

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

1. GENERAL AND BASIS OF PREPARATION OF CONSOLIDATED 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 surface treatment engineering equipment. The activities of its subsidiaries are set out in note 39.

The ultimate holding company of the Group is Zhong Da (BVI) Limited, a limited company incorporated in the British Virgin Island.

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in the light of its net current liabilities of approximately RMB7,286,000 as at 31 December 2006. The directors are satisfied that, the liquidity of the Group can be maintained in the coming year taking into consideration the arrangements which include, but not limited to, the followings:

- (a) the ultimate holding company and a controlling shareholder of the Group have agreed to provide adequate financial support to the Group to enable it to meet in full all its financial obligations as they fall due in the foreseeable future;
- (b) the directors are in the process of securing the ongoing support of the Group's major banker and new bank loans of approximately RMB30 million have been raised subsequent to the balance sheet date;
- (c) the directors anticipate that the Group will generate positive cash flows from its business in the coming year; and
- (d) the directors are considering various alternatives to strengthen the capital base of the Company through various fund raising exercise including but not limited to private placements.

On the basis that ongoing support from the ultimate holding company, a controlling shareholder and its major banker will continue to be in place and positive cash flows will be generated from the Group's businesses, the directors consider that the Group will have sufficient working capital to finance its operations in the foreseeable future. Accordingly, the directors are satisfied that it is appropriate to prepare these financial statements on a going concern basis.

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2. APPLICATION OF NEW AND REVISED 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 standards, amendments and interpretation ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior year adjustment has been required.

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective as at 31 December 2006. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

Hong Kong Accounting Standard ("HKAS") 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HKFRS 8	Operating Segments ²
HK(IFRIC)-Interpretation ("Int") 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ³
HK(IFRIC)-Int 8	Scope of HKFRS 2 ⁴
HK(IFRIC)-Int 9	Reassessment of embedded derivatives ⁵
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment ⁶
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions ⁷
HK(IFRIC)-Int 12	Service Concession Arrangements ⁸

¹ Effective for annual periods beginning on or after 1 January 2007.

² Effective for annual periods beginning on or after 1 January 2009.

³ Effective for annual periods beginning on or after 1 March 2006.

⁴ Effective for annual periods beginning on or after 1 May 2006.

⁵ Effective for annual periods beginning on or after 1 June 2006.

⁶ Effective for annual periods beginning on or after 1 November 2006.

⁷ Effective for annual periods beginning on or after 1 March 2007.

⁸ Effective for annual periods beginning on or after 1 January 2008.

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3. 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 and the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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 in 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.

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3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Sales of goods are 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.

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 effective 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.

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3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Leasing

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.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant leases. 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 mainly financial assets at fair value through profit or loss, loans and receivables, 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 each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held-for-trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

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3. 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 and bills 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 financial assets at fair value through profit or loss, and loans and receivables. 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 profit or loss 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.

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3. 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 classified as other financial liabilities. The accounting policies adopted in respect of other financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including trade and bills payables, advance receipt from customers, other payables and accruals, amounts due to related companies and directors, loan from an ultimate holding company and bank borrowings 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 receivable 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 paid or payable is recognised in profit or loss.

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3. 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 and after taking into account their estimated residual values, using the straight-line method.

Construction-in-progress represents buildings in the course of construction for production and for its own administrative purposes is carried at cost less any identified impairment loss, and is not depreciated. Construction-in-progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. 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 derecognised.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its 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.

Notes to the Consolidated Financial Statements

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3. 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 percentage 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 profit less 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 consolidated 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-managed retirement benefit plan are charged as expense when employees have rendered service entitling them to the contributions.

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 profit as reported in the consolidated income statement because it excludes items of income or 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.

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3. 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 year when the liability is settled or the asset is 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.

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3. 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 Group (i.e. Reminbi) 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 year, 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 translation 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.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 3 above, management has made the following judgements 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 (excluding construction-in-progress) as at 31 December 2006 was approximately RMB71,668,000. 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.

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4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Allowance for bad and doubtful debts

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisable 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 sales. 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 and slow-moving 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 value-in-use calculations. The recoverable amounts have been determined based on value-in-use calculations. These calculations require the use of estimates such as the future revenue and discount rates. No impairment was provided during the year.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and bills receivables, other receivables, trade and bills payables, other payables and accruals, advance receipt from customers, amounts due from/to related companies/directors, loan from an ultimate holding company and bank borrowings. 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.

