

Management Discussion and Analysis

In 2001, the Group (“Zhongda International”) achieved considerable growth by major technical economic indicators with sales income rising 11.7%, profit growing 47.6%, and export up over 115.0% when compared with a year before. Zhongda International’s business growth is naturally linked to the stable economic development in China, China’s successfully admission to the World Trade Organization (the “WTO”), its winning bid to host the Olympics and the country’s stable internal demands add catalysts to the stable economic development in China. Since Zhongda International’s business is closely linked to China’s economic development, the Group’s growth in technical economic indicators lays its foundation of a stable social and political system.

Zhongda International owed its stable growth in 2001 to its increased strengths in five major areas, which promised the Group a rapid development:

- 1. Strengthen the technology build-up.** After years of efforts, the management has recognized that an enterprise’s competitiveness in the market is key to its rapid development. The level of support for its technology development, meantime, determines an enterprise’s competitiveness. Zhongda International has in recent years established a four-tiered solid technology system. The first tier was to join forces with mainland technology research institutes and universities in the setting up of a product technology development and research system for technology research and development of Zhongda International’s products. The second tier was to work with mainland professionals to establish an expertise product design system to bring the most advance technology as well as the latest technology portfolio to Zhongda International’s products in a bid to maintain the leading technology status. The third tier was new product development by the Group with an aim to sustain Zhongda International’s growth momentum through new product research and development. The fourth tier was the improvement of the technological processing to guarantee the high quality and services of products.
- 2. Actively explore the international market.** Zhongda International sold its products to the international market since 1996. The six-year international sales experience rewarded its recognition by global automobile maintenance companies, distributors and users. In 2001, Zhongda International’s management focused on three areas in the international sales. Firstly, the Group diversified its product portfolio for the international market from a single product to a series of products. The sales of lacquer rooms in the international market rose 115.6% from a year earlier while the sales of other automobile maintenance products increased by 103.3% over the same period. Secondly, the market coverage of its product was expanded with sales to the USA expanded to over 30 states in the country from just several states. Lastly, Zhongda International strengthened co-operation with international automobile maintenance companies for market development. Instead of selling the products by its own effort, Zhongda International sold its products mainly through the automobile maintenance companies in the year under review, in line with international sales practice.

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3. **Strengthen the sales network construction in the mainland.** Base on the sales conditions in the mainland, the management adjusted, in appropriate timing, Zhongda International's sales strategies, sales organization, and the sales team and concentrated on tasks in four areas. Firstly, Zhongda International held good grasps of its major and source clients, strengthening its ties with car manufacturers and large conglomerates that frequently need its products. The aim was to make sufficiently sure of the continuing co-operation with its long-term major clients who accounted for 50% of the Group's total sales. Secondly, the Group has developed a group of new clients. Zhongda International's surface treatment equipment is a multi-purpose high technology product, applicable to surface treatment of various types of product. Building on its existing foundation, Zhongda International has extended the application of the products to the fields of military, home appliance and construction engineering, increasing the client base of its surface treatment products. Thirdly, Zhongda International has kept a tight grasp of economic well-developed cities. Over 90% of the Group's automobile maintenance and surface treatment equipment were sold to economic well-developed cities and regions. In view of this, the management strengthened sales efforts in these areas and extended its sales points to counties and to smaller regions. Lastly, Zhongda International improved its market services system to provide convenience to its users.
4. **Enhance new production development capability.** To make rooms for future development, the Group's management adjusted its new product development mechanism by launching a project-based system and in the meantime, tightened its product testing and strengthened its sales capacity, with an aim to ensure the success and cost-effectiveness of its new product development.
5. **Improve the corporate management.** Zhongda International's management fully realized the true fact that good management yields good performance. The Group has, therefore, strengthened its internal management, with focus on the following four areas. Firstly, Zhongda International tighten its cost control by conducting its audit and checking per single project and single item. The attentive-to-detail internal cost control ensured its gross profit margin growth, and was one of the major factors contributing to a rise in its gross profit margin in 2001 over a year earlier. Secondly, Zhongda International has kept a tight control over its procurement by employing effective means like comparison and tender in the process, which ensured the quality and lowered the procurement costs. Thirdly, Zhongda International smoothed its operation process by skipping some of the intermediate steps in the operations. The "flat-style" management helped mobilize the potential of staff of all ranks. Lastly, Zhongda International polished its staff incentive scheme by introducing into the office the market-based operation and the responsibility system with contracted targets and costs. Meantime, a revised allocation system and a performance assessment system linking salary payments with sales and profits were launched. These adjustments helped stimulate the staff's incentive and creativity, which ensured the stable development of the Group.

