1. GENERAL AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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 addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

The principal activities of 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 40.

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

In preparing the consolidated financial statements, the directors have given careful consideration to the future liquidity of the Group in the light of its net current liabilities of approximately RMB6,386,000 as at 31 December 2005. The directors are satisfied that, in the light of the financing from the ultimate holding company and a controlling shareholder, the Group will be able to meet in full all its financial obligations as they fall due in the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

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

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

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (Continued)

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. Comparative figures for 2004 have been restated (see note 3 for the financial impact).

Financial instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how the financial instruments of the Group are presented for current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (Continued)

Financial instruments (continued)

Debt and equity securities previously accounted for under the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24")

By 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of SSAP 24. Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1 January 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

On 1 January 2005, the Group classified and measured its debt and equity securities in accordance with the transitional provisions of HKAS 39. As a result, "investments in securities" amounted to approximately RMB1,101,000 have been reclassified to available-for-sale investments (see note 3 for the financial impact). The adoption of HKAS 39 with respect to the classification and measurement of debt or equity securities has had no material financial impact to the Group, and accordingly no adjustment is made to accumulated profits as at 1 January 2005.

Derecognition

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous years. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively in relation to transfer of financial assets from 1 January 2005 onwards. However, there has been no material effect on how the results for the current accounting period are prepared and presented.

3. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES

The effect of the changes in the accounting policies described in note 2 above on the results for the current and prior years are as follows:

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

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

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

3. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES (Continued)

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

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

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

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

3. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES (Continued)

The Group has not early applied the following new standards, interpretations and amendments that have been issued but are not yet effective as at 31 December 2005. The directors of the Company anticipate that the application of these new standards or interpretations will have no material impact on the consolidated financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21 (Amendment)	Net Investment in a Foreign Operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC)-Int 4	Determining whether an Arrangement Contains a Lease[2]
HK(IFRIC)-Int 5	Rights to Interests Arising from Decommissing, Restoration and Environmental Rehabilitation Funds[2]
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment[3]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]
HK(IFRIC)-Int 8	Scope of HKFRS 2[5]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[6]

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 January 2006.
3 Effective for annual periods beginning on or after 1 December 2005.
4 Effective for annual periods beginning on or after 1 March 2006.
5 Effective for annual periods beginning on or after 1 May 2006.
6 Effective for annual periods beginning on or after 1 June 2006.

4. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below. The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Revenue recognition

Revenue from the sales 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 year. 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.

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

Revenue recognition (continued)

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 a financial asset is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Rental income under operating leases is recognised in the consolidated income statement on a straight-line basis over the terms of the relevant lease.

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 consolidated income statement in the year in which they are incurred.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the terms of the relevant leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease terms.

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

Leasing (continued)

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term a straight-line basis.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of loans and receivables are set out below.

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, other receivables and amounts due from related companies) are carried at amortised cost using the effective interest method, less any identified impairment losses. Impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. Impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not be reversed in subsequent years.

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including trade payables, advance receipt from customers, other payables and accruals, amounts due to related companies and directors and bank loans are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment, other than construction-in-progress, are stated at cost less accumulated depreciation and impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction-in-progress, over their estimated useful lives, using the straight-line method.

Buildings in the course of development for production and administrative purposes are carried at cost less any identified impairment loss, and are not depreciated. Depreciation of these assets, on the same basis as other property assets, commences when the assets are completed and ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is dereognised.

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 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 loss is recognised as 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 impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such 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 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 is calculated using the weighted average method.

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

Construction contracts

When the outcome of a construction contract can be estimated reliably, contract costs are charged to the consolidated 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 year.

When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the year 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 consolidated balance sheet under trade receivables.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme and state-sponsored retirement benefit plan are charged as expense when they fall due.

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 consolidated 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. The Group's liabilities for current tax are calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

4. PRINCIPAL 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 consolidated 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 from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, 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 consolidated 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.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the year in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Renminbi) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the year in which the foreign operation is disposed of.

Provision

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 4 above, management has made the following judgments that have significant effect on the amounts recognised in the consolidated financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Depreciation of property, plant and equipment

The Group's net book value of property, plant and equipment as at 31 December 2005 was approximately RMB38,874,000. The Group depreciates the property, plant and equipment on a straight-line basis over the estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, at the rate of 3.33% to 50% per annum, commencing from the date the property, plant and equipment when they are available for use. The estimated useful lives that the Group places the property, plant and equipment into productive use reflects the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's property, plant and equipment.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Allowance for doubtful debts

The policy for allowance of doubtful debts of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in impairment of their ability to make payments, additional allowance may be required.

