

Report of the Directors

The board of directors (the "Board") of Zhongda International Holdings Limited (the "Company") are pleased to present the report of the directors of the Company and the audited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the subsidiaries 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 39 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The state of affairs of the Group at 31 December 2006 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 31.

DIVIDEND

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 16 to the consolidated financial statements.

SHARE CAPITAL AND WARRANTS

Details of movements during the year in the share capital and 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 29.

Report of the Directors

DIRECTORS

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

Executive directors

Mr. Xu Lian Guo (*Chairman*)

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

Mr. Zhang Yuqing (*Vice-chairman*)

Mr. Kwok Ming Fai (appointed as independent non-executive director on 22 September 2006, and redesignated as executive director on 9 November 2006)

Independent non-executive directors

Mr. Gu Yao Tian

Mr. Li Xin Zhong

Mr. Sun Ka Ziang Henry (appointed on 9 November 2006)

Mr. Chan Wai Dune (resigned on 22 September 2006)

In accordance with bye-law 86(2) of the Company's bye-laws, Mr. Kwok Ming Fai and Mr. Sun Ka Ziang Henry shall retire and being eligible, offer themselves for re-election at the forthcoming annual general meeting. In accordance with bye-law 87 of the Company's bye-laws, Mr. Zhang Yuqing and Mr. Li Xin Zhong shall retire by rotation and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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).

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and considers all the independent non-executive directors are independent to the Company.

Report of the Directors

DIRECTORS' INTEREST IN THE SHARE CAPITAL

Long positions in shares of the Company

As at 31 December 2006, 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 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 Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, were as follows:

| Name of directors | Personal interests | Number of ordinary shares | | % of issued share capital |
|---------------------|--------------------|---------------------------|-------------|---------------------------|
| | | 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 and Thousand Riches Limited, both companies are beneficially owned as to 57.22% and 42.78% by Mr. Xu Lian Guo and Mr. Xu Lian Kuan respectively.

Save as disclosed, as at 31 December 2006, 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

As at 31 December 2006, 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.

Report of the Directors

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 limited 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 5:00 pm 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 2006, no share option was granted, exercised, lapsed or cancelled. No option was outstanding as at 31 December 2006.

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.

Report of the Directors

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

As at 31 December 2006, the following persons had interests in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Long position in shares of the Company

| Name of shareholder | Capacity | Notes | Number of issued ordinary shares held | Percentage of issued share capital |
|-----------------------------------|---|-------|---------------------------------------|------------------------------------|
| Zhong Da (BVI) Limited | Beneficial owner | 1, 2 | 204,004,000 | 51.0% |
| Thousand Riches Limited | Beneficial owner | 1 | 30,716,000 | 7.7% |
| Shum Yip Holdings Company Limited | Beneficial owner | | 39,576,000 | 9.9% |
| Tanrich Finance Limited | Person having a security interest in shares | 2, 3 | 204,004,000 | 51.0% |

Notes:

1. Zhong Da (BVI) Limited and Thousand Riches Limited are beneficially owned as to 57.22% and 42.78% by Mr. Xu Lian Guo and Mr. Xu Lian Kuan respectively.
2. A charge of the 204,000,000 shares has been created by Zhong Da (BVI) Limited in favour of Tanrich Finance Limited, a wholly-owned subsidiary of Tanrich Financial Holdings Limited, for a short-term financing loan.
3. By virtue of the interests in the 204,000,000 shares in relation to which Mr. Yip Man Fan has a duty of disclosure under the SFO in the issued share capital of the Company as disclosed in note (2) above, Mr. Yip is taken to have a duty of disclosure in relation to the such shares under the SFO.

Report of the Directors

Save as disclosed, as at 31 December 2006, according to the records required to be kept by the Company under section 336 of the SFO, there was no person (except for directors and chief executives of the Company) who had any interest or short positions in the shares or underlying shares of the Company.

EMPLOYEE REMUNERATION POLICIES

As at 31 December 2006, the Group employed a total of 1,200 (2005: 912) 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.

CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in the Appendix 14 of the Listing Rules during the year ended 31 December 2006. A Corporate Governance report for the financial year ended 31 December 2006 is prepared in accordance with Appendix 15 of the Listing Rules and set out on pages 19 to 23.

MODEL CODE FOR 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.

AUDIT COMMITTEE

The Company established an audit committee with terms of reference in compliance with the CG Code. 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 2006 in conjunction with the Company's external auditors. The audit committee has three members comprising the three independent non-executive directors, namely Mr. Sun Ka Ziang Henry, Mr. Gu Yao Tian and Mr. Li Xin Zhong. Mr. Sun Ka Ziang Henry is the chairman of the audit committee.

Report of the Directors

REMUNERATION COMMITTEE

The Company established a remuneration committee with the terms of reference in compliance with the CG Code. 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 2006, 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 as at 31 December 2006 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

Neither the Company nor its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2006.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained sufficient public float as required under the Listing Rules during the year and up to the date of this report.

Report of the Directors

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.

Messrs. KLL Associates CPA Limited 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 Messrs. 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, 27 April 2007