# Zhongda International Holdings Limited
# 中大國際控股有限公司

(Incorporated in Bermuda with limited liability)
(stock code: 00909)


# Annual Report 2008

# Contents

# Corporate Information

## EXECUTIVE DIRECTORS

Mr. Xu Lian Guo *(Chairman)*
Mr. Xu Lian Kuan *(Vice-chairman and Chief Executive Officer)*
Mr. Zhang Yuqing *(Vice-chairman)*
Mr. Kwok Ming Fai

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Gu Yao Tian
Mr. Sun Ka Ziang Henry
Mr. Li Xinzhong

## AUDIT COMMITTEE

Mr. Sun Ka Ziang Henry *(Chairman)*
Mr. Gu Yao Tian
Mr. Li Xinzhong

## REMUNERATION COMMITTEE

Mr. Gu Yao Tian *(Chairman)*
Mr. Li Xinzhong
Mr. Zhang Yuqing

## COMPANY SECRETARY

Mr. Fu Yan Ming

## REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

## HEAD OFFICE

No. 100
Kai Fang Da Dao
Yancheng
Jiangsu Province
PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

1609, Office Tower
Convention Plaza
1 Harbour Road
Wanchai, Hong Kong

## PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited
Hang Seng Bank Limited
DBS Bank (Hong Kong) Limited
Fubon Bank (Hong Kong) Limited

Agricultural Bank of China, Yancheng Branch
Industrial Bank of China, Yancheng Branch

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street
Hamilton HM11
Bermuda

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Standard Limited
26th Floor, Tesbury Center
28 Queen's Road East
Wanchai, Hong Kong

## AUDITORS

SHINEWING (HK) CPA Limited
Certified Public Accountants

## LEGAL ADVISORS

Sidley Austin

## STOCK CODE

00909

Dear Shareholders,

I am pleased to present the audited consolidated results of Zhongda International Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2008.

## OVERVIEW

For the year 2008, the Group had implemented business strategy in line with the corporate vision. While growing our traditional car maintenance equipment business, we continue expanding the commercial vehicles manufacturing business for both domestic and international markets.

It was a dramatic and challenging year, especially for those heavy industries that rely on commodities and oil. In the first six months of the year, the market was so spectacular that pushed the price of steel and petrochemical products to an extremely high level within a short interval. In the second half, the ripple of United States sub-prime mortgage crisis triggered the global credit crunch. It resulted in a global economic downturn that dampened the consumer demands in all sectors. Under this circumstance, it was extremely difficult for enterprises to mitigate all these risks at the same time.

Hence, despite the Group recorded a turnover of RMB639.7 million, representing a 95% increase as compared to RMB327.2 million in 2007, the consolidated profit attributable to the equity holders for the year reduced by 46% to RMB16.2 million (2007: RMB29.8 million).

## AUTOMOBILE REPAIR AND MAINTENANCE EQUIPMENT

During the year, the automobile repair and maintenance equipment business segment kept on providing the Group with stable revenue stream. The substantial decrease in export sales was largely compensated by the increase in domestic sales and hence the total sales dropped by 4.6% only. With the recent government policy to stimulate the demand for small emission private vehicle, the domestic need for automobile equipment would increase as well. Hence, the segment will continue to nourish the Group with steady income.

## DOUBLE-DECKER BUS MANUFACTURING

Nanjing Zhongda Jinling Double-decker Bus Manufacturing Company Limited has made a substantial loss of RMB15.9 million during the year. It was due to the large fluctuation in raw material price especially steel and accessories made of petrochemicals during the year. The management has taken immediate measures to rectify the situation and tightened the monitoring and control system to minimize the occurrence of similar risk. From time to time, we will review the effectiveness of the system. We believe the potential demand for double-deck bus in the PRC is enormous due to urbanization of the first and second tier cities. At the same time, we endeavor to exploit the overseas markets with better margin.

