



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

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



07

Interim Report





CORPORATE INFORMATION

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Gu Yao Tian
Mr. Sun Ka Ziang Henry
Mr. Li Xin Zhong

AUDIT COMMITTEE

Mr. Sun Ka Ziang Henry (*Chairman*)
Mr. Gu Yao Tian
Mr. Li Xin Zhong

REMUNERATION COMMITTEE

Mr. Gu Yao Tian (*Chairman*)
Mr. Li Xin Zhong
Mr. Zhang Yuqing

COMPANY SECRETARY & QUALIFIED ACCOUNTANT

Mr. Fu Yan Ming

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE

No. 100 Kaifang Dadao Road
Yancheng
Jiangsu Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 702, Concordia Plaza
1 Science Museum Road
Tsim Sha Tsui East
Kowloon, Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai
Banking Corporation Limited
Bank of China (Hong Kong) Limited
Industrial Bank of China, Yancheng
Branch
Agricultural Bank of China, Yancheng
Branch

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street
Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Standard Limited
26th Floor, Tesbury Center
28 Queen's Road East
Wanchai, Hong Kong

AUDITORS

SHINEWING (HK) CPA Limited
Certified Public Accountants

LEGAL ADVISERS

Sidley Austin
Tsun & Partners

STOCK CODE

909

**INTERIM RESULTS**

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 30 June 2007 together with the comparative figures for the corresponding period of 2006.

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2007

| | | For the six months ended 30 June | |
|---|--------------|---|-------------|
| | | 2007 | 2006 |
| | | RMB'000 | RMB'000 |
| | | (Unaudited) | (Unaudited) |
| | <i>Notes</i> | | |
| Turnover | 4 | 113,544 | 88,635 |
| Cost of sales | | (86,006) | (59,998) |
| Gross profit | | 27,538 | 28,637 |
| Other revenue | | 6,756 | 3,017 |
| Selling and distribution expenses | | (8,724) | (8,337) |
| Administrative and other operating expenses | | (9,026) | (10,917) |
| Finance costs | 5 | (6,229) | (3,071) |
| Profit before taxation | 6 | 10,315 | 9,329 |
| Taxation | 7 | (182) | (2,592) |
| Profit for the period | | 10,133 | 6,737 |
| Attributable to: | | | |
| Equity holders of the Company | | 9,156 | 6,185 |
| Minority interests | | 977 | 552 |
| | | 10,133 | 6,737 |
| Dividends | 8 | – | – |
| Earnings per share | 9 | RMB | RMB |
| – Basic | | 2.18 cents | 1.55 cents |
| – Diluted | | 2.05 cents | N/A |



CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2007

| | <i>Notes</i> | 30 June 2007 RMB'000 (Unaudited) | 31 December 2006 RMB'000 (Audited) |
|--|--------------|---|---|
| Non-current assets | | | |
| Property, plant and equipment and construction-in-progress | 10 | 122,188 | 116,270 |
| Prepaid lease payments on land use rights | | 57,886 | 58,523 |
| Prepayment for an investment in an associate | | 1,038 | 1,087 |
| Available-for-sale investments | | 900 | 900 |
| Deferred tax assets | | 15,720 | 15,620 |
| | | 197,732 | 192,400 |
| Current assets | | | |
| Prepaid lease payments on land use rights | | 1,275 | 1,275 |
| Financial asset at fair value through profit or loss | | – | 200 |
| Inventories | | 31,062 | 27,812 |
| Trade and bills receivables | 11 | 142,369 | 138,065 |
| Prepayments and other receivables | | 95,380 | 19,198 |
| Amounts due from related companies | 12 | 30,838 | 27,198 |
| Restricted bank balances | | 8,000 | 3,000 |
| Bank balances and cash | | 115,167 | 17,695 |
| | | 424,091 | 234,443 |
| Current liabilities | | | |
| Trade and bills payables | 13 | 69,991 | 23,738 |
| Advance receipt from customers | | 27,288 | 7,426 |
| Other payables and accruals | | 49,189 | 46,691 |
| Amounts due to related companies | | 269 | 1,048 |
| Amounts due to directors | | 713 | 6,178 |
| Tax payable | | 14,482 | 14,148 |
| Bank borrowings – due within one year | 14 | 142,340 | 142,500 |
| | | 304,272 | 241,729 |



| | | 30 June 2007 RMB'000 (Unaudited) | 31 December 2006 RMB'000 (Audited) |
|---|----|---|---|
| Net current assets/(liabilities) | | 119,819 | (7,286) |
| Total assets less current liabilities | | 317,551 | 185,114 |
| Non-current liabilities | | | |
| Loan from an ultimate holding company | | – | 12,000 |
| Bank borrowings – due after one year | 14 | 20,000 | – |
| | | 297,551 | 173,114 |
| Capital and reserves | | | |
| Share capital | 15 | 53,141 | 42,386 |
| Reserves | | 225,135 | 114,717 |
| Equity attributable to equity holders of the Company | | 278,276 | 157,103 |
| Minority interests | | 19,275 | 16,011 |
| | | 297,551 | 173,114 |



