

# Notes to the Accounts

*As of and for the year ended 31st December, 2002  
(Amounts expressed in thousands of RMB unless otherwise stated)*

## 1. GROUP INFORMATION

The Company was incorporated in Bermuda on 14th September, 2000 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. The shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 1st November, 2001.

## 2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

### (a) Basis of preparation

The accounts 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 adopted the following Statements of Standard Accounting Practice (“SSAP”) issued by the HKSA which are effective for accounting periods commencing on or after 1st January, 2002:

SSAP1 (revised):	Presentation of financial statements
SSAP11 (revised):	Foreign currency translation
SSAP15 (revised):	Cash flow statements
SSAP33:	Discontinuing operations
SSAP34 (revised):	Employee benefits

The adoption of the above revised or new SSAPs had no material effect on the consolidated accounts of the Group except that certain presentational changes have been made upon the adoption of SSAP1 (revised) “Presentation of financial statements” and SSAP15 (revised) “Cash flow statements”.

### (b) Basis of consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

## Notes to the Accounts

*As of and for the year ended 31st December, 2002  
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### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (b) Basis of consolidation (continued)

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

#### (c) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries expressed in foreign currencies is translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

#### (d) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time the goods are delivered to customers and title has passed.

Interest income from bank deposits is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rate applicable.

Dividend income of the Company is recognised when the right to receive payment is established.

#### (e) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

## Notes to the Accounts

As of and for the year ended 31st December, 2002  
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### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (f) Operating leases

Leases where substantially all the rewards and risks of ownership remain with the leasing company are accounted for as operating leases. Rental payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the relevant leases.

#### (g) Property, plant and equipment and depreciation

Property, plant and equipment, other than construction-in-progress, are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of the property, plant and equipment.

Depreciation is calculated using the straight-line basis to write off the cost, less accumulated impairment losses, after taking into account the estimated residual value, of each asset over its expected useful life. The estimated useful lives and estimated residual values, as a percentage of the cost, are as follows:

Description	Useful life	Residual value
Land use rights	Over the remaining period of lease	–
Buildings	10-30 years	10%
Leasehold improvements	Over the unexpired period of the lease	–
Plant and machinery	10 years	10%
Motor vehicles	5 years	0% – 10%
Furniture and equipment	5-7 years	0% – 10%

Construction-in-progress represents plant and properties under construction and is stated at cost less accumulated impairment losses. This includes cost of construction, site restoration costs, plant and equipment and other direct costs plus borrowing costs which include interest charges and exchange differences arising from foreign currency borrowings used to finance these projects during the construction period, to the extent these are regarded as an adjustment to interest costs.

Construction-in-progress is not depreciated until such time as the assets are completed and ready for their intended use.

## Notes to the Accounts

*As of and for the year ended 31st December, 2002  
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### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (g) Property, plant and equipment and depreciation (continued)

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that property, plant and equipment are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

#### (h) Investment securities

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

#### (i) Inventories

Inventories comprise raw materials, work in progress and finished goods and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

#### (j) Accounts receivables

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

#### (k) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

## Notes to the Accounts

*As of and for the year ended 31st December, 2002  
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### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (l) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

#### (m) Employee benefits

The subsidiaries of the Group established in the People's Republic of China ("PRC") participate in employee social security plans, including pension, medical, housing and other welfare benefits, organised by the PRC government authorities in accordance with relevant PRC regulations.

According to the relevant PRC regulations, premium and welfare benefit contributions are remitted to the social welfare authorities and are calculated based on percentages of the total salary of employees, subject to a certain ceiling. Contributions to the plans are charged to the profit and loss account as incurred.

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Except for the above, the Group has no other material commitment to other long-term or post employment employee benefits.

#### (n) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

#### (o) Segments

In accordance with the Group's internal financial reporting the Group has determined that geographical segments be presented as the primary reporting format.

## Notes to the Accounts

*As of and for the year ended 31st December, 2002  
(Amounts expressed in thousands of RMB unless otherwise stated)*

### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (o) Segments (continued)

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities. Capital expenditure comprises additions to property, plant and equipment, including additions resulting from acquisitions through purchases of subsidiaries.

#### (p) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

## Notes to the Accounts

As of and for the year ended 31st December, 2002  
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### 3. SEGMENT REPORTING

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

	PRC		USA		Unallocated		Elimination		Total	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>REVENUE</b>										
External sales	152,899	157,477	20,532	22,743	-	-	-	-	173,431	180,220
Inter-segment sales	11,920	9,238	-	-	-	-	(11,920)	(9,238)	-	-
Other revenues	4,066	1,380	75	23	167	82	-	-	4,308	1,485
<b>Total</b>	<b>168,885</b>	<b>168,095</b>	<b>20,607</b>	<b>22,766</b>	<b>167</b>	<b>82</b>	<b>(11,920)</b>	<b>(9,238)</b>	<b>177,739</b>	<b>181,705</b>
<b>RESULTS</b>										
Segment results	16,030	41,673	(1,405)	1,728	-	-	(649)	2,135	13,976	45,536
Unallocated corporate expenses	-	-	-	-	(7,429)	(1,694)	-	-	(7,429)	(1,694)
Operating profit / (loss)	16,030	41,673	(1,405)	1,728	(7,429)	(1,694)	(649)	2,135	6,547	43,842
Finance cost	(2,143)	(3,626)	-	-	(423)	-	-	-	(2,566)	(3,626)
Taxation	(1,540)	(1,813)	(44)	(83)	-	-	-	-	(1,584)	(1,896)
Minority interests	195	(4,809)	-	-	-	-	-	-	195	(4,809)
Net profit / (loss) for the year	12,542	31,425	(1,449)	1,645	(7,852)	(1,694)	(649)	2,135	2,592	33,511

## Notes to the Accounts

As of and for the year ended 31st December, 2002  
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### 3. SEGMENT REPORTING (continued)

