Notes to the Financial Statements

Year ended 31 December 2004

1. GENERAL

The Company was incorporated in Bermuda on 14 September 2000 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. The shares of the Company have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 1 November 2001.

The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are the development, manufacture and sales of automobile equipment and buses and provision of industrial treatment engineering equipment. The activities of its subsidiaries are set out in note 18 to the financial statements.

2. IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. SUMMARY OF 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 31 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 contract 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.

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. Capitalisation 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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%

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.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill is capitalised and amortised on straight-line basis over its useful economic life of 20 years. Goodwill arising on the acquisition of an associate and a jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the consolidated balance sheet.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in securities

Investments other than held-to-maturity debt securities are classified as 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 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Construction contracts (Continued)

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 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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 recognised 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 business segments be presented as the primary reporting format.

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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	
	2004	2003
	RMB'000	RMB'000
Sales of goods	**170,667**	171,161
Revenue from construction contracts	**47,039**	56,356
Total turnover	**217,706**	227,517

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

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

Principal activities are as follows:

Automobile equipment – manufacture and sale of automobile equipment

Bus – manufacture and sale of buses

Segment information about these businesses is presented below:

	Automobile equipment		Bus		Total	
	2004	2003	**2004**	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
REVENUE						
External sales	**214,034**	227,517	**3,672**	–	**217,706**	227,517
Other income	**–**	2,707	**–**	–	**–**	2,707
	214,034	230,224	**3,672**	–	**217,706**	230,224
RESULTS						
Segment results	**28,059**	24,875	**12**	–	**28,071**	24,875
Interest income and unallocated income					**10,981**	7,875
Unallocated corporate expenses					**(13,066)**	(11,066)
Profit from operations					**25,986**	21,684
Finance costs					**(5,197)**	(3,306)
Income tax expenses					**(4,937)**	(4,485)
Minority interests					**(3,051)**	(2,426)
Profit attributable to shareholders					**12,801**	11,467

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

	Automobile equipment		Bus		Total	
	2004	2003	**2004**	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
ASSETS						
Segment assets	**285,282**	258,337	**126,569**	–	**411,851**	258,337
Unallocated corporate assets					**46,915**	59,154
Total					**458,766**	317,491
LIABILITIES						
Segment liabilities	**68,314**	71,908	**62,358**	–	**130,672**	71,908
Unallocated corporate liabilities					**136,192**	75,006
Total					**266,864**	146,914
OTHER INFORMATION						
Segment capital expenditure	**33,505**	48,301	**95,578**	–	**129,083**	48,301
Segment depreciation	**3,251**	3,207	**–**	–	**3,251**	3,207
Unallocated corporate depreciation					**52**	52
Total					**3,303**	3,259
Impairment loss recognised in the income statement	**168**	–	**–**	–	**168**	–
Reversal of provision for inventory obsolescence	**–**	(1,059)	**–**	–	**–**	(1,059)
Provision for/ (reversal of provision for) doubtful debts	**1,810**	(1,648)	**–**	–	**1,810**	(1,648)
Written-off of inventory obsolescence	**–**	253	**–**	–	**–**	253
Written-off of bad debts	**958**	–	**–**	–	**958**	–

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(b) Geographical segments

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		Total	
	2004	2003	**2004**	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Segment revenue:						
External sales	**214,813**	214,208	**2,893**	13,309	**217,706**	227,517
Other revenue	**–**	–	**–**	2,707	**–**	2,707
	214,813	214,208	**2,893**	16,016	**217,706**	230,224
Other segment information:						
Segment assets	**411,581**	255,683	**–**	2,654	**411,851**	258,337
Unallocated Corporate assets					**46,915**	59,154
					458,766	317,491
Segment capital expenditure	**129,083**	48,176	**–**	125	**129,083**	48,301

6. OTHER INCOME

	Group	
	2004	2003
	RMB'000	RMB'000
Gain on disposals of property, plant and equipment	**68**	–
Sales of raw material	**5,898**	3,440
Interest income on bank deposits	**477**	349
Waiver of bank loan interests	**4,200**	–
Write-back of provision for doubtful debts	**–**	1,648
Write-back of provision for inventory obsolescence	**–**	1,059
Others	**338**	4,086
	10,981	10,582

