



Interim
Report
2004



Zhongda International Holdings Limited
中大國際控股有限公司

(incorporated in Bermuda with limited liability)

**INTERIM RESULT (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, 2004 together with the comparative figures for the corresponding period of 2003 as follows:

**CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE, 2004**

		Six months ended 30th June,	
		2004	2003
		(Unaudited)	(Unaudited and restated)
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	3	110,511	107,137
Cost of goods sold		(72,743)	(65,604)
Gross profit		37,768	41,533
Other revenue	5	519	961
Distribution costs		(11,280)	(13,885)
Administrative and other operating expenses		(13,084)	(16,536)
Profit from operations		13,923	12,073
Finance costs		(2,294)	(3,158)
Profit before taxation and minority interests	6	11,629	8,915
Taxation	7	(4,314)	(1,325)
Profit before minority interests		7,315	7,590
Minority interests		(460)	(58)
Net profit for the period		6,855	7,532
Dividends	8	–	–
Earnings per share	9		
– Basic		RMB0.017	RMB0.019
– Diluted		Not Applicable	Not Applicable

**CONDENSED CONSOLIDATED BALANCE SHEET
AS OF 30TH JUNE, 2004**

		30th June, 2004 (Unaudited) RMB'000	31st December, 2003 (Audited) RMB'000
	<i>Note</i>		
Non-current assets			
Property, plant and equipment	10	126,503	97,537
Investment securities	11	900	900
Deferred tax assets		11,896	11,896
		<hr/>	<hr/>
		139,299	110,333
		<hr/>	<hr/>
Current assets			
Inventories		43,789	36,063
Trade receivables	12	114,361	93,246
Prepayment and other receivables		22,082	31,585
Amounts due from related companies		4,718	461
Cash and bank balances		51,391	45,803
		<hr/>	<hr/>
		236,341	207,158
		<hr/>	<hr/>
Current liabilities			
Trade payables	13	38,059	35,024
Advance receipt from customers		17,570	11,088
Other payables and accruals		29,108	24,273
Amounts due to related companies		1,942	1,869
Amount due to directors		1,737	670
Taxes payable		12,402	8,090
Bank borrowings	14	72,050	65,900
		<hr/>	<hr/>
		172,868	146,914
		<hr/>	<hr/>
Net current assets		63,473	60,244
		<hr/>	<hr/>
		202,772	170,577
		<hr/>	<hr/>
Financed by			
Share capital	15	42,386	42,386
Reserves	16	119,006	112,121
		<hr/>	<hr/>
Shareholders' funds		161,392	154,507
Minority interests		16,530	16,070
Non-current liabilities			
Bank borrowings	14	24,850	–
		<hr/>	<hr/>
		202,772	170,577
		<hr/>	<hr/>



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

	Six months ended 30th June, 2004 (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
Balances as of 1st January, 2004	42,386	17,073	2,720	2,720	(25)	89,633	154,507
Net profit for the period	-	-	-	-	-	6,855	6,855
Translation difference	-	-	-	-	30	-	30
Balances as of 30th June, 2004	<u>42,386</u>	<u>17,073</u>	<u>2,720</u>	<u>2,720</u>	<u>5</u>	<u>96,488</u>	<u>161,392</u>

	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
Balances as of 1st January, 2003	42,386	17,073	2,720	2,720	16	78,166	143,081
Net profit for the period	-	-	-	-	-	7,532	7,532
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>85,698</u>	<u>150,563</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE, 2004**

	Six months ended 30th June,	
	2004 (Unaudited) <i>RMB'000</i>	2003 (Unaudited) <i>RMB'000</i>
Net cash generated from operating activities	5,081	37,130
Net cash used in investing activities	(30,493)	(457)
Net cash generated from financing activities	31,000	30,130
Net increase in cash and cash equivalents	5,588	66,803
Cash and cash equivalents, beginning of period	45,803	37,175
Cash and cash equivalents, end of period	<u>51,391</u>	<u>103,978</u>
Analysis of the components of cash and cash equivalents:		
Cash and bank balances	51,391	114,584
Less: Bank deposits pledged as collateral for bank borrowings repayable beyond three months	—	(10,606)
Cash and cash equivalents	<u>51,391</u>	<u>103,978</u>



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

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.