## SYNERGY WITH AFFILIATES

The Group has successfully acquired 20% equity interests of Yancheng Zhongwei Bus Manufacturing Company Limited ("Zhongwei Bus") from Zhongda Industrial Group Corporation ("ZIG Group"). The Group has already been benefited from being the sole distributor of Zhongwei Bus for its overseas sales. The acquisition allows the Group to enter into the coach manufacturing sector directly. It also signifies the consolidation with ZIG Group which paves way for the fast expansion of the Group in the coming years.

## OVERSEAS PROJECTS

The development of our joint venture in Vietnam has been slowed down due to the abrupt downturn of their economies. Recently, the Group has revitalized this project in view of the country has been showing signs of recovery.

During the last few years, we have established strong relationship with local partners in some emerging markets. Our strategy is to export our finished products to these markets and once we identified potential markets, we will set up assembly plants jointly with our partners to seize the market. Augmented by the favorable government policy in promoting the automobile industry export, we have a breakthrough in our business development in Africa and Middle East.

## OUTLOOK

In the mature automotive markets of Europe, America and Japan, revenues from the component sector are typically one to two times higher than those from the OEMs. In the PRC, this is far from the case: the total components sector generates only around two-third of the revenue of the total completed vehicle sales sector. The difference stems from two factors. Firstly, the very newness of the PRC's automotive industry means that an after-market has yet to take shape. Secondly, many of the higher-end components and systems used in cars made in the PRC are still sourced from overseas, particularly from Japan and Germany. Thus, there is still much more room for components companies to grow. The environment in the PRC will inevitably experience significant changes in coming years. An after-market will form as cars bought in the last few years aged and need more servicing and spare parts. In addition, the continued investment in parts-making facilities, especially by foreign companies looking to lower costs, will lead to ever more advanced parts being manufactured in the PRC, either for export or to supply vehicle makers domestically. The current economic crisis may accelerate such moves (*By KPMG, February 2009*).

The emergence of the PRC as the world's largest automotive market, in terms of units sold in the first quarter of 2009, combined with the PRC's constant concern for energy security, has stimulated strong government interest in fuel efficiency and alternative fuels. Although the PRC's auto market and policy/regulatory oversight remains fragmented, industry responses to these priorities have also been swift and strong. The PRC will continue to push forward in key alternative energy fields, as nationally-supported initiatives gain greater support and focus (*By KPMG in April 2009*). According to Interim Administration of Fiscal Subsidies to Energy Efficient and New Energy Automotive Sample Scheme issued on 23 January 2009, this policy provides fixed subsidies for the purchase of hybrid, electric and alternative fuel vehicles in 13 pilot cities. We have already been working actively with our affiliates to develop pure electric city buses in order to seize this opportunity.

The recent financial turmoil is not necessarily bad news to us. History has shown that shifts in financial and strategic position are much more likely to take place during economic slowdown rather than economic boom. We believe that we could ride on this tide to capture more business opportunities in the near future.

## APPRECIATION

On behalf of the Board, I would like to extend my sincere appreciation to our shareholders, staffs and customers for their continuous support to the Group. We are committed to maximizing shareholders' value by strengthening internal control, optimizing production and enhancing efficiency.

**Xu Lian Guo**
*Chairman*

Hong Kong, 22 April 2009

# Management Discussion and Analysis

## Revenue

During the year under review, the Group's turnover recorded a substantial growth by 95.5% to approximately RMB639.7 million. It was attributable to (i) the increase in revenue from Zhongda International Trading Ltd. which is engaged in exporting commercial vehicles, and (ii) the increase in contribution of revenue from Yancheng Zhongda Automobiles Equipment Co. Ltd., a subsidiary of the Group which is engaged in the trading of automobile spare parts.

## Automobile Repair and Maintenance Equipment

During the year, export sales of the Group comprising mainly automobile spray booths and car lifters were approximately RMB33.9 million, representing a decrease of 25.3% when compared with previous year due to global economic downturn resulting from the United States sub-prime mortgage crisis and the global credit crunch which significantly softened demand. The overall turnover was approximately RMB141.5 million which decreased by 4.6% when compared to last year. For the time being, the Group will continue to develop new products such as energy saving and environmental friendly spray booth through our investment in research and development in order to retain our competitiveness. Therefore, the core business is expected to provide stable and recurring income in coming years.