7. PROFIT FROM OPERATIONS

Profit from operations is determined after charging the following:

	Group	
	2004	2003
	RMB'000	RMB'000
Cost of inventories sold	**115,420**	109,935
Depreciation of owned property, plant and equipment	**3,303**	3,259
Staff costs (excluding directors' emoluments (Note 9))		
– Salaries and wages	**13,672**	13,841
– Defined retirement contributions	**841**	776
Operating leases in respect of buildings	**865**	1,638
Auditors' remuneration	**632**	500
Written-off of bad debts	**958**	–
Impairment losses on property, plant and equipment	**168**	–
Written-off of inventory obsolescence	**–**	253
Provision for doubtful debts	**1,810**	–

8. FINANCE COSTS

	Group	
	2004	2003
	RMB'000	RMB'000
Interests on bank borrowings	**5,197**	3,306

9. DIRECTORS' EMOLUMENTS

	Group	
	2004	2003
	RMB'000	RMB'000
Non-executive directors		
– Fees	**360**	270
Executive directors		
– Fees	**2,000**	2,000
– Salaries, allowances, social security costs and other allowances and benefits in kind	**268**	180
– Defined retirement contributions	**–**	15
	2,628	2,465

The emoluments of the directors fell within the following bands:

	Number of directors	
	2004	2003
Up to HK$1,000,000	**5**	4
HK$1,000,001 to HK$1,500,000	**1**	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, four (2003: three) are directors of the Company whose emoluments are included above. The emoluments of the remaining one (2003: two) individuals were as follows:

	Group	
	2004	2003
	RMB'000	RMB'000
Salaries and other benefits	**608**	1,098
Pension costs	**10**	13
	618	1,111

10. EMPLOYEES' EMOLUMENTS (Continued)

Their emoluments were within the following band:

	Number of individuals	
	2004	2003
Up to HK$1,000,000	**1**	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	
	2004	2003
	RMB'000	RMB'000
Current income tax		
– Hong Kong	**–**	–
– PRC		
– Current year	**5,372**	4,579
– Overprovision for prior year	**–**	(816)
– USA	**–**	7
Deferred taxation		
– PRC income taxes (Note 17)	**(435)**	715
	4,937	4,485

No Hong Kong Profits Tax has been provided for as the Group had no assessable profits in Hong Kong during the year (2003 : 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.

11. INCOME TAX (Continued)

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

	Group	
	2004	2003
	RMB'000	RMB'000
Profit before taxation and minority interests	**20,789**	18,378
Tax at applicable tax rate of 24%	**4,989**	4,411
Net tax effect of income and expense items which are not assessable or deductible for income tax purpose	**(1,685)**	(732)
Overprovision for prior year	**–**	(816)
Effect of tax loss not accounted for	**1,473**	1,899
Effect of different taxation rates on subsidiaries	**160**	(277)
Tax expense	**4,937**	4,485

12. DIVIDEND

No dividend was paid or proposed during the year, nor has any dividend been proposed since the balance sheet date (2003: Nil).

13. EARNINGS PER SHARE

The calculation of earnings per share was based on the profit attributable to shareholders of RMB12,801,000 (2003: RMB11,467,000) and the weighted average number of 400,004,000 shares (2003: 400,004,000 shares) in issue during the year.

For the purpose of calculating diluted earnings per share, the outstanding warrants (Note 28) were considered as potential ordinary shares. No diluted earnings per share is presented for both the year ended 31 December 2004 and the year ended 31 December 2003 as the outstanding potential ordinary shares are anti-dilutive for both years.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Land use rights	Buildings	Leasehold improvements	Plant and machinery	Motor vehicles	Furniture and equipment	Construction in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST								
At 1 January 2004	7,696	37,316	501	8,808	788	1,518	57,389	114,016
Additions	–	295	–	3,580	2,440	292	30,735	37,342
Acquisition of a subsidiary	18,925	57,354	–	12,226	2,635	425	176	91,741
Impairments	–	–	–	–	(186)	(603)	–	(789)
Disposals	–	–	–	–	(1,728)	(26)	–	(1,754)
At 31 December 2004	26,621	94,965	501	24,614	3,949	1,606	88,300	240,556
DEPRECIATION								
At 1 January 2004	2,946	6,028	501	5,483	659	862	–	16,479
Provided for the year	650	1,661	–	773	63	156	–	3,303
Acquisition of a subsidiary	164	2,131	–	6,898	1,006	237	–	10,436
Impairment loss	–	–	–	–	(186)	(435)	–	(621)
Eliminated on disposals	–	–	–	–	(55)	–	–	(55)
At 31 December 2004	3,760	9,820	501	13,154	1,487	820	–	29,542
NET BOOK VALUES								
At 31 December 2004	22,861	85,145	–	11,460	2,462	786	88,300	211,014
At 31 December 2003	4,750	31,288	–	3,325	129	656	57,389	97,537