The condensed interim financial statements should be read in conjunction with the 2003 annual financial statements.

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, 2003.

3. TURNOVER

Turnover represents gross invoiced sales, net of discounts and returns. Analysis of the turnover by major category is as follows:

	Six months ended 30th June,	
	2004 (Unaudited) RMB'000	2003 (Unaudited) RMB'000
Sales of goods	78,505	74,062
Revenue from construction contracts	32,006	33,075
Total Turnover	<u>110,511</u>	<u>107,137</u>



4. SEGMENT INFORMATION

The Group conducts the majority of its business activities in two geographical areas, the People's Republic of China (the "PRC") and the United States of America (the "USA"). An analysis by geographical segment, as determined by the location of assets, is as follows:

	PRC		USA		Elimination		Total	
	Six months ended 30th June, 2004		Six months ended 30th June, 2003		Six months ended 30th June, 2004		Six months ended 30th June, 2003	
	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000
REVENUE								
External sales	107,618	100,250	2,893	6,887	-	-	110,511	107,137
Inter-segment sales	994	2,602	-	-	(994)	(2,602)	-	-
Other revenue	519	872	-	89	-	-	519	961
Total	109,131	103,724	2,893	6,976	(994)	(2,602)	111,030	108,098
RESULT								
Segment result	18,332	16,083	(1,026)	(519)	-	-	17,306	15,564
Unallocated corporate expenses							(3,383)	(3,491)
Profit from operations							13,923	12,073
Finance cost							(2,294)	(3,158)
Taxation							(4,314)	(1,325)
Minority interests							(460)	(58)
Profit attributable to shareholders							6,855	7,532

5. OTHER REVENUE

	Six months ended 30th June,	
	2004 (Unaudited) RMB'000	2003 (Unaudited) RMB'000
Interest income on bank deposits	346	319
Others	173	642
Total	519	961



6. PROFIT BEFORE TAXATION AND MINORITY INTERESTS

Profit before taxation and minority interests is determined after charging or (crediting) the followings:

	Six months ended 30th June,	
	2004 (Unaudited) RMB'000	2003 (Unaudited) RMB'000
Depreciation on owned assets	1,527	1,257
Interest expense on bank borrowings	2,294	3,158
Gain on disposal of property, plant and equipment	(42)	–
Provision for doubtful debts	–	2,000
Staff costs	8,248	9,324
	<u>8,248</u>	<u>9,324</u>

7. TAXATION

	Six months ended 30th June,	
	2004 (Unaudited) RMB'000	2003 (Unaudited) RMB'000
Current income taxes		
– Hong Kong profits tax	–	–
– PRC income taxes	4,314	1,778
– USA income taxes	–	–
Deferred tax		
– PRC income taxes	–	(453)
	<u>4,314</u>	<u>1,325</u>

No Hong Kong Profits Tax has been provided for as the Group had no assessable profits in Hong Kong during both periods.

The Company's subsidiaries established in the PRC are subject to Enterprises Income Tax ("EIT") at a rate of 24% and are subject to the benefit of full exemption from EIT for 2 years starting from the first profitable year followed by a 50% deduction for 3 years. Certain of these subsidiaries are still enjoying a 50% deduction in EIT rate under the benefit.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

8. DIVIDENDS

No dividend was paid or proposed for the six months ended 30th June, 2004 (six months ended 30th June, 2003: nil).



9. EARNINGS PER SHARE

The calculation of earnings per share was based on the consolidated net profit of RMB6,855,000 (six months ended 30th June, 2003 (restated): RMB7,532,000) and the weighted average number of 400,004,000 shares (six months ended 30th June, 2003: 400,004,000 shares) in issue during the period.

For the purpose of calculating diluted earnings per share, the outstanding warrants (Note 15) were considered as potential ordinary shares. No diluted earnings per share is presented for both six months ended 30th June, 2004 and 2003 as the outstanding potential ordinary shares are anti-dilutive.