	PRC		USA		Unallocated		Total	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
<b>ASSETS</b>								
Segment assets	222,149	198,331	9,694	13,410	-	-	231,843	211,741
Unallocated corporate assets	-	-	-	-	26,440	30,804	26,440	30,804
<b>Total</b>	<b>222,149</b>	<b>198,331</b>	<b>9,694</b>	<b>13,410</b>	<b>26,440</b>	<b>30,804</b>	<b>258,283</b>	<b>242,545</b>
<b>LIABILITIES</b>								
Segment liabilities	84,289	84,093	529	2,684	-	-	84,818	86,777
Unallocated corporate liabilities	-	-	-	-	20,042	495	20,042	495
<b>Total</b>	<b>84,289</b>	<b>84,093</b>	<b>529</b>	<b>2,684</b>	<b>20,042</b>	<b>495</b>	<b>104,860</b>	<b>87,272</b>
<b>MINORITY INTERESTS</b>								
	13,274	13,469	-	-	-	-	13,274	13,469
<b>OTHER INFORMATION</b>								
Segment capital expenditure	215	39,205	159	104	-	-	374	39,309
Unallocated corporate capital expenditure	-	-	-	-	260	501	260	501
<b>Total</b>	<b>215</b>	<b>39,205</b>	<b>159</b>	<b>104</b>	<b>260</b>	<b>501</b>	<b>634</b>	<b>39,810</b>
Segment depreciation	3,154	2,452	259	78	-	-	3,413	2,530
Unallocated corporate depreciation	-	-	-	-	422	84	422	84
<b>Total</b>	<b>3,154</b>	<b>2,452</b>	<b>259</b>	<b>78</b>	<b>422</b>	<b>84</b>	<b>3,835</b>	<b>2,614</b>
Provision for / (Reversal of provision for) inventory obsolescence	2,198	(439)	-	529	-	-	2,198	90
Provision for / (Reversal of provision for) doubtful debts	6,221	6,232	(241)	(1,589)	-	-	5,980	4,643
Write-off of bad debts	-	-	1,089	-	-	-	1,089	-

The Group is principally engaged in a single business segment being the manufacture and sales of automobile equipment and only geographical segment information is presented as above.



## Notes to the Accounts

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### 4. TURNOVER AND REVENUE

#### Group

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

	<b>2002</b>	2001
	<b>RMB'000</b>	RMB'000
Lacquer rooms	<b>88,441</b>	106,382
Automobile lifters	<b>27,118</b>	24,311
Painting and coating lines	<b>28,671</b>	10,532
Computerised car wash system	<b>4,006</b>	7,109
Other automobile equipment	<b>25,195</b>	31,886
Turnover	<b>173,431</b>	180,220
Other revenues		
– Sales of raw materials	<b>3,852</b>	1,273
– Interest Income on bank deposits	<b>366</b>	162
– Others	<b>90</b>	50
Other revenue	<b>4,308</b>	1,485
Total revenue	<b>177,739</b>	181,705

## Notes to the Accounts

As of and for the year ended 31st December, 2002  
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### 5. OPERATING PROFIT

#### Group

Operating profit is determined after charging the following:

	2002 RMB'000	2001 RMB'000
Depreciation on owned assets	3,835	2,614
Staff costs (excluding directors' emoluments (Note 11))		
– Salaries and wages	14,971	11,515
– Defined contribution plans (Note 30)	1,165	1,053
Operating leases in respect of buildings	2,587	1,668
Auditors' remuneration	955	790
Loss on disposals of property, plant and equipment	469	–
Provision for inventory obsolescence	2,198	90
Provision for doubtful debts	5,980	4,643
Write-off of bad debts	1,089	–

### 6. FINANCE COSTS

#### Group

	2002 RMB'000	2001 RMB'000
Interest on bank borrowings repayable within five years	2,566	3,626

### 7. TAXATION

#### Group

The amount of taxation charged to the consolidated profit and loss account represented:

	2002 RMB'000	2001 RMB'000
Current income tax		
– Hong Kong profits tax (Note (a))	–	–
– PRC income tax (Note (b))	1,540	3,203
– USA income taxes (Note (c))	44	83
Deferred taxation		
– PRC income taxes (Note 14)	–	(1,390)
	1,584	1,896

## Notes to the Accounts

*As of and for the year ended 31st December, 2002  
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### **7. TAXATION (continued)**

- (a) No Hong Kong profits tax has been provided, as the Group had no assessable profits in Hong Kong during the year.
- (b) The PRC income tax represents enterprise income tax ("EIT") on the taxable income reported in the accounts of subsidiaries established in the PRC which are prepared in accordance with the PRC accounting principles and regulations.

Generally, companies established in the PRC are subject to EIT at 33 per cent. In accordance with relevant tax laws and regulations, Zhongda Automobile Machinery Manufacture Co., Ltd. ("Zhongda Machinery"), Yancheng Dasheng Automotive Equipment Co., Ltd. ("Yancheng Dasheng"), Jiangsu Zhongda Industrial Painting and Environmental Protection Co., Ltd. ("Zhongda Painting") and Yancheng Zhongda Industrial Equipment Manufacture Co., Ltd. ("Yancheng Zhongda Industrial Equipment"), as foreign invested manufacturing enterprises located in Yancheng designated as a Coastal Open Economic Zone, are subject to EIT at a rate of 24 per cent and are entitled to full exemption from EIT for the first two years and a 50 per cent reduction for the next three years, commencing from the first profitable year after offsetting available tax losses carried forward from the previous five years.

As approved by Yancheng State Tax Bureau, Yancheng Dasheng, Zhongda Painting and Yancheng Zhongda Industrial Equipment were still in their tax holiday period during the year ended 31st December, 2002, and their first profitable year were determined as 1998, 1998 and 2001 respectively.

- (c) The USA income taxes represent the federal income taxes that are provided on a graduated rate basis and state income taxes that are provided at a flat rate of 8.84 per cent on the taxable income of Zhongda Group (USA) Inc ("Zhongda (USA)").

## Notes to the Accounts

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### 7. TAXATION (continued)

- (d) The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the applicable taxation rate as follows:

	2002 RMB'000	2001 RMB'000
Profit before taxation and minority interests	3,981	40,216
Tax at applicable taxation rate of 24 per cent	955	9,652
Net tax effect of income and expense items which are not assessable or deductible for income tax purpose	954	(479)
Tax effect of timing differences not accounted for	2,403	(31)
Effect of tax loss of a subsidiary not accounted for	1,630	-
Effect of different taxation rates on subsidiaries' income	(4,358)	(7,246)
Tax expense	1,584	1,896

### 8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders for the year included a net profit of approximately RMB14,330,000 dealt with in the accounts of the Company (2001: net loss of approximately RMB1,281,000).

