中大国际
Zonda

ZHONGDA INTERNATIONAL HOLDINGS LIMITED
中大國際控股有限公司*

(Incorporated in Bermuda with limited liability)
(Stock code: 909)

ANNUAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER, 2003

RESULTS

The board of directors (the "Directors") of Zhongda International Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31st December, 2003 together with comparative figures for the previous year as follows:

	Notes	2003 RMB'000	2002 Restated RMB'000
Turnover	2	227,517	173,431
Cost of sales		(158,995)	(109,208)
Gross profit		68,522	64,223
Other revenue		10,582	4,308
Distribution costs		(25,974)	(24,033)
Administrative expenses		(27,742)	(34,335)
Other operating expenses		(3,704)	(3,616)
Profit from operations	3	21,684	6,547
Finance costs	4	(3,306)	(2,566)
Profit before taxation		18,378	3,981
Income tax (expense)/credit	5	(4,485)	810
Profit after taxation		13,893	4,791
Minority interests		(2,426)	(84)
Profit attributable to shareholders		11,467	4,707
Dividends	6	–	–
Earnings per share	7		
– Basic		RMB0.029	RMB0.012
– Diluted		Not applicable	Not applicable

* *for identification purpose only*

Notes:

1. Basis of preparation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention.

In the current year, the Group has adopted, for the first time, a revised Statement of Standard Accounting Practice SSAP 12 (Revised)-Income Taxes issued by the HKSA and has been applied retrospectively.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future.

SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively.

This change in policy has resulted in an adjustment of approximately RMB2,932,000 increase in retained profits at 1st January, 2003 (2002: RMB817,000) and a decrease in the profit for the year ended 31st December, 2003 of RMB2,932,000 (2002: RMB2,115,000 increase).

2. Turnover and segment information

(a) Turnover

The principal activities of the Group are the development, manufacture and sale of automobile equipment and provision of industrial surface treatment engineering equipment. Turnover represents gross invoiced sales, net of discounts and returns. Analysis of the turnover by major category is as follows:

	2003 *RMB'000*	**2002** *RMB'000*
Sales of goods	171,161	144,760
Revenue from construction contracts	56,356	28,671
Total turnover	227,517	173,431

(b) Segment information

The Group conducts the majority of its business activities in two geographical areas, the PRC and the USA. An analysis by geographical segment, as determined by location of assets, is as follows:

	PRC		USA		Elimination		Total	
	2003	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
REVENUE								
External sales	214,208	152,899	13,309	20,532	–	–	227,517	173,431
Inter-segment sales	3,742	11,920	–	–	(3,742)	(11,920)	–	–
Other revenue	7,575	4,066	2,934	75	–	–	10,509	4,141
Total	225,525	168,885	16,243	20,607	(3,742)	(11,920)	238,026	177,572
RESULTS								
Segment results	26,541	16,030	1,273	(1,405)	1,165	(649)	28,979	13,976
Unallocated corporate expenses							(7,295)	(7,429)
Profit from operations							21,684	6,547
Finance costs							(3,306)	(2,566)
Income tax (expense)/credit							(4,485)	810
Minority interests							(2,426)	(84)
Profit attributable to shareholders							11,467	4,707

3. Profit from operations

Profit from operations is determined after crediting and charging the following:

	2003	**2002**
	RMB'000	*RMB'000*
Crediting:		
Interest income on bank deposits	349	366
Write back of provision for bad debts	1,648	–
Write back of provision for inventory obsolescence	1,059	–
Charging:		
Depreciation of owned assets	3,259	3,835
Staff costs (excluding directors' emoluments)		
– Salaries and wages	13,841	14,971
– Defined contribution retirement plans	776	1,165
Operating leases in respect of buildings	1,638	2,587
Auditors' remuneration	500	955
Loss on disposals of property, plant and equipment	–	469
Provision for inventory obsolescence	253	2,198
Provision for doubtful debts	–	5,980
Write-off of bad debts	–	1,089

4. Finance costs

	2003	2002
	RMB'000	*RMB'000*
Interest on bank borrowings	3,306	2,566

5. Income tax

The amount of income tax charged/(credited) to the consolidated income statement represents:

	2003	2002
	RMB'000	*RMB'000*
Current income tax		
– Hong Kong	–	–
– PRC		
– Current year	4,579	1,540
– Overprovision for prior year	(816)	–
– USA	7	44
Deferred taxation		
– PRC income taxes	715	(2,394)
	4,485	(810)

No Hong Kong Profits Tax has been provided for as the Group had no assessable profits in Hong Kong during the year (2002: Nil).

