



Zhongda International Holdings Limited

中大國際控股有限公司

(incorporated in Bermuda with limited liability)



Interim Report **2003**



INTERIM RESULTS (UNAUDITED)

The board of directors (the "Directors") of Zhongda International Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th June, 2003 together with the comparative figures for the corresponding period of 2002 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30TH JUNE, 2003

(Amounts expressed in thousands of Renminbi, except for earnings per share)

		Six months ended 30th June,	
		2003 (Unaudited) RMB'000	2002 (Unaudited) RMB'000
	<i>Note</i>		
Turnover	16	107,137	80,976
Cost of sales		<u>(65,604)</u>	<u>(49,582)</u>
Gross profit		41,533	31,394
Other revenue	5	961	696
Distribution costs		(13,885)	(11,378)
Administrative and operating expenses		<u>(16,536)</u>	<u>(18,815)</u>
Profit from operations		12,073	1,897
Finance costs	3	<u>(3,158)</u>	<u>(1,148)</u>
Profit before taxation and minority interests	3	8,915	749
Taxation	4	<u>(1,778)</u>	<u>522</u>
Profit before minority interests		7,137	1,271
Minority interests		<u>(106)</u>	<u>(573)</u>
Net profit for the period		<u>7,031</u>	<u>698</u>
Dividends	6	<u>–</u>	<u>4,242</u>
Earnings per share	7		
– Basic		<u>RMB0.018</u>	<u>RMB0.002</u>
– Diluted		<u>Not applicable</u>	<u>Not applicable</u>

**CONDENSED CONSOLIDATED BALANCE SHEET
AS OF 30TH JUNE, 2003***(Amounts expressed in thousands of Renminbi)*

		30th June, 2003 (Unaudited)	31st December, 2002 (Audited)
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Property, plant and equipment	8	51,695	52,495
Investment securities	9	900	900
Deferred tax assets		9,309	9,309
		<hr/>	<hr/>
		61,904	62,704
		<hr/>	<hr/>
Current assets			
Inventories		51,067	33,005
Trade receivables	10	73,314	63,163
Prepayments and other receivables		18,699	44,710
Due from related companies	15(b)	330	6,906
Pledged bank deposits		10,606	10,620
Cash and bank balances		103,978	37,175
		<hr/>	<hr/>
		257,994	195,579
		<hr/>	<hr/>
Current liabilities			
Trade payables	14	37,972	18,407
Other payables and accruals		26,617	20,102
Taxes payable		16,298	17,960
Short-term bank borrowings	13	68,006	34,991
Current portion of long-term bank borrowings	13	10,500	2,900
		<hr/>	<hr/>
		159,393	94,360
		<hr/>	<hr/>
Net current assets		98,601	101,219
		<hr/>	<hr/>
Total assets less current liabilities		160,505	163,923
		<hr/>	<hr/>
Financed by			
Share capital	11	42,386	42,386
Reserves	12	104,744	97,763
		<hr/>	<hr/>
		147,130	140,149
		<hr/>	<hr/>
Minority interests			
		13,375	13,274
		<hr/>	<hr/>
Non-current liabilities			
Long-term bank borrowings	13	-	10,500
		<hr/>	<hr/>
Total equity and liabilities		160,505	163,923
		<hr/>	<hr/>



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30TH JUNE, 2003

(Amounts expressed in thousands of Renminbi)

	Six months ended 30th June, 2003 (Unaudited)						
	Share capital	Share premium	Reserve fund	Enterprise expansion fund	Exchange reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Note 11		Note 12(a)	Note 12(a)		Note 12(b)	
Balances as of							
1st January, 2003	42,386	17,073	2,720	2,720	16	75,234	140,149
Net profit for the period	-	-	-	-	-	7,031	7,031
Translation difference	-	-	-	-	(50)	-	(50)
Balances as of							
30th June, 2003	<u>42,386</u>	<u>17,073</u>	<u>2,720</u>	<u>2,720</u>	<u>(34)</u>	<u>82,265</u>	<u>147,130</u>