**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2007 (Unaudited)**

| | Attributable to equity holders of the Company | | | | | | | | |
|--|---|--------------------------|-------------------------|--|--|--------------------------------|------------------|-------------------------------|------------------|
| | Share capital RMB'000 | Share premium RMB'000 | Reserve fund RMB'000 | Enterprise expansion reserves RMB'000 | Exchange translation reserves RMB'000 | Accumulated profits RMB'000 | Total RMB'000 | Minority interests RMB'000 | Total RMB'000 |
| At 1 January 2006 | 42,386 | 17,073 | 2,720 | 2,720 | (441) | 78,039 | 142,497 | 18,430 | 160,927 |
| - Exchange difference directly recognised in equity | - | - | - | - | (138) | - | (138) | - | (138) |
| - Profit for the period | - | - | - | - | - | 6,185 | 6,185 | 552 | 6,737 |
| - Total recognised income for the period | - | - | - | - | (138) | 6,185 | 6,047 | 552 | 6,599 |
| At 30 June 2006 and 1 July 2006 | 42,386 | 17,073 | 2,720 | 2,720 | (579) | 84,224 | 148,544 | 18,982 | 167,526 |
| - Exchange difference directly recognised in equity | - | - | - | - | (573) | - | (573) | - | (573) |
| - Profit for the period | - | - | - | - | - | 9,132 | 9,132 | (2,971) | 6,161 |
| - Total recognised income for the period | - | - | - | - | (573) | 9,132 | 8,559 | (2,971) | 5,588 |
| At 31 December 2006 and 1 January 2007 | 42,386 | 17,073 | 2,720 | 2,720 | (1,152) | 93,356 | 157,103 | 16,011 | 173,114 |
| - Placing of new shares during the period | 10,755 | 115,637 | - | - | - | - | 126,392 | - | 126,392 |
| - Share issue expenses | - | (14,057) | - | - | - | - | (14,057) | - | (14,057) |
| - Capital contributions from minority shareholders of subsidiaries | - | - | - | - | - | - | - | 2,287 | 2,287 |
| - Exchange difference directly recognised in equity | - | - | - | - | (318) | - | (318) | - | (318) |
| - Profit for the period | - | - | - | - | - | 9,156 | 9,156 | 977 | 10,133 |
| - Total recognised income for the period | - | - | - | - | (318) | 9,156 | 8,838 | 977 | 9,815 |
| At 30 June 2007 (Unaudited) | 53,141 | 118,653 | 2,720 | 2,720 | (1,470) | 102,512 | 278,276 | 19,275 | 297,551 |

Note:

According to the rules and regulations applicable to the Group's subsidiaries in the People's Republic of China (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 financial statements for the reserve fund and enterprise expansion fund. Such amounts that appropriated are determined at the discretion of the Board of Directors. These reserves cannot be used for purposes other than those for which they are created and are not distribution as cash dividends.

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2007**

| | For the six months ended 30 June | |
|--|---|---|
| | 2007 RMB'000 (Unaudited) | 2006 RMB'000 (Unaudited) |
| Net cash used in operating activities | (14,457) | (497) |
| Net cash used in investing activities | (7,818) | (703) |
| Net cash generated from financing activities | 120,036 | 24,400 |
| Net increase in cash and cash equivalents | 97,761 | 23,200 |
| Cash and cash equivalents at beginning of the period | 17,695 | 4,566 |
| Effect of changes in exchange rate | (289) | – |
| Cash and cash equivalents at end of the period, analysis as | | |
| Bank balances and cash | 115,167 | 27,766 |



**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
FOR THE SIX MONTHS ENDED 30 JUNE 2007**

1. GENERAL

The condensed consolidated interim financial information has been prepared in accordance with the applicable disclosure requirements set out in Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Hong Kong Accounting Standard ("HKAS") No.34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The condensed consolidated interim financial information does not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2006.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial information has been prepared under the historical costs basis except for certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the condensed consolidated interim financial information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2006.