### 9. DIVIDENDS

	2002 RMB'000	2001 RMB'000
Final, proposed, of HK\$Nil (2001: HK\$0.01) per ordinary share	-	4,242

On 4th July, 2003, the board of directors of the Company recommended not to pay a final dividend in respect of the year ended 31st December, 2002.

On 22nd April, 2002, the board of directors of the Company declared a cash dividend of HK\$0.01 per share, amounting to HK\$4,000,040 (equivalent to RMB4,242,000) in respect of the year ended 31st December, 2001.

## Notes to the Accounts

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### 10. EARNINGS PER SHARE

The calculation of earnings per share was based on the profit attributable to shareholders of RMB2,592,000 (2001: RMB33,511,000) and the weighted average number of 400,004,000 shares (2001: 333,370,000 shares) in issue during the year.

For the purpose of calculating diluted earnings per share, the outstanding warrants (Note 25(c)) were considered as potential ordinary shares. No diluted earnings per share is presented for the year ended 31st December, 2002 as the outstanding potential ordinary shares are anti-dilutive. The calculation of diluted earnings per share for 2001 was based on the consolidated net profit of RMB33,511,000 and the diluted weighted average number of approximately 342,755,000 shares in issue during the year. The effect of the dilutive potential ordinary shares resulting from the outstanding warrants on the weighted average number of shares in issue during the year was approximately 9,385,000 shares, which were deemed to be issued at HK\$0.675 each if all outstanding warrants have been exercised on the date the warrants were issued.

### 11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

#### (a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2002 RMB'000	2001 RMB'000
Non-executive directors		
– Fees	270	63
Executive directors		
– Fees	2,000	467
– Salaries, allowances, social security costs and other allowances and benefits in kind	153	359
– Pension costs	15	15
	<b>2,168</b>	<b>841</b>

The emoluments of the directors fell within the following bands:

	Number of directors	
	2002	2001
Up to HK\$1,000,000	5	5

No directors waived the right to receive emoluments during the year.

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### 11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

#### (b) Five highest paid individuals

Of the five highest paid individuals in the Group, three (2001: three) are directors of the Company whose emoluments are included above. The emoluments of the remaining two (2001: two) individuals were as follows:

	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries and other benefits	827	154
Pension costs	32	15
	<b>859</b>	<b>169</b>

Their emoluments were within the following bands:

	Number of individuals	
	2002	2001
Up to HK\$1,000,000	2	2

During the year, no emoluments were paid to the five highest paid individuals (including directors and employees) as an inducement to join the Group or as compensation for loss of office.

## Notes to the Accounts

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### 12. PROPERTY, PLANT AND EQUIPMENT

#### Group

	2002							2001	
	Land use rights RMB'000	Buildings RMB'000	Leasehold improve- ments RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture and equipment RMB'000	Con struction- in-progress RMB'000	Total RMB'000	Total RMB'000
<b>Cost</b>									
Beginning of year	7,696	37,784	501	8,419	714	744	9,789	65,647	25,837
Additions	-	30	-	63	17	524	-	634	39,810
Disposals	-	(498)	-	-	(69)	-	-	(567)	-
End of year	7,696	37,316	501	8,482	662	1,268	9,789	65,714	65,647
<b>Accumulated depreciation</b>									
Beginning of year	1,646	2,716	84	4,013	639	384	-	9,482	6,868
Charge for the year	650	1,665	417	751	66	286	-	3,835	2,614
Disposals	-	(45)	-	-	(53)	-	-	(98)	-
End of year	2,296	4,336	501	4,764	652	670	-	13,219	9,482
<b>Net book value</b>									
End of year	5,400	32,980	-	3,718	10	598	9,789	52,495	56,165
Beginning of year	6,050	35,068	417	4,406	75	360	9,789	56,165	18,969

## Notes to the Accounts

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### 12. PROPERTY, PLANT AND EQUIPMENT (continued)

- (a) The rights to use the land areas, where certain of the Group's buildings are situated, have a usage period of 12 years from the date of obtaining the land use right certificates.
- (b) As of 31st December, 2002, all the buildings of the Group are located in the PRC.
- (c) As of 31st December, 2002, land use rights and buildings with an aggregate net book value of approximately RMB32,614,000 (2001: RMB34,600,000) are mortgaged as collateral for bank borrowings of the Group (Note 24(d)).

#### Company

	2002 RMB'000	2001 RMB'000
<b>Leasehold improvements</b>		
Cost		
Beginning of year	501	–
Additions	–	501
End of year	501	501
Accumulated depreciation		
Beginning of year	84	–
Charge for the year	417	84
End of year	(501)	(84)
Net book value		
End of year	–	417
Beginning of year	417	–

### 13. INVESTMENT SECURITIES

#### Group

	2002 RMB'000	2001 RMB'000
Unlisted equity securities, at cost		
– 18% equity interest in Yancheng Shangtong Automobile Trading Co., Ltd.	900	–



## Notes to the Accounts

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### 14. DEFERRED TAX ASSETS

#### Group

	<b>2002</b>	2001
	<b>RMB'000</b>	RMB'000
Beginning of year	<b>9,309</b>	7,919
Transfer from profit and loss account (Note 7)	-	1,390
End of year	<b>9,309</b>	9,309

Deferred taxation represents the tax effect of the following timing differences of a subsidiary:

	<b>2002</b>	2001
	<b>RMB'000</b>	RMB'000
Provision for doubtful debts	<b>8,634</b>	8,634
Provision for inventory obsolescence	<b>536</b>	536
Others	<b>139</b>	139
	<b>9,309</b>	9,309

As at 31st December, 2002, unrecognised deferred tax assets amounted to RMB6,658,000 (2001: RMB2,625,000) which are mainly relating to provision of doubtful debts of certain subsidiaries of the Group.

### 15. INVESTMENT IN A SUBSIDIARY

#### Company

	<b>2002</b>	2001
	<b>RMB'000</b>	RMB'000
Unlisted shares, at cost	<b>30,387</b>	30,387

This represents investment in Zhong Da (BVI) Investments Limited ("Zhong Da (BVI) Investments").