Allowance for inventories

The management of the Group reviews an ageing analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

Impairment of property, plant and equipment

The impairment loss for property, plant and equipment is recognised for the amounts by which the carrying amounts exceeds its recoverable amount, in accordance with the Group's accounting policy. The recoverable amounts have been determined based on fair value less costs to sell, which is based on the best information available to reflect the amount that obtainable at each of the balance sheet date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs to disposal.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade receivables, other receivables, trade payables, other payables and accruals, amounts due from/to related companies/directors and bank loans. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. It did not have significant exposure to foreign exchange risk. Nevertheless, the exchange rate of RMB to foreign currencies is subject to the rules and regulations of foreign exchange control promulgation by the PRC government.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk

The Group is exposed to interest rate risk through the impact of the Group's cash flows in respect of rate changes on variable interest bearing bank loans. The interest rates and terms of repayment of bank loans of the Group are disclosed in note 30.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

7. TURNOVER

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

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

8. SEGMENT INFORMATION

(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	
	2005	2004	**2005**	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
						(restated)
REVENUE						
External sales	**177,313**	214,034	**–**	3,672	**177,313**	217,706
RESULTS						
Segment results	**(7,399)**	28,059	**(5,243)**	12	**(12,642)**	28,071
Unallocated corporate expenses					**(9,238)**	(12,766)
Other revenue					**4,364**	10,981
Loss on deemed disposal of a subsidiary					**(7,990)**	–
Finance costs					**(7,029)**	(5,197)
(Loss)/profit before taxation					**(32,535)**	21,089
Taxation					**3,157**	(5,033)
(Loss)/profit for the year					**(29,378)**	16,056

8. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

	Automobile equipment		Bus		Total	
	2005 RMB'000	2004 RMB'000	**2005 RMB'000**	2004 RMB'000	**2005 RMB'000**	2004 RMB'000 (restated)
OTHER INFORMATION						
Segment capital expenditure	**5,666**	33,505	**5,169**	3,837	**10,835**	37,342
Segment depreciation	**3,142**	2,601	**–**	–	**3,142**	2,601
Unallocated corporate depreciation					**52**	52
Total					**3,194**	2,653
Segment amortisation on prepaid lease payments on land use rights	**350**	350	**–**	–	**350**	350
Impairment loss recognised on property, plant and equipment	**–**	168	**–**	–	**–**	168
Allowance for inventories	**2,684**	–	**4,694**	–	**7,378**	–
Allowance for doubtful debts	**15,926**	1,810	**–**	–	**15,926**	1,810
Write-off of bad debts	**16,498**	958	**–**	–	**16,498**	958

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

8. SEGMENT INFORMATION (Continued)

(b) Geographical segments

The Group's activities are conducted predominantly in the PRC, Europe and Asia other than the PRC. An analysis of turnover by geographical segment is as follows:

	2005	2004
	RMB'000	RMB'000
The PRC	**150,135**	188,871
Europe	**15,136**	13,349
Asia other than the PRC	**8,988**	9,946
Others	**3,054**	5,540
	177,313	217,706

Over 90% of segment assets of the Group are located in the PRC.

9. OTHER REVENUE

	2005	2004
	RMB'000	RMB'000
Gain on disposal of property, plant and equipment	**80**	68
Sales of raw materials	**1,804**	5,898
Interest income on bank deposits	**590**	477
Rental income	**1,796**	–
Waiver of bank loan interests	**–**	4,200
Others	**94**	338
	4,364	10,981

10. FINANCE COSTS

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

11. (LOSS)/PROFIT BEFORE TAXATION

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

	2005 RMB'000	2004 RMB'000 (restated)
Amortisation on prepaid lease payments on land use rights	**350**	350
Auditors' remuneration	**998**	632
Allowance for inventories	**7,378**	–
Allowance for doubtful debts	**15,926**	1,810
Cost of inventories sold (excluding staff costs, depreciation on property, plant and equipment, amortisation on prepaid lease payments on land use rights, and allowance for inventories)	**103,700**	115,420
Depreciation on property, plant and equipment	**3,194**	2,653
Impairment loss recognised on property, plant and equipment	**–**	168
Operating leases in respect of rented premises	**745**	865
Staff costs (excluding directors' emoluments *(Note 12)*)		
– Salaries and wages	**13,420**	13,672
– Retirement benefit scheme contributions	**2,761**	841
Write-off of bad debts	**16,498**	958

12. DIRECTORS' EMOLUMENTS

(a) Details of directors' emoluments pursuant to Section 161 of the Hong Kong Companies Ordinance and the requirements set out in the Listing Rules are as follows:–

	2005 RMB'000	2004 RMB'000
Non-executive directors		
– fees	**374**	360
Executive directors		
– fees	**2,000**	2,000
– basic salaries, allowance and benefits in kind	**322**	268
	2,696	2,628

12. DIRECTORS' EMOLUMENTS (Continued)

(b) The emoluments paid or payable to each of the six (2004: six) directors were as follows:

	Directors' fees RMB'000	**Basic salaries, allowance and benefits in kind RMB'000**	**Retirement Benefit Scheme contributions RMB'000**	**Total RMB'000**
Xu Lian Guo	**1,000**	**96**	**–**	**1,096**
Xu Lian Kuan	**500**	**96**	**–**	**596**
Zhang Yuqing	**500**	**130**	**–**	**630**
Gu Yao Tian	**104**	**–**	**–**	**104**
Chan Wai Dune	**166**	**–**	**–**	**166**
Li Xinzhong	**104**	**–**	**–**	**104**
Total for 2005	**2,374**	**322**	**–**	**2,696**

	Directors' fees RMB'000	Basic salaries, allowance and benefits in kind RMB'000	Retirement Benefit Scheme contributions RMB'000	Total RMB'000
Xu Lian Guo	1,000	90	–	1,090
Xu Lian Kuan	500	90	–	590
Zhang Yuqing	500	88	–	588
Gu Yao Tian	106	–	–	106
Chan Wai Dune	170	–	–	170
Li Xinzhong	84	–	–	84
Total for 2004	2,360	268	–	2,628

No director waived any emoluments in any of both years ended 31 December 2005 and 2004.

The remuneration of directors is determined by the remuneration committee having regard to the performance of individuals and market trends.

No emoluments were paid to the directors as inducement to join or upon joining the Group or as compensation for loss of office in both years.

13. EMPLOYEES' EMOLUMENTS

Of the five highest paid individuals in the Group, three (2004: four) are directors of the Company whose emoluments are included above. The emoluments of the remaining two (2004: one) individuals were as follows:

	2005 **RMB'000**	2004 RMB'000
Salaries and other benefits	**798**	608
Retirement benefit scheme contributions	**14**	10
	812	618

Their emoluments fall within the following range:

	Number of directors	
	2005	2004
Nil-HK$1,000,000	**2**	1

No emoluments were paid to employees as inducement to join or upon joining the Group or as compensation for loss of office in both years.

14. TAXATION

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

14. TAXATION (Continued)

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

The Company's subsidiaries established in the PRC are subject to Enterprise Income Tax ("EIT") at a rate of 24% and are subject to the benefit of full exemption from EIT for 2 years starting from the first profitable year followed by a 50% of deduction for the next 3 years. Certain of these subsidiaries are still enjoying a 50% deduction in EIT rate under the benefit.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The taxation for the years can be reconciled to the (loss)/profit before taxation as per the consolidated income statement as follows:

	2005 **RMB'000**	2004 RMB'000 (restated)
(Loss)/profit before taxation	**(32,535)**	21,089
Tax at applicable tax rate of 24%	**(7,808)**	5,061
Net tax effect of income and expense items which are not assessable or deductible for income tax purpose	**(944)**	(1,756)
Effect of unrecognised tax losses	**4,698**	1,568
Effect of different tax rates of the subsidiaries operating in other jurisdictions	**897**	160
Taxation for the year	**(3,157)**	5,033

15. DIVIDENDS

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

16. (LOSS)/EARNINGS PER SHARE

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

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

17. GOODWILL

	RMB'000
COST	
Arising on acquisition of a subsidiary during the year ended 31 December 2004 and at 1 January 2005	12,254
Elimination of goodwill upon deemed disposal of a subsidiary	12,254
At 31 December 2005	–
AMORTISATION	
At 1 January 2004, 31 December 2004 and 1 January 2005	–
Elimination of goodwill upon deemed disposal of a subsidiary during the year	–
At 31 December 2005	–
CARRYING VALUES	
At 31 December 2005	–
At 31 December 2004	12,254

18. PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION-IN-PROGRESS

	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								
– as originally stated	7,696	37,316	501	8,808	788	1,518	57,389	114,016
– effect of adoption of HKAS 17	(7,696)	–	–	–	–	–	(9,831)	(17,527)
– as restated	–	37,316	501	8,808	788	1,518	47,558	96,489
Additions	–	295	–	3,368	2,440	504	30,735	37,342
Acquisition of a subsidiary								
– as originally stated	18,925	57,354	–	12,226	2,635	425	176	91,741
– effect of adoption of HK17	(18,925)	–	–	–	–	–	–	(18,925)
– as restated	–	57,354	–	12,226	2,635	425	176	72,816
Disposals	–	–	–	–	(1,728)	(26)	–	(1,754)
Impairment	–	–	–	–	(186)	(603)	–	(789)
Re-classification	–	–	–	–	240	(240)	–	–
At 31 December 2004 and 1 January 2005	–	94,965	501	24,402	4,189	1,578	78,469	204,104
Deemed disposal of a subsidiary	–	(57,354)	–	(12,226)	(2,635)	(425)	(176)	(72,816)
Additions	–	928	–	61	3,579	117	6,150	10,835
Transfer from construction-in-progress	–	–	–	344	–	–	(344)	–
Disposals	–	(258)	–	–	(448)	–	–	(706)
At 31 December 2005	–	38,281	501	12,581	4,685	1,270	84,099	141,417

18. PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION-IN-PROGRESS (Continued)

	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
ACCUMULATED DEPRECIATION AND IMPAIRMENT								
At 1 January 2004								
– as originally stated	2,946	6,028	501	5,483	659	862	–	16,479
– effect of adoption of HKAS17	(2,946)	–	–	–	–	–	–	(2,946)
– as restated	–	6,028	501	5,483	659	862	–	13,533
Charge for the year								
– as originally stated	650	1,661	–	773	63	156	–	3,303
– effect of adoption of HKAS17	(650)	–	–	–	–	–	–	(650)
– as restated	–	1,661	–	773	63	156	–	2,653
Acquisition of a subsidiary								
– as originally stated	164	2,131	–	6,898	1,006	237	–	10,436
– effect of adoption of HKAS17	(164)	–	–	–	–	–	–	(164)
– as restated	–	2,131	–	6,898	1,006	237	–	10,272
Impairment	–	–	–	–	(186)	(435)	–	(621)
Written back on disposals	–	–	–	–	(55)	–	–	(55)
Re-classification	–	(41)	–	43	100	(102)	–	–
At 31 December 2004 and 1 January 2005	–	9,779	501	13,197	1,587	718	–	25,782
Deemed disposal of a subsidiary	–	(2,131)	–	(6,898)	(1,006)	(237)	–	(10,272)
Charge for the year	–	1,634	–	1,060	359	141	–	3,194
Written back on disposals	–	(258)	–	–	(2)	–	–	(260)
At 31 December 2005	–	9,024	501	7,359	938	622	–	18,444
NET BOOK VALUES								
At 31 December 2005	–	29,257	–	5,222	3,747	648	84,099	122,973
At 31 December 2004	–	85,186	–	11,205	2,602	860	78,469	178,322

18. PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION-IN-PROGRESS (Continued)

In prior year, land use rights are amortised on a straight-line basis over 12 years. With effect from 1 January 2005, prepaid lease payments on land use rights are amortised on a straight-line basis over the lease term with the adoption of the new HKAS 17. This change in accounting estimate has been applied retrospectively. Accordingly, the cost and accumulated depreciation of buildings as at 1 January 2004 have been restated.

All buildings are located in the PRC and held under long-term lease.

Property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Description	**Useful Life**	**Residual value**
Buildings	10-30 years	10%
Leasehold improvements	2 years or over the relevant terms of the lease, if shorter	Nil
Plant and machinery	10 years	10%
Motor vehicles	5 years	0%-10%
Furniture and equipment	5-7 years	0%-10%

19. PREPAID LEASE PAYMENTS ON LAND USE RIGHTS

	2005 **RMB'000**	2004 RMB'000 (restated)
The Group's prepaid lease payments comprise:		
Long-term leasehold land in the PRC	**53,971**	34,912
Analysed for reporting purposes as:		
Current asset	**772**	756
Non-current asset	**53,199**	34,156
	53,971	34,912

20. PREPAYMENT FOR AN INVESTMENT IN AN ASSOCIATE

During the year, the Group had made a prepayment of approximately RMB1,087,000 to Yancheng Zhongda Ceccato Washing Systems Co., Ltd. ("Zhongda Ceccato") which represented 8.35% of its registered capital. According to an agreement signed in April 2004, the Group was required to contribute USD735,000 representing 49% of the registered capital of Zhongda Ceccato. During the year ended 31 December 2005, the associate has not yet commenced its business.

21. INVESTMENTS IN SECURITIES

Investments in securities as at 31 December 2004 are set out below. Upon the application of HKAS 39 on 1 January 2005, investments in securities were reclassified to available-for-sale investments under HKAS 39 (see note 2 for details).

	2004 RMB'000
Unlisted equity securities, at cost	1,101

22. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments as at 31 December 2005 comprise:

	2005 **RMB'000**
Unlisted equity securities	**900**
Analysed for reporting purpose as:	
Non-current asset	**900**

As at the balance sheet date, all unlisted equity investments are stated at cost less impairment of which their fair values cannot be measured reliably.

The above unlisted investments represent investments in unlisted equity securities issued by private entities incorporated in the PRC. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

23. DEFERRED TAX ASSETS

The movements in deferred tax assets/(liabilities) of the Group during the year are as follows:

	Allowance for doubtful debts RMB'000	Allowance for inventories RMB'000	Others RMB'000	Total RMB'000
At 1 January 2004				
– as originally stated	10,633	1,124	139	11,896
– effect of adoption of HKAS 17	–	–	(554)	(554)
– as restated	10,633	1,124	(415)	11,342
Credited to the consolidated income statement				
– as originally stated	435	–	–	435
– effect of adoption of HKAS 17	–	–	(96)	(96)
– as restated (Note 14)	435	–	(96)	339
At 31 December 2004 and 1 January 2005	11,068	1,124	(511)	11,681
Credited to the consolidated income statement				
– as originally stated	4,193	446	–	4,639
– effect of adoption of HKAS 17	–	–	(96)	(96)
– as restated (Note 14)	4,193	446	(96)	4,543
At 31 December 2005	15,261	1,570	(607)	16,224

A deferred tax asset of approximately RMB4,698,000 (2004 as restated: RMB4,412,000) has not been recognised in the consolidated 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.