In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), HKASs and interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA which are effective for accounting periods beginning on or after 1 January 2007. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective as at 30 June 2007. The directors of the Company anticipate that the application of these new HKFRSs will have no material impact on the results and financial position of the Group.

| | |
|-------------------------------------|--|
| HKAS 23 (Revised) | Borrowing costs ¹ |
| HKFRS 8 | Operating segments ¹ |
| HK(IFRIC)-Interpretation (“Int”) 11 | HKFRS 2 – Group and treasury share transactions ² |
| HK(IFRIC)-Int 12 | Service concession arrangements ³ |

¹ Effective for annual periods beginning on or after 1 January 2009.

² Effective for annual periods beginning on or after 1 March 2007.

³ Effective for annual periods beginning on or after 1 January 2008.

3. 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 followings:

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

Segment information for the six months ended 30 June 2007 and 2006 is as follows:

Business segments

| | Automobile equipment | | Bus | | Total | |
|--------------------------------|----------------------------------|-------------|-------------|-------------|-------------|-------------|
| | For the six months ended 30 June | | | | | |
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| REVENUE | | | | | | |
| External sales | 104,107 | 88,635 | 9,437 | – | 113,544 | 88,635 |
| RESULTS | | | | | | |
| Segment results | 11,691 | 11,362 | 535 | 246 | 12,226 | 11,608 |
| Unallocated income | | | | | 4,856 | 2,268 |
| Unallocated corporate expenses | | | | | (2,438) | (2,225) |
| Interest income | | | | | 1,900 | 749 |
| Finance costs | | | | | (6,229) | (3,071) |
| Profit before taxation | | | | | 10,315 | 9,329 |
| Taxation | | | | | (182) | (2,592) |
| Profit for the period | | | | | 10,133 | 6,737 |



4. TURNOVER

| | For the six months ended 30 June | |
|-------------------------------------|---|-------------|
| | 2007 | 2006 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Sales of goods | 91,431 | 67,881 |
| Revenue from construction contracts | 22,113 | 20,754 |
| | 113,544 | 88,635 |

5. FINANCE COSTS

| | For the six months ended 30 June | |
|--|---|-------------|
| | 2007 | 2006 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Interest expenses on bank borrowings wholly repayable within five years | 6,229 | 3,071 |



6. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging the followings:

| | For the six months ended 30 June | |
|--|---|--------------------------------|
| | 2007 RMB'000 (Unaudited) | 2006 RMB'000 (Unaudited) |
| Depreciation on property, plant and equipment | 2,120 | 1,833 |
| Amortisation on prepaid lease payments on land use rights | 637 | 175 |
| Operating leases in respect of rented premises | 569 | 600 |

During the six months ended 30 June 2007, one of the directors, Mr. Xu Lian Guo, has waived the emoluments payable to him by the Company for the period from 1 July 2004 to 31 December 2005 amounted to approximately RMB1,536,000.

7. TAXATION

| | For the six months ended 30 June | |
|--|---|--------------------------------|
| | 2007 RMB'000 (Unaudited) | 2006 RMB'000 (Unaudited) |
| Current income tax | | |
| – The People's Republic of China (the "PRC") | 282 | 2,592 |
| Deferred taxation | | |
| – PRC income tax | (100) | – |
| | 182 | 2,592 |



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 Enterprise 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% of deduction for the next 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

The directors have resolved not to declare any interim dividend for the six months ended 30 June 2007 (2006: Nil).

9. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the Group's profit attributable to equity holders of the Company of approximately RMB9,156,000 (2006: RMB6,185,000) and the weighted average number of ordinary shares of 420,769,027 (2006: 400,004,000) in issue during the period.

The calculation of the diluted earnings per share is based on the Group's profit attributable to equity holders of the Company of approximately RMB9,156,000 and the weighted average number of ordinary shares of 446,650,493 in issue after adjusting for the effect of all dilutive potential ordinary shares during the period. For the six months ended 30 June 2006, no diluted earnings per share was presented as the outstanding potential ordinary shares were anti-dilutive for that period.

10. PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION-IN-PROGRESS

During the period, the Group spent approximately RMB9,470,000 (2006: RMB1,943,000) on additions to property, plant and equipment and construction-in-progress.



