



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

(incorporated in Bermuda with limited liability)  
(stock code: 909)



Interim Report

2006



## INTERIM RESULTS (UNAUDITED)

The board of directors (the “Directors”) of Zhongda International Holdings Limited (the “Company”) is pleased to present the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2006 together with the comparative figures for the corresponding period of 2005. The unaudited consolidated results of the Group for the six months ended 30th June, 2006 have not been reviewed by the Company’s auditor but have been reviewed by the audit committee of the Company.

## CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

		Six months ended 30th June,	
		2006	2005
		(Unaudited)	(Unaudited)
		RMB'000	RMB'000
Turnover	3	88,635	104,623
Cost of sales		(59,998)	(70,319)
Gross profit		28,637	34,304
Other revenue		3,017	3,367
Distribution costs		(8,337)	(8,458)
Administrative and other operating expenses		(10,917)	(16,044)
Profit from operations		12,400	13,169
Finance costs		(3,071)	(3,493)
Profit before taxation	5	9,329	9,676
Taxation	6	(2,592)	(2,200)
Net Profit for the period		6,737	7,476
Attributable to:			
Equity holders of the Company		6,185	7,429
Minority interests		552	47
		6,737	7,476
Dividends	7	-	-
Earnings per share	8		
– Basic		RMB0.015	RMB0.019
– Diluted		N/A	N/A



## CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30TH JUNE, 2006

		30th June, 2006 (Unaudited) RMB'000	31st December, 2005 (Audited) RMB'000
	<i>Notes</i>		
<b>Non-current assets</b>			
Property, plant and equipment and construction-in-progress		121,843	122,973
Prepaid lease payments on land use rights		52,660	53,199
Prepayment for an investment in an associate		1,087	1,087
Available-for-sale investments		900	900
Deferred tax assets		15,468	16,224
		<b>191,958</b>	<b>194,383</b>
<b>Current assets</b>			
Inventories		40,326	36,455
Trade receivables	9	120,687	101,552
Prepayments and other receivables		23,869	9,159
Prepaid lease payments on land use rights		1,136	772
Amounts due from related companies	11	2,533	14,676
Cash and bank balances		27,766	4,566
		<b>216,317</b>	<b>167,180</b>





		<b>30th June, 2006 (Unaudited) RMB'000</b>	31st December, 2005 (Audited) RMB'000
	<i>Notes</i>		
<b>Current liabilities</b>			
Trade payables	10	30,969	33,526
Advance receipt from customers		11,713	2,373
Other payables and accruals		46,890	40,963
Amounts due to related companies		2,958	406
Amounts due to directors		5,762	4,584
Taxes payable		13,557	14,284
Bank loans – due within one year		128,900	77,430
		<b>240,749</b>	<b>173,566</b>
<b>Net current liabilities</b>		<b>(24,432)</b>	<b>(6,386)</b>
<b>Total assets less current liabilities</b>		<b>167,526</b>	<b>187,997</b>
<b>Non-current liabilities</b>			
Bank loans – due after one year		–	27,070
		<b>167,526</b>	<b>160,927</b>
<b>Capital and Reserves:</b>			
Share capital		42,386	42,386
Reserves		106,158	100,111
Equity attributable to equity holders of the Company		<b>148,544</b>	<b>142,497</b>
Minority interests		18,982	18,430
		<b>167,526</b>	<b>160,927</b>



**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED 30TH JUNE, 2006**

	Six months ended 30th June, 2006 (Unaudited)								
	Enterprise						Total	Minority interests	Total Equity
	Share capital	Share premium	Reserve fund	expansion fund	Exchange reserve	Accumulated profits			
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Balances as at									
1st January, 2006	42,386	17,073	2,720	2,720	(441)	78,039	142,497	18,430	160,927
Net profit for the period	-	43	-	-	(181)	6,185	6,047	552	6,599
Balances as at									
30th June, 2006	42,386	17,116	2,720	2,720	(622)	84,224	148,544	18,982	167,526

	Six months ended 30th June, 2005 (Unaudited)								
	Enterprise						Total	Minority interests	Total Equity
	Share capital	Share premium	Reserve fund	expansion fund	Exchange reserve	Accumulated profits			
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Balances as at									
1st January, 2005	42,386	17,073	2,720	2,720	(25)	102,434	167,308	24,594	191,902
Net profit for the period	-	-	-	-	-	7,429	7,429	47	7,476
Balances as at									
30th June, 2005	42,386	17,073	2,720	2,720	(25)	109,863	174,737	24,641	199,378