**Year ended 31st December, 2002 (Audited)**

	Enterprise						
	Share capital	Share premium	Reserve fund	expansion fund	Exchange reserve	Retained profits	Total
	<i>RMB'000</i> <i>Note 11</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>Note 12(a)</i>	<i>RMB'000</i> <i>Note 12(a)</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>Note 12(b)</i>	<i>RMB'000</i>
Balances as of 1st January, 2002	42,386	17,073	2,697	2,697	21	76,930	141,804
Net profit for the year	-	-	-	-	-	2,592	2,592
Translation difference	-	-	-	-	(5)	-	(5)
Profit appropriation							
- Reserve fund	-	-	23	-	-	(23)	-
- Enterprise expansion fund	-	-	-	23	-	(23)	-
- 2001 final dividend paid	-	-	-	-	-	(4,242)	(4,242)
Balances as of 31st December, 2002	<u>42,386</u>	<u>17,073</u>	<u>2,720</u>	<u>2,720</u>	<u>16</u>	<u>75,234</u>	<u>140,149</u>

Six months ended 30th June, 2002 (Unaudited)

	Enterprise						
	Share capital	Share premium	Reserve fund	expansion fund	Exchange reserve	Retained profits	Total
	<i>RMB'000</i> <i>Note 11</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>Note 12(a)</i>	<i>RMB'000</i> <i>Note 12(a)</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>Note 12(b)</i>	<i>RMB'000</i>
Balances as of January, 2002	42,386	17,073	2,697	2,697	21	76,930	141,804
Net profit for the period	-	-	-	-	-	698	698
Dividend paid	-	-	-	-	-	(4,242)	(4,242)
Translation difference	-	-	-	-	(19)	-	(19)
Balances as of 30th June, 2002	<u>42,386</u>	<u>17,073</u>	<u>2,697</u>	<u>2,697</u>	<u>2</u>	<u>73,386</u>	<u>138,241</u>



**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE, 2003**

(Amounts expressed in thousands of Renminbi)

	Six months ended	
	30th June,	
	2003	2002
	(Unaudited) (Unaudited)	
<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from operating activities	37,130	18,971
Net cash used in investing activities	(457)	(26,740)
Net cash generated from (used in) financing activities	30,130	(5,732)
Net increase (decrease) in cash and cash equivalents	66,803	(13,501)
Cash and cash equivalents, beginning of period	37,175	33,032
Cash and cash equivalents, end of period	103,978	19,531
Analysis of the components of cash and cash equivalents:		
Cash and bank balances	114,584	20,235
Less: Bank deposits pledged as collateral for bank borrowings repayable beyond three months	13 (10,606)	(704)
Cash and cash equivalents	103,978	19,531



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2003

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

1. GROUP INFORMATION

The Company was incorporated in Bermuda on 14th September, 2000 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. The shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 1st November, 2001.

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed interim financial statements are prepared under the historical cost convention, and in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA").

The condensed interim financial statements should be read in conjunction with the 2002 annual financial statements.

In the current period, the Group has adopted SSAP No.12 (Revised) "Accounting for income taxes" ("SSAP 12 (Revised)"), for the first time, issued by the HKSA. SSAP 12 (Revised) has introduced a new basis of accounting for income taxes (including both current tax and deferred tax) and additional disclosure requirements which have been adopted in the condensed financial statements. The adoption of the above standard has had no significant effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustments were required.

Other than the above, the accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2002.



3. PROFIT BEFORE TAXATION AND MINORITY INTERESTS

Profit before taxation and minority interests is determined after charging the followings:

	Six months ended	
	30th June,	
	2003	2002
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation on owned assets	1,257	1,904
Interest expense on bank borrowings	3,158	1,148
Loss on disposal of property, plant and equipment	–	284
Provision for inventory obsolescence	–	487
Provision for doubtful debts	2,000	5,830
Staff costs	9,324	9,977
	<u>9,324</u>	<u>9,977</u>

4. TAXATION

	Six months ended	
	30th June,	
	2003	2002
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Current income taxes		
– Hong Kong profits tax (<i>Note (a)</i>)	–	–
– PRC income taxes (<i>Note (b)</i>)	1,778	360
– USA income taxes (<i>Note (c)</i>)	–	207
Deferred tax income		
– PRC income taxes	–	(1,089)
	<u>1,778</u>	<u>(522)</u>

- (a) No Hong Kong profits tax has been provided, as the Group had no assessable profits in Hong Kong during the period.