24. INVENTORIES

	2005 RMB'000	2004 RMB'000
Raw materials	**27,341**	31,753
Work in progress	**6,860**	11,940
Finished goods	**14,317**	16,089
	48,518	59,782
Less: Allowance for inventories	**(12,063)**	(4,685)
	36,455	55,097

At the balance sheet date, none of the inventories (2004: RMB1,503,000) were carried at net realisable value.

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

	2005 RMB'000	2004 RMB'000
Contracts in progress at the balance sheet date:		
Contract costs incurred plus recognised profits less recognised losses	**34,716**	23,244
Less: progress payments	**(22,237)**	(15,778)
	12,479	7,466

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

	2005 RMB'000	2004 RMB'000
Trade receivables	**12,542**	7,838
Advance receipt from customers	**(63)**	(372)
	12,479	7,466

At 31 December 2005, retentions held by customers for contract works amounted to approximately RMB10,002,000 (2004: RMB4,406,000) (Note 26). Total advances received from customers for contract work amounted to approximately RMB2,358,000 (2004: RMB11,417,000) which forms part of the advance receipt from customers as reported in the consolidated balance sheet.

26. TRADE RECEIVABLES

	2005 RMB'000	2004 RMB'000
Trade receivables	**149,903**	139,426
Less: Allowance for doubtful debts	**(48,502)**	(32,576)
	101,401	106,850
Bill receivables	**151**	184
	101,552	107,034

Included in trade receivables was an amount of RMB5,780,000 (2004: RMB5,780,000) due from Yancheng Zhongwei Bus Manufacturing Co., Limited in which Xu Lian Kuan and Zhang Yuqing are the common directors.

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.

An ageing analysis of trade receivables is as follows:

	2005 RMB'000	2004 RMB'000
Within six months	**39,407**	52,941
Between seven and twelve months	**27,337**	24,643
Between one and two years	**24,466**	20,955
More than two years	**189**	3,905
	91,399	102,444
Retention receivables (Note 25)	**10,002**	4,406
	101,401	106,850

The fair values of the Group's trade receivables at 31 December 2005 approximate to the corresponding carrying amounts.

27. AMOUNTS DUE FROM RELATED COMPANIES

Amounts due from related companies (as detailed in note 32) disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

	2005	2004	**Maximum amounts owed to the Group during the year**
	RMB'000	RMB'000	RMB'000
Yancheng Zhongwei Bus Manufacturing Co., Ltd. ("Zhongwei Bus")[1]	**2,504**	1,217	8,284
Yancheng Zonda Automobile Service Co., Ltd.[2]	**45**	22	45
Yancheng Zonda Steel Structure Engineering Co., Ltd.[3]	**145**	141	145
Zhongda Industrial Group Corporation[4]	**8,863**	–	8,863
Jingsu Jinling Transportation Group Co., Ltd.[5]	**3,119**	9,000	9,000
	14,676	10,380	

1 Xu Lian Kuan and Zhang Yuqing are the common directors.

2 It is a subsidiary of Zhongda Industrial Group Corporation.

3 Xu Lian Guo is the common director.

4 Xu Lian Guo, Xu Lian Kuan and Zhang Yuqing are the common directors.

5 It is a shareholder of a subsidiary of the Company.

The amounts are unsecured, interest-free and repayable on demand.

The fair values of the Group's amounts due from related companies at 31 December 2005 approximate to the corresponding carrying amounts.

28. TRADE PAYABLES

An ageing analysis of trade payables is as follows:

	2005	2004
	RMB'000	RMB'000
Within one year	**11,727**	37,759
Between one and two years	**12,723**	3,236
Between two and three years	**2,707**	5,467
More than three years	**6,369**	6,329
	33,526	52,791

The fair values of the Group's trade payables at 31 December 2005 approximate to the corresponding carrying amounts.

29. AMOUNTS DUE TO RELATED COMPANIES/DIRECTORS

The amounts are unsecured, interest-free and repayable on demand. The fair values of the Group's amounts due to related companies at 31 December 2005 approximate to the corresponding carrying amounts.

30. BANK LOANS

	2005	2004
	RMB'000	RMB'000
Bank loans	**104,500**	112,710
Secured	**33,780**	58,710
Unsecured	**70,720**	54,000
	104,500	112,710
Bank loans are repayable within a period of:		
– one year	**77,430**	112,710
– between one to two years	**27,070**	–
	104,500	112,710
Less: Amounts due within one year shown under current liabilities	**(77,430)**	(112,710)
Amounts due after one year	**27,070**	–

All the above bank loans are fixed or variable-rate borrowings with effective rates (which are also equal to contracted interest rates) ranging from 4.65% to 7.49% denominated in RMB.