**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**  
**FOR THE SIX MONTHS ENDED 30TH JUNE, 2006**

	<b>Six months ended 30th June,</b>	
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Unaudited)
	<b>RMB'000</b>	RMB'000
Net cash generated from operating activities	<b>(497)</b>	2,226
Net cash used in investing activities	<b>(703)</b>	(2,064)
Net cash generated from financing activities	<b>24,400</b>	350
Net increase in cash and cash equivalents	<b>23,200</b>	512
Cash and cash equivalents, beginning of period	<b>4,566</b>	31,830
Cash and cash equivalents, end of period	<b>27,766</b>	32,342
Analysis of the components of cash and cash equivalents:		
Cash and bank balances	<b>27,766</b>	32,342



**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 30TH JUNE, 2006**

**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 condensed financial statements have been prepared in accordance with the Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by Hong Kong Institute of Certified Public Accountants ("HKICPA").

The accounting policies used in the condensed financial statements are consistent with those adopted in the preparation of the Group's annual financial statements for the year ended 31st December, 2005.

**3. TURNOVER**

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

	<b>Six months ended 30th June,</b>	
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Unaudited)
	<b>RMB'000</b>	RMB'000
Sales of goods	<b>67,881</b>	92,320
Revenue from construction contracts	<b>20,754</b>	12,303
Total turnover	<b>88,635</b>	104,623





#### 4. SEGMENT INFORMATION

For management purposes, the Group is currently organised into two operating divisions – automobile equipment and bus. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

- Automobile equipment – manufacture and sale of automobile equipment
- Bus – manufacture and sale of buses

Segment information about these businesses is presented below:

	Automobile equipment		Bus		Total	
	2006 (Unaudited) RMB'000	2005 (Unaudited) RMB'000	2006 (Unaudited) RMB'000	2005 (Unaudited) RMB'000	2006 (Unaudited) RMB'000	2005 (Unaudited) RMB'000
	<b>Six months ended 30th June,</b>					
REVENUE						
External sales	88,635	88,216	–	16,407	88,635	104,623
RESULTS						
Segment results	11,362	17,363	246	(3,388)	11,608	13,975
Interest income and unallocated income					3,017	3,367
Unallocated corporate expenses					(2,225)	(4,173)
Profit from operations					12,400	13,169
Finance costs					(3,071)	(3,493)
Profit before taxation					9,329	9,676
Taxation					(2,592)	(2,200)
Profit for the period					6,737	7,476





## 5. PROFIT BEFORE TAXATION

Profit before taxation is determined after charging the followings:

	Six months ended 30th June,	
	2006	2005
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Depreciation	1,833	3,617
Amortisation on lease payments on land use rights	175	526
Interest expense on bank borrowings	3,071	3,493
Operating leases in respect of rented premises	600	–
Staff costs	6,889	8,640

## 6. TAXATION

	Six months ended 30th June,	
	2006	2005
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current income taxes		
– Hong Kong	–	–
– PRC	2,592	3,320
Deferred taxation		
– PRC income taxes	–	(1,120)
	2,592	2,200

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

The subsidiaries of the Group established in the PRC are subject to the Enterprise Income Tax ("EIT") at a rate of 24% and are entitled to full exemption from EIT for the first two years and a 50% reduction for the next three years, commencing from the first profitable year.

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



**7. DIVIDENDS**

The directors have resolved not to declare any interim dividend for the six months ended 30th June, 2006 (six months ended 30th June, 2005: nil)

**8. EARNINGS PER SHARE**

The calculation of basic earnings per share was based on the profit of the Group attributable to equity holders of the Company of approximately RMB6,185,000 (six months ended 30th June, 2005: RMB7,429,000) and the weighted average number of 400,004,000 shares (six months ended 30th June, 2005: 400,004,000 shares) in issue during the period.

As the outstanding potential ordinary shares are anti-dilutive for both six months ended 30th June, 2006 and 2005, no diluted earnings per share is presented.

