Notes to the Financial Statements

Year ended 31st December, 2003

1. GENERAL

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. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE/CHANGES IN ACCOUNTING POLICIES

In the current period, the Group has adopted, for the first time, a revised Statement of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants, which has resulted in the adoption of the following new and revised accounting policies.

Income Taxes

In the current year, the Group has adopted SSAP 12 (Revised) – Income Taxes. 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).

The financial effect of the adoption of the revised accounting policies described above is summarized below:

	Retained profits *RMB'000*
Balance at 1st January, 2003	
As originally stated	75,234
Recognition of deferred tax assets	2,932
As restated	78,166

3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

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

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Revenue recognition

Revenue from the sale of goods is recognised when goods are delivered to customers and title has passed.

When the outcome of a construction contract can be estimated reliably, revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the value of work carried out during the period. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract can be estimated reliably, revenue from cost plus contracts is recognised by reference to the recoverable costs incurred during the period plus the fee earned, measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contracts costs incurred that it is probable will be recoverable.

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 is recognised when the right to receive payment is established.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an qualifying asset are capitalised as part of the cost of that asset. Capitalization of such borrowing costs ceases when the asset is substantially ready for its intended use or sale.

All other borrowing costs are charged to the income statement in the year in which they are incurred.

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 income statement on a straight-line basis over the period of the relevant leases.

Property, plant and equipment

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 income statement in the period in which it is incurred. In situation 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%

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Land and buildings in the course of development for production and administrative purposes are carried at cost, less any identified impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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 income statement.

Investment securities

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another Standard, in which case the impairment loss is treated as revaluation decrease under that Standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another Standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that Standard.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Construction contracts

When the outcome of a construction contract can be estimated reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the value of work carried out during the period.

When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the balance sheet, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the balance sheet under trade and other receivables.

Cash equivalents

Cash equivalents represent short term, highly liquid investments which are readily convertible into known amounts of cash and which are within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advances.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years. And it further excludes income statement items that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on 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, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recongised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition other than in a business combination of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Segments

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, 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. Related parties may be individuals or corporate entities.

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 financial statements. 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 financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

4. TURNOVER

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

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

5. SEGMENT REPORTING

The Group conducts the majority of its business activities in two geographical areas, the People's Republic of China (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		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

5. SEGMENT REPORTING (continued)

	PRC		USA		Total	
	2003	2002	**2003**	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
ASSETS						
Segment assets	**297,066**	211,940	**3,057**	9,695	**300,123**	221,635
Unallocated corporate assets					**17,368**	39,950
Total					**317,491**	261,585
LIABILITIES						
Segment liabilities	**71,824**	50,608	**84**	507	**71,908**	51,115
Unallocated corporate liabilities					**75,006**	53,745
Total					**146,914**	104,860
OTHER INFORMATION						
Segment capital expenditure	**48,176**	215	**125**	159	**48,301**	374
Unallocated corporate capital expenditure					**–**	260
Total					**48,301**	634
Segment depreciation	**3,117**	3,154	**90**	259	**3,207**	3,413
Unallocated corporate depreciation					**52**	422
Total					**3,259**	3,835
Provision for/(Reversal of provision for) inventory obsolescence	**253**	2,198	**(1,059)**	–	**(806)**	2,198
Provision for/(Reversal of provision for) doubtful debts	**–**	6,221	**(1,648)**	(241)	**(1,648)**	5,980
Written-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.

6. OTHER REVENUE

	Group	
	2003	2002
	RMB'000	*RMB'000*
Sales of raw material	**3,440**	3,852
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**	–
Others	**4,086**	90
	10,582	4,308

7. PROFIT FROM OPERATIONS

Profit from operations is determined after charging the following:

	Group	
	2003	2002
	RMB'000	*RMB'000*
Depreciation of owned assets	**3,259**	3,835
Staff costs (excluding directors' emoluments *(Note 9)*)		
– 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

8. FINANCE COSTS

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

9. DIRECTORS' EMOLUMENTS

	Group	
	2003	2002
	RMB'000	*RMB'000*
Non-executive directors		
– Fees	**270**	270
Executive directors		
– Fees	**2,000**	2,000
– Salaries, allowances, social security costs and other allowances and benefits in kind	**180**	153
– Pension costs	**15**	15
	2,465	2,438

The emoluments of the directors fell within the following bands:

	Number of directors	
	2003	2002
Up to HK$1,000,000	**4**	5
HK$1,000,001 to HK$1,500,000	**1**	–

During the year, no emoluments were paid to directors as an inducement to join the Group or as compensation for loss of office.