(a) The rights to use the land areas in the PRC, 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 31 December 2004, all the buildings of the Group are located in the PRC.

(c) As of 31 December 2004, land use rights and buildings with an aggregate net book value of approximately RMB99,946,000 (2003: RMB30,623,000) are mortgaged as collateral for bank borrowings of the Group.

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Leasehold improvements RMB'000
Cost	
At 1 January 2004 and 31 December 2004	501
Accumulated depreciation	
At 1 January 2004 and 31 December 2004	501
Net book value	
At 31 December 2003 and 31 December 2004	–

15. GOODWILL

	Group RMB'000
COST	
Arising on acquisition during the year and at 31 December 2004	12,254
AMORTISATION	
At 31 December 2004	**–**
NET BOOK VALUE	
At 31 December 2004	**12,254**
At 31 December 2003	–

16. INVESTMENTS IN SECURITIES

	Group	
	2004	2003
	RMB'000	RMB'000
Unlisted equity securities, at cost	**1,048**	900
Unlisted debt securities, at cost	**53**	–
	1,101	900

17. DEFERRED TAX ASSETS

Group

	Provision for doubtful debts	Provision for inventory obsolescence	Tax losses	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2003	10,633	1,064	775	139	12,611
(Charge)/credit to income for the year	–	60	(775)	–	(715)
At 1 January 2004	10,633	1,124	–	139	11,896
Credit to income for the year (Note 11)	435	–	–	–	435
At 31 December 2004	11,068	1,124	–	139	12,331

A deferred tax asset of RMB4,412,000 (2003: RMB2,939,000) has not been recognised in the financial statements in respect of tax losses available to offset future profits as it is not certain that the tax losses will be utilised in the foreseeable future.

18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2004	2003
	RMB'000	RMB'000
Unlisted shares, at cost	**30,387**	30,387

As at 31 December 2004, 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$1 each	100%	Investment holding
Zhongda International Automobile Assets Group Ltd.	British Virgin Islands/ Hong Kong	10 ordinary shares of US$ 1 each	100%	Investment holding
Zhongda International Automobile Industrial Ltd	British Virgin Islands/ Hong Kong	10 ordinary shares of US$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

18. INVESTMENTS IN SUBSIDIARIES (Continued)

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
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
Sichuan Zhongda Emei Coach Manufacturing Ltd.	PRC	RMB22,450,000	71%	Manufacture and sale of bus
NanJing JinLing Double Decker Bus Manufacture Co., Ltd.	PRC	RMB21,170,000	60%	Manufacture and sale of bus
Yancheng Aoshen Industry Equipment Manufacturing Co., Ltd.	PRC	RMB3,000,000	100%	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

19. INVENTORIES

	Group	
	2004	2003
	RMB'000	RMB'000
Raw materials	**31,753**	19,001
Work-in-progress	**11,940**	7,497
Finished goods	**16,089**	14,250
	59,782	40,748
Less: Provision for obsolescence	**(4,685)**	(4,685)
	55,097	36,063

As at 31 December 2004, the carrying amount of inventories that are stated at net realisable value amounted to approximately RMB1,503,000 (2003: RMB6,894,000).