## Notes to the Accounts

As of and for the year ended 31st December, 2002  
(Amounts expressed in thousands of RMB unless otherwise stated)

### 15. INVESTMENT IN A SUBSIDIARY (continued)

As at 31st December, 2002, details of the above subsidiary and other subsidiaries indirectly held by the Company are set out below:

Name	Country/place of incorporation/ establishment and legal form	Issued and fully paid share capital	Percentage of equity interest attributable to the Group	Principal activities and place of operation
Zhong Da (BVI) Investments	British Virgin Islands Limited liability company	1,175 ordinary shares of US\$1 each	100%	Investment holding Hong Kong
Zhong Da International Limited *	Hong Kong Limited liability company	2 ordinary shares and 9,998 deferred, non-voting shares of HK\$1 each	100%	Investment holding Hong Kong
Zhongda (USA) *	USA Limited liability company	100,000 ordinary shares of US\$1 each	100%	Trading and procurement USA
Ausen Group *	USA Limited liability company	-	100%	Dormant
Zhongda Machinery *	PRC Sino-foreign equity joint venture enterprise	RMB34,327,500	86.7%	Manufacture and sale of automobile equipment PRC
ZhongDa Group (Europe) GmbH *	The Federal Republic of Germany Limited liability company	-	100%	Dormant
Yancheng Dasheng **	PRC Sino-foreign equity joint venture enterprise	US\$500,000	43.4%	Manufacture and sale of automobile equipment PRC

## Notes to the Accounts

As of and for the year ended 31st December, 2002  
(Amounts expressed in thousands of RMB unless otherwise stated)

### 15. INVESTMENT IN A SUBSIDIARY (continued)

Name	Country/place of incorporation/ establishment and legal form	Issued and fully paid share capital	Percentage of equity interest attributable to the Group	Principal activities and place of operation
Zhongda Painting *	PRC Sino-foreign equity joint venture enterprise	RMB5,600,000	90.0%	Design, production, installation and sale of surface treatment systems PRC
Yancheng Yuntong Automobile Machinery Co., Ltd. *	PRC Limited liability company invested by PRC enterprises	-	86.7%	Dormant
Yancheng Luhua Machinery Co., Ltd. *	PRC Limited liability company invested by PRC enterprises	-	86.7%	Dormant
Yancheng Zhongda Industrial Equipment ***	PRC Sino-foreign equity joint venture enterprises	US\$1,515,500	96.0%	Manufacture and sale of automobile equipment PRC

\* These subsidiaries are indirectly held by the Company.

\*\* Yancheng Dasheng is indirectly held by the Company through Zhongda Machinery. Yancheng Dasheng is accounted for as a subsidiary as the Group has the power to cast majority of votes in the meetings of the board of directors and thus has control over Yancheng Dasheng.

\*\*\* Yancheng Zhongda Industrial Equipment is indirectly held by the Company through Zhong Da International Ltd ("Zhong Da International") and Zhongda Machinery. In November 2001 and February 2002, Zhong Da International increased its equity interests in Yancheng Zhongda Industrial Equipment by additional capital contributions of US\$783,100 and US\$130,000 respectively. The Group's equity interests in Yancheng Zhongda Industrial Equipment were 90% and 95.7% prior to the first and second additional capital contributions, which were used as the basis for the accounting of the Group's investment in Yancheng Zhongda Industrial Equipment for periods prior to the first and second additional capital contributions respectively.

## Notes to the Accounts

As of and for the year ended 31st December, 2002  
(Amounts expressed in thousands of RMB unless otherwise stated)

### 16. INVENTORIES

#### Group

	2002 RMB'000	2001 RMB'000
Raw materials	16,724	18,691
Work-in-progress	4,506	5,197
Finished goods	17,266	16,007
	<b>38,496</b>	39,895
Less: Provision for obsolescence	<b>(5,491)</b>	(3,293)
	<b>33,005</b>	36,602

At 31st December, 2002, the carrying amount of inventories that are stated at net realisable value amounted to approximately RMB9,142,000 (2001: RMB3,458,000).

### 17. TRADE RECEIVABLES

#### Group

	2002 RMB'000	2001 RMB'000
Accounts receivable	95,505	113,979
Less: Provision for doubtful debts	<b>(33,442)</b>	(27,462)
	<b>62,063</b>	86,517
Bills receivable	<b>1,100</b>	-
	<b>63,163</b>	86,517

Trade receivables, which have credit terms pursuant to the provisions of the relevant contracts, are recognised and carried at invoiced amount. Apart from the amounts withheld by customers according to the terms of contracts pending the satisfactory performance of the equipment sold, the Group generally allows a credit period to its customers ranging from three to six months.

## Notes to the Accounts

As of and for the year ended 31st December, 2002  
(Amounts expressed in thousands of RMB unless otherwise stated)

### 17. TRADE RECEIVABLES (continued)

Ageing analysis for trade receivables after provision for doubtful debts is as follows:

	<b>2002</b>	2001
	<b>RMB'000</b>	RMB'000
Within six months	<b>29,360</b>	41,479
Between seven and twelve months	<b>9,939</b>	13,470
Between one and two years	<b>16,760</b>	25,778
More than two years	<b>4,044</b>	5,276
	<b>60,103</b>	86,003
Retention receivables	<b>1,960</b>	514
	<b>62,063</b>	86,517

As of 31st December, 2002, accounts receivable of US\$147,800 (equivalent to RMB1,223,000) form part of the collateral for short-term bank borrowings of the Group (Note 24(d)).

### 18. PREPAYMENTS AND OTHER RECEIVABLES

Prepayment and other receivables of the Group as at 31st December, 2002 include tax refunds receivable of approximately RMB1,177,000, in connection with export sales, which form part of the collateral for short-term bank borrowings of the Group (Note 24(d)).

Prepayments and other receivables of the Group as at 31st December, 2002 also include amounts paid to a construction company by Zhongda Industrial Group Corporation on Zhongda Machinery's behalf totalling RMB29.9 million (see Note 28(a)(i)) in connection with relocation, demolition and land preparation costs for parcels of land at Yancheng Economic Development Zone ("YEDZ"), the use rights to which the Group intends to acquire. As the project had been delayed, an amount of RMB 29.7 million was recovered from the construction company subsequent to the year end.