**9. TRADE RECEIVABLES**

	<b>30th June, 2006 (Unaudited) RMB'000</b>	31st December, 2005 (Audited) RMB'000
Accounts receivable	<b>168,435</b>	149,903
Less: Provision for doubtful debts	<b>(48,502)</b>	(48,502)
	<b>119,933</b>	101,401
Bills receivable	<b>754</b>	151
	<b>120,687</b>	101,552

Trade receivables, 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 of trade receivables after provision for doubtful debts is as follows:

	<b>30th June, 2006 (Unaudited) RMB'000</b>	31st December, 2005 (Audited) RMB'000
Within six months	50,366	39,407
Between seven to twelve months	33,891	27,337
Between one to two years	30,332	24,466
More than two years	234	189
	<b>114,823</b>	91,399
Retention receivable	5,110	10,002
	<b>119,933</b>	<b>101,401</b>

#### 10. TRADE PAYABLES

Ageing analysis of trade payables is as follows:

	<b>30th June, 2006 (Unaudited) RMB'000</b>	31st December, 2005 (Audited) RMB'000
Within one year	10,192	11,727
Between one to two years	4,179	12,723
Between two to three years	12,071	2,707
More than three years	4,527	6,369
	<b>30,969</b>	<b>33,526</b>





## 11. RELATED PARTY TRANSACTIONS

During the period, the Group has transactions with related parties as follows:

	<b>Six months ended 30th June,</b>	
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Unaudited)
	<b>RMB'000</b>	RMB'000
Transactions with Zhongda Industrial Group Corporation		
– Service fee (a)	375	375
– Patent fee (b)	100	100
– Trademark fee (c)	75	75
– Rental of office premises (d)	50	50
Transaction with Yancheng Celette Body Repairing Equipment Co. Ltd (“Yancheng Celette”) <sup>1</sup>		
– Purchase of products (e)	3,961	4,580
– Sales of products and raw materials (f)	432	1,416
Transactions with Yancheng Zhongwei Bus		
– Sales of products and raw materials (e & f)	69	19
– Land rental income (g)	498	500
Transactions with Jiangsu Jinling Transportation Group Co., Limited		
– Rental income from property, plant and equipment (h)	400	–

<sup>1</sup> Xu Lian Kuang is a common director.

Moreover, Zhongwei Bus has issued a corporate guarantee to a bank to secure the bank loan of a subsidiary of the Company amounting to RMB23,000,000 (2005: RMB23,000,000).

Details and terms of transaction with the above related party are as follows:

- (a) 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 fixed by the National Price Bureau for any such services. The agreement is for a term of ten years commencing from 31st August, 2001.

- (b) 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.
- (c) 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.
- (d) 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.
- (e) Purchases from Yancheng Celette and sales to Zhongwei Bus were at the prevailing market price.
- (f) The sales prices were determined based on the actual cost of production plus a profit margin ranging from approximately 0-5% in respect of sales of raw materials to Yancheng Celette and Zhongwei Bus.
- (g) Pursuant to a rental agreement, rental of land is charge at a rate of RMB83,000 per month for a period of three years commencing from 12th July 2004.
- (h) Pursuant to a rental agreement, the rental of equipment and machinery is charge at a rate of RMB800,000 per annum commencing from 1st January 2005.

The directors of the Group (including independent non-executive directors) are of the opinion that the above related party transactions were made (i) in the normal course of business of the Group; (ii) on usual commercial terms or terms fair and reasonable to the shareholders of the Group; (iii) pursuant to the terms of agreements governing such transactions or terms not less favorable to third parties; and (iv) subject to the relevant upper limit set forth by the Stock Exchange.





**Amounts due from related companies**

	<b>30th June, 2006 (Unaudited)  RMB'000</b>	31st December, 2005 (Audited)  RMB'000	Maximum amounts owed to the Group during the year  RMB'000
Yancheng Zhongwei Bus Manufacturing Co., Ltd. ("Zhongwei Bus") <sup>1</sup>	967	2,504	2,504
Yancheng Zonda Automobile Service Co., Ltd. <sup>2</sup>	42	45	45
Yancheng Zonda Steel Structure Engineering Co., Ltd. <sup>3</sup>	145	145	145
Zhongda Industrial Group Corporation <sup>4</sup>	–	8,863	8,863
Jingsu Jinling Transportation Group Co., Ltd. <sup>5</sup>	1,333	3,119	3,119
Yaucheng Celette Body Repairing Equipment Co. Ltd. <sup>6</sup>	46	–	46
	<b>2,533</b>	<b>14,676</b>	

<sup>1</sup> Xu Lian Kuan and Zhang Yuqing are the common directors.

