ZHONGDA INTERNATIONAL HOLDINGS LIMITED

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

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2005

RESULTS

The board of directors (the "Directors") of Zhongda International Holdings Limited (the "Company") to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2005 together with the comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT
For year ended 31 December 2005

	Notes	**2005** **RMB'000**	2004 *RMB'000* *(restated)*
Turnover	2	**177,313**	217,706
Cost of sales		**(113,360)**	(151,455)
Gross profit		**63,953**	66,251
Other revenue		**4,364**	10,981
Selling and distribution expenses		**(16,906)**	(14,071)
Administrative expenses		**(66,575)**	(27,718)
Other operating expenses		**(2,352)**	(9,157)
Loss on deemed disposal of a subsidiary		**(7,990)**	–
Finance costs	3	**(7,029)**	(5,197)
(Loss)/profit before taxation	4	**(32,535)**	21,089
Taxation	5	**3,157**	(5,033)
(Loss)/profit for the year		**(29,378)**	16,056
Attributable to:			
Equity holders of the Company		**(25,703)**	12,962
Minority interests		**(3,675)**	3,094
		(29,378)	16,056
Dividends	6	**–**	–
(Loss)/earnings per share	7		
– Basic		**(6.43) cents**	3.24 cents
– Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET
As at 31 December 2005

	2005 *RMB'000*	2004 *RMB'000* *(restated)*
Non-current assets		
Goodwill	–	12,254
Property, plant and equipment and construction-in-progress	**122,973**	178,322
Prepaid lease payments on land use rights	**53,199**	34,156
Prepayment for an investment in an associate	**1,087**	–
Investments in securities	–	1,101
Available-for-sale investments	**900**	–
Deferred tax assets	**16,224**	11,681
	194,383	237,514
Current assets		
Inventories	**36,455**	55,097
Trade receivables	**101,552**	107,034
Prepayments and other receivables	**9,159**	17,888
Prepaid lease payments on land use rights	**772**	756
Amounts due from related companies	**14,676**	10,380
Cash and bank balances	**4,566**	31,830
	167,180	222,985
Current liabilities		
Trade payables	**33,526**	52,791
Advance receipt from customers	**2,373**	12,998
Other payables and accruals	**40,963**	65,547
Amounts due to related companies	**406**	8,553
Amounts due to directors	**4,584**	1,530
Tax payable	**14,284**	12,898
Bank loans – due within one year	**77,430**	112,710
	173,566	267,027
Net current liabilities	**(6,386)**	(44,042)
Total assets less current liabilities	**187,997**	193,472
Non-current liability		
Bank loans – due after one year	**27,070**	–
	160,927	193,472
Capital and reserves		
Share capital	**42,386**	42,386
Reserves	**100,111**	126,230
Equity attributable to equity holders of the Company	**142,497**	168,616
Minority interests	**18,430**	24,856
	160,927	193,472

Notes:

1. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet, consolidated cash flow statement and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in a number of areas that have an effect on how the Group's results for the current and/or prior accounting years are prepared and presented and the summary of the effect of the changes in accounting policies on the results for the current and prior years are as follows:

	2005 ***RMB'000***	2004 *RMB'000*
Decrease in depreciation on property, plant and equipment	**650**	650
Increase in amortisation of prepaid lease payments on land use rights	**(350)**	(350)
Increase in deferred taxation	**(96)**	(96)
Increase in minority interests	**(43)**	(43)
Decrease in loss/increase in profit for the year	**161**	161

Analysis of decrease in loss/increase in profit for the year by line items presented according to their function:

	2005 ***RMB'000***	2004 *RMB'000*
Depreciation and amortisation	**300**	300
Deferred taxation	**(96)**	(96)
Minority interests	**(43)**	(43)
Decrease in loss/increase in profit for the year	**161**	161

The cumulative effects of the application of the new HKFRSs on the consolidated balance sheet as at 31 December 2004 and 1 January 2005 are summarised as follows:

	As at 31/12/2004 (originally stated) *RMB'000*	**Adjustment** *RMB'000* *HKAS 1*	**Adjustment** *RMB'000* *HKAS 17*	**Reclassification** *RMB'000*	**As at 31/12/2004 (restated)** *RMB'000*	**Adjustment** *RMB'000* *HKAS 39*	**As at 1/1/2005 (restated)** *RMB'000*
Property, plant and equipment and construction-in-progress	211,014	–	(32,692)	–	178,322	–	178,322
Prepaid lease payments on land use rights	–	–	34,912	–	34,912	–	34,912
Investments in securities	1,101	–	–	–	1,101	(1,101)	–
Available-for-sale investments	–	–	–	–	–	1,101	1,101
Deferred tax assets	12,331	–	(650)	–	11,681	–	11,681
Prepayments and other receivables	26,888	–	–	(9,000)	17,888	–	17,888
Amounts due from related companies	1,217	–	–	9,163	10,380	–	10,380
Amounts due to related companies	(8,390)	–	–	(163)	(8,553)	–	(8,553)
Other assets/liabilities	(52,259)	–	–	–	(52,259)	–	(52,259)
Total effects on assets and liabilities	191,902	–	1,570	–	193,472	–	193,472
Capital and reserves							
Share capital	42,386	–	–	–	42,386	–	42,386
Other reserves	22,488	–	–	–	22,488	–	22,488
Accumulated profits	102,434	–	1,308	–	103,742	–	103,742
Minority interests	–	24,594	262	–	24,856	–	24,856
Total equity	167,308	24,594	1,570	–	193,472	–	193,472
Minority interests	24,594	(24,594)	–	–	–	–	–
	191,902	–	1,570	–	193,472	–	193,472

The financial effects of the application of the new HKFRSs to the Group's equity as at 1st January 2004 are summarised below:

	As originally stated RMB'000	**HKAS 1** RMB'000	**HKAS 17** RMB'000	**As restated** RMB'000
Share capital	42,386	–	–	42,386
Accumulated profits	89,633	–	1,147	90,780
Other reserves	22,488	–	–	22,488
Minority interests	–	16,070	219	16,289
Total equity	154,507	16,070	1,366	171,943

2. TURNOVER AND SEGMENT INFORMATION

(a) Turnover

Turnover represents gross invoiced sales, net of discounts and returns. Analysis of the turnover by major category is as follows:

	2005	2004
	RMB'000	*RMB'000*
Sales of goods	**142,619**	170,667
Revenue from construction contracts	**34,694**	47,039
	177,313	217,706

(b) Segments Information

For management purposes, the Group is currently organised into two operating divisions – automobile equipment and bus. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Automobile equipment – manufacture and sale of automobile equipment

Bus – manufacture and sale of buses

Segment information about these businesses is presented below:

	Automobile equipment		**Bus**		**Total**	
	2005	2004	**2005**	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
						(restated)
REVENUE						
External sales	**177,313**	214,034	**–**	3,672	**177,313**	217,706
RESULTS						
Segment results	**(7,399)**	28,059	**(5,243)**	12	**(12,642)**	28,071
Unallocated corporate expenses					**(9,238)**	(12,766)
Other revenue					**4,364**	10,981
Loss on deemed disposal of a subsidiary					**(7,990)**	–
Finance costs					**(7,029)**	(5,197)
(Loss)/profit before taxation					**(32,535)**	21,089
Taxation					**3,157**	(5,033)
(Loss)/profit for the year					**(29,378)**	16,056
OTHER INFORMATION						
Segment capital expenditure	**5,666**	33,505	**5,169**	3,837	**10,835**	37,342
Segment depreciation	**3,142**	2,601	**–**	–	**3,142**	2,601
Unallocated corporate depreciation					**52**	52
Total					**3,194**	2,653
Segment amortisation on prepaid lease payments on land use rights	**350**	350	**–**	–	**350**	350
Impairment loss recognised on property, plant and equipment	**–**	168	**–**	–	**–**	168
Allowance for inventories	**2,684**	–	**4,694**	–	**7,378**	–
Allowance for doubtful debts	**15,926**	1,810	**–**	–	**15,926**	1,810
Write-off of bad debts	**16,498**	958	**–**	—	**16,498**	958

	2005	2004	**2005**	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
		(restated)		*(restated)*		*(restated)*
ASSETS						
Segment assets	**310,480**	329,799	**50,810**	130,180	**361,290**	459,979
Unallocated corporate assets					**273**	520
Total					**361,563**	460,499
LIABILITIES						
Segment liabilities	**160,573**	164,614	**34,010**	101,568	**194,583**	266,182
Unallocated corporate liabilities					**6,053**	845
Total					**200,636**	267,027

3. **FINANCE COSTS**

	2005 *RMB'000*	**2004** *RMB'000*
Interest expenses on bank loans	**7,029**	5,197

