

# Chairman's Statement

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Xu Lian Guo *Chairman*

*2004 was an  
extraordinary year for  
the Company.*

Dear Shareholders,

I am pleased to present the audited consolidated results of Zhongda International Holdings Limited ("the Company") and its subsidiaries ("the Group") for the year ended 31 December 2004.

In the year 2004, the Group consolidated its businesses and laid a foundation for continuous development. For the existing automobile maintenance equipment businesses, the Group optimized the production process of automobile lifters and expanded its production capacity. The car washing machine venture with a listed corporation in Italy had made good progress with trial production commenced. During the year, the Group dedicated itself to vertical integration and started exploring the automobile manufacturing business. A joint-venture was established with each of two coach manufacturers in Jiangsu and Sichuan provinces respectively. The Group's investment in manufacture and sale of coaches will broaden the Group's source of income and profit base, and create synergies with the existing automobile maintenance equipment business.

The Group's results recorded a minor adjustment during the year. The Group's turnover and net profit for the year ended 31 December 2004 were approximately RMB218 million and RMB13 million respectively. In the past two years, the Group's efforts in product mix adjustment and production process improvement began to pay off in 2004. Gross profit margin for the year remained at approximately 30% .

In 2004, the automobile manufacturing sector in China faced a surge in prices of raw materials, particularly the price of steel. At the same time, the automobile market experienced intense competition. Price war led to a downward adjustment of selling prices for various kinds of automobiles. On the whole, the automobile sector in China maintained a growth of 14% in 2004. Though the growth of sedans decreased by 9%, the growth of commercial vehicles (including coaches) reached 48%.

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Lifter



Headquarters of Zhongda Group in Yancheng, Jiangsu

## PROSPECT

In 2005, the Group will continue to strengthen its leading position in the automobile maintenance equipment sector, and at the same time will expand its presence in the automobile manufacturing sector which has enormous market potential. The automobile maintenance equipment business is expected to grow steadily. The Group anticipates that high value-added inspection equipment and car washing machinery will be the drive of its future business growth. The two automobile manufacturing corporations are still in the phase of market entry and development in 2005; however, economies of scale will be achieved when their facilities reach the designed production capacity and attain a high loading production. This shall become the Group's another major source of income in the long run.

The automobile sector will continue to face severe competition in 2005. The import taxes of China on automobiles and spare parts were cut to 30% and 13% respectively. This has further lowered the barrier for imported automobiles to enter the China market. On the other hand, major foreign automobile corporations are establishing joint-ventures in China for automobile manufacture. All these will have a positive impact on the automobile servicing sector. As a result of the increasing number of vehicles and the Chinese government's active involvement in building asphalt highways and improving inter-city and rural transportation, the usage of vehicles will escalate, which in turn will lead to an increase in demand for automobile inspection and maintenance equipment, thus further expanding the market potential.

We believe that the nature of competition in the automobile sector will change from price competition to competition in terms of services, quality and new product development. After the price-war in the previous two years, there is limited room for downward adjustment of vehicle prices. It is anticipated that the demand for coaches, which is an important mode of intra-city and inter-city transport, will remain at a steady rate of growth.

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China is implementing the campaign, "One Restriction and Three Motivations" for the domestic automobile sector, which is directed at restricting the number of sedans but encouraging the development of commercial vehicles, spare parts and the after-sales market (i.e. repair and maintenance). This policy is favourable to the long-term development of the automobile maintenance and bus manufacturing businesses.

## APPRECIATION

On behalf of the Board, I would like to extend my sincere appreciation to our shareholders, staff and customers for their continuous support to the Group. We are committed to maximizing shareholders' value by strengthening internal control, optimizing production and enhancing efficiency.

**Xu Lian Guo**  
*Chairman*

20 April 2005