## Trading of Automobile Spare Parts

Yancheng Zhongda Automobiles Equipment Co. Ltd. had been established to centralize the procurement for both the Group and the Zhongda Industrial Group Corporation's ("ZIG") purchase of raw materials, parts and components from suppliers. The benefit of synergy has been realized during the year under review. The turnover of this segment was approximately RMB242.5 million. Going forward, we are planning to upgrade this platform to serve our affiliate companies and joint ventures and even outside customers at a later stage.

## Automobile (Double-Decker) Manufacturing

Nanjing Zhongda Jinling Double-Decker Bus Manufacture Co. Ltd. ("Zhongda Jinling") has contributed revenue of approximately RMB165.4 million, accounting for approximately 25.8% of the Group's total revenue. However, the subsidiary made a loss of RMB15.9 million during the year due to substantial increase in cost of raw materials especially steel and accessories made of petrochemicals. The Group has taken immediate action to strengthen its support and control to Zhongda Jinling. The operation condition has been improving and Zhongda Jinling has adjusted its focus to shift its effort in exploiting overseas market by leveraging the PRC government's policy in promoting automobile export. Our double-decker has already been sold to Egypt, Doha and United Arab Emirates. We are concluding a bulk order for double-decker bus with a Middle-East country and the progress is promising.

## Overseas Project

In response to the recent downturn of economy and substantial depreciation of currency in Vietnam, the Group has taken a prudent approach in establishing the joint venture for chassis and special purpose vehicle manufacturing with Vietnam Motors Industry Corporation ("Vinamotor"). Recently, there is a sign of recovery in Vietnam's economy and the project is being re-vitalized. Nevertheless, we will fulfill Vinamotor's initial market demand by selling complete knock-down ("CKD") commercial vehicles

During the last year, we have been actively developing our business in emerging markets which are less affected by the global financial turmoil to certain extent. Recently we are negotiating a business co-operation in South Africa to promote our automobile repair and maintenance equipment as well as our coaches. It is expected the demand for automobile related products in the country will increase substantially due to coming World Cup 2010 event.

## Co-operation with ZIG

On 8 April 2008, the Group signed an exclusive agency agreement with Yancheng Zhongwei Bus Manufacturing Co. Ltd. ("Zhongwei Bus"), pursuant to which Zhongwei Bus appointed the Group's subsidiary as exclusive agent to sell its products in regions outside the PRC. On 24 July 2008, the Group has announced to acquire 20% shareholdings of Zhongwei Bus. This arrangement is expected to create further synergy and provide a win-win situation to both parties. Going ahead, the Group will continue to work closely with ZIG and look for further possible co-operations so that the Group's revenue stream can be enlarged.

# FINANCIAL REVIEW AND LIQUIDITY

## Gross Margin

The gross margin for the year has dropped which is mainly due to the dilution effect on the increase in proportion of revenue contribution from buses manufacturing and auto parts trading business. Also, the increase in raw material especially steel and accessories made of petrochemicals has put further pressure on the gross margin of buses manufacturing. As a result, the gross profit margin of the year has declined from 19.7% to 16.0% when compared with last year.

## Net Profit

Net profit before tax is approximately RMB18.1 million that decline by 54.4% when compared with last year. The net profit margin before tax and the net profit margin were reduced to 2.8% from 12.1% and 1.2% from 12.4% respectively during the year. Basic earnings per share for the year were RMB3.06 cents.

## Liquidity

Liquidity as measured by current ratio (defined as "Current Asset/Current Liabilities") with a ratio of 1.1x during the year was considered as acceptable. Regarding the current assets, approximately 21.6% were cash and bank deposit. This level was considered as sufficient.