The directors consider that the carrying amount of bank loans approximates their fair values.

At 31 December 2005, the bank loans are secured by certain of the Group's land use rights and buildings with an aggregate net book value of approximately RMB 29,947,000 (2004 as restated: RMB31,441,000), corporate guarantees issued by an independent third party and a related company and certain assets of an independent third party .

31. SHARE CAPITAL

	2005 & 2004		
	Number of shares		**Equivalent to**
		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 authorised share capital and share capital issued and fully paid during both years ended 31 December 2005 and 2004.

The Company has outstanding warrants in issue which allow the holders to subscribe up to a 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 both years ended 31 December 2005 and 2004.

The Company has a share option scheme (the "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 sheet for the five business days immediately preceding the date of grant, and (iii) the par value of the shares. No share options were granted to directors or employees since adoption of the Scheme.

32. RELATED PARTY TRANSACTIONS

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

	2005	2004
	RMB'000	RMB'000
Transactions with Zhongda Industrial Group Corporation:		
– Service fee expenses (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")[1]:		
– Purchases of products (e)	**8,380**	12,691
– Sales of products and raw materials (f)	**1,524**	2,902
Transactions with Zhongwei Bus:		
– Sales of products and raw materials (e & f)	**24**	16,657
– Rental income for land (g)	**996**	–
Transactions with Jiangsu Jinling Transportation Group Co., Ltd:		
– Rental income for property, plant and equipment (h)	**800**	–

1 Xu Lian Kuan is the common director.

In addition, Zhongwei Bus has given corporate guarantee to banks to secure bank loans granted to a subsidiary of the Company to the extent of RMB23,000,000 (2004: Nil).

32. 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 Bureau for any such services. The agreement is for a term of ten years commenced on 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.

(g) Pursuant to a rental agreement, the rental of land is charged at RMB83,000 per month for a period of three years commenced on 12 July 2004.

(h) Pursuant to a rental agreement, the rental of equipment and machinery is charged at RMB800,000 per annum commenced on 1 January 2005.

In the opinion of the directors including independent non-executive directors of the Group, 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 Group 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.

Details of key management personnel compensations are set out in note 13.

33. COMMITMENTS

At the balance sheet date, the Group had the commitments as follows:–

(a) Capital commitments in respect of acquisition of machinery and equipment and construction of buildings:

	2005	2004
	RMB'000	RMB'000
		(restated)
Contracted but not provided for in the consolidated financial statements:		
– acquisition of land use rights and buildings	**46,153**	20,827
– capital contribution on investment in an associate	**4,927**	6,101
– capital contribution on investment in a subsidiary	**9,206**	19,053
	60,286	45,981

(b) Operating lease commitments for future minimum lease payments under non-cancellable operating leases in respect of rental premises which fall due as follows:

	2005	2004
	RMB'000	RMB'000
Within one year	**357**	296
In the second to fifth year inclusive	**260**	42
	617	338

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases and rentals are negotiated and fixed for an average of four years.

(c) Operating lease commitment for future minimum lease receipts contracted with tenants under non-cancellable operating lease in respect of land use rights, plant and machinery which fall due as follows:

	2005	2004
	RMB'000	RMB'000
		(restated)
Within one year	**996**	1,796
In the second to fifth year inclusive	**610**	1,606
	1,606	3,402

33. COMMITMENTS (Continued)

(c) (Continued)

Operating lease receipts represent rental receivable by the Group for leasing its land use rights. Leases and rentals are negotiated and fixed for an average of three years.

34. CONTINGENT LIABILITIES

As explained in note 38, the Group had contingent liabilities so far as not provided for in the consolidated financial statements in respect of the unpaid capital contribution of the deemed disposal of a subsidiary amounting to approximately RMB11,000,000 and 5% of the total registered capital of the deemed disposal of a subsidiary approximately RMB1,122,500. According to a legal opinion obtained on 26 July 2006, the directors are of the opinion that no provision is required in respect of this litigation.

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% 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.

The total cost charged to the consolidated income statement of approximately RMB2,761,000 (2004: RMB 841,000) represents contributions payable to the Schemes by the Group.

36. ACQUISITION OF A SUBSIDIARY

On 15 December 2004, the Group acquired 71% equity interest of Sichuan Zhongda Emei Coach Manufacturing Ltd. at a total consideration of RMB16,000,000. The transaction has been accounted for using the purchase method of accounting.