### 19. DUE FROM / TO SUBSIDIARIES

#### Company

	<b>2002</b>	2001
	<b>RMB'000</b>	RMB'000
Due from subsidiaries	<b>24,141</b>	6,367
Due to a subsidiary	-	8,350

The amounts with subsidiaries were unsecured, interest free and have no fixed repayment terms.

## Notes to the Accounts

As of and for the year ended 31st December, 2002  
(Amounts expressed in thousands of RMB unless otherwise stated)

### 20. PLEDGED BANK DEPOSITS

#### Group

	2002 RMB'000	2001 RMB'000
Pledged time deposits for bank borrowings (Note 24(d))	10,606	1,614
Assignment of bank account specifically for the receipt of tax refund on export sales (Note 24(d))	14	–
	<b>10,620</b>	1,614

### 21. CASH AND BANK BALANCES

Included in cash and bank balances of the Group as of 31st December, 2002 are RMB deposits of RMB17,825,000 (2001: RMB3,581,000). At present, RMB is not a freely convertible currency in the international market and its exchange rate is fixed by the PRC government.

### 22. TRADE PAYABLES

#### Group

Ageing analysis of trade payables is as follows:

	2002 RMB'000	2001 RMB'000
Within one year	11,690	15,904
Between one and two years	1,324	3,182
Between two and three years	2,405	1,485
More than three years	2,988	1,929
	<b>18,407</b>	22,500

## Notes to the Accounts

As of and for the year ended 31st December, 2002  
(Amounts expressed in thousands of RMB unless otherwise stated)

### 23. TAXES PAYABLE

#### Group

	2002 RMB'000	2001 RMB'000
PRC value-added taxes payable	13,170	12,044
PRC EIT payable	4,381	3,285
USA income taxes payable	22	94
Other taxes	387	299
	<b>17,960</b>	15,722

The subsidiaries of the Group established in the PRC are subject to VAT, which is levied at 17 per cent on the gross turnover upon sale or purchase of goods. Input VAT paid on purchases of raw materials, semi-finished products, etc., may be used to offset the VAT payable on sales to determine the net VAT payable. VAT is not included in the profit and loss account.

Pursuant to relevant tax regulations, the subsidiaries of the Group established in the PRC are entitled to full refund of VAT previously paid on export sales of automobile equipment.

### 24. BORROWINGS

#### Group

#### (a) Short-term bank borrowings

	2002		2001	
	RMB'000	Interest rate per annum	RMB'000	Interest rate per annum
Secured				
– Denominated in HK\$	19,091	5.625%	–	–
– Denominated in RMB	15,900	6.05%-7.13%	26,100	6.44%-7.02%
	<b>34,991</b>		26,100	

#### (b) Long-term bank borrowings

	2002		2001	
	RMB'000	Interest rate per annum	RMB'000	Interest rate per annum
Secured				
– Denominated in RMB	13,400	6.59%-7.13%	8,400	7.13%

## Notes to the Accounts

As of and for the year ended 31st December, 2002  
(Amounts expressed in thousands of RMB unless otherwise stated)

### 24. BORROWINGS (continued)

#### (b) Long-term bank borrowings (continued)

Long-term bank borrowings are repayable as follows:

	2002 RMB'000	2001 RMB'000
Repayable		
– Within one year	2,900	5,500
– In two to five years	10,500	2,900
	13,400	8,400
Less: amounts due within one year included under current liabilities	(2,900)	(5,500)
	10,500	2,900

#### (c) Bank facilities

	2002 RMB'000	2001 RMB'000
Bank facilities		
– Denominated in HK\$	21,212	–
– Denominated in RMB	33,400	34,500
	54,612	34,500
Utilised		
– Denominated in HK\$	(19,091)	–
– Denominated in RMB	(29,300)	(34,500)
	(48,391)	(34,500)
Unutilised	6,221	–



## Notes to the Accounts

As of and for the year ended 31st December, 2002  
(Amounts expressed in thousands of RMB unless otherwise stated)

### 24. BORROWINGS (continued)

#### (d) Guarantees and pledges

As at 31st December, 2002, a subsidiary's bank facility denominated in HK\$ were secured by the following:

- (i) corporate guarantee given by the Company;
- (ii) personal guarantee given by two directors of the Company; and
- (iii) bank deposit of HK\$10,000,000 (equivalent to RMB10,606,000) (Note 20).

As at 31st December, 2002, bank borrowings denominated in RMB of RMB18,800,000 (2001: RMB22,900,000) drawn down under the Group's bank facilities denominated in RMB were secured by certain land use rights and buildings with an aggregate net book value of approximately RMB32,614,000 (2001: RMB34,600,000) (Note 12(c)).

The remaining bank borrowings denominated in RMB of RMB10,500,000 as at 31st December, 2002 were secured as follows:

	<b>RMB'000</b>	<b>Security</b>
Short-term loan	1,500	Tax refunds receivable on export sales, including assignment of balance in the bank account for this purpose. As of 31st December, 2002, such tax refunds receivable amounted to approximately RMB1,177,000 and the bank balance in the account was approximately RMB14,000 (Note 18 and Note 20);
Short-term loan	1,000	Trade receivables of US\$147,800 (equivalent to RMB1,223,000), for which an irrevocable documentary letter of credit is available (Note 17);
Short-term loan	5,000	Corporate guarantee given by a third party
Short-term loan	3,000	Corporate guarantee given by a subsidiary of the Company
	10,500	

## Notes to the Accounts

As of and for the year ended 31st December, 2002  
(Amounts expressed in thousands of RMB unless otherwise stated)

### 24. BORROWINGS (continued)

#### (d) Guarantees and pledges (continued)

As at 31st December, 2001, the bank borrowings of RMB11,600,000 were secured as follows:

	<b>RMB'000</b>	<b>Security</b>
Short-term loan	1,600	Bank deposit of USD195,000 (equivalent to RMB1,614,000) (Note 20)
Short-term loan	5,000	Corporate guarantee given by a third party
Short-term loan	5,000	Corporate guarantee given by a subsidiary of the Company
	11,600	

### 25. SHARE CAPITAL

	<b>Number of shares</b>	<b>Ordinary shares of HK\$ 0.1 each HK\$</b>
Authorised share capital	1,000,000,000	100,000,000

There was no movement in the authorized share capital during the years ended 31st December, 2002 and 2001.

