





## **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**

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



**CONDENSED CONSOLIDATED BALANCE SHEET**  
**AS AT 30 JUNE 2007**

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



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

	<b>For the six months ended 30 June</b>	
	<b>2007 RMB'000 (Unaudited)</b>	<b>2006 RMB'000 (Unaudited)</b>
Net cash used in operating activities	<b>(14,457)</b>	(497)
Net cash used in investing activities	<b>(7,818)</b>	(703)
Net cash generated from financing activities	<b>120,036</b>	24,400
Net increase in cash and cash equivalents	<b>97,761</b>	23,200
Cash and cash equivalents at beginning of the period	<b>17,695</b>	4,566
Effect of changes in exchange rate	<b>(289)</b>	–
Cash and cash equivalents at end of the period, analysis as		
Bank balances and cash	<b>115,167</b>	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 <sup>1</sup>
HKFRS 8	Operating segments <sup>1</sup>
HK(IFRIC)-Interpretation (“Int”) 11	HKFRS 2 – Group and treasury share transactions <sup>2</sup>
HK(IFRIC)-Int 12	Service concession arrangements <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009.

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2007.

<sup>3</sup> 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 RMB'000 (Unaudited)	2006 RMB'000 (Unaudited)	2007 RMB'000 (Unaudited)	2006 RMB'000 (Unaudited)	2007 RMB'000 (Unaudited)	2006 RMB'000 (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

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

#### 5. FINANCE COSTS

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



## 6. PROFIT BEFORE TAXATION

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

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

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

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

	<b>30 June 2007 RMB'000 (Unaudited)</b>	31 December 2006 RMB'000 (Audited)
Within six months	<b>63,544</b>	44,963
Between seven and twelve months	<b>7,217</b>	7,345
Between one and two years	<b>15,851</b>	46,433
More than two years	<b>51,036</b>	13,202
	<b>137,648</b>	111,943
Retention receivables	<b>4,167</b>	5,145
	<b>141,815</b>	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") <sup>1</sup>	1,277	9,310	9,310
Yancheng Zonda Automobile Service Co., Ltd. <sup>2</sup>	249	217	249
Yancheng Zonda Steel Structure Engineering Co., Ltd. <sup>3</sup>	426	145	426
Zhongda Industrial Group Corporation <sup>4</sup>	10,366	4,858	10,366
南京金陵雙層客車製造廠 <sup>5</sup>	16,289	11,315	16,289
Yancheng Celette Body Repairing Equipment Co., Ltd. <sup>2</sup>	8	1,051	1,051
Yancheng Zhongda Sankyo Automobile Equipment Co. Ltd. <sup>6</sup>	223	2	223
Sichuan Zhongda Emei Coach Manufacturing Ltd. <sup>7</sup>	300	300	300
江蘇中大汽車銷售有限公司 <sup>2</sup>	800	-	800
鹽城中大國際貿易有限公司 <sup>2</sup>	900	-	900
	<b>30,838</b>	<b>27,198</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 an affiliated company of a subsidiary of the Company.

<sup>6</sup> It is an associate of Zhongda Industrial Group Corporation.

<sup>7</sup> 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:

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

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

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:

	<b>For the six months ended 30 June</b>	
	<b>2007 RMB'000 (Unaudited)</b>	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”) <sup>1</sup> :		
– 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	–

<sup>1</sup> 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:

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

	<b>30 June 2007 RMB'000 (Unaudited)</b>	31 December 2006 RMB'000 (Audited)
Within one year	<b>738</b>	738
In the second to fifth year inclusive	<b>1,041</b>	1,410
	<b>1,779</b>	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