

Report of the Directors

The directors are pleased to present their report together with the audited financial statements of Zhongda International Holdings Limited (the “Company”) and subsidiaries (hereinafter together with the Company referred to as the “Group”) for the year ended 31st December, 2001.

Group Reorganisation and Basis of Presentation

The Company was incorporated in Bermuda on 14th September, 2000 as an exempted company with limited liability under the Companies Act 1981 of Bermuda.

By a special resolution passed on 14th September, 2000, the name of the Company was changed from Zhongda Hi-Tech Development Limited to Zhongda International Holdings Limited as its registered name.

Pursuant to a group reorganisation (“Reorganisation”) in connection with the listing of the Company’s shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the ultimate holding company of the other companies comprising the Group on 8th October, 2001. Details of the Reorganisation and basis of presentation of the financial statements are set out in Note 1 to the financial statements.

Principal Activities

The principal activities of the Company and subsidiaries are the development, manufacture and sale of automobile equipment and provision of industrial surface treatment engineering equipment. Other activities and particulars of the Group’s subsidiaries are set out in Note 1 to the financial statements.

Results and Appropriations

The results of the Group for the year ended 31st December, 2001 are set out on page 20 of the annual report.

No dividends have been paid or declared by the Company since its incorporation on 14th September 2000. The directors have recommended the payment of a final dividend of HK\$0.01 (2000: HK\$ nil) per share, totalling HK\$4,000,040 for the year ended 31st December, 2001.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in Note 16 to the financial statements.

Property, Plant and Equipment

As of 1st May, 2001, the Group acquired certain plant buildings and related land use right from a related company, in which the Chairman of the Group has a controlling interest, at their open market value of approximately RMB29,262,000. Other details of the movement in property, plant and equipment of the Group and the Company are set out in Note 10 to the financial statements.

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Subsidiaries

Particulars of the Group's subsidiaries as at 31st December, 2001 are set out in Note 1 to the financial statements.

Share Capital

Details of the movement in share capital of the Company are set out in Note 15 to the financial statements.

Share Options

Details of the movements in share options of the Company are set out in Note 25 to the financial statements.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's By-Laws and there is no restriction against such rights under the laws in Bermuda.

Warrants

Details of the movement in warrants of the Company are set out in Note 15 to the financial statements.

Major Customers and Suppliers

For the year ended 31st December, 2001, the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30 percent of the Group's total turnover.

The largest supplier for the year ended 31st December, 2001 represented approximately 10 per cent of the Group's total purchase (not including purchases of a capital nature), and the combined total of the five largest suppliers accounted for approximately 30 per cent of the Group's total purchase of for the year.

Saved as disclosed in the Note 21 to the financial statements, at no time during the year have the directors, their associates or any shareholder of the Company who to the knowledge of the directors owns more than 5 per cent of the Company's share capital had any interests in these major suppliers.

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Directors

The directors of the Company since 14th September, 2000 (Date of incorporation) and up to the date of this report are:

Executive Directors

Mr. Xu Lian Guo (appointed on 28th September, 2000)
Mr. Xu Lian Kuan (appointed on 28th September, 2000)
Mr. Zhang Yuqing (appointed on 28th September, 2000)

Independent Non-executive Directors

Mr. Gu Yao Tian (appointed on 8th October, 2001)
Mr. Chan Wai Dune (appointed on 8th October, 2001)

Messrs Gu Yao Tian and Chan Wai Dune, having been appointed to the board since the date of the last annual general meeting, retire at the forthcoming annual general meeting in accordance with By-Laws 86 of the Company's By-Laws and, being eligible, offer themselves for re-election.

The biographical details of directors are set out on page 12.

Directors' Service Contracts

Non-executive directors

The non-executive directors were appointed by the board of directors on 8th October, 2001 for a term of 3 years commencing on 8th October, 2001. Their remuneration is determined by the board of directors on the anniversary of the date of their appointment.

Executive directors

Each of executive directors has entered into a service agreement with the Company for a term of 3 years commencing from 8th October, 2001.

No director has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

Directors' Rights to Acquire Shares in the Company

The Company has a share option scheme, under which it may grant options to employees (including executive directors) of the Company to subscribe for ordinary shares in the Company. Details of the scheme are set out in Note 25 to the financial statements. As of 31st December, 2001, no share option has been granted.

Other than disclosed above, at no time during the year was the Company and any of its subsidiaries a party to any arrangements to enable the directors of the Company, their respective spouses or their children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company and any other body corporate.

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Director's Interest in Shares

As of 31st December, 2001, the interests of the directors of the Company in the issued share capital of the Company (within the meanings of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register required to be kept pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance and the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

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

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

Other than disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the issued share capital of the Company as defined in the SDI Ordinance as of 31st December, 2001.

Substantial Shareholders' Interests

As of 31st December, 2001, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that, other than the interests disclosed above in respect of certain directors, the following shareholders had a beneficial interest of 10 per cent or more in the issued share capital of the Company:

Name of shareholders	Number of issued shares	Percentage of holding
Mr. Xu	234,720,000 ⁽¹⁾	58.7%
Mr. Xu Lian Kuan	234,720,000 ⁽¹⁾	58.7%
Zhong Da (BVI)	234,720,000 ⁽²⁾	58.7%
Shum Yip (Holdings) Company Limited	47,680,000 ⁽³⁾	11.9%

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Substantial Shareholders' Interests (continued)

Notes:

- (1) This interest represents the number of Shares held by Zhong Da (BVI) where Mr. Xu and Mr. Xu Lian Kuan are taken to be interested in such Shares under Section 8 the SDI Ordinance. The entire issued share capital of Zhong Da (BVI) is beneficially owned as to 57.22% and 42.78% by Mr. Xu and Mr. Xu Lian Kuan respectively.
- (2) This interest of Zhong Da (BVI) is duplicated in the interest of Mr. Xu and Mr. Xu Lian Kuan.
- (3) 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 above, no other entity or person was recorded in the register kept by the Company under section 16(1) of the SDI Ordinance as having an interest of 10% or more of the issued share capital of the Company.

Directors' Interests in Contracts

Except for the contracts of significance disclosed above and in Note 21 to the financial statements, no other contract of significance subsisted during or at the end of the year.

Management Contracts

No contracts concerning the management and administration of the Company were entered into or existed during the year.

Connected Transactions

Details of the connected transactions of the Group are set out in Note 21 to the financial statements.

Bank Borrowings

Particulars of bank borrowings of the Group as of 31st December, 2001 are set out in Notes 17 to the financial statements.

Summary of Financial Information

A summary of the Group's financial information is set out on page 58 of the annual report.

Retirement Schemes

Particulars of retirement schemes are set out in Note 24 to the financial statements.

Purchase, Sale or Redemption of Shares

The Company's shares were listed on the Main Board of the Stock Exchange on 1st November, 2001. Since the date of listing, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

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Audit Committee

The Company established an audit committee on 8th October, 2001 with terms of reference in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange. The primary duties of the audit committee are to review and supervise the financial reporting process and the internal control system of the Group.

Compliance with the Code of Best Practice

The Company has complied throughout the year with the Code of Best Practice as set out by the Stock Exchange in Appendix 14 to the Listing Rules.

Auditors

The financial statements have been audited by Arthur Andersen & Co. Since Arthur Andersen & Co and PricewaterhouseCoopers are combining their practices in the PRC and Hong Kong, the board of directors proposed to appoint PricewaterhouseCoopers as auditors at the forthcoming annual general meeting.

By the order of the board

Xu Lian Guo

Chairman

Hong Kong,
22nd April, 2002