11. TRADE AND BILLS RECEIVABLES

| | 30 June 2007 RMB'000 (Unaudited) | 31 December 2006 RMB'000 (Audited) |
|--|---|---|
| Trade receivables | 192,034 | 167,307 |
| Less: Allowance for bad and doubtful debts | (50,219) | (50,219) |
| | 141,815 | 117,088 |
| Bills receivables | 554 | 20,977 |
| | 142,369 | 138,065 |

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 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.



An ageing analysis of trade receivables net of allowance for bad and doubtful debts is as follows:

| | 30 June 2007 RMB'000 (Unaudited) | 31 December 2006 RMB'000 (Audited) |
|---------------------------------|---|---|
| Within six months | 63,544 | 44,963 |
| Between seven and twelve months | 7,217 | 7,345 |
| Between one and two years | 15,851 | 46,433 |
| More than two years | 51,036 | 13,202 |
| | 137,648 | 111,943 |
| Retention receivables | 4,167 | 5,145 |
| | 141,815 | 117,088 |

The fair values of the Group's trade and bills receivables as at 30 June 2007 approximate to the corresponding carrying amounts due to short-term maturities.



12. AMOUNTS DUE FROM RELATED COMPANIES

The amounts due from related companies disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

| | 30 June 2007 RMB' 000 (Unaudited) | 31 December 2006 RMB' 000 (Audited) | Maximum amount owed to the Group during the period RMB' 000 |
|---|--|--|---|
| Yancheng Zhongwei Bus Manufacturing Co., Ltd. ("Zhongwei Bus") ¹ | 1,277 | 9,310 | 9,310 |
| Yancheng Zonda Automobile Service Co., Ltd. ² | 249 | 217 | 249 |
| Yancheng Zonda Steel Structure Engineering Co., Ltd. ³ | 426 | 145 | 426 |
| Zhongda Industrial Group Corporation ⁴ | 10,366 | 4,858 | 10,366 |
| 南京金陵雙層客車製造廠 ⁵ | 16,289 | 11,315 | 16,289 |
| Yancheng Celette Body Repairing Equipment Co., Ltd. ² | 8 | 1,051 | 1,051 |
| Yancheng Zhongda Sankyo Automobile Equipment Co. Ltd. ⁶ | 223 | 2 | 223 |
| Sichuan Zhongda Emei Coach Manufacturing Ltd. ⁷ | 300 | 300 | 300 |
| 江蘇中大汽車銷售有限公司 ² | 800 | - | 800 |
| 鹽城中大國際貿易有限公司 ² | 900 | - | 900 |
| | 30,838 | 27,198 | |

¹ Xu Lian Kuan and Zhang Yuqing are the common directors.

² It is a subsidiary of Zhongda Industrial Group Corporation.

³ Xu Lian Guo is the common director.

⁴ Xu Lian Guo, Xu Lian Kuan and Zhang Yuqing are the common directors.

⁵ It is an affiliated company of a subsidiary of the Company.

⁶ It is an associate of Zhongda Industrial Group Corporation.

⁷ It is a subsidiary of Zhongda International Automobile Industrial Ltd. (BVI).



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

The fair values of the Group's amounts due from related companies at 30 June 2007 approximate to the corresponding carrying amounts due to short-term maturities.

13. TRADE AND BILLS PAYABLES

An ageing analysis of trade and bills payables is as follows:

| | 30 June 2007 RMB'000 (Unaudited) | 31 December 2006 RMB'000 (Audited) |
|-----------------------------|---|---|
| Within one year | 43,068 | 18,148 |
| Between one and two years | 19,138 | 990 |
| Between two and three years | – | – |
| More than three years | 55 | 1,600 |
| | 62,261 | 20,738 |
| Bills payable | 7,730 | 3,000 |
| | 69,991 | 23,738 |

The fair values of the Group's trade and bills payables at 30 June 2007 approximate to the corresponding carrying amounts due to short-term maturities.



14. BANK BORROWINGS

| | 30 June 2007 RMB'000 (Unaudited) | 31 December 2006 RMB'000 (Audited) |
|--|---|---|
| Bank loans: | | |
| Secured | 111,620 | 112,180 |
| Unsecured | 50,720 | 30,320 |
| | 162,340 | 142,500 |
| Bank loans are repayable within a period of: | | |
| – one year | 142,340 | 142,500 |
| – between one to two years | 20,000 | – |
| | 162,340 | 142,500 |
| Less: Amounts due within one year shown under current liabilities | (142,340) | (142,500) |
| Amounts due after one year | 20,000 | – |

All the above bank loans are fixed or variable-rate borrowings with effective interest rates (which are also equal to contracted interest rates) ranging from 5.36% to 8.31% (31 December 2006: 5.36% to 7.96%) per annum.