<sup>2</sup> It is a subsidiary of Zhongda Industrial Group Corporation.

<sup>3</sup> Xu Lian Guo is the common director.

<sup>4</sup> Xu Lian Guo, Xu Lian Kuan and Zhang Yuqing are the common directors.

<sup>5</sup> It is a shareholder of a subsidiary of the Company.

<sup>6</sup> Xu Lian Kuan is the common director.

The amounts are unsecured, interest-free and repayable on demand.

The fair values of the Group's amounts due from related companies at 30th June 2006 were approximate to the corresponding carrying amounts.



## 12. CAPITAL COMMITMENTS

At the balance sheet date, the Group had capital expenditure commitments as follows:

	<b>30th June, 2006 (Unaudited) RMB'000</b>	31st December, 2005 (Audited) RMB'000
Contracted but not provided for in the consolidated financial statements:		
– acquisition of land use rights and buildings	<b>46,153</b>	46,153
– capital contribution on investment in an associate	<b>4,927</b>	4,927
– capital contribution on investment in a subsidiary	<b>9,206</b>	9,206
	<b>60,286</b>	60,286

## 13. COMPARATIVE FIGURES

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





## BUSINESS REVIEW

### **Automobile Maintenance Equipment Business**

For the first half of 2006, the Group's automobile maintenance equipment business recorded an increase by 0.5%, a slight improvement over the corresponding period last year. The turnover of surface engineering business grew 68.7% over the same period last year. In response to market demand, the Group reengineered some products which have lower demand in market and lower profit margins. Accordingly, the turnover of other automobile maintenance equipment businesses dropped slightly. However, the Group continued to allocate resources to strengthen product research and development and released several new high value-added products such as integrated inspection equipment and safety inspection equipment. The market response for these products has been encouraging. Consequently, the overall gross profit margin for the products can be maintained at 32.3%.

During the first half year, the export sales of the Group were approximately RMB16,449,000, accounting for approximately 18.6% of the total turnover. The Group mainly exported lifters and lacquer rooms in 2006. Its products are mainly sold through distributors. There are altogether three distributors located in the eastern, central and western parts of the United States. On the other hand, the Group further expanded its overseas markets. Products were sold to new markets including the Middle East and Russia.

### **Coach Business**

Zhongda Jinling was actively carrying out various upgrading works and application for production permits, and therefore unable to make any income contribution for the Group during the period. The Group upgraded the technologies of Zhongda Jinling, planning to expand its annual production capacity from 500 units to 2,000 units. The project is expected to be completed by the end of 2006.

For the six months ended 30th June 2005, Zhongda Emei was an operating subsidiary of the Group's coach business, but the operation and financial position of this joint venture, however, have been unsatisfactory, the Group has not injected the outstanding balance of its investment into the joint venture. On 20th July 2006, the joint venture party filed a litigation requesting to terminate the joint venture agreement. After seeking legal opinion and upon consideration, the Group has decided that, while a provision was made for the full amount of RMB5,000,000 in the account in 2005, it will not inject the outstanding balance of investment of RMB11,000,000 into Zhongda Emei. Therefore, for the six months ended 30th June 2006, the consolidated account of the Group no longer included the account of Zhongda Emei. According to the analysis of its legal advisor, such litigation shall not cause further material loss to the Group. The Group is currently arranging negotiation with the joint venture party to arrive at an acceptable settlement proposal. Please refer to the Group's announcement dated 1st August 2006 for details of the litigation.





## FINANCIAL REVIEW

For the six months ended 30th June 2006, the Group's turnover was approximately RMB88,635,000, representing a decrease of 15.3% as compared with the corresponding period in 2005. The Group's profits attributable to shareholders amounted to approximately RMB6,185,000 (six months ended 30th June 2005: RMB7,429,000) representing a decrease of 16.7% when compared with the corresponding period in 2005.

During the period under review, the basic earnings per share was RMB0.015 (six months ended 30th June 2005: RMB0.019).

## INTERIM DIVIDEND

The Directors have resolved not to declare any interim dividend for the six months ended 30th June 2006 (six months ended 30th June 2005: nil).

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2006, the net asset value of the Group amounted to RMB167,526,000 (31st December 2005: RMB160,927,000). As at 30th June 2006, the Group had bank balances and cash of RMB27,766,000 (31st December 2005: RMB4,566,000). The Group's bank loans amounted to RMB128,900,000 (31st December 2005: RMB104,500,000).