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Business Analysis

In 2001, Zhongda International achieved growth and improvement in every aspect of its business.

Turnover of its principal product, lacquer rooms, rose 9.7% from a year before while turnover of the surface treatment equipment grew by 16.5% and that of lifters increased by 3.6% over a year earlier. Lacquer rooms accounted for 59.0% of the total turnover while surface treatment equipment shared 5.8% and lifters made up of 13.5%. The above figures underpinned the stable growth of Zhongda International's major products with stable rises in their shares of the total.

Business Development

In a bid to faster its business development, Zhongda International strengthened four major areas of its internal development. Firstly was the strengthening of its technology improvement effort by investing a new factory and to purchase new equipment. Secondly was to improve its marketing with four new products making their debuts. Judging from the response during their trial sales, the products carry bright development potentials. Thirdly was to build comprehensive market network by adding 20 sales points. Fourthly was to strengthen the development of the car wash machine project. The project, with a breakthrough in technology development and basically identified co-operation partners, should achieve better performance in the future.

2002 Outlook

China should earn a sustained stable growth in the year 2002, base on its economic development trend. Zhongda International, looking at the market conditions of its products, should also enjoy a year of growth in 2002, supported by the following three aspects.

1. The subjective and objective conditions, in terms of the advance technology of Zhongda International's products, their extensive sales network, the market shares and the clientele, both suggest that Zhongda International's products continue to lead their competitors in the technological level. The technological superiority of Zhongda International's products was obvious in that, up to the present moment, no products of higher technology or of a technology more advance that Zhongda International's products was found in the market. Nor had there any substituting products in the market. Meantime, Zhongda International's products have been well recognized by its clients, with none of its major clients planning to shift to its rivals. Zhongda International's extensive market network also facilitates its negotiations with its clients, which helps the stable development of the market. Besides, Zhongda International continues to lead its competitors in the after-sales services, with none of its rivals able to build up an after-sales services system comparable to that of the Group in recent years. All in all, Zhongda International earns a prominent competitive edge over its competitors.
2. Zhongda International, which had its internal management strengthened and technology improved, is able to answer to the market development needs, providing comprehensive and effective services to its clients. This illustrates that by improving internal systems could help guarantee the stable development of the market.

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3. International market development will be further enhanced. Zhongda International were accredited with the U.S. ETL safety recognition and the European Union's CE safety recognition for its lacquer rooms. Zhongda International's six-year experience in the overseas market development, plus the assistance of the international automobile maintenance companies in marketing its products, has laid a foundation for a rapid growth in the international market.

Base on the above, there should be rooms and environment favorable to the sustained stable growth of Zhongda International both in domestic and international market in 2002.

It is expected that lacquer rooms, automobile lifters, and surface treatment equipment will remain the three principal products of Zhongda International in 2002, which should continue to earn a stable growth trend. Two products namely fully automated computerized car wash machines and automobile repair testing instruments, are expected to join the principal product rank in 2002. On the back that the two products have already undergone years of research and development, having been marketed for sales, and with sophisticated technology, they are expected to performed well in the future. Adding to these is the encouraging international industry policies and the possibility that international professional companies, with which we have been in discussions for co-operation, would set up joint venture companies in China.