Movement of issued and fully paid share capital of the Company was as follows:

	<b>Number of shares</b>	<b>Issued and fully paid Ordinary shares of HK\$ 0.1 each HK\$</b>	<b>RMB equivalent RMB'000</b>
As at 1st January, 2001 (Note (a))	320,000,000	32,000,000	33,901
New issue on private placement (Note (b))	70,000,000	7,000,000	7,424
New issue to public (Note (b))	10,000,000	1,000,000	1,060
New issue on exercise of warrants (Note (c))	4,000	400	1
As at 31st December, 2001 and at 31st December, 2002	400,004,000	40,000,400	42,386

## Notes to the Accounts

*As of and for the year ended 31st December, 2002  
(Amounts expressed in thousands of RMB unless otherwise stated)*

### 25. SHARE CAPITAL (continued)

- (a) The share capital amount of HK\$32,000,000 (equivalent to approximately RMB33,901,000) as at 1st January, 2001 represents the pro forma issued share capital of the Company after the issue of 1,000,000 shares of HK\$0.1 each on incorporation (Note (i)), and 319,000,000 shares of HK\$0.1 each for the acquisition of equity interests in the other companies comprising the Group (Note (ii)) as a result of the group reorganisation (the “Reorganisation”) as described in Note 31 to the accounts, as if the Reorganisation had been in place as at that date.
- (i) Upon incorporation of the Company on 14th September, 2000, the authorised share capital was HK\$100,000, divided into 1,000,000 shares, all of which were allotted, issued and nil paid to Zhong Da (BVI) Limited on 28th September, 2000. On 8th October, 2001, the authorised share capital of the Company was increased from HK\$100,000 to HK\$100,000,000 by the creation of additional 999,000,000 shares.
- (ii) On 19th October, 2001, pursuant to the Reorganisation, the Company allotted and issued 300,000 shares, credited as fully paid to Zhong Da (BVI) Limited, Mr. Zhang Yuqing, Gainful Outcome Holdings Limited and Outstanding Management Limited (hereinafter collectively referred to as the “Existing Shareholders”), in the proportion of 34,800 shares to Zhong Da (BVI) Limited, 71,500 shares to Mr. Zhang Yuqing, 110,500 shares to Gainful Outcome Holdings Limited and 83,200 shares to Outstanding Management Limited, as consideration for the acquisition of equity interests in the other companies comprising the Group, and also credited as fully paid the 1,000,000 shares as set out in (a) above. On the same date, 318,700,000 shares were allotted and issued, credited as fully paid to the Existing Shareholders in the proportion of 253,685,200 shares to Zhong Da (BVI) Limited, 17,528,500 shares to Mr. Zhang Yuqing, 27,089,500 shares to Gainful Outcome Holdings Limited and 20,396,800 shares to Outstanding Management Limited.

## Notes to the Accounts

*As of and for the year ended 31st December, 2002  
(Amounts expressed in thousands of RMB unless otherwise stated)*

### **25. SHARE CAPITAL (continued)**

- (b) On 1st November, 2001, 20,000,000 shares held by Zhong Da (BVI) Limited were sold under private placement, 70,000,000 shares were issued under private placement and 10,000,000 shares were issued to the public, all at HK\$0.50 each with one warrant for every two shares. The total cash consideration from the private placement and the share issuance was HK\$40,000,000 (equivalent to RMB42,423,000) before the deduction of related issuance expenses borne by the Company.
  
- (c) The warrants issued by the Company entitle the holders to subscribe up to HK\$33,750,000 in aggregate in cash for a total of 50,000,000 ordinary shares at an initial price of HK\$0.675 each, subject to adjustment, at any time on or after 1st November, 2001 until 31st October, 2006. On 28th November, 2001, 4,000 warrants were converted by the respective warrant holders into 4,000 shares of the Company at the amount of HK\$2,700 (equivalent to RMB3,000). No further warrants were exercised during the period from 29th November, 2001 to 31st December, 2002.
  
- (d) The Company adopted a share option scheme on 8th October, 2001 under which the directors may, at their discretion, invite any executive and/or employee of the Company and/or its subsidiaries to take up options to subscribe for shares. The exercise price is determined by the directors and will at least be the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which shall be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant, and (iii) the par value of shares. As of 31st December, 2002, no share option was granted.

## Notes to the Accounts

As of and for the year ended 31st December, 2002  
(Amounts expressed in thousands of RMB unless otherwise stated)

### 26. RESERVES

#### Group

	Capital deficit RMB'000 Note (a)	Share premium RMB'000	Reserve fund RMB'000 Note (b)	Enterprise expansion fund RMB'000 Note (b)	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000
Balances as at 1st January, 2001	(3,514)	-	2,675	2,675	-	43,463	45,299
Difference between paid-in capital of subsidiaries and par value of 320,000,000 deemed shares arising from the Reorganisation	3,514	(3,514)	-	-	-	-	-
Issue of shares	-	33,939	-	-	-	-	33,939
Shares issue expenses	-	(13,354)	-	-	-	-	(13,354)
Exercise of warrants	-	2	-	-	-	-	2
Net profit for the year	-	-	-	-	-	33,511	33,511
Exchange difference arising on translation of the accounts of foreign companies of the Group	-	-	-	-	21	-	21
Profit appropriation							
- Reserve fund	-	-	22	-	-	(22)	-
- Enterprise expansion fund	-	-	-	22	-	(22)	-
Balances as at 1st January, 2002	-	17,073	2,697	2,697	21	76,930	99,418
Net profit for the year	-	-	-	-	-	2,592	2,592
Exchange difference arising on translation of the accounts of foreign companies of the Group	-	-	-	-	(5)	-	(5)
Profit appropriation							
- Reserve fund	-	-	23	-	-	(23)	-
- Enterprise expansion fund	-	-	-	23	-	(23)	-
- 2001 final dividends paid	-	-	-	-	-	(4,242)	(4,242)
Balances as at 31st December, 2002	-	17,073	2,720	2,720	16	75,234	97,763
Representing:							
2002 final dividends proposed						-	
Others						75,234	
Retained profits at 31st December 2002						75,234	

## Notes to the Accounts

As of and for the year ended 31st December, 2002  
(Amounts expressed in thousands of RMB unless otherwise stated)