- (b) The PRC income tax represents enterprise income tax ("EIT") charges on the taxable income reported in the accounts of the companies of the Group established in the PRC which are prepared in accordance with the PRC accounting principles and regulations.

Generally, companies established in the PRC are subject to EIT at 33 per cent. In accordance with relevant tax laws and regulations, the subsidiaries of the Group established in the PRC are subject to EIT at a rate of 24 per cent and are entitled to full exemption from EIT for the first two years and a 50 per cent reduction for the next three years, commencing from the first profitable year after offsetting available tax losses carried forward from the previous five years.

- (c) No USA income taxes have been provided as the subsidiary in USA incurred a loss during the six months ended 30th June, 2003.

5. OTHER REVENUE

	Six months ended 30th June,	
	2003 (Unaudited) RMB'000	2002 (Unaudited) RMB'000
Interest income on bank deposits	319	258
Others	642	438
	<u>961</u>	<u>696</u>

6. DIVIDENDS

During the six months ended 30th June, 2002, the Company distributed a cash dividend of HK\$0.01 per share, amounting to HK\$4,000,040 (equivalent to RMB4,242,000), for the year ended 31st December, 2001.

The directors resolved not to declare any interim dividend for the six months ended 30th June, 2003 (six months ended 30th June, 2002: nil).

7. EARNINGS PER SHARE

The calculation of earnings per share was based on the consolidated net profit of RMB7,031,000 (six months ended 30th June, 2002: RMB698,000) and the weighted average number of 400,004,000 shares (six months ended 30th June, 2002: 400,004,000 deemed shares) in issue during the period.

For the purpose of calculating diluted earnings per share, the outstanding warrants (Note 11(a)) were considered as potential ordinary shares. No diluted earnings per share is presented for both six months ended 30th June, 2003 and 2002 as the outstanding potential ordinary shares are anti-dilutive.



8. PROPERTY, PLANT AND EQUIPMENT

	Land use rights <i>RMB'000</i>	Buildings <i>RMB'000</i>	Leasehold improve- ments <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Furniture and equipment <i>RMB'000</i>	Con- struction- in-progress <i>RMB'000</i>	Total <i>RMB'000</i>
Cost								
Beginning of period	7,696	37,316	501	8,482	662	1,268	9,789	65,714
Additions	-	-	19	326	-	112	-	457
End of period	<u>7,696</u>	<u>37,316</u>	<u>520</u>	<u>8,808</u>	<u>662</u>	<u>1,380</u>	<u>9,789</u>	<u>66,171</u>
Accumulated depreciation								
Beginning of period	2,296	4,336	501	4,764	652	670	-	13,219
Charge for the period	325	375	2	378	10	167	-	1,257
End of period	<u>2,621</u>	<u>4,711</u>	<u>503</u>	<u>5,142</u>	<u>662</u>	<u>837</u>	<u>-</u>	<u>14,476</u>
Net book value								
End of period	<u>5,075</u>	<u>32,605</u>	<u>17</u>	<u>3,666</u>	<u>-</u>	<u>543</u>	<u>9,789</u>	<u>51,695</u>
Beginning of period	<u>5,400</u>	<u>32,980</u>	<u>-</u>	<u>3,718</u>	<u>10</u>	<u>598</u>	<u>9,789</u>	<u>52,495</u>

- (a) The land use rights of the land, where certain of the Group's buildings are situated, have a usage period of 12 years from the date of obtaining the land use right certificates.
- (b) As of 30th June, 2003, all the buildings of the Group are located in the PRC.
- (c) As of 30th June, 2003, land use rights and buildings with an aggregate net book value of approximately RMB31,921,000 (31st December, 2002: RMB32,614,000) are mortgaged as collateral for bank borrowings of the Group (Note 13).

**9. INVESTMENT SECURITIES**

	30th June, 2003 (Unaudited) <i>RMB'000</i>	31st December, 2002 (Audited) <i>RMB'000</i>
Unlisted equity securities, at cost		
– 18% equity interest in Yancheng Shangtong Automobile Trading Co., Ltd.	900	900

10. TRADE RECEIVABLES

	30th June, 2003 (Unaudited) <i>RMB'000</i>	31st December, 2002 (Audited) <i>RMB'000</i>
Accounts receivable	108,586	95,505
Less: Provision for doubtful debts	(35,442)	(33,442)
	73,144	62,063
Bills receivable	170	1,100
	73,314	63,163

Trade receivable, which have credit terms pursuant to the provisions of the relevant contracts, are recognised and carried at invoiced amount. Apart from the amounts withheld by customers according to the terms of contracts pending the satisfactory performance of the equipment sold, the Group generally allows a credit period to its customers ranging from three to six months.