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5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

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 borrowings. The interest rates and terms of repayment of bank borrowings of the Group are disclosed in note 30.

The Group currently does not have any interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

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 2006 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.

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5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The Group has net current liabilities as at 31 December 2006 which is exposed to liquidity risk. In order to mitigate the liquidity risk, the directors are satisfied that the liquidity of the Group can be maintained in the coming year taking into consideration the arrangements which include, but not limited, to the followings:

- (a) the ultimate holding company and a controlling shareholder, the Group have agreed to provide adequate financial support to the Group to enable it to meet in full all its financial obligations as they fall due in the foreseeable future;
- (b) the directors are in the process of securing the ongoing support of the Group's major banker and new bank loans of approximately RMB30 million have been raised subsequent to the balance sheet date;
- (c) the directors anticipate that the Group will generate positive cash flows from its business in the coming year; and
- (d) the directors are considering various alternatives strengthen the capital base of the Company through various fund raising exercise including but not limited to private placements.

The Group's exposure to liquidity risk is minimal.

6. TURNOVER

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

	2006	2005
	RMB'000	RMB'000
Sales of goods	148,355	142,619
Revenue from construction contracts	42,381	34,694
	190,736	177,313

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7. 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 sales of automobile equipment
Bus	–	manufacture and sales of buses

Segment information about these businesses is presented below:

For the year ended 31 December

	Automobile equipment		Bus		Total	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
REVENUE						
External sales	190,736	177,313	–	–	190,736	177,313
RESULTS						
Segment results	14,821	(7,399)	(905)	(5,243)	13,916	(12,642)
Unallocated corporate expenses					(6,387)	(9,238)
Other revenue					15,202	4,364
Loss on deemed disposal of a subsidiary					–	(7,990)
Finance costs					(9,229)	(7,029)
Profit/(loss) before taxation					13,502	(32,535)
Taxation					(604)	3,157
Profit/(loss) for the year					12,898	(29,378)

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7. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

	Automobile equipment		Bus		Total	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
OTHER INFORMATION						
Segment capital expenditure	6,422	5,666	-	5,169	6,422	10,835
Segment depreciation	3,689	3,142	472	-	4,161	3,142
Unallocated corporate depreciation					52	52
Total depreciation on property, plant and equipment					4,213	3,194
Segment amortisation on prepaid lease payments on land use rights	489	350	422	-	911	350
(Written back of allowance)/ allowance for inventories	-	2,684	(4,694)	4,694	(4,694)	7,378
Allowance for bad and doubtful debts	5,388	15,926	-	-	5,388	15,926
Write-off of bad debts	-	16,498	-	-	-	16,498
Gain on disposal of property, plant and equipment	(138)	(80)	-	-	(138)	(80)
Written back of allowance for bad and doubtful debts	(3,671)	-	-	-	(3,671)	-

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7. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

As at 31 December

	Automobile equipment		Bus		Total	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
ASSETS						
Segment assets	348,285	310,480	66,658	50,810	414,943	361,290
Unallocated corporate assets					11,900	273
Total					426,843	361,563
LIABILITIES						
Segment liabilities	192,495	160,573	45,040	34,010	237,535	194,583
Unallocated corporate liabilities					16,194	6,053
Total					253,729	200,636

(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:

	2006 RMB'000	2005 RMB'000
The PRC	150,956	150,135
Europe	16,717	15,136
Asia other than the PRC	13,274	8,988
Others	9,789	3,054
	190,736	177,313

Over 90% of segment assets and additions to property, plant and equipment and construction-in-progress and land use rights of the Group are located in the PRC.

