

Chairman's Statement



The turnover of Zhongda International for the year ended 31st December, 2002 was RMB173,431,000, representing a modest decrease of approximately 3.7% compared to the year 2001. Due to the global economic recession and the changes in the business environment of the automobile maintenance market in the PRC, the sales was not as good as expected and the cost has increased, accordingly, the gross profit margin of the Group for the year 2002 was directly affected. In addition, the Group increased its investment on product development and focused on the exploration of sales channels in overseas markets, resulting in a substantial increase in operating expenditure. Profits attributable to shareholders of the Group for the year was therefore adjusted to RMB2,592,000 (2001: RMB33,511,000).

DIVIDEND

The Board of Directors recommended not to pay any final dividend for the year ended 31st December, 2002 (2001: HK\$0.01 per share).

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PRINCIPAL BUSINESSES

Affected by the consolidation of the automobile maintenance market in the PRC in the first half of the year 2002, the provisions made by the Group on doubtful debts rose sharply. The overall impact of the expenses incurred in new product development, technological advancement and market exploration in the second half of the year was reflected on the accounts for the entire year and led to a substantial adjustment in the results for the year 2002.

The net cash inflow of the Group for the year 2002 was directly affected by the decline in turnover and the increase of investment expenditure in various aspects. In view of this, the Group started to further control the spending of different production departments and overseas marketing departments in order to maintain a stable operating position.



As at the end of the year, the Group's cash on hand maintain at a healthy level of RMB48,000,000.

Faced with the structural adjustments in the PRC domestic market, the Group further strengthened its cost control policy, conducted stricter credit review on its clients and tightened its loans recovery measures. Meanwhile, the Group continued to study the feasibility of the strategy of overseas production for overseas sales, and seek to establish production facilities in major overseas markets in an attempt to lower the transportation cost for exports and speed up the expansion of overseas markets.

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PROSPECTS

Looking ahead in the year 2003, the uncertainty regarding the global economic recovery and the outbreak of atypical pneumonia in the Asian Pacific Region will affect the overall consumption sentiment and the economy.

As regards the macroeconomic conditions, the overall economic development of the PRC is still robust, and it is expected that the growth momentum will soon pick up following temporary setbacks. The consolidation and restructuring of the automobile maintenance market in the PRC is expected to be completed this year. The market development will be healthier after certain inefficient and poorly managed automobile manufacturers are eliminated.

In 2003, in order to maintain its leading position in the PRC automobile maintenance industry, Zhongda International will actively and yet cautiously expand its income sources and strengthen its earning base. At the same time, the Group will continue to improve its production flow and staff reward system in order to further enhance its operation efficiency and increase its competitiveness.

APPRECIATION

On behalf of the Board, I would like to extend my sincere appreciation to all our shareholders, our staff, our clients and those who have given support to Zhongda International.

Xu Lian Guo

Chairman

4th July, 2003