4. **(LOSS)/PROFIT BEFORE TAXATION**

(Loss)/profit before taxation has been arrived at after charging:–

	2005 *RMB'000*	2004 *RMB'000* *(restated)*
Amortisation on prepaid lease payments on land use rights	**350**	350
Auditors' remuneration	**1,050**	632
Allowance for inventories	**7,378**	–
Allowance for doubtful debts	**15,926**	1,810
Cost of inventories sold (excluding staff costs, depreciation on property, plant and equipment, amortisation on prepaid lease payments on land use rights, and allowance for inventory)	**103,700**	115,420
Depreciation on property, plant and equipment	**3,194**	2,653
Impairment loss recognised on property, plant and equipment	**–**	168
Operating leases in respect of rented premises	**745**	865
Staff costs (excluding directors' emoluments)		
– Salaries and wages	**13,420**	13,672
– Retirement benefit scheme contributions	**2,761**	841
Write-off of bad debts	**16,498**	958

5. **TAXATION**

	2005 *RMB'000*	**2004** *RMB'000* *(restated)*
Current income tax		
– Hong Kong	**–**	–
– PRC	**1,386**	5,372
– USA	**–**	–
Deferred taxation		
– PRC income taxes	**(4,543)**	(339)
	(3,157)	5,033

No Hong Kong Profits Tax for both years has been provided for as the Group has no assessable profits in Hong Kong.

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% of deduction for the next 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. **DIVIDENDS**

No dividend was paid or proposed during the year, nor has any dividend been proposed since the balance sheet date (2004: Nil).

7. **(LOSS)/EARNINGS PER SHARE**

The calculation of (loss)/earnings per share was based on the Group's loss attributable to equity holders of the Company of approximately RMB25,703,000 (2004 as restated: profit of approximately RMB12,962,000) and the weighted average number of 400,004,000 shares (2004: 400,004,000 shares) in issue during the year.

No diluted (loss)/earnings per share is presented for both years ended 31 December 2005 and 2004 as the outstanding potential ordinary shares are anti-dilutive for both years.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Group's turnover during the year amounted to approximately RMB177,313,000, a decrease of 18.6% from last year. The Group's automobile maintenance equipment business emphasized the development of high value-added and hi-tech products this year, and the overall gross profit margin rose from 30.4% last year to 36.1% this year. Loss attributable to shareholders was approximately RMB25,703,000 (2004: profit of RMB12,962,000), which was mainly caused by the provision of approximately RMB32,424,000 for allowance for doubtful debts and write-off of bad debts, provision of approximately RMB7,378,000 for allowance for inventories, and loss of approximately RMB7,990,000 from the deemed disposal of Sichuan Zhongda Emei Coach Manufacturing Limited and its write-off of investment.

For the year ended 31 December 2005, the basic loss per share of the Group was approximately RMB6.43 cents (2004: basic earnings per share of approximately RMB3.24 cents).

Operating Environment

2005 was a challenging year for the automobile manufacturing sector in China. The price of steel and raw materials for manufacturing vehicles recorded further increase while the downward adjustment in the selling prices of vehicles continued, putting pressure on the gross profit of the automobile manufacturing sector. On the other hand, domestic banks tightened their financing on automobiles and the surge in crude oil prices reduced the appetite of consumers for automobiles. A majority of consumers maintained a "wait-and-see" attitude, which led to a slow down in the growth of domestic sales of automobile.

According to the statistics of China Association of Automobile Manufacturers, the production and sales volumes of vehicles in China for the year 2005 were both 5.5 million units, representing an increase of 9% and 12% respectively when compared with 2004. This has demonstrated that the demand for vehicles in China is still strong though the growth rate has stabilized.

In the previous year, strategic adjustment was noted in the automobile maintenance market. In the past, players in the sector focused on setting up 4-in-1 (vehicles sales, after-sales services, technical consultation and provision of spare parts) service centers. This practice has been gradually changed to the establishment of well planned and convenient "express service centers." These "express service centres" are relatively smaller in scale, and can satisfy vehicle users' demand for instant inspection and repair. Throughout the automobile maintenance sector, the existing equipment-intensive integrated services are now being replaced by low-investment but high quality and convenient services.

Automobile Maintenance Equipment Business

In 2005, the product structure of automobile maintenance equipment business of the Group underwent an adjustment. The business volume of products with lower sales price (e.g. lifters) increased while business volume of products with higher sales price has dipped. Together with the postponement of some of the establishment of "4S" shops of the leading car manufacturers in the PRC during the year, their procurement from the Group, especially the purchase of special products, has been affected.

In response to the market demand, the Group continued to put in new resources for strengthening the research and development of high value-added products. The Group launched several new products such as integrated inspection equipment and safety inspection equipment during the year. Market response for these products was positive, enhancing the overall profit margin of these products as a result.