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% deduction for 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.

6. Dividend

The Directors do not recommend the payment of a dividend (2002: nil) for the year ended 31st December, 2003.

7. Earnings per share

The calculation of earnings per share was based on the profit attributable to shareholders of RMB11,467,000 (2002 restated: RMB4,707,000) and the weighted average number of 400,004,000 shares (2002: 400,004,000 shares) in issue during the year.

For the purpose of calculating diluted earnings per share, the outstanding warrants were considered as potential ordinary shares. No diluted earnings per share is presented for both the year ended 31st December, 2003 and the year ended 31st December, 2002 as the outstanding potential ordinary shares are anti-dilutive for both years.

8. Post balance sheet events

On 27th March, 2004, the Group entered into a co-operation agreement ("Agreement"), through a wholly owned subsidiary of the Company, with an independent third party in the PRC (the "joint-venture partner") to establish a joint-venture (the "JV") for conducting manufacturing and sales of buses in the

PRC. Pursuant to the Agreement, the Group will hold 60% of the equity interest in the JV for which the Group needs to contribute a total investment of RMB34.95 million in cash in stages within the period from the date of the Agreement to 2 months from the business license of the JV being obtained. At the date of this announcement, the business license of the JV has not yet been obtained.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

Confronting with the challenges brought by the SARS epidemic in the first half of 2003, Zhongda International has taken proactive steps to seize business opportunities, and strengthened its existing customer base and market share, thereby achieving satisfactory results in the year. The encouraging result reflected the success of the Group's direct business relationship with large-scale automobile manufacturers and its focused marketing strategy. Besides, since the sales performance of the Group's automobile business is outstanding and strict cost control measures are implemented, the Group's turnover and profit attributable to shareholders for the year amounted to approximately RMB228,000,000 and RMB11,000,000 respectively, representing an increase of approximately 31% and 144% when compared with last year. The gross margin maintained at the level of approximately 30%, while net profit margin increased by approximately 2.3% over last year. As at 31st December, 2003, the Group had commitments to capital expenditure in respect of the acquisition of land use right and construction property, plant and equipment for production purposes amounted to approximately RMB19,800,000 (2002: RMB54,200,000). It is expected that the amount will be financed by internal funding.

For the year ended 31st December, 2003, the basic earnings per share of the Group are RMB0.029 (2002 (as restated): RMB0.012).

In 2003, the automobile lacquer rooms, wheel aligners for automobiles and specialized automobile modeling equipment of the Group were named as Torch Plan projects of Jiangsu Province and the Group was selected as one of the top 500 companies in the global automobile servicing industry and accredited as an outstanding enterprise in the PRC.

Business Review

Automobile Maintenance Equipment Business

Despite the difficulties brought by the SARS epidemic, the economic growth in the PRC continues and the government encourages investments in the automobile industry, which fuels the rapid growth of the industry in the PRC, and stimulates the demand for the automobile repair, maintenance and inspection equipment. During the year, the sales of automobiles increased by 40% while highway length increased by 26% to 25,000 km, contributing to the favourable sales performance of the Group's automobile maintenance equipment business.

At present, the Chinese automobile maintenance market has been transformed from a free market operation to planned development led by major automobile plants. In response to the market changes, Zhongda International adopts corresponding measures and proactively establishes close partnership with major automobile manufacturers such as Shanghai Volkswagen, 中華車廠, Japan Honda, Benz/奔馳, General Motors and Ford and provides value-added services like after sales and technology support services. Benefiting from the fad of private car purchase in the PRC, the strategic marketing activities and the implementation of e-commerce, the turnover of the year set another new record.