### 26. RESERVES (continued)

#### Company

	Capital deficit RMB'000 Note (a)	Share premium RMB'000	Exchange reserve RMB'000	(Accumulated loss)/Retained profits RMB'000	Total RMB'000
Balances as at 1st January, 2001	(3,514)	-	-	-	(3,514)
Difference between paid-in capital of subsidiaries and par value of 320,000,000 deemed shares arising from the Reorganisation	3,514	(3,514)	-	-	-
Issue of shares	-	33,939	-	-	33,939
Shares issuance expenses	-	(13,354)	-	-	(13,354)
Exercise of warrants	-	2	-	-	2
Net loss for the year	-	-	-	(1,281)	(1,281)
Exchange difference arising on translation of the accounts of the Company	-	-	16	-	16
Balances as at 1st January, 2002	-	17,073	16	(1,281)	15,808
Net profit for the year	-	-	-	14,330	14,330
2001 final dividends paid	-	-	-	(4,242)	(4,242)
Exchange difference arising on translation of the accounts of the Company	-	-	(1)	-	(1)
Balances as at 31st December, 2002	-	17,073	15	8,807	25,895
Representing:					
2002 final dividends proposed				-	
Others				8,807	
Retained profits at 31st December, 2002				8,807	

## Notes to the Accounts

*As of and for the year ended 31st December, 2002  
(Amounts expressed in thousands of RMB unless otherwise stated)*

### **26. RESERVES (continued)**

- (a) Capital deficit represents the difference between capital injected to subsidiaries of the Company and HK\$32,000,000, which represented the pro forma issued share capital of the Company as at 1st January, 2001 as if the Reorganisation had been in place as at that date. The amount had been netted against the share premium account in 2001.
  
- (b) According to the rules and regulations applicable to the Group's subsidiaries in the PRC, when distributing net income of each year, these subsidiaries shall set aside a portion of their net income as reported in their statutory accounts for the reserve fund, enterprise expansion fund and staff and workers' bonus and welfare fund. Such amounts that are appropriated are determined at the discretion of the board of directors. These statutory reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends. Under the accounting principles generally accepted in Hong Kong, the appropriations to staff and workers' bonus and welfare fund have been included as expenses and the balance of the fund as liabilities of the Group.

## Notes to the Accounts

As of and for the year ended 31st December, 2002  
(Amounts expressed in thousands of RMB unless otherwise stated)

### 27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

#### (a) Reconciliation of profit before taxation to net cash flow from operating activities

	2002 RMB'000	2001 RMB'000
Profit before taxation	3,981	40,216
Interest income	(366)	(162)
Interest expense	2,566	3,626
Depreciation	3,835	2,614
Loss on disposals of property, plant and equipment	469	–
Exchange difference arising on translation of accounts of foreign companies of the Group	(5)	21
Profit before changes in working capital	10,480	46,315
Decrease/(Increase) in inventories	3,597	(6,519)
Decrease/(Increase) in trade receivables	23,354	(19,018)
(Increase)/Decrease in prepayments and other receivables	(25,404)	629
Increase in due from related companies	(6,938)	(17,647)
Decrease in trade payables	(4,093)	(2,211)
Increase in other payables and accruals	5,584	1,506
Increase in other taxes payable	1,214	8,048
Net cash inflow from operating activities	7,794	11,103

#### (b) Major non-cash transactions

	2002 RMB'000	2001 RMB'000
Acquisition of property, plant and equipment settled by way of offset with amount due from a related company (Note 28(a)(vii))	–	29,262



## Notes to the Accounts

As of and for the year ended 31st December, 2002  
(Amounts expressed in thousands of RMB unless otherwise stated)

### 27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

#### (c) Analysis of changes in financing

	Share capital and share premium		Bank borrowings		Minority interests	
	2002	2001	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Beginning of year	59,459	30,387	34,500	41,400	13,469	8,660
Issuance of ordinary shares on private placement and public offering less expenses	-	29,069	-	-	-	-
Issuance of ordinary shares on exercise of warrants	-	3	-	-	-	-
Net cash inflow/(outflow) from financing	-	-	13,891	(6,900)	-	-
(Loss)/Profit attributable to minority interests	-	-	-	-	(195)	4,809
End of year	59,459	59,459	48,391	34,500	13,274	13,469

### 28. RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability, directly or indirectly, to control or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

## Notes to the Accounts

As of and for the year ended 31st December, 2002  
(Amounts expressed in thousands of RMB unless otherwise stated)

### 28. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

#### (a) Transactions with related companies

In addition to the personal guarantee provided by directors of the Company for bank facility of a subsidiary as disclosed in Note 24(d), the Group had the following transactions with related companies:

	2002	2001
	<b>RMB'000</b>	<b>RMB'000</b>
Transactions with Zhongda Industrial Group Corporation, in which the Chairman of the Group has a controlling interest		
– Advances in relation to the proposed acquisition of land use rights (i)	29,900	–
– Service fee (ii)	750	750
– Patent fee (iii)	200	200
– Trademark fee (iv)	150	150
– Rental of office premises (v)	100	100
– Provision of collateral for bank borrowings of a subsidiary of the Company (vi)	–	27,000
– Acquisition of property, plant and equipment (vii)	–	29,262
Transactions with Yancheng Celette Body Repairing Equipment Co., Ltd. (“Yancheng Celette”), in which the Chairman of the Group has significant influence		
– Purchases of products (viii)	8,001	6,731
– Sales of products and raw materials (ix)	6,618	494
Transactions with Yancheng Zhongwei Bus Manufacturing Co., Ltd. (“Zhongwei Bus”), in which the Chairman of the Group has a controlling interest		
– Sales of products and raw materials (ix)	2,021	–
Transactions with Beijing Zhongda Yanjing Bus Manufacturing Co., Ltd. (“Zhongda Yanjing”), in which the Chairman of the Group has a controlling interest		
– Sale of products (ix)	5,128	–

## Notes to the Accounts

*As of and for the year ended 31st December, 2002  
(Amounts expressed in thousands of RMB unless otherwise stated)*

### 28. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

#### (a) Transactions with related companies (continued)

In addition, the Group had paid expenses on behalf of Zhongda Industrial Group Corporation and its affiliates totalling RMB16.9 million and Zhongda Industrial Group Corporation also directly collected trade receivables totalling RMB19.3 million on the Group's behalf during the year ended 31st December, 2002.