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8. OTHER REVENUE

	2006	2005
	RMB'000	RMB'000
Gain on disposal of property, plant and equipment	138	80
Sales of raw materials	1,258	1,804
Interest income on bank deposits	1,135	590
Rental income	1,796	1,796
Written back of allowance for inventories	4,694	–
Written back of allowance for bad and doubtful debts	3,671	–
Others	2,510	94
	15,202	4,364

9. FINANCE COSTS

	2006	2005
	RMB'000	RMB'000
Interest expenses on bank borrowings wholly repayable within five years	9,229	7,029

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10. PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation has been arrived at after charging/(crediting):-

	2006	2005
	RMB'000	RMB'000
Amortisation on prepaid lease payments on land use rights	911	350
Auditors' remuneration	928	998
(Written back of allowance)/allowance for inventories	(4,694)	7,378
Allowance for bad and doubtful debts	5,388	15,926
Cost of inventories recognised as an expense (excluding staff costs, depreciation on property, plant and equipment, amortisation on prepaid lease payments on land use rights, and allowance for inventories)	108,226	103,700
Depreciation on property, plant and equipment	4,213	3,194
Operating leases in respect of rented premises	712	745
Staff costs (excluding directors' emoluments (note 11))		
– Salaries and wages	12,558	13,420
– Retirement benefits scheme contributions	2,323	2,761
Write-off of bad debts	–	16,498

11. 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:-

	2006	2005
	RMB'000	RMB'000
Non-executive directors		
– fees	342	374
Executive directors		
– fees	2,073	2,000
– basic salaries, allowance and benefits in kind	288	322
	2,703	2,696

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

11. DIRECTORS' EMOLUMENTS (Continued)

(b) The emoluments paid or payable to each of the eight (2005: six) directors were as follows:

	Directors' fees	Basic salaries, allowance and benefits in kind	Retirement Benefit Scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Xu Lian Guo	1,000	96	–	1,096
Xu Lian Kuan	500	96	–	596
Zhang Yuqing	500	96	–	596
Kwok Ming Fai ¹	86	–	–	86
Gu Yao Tian	100	–	–	100
Sun Ka Ziang Henry ²	14	–	–	14
Chan Wai Dune ³	115	–	–	115
Li Xin Zhong	100	–	–	100
Total for 2006	2,415	288	–	2,703

¹ Appointed as an independent non-executive director of the Company on 22 September 2006 and resigned on 9 November 2006 and appointed as an executive director of the Company on 9 November 2006.

² Appointed as an independent non-executive director of the company on 9 November 2006.

³ Retired as an independent non-executive director of the Company on 22 September 2006.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

11. DIRECTORS' EMOLUMENTS (Continued)

	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 Xin Zhong	104	–	–	104
Total for 2005	2,374	322	–	2,696

No directors waived or agreed to waive any emoluments in the two years ended 31 December 2006 and 2005.

No emoluments were paid to the directors as inducement to join or upon joining the Group or as compensation for loss of office in two years ended 31 December 2006 and 2005.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

12. EMPLOYEES' EMOLUMENTS

Of the five highest paid individuals in the Group, three (2005: three) are directors of the Company whose emoluments are included above. The emoluments of the remaining two (2005: two) individuals were as follows:

	2006	2005
	RMB'000	RMB'000
Salaries and other benefits	536	798
Retirement benefit scheme contributions	8	14
	544	812

Their emoluments fall within the following band:

	Number of employees	
	2006	2005
Nil-HK\$1,000,000	2	2

No emoluments were paid to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office in two years ended 31 December 2006 and 2005.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

13. TAXATION

	2006	2005
	RMB'000	RMB'000
Current income tax		
– PRC	–	1,386
Deferred taxation (<i>note 20</i>)	604	(4,543)
	604	(3,157)

No Hong Kong Profits Tax for both years has been provided for in the consolidated financial statements 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 profit/(loss) before taxation as per the consolidated income statement as follows:

	2006	2005
	RMB'000	RMB'000
Profit/(loss) before taxation	13,502	(32,535)
Tax at applicable tax rate of 24%	3,240	(7,808)
Net tax effect of income and expense items which are not taxable or deductible for income tax purpose	(9,478)	(944)
Tax effect of unrecognised tax losses	6,024	4,698
Effect of different tax rates of the subsidiaries operating in other jurisdictions	818	897
Taxation for the year	604	(3,157)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

14. DIVIDENDS

No dividend was paid or proposed during the year, nor has any dividend been proposed since the balance sheet date (2005: nil).

15. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share was based on the Group's profit attributable to equity holders of the Company of approximately RMB15,317,000 (2005: loss approximately RMB25,703,000) and the weighted average number of 400,004,000 shares (2005: 400,004,000 ordinary shares) in issue during the year.