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

	Group	
	2004	2003
	RMB'000	RMB'000
Contracts in progress at the balance sheet date		
Contract costs incurred plus recognised profits less recognised losses	**23,244**	22,628
Less: progress payments	**(15,778)**	(11,063)
	7,466	11,565

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

	Group	
	2004	2003
	RMB'000	RMB'000
Trade receivables	**7,838**	11,978
Advance receipt from customers	**(372)**	(413)
	7,466	11,565

At 31 December 2004, retentions held by customers for contract works amounted to RMB4,406,000 (2003: RMB2,460,000) (Note 21). Total advances received from customers for contract work amounted to RMB11,417,000 (2003: RMB11,073,000) which forms part of the advance receipt from customers as reported in the consolidated balance sheet.

21. TRADE RECEIVABLES

	Group	
	2004	2003
	RMB'000	RMB'000
Accounts receivable	**139,426**	124,770
Less: Provision for doubtful debts	**(32,576)**	(31,794)
	106,850	92,976
Bills Receivable	**184**	270
	107,034	93,246

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	
	2004	2003
	RMB'000	RMB'000
Within six months	**52,941**	45,117
Between seven and twelve months	**24,643**	21,522
Between one and two years	**20,955**	19,278
More than two years	**3,905**	4,599
	102,444	90,516
Retention receivables (Note 20)	**4,406**	2,460
	106,850	92,976

22. AMOUNTS DUE FROM/TO A SUBSIDIARY(IES)

The amounts due from/to a subsidiary(ies) are unsecured, interest free and have no fixed repayment terms.

23. AMOUNTS DUE FROM A RELATED COMPANY

Amounts due from a company related to the Company (as detailed in Note 31) disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance is as follows:

	Group		
			Maximum amount outstanding during the year
	2004	2003	
	RMB'000	RMB'000	RMB'000
Yancheng Zhongwei Bus Manufacturing Co., Limited	**1,217**	461	1,217

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

24. CASH AND BANK BALANCES

At 31 December 2004, the Group had no (2003: Nil) bank deposit pledged for security against its borrowings. No bank balance was restricted for clearance of certain short-term trade bills payable as at the balance sheet date (2003: RMB1,610,000) (Note 25).

25. TRADE PAYABLES

Ageing analysis of trade payables is as follows:

	Group	
	2004	2003
	RMB'000	RMB'000
Within one year	**43,007**	24,875
Between one and two years	**760**	2,292
Between two and three years	**3,063**	649
More than three years	**5,961**	5,598
	52,791	33,414
Bills payable	**–**	1,610
	52,791	35,024

26. AMOUNTS DUE TO RELATED COMPANIES/DIRECTORS

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

27. BORROWINGS

	Group	
	2004	2003
	RMB'000	RMB'000
Bank loans:		
Secured	**58,710**	15,900
Unsecured	**54,000**	50,000
	112,710	65,900

The maturity profile of the above loans is as follows:

On demand or within one year	**112,710**	65,900
Less: Amount due within one year shown under current liabilities	**(112,710)**	(65,900)
Non-current portion	**–**	–

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

28. 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 authorised share capital and share capital issued and fully paid during the years ended 31 December 2004 and 2003.

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 1 November 2001 until 31 October 2006. No warrants were exercised during the year ended 31 December 2004.

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 31 December 2004, no share option has been granted.

29. 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 1 January 2003	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 1 January 2004	17,073	2,720	2,720	(25)	89,633	112,121
Net profit for the year	–	–	–	–	12,801	12,801
Balance at 31 December 2004	17,073	2,720	2,720	(25)	102,434	124,922

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.

29. RESERVES (Continued)

Company

	Share premium RMB'000	Exchange reserve RMB'000	(Accumulated losses)/ retained profits RMB'000	Total RMB'000
Balance at 1 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 1 January 2004	17,073	–	1,771	18,844
Net loss for the year	–	–	(5,848)	(5,848)
Balance at 31 December 2004	17,073	–	(4,077)	12,996

