

## Chairman's Statement



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 2005.

In the year 2005, the Group consolidated its business and laid the foundation for continuous development in the face of new market environment and new business. For the existing automobile maintenance equipment business, the Group optimized the production process of automobile lifters and expanded its production capacity. There was a significant change in the after-sales service of automobile industry in China this year as the after-sales mode of 4S shops (4-in-1 shops of vehicle sales, after-sales services, technical consultation and provision of spare parts) prevailing across the country was challenged. As a result, the automobile maintenance equipment market underwent an operational adjustment. In general, the sales of automobiles maintained a growth of over 12% in the year 2005, of which the sales of sedans grew approximately 9% and the sales of commercial vehicles jumped over 30%. During the year, the Group devoted itself to the business of automobile manufacturing, particularly, breakthrough was made in the research and development of inspection equipment. The Group's investment in the manufacture and sale of coaches will broaden its source of income and profit base, and create synergies with the existing automobile maintenance and production equipment business.

The Group's business results for the year was affected due to a significant change in the market environment. The Group's turnover for the year ended 31 December 2005 were approximately RMB177,313,000 and loss attributable to the shareholders was RMB25,703,000. The Group's efforts in product mix adjustment and production process improvement in the past two years began to pay off in 2005. Gross profit margin of the Group for the year increased to approximately 36.1%.

### PROSPECT

In 2006, the Group will continue to strengthen its leading position in the automobile maintenance equipment sector, and at the same time 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 will be the drive for its future business growth. For the automobile manufacturing business, although provisions were made for the current year due to the unsatisfactory operating results of Sichuan Zhongda Emei Coach Manufacturing Limited as well as some disputes with the joint venture party, the Group was not materially affected. The



business development and production capacity of another automobile manufacturer under the Group (Nanjing Zhongda Jinling Double-Decker Bus Manufacture Company Limited) began to accelerate after over one year of internal adjustment. In the long run, vehicle manufacturing will become another major source of income for the Group.

The automobile sector will continue to face severe competition in 2006. 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 China's 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 use of vehicles will escalate, which in turn will lead to an increase in demand for automobile inspection and maintenance equipment, thus further expanding the room for market growth.

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, an important mode of intra-city and inter-city transport, will continue to grow steadily.

China is implementing the campaign of "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 business.

### 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*

21 August 2006