All the Group's borrowings are denominated in Renminbi.

At 30 June 2007, the bank loans were secured by certain of the Group's land use rights and buildings with an aggregate net carrying values of approximately RMB111,350,000 (31 December 2006: RMB112,915,000), corporate guarantees issued by an independent third party and a related company, and certain assets of an independent third party.

The fair values of the Group's bank borrowings at 30 June 2007 approximate to the corresponding carrying amounts.



15. SHARE CAPITAL

| | Number of shares | HK\$'000 | Equivalent to RMB'000 |
|---|---------------------|----------|--------------------------|
| Ordinary shares of HK\$0.10 each ("Shares") | | | |
| Authorised: | | | |
| At 1 January 2006, 31 December 2006 and 30 June 2007 | 1,000,000,000 | 100,000 | |
| Issued and fully paid: | | | |
| At 1 January 2006, 31 December 2006 and 1 January 2007 | 400,004,000 | 40,004 | 42,386 |
| Placing of new shares (<i>Notes a and b</i>) | 110,000,000 | 11,000 | 10,755 |
| At 30 June 2007 | 510,004,000 | 51,000 | 53,141 |

Notes:

- (a) On 17 May 2007, 80,000,000 Shares were issued and allotted to independent third parties at a price of HK\$0.82 per Share.
- (b) On 26 June 2007, 30,000,000 Shares were issued and allotted to independent third parties at a price of HK\$2.13 per Share.



16. RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2007, the Group had the following transactions with its related parties:

| | For the six months ended 30 June | |
|---|---|--------------------------------|
| | 2007 RMB'000 (Unaudited) | 2006 RMB'000 (Unaudited) |
| Transactions with Zhongda Industrial Group Corporation: | | |
| – Service fee expenses (a) | 375 | 375 |
| – Patent fee expense (b) | 100 | 100 |
| – Trademark fee expense (c) | 75 | 75 |
| – Rental expense for office premises (d) | 50 | 50 |
| Transactions with Yancheng Celette Body Repairing Equipment Co., Ltd. (“Yancheng Celette”) ¹ : | | |
| – Purchases of products (e) | 4,273 | 3,961 |
| – Sales of products and raw materials (f) | 436 | 432 |
| Transactions with Zhongwei Bus: | | |
| – Sales of products and raw materials (e & f) | 386 | 69 |
| – Rental income for land (g) | 498 | 498 |
| Transactions with 南京金陵雙層客車製造廠 : | | |
| – Interest income | 1,636 | – |
| Transactions with Jiangsu Jinling Transportation Group Co., Ltd: | | |
| – Rental income for property, plant and equipment (h) | 400 | 400 |
| Transactions with Yancheng Zhongda International Trading Co. Ltd.: | | |
| – Commission income (i) | 900 | – |
| Transactions with 江蘇中大汽車銷售有限公司 : | | |
| – Commission income (i) | 800 | – |
| Transactions with 中大汽車產業集團有限公司 : | | |
| – Commission income (i) | 800 | – |

¹ Xu Lian Kuan is the common director.



In addition, Zhongwei Bus and 江蘇英豪汽車實業有限公司 have given corporate guarantee to banks to secure bank loan granted to a subsidiary of the Company to the extent of approximately RMB24,100,000 (31 December 2006: RMB24,100,000).

Details and terms of the above transactions with related parties are as follows:

- (a) Pursuant to an integrated services agreement dated 31 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 commenced on 31 August 2001.
- (b) Pursuant to a patent agreement dated 31 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 31 August 2001 to expiry of the patent certificate of the relevant patents.
- (c) Pursuant to a trademark agreement dated 31 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 31 August 2001.
- (d) Pursuant to an office license agreement dated 30 May 2006, the rental of office premises is charged at a rate of RMB100,000 per annum for a period of five years commencing 1 June 2006.