10. PROPERTY, PLANT AND EQUIPMENT

	Land use rights RMB'000	Buildings RMB'000	Leasehold improve- ments RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture and equipment RMB'000	Con- struction- in-progress RMB'000	Total RMB'000
Cost								
At 1st January, 2004	7,696	37,316	501	8,808	788	1,518	57,389	114,016
Additions	-	127	-	265	692	400	29,384	30,868
Disposals	-	-	-	-	(375)	-	-	(375)
At 30th June, 2004	<u>7,696</u>	<u>37,443</u>	<u>501</u>	<u>9,073</u>	<u>1,105</u>	<u>1,918</u>	<u>86,773</u>	<u>144,509</u>
Accumulated depreciation								
At 1st January, 2004	2,946	6,028	501	5,483	659	862	-	16,479
Charge for the period	325	661	-	427	17	97	-	1,527
At 30th June, 2004	<u>3,271</u>	<u>6,689</u>	<u>501</u>	<u>5,910</u>	<u>676</u>	<u>959</u>	<u>-</u>	<u>18,006</u>
Net book value								
At 30th June, 2004	<u>4,425</u>	<u>30,754</u>	<u>-</u>	<u>3,163</u>	<u>429</u>	<u>959</u>	<u>86,773</u>	<u>126,503</u>
At 31st December, 2003	<u>4,750</u>	<u>31,288</u>	<u>-</u>	<u>3,325</u>	<u>129</u>	<u>656</u>	<u>57,389</u>	<u>97,537</u>

- The land use rights of the land, where certain of the Group's buildings are situated, have a usage period of 47 years from the date of obtaining the land use right certificates.
- As of 30th June, 2004, all the buildings of the Group are located in the PRC.
- As of 30th June, 2004, land use rights and buildings with an aggregate net book value of approximately RMB29,637,000 (31st December, 2003: RMB30,623,000) are mortgaged as collateral for bank borrowings of the Group (Note 14).

**11. INVESTMENT SECURITIES**

	30th June, 2004 (Unaudited) <i>RMB'000</i>	31st December, 2003 (Audited) <i>RMB'000</i>
Unlisted equity securities, at cost		
– 18% equity interest in Yancheng Shangtong Automobile Trading Co., Ltd.	900	900

12. TRADE RECEIVABLES

	30th June, 2004 (Unaudited) <i>RMB'000</i>	31st December, 2003 (Audited) <i>RMB'000</i>
Accounts receivable	133,038	124,770
Less: Provision for doubtful debts	(30,702)	(31,794)
	<u>102,336</u>	<u>92,976</u>
Bills receivable	12,025	270
	<u>114,361</u>	<u>93,246</u>

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, 2004 (Unaudited) <i>RMB'000</i>	31st December, 2003 (Audited) <i>RMB'000</i>
Within six months	46,307	45,117
Between seven to twelve months	34,822	21,522
Between one to two years	13,434	19,278
More than two years	6,609	4,599
	<u>101,172</u>	<u>90,516</u>
Retention receivable	1,164	2,460
	<u>102,336</u>	<u>92,976</u>

**13. TRADE PAYABLES**

Ageing analysis of trade payables is as follows:

	30th June, 2004 (Unaudited) <i>RMB'000</i>	31st December, 2003 (Audited) <i>RMB'000</i>
Within one year	22,092	24,875
Between one to two years	7,526	2,292
Between two to three years	3,326	649
More than three years	5,115	5,598
	<hr/>	<hr/>
	38,059	33,414
Bills payable	–	1,610
	<hr/>	<hr/>
	38,059	35,024

14. BORROWINGS

	30th June, 2004 (Unaudited) <i>RMB'000</i>	31st December, 2003 (Audited) <i>RMB'000</i>
Bank loans	96,900	65,900
	<hr/>	<hr/>
– Secured	96,900	15,900
– Unsecured	–	50,000
	<hr/>	<hr/>
	96,900	65,900

The maturity profile of the above loans is as follows:

On demand or within one year	72,050	65,900
More than one year, but not exceeding two year	24,850	–
	<hr/>	<hr/>
	96,900	65,900
Less: Amounts due within one year shown under current liabilities	(72,050)	(65,900)
	<hr/>	<hr/>
Non-current portion	24,850	–

As of 30th June, 2004, the Group's bank borrowings were secured by certain land use rights and buildings with an aggregate net book value of approximately RMB29,637,000 (31st December, 2003: RMB30,623,000).