Ageing analysis for trade receivables after provision for doubtful debts is as follows:

	30th June, 2003 (Unaudited) <i>RMB'000</i>	31st December, 2002 (Audited) <i>RMB'000</i>
Within six months	26,094	29,360
Between seven to twelve months	36,719	9,939
Between one to two years	7,161	16,760
More than two years	314	4,044
	70,288	60,103
Retention receivable	2,856	1,960
	73,144	62,063



11. SHARE CAPITAL

	Authorised Ordinary shares of HK\$0.10 each		Issued and fully paid Ordinary shares of HK\$0.10 each		
	Number of shares '000	Nominal value HK\$'000	Number of shares '000	Nominal value HK\$'000	RMB equivalent RMB'000
Balance as of 31st December, 2002 and 30th June, 2003	1,000,000	100,000	400,004	40,000	42,386

- (a) The warrants issued by the Company entitle the holders to subscribe up to HK\$33,750,000 in aggregate in cash for a total of 50,000,000 shares at an initial price of HK\$0.675 each, subject to adjustment, at any time on or after 1st November, 2001 until 31st October, 2006. On 28th November, 2001, 4,000 warrants were converted by the respective warrant holders into 4,000 shares of the Company at the amount of HK\$2,700 (equivalent to RMB3,000). No further warrants were exercised during the period from 29th November, 2001 to 30th June, 2003.
- (b) The Company adopted a share option scheme on 8th October, 2001 under which the directors may, at their discretion, invite any executive and/or employee of the Company and/or its subsidiaries to take up options to subscribe for shares of the Company ("the Shares"). The exercise price is determined by the directors and will at least be the higher of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which shall be a business day; and (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant. As of 30th June, 2003 no share option was granted.

12. RESERVES

(a) Reserve fund and enterprise expansion fund

According to the rules and regulations applicable to the Group's subsidiaries in the PRC, when distributing net income of each year, these subsidiaries shall set aside a portion of their net income as reported in their statutory accounts for the reserve fund, enterprise expansion fund and staff and workers' bonus and welfare fund. Such amounts that are appropriated are determined at the discretion of the board of directors. These statutory reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends. Under the accounting principles generally accepted in Hong Kong, the appropriations to staff and workers' bonus and welfare fund have been included as expenses and the balance of the fund as liabilities of the Group.

(b) Retained profits

Retained profits may be carried forward for future distribution.

**13. BORROWINGS**

	30th June, 2003 (Unaudited) RMB'000	31st December, 2002 (Audited) RMB'000
(a) Short-term bank borrowings, secured		
– Denominated in HK\$	10,606	19,091
– Denominated in RMB	57,400	15,900
	<u>68,006</u>	<u>34,991</u>
	30th June, 2003 (Unaudited) RMB'000	31st December, 2002 (Audited) RMB'000
(b) Long-term bank borrowings in RMB, secured		
– Repayable within one year	10,500	2,900
– Repayable in two to five years	–	10,500
	<u>10,500</u>	<u>13,400</u>
<i>Less: Amounts due within one year included under current liabilities</i>	<u>(10,500)</u>	<u>(2,900)</u>
	<u>–</u>	<u>10,500</u>
(c) As of 30th June, 2003, the Group's bank borrowings were secured by the following:		
(i) Short-term bank borrowings denominated in HK\$		
– corporate guarantee given by the Company;		
– personal guarantee given by two directors of the Company; and		
– bank deposit of HK\$10,000,000 (equivalent to RMB10,606,000) (31st December, 2002: RMB10,606,000).		
(ii) Bank borrowings denominated in RMB of RMB20,900,000 (31st December, 2002: RMB18,800,000) were secured by certain land use rights and buildings with an aggregate net book value of approximately RMB31,921,000 (31st December, 2002: RMB32,614,000).		

The remaining bank borrowings denominated in RMB47,000,000 were secured by a corporate guarantee given by a subsidiary of the Company.



