

## Report of the Directors

The directors are pleased to present their report together with the audited accounts 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, 2002.

### **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 15 to the accounts.

### **RESULTS AND APPROPRIATIONS**

The results of the Group for the year ended 31st December, 2002 are set out on page 17 of the annual report.

The directors recommended not to pay a final dividend (2001: HK\$0.01 per share) for the year ended 31st December, 2002.

### **RESERVES**

Movements in the reserves of the Group and the Company during the year are set out in Note 26 to the accounts.

As of 31st December, 2002, the distributable reserves of the Company amounted to approximately RMB8,807,000 (2001: nil).

### **PROPERTY, PLANT AND EQUIPMENT**

Details of the movement in property, plant and equipment of the Group and the Company are set out in Note 12 to the accounts.

### **SUBSIDIARIES**

Particulars of the Group’s principal subsidiaries as at 31st December, 2002 are set out in Note 15 to the accounts.

### **SHARE CAPITAL**

Details of the movement in share capital of the Company are set out in Note 25 to the accounts.

### **SHARE OPTIONS**

Details of the movements in share options of the Company are set out in Note 25(d) to the accounts.

### **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.

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### WARRANTS

Details of the movement in warrants of the Company are set out in Note 25(c) to the accounts.

### MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2002, the aggregate amount of turnover and purchases attributable to the Group's five largest customers and suppliers respectively represented less than 30 percent of the Group's total turnover and purchases.

### DIRECTORS

The directors of the Company during the year and up to the date of this report were:

#### Executive Directors

Mr. Xu Lian Guo  
Mr. Xu Lian Kuan  
Mr. Zhang Yuqing

#### Independent Non-executive Directors

Mr. Gu Yao Tian  
Mr. Chan Wai Dune

In accordance with By-Laws 87 of the Company's By-Laws, Mr. Xu Lian Kuan retires by rotation and, being eligible, offer himself for re-election.

The biographical details of directors are set out on page 8.

### DIRECTORS' SERVICE CONTRACTS

The non-executive directors were appointed by the board of directors on 8th October, 2001 for a term of 3 years commencing from 8th October, 2001. Each of 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(d) to the accounts. As of 31st December, 2002, 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, 2002, 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 ( <i>Note 1</i> )	–	234,720,000
Mr. Xu Lian Kuan ( <i>Note 1</i> )	–	234,720,000
Mr. Zhang Yuqing	17,600,000	–

*Note:*

- (1) These shares are held by Zhong Da (BVI) 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 owns 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, 2002.

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### SUBSTANTIAL SHAREHOLDERS' INTERESTS

As of 31st December, 2002, 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 <sup>(1)</sup>	58.7%
Mr. Xu Lian Kuan	234,720,000 <sup>(1)</sup>	58.7%
Zhong Da (BVI)	234,720,000 <sup>(2)</sup>	58.7%
Shum Yip (Holdings) Company Limited	43,596,000 <sup>(3)</sup>	10.9%

*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 28 to the accounts, 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.

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### CONNECTED TRANSACTIONS

Significant related party transactions entered into by the Group during the year ended 31st December, 2002 are set out in Note 28 to the accounts.

1. The Stock Exchange of Hong Kong Limited granted to the Company waivers from strict compliance with the connected transaction provisions of the Listing Rules in respect of the following transactions:–

- (a) Payments to Zhongda Industrial Group Corporation, which is 52.64% collectively owned by Mr. Xu Lian Guo and Mr. Xu Lian Kuan:

	<b>2002</b>	2001
	<b>RMB'000</b>	RMB'000
– Service fee	<b>750</b>	750
– Patent fee	<b>200</b>	200
– Trademark fee	<b>150</b>	150
– Rental of office premises	<b>100</b>	100

- (b) Purchases from Yancheng Celette Body Repairing Equipment Co., Ltd., (“Yancheng Celette”) in which Zhongda Industrial Group Corporation has an interest of approximately 49%:

	<b>2002</b>	2001
	<b>RMB'000</b>	RMB'000
– Purchases of products	<b>8,001</b>	6,731

In the opinion of the directors including independent non-executive directors of the Company, the abovementioned connected transactions were (i) entered into by the Group in the ordinary and normal course of its business; (ii) on normal commercial terms or on terms that are fair and reasonable so far as the shareholders of the Company are concerned; (iii) in accordance with the terms of the agreements governing such transactions or on terms no less favourable than terms available to third parties; and (iv) within the relevant cap as specified by the Stock Exchange.

2. In addition, the company had the following connected transactions during the year:

- (a) Advance from Zhongda Industrial Group Corporation totalling RMB29.9 million;
- (b) Payment of expenses on behalf of Zhongda Industrial Group Corporation and its affiliates totalling RMB16.9 million;

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### CONNECTED TRANSACTIONS (continued)

2. (continued)

- (c) Accounts receivable collected on behalf by Zhongda Industrial Group Corporation totalling of RMB19.3 million;
- (d) Sales of products and raw materials to Yancheng Celette amounted to RMB6,618,000;
- (e) Sales of products and raw materials to Yancheng Zhongwei Bus Manufacturing Co Ltd (in which Zhongda Industrial Group Corporation has an interest of approximately 65%) amounted to RMB2,021,000.
- (f) Sales of products to Beijing Zhongda Yanjing Bus Manufacturing Co Ltd (in which Zhongda Industrial Group Corporation has an interest of 80%) amounted to RMB5,128,000.
- (g) Sales agreement dated 28th September, 2002 for sales of products to Shanghai Guanghui Bus Manufacturing Co Ltd (in which Zhongda Industrial Group has an interest of 67%) for RMB3,419,000. As at 31st December, 2002, the agreement has not yet fulfilled.

Details of the abovementioned connected transactions were set out in the announcement dated 23rd June, 2003. In the opinion of the directors including independent non-executive directors of the Company, these connected transactions, as a whole, were fair and reasonable so far as the shareholders generally are concerned.

### BANK BORROWINGS

Particulars of bank borrowings of the Group as of 31st December, 2002 are set out in Note 24 to the accounts.

### POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in Note 32 to the accounts.

### SUMMARY OF FINANCIAL INFORMATION

A summary of the Group's financial information is set out on page 60 of the annual report.

### RETIREMENT SCHEMES

Details of retirement schemes of the Group are set out in Note 30 to the accounts.

### PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year.

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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 accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment. PricewaterhouseCoopers replaced Arthur Anderson & Co. when it did not stand for reappointment at the last annual general meeting in May 2002. A resolution for the re-appointment of PricewaterhouseCoopers as auditors of the Company will be proposed at the forthcoming annual general meeting.

By the order of the board

**Xu Lian Guo**

*Chairman*

Yenchang, China,

4th July, 2003