10. EMPLOYEES' EMOLUMENTS

Of the five highest paid individuals in the Group, three (2002: three) are directors of the Company whose emoluments are included above. The emoluments of the remaining two (2002: two) individuals were as follows:

	Group	
	2003	2002
	RMB'000	*RMB'000*
Salaries and other benefits	**1,098**	827
Pension costs	**13**	32
	1,111	859

Their emoluments were within the following band:

	Number of individuals	
	2003	2002
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.

11. INCOME TAX

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

	Group	
	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 *(Note 16)*	**715**	(2,394)
	4,485	(810)

11. INCOME TAX (continued)

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.

The charge for the year can be reconciled to the profit as per the consolidated income statement as follows:

	Group	
	2003	2002
	RMB'000	*RMB'000*
Profit before taxation and minority interests	**18,378**	3,981
Tax at applicable tax rate of 24%	**4,411**	955
Net tax effect of income and expense items which are not assessable or deductible for income tax purpose	**(732)**	1,336
Overprovision for prior year	**(816)**	–
Effect of tax loss of a subsidiary not accounted for	**1,899**	1,257
Effect of different taxation rates on subsidiaries' income	**(277)**	(4,358)
Tax expense/(credit)	**4,485**	(810)

12. DIVIDEND

No dividend was paid or proposed during the year, nor has any dividend been proposed since the balance sheet date (2002: Nil).

13. 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 (Note 27) 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.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Land use rights	Buildings	Leasehold improve-ments	Plant and machinery	Motor vehicles	Furniture and equipment	Con-struction in-progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost								
At 1st January, 2003	7,696	37,316	501	8,482	658	1,275	9,787	65,715
Additions	–	–	–	326	130	243	47,602	48,301
At 31st December, 2003	7,696	37,316	501	8,808	788	1,518	57,389	114,016
Accumulated depreciation								
At 1st January, 2003	2,296	4,336	501	4,763	642	682	–	13,220
Charge for the year	650	1,692	–	720	17	180	–	3,259
At 31st December, 2003	2,946	6,028	501	5,483	659	862	–	16,479
Net book value								
At 31st December, 2003	4,750	31,288	–	3,325	129	656	57,389	97,537
At 31st December, 2002	5,400	32,980	–	3,719	16	593	9,787	52,495

(a) The rights to use the land areas, where certain of the Group's buildings are situated, have a usage period of 47 years from the date of obtaining the land use right certificates.

(b) As of 31st December, 2003, all the buildings of the Group are located in the PRC.

(c) As of 31st December, 2003, land use rights and buildings with an aggregate net book value of approximately RMB30,623,000 (2002: RMB32,614,000) are mortgaged as collateral for bank borrowings of the Group.

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Leasehold improvements
	RMB'000
Cost	
At 1st January, 2003 and 31st December, 2003	**501**
Accumulated depreciation	
At 1st January, 2003 and 31st December, 2003	**501**
Net book value	
At 31st December, 2002 and 31st December, 2003	**–**

15. INVESTMENT SECURITIES

	Group	
	2003	2002
	RMB'000	*RMB'000*
Unlisted equity investment, at cost	**900**	900

16. DEFERRED TAX ASSETS

Group

	Provision for doubtful debt *RMB'000*	Provision for inventory obsolescence *RMB'000*	Tax losses *RMB'000*	Others *RMB'000*	Total *RMB'000*
At 1st January, 2002					
– as previously reported	8,634	536	–	139	9,309
– adjustment on adoption of SSAP 12 (revised)	506	–	402	–	908
– as restated	9,140	536	402	139	10,217
Credit to income for the year	1,493	528	373	–	2,394
Balance at 1st January, 2003	10,633	1,064	775	139	12,611
(Charge)/credit to income for the year *(Note 11)*	–	60	(775)	–	(715)
At 31st December, 2003	**10,633**	**1,124**	**–**	**139**	**11,896**

17. INVESTMENTS IN SUBSIDIARIES

	Company	
	2003	2002
	RMB'000	*RMB'000*
Unlisted shares, at cost	**30,387**	30,387

17. INVESTMENTS IN SUBSIDIARIES (continued)

As at 31st December, 2003, details of subsidiaries are set out below:

Name of subsidiary	Country/place of incorporation or establishment/ operation	Issued and fully paid share capital	Percentage of equity interest attributable to the Group	Principal activities
Held directly by the Company				
Zhong Da (BVI) Investments Limited	British Virgin Islands/ Hong Kong	1,175 ordinary shares of US$1 each	100%	Investment holding
Held indirectly by the Company				
Zhong Da International Limited	Hong Kong	2 ordinary shares and 9,998 deferred, non-voting shares of HK$1 each	100%	Investment holding
Zhongda Group (USA) Inc.	USA	100,000 ordinary shares of US$1 each	100%	Trading and procurement
Ausen Group, Inc.	USA	–	100%	Inactive
Zhongda Automobile Machinery Manufacture Co., Ltd.	PRC	RMB34,327,500	86.7%	Manufacture and sale of automobile equipment
ZHONGDA Group (Europe) GmbH	The Federal Republic of Germany	–	100%	Inactive
Yancheng Dasheng Automotive Equipment Co., Ltd.**	PRC	US$500,000	43.4%	Manufacture and sale of automobile equipment
Jiangzu Zhongda Industrial Painting and Environmental Protection Co., Ltd.	PRC	RMB5,600,000	90.0%	Design, production, installation and sale of surface treatment systems
Yancheung Yuntong Automobile Machinery Co., Ltd.	PRC	RMB500,000	86.7%	Inactive
Yancheng Luhua Machinery Co., Ltd.	PRC	RMB5,000,000	86.7%	Inactive
Yancheng Zhongda Industrial Equipment Manufacture Co., Ltd.	PRC	US$1,515,500	96.0%	Manufacture and sale of automobile equipment

** *Zhongda Automobile Machinery Manufacture Co., Ltd. holds 50% of the equity interest in Yancheng Dasheng Automotive Equipment Co., Ltd. ("Dasheng"). Dasheng is accounted for as a subsidiary as the Group has control over Dasheng as to its operational and financial policies.*

18. INVENTORIES

	Group	
	2003	2002
	RMB'000	*RMB'000*
Raw materials	**19,001**	16,724
Work-in-progress	**7,497**	4,506
Finished goods	**14,250**	17,266
	40,748	38,496
Less: Provision for obsolescence	**(4,685)**	(5,491)
	36,063	33,005

At 31st December, 2003, the carrying amount of inventories that are stated at net realisable value amounted to approximately RMB6,894,000 (2002: RMB9,142,000).

19. AMOUNTS DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORK

	Group	
	2003	2002
	RMB'000	*RMB'000*
Contracts in progress at the balance sheet date		
Contract costs incurred plus recognised profits less recognised losses	**22,628**	8,254
Less: progress payments	**(11,063)**	(4,981)
	11,565	3,273

The amounts are reported in the consolidated balance sheet as part of the following items:

Analysed for reporting purposes as:

Accounts receivable	**11,978**	3,953
Advance receipt from customers	**(413)**	(680)
	11,565	3,273

At 31st December, 2003, retentions held by customers for contract works amounted to RMB2,460,000 (2002: RMB1,960,000) (Note 20). Total advances received from customers for contract work amounted to RMB17,073,000 (2002: RMB7,575,000) which forms part of the advance receipt from customers as reported in the consolidated balance sheet.

20. TRADE RECEIVABLES

	Group	
	2003	2002
	RMB'000	*RMB'000*
Accounts receivable	**124,770**	95,505
Less: Provision for doubtful debts	**(31,794)**	(33,442)
	92,976	62,063
Bills Receivable	**270**	1,100
	93,246	63,163

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.

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

	Group	
	2003	2002
	RMB'000	*RMB'000*
Within six months	**45,117**	29,360
Between seven and twelve months	**21,522**	9,939
Between one and two years	**19,278**	16,760
More than two years	**4,599**	4,044
	90,516	60,103
Retention receivables *(Note 19)*	**2,460**	1,960
	92,976	62,063

21. AMOUNTS DUE FROM/TO SUBSIDIARIES

The amounts due from/to subsidiaries were unsecured, interest free and have no fixed repayment terms.