- (e) Purchases from Yancheng Celette and sales to Zhongwei Bus were at the prevailing market price.
- (f) 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 to Yancheng Celette and Zhongwei Bus.
- (g) Pursuant to a rental agreement, the rental of land is charged at RMB83,000 per month for a period of three years commenced on 12 July 2004.
- (h) Pursuant to a rental agreement, the rental of equipment and machinery is charged at RMB800,000 per annum commenced on 1 January 2005.
- (i) Pursuant to the agreement dated 1 January 2007, non-recurring consultancy fees of RMB900,000 was charged on Yancheng Zhongda International Trading Co. Ltd. for arranging international trade finance; RMB800,000 was charged on 江蘇中大汽車銷售有限公司 for arranging trade finance; and RMB800,000 was charged on 中大汽車產業集團有限公司 for studying and re-arranging the existing international trading and financing arrangement and participating in the negotiation with overseas buyers.

In the opinion of the directors including independent non-executive directors of the Group, the above related party 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 Group 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 Stock Exchange of Hong Kong Limited.



17. COMMITMENTS

At the balance sheet date, the Group had the following commitments, so far as not provided for in the condensed consolidated interim financial information, in respect of:

- (a) Capital commitments in respect of acquisition and construction of property, plant and equipment and land use rights:

| | 30 June 2007 RMB'000 (Unaudited) | 31 December 2006 RMB'000 (Audited) |
|--|---|---|
| Authorised and contracted for: | | |
| – acquisition of land use rights and buildings | 36,862 | 40,209 |
| – capital contribution on investment in an associate | 4,927 | 4,927 |
| – capital contribution on investment in a subsidiary | – | 9,206 |
| | 41,789 | 54,342 |



- (b) Operating lease commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

| | 30 June 2007 RMB'000 (Unaudited) | 31 December 2006 RMB'000 (Audited) |
|---------------------------------------|---|---|
| Within one year | 738 | 738 |
| In the second to fifth year inclusive | 1,041 | 1,410 |
| | 1,779 | 2,148 |

Operating lease payments represent rental payable by the Group for certain of its office premises. Leases and rentals are negotiated and fixed for an average of four years.

18. POST BALANCE SHEET EVENT

On 7 September 2007, Zhong Da International Limited ("Zhong Da International"), an indirect wholly-owned subsidiary of the Company, entered into an agreement with certain independent third parties in respect to, among other things, establishment of Zhongda EMS Limited ("Zhongda EMS") and its subsidiaries ("Zhongda EMS China") for the production and selling of environment detergents for the automobile industry in the PRC. Zhongda EMS is owned as to 40% by Zhong Da International and 60% by the independent third parties respectively. Zhongda EMS China shall be principally engaged in the production and selling of environmental detergents under the brand of "OG" for the automobile industry in the PRC. The initial investment cost of the project is expected to be approximately HK\$1,200,000.



MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Group recorded a net profit of approximately RMB10,133,000, an increase of 50.4% compared with last period. Turnover during the period amounting to approximately RMB113,544,000 which increased by 28.1%. The overall gross profit margin was diluted from 32.3% to 24.3% for the period due to raw material price increase and consolidation of the results from Nanjing Zhongda Jinling Double-Decker Bus Manufacture Co., Ltd. (南京中大金陵雙層客車製造有限公司) (“Nanjing Jinling”). Profit attributable to shareholders was approximately RMB9,156,000 (2006: RMB6,185,000).

For the period under review, the basic earnings per share of the Group was approximately RMB2.18 cents (2006: RMB1.55 cents).

Operating Environment

The first half of 2007 was another challenging period for the automobile manufacturing sector in the PRC. The price of steel and raw materials for manufacturing vehicles recorded further increases while the downward adjustment in the selling prices of products continued, putting pressure on the gross profit of the industry. On the other hand, domestic banks tightened their lending policy in response to the Government’s macro-economic control by increasing the interest rate. It resulted in an upsurge of finance cost.



Automobile Maintenance Equipment Business

During the period, the Group's automobile repairs and maintenance equipment business recorded an increase in revenue by 6.9%. The turnover of surface engineering business grew by 6.5%. Export sales mainly consist of spray booth and lifters were approximately RMB3,533,000, representing an increase of approximately 18% when compared with last period. Export sales accounts for approximately 28% of the segment. The Group's export products 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 including the Middle East and Eastern Europe.

In response to market demand, the Group re-engineered some products to broaden the market coverage. The Group has deployed lacquer room for non-automobile product to diversify the product line. The Group has also re-branded some product to target lower-end customer in order to maintain our leading market share. Consequently, the overall gross profit margin for the products reduced to 29.0%.