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

	Group	
	2004	2003
	RMB'000	RMB'000
Profit before taxation	**20,789**	18,378
Interest income	**(477)**	(349)
Interest expense	**5,197**	3,306
Depreciation	**3,303**	3,259
Gain on disposals of property, plant and equipment	**(68)**	–
Impairment losses on property, plant and equipment	**168**	–
Provision for doubtful debts	**1,810**	–
Written-off of bad debts	**958**	–
Profit before changes in working capital	**31,680**	24,594
Increase in inventories	**(8,914)**	(3,058)
Increase in trade receivables	**(12,385)**	(30,083)
Decrease in prepayments and other receivables	**5,798**	13,125
(Increase)/decrease in amounts due from a related company/related companies	**(756)**	6,445
(Decrease)/increase in trade payables	**(8,403)**	16,617
Increase in advance receipt from customers	**325**	3,106
Increase/(decrease) in other payables and accruals	**1,856**	(1,404)
Increase in amounts due to related companies	**6,521**	1,869
Increase in amounts due to directors	**860**	670
Cash generated from operations	**16,582**	31,881
Interests paid	**(5,197)**	(3,306)
Income taxes paid	**(564)**	(83)
Net cash from operating activities	**10,821**	28,492

31. RELATED PARTY TRANSACTIONS

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

	Group	
	2004	2003
	RMB'000	RMB'000
Transactions with Zhongda Industrial Group Corporation, in which the Chairman of the Group has a controlling interest		
– 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)	**12,691**	10,949
– Sales of products and raw materials (f)	**2,902**	2,547
Transactions with Yancheng Zhongwei Bus Manufacturing Co., Ltd. ("Zhongwei Bus"), in which the Chairman of the Group has a controlling interest		
– Sales of products (e)	**14,530**	–
– Sales of raw materials (f)	**2,127**	401

31. 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 31 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 Buerau for any such services. The agreement is for a term of ten years commencing 31 August 2001.

(b) Pursuant to a patent agreement dated 31 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 31 August 2001 to expiry of the patent certificate of the relevant patents.

(c) Pursuant to a trademark agreement dated 31 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 31 August 2001.

(d) Pursuant to an office license agreement dated 30 May 2001, the rental of office premise is charged at a rate of RMB100,000 per annum for a period of five years commencing 1 June 2001.

(e) Purchases from Yancheng Celette and sales to Zhongwei Bus 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 per cent 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.

32. ACQUISITION OF A SUBSIDIARY

During the year the Group acquired 71% interest of Sichuan Zhongda Emei Coach Manufacturing Ltd ("Zhongda Emei") by the form of subscribing newly issued capital of Zhongda Emei for a total consideration of RMB16,000,000. The consideration of RMB5,000,000 was paid to Zhongda Emei and was included in the bank balances and cash of Zhongda Emei upon acquisition. The remaining consideration of RMB11,000,000 had not been paid and was included in amount due from holding company of Zhongda Emei upon acquisition. This acquisition has been accounted for by the acquisition method of accounting.

	RMB'000
NET ASSETS ACQUIRED	
Property, plant and equipment	81,305
Investments in securities	201
Inventories	10,120
Trade receivables	4,171
Prepayments and other receivables	1,101
Amount due from holding company	11,000
Bank balances and cash	8,761
Trade payables	(26,170)
Advance receipt from customers	(1,585)
Other payables and accruals	(39,418)
Borrowings	(44,210)
Minority interests	(1,530)
	3,746
Goodwill	12,254
Total consideration	16,000
SATISFIED BY	
Cash	16,000
Net cash inflow arising on acquisition:	
Cash consideration	16,000
Less: Amounts not yet paid	(11,000)
Bank balances and cash acquired	(8,761)
Net inflow of cash and cash equivalents in respect of the purchase of a subsidiary	(3,761)

The subsidiary acquired during the year contributed RMB3,682,000 to the Group's turnover and RMB4,212,000 to the Group's profit from operations.

33. CAPITAL COMMITMENTS

At the balance sheet date, the Group had the commitments of capital expenditure as follows:

	Group	
	2004	2003
	RMB'000	RMB'000
Acquisition of land use rights and buildings for production purpose:		
Contracted but not provided for in the financial statements	**15,436**	19,800
Investment in sino-foreign equity joint venture:		
Contracted but not provided for in the financial statements	**6,101**	–
	21,537	19,800

34. 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	
	2004	2003
	RMB'000	RMB'000
Land and buildings		
– Within one year	**296**	561
– In the second to fifth years inclusive	**42**	338
	338	899

35. 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 (the "Scheme") for all qualifying employees in Hong Kong. The assets of the Scheme 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.

36. ULTIMATE HOLDING COMPANY

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