22. AMOUNTS DUE FROM RELATED COMPANIES

Amounts due from companies related to the Company (as detailed in Note 30) disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

	Group		
	2003	2002	**Maximum amount outstanding during the year**
	RMB'000	*RMB'000*	***RMB'000***
Zhongda Industrial Group Corporation	**–**	906	906
Beijing Zhongda Yanjing Bus Manufacturing Co., Limited	**–**	6,000	6,000
Yancheng Zhongwei Bus Manufacturing Co., Limited	**461**	–	461
	461	6,906	

The balances with related parties are unsecured, interest-free and have no fixed repayment terms.

23. CASH AND BANK BALANCES

At 31st December, 2003, the Group had no (2002: RMB10,620,000) bank deposit pledged for security against its borrowings. Bank balance restricted for clearance of certain short-term trade bills payable as at the balance sheet date amounted to RMB1,610,000 (2002:Nil) (Note 24).

24. TRADE PAYABLES

Ageing analysis of trade payables is as follows:

	Group	
	2003	2002
	RMB'000	*RMB'000*
Within one year	**24,875**	11,690
Between one and two years	**2,292**	1,324
Between two and three years	**649**	2,405
More than three years	**5,598**	2,988
	33,414	18,407
Bills payable	**1,610**	–
	35,024	18,407

25. AMOUNTS DUE TO DIRECTORS/RELATED COMPANIES

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

26. BORROWINGS

	Group	
	2003	2002
	RMB'000	*RMB'000*
Bank loans	**65,900**	48,391
Secured	**15,900**	48,391
Unsecured	**50,000**	–
	65,900	48,391
The maturity profile of the above loans is as follows:		
On demand or within one year	**65,900**	37,891
More than one year, but not exceeding two years	**–**	10,500
	65,900	48,391
Less: Amount due within one year shown under current liabilities	**(65,900)**	(37,891)
Non-current portion	–	10,500

Secured loans are secured by certain of the Group's land use right and buildings (Note 14). Unsecured loans are guaranteed by certain of the Company's subsidiaries.

27. SHARE CAPITAL

	Number of shares	Amount	RMB equivalent
		HK$	*RMB'000*
Authorised:			
Ordinary shares of HK$0.1 each	1,000,000,000	100,000,000	–
Issued and fully paid:			
Ordinary shares of HK$0.1 each	400,004,000	40,000,400	42,386

There was no movement in both the authorized share capital and share capital issued and fully paid during the years ended 31st December, 2003 and 2002.

The Company has outstanding warrants in issue which entitle the holders to subscribe up to total of 49,996,000 ordinary shares in the Company at an exercise price of HK$0.675 each, subject to adjustment, at any time on or after 1st November, 2001 until 31st October, 2006. No warrants were exercised during the year ended 31st December, 2003.

The Company has a share option scheme, 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 of the Company. 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 the shares. As of 31st December, 2003, no share option has been granted.

28. RESERVES

Group

	Share premium RMB'000	Reserve fund RMB'000 (Note)	Enterprise expansion fund RMB'000 (Note)	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 1st January, 2002, restated	17,073	2,697	2,697	21	77,747	100,235
Net profit for the year, restated	–	–	–	–	4,707	4,707
Exchange difference arising on translation of the financial statements 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)
Balance at 1st January, 2003, restated	17,073	2,720	2,720	16	78,166	100,695
Net profit for the year	–	–	–	–	11,467	11,467
Exchange difference arising on translation of the financial statements of foreign companies of the Group	–	–	–	(41)	–	(41)
Balance at 31st December, 2003	**17,073**	**2,720**	**2,720**	**(25)**	**89,633**	**112,121**

Note: 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 financial statements 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.

28. RESERVES (continued)

Company

	Share premium	Exchange reserve	(Accumulated losses)/ retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance 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 financial statements of the Company	–	(1)	–	(1)
Balance at 1st January, 2003	17,073	15	8,807	25,895
Exchange difference arising on translation of the financial statements of the Company	–	(15)	–	(15)
Net loss for the year	–	–	(7,036)	(7,036)
Balance at 31st December, 2003	**17,073**	–	**1,771**	**18,844**

29. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH FLOW FROM OPERATING ACTIVITIES