36. ACQUISITION OF A SUBSIDIARY (Continued)

The net assets acquired in the transaction, and the goodwill arising, are as follows:

	2004 Fair value and acquiree's carrying amount before combination RMB'000
Net assets acquired:	
Property, plant and equipment and construction-in-process	62,544
Prepaid lease payments on land use rights	18,761
Investments in securities	201
Inventories	10,120
Trade receivables	4,171
Prepayments and other receivables	1,101
Amount due from holding company	11,000
Cash and bank balances	3,761
Trade payables	(26,170)
Advance receipt from customers	(1,585)
Other payables and accruals	(39,418)
Bank loans	(39,210)
Minority interests	(1,530)
	3,746
Goodwill arising on acquisition	12,254
	16,000
Total consideration arising on acquisition:	
Cash consideration	5,000
Cash consideration not yet paid	11,000
	16,000
Net cash outflow arising on acquisition:	
Cash consideration paid	(5,000)
Cash and bank balances acquired	3,761
	(1,239)

The subsidiary acquired during the year ended 31 December 2004 had contributed to the turnover of RMB 3,672,000 and profit for the year of RMB2,990,000 of the Group.

37. DEEMED DISPOSAL OF A SUBSIDIARY

(a) Details of the Group's deemed disposal of a subsidiary on 1 January 2005 are as follows:

Name of subsidiary	Place of incorporation and operations	Class of equity held	Registered capital	Effective percentage of equity interests/ voting rights held by the Company Directly %	Indirectly %	Principal activities
Sichuan Zhongda Emei Coach Manufacturing Ltd.	PRC	Registered capital	RMB22,450,000	–	71	Manufacturing and sales of buses

Sichuan Zhongda Emei Coach Manufacturing Ltd. was originally acquired on 15 December 2004 with an investment cost and paid-up capital of RMB16,000,000 and RMB5,000,000 respectively. In 2005, the Group's control over the subsidiary has been lost. As a result, the Group has recognised a loss on deemed disposal of the subsidiary amounting to approximately RMB7,990,000 including a profit of RMB2,990,000 recognised in 2004.

The profit for the deemed disposal of the subsidiary attributable to the Group:

	Current year RMB'000	**Previous years since acquisition** RMB'000	**Total** RMB'000
Dealt with in the Group's consolidated financial statements	–	–	–
Not dealt with in the Group's consolidated financial statements	140	2,990	3,130

37. DEEMED DISPOSAL OF A SUBSIDIARY (Continued)

(b) Financial information of the deemed disposal of the subsidiary

Extracts of the results and financial position of Sichuan Zhongda Emei Coach Manufacturing Ltd. based on the unaudited management accounts as at 31 December 2005, prepared under accounting principles generally accepted in PRC are as follows:

	2005
	RMB'000
Operating results:	
Turnover	**43,250**
Profit for the year ended 31 December 2005	**140**
Financial positions:	
Non-current assets	**79,917**
Current assets	**36,814**
Current liabilities	**(106,707)**
Net assets	**10,024**

Extracts of the results and financial position of Sichuan Zhongda Emei Coach Manufacturing Ltd. based on the audited accounts as at 31 December 2004, prepared under accounting principles generally accepted in Hong Kong, consolidated into the Group as at 31 December 2004 are as follows:

	2004
	RMB'000
Operating results:	
Turnover	3,672
Profit for the period from 15 December 2004 to 31 December 2004	2,990
Financial positions:	
Non-current assets	81,305
Current assets	29,550
Current liabilities	(101,568)
Net assets	9,287

37. DEEMED DISPOSAL OF A SUBSIDIARY (Continued)

(c) At 1 January 2005, deemed disposal of the net assets and the net cash outflow arising on deemed disposal of a subsidiary are as follows:

	2005 RMB'000
Deemed disposal of net assets:	
Goodwill	12,254
Property, plant and equipment and construction-in-process	62,544
Prepaid lease payments on land use rights	18,761
Available-for-sale investments	201
Inventories	9,385
Trade receivables	4,269
Prepayments and other receivables	1,486
Cash and bank balances	3,410
Trade payables	(25,598)
Advance receipt from customers	(1,567)
Other payables and accruals	(34,653)
Tax payable	(541)
Bank loans	(39,210)
Minority interests	(2,751)
Loss on deemed disposal of a subsidiary	7,990
Net cash outflow arising on deemed disposal:	
Cash and bank balances	3,410

38. POST BALANCE SHEET EVENT

On 20 July 2006, Zhongda International Automobile Industrial Limited ("the Defendant") which is a wholly-owned subsidiary of the Company had been served with the Writ of Summons (the "Writ") issued by the Chengdu Intermediate People's Court of the PRC, and endorsed therewith was the Writ issued by Sichuan Bus Manufacture Limited ("the Plaintiff"), a company incorporated in the PRC, against the Defendant.

38. POST BALANCE SHEET EVENT (Continued)

Under the Writ, the Plaintiff alleged that the Defendant did not pay for the outstanding capital contribution of approximately RMB11,000,000 pursuant to the terms of the joint venture agreement and the revised agreement entered into between the Plaintiff and the Defendant on 19 November 2004 and 29 July 2005 respectively in respect of the acquisition of 71% equity interest of Sichuan Zhongda Emei Coach Manufacturing Ltd. ("Joint Venture Company").