No diluted earnings per share was present for the year ended 31 December 2006 as there were no outstanding potential ordinary shares. No diluted loss per share was presented for the year ended 31 December 2005 as the outstanding potential ordinary shares are anti-dilutive for that year.

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

	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
COST							
At 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 and 1 January 2006	38,281	501	12,581	4,685	1,270	84,099	141,417
Additions	-	-	390	2,203	830	2,999	6,422
Transfer from construction-in-progress	35,740	-	17	-	-	(35,757)	-
Reclassification (note 17)	-	-	-	-	-	(6,738)	(6,738)
Disposals	-	-	-	(2,247)	(39)	(1)	(2,287)
At 31 December 2006	74,021	501	12,988	4,641	2,061	44,602	138,814

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

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

	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
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
At 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 and 1 January 2006	9,024	501	7,359	938	622	-	18,444
Charge for the year	2,401	-	852	851	109	-	4,213
Written back on disposals	-	-	-	(113)	-	-	(113)
At 31 December 2006	11,425	501	8,221	1,676	731	-	22,544
NET CARRYING VALUES							
At 31 December 2006	62,596	-	4,777	2,965	1,330	44,602	116,270
At 31 December 2005	29,257	-	5,222	3,747	648	84,099	122,973

All buildings are located in the PRC and held under medium-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	10-48 years	10%
Leasehold improvements	2 years or over the relevant terms of the leases, if shorter	nil
Plant and machinery	10 years	10%
Motor vehicles	5 years	0%-10%
Furniture and equipment	5-7 years	0%-10%

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

17. PREPAID LEASE PAYMENTS ON LAND USE RIGHTS

	2006	2005
	RMB'000	RMB'000
Net carrying value at 1 January	53,971	34,912
Deemed disposal of a subsidiary	-	(18,761)
Additions	-	38,170
Reclassification (note 16)	6,738	-
Amortisation charge for the year	(911)	(350)
Net carrying value at 31 December	59,798	53,971
Leasehold land in the PRC:		
Medium-term lease	59,798	53,971
Analysed for reporting purposes as:		
Current asset	1,275	772
Non-current asset	58,523	53,199
	59,798	53,971

18. PREPAYMENT FOR AN INVESTMENT IN AN ASSOCIATE

The Group has made a prepayment of approximately RMB1,087,000 to Yancheng Zhongda Ceccato Washing Systems Co., Ltd. ("Zhongda Ceccato") which represented 8.35% of its total registered capital. According to an agreement signed in April 2004, the Group is required to contribute USD735,000 representing 49% of the total registered capital of Zhongda Ceccato. During the year ended 31 December 2006, the associate has not yet commenced its business and no further capital injection has made by the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

19. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments as at 31 December 2006 comprise:

	2006	2005
	RMB'000	RMB'000
Unlisted equity securities	900	900
Analysed for reporting purpose as:		
Non-current asset	900	900

The above unlisted investments represent investments in unlisted equity securities issued by a private entity 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 so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

20. DEFERRED TAX ASSETS

The followings are the major deferred tax assets and liabilities recognised and movements thereon during the current and prior year:

	Allowance for bad and doubtful debts RMB'000	Allowance for inventories RMB'000	Others RMB'000	Total RMB'000
At 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 (<i>note 13</i>)	4,193	446	(96)	4,543
At 31 December 2005 and 1 January 2006	15,261	1,570	(607)	16,224
Charged to the consolidated income statement (<i>note 13</i>)	283	–	(887)	(604)
At 31 December 2006	15,544	1,570	(1,494)	15,620

Deferred tax assets are recognised for tax losses carry forwards to the extent that the realisation of related tax benefits through the future taxable profits is probable. The Group did not recognise deferred tax assets of unrecognised tax losses of approximately RMB6,024,000 (2005: RMB4,698,000) that can be carried forward against future taxable income. Losses amounting to approximately RMB2,596,000 (2005: RMB1,270,000) will expire during 2007 to 2012.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

21. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial asset at fair value through profit or loss at 31 December 2006 comprise:

	2006 RMB'000	2005 RMB'000
Unlisted equity securities, at fair value	200	–

22. INVENTORIES

	2006 RMB'000	2005 RMB'000
Raw materials	20,340	27,341
Work in progress	5,182	6,860
Finished goods	9,659	14,317
	35,181	48,518
Less: Allowance for inventories	(7,369)	(12,063)
	27,812	36,455

At the balance sheet date, inventories of an amount of approximately RMB21,160,000 (2005: RMB36,455,000) were carried at net realisable value.

