

## Report of the Directors

The directors are pleased to present their annual report and the audited financial statements for the year ended 31st December, 2003.

### **PRINCIPAL ACTIVITIES**

The principal activities of Zhongda International Holdings Limited (“the Company”) and its subsidiaries (collectively referred to as “the Group”) are the development, manufacture and sale of automobile equipment and provision of industrial surface treatment engineering equipment. The activities of its subsidiaries are set out in note 17 to the financial statements.

### **RESULTS AND APPROPRIATIONS**

The state of affairs of the Group and the Company at 31st December, 2003 and the results and cash flow of the Group for the year then ended are set out in the financial statements on pages 22 to 55.

The directors do not recommend the payment of a dividend.

### **FINANCIAL SUMMARY**

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 56 of the Annual Report.

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

Details of movements during the year in the property, plant and equipment of the Group and the Company are set out in note 14 to the financial statements.

### **SHARE CAPITAL AND WARRANTS**

Details of movements during the year in the share capital and outstanding warrants of the Company are set out in note 27 to the financial statements.

### **RESERVES**

Details of movements in the reserves of the Company and of the Group during the year are set out in note 28 to the financial statements.

## Report of the Directors

### **DIRECTORS**

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

#### **Executive directors**

Xu Lian Guo  
Xu Lian Kuan  
Zhang Yuqing

#### **Independent non-executive directors**

Gu Yao Tian  
Chan Wai Dune  
Li Xin Zhong (appointed on 15th March, 2004)

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

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

## Report of the Directors

### DIRECTORS' INTEREST IN SHARES

#### Long positions in shares of the Company

As of 31st December, 2003, the interests of the directors of the Company in the issued share capital of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were notified to the Company and the Stock Exchange of Hong Kong (the "Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise required to be notified to the Company and the Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), were as follows:

Name of directors	Personal interests	Number of ordinary shares		%
		Corporate interests	Total	
Xu Lian Guo ( <i>Note</i> )	–	234,720,000	234,720,000	58.7%
Xu Lian Kuan ( <i>Note</i> )	–	234,720,000	234,720,000	58.7%
Zhang Yuqing	17,600,000	–	17,600,000	4.4%

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

Other than as disclosed above, as at 31st December, 2003, none of the directors or chief executives or their associates had any personal, family, corporate or other interests or short positions in the shares of the Company or any of its associated corporations as defined in the SFO.

# Report of the Directors

## DIRECTORS' INTEREST IN SHARES (continued)

### Shares in a subsidiary

At 31st December, 2003, the following directors held interests in the shares of Zhongda Industrial Machinery Co Ltd, a 86.7% owned subsidiary of the Company as follows:

	Proportion of equity interests held
Xu Lian Guo ( <i>Note</i> )	13.3%
Xu Lian Kuan ( <i>Note</i> )	13.3%

*Note:* These shares are held by Zhongda Industrial Group Corporation, in which Mr. Xu Lian Guo and Mr. Xu Lian Kuan collectively hold 52.64% of its equity interests.

## SHARE OPTION SCHEME

The Company has a share option scheme, 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 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; (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, and (iii) the par value of the shares.

As of 31st December, 2003, no share option has been granted.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share option scheme as disclosed above, at no time during the year was the Company, its holding company, any of its fellow subsidiaries or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than the contracts as disclosed under the heading "Connected Transactions" below, no contracts of significance to which the Company, its holding company or any of its subsidiaries and fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## Report of the Directors

### MANAGEMENT CONTRACT

No contracts concerning the management and administration of the Company subsisted at the end of the year or at any time during the year.

### CONNECTED TRANSACTIONS

During the year ended 31st December, 2003, the Group had entered into the following transactions with connected parties:

Transactions with Zhongda Industrial Group Corporation, in which Mr. Xu Lian Guo and Mr. Xu Lian Kuan collectively hold 52.64% of its equity interests:

	<i>RMB'000</i>
Service fee expense	750
Patent fee expense	200
Trademark fee expense	150
Rental expenses for office premises	100

Transactions with Yancheng Celette Body Repairing Equipment Co., Ltd. in which Zhongda Industrial Group Corporation has an interest of approximately 49%:

	<i>RMB'000</i>
Purchases of products	10,949
Sales of products and raw materials	2,547

Transactions with Yancheng Zhongwei Bus Manufacturing Co Ltd, in which Zhongda Industrial Group Corporation has an interest of approximately 65%:

	<i>RMB'000</i>
Sales of products and raw materials	401

The Exchange had granted to the Company conditional waivers from strict compliance with the connected transaction provisions of the Listing Rules in respect of the above transactions.

In the opinion of the directors including independent non-executive directors of the Company, the above 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 Exchange.

# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2003, the register of substantial shareholders' interests or short positions maintained under Section 336 of the SFO showed that, other than the interests disclosed above in respect of certain directors, the Company had been notified of the following interests, bearing interests of 5% or more held in the shares of the Company:

### Long positions in shares of the Company

Name of shareholder	Number of Shares	%
Shum Yip (Holdings) Company Limited ( <i>Note</i> )	43,596,000	10.9%

*Note:*

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.

Other than as disclosed above, the Company has not been notified of any other interests representing 5% or more of the Company's shares and underlying shares as at 31st December, 2003.

## CORPORATE GOVERNANCE

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice, for the purpose of reviewing and providing supervision over the financial reporting process and the internal control system of the Group. The audit committee has three members comprising the three independent non-executive directors, namely, Mr. Gu Yao Tian, Mr. Chan Wai Dune and Mr. Li Xin Zhong.

The Company has complied throughout the year ended 31st December, 2003 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

## Report of the Directors

### **MAJOR CUSTOMERS AND SUPPLIERS**

For the year ended 31st December, 2003, the aggregate amount of turnover and purchases attributable to the Group's five largest customers and suppliers respectively represented less than 30% of the Group's total turnover and purchases.

### **BORROWINGS**

Details of the Group's borrowing at 31st December, 2003 are set out in Note 26 to the financial statements.

### **POST BALANCE SHEET EVENTS**

Details of significant events occurring after the balance sheet date are set out in note 34 to the financial statements.

### **AUDITORS**

For the year ended 31st December, 2001, Messrs. Arthur Anderson & Co. acted as auditors of the Company who were replaced by Messrs. PricewaterhouseCoopers at the annual general meeting of the Company in May 2002.

During the year, Messrs. PricewaterhouseCoopers resigned and Messrs. KLL Associates CPA Limited was appointed as auditors of the Company. A resolution will be submitted to the annual general meeting to re-appoint the auditors, Messrs. KLL Associates CPA Limited.

On behalf of the Board

**Xu Lian Guo**  
*CHAIRMAN*

20th April, 2004