14. TRADE PAYABLES

Ageing analysis of trade payables is as follows:

	30th June, 2003 (Unaudited) RMB'000	31st December, 2002 (Audited) RMB'000
Within one year	32,964	11,690
Between one to two years	1,852	1,324
Between two to three years	1,765	2,405
More than three years	1,391	2,988
	<u>37,972</u>	<u>18,407</u>

15. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(a) Transactions with related companies

	Six months ended 30th June, 2003 (Unaudited) RMB'000	2002 (Unaudited) RMB'000
Transactions with a company, in which the Chairman of the Group has a controlling interest		
– Service fee (i)	375	375
– Patent fee (ii)	100	100
– Trademark fee (iii)	75	75
– Rental of office premises (iv)	50	50
	<u> </u>	<u> </u>
Transactions with Yancheng Celette Body Repairing Equipment Co., Ltd. ("Yancheng Celette"), in which the Chairman of the Group has significant influence		
– Purchases of products (v)	4,473	2,849
– Sales of products and raw materials (vii)	2,176	–
	<u> </u>	<u> </u>
Transactions with Yancheng Zhongwei Bus Manufacturing Co., Ltd. ("Zhongwei Bus"), in which the Chairman of the Group has a controlling interest		
– Sales of raw materials (vii)	31	–
	<u> </u>	<u> </u>



- (i) Pursuant to an integrated services agreement dated 31st August, 2001, the annual fee for integrated services provided by Zhongda Industrial Group Corporation to the employees of the Group is RMB750,000, determined on the basis of the relevant fee fixed by the National Price Bureau, or market price if there is no applicable fee set by the National Price Bureau for any such services. The agreement is for a term of ten years commencing from 31st August, 2001.
- (ii) Pursuant to a patent agreement dated 31st August, 2001, Zhongda Industrial Group Corporation and one of the directors of the Company granted to the Group an exclusive right to use certain patents at an annual fee of RMB200,000 for periods commencing from 31st August, 2001 to expiry of the patent certificate of the relevant patents.
- (iii) Pursuant to a trademark agreement dated 31st August, 2001, Zhongda Industrial Group Corporation granted to the Group an exclusive right to use certain trademarks at an annual fee of RMB150,000. The agreement is for a term of ten years commencing from 31st August, 2001.
- (iv) Pursuant to an office license agreement dated 30th May, 2001, the rental of office premise is charged at a rate of RMB100,000 per annum for a period of five years commencing from 1st June, 2001.
- (v) Purchases from Yancheng Celette were at the prevailing market price.
- (vi) Personal guarantees were provided by directors of the Company for bank facility of a subsidiary (note 13).
- (vii) The prices were determined based on the actual cost of production plus a profit margin ranging from 35 per cent to 40 per cent in respect of sales of products and of approximately 5 per cent in respect of sales of raw materials.
- (viii) During the six months ended 30th June, 2003, the Group had paid expenses on behalf of Zhongda Industrial Group Corporation and its affiliates and Zhongda Industrial Group Corporation also directly collected trade receivables on behalf of the Group.
- (ix) During 2002, Zhongda Industrial Group Corporation paid RMB29.9 million ("the Advance") to a construction company on behalf of a subsidiary, Zhongda Automobile Machinery Manufacture Co., Ltd. ("Zhongda Machinery") in connection with the land development projects in Yancheng Economic Development Zone of Jiangsu Province. In April 2003, the construction company returned the Advance to the Group after deducting certain expenses in the amount of RMB200,000.

Details of the abovementioned related party transactions of (vii) to (ix) were set out in the announcement dated 23rd June, 2003 and the circular dated 14th July, 2003.



(b) Balances with related companies

Included in the balance sheet are the following balances with related companies, in which the Chairman of the Group has a controlling interest:

	30th June, 2003 (Unaudited)	31st December, 2002 (Audited)
	<i>RMB'000</i>	<i>RMB'000</i>
Due from Yancheng Celette	330	–
Due from Zhongda Industrial Group Corporation	–	906
Due from Zhongda Yanjing Bus Manufacturing Co., Ltd.	–	6,000
	<u>330</u>	<u>6,906</u>

16. TURNOVER AND SEGMENT INFORMATION

(a) Turnover

The principal activities of the Group are the development, manufacture and sale of automobile equipment. As the Group is engaged in a single business segment, no business segment information is presented.

