

The directors of the board (the "Directors") of Zhongda International Holdings Limited (the "Company") are pleased to present the report of the directors and the audited consolidated financial statements for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The principal activities of 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 40 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The state of affairs of the Group at 31 December 2005 and the results and cash flow of the Group for the year then ended are set out in the consolidated financial statements on pages 26 to 30.

The Directors do not recommend the payment of a dividend for the year.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 76 of the annual report.

PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION- IN-PROGRESS

Details of movements during the year in the property, plant and equipment and construction-in-progress of the Group are set out in note 18 to the consolidated 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 31 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group during the year are set out on page 28.

DIRECTORS

The Directors during the year and up to the date of this report are:

Executive directors

Xu Lian Guo (*Chairman*)

Xu Lian Kuan (*Vice-chairman and Chief Executive Officer*)

Zhang Yuqing (*Vice-chairman*)

Independent non-executive directors

Gu Yao Tian

Chan Wai Dune

Li Xin Zhong

In accordance with clause 87 of the Company's bye-laws, Mr. Xu Lian Kuan and Mr. Chan Wai Dune shall retire by rotation and being eligible, offer themselves for re-election in the forthcoming annual general meeting. Mr. Chan Wai Dune will retire as an independent non-executive director of the Company and will not seek for re-election at the forthcoming AGM.

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 2005, 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 registered 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 Exchange (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.

Other than as disclosed above, as at 31 December 2005, 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 2005, 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:

	Proportion of equity interests held
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 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 10 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 2005, no share option was granted, exercised, lapsed or cancelled. No option was outstanding as at 31 December 2005.

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.

DIRECTORS' INTEREST IN COMPETING BUSINESS

During the year, none of the directors have an interest in any business constituting the competing business to the Group.

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**

Details of connected transactions entered into by the Group during the year are set out in note 32 to the consolidated financial statements.

**SUBSTANTIAL
SHAREHOLDERS**

In addition to the interests disclosed under the section "Directors' and chief executive's interest in shares" above, as at 31 December 2005, 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 2005.

**EMPLOYEE
REMUNERATION
POLICIES**

As at 31 December 2005, the Group employed a total of 912 (2004: 1,200) full time 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.

**COMPLIANCE
WITH THE CODE
OF BEST
PRACTICE**

The Company has complied with the Code on Corporate Governance Practices as set out in the Appendix 14 of the Listing Rules with effective from the accounting periods from 1 January 2005. A Corporate Governance Report for the financial year ended 31 December 2005 is prepared in accordance with Appendix 15 of the Listing Rules and set out on page 20 to 23 of the 2005 annual report of the Company.

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 the independent non-executive directors are independent.

AUDIT COMMITTEE

The Company established an audit committee on 8 October 2001 with terms of reference in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules. 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 Group's annual results for the year ended 31 December 2005 in conjunction with the Company's external auditors. The audit committee has three members comprising the three independent non-executive directors, namely Mr. Chan Wai Dune, Mr. Gu Yao Tian and Mr. Li Xin Zhong. Mr. Chan Wai Dune is the chairman of the audit committee.

REMUNERATION COMMITTEE

The Company established a remuneration committee on 1 January 2005 with the terms of reference in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to review and make recommendation for the remuneration policy of the directors and senior management. The remuneration committee comprises two independent non-executive directors, Mr. Gu Yao Tian and Mr. Li Xin Zhong, and one executive director, Mr. Zhang Yuqing. Mr. Gu Yao Tian is the chairman of the remuneration committee.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2005, 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 borrowings at 31 December 2005 are set out in note 30 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for the 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 the existing shareholders.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor its subsidiaries had purchased, sold and redeemed any of the Company's listed securities during the year ended 31 December 2005.

PUBLIC FLOAT

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

AUDITORS

Messrs. PricewaterhouseCoopers, who acted as auditors of the Company for the year ended 31 December 2002, resigned on 12 December 2003 and Messrs. KLL Associates CPA Limited were appointed as auditors of the Company on 9 January 2004 to fill the casual vacancy following the resignation of Messrs. PricewaterhouseCoopers.

During the year, Messrs. KLL Associates CPA Limited, who acted as auditors of the Company for the years ended 31 December 2003 and 2004, resigned on 11 November 2005 and Messrs. ShineWing (HK) CPA Limited were appointed on 11 November 2005 to fill the casual vacancy following the resignation of KLL Associates CPA Limited.

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. ShineWing (HK) CPA Limited as auditors of the Company.

On behalf of the Board

Xu Lian Guo

CHAIRMAN

Hong Kong, 21 August 2006