During the year, a reversal of allowance of inventories was made amounted to approximately RMB4,694,000 as the inventories were transferred at cost to a related company.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

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

	2006 RMB'000	2005 RMB'000
Contracts in progress at the balance sheet date:		
Contract costs incurred plus recognised profits less recognised losses	57,609	34,716
Less: progress payments	(42,092)	(22,237)
	15,517	12,479

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

	2006 RMB'000	2005 RMB'000
Trade receivables	22,885	12,542
Advance receipt from customers	(7,368)	(63)
	15,517	12,479

At 31 December 2006, retentions held by customers for contract works amounted to approximately RMB5,145,000 (2005: RMB10,002,000) (note 24). Total advances received from customers for contract work amounted to approximately RMB7,054,000 (2005: RMB2,358,000) which forms part of the advance receipt from customers as reported in the consolidated balance sheet.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

24. TRADE AND BILLS RECEIVABLES

	2006	2005
	RMB'000	RMB'000
Trade receivables	167,307	149,903
Less: Allowance for bad and doubtful debts	(50,219)	(48,502)
	117,088	101,401
Bill receivables	20,977	151
	138,065	101,552

Included in trade receivables was an amount of nil (2005: 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 net of allowance for bad and doubtful debts is as follows:

	2006	2005
	RMB'000	RMB'000
Within six months	44,963	39,407
Between seven and twelve months	7,345	27,337
Between one and two years	46,433	24,466
More than two years	13,202	189
	111,943	91,399
Retention receivables (note 23)	5,145	10,002
	117,088	101,401

The fair values of the Group's trade receivables at the balance sheet date approximate to the corresponding carrying amounts due to short-term maturities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

25. 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:

	2006 RMB'000	2005 RMB'000	Maximum amounts owed to the Group during the year RMB'000
Yancheng Zhongwei Bus Manufacturing Co., Ltd. ("Zhongwei Bus") ¹	9,310	2,504	9,310
Yancheng Zonda Automobile Service Co., Ltd. ²	217	45	217
Yancheng Zonda Steel Structure Engineering Co., Ltd. ³	145	145	145
Zhongda Industrial Group Corporation ⁴	4,858	8,863	8,863
Jiangsu Jinling Transportation Group Co., Ltd. ⁵ 南京金陵雙層客車製造廠 ⁶	–	3,119	3,119
Yancheng Celette Body Repairing Equipment Co., Ltd. ⁷	1,051	–	1,051
Yancheng Zhongda Sankyo Automobile Equipment Co. Ltd. ⁸	2	–	2
Sichuan Zhongda Emei Coach Manufacturing Ltd. ⁹	300	–	300
	27,198	14,676	

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.

⁶ It is a subsidiary of Jiangsu Jinling Transportation Group Co., Ltd.

⁷ It is a subsidiary of Zhongda Industrial Group Corporation.

⁸ It is an associate of Zhongda Industrial Group Corporation.

⁹ It is a subsidiary of Zhongda International Automobile Industrial Ltd. (BVI).

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

The fair values of the Group's amounts due from related companies at the balance sheet approximate to the corresponding carrying amounts due to short-term maturities

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

26. RESTRICTED BANK BALANCES

At the balance sheet date, restricted bank balances represent deposits required and restricted by banks in respect of the issue of letter of credit to a supplier. The restricted deposits will be released upon the completion of the respective transaction.

27. TRADE AND BILLS PAYABLES

An ageing analysis of trade payables is as follows:

	2006 RMB'000	2005 RMB'000
Within one year	18,148	11,727
Between one and two years	990	12,723
Between two and three years	–	2,707
More than three years	1,600	6,369
	20,738	33,526
Bills payable	3,000	–
	23,738	33,526

The fair values of the Group's trade payables at the balance sheet date approximate to the corresponding carrying amounts due to short-term maturities.

28. 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/directors at the balance sheet date approximate to the corresponding carrying amounts due to short-term maturities.