**15. 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, 2003 and					
30th June, 2004	1,000,000	100,000	400,004	40,000	42,386

There was no movement in both the authorized share capital and share capital issued and fully paid during the period ended 30th June, 2004 and year ended 31st December, 2003.

The Company has outstanding warrants in issue which entitle the holders to subscribe up to total of 49,996,000 ordinary shares in the Company at an exercise price of HK\$0.675 each, subject to adjustment, at any time on or after 1st November, 2001 until 31st October, 2006. No warrants were exercised during the period ended 30th June, 2004.

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 30th June, 2004, no share option has been granted.

16. RESERVES

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.

**17. RELATED PARTY TRANSACTIONS****Transactions with related companies**

	Six months ended 30th June,	
	2004 (Unaudited) RMB'000	2003 (Unaudited) RMB'000
Transactions with Zhongda Industrial Group Corporation, in which the Chairman of the Group has a controlling interest		
– Service fee expense (i)	375	375
– Patent fee expense (ii)	100	100
– Trademark fee expense (iii)	75	75
– Rental expense of office premises (iv)	50	50
	_____	_____
Transaction with Yancheng Celette Body Repairing Equipment Co. Ltd (“Yancheng Celette”), in which the Chairman of the Group has significant influence		
– Purchase of products (v)	6,419	4,473
– Sales of products and raw materials (vi)	1,235	2,176
	_____	_____
Transactions with Yancheng Zhongwei Bus Manufacturing Co., Ltd. (“Zhongwei Bus”), in which the Chairman of the Group has a controlling interest		
– Sales of products and raw materials (vii)	14,579	31
	_____	_____
(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 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) The prices were determined based on the actual cost of production plus a profit margin of approximately zero to 5 per cent in respect of sales of raw materials.
- (vii) The prices were determined based on the actual cost of production plus a profit margin of approximately 40 per cent in respect of sales of products and of approximately 5 per cent in respect of sales of raw materials.

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, 2004 (Unaudited) <i>RMB'000</i>	31st December, 2003 (Audited) <i>RMB'000</i>
Due to Yancheng Celette	(1,942)	(1,575)
Due from/(to) Zhongda Industrial Group Corporation	2,746	(294)
Due from Yancheng Zhongwei Bus Manufacturing Co., Ltd.	1,972	461
	<u>2,776</u>	<u>(1,408)</u>

18. CAPITAL COMMITMENTS

As the balance sheet date, the Group had capital commitments contributed for but not provided for in the financial statements as follows:

	30th June, 2004 (Unaudited) <i>RMB'000</i>	31st December, 2003 (Audited) <i>RMB'000</i>
Capital expenditure in respect of:		
Acquisition of land use rights and construction property, plant and equipment	16,177	19,800
Equity investment in an associate	6,100	-
	<u>22,277</u>	<u>19,800</u>



19. OPERATING LEASES COMMITMENTS

As of 30th June, 2004, 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, 2004 (Unaudited) <i>RMB'000</i>	31st December, 2003 (Audited) <i>RMB'000</i>
Land and buildings		
– Within one year	437	561
– In two to five years	181	338
– After five years	–	–
	<hr/>	<hr/>
	618	899
	<hr/>	<hr/>

20. POST BALANCE SHEET EVENT

Further to an co-operation agreement entered by the Group on 27th March, 2004, through a wholly owned subsidiary of the Company, with an independent third party in the PRC (the “joint-venture partner”) to establish a company (the “JV”) for conducting bus manufacturing and sale network business in the PRC, on 12th August, 2004, the Group signed a joint venture agreement with the joint-venture partner for the establishment of the JV, pursuant to which the total registered capital of the JV was reduced from RMB58.25 million to RMB52.92 million. The Group’s contribution was therefore reduced from RMB34.95 million to RMB31.75 million, which are in proportion to its respective shareholdings of 60%. At 30th June, 2004, the Group had paid RMB2,400,000 for this purpose.

21. COMPARATIVE FIGURES

Certain comparative figures have been restated with respect to the first time adoption of SSAP 12 (Revised) – Income Taxes to conform with the audited results for the year ended 31st December, 2003.