Zhongda International will, basing on the market development, focus on the following tasks:

1. **Enhance international market development and highlight co-operation with automobile maintenance distributors.** Zhongda International will explore markets in countries and regions new for its automobile maintenance equipment and to develop a series of products for overseas market. Meantime, Zhongda will develop production businesses overseas to realize its strategy of moving from local production for overseas sales to overseas production for overseas sales, furthering its expansion in international sales.
2. **Enhance new product development, highlighting the launch of the fully automated computerized car wash machines and the testing instruments.** Zhongda International's major investment would also be in the two products and the Company would invest to add new factories and equipment to form a professional production and to develop the market for the products.
3. **Expand the surface treatment equipment market.** Equipped with a design team, which can adjust to the needs of different kind of industrial products requiring surface treatment, the surface treatment equipment possesses a huge room of development. The Group intends to develop a larger client base by adjusting to the needs of surface treatment of more products and establishing the various needs of different users in order to form a professional development, design and manufacturing system.
4. **Building on existing principal businesses to seek new markets.** The management plans to build on Zhongda International's existing automobile and surface treatment equipment markets to seek rooms for new development. Zhongda International seeks to capitalize on its corporate advantageous as well as its market and technology advantage edge to maximize the use of its various resources.

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The management believes that, depending on its ability to grasp the market opportunities in time, on the sound management and on supports by all parties, Zhongda International should have an better development.

Liquidity and financial resources

As at 31st December 2001, the total assets of the Group amounted to RMB242,545,000 representing an increase of RMB38,656,000 as compared with last year.

As at 31st December, 2001, the Group had bank balances and cash of RMB34,646,000 (2000: RMB15,668,000), and the bank loans amounted to RMB34,500,000 (2000: RMB41,400,000). The Group's bank borrowings were secured by a charge on bank deposits of USD195,000 and certain land use rights and buildings held by the Group with a total net book value of RMB34,600,000 as well as corporate guarantee given by a third party company.

The Group's major income and borrowings are in Renminbi. Accordingly there is no significant exposure to foreign exchange rates fluctuation. The bank borrowings were at interest rates ranging from 6.44 per cent to 7.13 per cent per annum (2000: 6.70 per cent to 7.13 per cent per annum).

As at 31st December 2001, the debt to equity ratio of the Group was 24.3% (2000: 52.3%). The debt to equity ratio is computed on the basis of total bank borrowings divided by the shareholders' funds of the Group.

The Directors are of the view that there are sufficient financial resources to satisfy its capital commitments and on-going working capital requirements.

Employee remuneration policies

As at 31st December 2001, the Group employed 855 (2000: 859) 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 retirement benefits for both the directors and employees.

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USE OF PROCEEDS

The proceeds from the new shares issued for the listing on the Stock Exchange, after deduction of related expenses, amounted to approximately HK\$27,409,000 (equivalent to approximately RMB29,069,000). The proposed application of such proceeds as disclosed in the Prospectus dated 22nd October 2001 and its applications up to 31st December 2001 are as follows:

- as to approximately HK\$6 million for the research and development of new models of lacquer rooms, such as computerized temperature controlled lacquer room and HK\$800,000 has been used.
- as to approximately HK\$6 million for the expansion of the Group's export and sales network through the proposed establishment of overseas sales companies and promoting the Group's own brands of products and HK\$440,000 has been used.
- as to approximately HK\$4 million to increase the capacity of manufacturing of painting and coating lines by acquiring more machinery and HK\$300,000 has been used.
- as to approximately HK\$5 million for the development and production of computerized car wash system and HK\$460,000 has been used.
- The balance will be used as general working capital for the Group.

At the balance sheet date, the remaining balance of proceeds approximately of HK\$25.4 million have been placed in short term deposits with licenced banks. The directors intend to use the proceeds in the manner as disclosed in the Prospectus.