(b) Segment information

The Group conducts the majority of its business activities in two geographical areas, the PRC and the USA. The geographic locations of the assets are the basis on which the Group reports its primary segment information.



An analysis by geographical locations of assets is as follows:

	PRC		USA		Unallocated		Total	
	Six months ended		Six months ended		Six months ended		Six months ended	
	30th June,		30th June,		30th June,		30th June,	
	2003	2002	2003	2002	2003	2002	2003	2002
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
REVENUE								
External sales	100,250	68,419	6,887	12,557	-	-	107,137	80,976
RESULT								
Segment result	16,083	5,250	(519)	326	-	-	15,564	5,576
Unallocated corporate expenses	-	-	-	-	(3,491)	(3,679)	(3,491)	(3,679)
Operating profit	16,083	5,250	(519)	326	(3,491)	(3,679)	12,073	1,897
Finance cost	(2,809)	(1,246)	-	-	(349)	98	(3,158)	(1,148)
Taxation	(1,778)	729	-	(207)	-	-	(1,778)	522
Minority interests	(106)	(573)	-	-	-	-	(106)	(573)
Net profit (loss) for the period	11,390	4,160	(519)	119	(3,840)	(3,581)	7,031	698
OTHER INFORMATION								
Segment capital expenditure	334	27,040	123	143	-	-	457	27,183
Unallocated corporate capital expenditure	-	-	-	-	-	-	-	-
Total	334	27,040	123	143	-	-	457	27,183
Segment depreciation	1,105	1,588	126	66	-	-	1,231	1,654
Unallocated corporate depreciation	-	-	-	-	26	250	26	250
Total	1,105	1,588	126	66	26	250	1,257	1,904



17. COMMITMENTS

(a) Capital commitments

Capital commitment in relation to the acquisition of land use rights and other property, plant and equipment for production purposes including relocation, demolition and land preparation cost were as follows:

	30th June, 2003 (Unaudited) <i>RMB'000</i>	31st December, 2002 (Audited) <i>RMB'000</i>
Authorised and contracted for	50,100	4,100
Authorised but not contracted for	14,000	50,100
	<u>64,100</u>	<u>54,200</u>

(b) Operating leases

As of 30th June, 2003, the Group had the following operating lease commitments to make future payments under non-cancellable operating leases in respect of land and buildings:

	30th June, 2003 (Unaudited) <i>RMB'000</i>	31st December, 2002 (Audited) <i>RMB'000</i>
Land and buildings		
– Within one year	838	749
– In two to five years	910	1,432
– After five years	540	660
	<u>2,288</u>	<u>2,841</u>

18. CONTINGENT LIABILITIES

As of 30th June, 2003, there were no significant contingent liabilities.

19. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period's presentation.



BUSINESS REVIEW

The Company is principally engaged in the development, production and sale of automobile repairing, maintenance and testing equipment and in the provision of industrial surface treatment engineering equipment to various industries including the automobile, aircraft engineering and military industries in the PRC. Its major products are sold to the PRC, North America, North Africa, Europe and other Asian countries.

For the first half of 2003, the Company reported significant improvement in its operating results. The encouraging results reflected the Company's effort in strengthening its marketing activities in the previous year and its taking advantage of the consolidation of the automobile market through its strategy of establishing direct business relationship with large-scale automobile factories, which was beginning to produce results. In the first half of 2003, the Company's net profit rose significantly, as a result of increased sales and effective control of fixed expenses. During the period, the Company's sales amount was approximately RMB107 million, representing an increase of 32.3% when compared with that of the corresponding period last year. Its net profit amounted to RMB7.03 million, surpassing that of the entire previous year.

Despite the difficulties brought forth by the war in Iraq in the Middle East and the outbreak of SARS during the first half of 2003, the Company had adopted proactive measures in its combat against SARS. On the one hand, the Company stepped up preventative measures against SARS, which resulted in zero case of SARS among staff. On the other hand, the Company aggressively grasped on business opportunities, deployed and sent its staff to various sales points across the country to establish close ties with customers. With the widespread of SARS, public concern about personal hygiene increased. People purchased automobiles earlier than their planned schedule to avoid taking public transport, which is always overcrowded. All these factors resulted in an increase in the demand for automobiles. During the period, the national automobile sales rose by 30 per cent, providing opportunities to the Company, which experienced steady growth in its overall business.

