Management Discussion and Analysis

OVERVIEW

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

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

OPERATING ENVIRONMENT

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

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

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

AUTOMOBILE MAINTENANCE EQUIPMENT BUSINESS

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

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

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

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

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

AUTOMOBILE MANUFACTURING BUSINESS

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

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

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

LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

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

As at 31 December 2005, the Group had contingent liabilities of approximately RMB12,123,000 (2004: nil), details of which are set out in note 34 to the consolidated financial statements.

DIVIDEND

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

PROSPECT

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

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

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

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

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

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

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

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

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