Automobile Manufacturing Business

Nanjing Jinling is a joint venture of the Group's automobile manufacturing business. It is the only enterprise designated in the PRC for the development of double-decker city buses. It possesses the leading skills and technologies in the production of double-decker. Currently, over 80% of the double-decker buses in the PRC are manufactured by Nanjing Jinling. The joint venture has completed all necessary formalities to operate during the period. Its contribution to the Group begins with effect from April 2007. During the period, Nanjing Jinling recorded a turnover of approximately RMB9,437,000.



During the period, the Group upgraded the technologies of Nanjing Jinling and expanded its production capacity to meet the increasing sales demand. The construction of a new production plant has been delayed due to heavy rain storm. With the expected completion of the new plant by the end of 2007, the annual production capacity of Nanjing Jinling will be substantially increased from 800 units to 3,000 units.

Liquidity and Financial Resources

As at 30 June 2007, the net asset value of the Group amounted to approximately RMB297,551,000 (31 December 2006: RMB173,114,000). As at 30 June 2007, the cash and bank balances of the Group amounted to approximately RMB115,167,000 (31 December 2006: RMB17,695,000). Cash is mainly denominated in Renminbi. Long term and short term bank loans amounted to approximately RMB142,340,000 and RMB20,000,000 respectively (31 December 2006: nil and RMB142,500,000 respectively). As at 30 June 2007, the Group's bank borrowings as a percentage of net asset value was 54.6% (31 December 2006: 82.3%).

The revenue of the Group was mainly denominated in Renminbi and US Dollar, and the borrowings were mainly settled in Renminbi. The Directors are of the view that since the exchange rate between Renminbi and US Dollar is relatively stable, there is no significant risk in relation to foreign exchange fluctuation.

As at 30 June 2007, the Group had contingent liabilities of approximately RMB12,122,500 (31 December 2006: RMB12,122,500).



Prospect

During the first half of 2007, the growth of the PRC automobile market regained its momentum, and it is expected that the increase in imported automobiles would give fresh impetus to the demand for automobile maintenance equipments. Beijing and Shanghai are going to host the Olympics Games and the World Expo. These large-scale international events will effectively increase logistics demand which in turn increase the demand for transportation vehicles. It would definitely benefit the automobile manufacturing industry and related sector such as automobile maintenance equipment as well.

Besides, the PRC government is currently implementing a “San Tong” Project. The Project aims at expanding the rural area coverage with television broadcast, highways and public transport. “Cun Cun Tong” Plan is dedicated to link the villages in rural area to urban area by public transport so as to improve the living standard of the inhabitants. It is estimated that the Project would create a demand for more than 150,000 buses in the next ten years.

With the increasing production capacity of Nanjing Jinling by the end of 2007, we expect the popularity of double-decker bus in the PRC shall be further enhanced. The strong demand for better public transportation as a result of the accelerating nationwide economic development will benefit Nanjing Jinling. Its contribution to the Group in the coming years shall be encouraging.



The proposed establishment of a joint venture in Vietnam for chassis manufacturing and special purpose vehicles, as announced by the Company on 27 March 2007, is a milestone in the automobile manufacturing segment of the Group. The joint venture is expected to commence production in 2008.

The Group will continue to strengthen its leading position in the automobile maintenance equipment sector in the PRC. The automobile maintenance equipment business is expected to grow steadily. We have recently co-operated with a renowned U.S. partner to upgrade our car washing machine. We expect the export sales for such product line would be increased. We would continue to invest in product research and development of high-value specialized equipment that will be piloting the future business growth of this business segment.

The market ecology of automobile maintenance equipment sector will shift from price to quality and service competition. The favorable government policy of “One Control Three Encourage” in the automobile sector would benefit the Group in a longer term. It explicitly advocates the development of commercial vehicles as well as automobile spare parts sector.

MATERIAL ACQUISITIONS AND DISPOSALS

There were no material acquisitions and disposals of subsidiaries and associated companies during the six months ended 30 June 2007.



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 RMB111,350,000 (31 December 2006: RMB112,915,000).

EMPLOYEE REMUNERATION POLICIES

As at 30 June 2007, the Group employed a total of 1,300 (31 December 2006: 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.

SHARE OPTIONS

A new share option scheme (the "New Scheme") of the Company was adopted by the shareholders at the annual general meeting ("AGM") of the Company held on 31 May 2007 and the existing share option scheme (the "Old Scheme") of the Company adopted in 2001 was terminated henceforth. The total number of the Shares which may be allotted and issued upon the exercise of all options to be granted under the New Scheme must not in aggregate exceed 48,000,400 Shares, being 10% of the issued share capital of the Company as at the date of the AGM. Share options granted under the Old Scheme prior to its termination remained in force until they lapsed in accordance with the terms of the Old Scheme.