The Group's revenue and borrowings were mainly denominated in Renminbi. Accordingly, there was no significant exposure to foreign exchange rates fluctuation.

As at 30th June, 2006, the bank loans to net asset value of the Group was 76.9% (31st December, 2005: 64.9%).

## CONTINGENT LIABILITIES

As at 30th June, 2006, the Group had contingent liabilities not provided for in the consolidated financial statements in respect of unpaid capital contribution and default payment calculated pursuant to the contract in respect of the deemed disposal of a subsidiary amounting to RMB12,123,000 (31st December 2005: RMB 12,123,000). According to a legal opinion obtained on 26th July 2006, the directors are of the opinion that no provision is required in respect of this litigation.





## MATERIAL ACQUISITIONS AND DISPOSALS

There were no material acquisitions and disposals of subsidiaries and associated companies during the six months ended 30th June, 2006.

## CHARGES ON ASSETS

The Group's bank borrowings were secured by a charge on certain land use rights and buildings held by the Group with a total book value of approximately RMB67,369,000 (31st December, 2005: RMB29,947,000).

## PROSPECT

In 2006, the development of the PRC automobile market will remain steady, and it is expected that the increase in imported automobiles will help generate demand for automobile maintenance equipments. Beijing and Shanghai are going to hold the Olympics and the World Exposition respectively. These large-scale international events will effectively promote market demand for transportation vehicles. We expect that in order to cope with the traffic to be generated by the aforesaid activities, Beijing and Shanghai will need to build 1,000 and 500 "express service centres" respectively so as to provide inspection and maintenance services for various types of vehicles. The Group will provide professional equipment for the emerging "express service centers" to adapt to this market trend and explore the possibility of setting up its own express service centers.

With the tightening of vehicle emission restriction, extension of highway coverage and increase in long distance traffic flow, there will be huge market potential for double-deckers and longhaul coaches in China. The Group is committed to strengthening the business models and management operations of its joint ventures by adopting the market-oriented approach for the development of these enterprises.

In addition, the Group will expand the after-sales product range for vehicles by, for example, boosting the production of car washing machines for commercial launching into the market, increasing the target sales volume for inspection machines, developing new types of lacquer rooms and maximizing the sales of surface treatment lines.

Looking forward, the Group expects to achieve better sales, profitability and management results.

## EMPLOYEE AND REMUNERATION POLICY

As at 30th June, 2006, the Group employed a total of 903 (31st December, 2005: 912) full-time staff.

The Group's employee and remuneration policy is mainly determined in accordance with industry practice and personal performance, qualification and experience. Discretionary bonuses and share options may be granted to qualified employees with reference to the performances of the Group and individual staff. The Group also provides other benefits such as medical and statutory retirement protection to its directors and staff.



## 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 at the Annual General Meeting held on 22nd September, 2006 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, 2006, no share option has been granted since the adoption of the share option scheme. Other than disclosed above, at no time during the six months ended 30 June, 2006 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, 2006, 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
	Personal interests	Corporate interests	issued share capital of the Company
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%

Note 1: These shares were 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 owned 57.22% and 42.78% of its issued share capital respectively.

Other than disclosed above, none of the directors or their associates had any personal, family, corporate or other interest or short positions in the shares of the Company or any of its associated corporations as defined in the SFO as of 30th June, 2006.





## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 30th June, 2006, 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	Number of shares	% of issued share capital
Shum Yip (Holdings) Company Limited ( <i>Note</i> )	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.

Save 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 30th June, 2006.

## DIRECTORS' INTERESTS IN CONTRACTS

Except for the contracts of significance disclosed above and in Note 11 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, 2006, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

## AUDIT COMMITTEE

The Company set up the Audit Committee in accordance with the code provisions set out in the Code on Corporate Governance Practices contained 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 interim report for the six months ended 30th June, 2006.



## CORPORATE GOVERNANCE

During the six months period ended 30th June 2006, the Company has complied with the provisions of “Code on Corporate Governance Practices” as set out in Appendix 14 of the Listing Rules. The Company has made specific enquiry to all directors on the securities transactions conducted by the directors and confirmed that all directors have complied with the standards of the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules.

By order of the Board  
**Xu Lian Guo**  
*Chairman*

Yancheng, China, 29th September, 2006

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. Kwok Ming Fai  
Mr. Li Xin Zhong