	Group	
	2003	2002
	RMB'000	*RMB'000*
Profit before taxation	**18,378**	3,981
Interest income	**(349)**	(366)
Interest expense	**3,306**	2,566
Depreciation	**3,259**	3,835
Loss on disposals of property, plant and equipment	**–**	469
Cash flow before changes in working capital	**24,594**	10,485
(Increase)/decrease in inventories	**(3,058)**	3,597
(Increase)/decrease in trade receivables	**(30,083)**	23,354
Decrease/(increase) in prepayments and other receivables	**13,125**	(25,404)
Decrease/(increase) in amounts due from related companies	**6,445**	(6,938)
Increase/(decrease) in trade payables	**16,617**	(4,093)
Increase in advance receipt from customers	**3,106**	4,532
(Decrease)/increase in other payables and accruals	**(1,404)**	2,266
Increase in amounts due to related companies	**1,869**	–
Increase in amounts due to directors	**670**	–
Cash generated from operations	**31,881**	7,799
Interests paid	**(3,306)**	(2,566)
Income taxes paid	**(83)**	(560)
Net cash from operating activities	**28,492**	4,673

30. RELATED PARTY TRANSACTIONS

During the year the Group had the following transactions with related parties:

	2003	2002
	RMB'000	*RMB'000*
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	–	29,900
– Service fee expense (a)	750	750
– Patent fee expense (b)	200	200
– Trademark fee expense (c)	150	150
– Rental expense for office premises (d)	100	100
Transactions with Yancheng Celette Body Repairing Equipment Co., Ltd. ("Yancheng Celette"), in which the Chairman of the Group has significant influence		
– Purchases of products (e)	10,949	8,001
– Sales of products and raw materials (f)	2,547	6,618
Transactions with Yancheng Zhongwei Bus Manufacturing Co., Ltd. ("Zhongwei Bus"), in which the Chairman of the Group has a controlling interests		
– Sales of products and raw materials (f)	401	2,021
Transactions with Beijing Zhongda Yanjing Bus Manufacturing Co., Ltd. ("Zhongda Yanjing), in which the Chairman of the Group has a controlling interest		
– Sales of products (f)	–	5,128

30. RELATED PARTY TRANSACTIONS (continued)

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

(a) Pursuant to an integrated services agreement dated 31st August, 2001, the annual fee for integrated services provided by Zhongda Industrial Group Corporation to 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 31st August, 2001.

(b) 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 31st August, 2001 to expiry of the patent certificate of the relevant patents.

(c) 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 31st August, 2001.

(d) 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 1st June, 2001.

(e) Purchases from Yancheng Celette were at the prevailing market price.

(f) The prices were determined based on the actual cost of production plus a profit margin of approximately zero to 5% in respect of sales of raw materials to Yancheng Celette and Zhongwei Bus.

In the opinion of the directors including independent non-executive directors of the Company, the above connected transactions were (i) entered into by the Group in the ordinary and normal course of its business; (ii) on normal commercial terms or on terms that are fair and reasonable so far as the shareholders of the Company are concerned; (iii) in accordance with the terms of the agreements governing such transactions or on terms no less favourable than terms available to third parties; and (iv) within the relevant cap as specified by the Stock Exchange.

Notes to the Financial Statements

Year ended 31st December, 2003

31. CAPITAL COMMITMENTS

At the balance sheet date, the Group has the following commitments to capital expenditure in respect of the acquisition of land use rights and construction property, plant and equipment for production purposes as follows:

	Group	
	2003	2002
	RMB'000	*RMB'000*
Contracted for but not provided for in the financial statements	**19,800**	4,100
Authorized but not contracted for	**–**	50,100

32. COMMITMENTS UNDER OPERATING LEASES

At the balance sheet date, the future aggregate minimum lease payments under non-cancellable operating leases are falling due as follows:

	Group	
	2003	2002
	RMB'000	*RMB'000*
Land and buildings		
– Within one year	**561**	843
– In the second to fifth years inclusive	**338**	489
	899	1,332

33. RETIREMENT BENEFITS

The employees of the Group's subsidiaries in the PRC are members of defined contribution plans organised by the relevant local government authorities in the PRC. The subsidiaries were required to make monthly contributions to these plans at 17 per cent of the employee's basic salary. The only obligation of the Group with respect to the retirement benefit scheme in the PRC is to make the specific contributions.

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the Schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs subject to a monthly limit of HK$1,000 for each employee, to the Scheme, which contribution is matched by employees.

34. POST BALANCE SHEET EVENTS

On 27th March, 2004, the Group entered into an 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 need 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 report, the business license of the JV has not yet been obtained. At the date of this report, the business license of the JV has not yet been obtained.

35. ULTIMATE HOLDING COMPANY

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