As mentioned in the previous year, the PRC automobile repair and maintenance market underwent structural changes after the country's entry to the World Trade Organisation, transforming from a free market with individual automobile repair factories to planned development led by major automobile plants. The market has now entered the final stage of adjustment. In response to market changes, the Company had adopted corresponding measures, including actively seeking collaboration with major automobile manufacturers, which produced significant results in the first half of the year. Net profit margin rose by 5.7 percentage points when compared with that of the same period last year. The Company's stringent control over its expenses also led to an overall gross profit margin of 38.8%.



After years of active business expansion by the Company, Zhongda International's products have gained wide acceptance and recognition in the PRC and overseas markets, and earned high credibility. The Company's automobile lacquer rooms, wheel aligners for automobiles and specialised automobile modelling equipment were named as Torch Plan projects of Jiangsu Province in 2003, and designated as the auxiliary equipment by major domestic automobile manufacturers.

To expand its production line, Zhongda International, through its subsidiary Zhongda Machinery, entered into a project investment agreement of approximately RMB60 million with the Administrative Committee for the Yancheng Economic Development Zone ("Yancheng EDZ") of Jiangsu Province in 2003. The agreement was about investment in three projects in Yancheng EDZ, including the production lines for painting and coating, a production line for car wash system and a line for the production of export-oriented lacquer rooms. Construction of the factories under these three projects is now proceeding and is expected to be completed in early 2004. The board believed that these projects will provide a solid foundation for the Company's future business expansion.

With respect to the export business, the Company's overall export sales for the first half of 2003 rose steadily. Affected by the US-Iraqi war, there was some adjustment to the Company's sales amount in the US market during the period.

FINANCIAL REVIEW

For the six months ended 30th June, 2003, the Group's turnover was approximately RMB107,137,000, representing an increase of 32.3% as compared with the corresponding period in 2002. The Group's net profits attributable to shareholders amounted to approximately RMB7,031,000 (six months ended 30th June, 2002: RMB698,000) representing an increase of over 900% when compared with the corresponding period in 2002.

During the period under review, the basic earnings per share has increased by 8 times to RMB0.018 (six months ended 30th June, 2002: RMB0.002).

INTERIM DIVIDEND

The Directors resolved not to declare any interim dividend for the six months ended 30th June, 2003 (six months ended 30th June, 2002: nil).



LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June, 2003, the shareholders' funds of the Group amounted to RMB147,130,000 (31st December, 2002: RMB140,149,000).

As at 30th June, 2003, the Group had bank balances and cash of RMB114,584,000 (31st December, 2002: RMB47,795,000). The Group's bank loans amounted to RMB78,506,000 (31st December, 2002: RMB48,391,000). The increase in bank loans is for the finance of the investment projects in Yancheng EDZ.

The Group's major income and borrowings are in Renminbi. Accordingly, there is no significant exposure to foreign exchange rates fluctuation.

As at 30th June, 2003, the debt to equity ratio of the Group was 53.4% (31st December, 2002: 34.5%). The debt to equity ratio is computed on the basis of total borrowings divided by the shareholders' funds of the Group.

The Directors are of the view that there are sufficient financial resources to satisfy its capital commitments and on-going working capital requirements.

CONTINGENT LIABILITIES

As at 30th June, 2003, the Group had no material contingent liabilities.

MATERIAL ACQUISITIONS AND DISPOSALS

There was no material acquisitions and disposals of subsidiaries and associated companies during the six months ended 30th June, 2003.

CHARGES ON ASSETS

The Group's bank borrowings were secured by a charge on bank deposits of RMB10,606,000 (31st December, 2002: RMB10,606,000) and certain land use rights and buildings held by the Group with a total book value of RMB31,921,000 (31st December, 2002: RMB32,614,000) as well as corporate guarantee given by a subsidiary of the Company and personal guarantees given by two Directors.