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For the year ended 31 December 2006

29. LOAN FROM AN ULTIMATE HOLDING COMPANY

The loan advanced from Zhong Da (BVI) Limited is unsecured and has no fixed terms of repayment. The directors are of the opinion that the loan will not be repaid within one year. The loan is used for the injection of additional capital to Yancheng Aoshen Industry Equipment Manufacturing Co., Ltd. totalling HK\$12,000,000 (Equivalent to RMB12,000,000).

30. BORROWINGS

	2006	2005
	RMB'000	RMB'000
Bank loans:		
Secured	112,180	33,780
Unsecured	30,320	70,720
	142,500	104,500
Bank loans are repayable within a period of:		
– one year	142,500	77,430
– between one to two years	–	27,070
	142,500	104,500
Less: Amounts due within one year shown under current liabilities	(142,500)	(77,430)
Amounts due after one year	–	27,070

All the above bank loans are fixed or variable-rate borrowings with effective interest rates (which are also equal to contracted interest rates) ranging from 5.36% to 7.96% (2005: 4.65% to 7.49%) denominated in RMB.

All of the Group's borrowings are denominated in Reminbi.

During the year, the Group obtained new loans in the amount of approximately HK\$81,400,000. The loans bear interest at market rates and will be repayable in 2007.

The fair values of the Group's bank loans at the balance sheet date approximate to the corresponding carrying amounts.

At 31 December 2006, the bank loans are secured by certain of the Group's land use rights and buildings with an aggregate net carrying values of approximately RMB112,915,000 (2005: RMB29,947,000), corporate guarantees issued by an independent third party and a related company, and certain assets of an independent third party as detailed in note 32.

Notes to the Consolidated Financial Statements

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31. SHARE CAPITAL

	2006 and 2005		
	Number of shares	HK\$	Equivalent to 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 the two years ended 31 December 2006 and 2005.

In 2005, the Company had 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.

The dealings in the outstanding warrants ceased on 25 October 2006 and all the outstanding warrants were withdrawn on 31 October 2006. No warrants were exercised during the two years ended 31 December 2006 and 2005.

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.

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32. RELATED PARTY TRANSACTIONS

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

	2006	2005
	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)	8,514	8,380
– Sales of products and raw materials (f)	963	1,524
Transactions with Zhongwei Bus:		
– Sales of products and raw materials (e & f)	329	24
– Rental income for land (g)	996	996
Transactions with Jiangsu Jinling Transportation Group Co., Ltd:		
– Rental income for property, plant and equipment (h)	800	800

¹ Xu Lian Kuan is the common director

In addition, Zhongwei Bus and 江蘇英豪汽車實業有限公司 have given corporate guarantee to banks to secure bank loan granted to a subsidiary of the Company to the extent of approximately RMB24,100,000 (2005: RMB23,000,000).

During the year, a subsidiary of the Group sold inventories at cost amounting to RMB4,694,000 (2005: nil) to 南京金陵雙層客車製造廠.

Notes to the Consolidated Financial Statements

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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 2006, the rental of office premises is charged at a rate of RMB100,000 per annum for a period of five years commencing 1 June 2006.
- (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.

Notes to the Consolidated Financial Statements

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32. RELATED PARTY TRANSACTIONS (Continued)

In the opinion of the directors including independent non-executive directors of the Group, the above related party 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 11.

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:

	2006 RMB'000	2005 RMB'000
Contracted but not provided for in the consolidated financial statements:		
– acquisition of land use rights and buildings	40,209	46,153
– capital contribution on investment in an associate	4,927	4,927
– capital contribution on investment in a subsidiary	9,206	9,206
	54,342	60,286

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

	2006 RMB'000	2005 RMB'000
Within one year	738	357
In the second to fifth year inclusive	1,410	260
	2,148	617

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 (2005: four years).

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33. COMMITMENTS (Continued)

- (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:

	2006	2005
	RMB'000	RMB'000
Within one year	1,810	996
In the second to fifth year inclusive	5,300	610
	7,110	1,606

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 (2005: three years).

34. CONTINGENT LIABILITIES

At the balance sheet date, 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 the joint venture contract. Pursuant to the settlement of the writ of summons sanctioned by the Chengdu Intermediate People's Court of the PRC as detailed in note 37(b), the joint venture contract was rescinded and cancelled.