BUSINESS REVIEW

The Group is principally engaged in the development, production and sales of automobile repairing, maintenance and testing equipment and in the provision of industrial surface treatment engineering equipment to various industries including automobile and aircraft engineering industries in the PRC. As the integration process of the automobile maintenance industry continued during the reporting period, the Group’s major clients shifted gradually from small-scale automobile repair stations to large-scale four-in-one repair centres. These clients tend to co-operate with sizable automobile maintenance equipment producers, which resulted in the gradual elimination of small-scale factories and was beneficial to the Group in its continuous consolidation of its leading position in the automobile maintenance industry in the long run.

After the State implemented macroeconomic regulatory measures, tightened credit policy has only slightly affected the automobile equipment manufacturing industry and the Group still expects the automobile production business to grow sharply this year. Under the present macroeconomic situation, the actual



growing speed was only moderate, but still there was a 10% increase in the total sales of automobile in the PRC market compared with last year. The growth of the personal automobile consumption slowed down under the macroeconomic effect, but the commercial automobile market remained flourishing.

Driven by the sales of the testing equipment, the operating income of the Group in the first half of 2004 rose to approximately RMB110,511,000. In order to strive for co-operation opportunities with major automobile producing factories to increase its market share, the Group offered a more competitive selling price to relevant clients, which resulted in a gross margin of 34.2%, a decrease of 4.6% as compared with the corresponding period in 2003. At the same time, the Group was committed to controlling economic costs. Expenses such as those in distribution costs and administrative and other operating expenses have decreased and therefore the profit before taxation increased approximately RMB2,714,000. The net profit of the Group was approximately RMB6,855,000 in the first half of the year, a slight decrease of approximately 9% as compared with the corresponding period last year which was due to a significant increase in taxes as the tax allowance brought down from last year has been completely offset.

The export sales of the Group decreased in the first half of the year as the Group appointed three local agents in the USA to sell the Zhongda products in different districts rather than conducting direct sales by itself in the USA market as before. Since those agents are still inexperienced, the export sales to the USA were adjusted for the first half of 2004. Sales remained the same in other overseas markets compared with last year. At present, the Group has its own sales teams responsible for sales and marketing activities in 30 countries in the world.

The Group has entered into a joint-venture agreement with the famous Italian enterprise Ceccato and an Italian financial institution in April 2004 to set up a joint-venture enterprise engaging in the production of car washing equipment. By introducing overseas advanced technology and management staff, the Group wishes to further improve the product quality and the production efficiency. The total registered capital for the joint venture project amounted to US\$1,500,000 and 49% of the equity is held by Zhongda International. According to its shareholding ratio, the Group's initial investment in the joint venture project is approximately US\$700,000.

Zhongda International has entered into an agreement with Jiangsu Jinling Transportation Group Limited in March 2004 to set up a joint-venture enterprise engaging in the production and sales of double-deck bus for urban transportation in the PRC. The joint-venture company was officially established on 12th August 2004 and the total investment from Zhongda International was approximately RMB32,000,000. Investing in the production of double-deck bus was an important arrangement for Zhongda International in extending its business from the automobile maintenance industry to the automobile



manufacturing industry. The Group intends to strategically extend gradually to the downstream automobile manufacturing industry in coordination with its automobile service and production equipment, so that a group which conducts a complete set of automobile business can be formed. The joint-venture enterprise will commence its technological improvement in September, which is expected to be completed in March 2005. At that time, the production capacity will reach 2,000 buses per year and the joint venture project will become one of the largest double-deck buses manufacturing enterprises in Asia.

The Group has also set up Yancheng Ao Shen Industrial Equipment Manufacture Limited in April this year, which is a wholly-owned subsidiary of the Group. It is principally engaged in the production and sales of lift machines.

FINANCIAL REVIEW

For the six months ended 30th June, 2004, the Group's turnover was approximately RMB110,511,000 representing an increase of 3.15% as compared with the corresponding period in 2003. The Group's net profits attributable to shareholders amounted to approximately RMB6,855,000 (six months ended 30th June, 2003: RMB7,532,000) representing a decrease of 8.99% when compared with the corresponding period in 2003.