In addition, the Plaintiff sought declarations from the Chengdu Intermediate People's Court of the PRC: (i) that the Defendant has breached the Joint Venture Agreement; (ii) that the Joint Venture Agreement shall be terminated; and (iii) that the cost of legal actions shall be borne by the Defendant.

According to a legal opinion obtained on 26 July 2006 from the Group's PRC legal counsel, the sum already provided to the Joint Venture Company ("the JV Company") cannot be regarded as capital contribution since it was not paid in the manner as prescribed by the Joint Venture Agreement and had not been subject to capital verification; the Defendant is entitled to claim back the sum by a separate litigation upon termination of the Joint Venture Agreement; the obligation of the Defendant to pay its capital contribution would be released upon the termination of the Joint Venture Agreement; the Defendant is liable to compensate the Plaintiff the sum of 5% of the registered capital of the JV Company which is approximately RMB1,122,500; the Plaintiff is entitled to apply for governmental approval to dissolve the JV Company or invite a new joint venture partner.

39. SUMMARISED BALANCE SHEET OF THE COMPANY

	2005 **RMB'000**	2004 RMB'000
Investments in subsidiaries	**30,387**	30,387
Prepayments and other receivables	**95**	214
Cash and bank balances	**4**	73
Amount due from subsidiaries	**24,963**	26,863
Other payables and accruals	**(2,309)**	(538)
Amount due to directors	**(3,890)**	(1,617)
	49,250	55,382
Share capital	**42,386**	42,386
Reserves	**6,864**	12,996
	49,250	55,382

40. PRINCIPAL SUBSIDIARIES

Details of the Group's principal subsidiaries as at 31 December 2005 are as follows:

Name of subsidiary	Place of incorporation/ operation	Class of shares held	Registered and fully paid capital	Issued and fully paid share capital	Effective percentage of equity interest/ voting rights held by the Group	Principal activities
Held directly by the Company						
Zhong Da (BVI) Investments Limited	British Virgin Islands/ Hong Kong	Ordinary	–	US$1,175	100%	Investment holding
Held indirectly by the Company						
Zhong Da International Limited	Hong Kong	Ordinary, Deferred and non-voting	–	HK$2 HK$9,998	100%	Investment holding
Zhongda International Automobile Assets Group Ltd.	British Virgin Islands/ Hong Kong	Ordinary	–	US$10	100%	Investment holding
Zhongda International Automobile Industrial Ltd	British Virgin Islands/ Hong Kong	Ordinary	–	US$10	100%	Investment holding
Zhongda Group (USA) Inc.	USA	Ordinary	–	US$100,000	100%	Trading and procurement
Ausen Group, Inc.	USA	–	–	US$50,000	100%	Inactive
Zhongda Automobile Machinery Manufacture Co., Ltd.	PRC	Contributed capital	RMB34,327,500	–	86.7%	Manufacture and sale of automobile equipment
Zhongda Group (Europe) GmbH	The Federal Republic of Germany	–	–	EUR30,000	100%	Inactive
Yancheng Dasheng Automotive Equipment Co., Ltd.**	PRC	Contributed capital	US$500,000	–	43.4%	Manufacture and sale of automobile equipment
Jiangzu Zhongda Industrial Painting and Environmental Protection Co., Ltd.	PRC	Contributed capital	RMB5,600,000	–	90.0%	Design, production, installation and sale of surface treatment systems
Yancheung Yuntong Automobile Machinery Co., Ltd.	PRC	Contributed capital	RMB500,000	–	86.7%	Inactive
Yancheng Luhua Machinery Co., Ltd.	PRC	Contributed capital	RMB5,000,000	–	86.7%	Inactive
Yancheng Zhongda Industrial Equipment Manufacture Co., Ltd.	PRC	Contributed capital	US$1,515,500	–	96.0%	Manufacture and sale of automobile equipment
NanJing Zhongda JinLing Double-Decker Bus Manufacure Co., Ltd.	PRC	Contributed capital	RMB21,170,000	–	60%	Manufacture and sale of bus
Yancheng Aoshen Industry Equipment Manufacturing Co., Ltd.	PRC	Contributed capital	RMB3,000,000	–	100%	Manufacture and sale of automobile equipment

** Zhongda Automobile Machinery Manufacture Co., Ltd. held 50% of the equity interest in Yancheng Dasheng Authomotive Equipment Co., Ltd. ("Dasheng"). Dasheng is therefore accounted for as a subsidiary as the Group has control over Dasheng as to its operational and financial policies. As at 31 December 2005, the Group had 43.4% effective interests in Dasheng.

None of the subsidiaries had issued any debt securities subsisting at the end of the year or at any time during the year.