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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 which 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 RMB2,369,000 (2005: RMB2,761,000) represents contributions payable to the retirement schemes by the Group.

36. DEEMED DISPOSAL OF A SUBSIDIARY

Details of the Group's deemed disposal of a subsidiary in 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 indirectly held by the Company	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 had 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.

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36. DEEMED DISPOSAL OF A SUBSIDIARY (Continued)

On 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
Bank balances and cash	3,410
Trade payables	(25,598)
Advance receipt from customers	(1,567)
Other payables and accruals	(34,653)
Tax payable	(541)
Bank borrowings	(39,210)
Minority interests	(2,751)
	<hr/>
Loss on deemed disposal of a subsidiary	7,990
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Net cash outflow arising on deemed disposal:	
Bank balances and cash	3,410
	<hr/> <hr/>

37. POST BALANCE SHEET EVENTS

- (a) On 24 March 2007, Vietnam Motors Industry Corporation ("Vinamotor") and Zhongda International Automobile Industrial Limited ("ZIAI") entered into a joint venture co-operation agreement for the establishment of a chassis manufacturing joint venture in Vietnam (the "JV Company"). Upon establishment of the JV Company, Vinamotor and ZIAI will be interested in 50% and 50% of the issued share capital of the JV Company respectively. The total investment of the JV Company is expected to be approximately USD60 million. The registered capital of the JV Company is approximately USD20 million.

Notes to the Consolidated Financial Statements

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37. POST BALANCE SHEET EVENTS (Continued)

- (b) Pursuant to a settlement of the writ of summons sanctioned by the Chengdu Intermediate People's Court of the PRC on 5 March 2007, Sichuan Bus Manufacturing Limited ("Sichuan Bus") and ZIAI agreed that the joint venture contract was rescinded and cancelled (the "Settlement"). As a result of the Settlement, on 5 March 2007, the shareholders of Sichuan Bus and ZIAI entered into an agreement (the "Settlement Agreement") for, inter alia, the rescission of the joint venture contract and that the sum of RMB5.3 million contributed by ZIAI shall be repayable thereto but subject to the relevant government approval of the dissolution of the joint venture.
- (c) According to an announcement dated 17 April 2007, the Company entered into a placing agreement with 3V Capital Limited (the "Placing Agent") in relation to the placing of the placing shares. Pursuant to the placing agreement, the Company has conditionally agreed to place, through the Placing Agent on a best endeavor basis, 80,000,000 placing shares at a placing price of HK\$0.82 per placing share. The placing shares represent about 20.0% of the existing issued share capital of the Company and about 16.7% of the issued share capital of the Company as enlarged by the placing shares respectively. The gross proceeds from the placing will be approximately HK\$65.6 million and the net proceeds from the placing will be approximately HK\$62 million which will be applied for the general working capital requirement and the Group for its existing businesses and any future potential investments.

38. SUMMARISED BALANCE SHEET OF THE COMPANY

	2006	2005
	RMB'000	RMB'000
Investments in subsidiaries	30,387	30,387
Prepayments and other receivables	131	95
Bank balances and cash	11,391	4
Amounts due from subsidiaries	20,261	24,963
Other payables and accruals	(2,114)	(2,309)
Amount due to directors	(5,843)	(3,890)
Loan from an ultimate holding company	(12,000)	–
	42,213	49,250
Share capital	42,386	42,386
Share premium	17,073	17,073
Exchange translation reserve	(1,143)	(416)
Accumulated losses	(16,103)	(9,793)
	42,213	49,250

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39. SUBSIDIARIES

Details of the Group's subsidiaries as at 31 December 2006 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

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39. SUBSIDIARIES (Continued)

Details of the Group's subsidiaries as at 31 December 2006 are as follows: (Continued)

Name of subsidiary	Place of incorporation/ operation	Class of shares held	Registered and fully paid capital	Issued and fully paid share capital	Effective percentage	Principal activities
					of equity interest/ voting rights held by the Group	
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 Manufacture 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
Nanjing Zonda Zhentong Auto Maintenance Equipment Technical Service Co., Ltd.	PRC	Contributed capital	RMB500,000	–	100%	Sale of automobile equipment

** Zhongda Automobile Machinery Manufacture Co., Ltd. held 50% of the equity interests in Yancheng Dasheng Automotive 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 2006, 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.