The sales of the Group's major products lacquer rooms, lifters and body repairing machine in 2003 were approximately RMB110,000,000, RMB38,000,000 and RMB15,000,000 respectively, representing an increase of approximately 25%, 40% and 39%. The sales of such products accounted for approximately 49%, 17% and 7% of the Group's turnover respectively. The overall sales performance of all the products are satisfactory and the gross margin is generally maintained at a level between 25% and 35%. In order to meet the increasing market demand, the annual production capacity of lifters increased to 3,000 pieces during the year.

As for the industrial surface treatment production line, when compared with last year, the turnover significantly increased to RMB56,000,000. This is attributable to the increased marketing efforts, the establishment of a close relationship with its customers, the improvement of the management and production procedures and strict control on cost and expenditure.

The Group's marketing efforts were focused in identifying new clients in UK, Ireland, Canada, Pakistan and Iran. The Group also actively established trading relationship with its overseas agents, and engaged 3 US companies and 1 Australian company as the agents of the products of Zhongda International in US and Australia respectively. This arrangement was crucial for the expansion of Group's export business and enabled the Group to achieve a higher cost efficiency.

Apart from lacquer rooms and lifters, the Group also exports other automobile maintenance equipment such as automatic type changer, wheel balancer and paint mixing machine, the Group's lacquer rooms have obtained the CE international certification, which shows that the products of Zhongda International have been accepted and recognized in the international market and that the quality of its products has reached international standard.

As for the new projects, the Group's 3 investment projects in the Yancheng Economic Development Zone of Jiangsu Province in the PRC include the production lines for painting and coating, the production line for car wash system and a line for the production of export-oriented lacquer rooms or automobile lifters. The construction of the related production plants which occupies an area of 60,000m^2 was completed in early 2004, the investment in the construction of the plant amounted to RMB60,000,000. Equipment and fixtures are now installed in the plant and it is anticipated that the plant will commence production in the middle of 2004. The annual production capacity of the production line for car washing system is expected to reach 500 pieces and the Group has already received preliminary bulk orders of about 150 pieces for the Beijing Olympic Games. The Board of Directors believe that the new projects can further increase the production capacity and sales of the Group.

Diversification of Business – Automobile Manufacturing Business

After the end of the year, the Group has agreed to establish a joint-venture with Jiangsu Jinling Transportation Group Limited to manufacture and sell buses for running in major cities in the PRC. This helps to develop the high-potential automobile market and reinforce the Group's leading position in the automobile maintenance equipment market in the PRC. Supported by the recovery of the passenger transportation market and the formation of an urban public transportation market, and capturing the business opportunities brought by the World Expo in Shanghai and the Olympic Games in Beijing, it is expected that the sales of passenger cars will grow rapidly.

Prospect

In 2004, automobile market will continue to grow steadily. Meanwhile, Zhongda International will develop its automobile maintenance equipment business and automobile manufacturing business at the same time. While strengthening our leading position in the automobile maintenance business to further increase sales, the Group will actively develop its automobile manufacturing business.

Regarding the automobile maintenance equipment business, the Group will continue to strengthen its cooperation with automobile manufacturers, selling our products directly to the automobile manufacturers in order to be the designated accessories supplier of the large-scale automobile manufacturers in the PRC. Meanwhile, the Group will work with foreign enterprises to develop potential projects, to introduce international advanced technology and to diversify its product portfolio. As for the marketing strategy, the Group will assign excellent salesmen and engage local distributors in target regions which are selected for their market and economic development in order to increase our market share.

As for the automobile manufacturing business, the Group will closely monitor the construction progress of the production lines of passenger and business automobiles as a preparation for entering the automobile market. Adopting the "Diversified products with low cost" strategy, the Group manufactures quality products with low cost. To implement our sales strategy which includes both direct sales and indirect sales through agents, the Group will continue to participate in automobile exhibitions and invite well established distributors and professional sales companies to join the Group's sales network in order to actively explore the market. Moreover, the Group will be engaged in mature and profitable automobile related business through equity investment so as to create synergy with its existing business.