PROSPECTS

In 2003, the Company still focuses on the development of principal business, namely lacquer rooms, automobile lifters and industrial surface treatment engineering equipment. Besides, the Company also further strengthens its cooperation with automobile manufacturers, selling its products directly to automobile manufacturers. Since the amount of each order from this type of clients is generally large, the Company's closer collaboration with these clients will help enhance the Company's overall sales amount and lower the average cost of each order. At the same time, the Company actively pursues the development of automated computerised car wash machines, and expects to enter into agreement in 2003 with Italian manufacturers to establish a joint-venture company for the development of automated computerised car wash machines. Such a move will help enhance the Company's technology and accelerate the development of the aforesaid productions. In addition, the Company will continue to further augment operational efficiency through optimising the staff incentive mechanism, in order to maintain the Company's leading position in the PRC automobile repair and maintenance equipment industry.

In order to consolidate its business development, the Company will focus on the following tasks:

- In accordance with the established market strategies, strengthen and focus on the collaboration with clientele – automobile manufacturers such as Shanghai Volkswagen, General Motors, Ford, Zhonghua Automobile, etc
- Enhance production technology and fine-tune the production flow and product design, in order to raise product quality
- Develop e-commerce to enhance products' reputation in the international and domestic markets
- Explore business opportunities by looking for appropriate business with earning power potential through acquisitions, and creating synergistic effect with existing business. The Company is actively seeking opportunities for investment in mature and profitable automobile-related businesses in the form of equity investment, in order to expand the Company's profit base and source of revenue
- Reengineer the sales development strategy for overseas markets and collaborate with distributors to achieve higher cost efficiency

**EMPLOYEE REMUNERATION POLICIES**

As at 30th June, 2003, the Group employed 906 (31st December, 2002: 891) employees.

The Group provides remuneration package to employees largely based on industry practice, individual performance, qualification and experience. In addition, discretionary bonus and share option may be granted to eligible staff by reference to the Group's performance and individual performance. The Group also provides other benefits to its employees such as medical and statutory retirement benefits for both the directors and employees.

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 and its subsidiaries to subscribe for ordinary shares in the Company. As of 30th June, 2003, no share option has been granted since the adoption of the share option scheme.

Other than disclosed above, at no time during the year was the Company, its holding 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.

DIRECTORS' INTERESTS IN SHARES

As at 30th June, 2003, the interests of the directors of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("the SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO were as follows:

(a) Long positions in shares of the Company

Name of directors	Number of ordinary shares		% of issued share capital of the Company
	Personal interests	Corporate interests	
Mr. Xu Lian Guo (Note 1)	–	234,720,000	58.7%
Mr. Xu Lian Kuan (Note 1)	–	234,720,000	58.7%
Mr. Zhang Yuqing	17,600,000	–	4.4%

- (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. Accordingly, each of Mr. Xu and Mr. Xu Lian Kuan is deemed to be interested in the shares held by Zhong Da (BVI).



Other than disclosed above, none of the directors or their associates had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations as defined in the Part XV of the SFO as of 30th June, 2003.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 30th June, 2003, the register of substantial shareholders' interests or short positions maintained under Section 336 of the SFO showed that the Company had been notified of the following interests, being interests of 5% or more held in the shares and underlying shares of the Company:

Long positions in shares of the Company

Name of shareholders	Nature of interest	Number of shares held	% of issued share capital of the Company
Mr. Xu	Corporate	234,720,000 ⁽¹⁾	58.7%
Mr. Xu Lian Kuan	Corporate	234,720,000 ⁽¹⁾	58.7%
Zhong Da (BVI)	Corporate	234,720,000 ⁽²⁾	58.7%
Shum Yip (Holdings) Company Limited	Corporate	43,596,000 ⁽³⁾	10.9%

Notes:

- (1) This interest represents the number of shares held by Zhong Da (BVI) where each of Mr. Xu and Mr. Xu Lian Kuan is deemed to be interested in such shares. 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 336 of SFO as having an interest or short positions of 5% or more in the shares and underlying shares of the Company.

DIRECTORS' INTERESTS IN CONTRACTS

Except for the contracts of significance disclosed above and in Note 15 to the financial statements, no other contract of significance subsisted during or at the end of the six-month period.



PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30th June, 2003, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Company has established an audit committee 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 ("the Listing Rules") 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.

The audit committee has reviewed the interim report for the six months ended 30th June, 2003.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the directors is aware of any information that would reasonably indicate that the Company is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules during the six months ended 30th June, 2003.

By order of the Board
Xu Lian Guo
Chairman

Yancheng, China, 26th September, 2003