The technical problems associated with the Group's car washing machine joint venture with an Italian listed company were solved during the year of 2005. Plant construction and equipment installation were completed, trial production commenced in 2005 and commercial production will begin in 2006.

During the year, the export sales of the Group were approximately RMB27,178,000, representing a decrease of approximately 5.7% when compared with last year and approximately 15.3% of the total turnover. The Group mainly exported lifters and lacquer rooms in 2005. During the year, the Group sold its export products mainly through distributors. There are altogether three distributors located in the eastern, central and western parts of the United States. On the other hand, the Group further expanded its overseas markets. Products were sold to new markets including the Middle East and Russia.

In previous years, the Group increased its market share and expanded sales volume through the adoption of preferential sales policies for individual and scattered customers. As the market was very competitive in the past two years, a number of operators with less financial strength have been eliminated from the market, and the Group has had to write off or make provision for the trade receivables from these customers. As such, the Group has made adjustments to the relevant sales policies, while strengthening the management control as well as increasing its efforts in debt recovery.

Automobile Manufacturing Business

In the year 2004, the Group established two joint ventures Nanjing Zhongda Jinling Double-Decker Bus Manufacture Company Limited ("Zhongda Jinling") with Jiangsu Jinling Transportation Group Limited and Sichuan Zhongda Emei Coach Manufacturing Limited ("Zhongda Emei") with Sichuan Bus Manufacture Limited respectively. The Group indirectly held 60% and 71% interest in Zhongda Jinling and Zhongda Emei respectively.

Zhongda Jinling is the only enterprise designated by the State for developing double-deck city buses. Zhongda Jinling possesses advanced technologies in the manufacture of similar products in China. The "Jinling" double-deckers share over 80% of the turnover of the urban transportation market in China. Major cities like Beijing and Shanghai have purchased Jinling brand double-deckers. This joint venture is currently in its start-up stage, various upgrading works and application for production permits are under process, and therefore unable to make any income contribution for the Group this year. During the year, the Group upgraded the technologies of Zhongda Jinling, planning to expand its annual production capacity from 500 units to 2,000 units. The project is expected to be completed by the end of 2006.

As at 31 December 2005, the Group has made investment into Zhongda Emei amounting to RMB5,000,000, the operation and financial position of the joint venture, however, have been unsatisfactory, the Group has not injected the remaining amount of investment into the joint venture. On 20 July 2006, the joint venture party filed a litigation requesting to terminate the joint venture agreement. After seeking legal opinion and upon consideration, the Group has decided that, while a provision was made for the full amount of RMB5,000,000 in the account for the current year, it will not inject the remaining amount of investment of RMB11,000,000 into Zhongda Emei. According to the analysis of its legal advisor, such litigation shall not cause further material loss to the Group. The Group is currently arranging negotiation with the joint venture party to arrive at an acceptable settlement proposal. Please refer to the Group's announcement dated 1 August 2006 for details of the litigation.

Liquidity and Financial Resources

As at 31 December 2005, the net asset value of the Group amounted to approximately RMB160,927,000 (2004: approximately RMB193,472,000), representing a decrease of approximately 16.8% from last year. Net current liabilities amounted to approximately RMB6,386,000 (2004: approximately RMB44,042,000), a decrease of approximately 85.5% from last year, which is mainly due to the deemed disposal of Zhongda Emei for the current year.

As at 31 December 2005, cash and bank balances of the Group amounted to approximately RMB4,566,000 (2004: approximately RMB31,830,000). Cash is mainly denominated in Renminbi. Long and short term bank loans amounted to approximately RMB27,070,000 and RMB77,430,000 respectively (2004: nil and approximately RMB112,710,000 respectively), representing a decrease of approximately RMB8,210,000 from last year, while the successful refinancing of long term bank loans during the year has improved the Group's liquidity. As at 31 December 2005, the Group's bank borrowings as a percentage of net asset value was 64.9% (2004: 58.3%), an increase of approximately 6.6% from last year.

The interest rates of bank borrowings ranged between 4.65% and 7.49% per annum (2004: between 3.98% and 6.59%). The collaterals provided for these bank borrowings mainly comprised certain land use rights and buildings of the subsidiaries of the Group.

The revenue of the Group was mainly denominated in Renminbi and US Dollar, and the borrowings were mainly settled in Renminbi. The directors are of the view that since the exchange rate between Renminbi and US Dollar is relatively stable, there is no significant risk in relation to foreign exchange fluctuation.

As at 31 December 2005, the Group had contingent liabilities of approximately RMB12,100,000 (2004: nil).

