 2005**
	RMB'000	*RMB'000*	*RMB'000*
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 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**") 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 Cap 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 Company's next and each successive annual report together with a statement of the opinion of the independent non-executive directors and the auditors of the Company referred to in paragraph (c) and (d) 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 of 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, Zhognwei 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. 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 will commence 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 equipments 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 ongoing 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 comprise 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 are determined based on 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 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 equipments 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 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.

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

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 equipments, chemical products and property management.

A circular containing, inter alia, details of the connected transactions, the letter from independent financial adviser containing its advice to the independent board committee, the recommendation of the independent board committee and a notice convening the special general meeting to consider the connected transactions will be despatched to the shareholders of the Company as soon as practicable.

DEFINITIONS

"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
"Directors"	the directors of the Company
"Group"	the Company and its subsidiaries
"Independent Third Party" or "Independent Third Parties"	a person(s) or a company(ies) which is independent and 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
"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 had to be abstained from voting
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"On-going Connected Transactions"	the sales of products and raw materials to Shanghai Guanghui, Yancheng Celette, Zhongwei Bus and Zhongda Yanjing

"PRC"	the People's Republic of China
"RMB"	Renminbi, the lawful currency of the PRC
"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 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
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"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 interest of approximately 49%
"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 on 11th October, 1996, in which Zhongda Industrial Group has interest of approximately 65%
"Zhongda (BVI)"	Zhongda (BVI) Limited is a company incorporated in the British Virgin Islands with limited liability and a controlling shareholder 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 had to be abstained 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 Zhongda Industrial Group is collectively owned by Mr. Xu Lian Guo ("徐連國先生"), the chairman of the Company and Mr. Xu Lian Kuan ("徐連寬先生"), the vice chairman of the Company and the younger brother of Mr. Xu Lian Guo 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 Automoblie Machinery Manufacture Co., Ltd. ("中大汽車機械制造有限公司"), 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 interest of 80%
"%"	per cent.

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

Hong Kong, 23rd June, 2003

For the purpose of this announcement, translations of Renminbi into HK dollars or vice versa have been calculated by using an exchange rate of HK$1.00 = RMB1.07.

"Please also refer to the published version of this announcement in China Daily".