To further increase our market share and enhance our competitiveness in the automobile industry, the Group provides its customers with one-stop comprehensive services, developing a four-in-one service which includes automobile sales, after sales service, accessories supply and information supply. The Group also standardizes its after sales services to provide quality services. Currently, after sales services contribute about 50% of the profits of automobile retailers. Therefore, the Group believes that expanding after sales services can help broaden its profit base and sources of revenue.

In future, the Group will continue to implement the following development strategies and measures:

– Speed up the research and development of new products to diversify our product mix.

– Upgrade production technology and improve product design, optimize production procedures in order to reduce production cost effectively and increase competitiveness.

– Implement e-commerce and establish "Zhongda International" as a quality brand name.

– Provide one-stop service to cater for the various needs of the customers.

– Establish an international trading company to focus on overseas market and launch new products in overseas market to increase sales.

- Explore development opportunities, capitalize on the strength of the capital market to carry out acquisitions, mergers, restructurings, in order to speed up the development of the business.

- Continue to implement the staff reward system to motivate the staff, enhance service quality and operating efficiency.

- Build up an excellent team and strengthen information management.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2003, the Group's total assets amounted to RMB317,491,000, represented a increase of RMB55,906,000 (2002 restated: RMB261,585,000). As at 31st December, 2003, the Group had bank balances and cash of RMB45,803,000 (2002: RMB47,795,000) and bank loans amounted to RMB65,900,000 (2002: RMB48,391,000). The Group's bank borrowings were mainly secured by corporate guarantee given by subsidiaries of the Company, or by charges on certain of the Group's land use right and buildings with a net book value of RMB30,623,000 (2002: RMB32,614,000).

There is no significant changes to the bad debt provision and inventory provision except in the case of Zhongda Group (U.S.A.) Inc. where the debtors and inventory level have significantly decreased. As a result, there was a reduction of bad debts provision by RMB1,648,000 (2002: increase by RMB5,980,000) and a reduction of stock provision by RMB806,000 (2002: increase of RMB2,198,000). The income of the Group is mainly denominated in RMB and USD, while the borrowings are mainly denominated in RMB. The Directors believe the exchange rate of RMB and USD are quite stable, and accordingly, there is no significant exposure to foreign exchange rate fluctuation. The bank borrowings were at interest rates ranging from 3.98% to 7.13% per annum (2002: 5.625% to 7.13% per annum). As at 31st December, 2003, the debt to equity ratio of the Group was 42.7% (2002 restated: 33.8%). The debt to equity ratio is computed on the basis of total bank borrowings divided by the shareholders' fund of the Group.

DIVIDEND

The Board of Directors do not recommend the payment of a dividend for the year ended 31st December, 2003 (2002: Nil).

EMPLOYEE REMUNERATION POLICIES

As at 31st December, 2003, the Group employed a total of 898 (2002: 891) 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 with reference to the Group's performance and individual performance. The Group also provides other benefits such as medical and retirement benefits to both the directors and employees.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31st December, 2003.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong (the "Listing Rules").

AUDIT COMMITTEE

The Company established an audit committee with terms of reference in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing rules. 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 the three independent non-executive directors, namely, Mr Gu Yao Tian, Mr Chan Wai Dune and Mr Li Xin Zhong.

PUBLICATION OF ANNUAL REPORT ON THE STOCK EXCHANGE'S WEBSITE

All the information required by paragraphs 45(1) to 45(3) of Appendix 16 to the Listing Rules in force prior to 31st March, 2004 will be published on the website of the Stock Exchange at www.hkex.com.hk.

On behalf of the Board
Xu Lian Guo
Chairman

Hong Kong, 20th April, 2004

The board of directors comprises:

Executive Directors:
Mr Xu Lian Guo *(Chairman)*
Mr Xu Lian Kuan
Mr Zhang Yuqing

Independent Non-executive Directors
Mr Guo Yao Tian
Mr Chan Wai Dune
Mr Li Xin Zhong

"Please also refer to the published version of this announcement in The Standard".