Details and terms of the above transactions with related parties are as follows:

- (i) Zhongda Machinery, one of the subsidiaries of the Group, had signed an agreement with a third party construction company who was engaged to carry out relocation, demolition as well as land preparation on parcels of land, the use rights to which Zhongda Machinery intends to acquire from the YEDZ. The consideration payable by Zhongda Machinery under the agreement is RMB34 million. During 2002, Zhongda Industrial Group Corporation paid RMB29.9 million to the construction company on behalf of Zhongda Machinery in connection with the transaction. The conclusion on the acquisition of use rights to the parcels of land was delayed, as Zhongda Machinery was not able to finalise the location with YEDZ. Subsequent to the year-end, Zhongda Machinery recovered an amount of RMB29.7 million from the construction company.
- (ii) Pursuant to an integrated services agreement dated 31st August, 2001, the annual fee for integrated services provided by Zhongda Industrial Group Corporation to the employees of the Group is RMB750,000, determined on the basis of the relevant fee fixed by the National Price Bureau, or market price if there is no applicable fee set by the National Price Bureau for any such services. The agreement is for a term of ten years commencing from 31st August, 2001.
- (iii) Pursuant to a patent agreement dated 31st August, 2001, Zhongda Industrial Group Corporation and one of the directors of the Company granted to the Group an exclusive right to use certain patents at an annual fee of RMB200,000 for periods commencing from 31st August, 2001 to expiry of the patent certificate of the relevant patents.
- (iv) Pursuant to a trademark agreement dated 31st August, 2001, Zhongda Industrial Group Corporation granted to the Group an exclusive right to use certain trademarks at an annual fee of RMB150,000. The agreement is for a term of ten years commencing from 31st August, 2001.
- (v) Pursuant to an office license agreement dated 30th May, 2001, the rental of office premise is charged at a rate of RMB100,000 per annum for a period of five years commencing from 1st June, 2001.

## Notes to the Accounts

As of and for the year ended 31st December, 2002  
(Amounts expressed in thousands of RMB unless otherwise stated)

### 28. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

#### (a) Transactions with related companies (continued)

- (vi) Pursuant to a revised borrowing arrangement dated 2nd August, 2001, collateral provided by Zhongda Industrial Group Corporation for bank borrowings of the Group amounting to RMB27,000,000 was released with effect from that date.
- (vii) As at 1st May, 2001, one of the subsidiaries of the Group acquired certain plant buildings and related land use right from Zhongda Industrial Group Corporation at their open market value of approximately RMB29,262,000. Consideration for the acquisition of the assets was settled via the offset of amounts due from the related party.
- (viii) Purchases from Yancheng Celette were at the prevailing market price.
- (ix) The prices were determined based on the actual cost of production plus a profit margin ranging from 35 per cent to 40 per cent in respect of sales of products to Zhongwei Bus and Zhongda Yanjing and of approximately 5 per cent in respect of sales of raw materials to Yancheng Celette.

#### (b) Balances with related companies

Included in the balance sheet are the following balances with related companies:

	2002 RMB'000	2001 RMB'000
Due from/(to) Zhongda Industrial Group Corporation arising from transactions mentioned in Note 28(a)	906	(32)
Due from Zhongda Yanjing arising from sales of products mentioned in Note 28(a), inclusive of VAT	6,000	-
	<b>6,906</b>	<b>(32)</b>

The maximum amounts, due from Zhongda Industrial Group Corporation and Zhongda Yanjing, that was outstanding during the year ended 31st December, 2002 amounted to approximately RMB23 million and RMB6 million respectively.

The balances with related parties are unsecured, interest-free and repaid subsequent to the year end.

## Notes to the Accounts

As of and for the year ended 31st December, 2002  
(Amounts expressed in thousands of RMB unless otherwise stated)

### 29. COMMITMENTS

#### (a) Capital commitments

The Group had authorised capital commitments relating to the acquisition of land use rights and other property, plant and equipment for production purposes as well as commitments for relocation, demolition and land preparation costs totalling approximately RMB54.2 million as at 31st December, 2002. Of the amount, RMB4.1 million (2001: RMB8 million) was authorised and contracted for, while the remaining capital commitment of RMB50.1 million (2001: nil) was subsequently contracted for (see Note 32).

#### (b) Commitments under operating leases

As at 31st December, 2002, the future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Group		Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Land and buildings				
– Within one year	749	742	254	296
– In two to five years	1,432	1,618	–	254
– More than five years	660	900	–	–
	<b>2,841</b>	3,260	<b>254</b>	550

### 30. RETIREMENT BENEFITS

The subsidiaries of the Group established in the PRC have participated in defined contribution plans organised by the relevant local government authorities in the PRC. These subsidiaries were required to make monthly contributions to these plans at 17 per cent of the employees' basic salary.

The subsidiaries of the Group established in the PRC have no obligation for the payments of retirement and other post-retirement benefits of employees other than the monthly contributions described above.

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group and its employees makes monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a cap of HK\$1,000 per month and thereafter contributions are voluntary.

## Notes to the Accounts

*As of and for the year ended 31st December, 2002  
(Amounts expressed in thousands of RMB unless otherwise stated)*

### **31. COMPARATIVE FIGURES**

Pursuant to the Reorganisation in connection with the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the other companies comprising the Group on 8th October, 2001. Further details of the Reorganisation are set out in the Company's prospectus dated 22nd October, 2001.

The Company and its subsidiaries resulting from the Reorganisation have been regarded as a continuing entity. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated accounts have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the year ended 31st December, 2001.

### **32. SUBSEQUENT EVENTS**

On 2nd January, 2003, Zhongda Machinery, one of the subsidiaries of the Group, entered into a project investment agreement with the Administrative Committee of the YEDZ for the investment in three projects at YEDZ for an aggregate amount of approximately RMB60 million, representing investment of RMB42 million in three projects at YEDZ and the acquisition of land use rights of parcels of land located at YEDZ for a total consideration of RMB18 million.

### **33. ULTIMATE HOLDING COMPANY**

The directors consider Zhong Da (BVI) Limited to be the ultimate holding company of the Group.

### **34. APPROVAL OF ACCOUNTS**

The accounts were approved by the board of directors on 4th July, 2003.