

# Report of the Directors

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The directors are pleased to present their annual report and the audited financial statements for the year ended 31 December 2004.

## PRINCIPAL ACTIVITIES

The principal activities of Zhongda International Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) are the development, manufacturing and sales of automobile equipment and buses and provision of industrial surface treatment engineering equipment. The activities of its subsidiaries are set out in note 18 to the financial statements.

## RESULTS AND APPROPRIATIONS

The state of affairs of the Group and the Company at 31 December 2004 and the results and cash flow of the Group for the year then ended are set out in the financial statements on pages 21 to 57.

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 58 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 28 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 29 to the financial statements.

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## DIRECTORS

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

### Executive directors

Xu Lian Guo (Chairman)

Xu Lian Kuan

Zhang Yuqing

### Independent non-executive directors

Gu Yao Tian

Chan Wai Dune

Li Xin Zhong (appointed on 15 March 2004)

In accordance with Bye-Law 87 of the Company's Bye-Laws, Mr. Xu Lian Guo and Mr. Gu Yao Tian retires by rotation and being eligible, offer themselves 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).

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

### Long positions in shares of the Company

As of 31 December 2004, the interests of the directors, chief executive of the Company or their associates 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 Limited (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	Number of ordinary shares			% of issued share capital
	Personal interests	Corporate interests	Total	
Xu Lian Guo (Note)	–	234,720,000	234,720,000	58.7%
Xu Lian Kuan (Note)	–	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.

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Other than as disclosed above, as at 31 December 2004, none of the directors or chief executive 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.

## Shares in a subsidiary

At 31 December 2004, the following directors held interests in the shares of Zhongda Automobile Machinery Manufacture Co., Ltd, a 86.7% owned subsidiary of the Company as follows:

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

*Note:* These equity interests 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 adopted a share option scheme on 8 October 2001 (refreshed on 24 June 2004), under which the directors may, at their discretion, invite any executive and/or employee of the Company and/or its subsidiaries ("Eligible Person") 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 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 Exchange's daily quotations sheets for the five business days immediately preceding the date of grant, and (iii) the par value of the shares.

The total number of shares which may be issued, upon exercise of all options to be granted under this scheme and any other scheme (if any), shall not in aggregate exceed 10% of the shares in issue at 24 June 2004 (the date of refreshment of the Share Option Scheme). On the basis of 400,004,000 shares in issue at 24 June 2004, the maximum number of shares which may fall to be issued upon exercise of all options that may be granted by the Company under the refreshed limit would be 40,000,400 shares.

The total number of shares issued and to be issued upon the exercise of options granted or to be granted to each Eligible Person (including both exercised and outstanding options) in any 12-month period up to and including the date of grant shall not exceed 1% of the shares in issue.

Offers of options shall be open for acceptance in writing (nil consideration) received by the secretary of the Company until 5:00pm on the date specified in the offer provided that an offer shall not be open for acceptance after the 10th anniversary of 8 October 2001, or after the Share Option Scheme has been terminated in accordance with the provisions of the Share Option Scheme.

During the year ended 31 December 2004, no share option was granted, exercised, lapsed or cancelled. No option was outstanding as at 31 December 2004.

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## 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, or any of its subsidiaries and fellow 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.

## 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 31 December 2004, 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:

	RMB'000
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%:

	RMB'000
Purchases of products	12,691
Sales of products and raw materials	2,902

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

	RMB'000
Sales of products	14,530
Sales of raw materials	2,127

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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.

## SUBSTANTIAL SHAREHOLDERS

In addition to the interests disclosed under the section “Directors’ and chief executive’s interest in shares” above, as at 31 December 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 of the Company:

### Long positions in shares of the Company

Name of shareholder	Number of Shares	% of issued share capital
Shum Yip (Holdings) Company Limited (Note)	39,576,000	9.9%

#### 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 31 December 2004.

## 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 31 December 2004 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules. On 1 January 2005, the Code of Best Practice was replaced by the Code on Corporate Governance Practices. Compliance with the new Code has been effective in the year beginning 1 January 2005.

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## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Model Code (Appendix 10) of the Listing Rules. Having made specific enquiry of all directors, all directors confirmed that they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding securities transactions by directors.

## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the independent non-executive directors are independent.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2004, 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 31 December 2004 are set out in note 27 to the financial statements.

## PUBLIC FLOAT

To the best information and behalf of the Directors, at least 25% of the Company's total issued share capital was held by the public at all times during the period under review.

## AUDITORS

The accounts for the year ended 31 December 2002 were audited by PricewaterhouseCoopers. In 2003, PricewaterhouseCoopers resigned and Messrs. KLL Associates CPA Limited was appointed as auditors of the Company.

The accounts for the years ended 31 December 2003 and 2004 have been audited by Messrs. KLL Associates CPA Limited who retire and, being eligible, offer themselves for reappointment at the forthcoming annual general meeting.

On behalf of the Board  
**Xu Lian Guo**  
CHAIRMAN

20 April 2005