Details of the share options under the Old Scheme and New Scheme as at 30 June 2007 are as follows:

(a) **Old Scheme**

| Date of offer | Number of share options | | | Exercise price HK\$ | Exercisable Period |
|------------------|---------------------------|--|--------------------|------------------------|----------------------------------|
| | Granted during the period | Exercised/ Lapsed during the period | As at 30 June 2007 | | |
| 11 January 2007 | 24,000,240 | – | 24,000,240 | 0.179 | 11 July 2007 to 10 July 2012 |
| 5 February 2007 | 4,000,040 | – | 4,000,040 | 0.465 | 5 August 2007 to 4 August 2012 |
| 13 February 2007 | 12,000,120 | – | 12,000,120 | 0.627 | 13 August 2007 to 12 August 2012 |
| TOTAL | | | <u>40,000,400</u> | | |

As at 30 June 2007, the outstanding options entitling the eligible persons under the Old Scheme to subscribe for an aggregate of 40,000,400 Shares, representing approximately 7.8% of the issued share capital of the Company.

(b) **New Scheme**

No option has been granted or outstanding under the New Scheme since its adoption.

Save as disclosed above, at no time during the six months ended 30 June 2007 was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors, their respective spouses or their children under the age of 18 to acquire benefits by means of the acquisition of the Shares in, or debentures of, the Company and any other body corporate.



DIRECTORS' INTEREST IN THE SHARE CAPITAL

As at 30 June 2007, the interests of the Directors, chief executives of the Company or their associates in the issued share capital of the Company (within the meaning or 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 were 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 under the Listing Rules, are as follows:-

Long position in the Shares

| Name of Directors | Personal interests | Corporate interests | Total number of Shares held | % of total issued share capital |
|--------------------------------|--------------------|---------------------|-----------------------------|---------------------------------|
| Xu Lian Guo (<i>Note 1</i>) | – | 204,004,000 | 204,004,000 | 40.0% |
| Xu Lian Kuan (<i>Note 1</i>) | – | 204,004,000 | 204,004,000 | 40.0% |
| Zhang Yuqing | 17,600,000 | – | 17,600,000 | 3.5% |

Note 1:

These Shares are held by Zhong Da (BVI) Limited which is 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 30 June 2007, none of the Directors or chief executive or their associates had any personal, family, corporate or other interests or short positions in the Shares or any of the associated corporations of the Company as defined in the SFO.



SUBSTANTIAL SHAREHOLDERS

As at 30 June 2007, 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 the Shares

| Name of shareholders | Capacity | Note | Number of Shares held | Percentage of issued share capital |
|-----------------------------------|--------------------|------|-----------------------|------------------------------------|
| Zhong Da (BVI) Limited | Beneficial owner | 1 | 204,004,000 | 40.0% |
| Shum Yip Holdings Company Limited | Beneficial owner | | 39,576,000 | 7.8% |
| Penta Investment Advisers Ltd | Investment manager | | 90,252,000 | 17.7% |
| L-R Global Partners, L.P. | Investment manager | | 26,606,000 | 5.2% |

Note:

1. Zhong Da (BVI) Limited is 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 30 June 2007, according to the records required to be kept by the Company under section 336 of the SFO, there was no person who had any interest or short positions in the Shares or underlying shares of the Company.

**DIRECTORS' INTERESTS IN CONTRACT**

Save as disclosed herein, no other contracts of significance subsisted during or at the end of the period under review.

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 six months ended 30 June 2007.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied with the code provisions as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Listing Rules during the six months ended 30 June 2007.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors (the "Code of Conduct") on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

Having made specific enquiry with all Directors, each of whom has confirmed compliance with the required standard set out in the Code of Conduct throughout the period ended 30 June 2007.



AUDIT COMMITTEE

The Company established an audit committee with terms of reference no less exacting than the required standard as set out in the code provisions of 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 three members comprising all the independent non-executive directors of the Company. The unaudited consolidated results of the Group for the six months ended 30 June 2007 have not been reviewed by the Company's auditors but have been reviewed by the audit committee of the Company.

REMUNERATION COMMITTEE

The Company established a remuneration committee with terms of reference no less exacting than the required standard as set out in the code provisions of 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.

By Order of the Board

Xu Lian Guo

Chairman

Hong Kong, 24 September 2007