Dividend

The Board of Directors does not recommend the payment of a final dividend for the year ended 31 December 2005 (2004: Nil).

Prospect

In 2006, the development of the PRC automobile market will remain steady, and it is expected that the increase in imported automobiles will help generate demand for automobile maintenance equipments. Beijing and Shanghai are going to hold the Olympics and the World Exposition respectively. These large-scale international events will effectively promote market demand for transportation vehicles. We expect that in order to cope with the traffic to be generated by the aforesaid activities, Beijing and Shanghai will need to build 1,000 and 500 "express service centres" respectively so as to provide inspection and maintenance services for various types of vehicles.

With respect to coaches, given the aims of enhancing environmental protection and further complying with international standards, the Chinese government requires the existing 760,000 coaches that meet the Euro I Emission Standard to meet the higher Euro II Emission Standard within five years. It is expected that, in the next five years, approximately 150,000 coaches will need to be replaced each year in order to meet the above requirement. In 2005, a total of 110,000 coaches were sold in China.

On the other hand, the Chinese government is currently holding the "Cun Cun Tong" Campaign ("Connecting the Villages") to improve the standard of living in rural areas. The project is aimed at extending the coverage of television broadcast, asphalt highways and public bus service to the rural areas. It is estimated that the project would create a demand for up to 100,000 buses each year.

With the tightening of vehicle emission restriction, extension of highway coverage and increase in long distance traffic flow, there will be huge market potential for double-deckers and long-haul coaches in China.

The Group is committed to strengthening the business models and management operations of its joint ventures by adopting the market-oriented approach for the development of these ventures to raise the sales of Zhongda Jinling and their operating efficiency.

The Group will also work to strengthen its capacities of market expansion and technology development with focus on multi-fuel (LPG, gasoline, electricity) vehicles and development of low platform public buses and other buses exclusive for the "Cun Cun Tong" project.

In addition, the Group will expand the after-sales product range for vehicles by, for example, boosting the production of car washing machines for commercial launching into the market, increasing the target sales volume for inspection machines, developing new types of lacquer rooms and maximizing the sales of surface treatment lines.

In response to the market trend, the Group will supply professional equipment for the emerging "express service centres." At the same time, the Group will assess the feasibility of establishing its own express service centres.

Looking forward, the Group expects to achieve better sales, profitability and management results.

EMPLOYEE REMUNERATION POLICIES

As at 31 December 2005, the Group employed a total of 912 (2004: 1,200) 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 elegible staff by reference to the Group's performance and individual performance. The Group also provides other benefits to its employees such as medical and statutory retirement benefits for both the directors and employees.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor its subsidiaries had purchased, sale and redeemed any of the Company's listed securities during the year ended 31 December 2005.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company has complied with the Code on Corporate Governance Practices as set out in the Appendix 14 of the Listing Rules with effective from the accounting periods from 1 January 2005. A Corporate Governance Report for the financial year ended 31 December 2005 is prepared in accordance with Appendix 15 of the Listing Rules and will be attached to the 2005 annual report of the Company.

AUDIT COMMITTEE

The Company established an audit committee on 8 October 2001 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 reviewed the Group's annual results for the year ended 31 December 2005 in conjunction with the Company's external auditors. The audit committee has three members comprising the three independent non-executive directors, namely Mr. Chan Wai Dune, Mr. Gu Yao Tian and Mr. Li Xin Zhong. Mr. Chan Wai Dune is the chairman of the audit committee.

REMUNERATION COMMITTEE

The Company established a remuneration committee on 1 January 2005 with the 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 remuneration are to review and make recommendation for the remuneration policy of the directors and senior management. The remuneration committee comprises two independent non-executive directors, Mr. Gu Yao Tian and Mr. Li Xin Zhong, and one executive director, Mr. Zhang Yuqing. Mr. Gu Yao Tian is the chairman of the remuneration committee.

SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, trading in the shares was suspended with effect from 2 May 2006 pending the release of annual results of the Company for the year ended 31 December 2005. Application has been made by the Company to the Stock Exchange for resumption of trading in the shares of the Company with effect from 9:30 a.m. on Tuesday 22 August 2006.

By Order of the Board
Xu Lian Guo
Chairman

Yancheng, China, 21 August 2006

Executive Directors:

Mr. Xu Lian Guo *(Chairman)*
Mr. Xu Lian Kuan
Mr. Zhang Yuqing

Independent Non-executive Directors:

Mr. Chan Wai Dune
Mr. Gu Yao Tian
Mr. Li Xin Zhong

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