During the period under review, the basic earnings per share decreased by 0.11 times to RMB0.017 (six months ended 30th June, 2003: RMB0.019).

INTERIM DIVIDEND

The Directors resolved not to declare any interim dividend for the six months ended 30th June, 2004 (six months ended 30th June, 2003: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June, 2004, the shareholders' funds of the Group amounted to RMB161,392,000 (31st December, 2003: RMB154,507,000).

As at 30th June, 2004, the Group had bank balances and cash of RMB51,391,000 (31st December, 2003: RMB45,803,000). The Group's bank loans amounted to RMB96,900,000 (31st December, 2003: RMB65,900,000). The increase in bank loans is for the finance of the investment projects in Yancheng Economic Development Zone.

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, 2004, the debt to equity ratio of the Group was 60% (31st December, 2003: 42.7%). 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, 2004, the Group had no material contingent liabilities.

MATERIAL ACQUISITIONS AND DISPOSALS

The Group has signed an agreement in March 2004 with Jiangsu Jinling Transportation Group Limited on the formation of a joint venture company to undertake the manufacturing of buses in Nanjing China. The joint venture was formally formed in August 2004.

The Group has signed an agreement in April 2004 with Ceccato and Simest (2 Italian companies) on the formation of Yancheng Zhongda Ceccato Washing Systems Co. Ltd. The joint venture will undertake the production and sales of vehicle washing machines.

The Group has also formed a wholly-owned subsidiary Yancheng Ao Shen Industrial Equipment Manufacture Limited to undertake the production and sales of vehicle lifters.

Save as disclosed, there was no other material acquisitions and disposals of subsidiaries and associated companies during the six months ended 30th June, 2004.

CHARGES ON ASSETS

The Group's bank borrowings were secured by a charge on bank deposits of RMB Nil (31st December, 2003: Nil) and certain land use rights and buildings held by the Group with a total book value of RMB29,637,000 (31st December, 2003: RMB30,623,000) as well as corporate guarantee given by a subsidiary of the Company.

PROSPECT

In the second half of the year, Zhongda International will expedite the development of its testing equipment business of the automobile repair products. On the other hand, upon consolidating its basis of the testing equipment business of automobile repairing, the Group will gradually increase its investment in equipment for automobile use, such as car washing machines.

Automobile manufacturing business will be another major business of the Group. With the development of the domestic transportation networks and the urban transportation becoming increasingly busy, the demand for double-deck buses, the major transportation vehicles, will have an enormous potential for growth.



One piece of the Group's land in Jiangsu Yancheng Economic Development Zone is used as a car washing machine producing factory. The topping-out of the superstructure work has been completed and production is expected to commence at the end of the year. The other piece of land was used for the workshop of car coating and the construction of the relevant facilities has been completed. The third piece of land will be used as an exhibition hall of the products and is now under planning stage. The development of the fourth piece of land is temporarily postponed and a short-term tenancy agreement has been signed in July this year.

Furthermore, the Group is committed to upgrading the management to the international level, allocating resources efficiently and recruiting international talents. At the same time, in order to retain its leading position in the automobile maintenance industry and the automobile manufacturing industry, the Group is also committed to improving its quality in all aspects and looking for co-operation opportunities with enterprises funded by foreign investments in terms of capital, management, technology and human resources.

EMPLOYEE REMUNERATION POLICIES

As at 30th June, 2004, the Group employed 900 (31st December, 2003: 898) 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 (the "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. The Scheme was refreshed by an ordinary resolution passed in the Annual General Meeting held on 24th June 2004 to authorise the directors to grant further options under the Scheme provided that the total number of shares which may be issued upon exercise of options to be granted under the Scheme on or after 24th June 2004 shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at 24th June 2004. As of 30th June, 2003, no share option has been granted since the adoption of the share option scheme. Other than those 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, 2004, 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 interest	
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 chief executives 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, 2004.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 30th June, 2004, 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 issue 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	39,576,000 ⁽³⁾	9.9%



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 17 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, 2004, 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, 2004.

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, 2004.

By order of the Board
Xu Lian Guo
Chairman

Yancheng, China, 27th August, 2004

As at the date of this report, the board of Directors comprises of:

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
Mr. Li Xin Zhong