## Leverage

Net gearing ratio (defined as "Total bank debts – Cash available/Total Net Worth") was improved to 0.16x in the year from 0.23x as at 31 December 2007. The Group will take effort to retain its leverage at a satisfactory level.

As at 31 December 2008, cash and bank balances of the Group amounted to approximately RMB128,893,000 (31 December 2007: RMB89,841,000). Cash is mainly denominated in Renminbi. There was no long term loan (31 December 2007: RMB20,000,000) and the short term bank loans was amounted to approximately RMB183,451,000 (31 December 2007: RMB147,165,000) which representing an increase of approximately RMB36,286,000.

The interest rates of bank borrowings ranged between 1.25% and 9.71% per annum (31 December 2007: between 6.90% and 8.75%). The collaterals provided for these bank borrowings mainly comprised certain land use rights and buildings of the subsidiaries of the Group. The revenue of the Group was mainly denominated in Renminbi and US Dollar, and the borrowings were mainly settled in Renminbi. The directors are of the view that since the exchange rate between Renminbi and US Dollar is relatively stable, there is no significant risk in relation to foreign exchange fluctuation.

## Assets

As at 31 December 2008, the net asset value of the Group amounted to approximately RMB339,180,000 (31 December 2007: RMB336,385,000), representing an increase of approximately 0.8%. Net current assets amounted to approximately RMB32,616,000 (31 December 2007: RMB83,667,000), a decrease of approximately RMB51,051,000 from last year as a result of a bulk sales order pending delivery at year end.

## PROSPECT

In recent years, the PRC government has implemented a series of policies to support the automobile industry. It encourages commercial vehicle export especially self-owned brand. It also promotes the auto parts development and the automobile after-sales-service industry. We will continue to ride on this opportunity and adjust our business and operation strategies in response to the constant-changing environment so as to maximize the Group's profit.

The recent global economic downturn triggered by the United States sub-prime mortgage crisis and the global credit crunch would affect our export sales to developed countries in short-term. Nevertheless, we expect the demand for commercial vehicles was less affected especially in emerging markets including Africa, the Middle East, South America, Eastern Europe and Asia. The Group will continue to develop and explore our business in these areas. Recently we have concluded bulk sales orders of coaches and buses with Middle-East and African countries.

Looking ahead, the Group will also focus on the development of new energy automobile which would be the rising star of the industry. We will continue to ride on our existing platform and push forward the strategy of active expansion with steady growth and seek to capture more new business opportunities. Thereby, it will maintain our leadership in the PRC automobile repair and maintenance equipment manufacturing industry and ultimately generate a satisfactory return to our stakeholders.

# Biography of the Directors

## EXECUTIVE DIRECTORS

**Mr. XU Lian Guo**, aged 47, is the chairman and founder of the Group. Mr. Xu oversees the management and implementation of the decisions and strategies of the board of directors, and formulates the Group's strategic objectives and the relevant measures and policies. Mr. Xu has over 20 years of experience in the automobile maintenance and repairs industry. He established Zhongda Machinery in 1993. He was appointed the consultant of the professional service centre of the Ministry of Personnel (國家人事部專家服務中心) and the academic society respectively. Mr. Xu is the older brother of Mr. Xu Lian Kuan.

**Mr. XU Lian Kuan**, aged 43, is the vice-chairman and chief executive officer of the Group. Mr. Xu is in charge of the daily management of the Group and formulation of overall strategies for the Group. He is responsible for the overseas business development of the Group and has successfully led the Group to exploiting the various Asian, European and United States markets. Also, he oversees the product quality control for the Group. Mr. Xu has over 20 years of experience in the automobile maintenance and repairs industry. He joined the Group in 1993. He was appointed a member of a surface treatment engineering technology committee in the PRC (全國金屬與非金屬蓋層標準化技術委員會塗裝分技術委員會) and a member of the People's Political Consultative Committee of Jiangsu Province. He was appointed the anti-corruption supervisor for the Intermediary People's Court of Yancheng, Jiangsu Province. Also, he had been accredited several awards for his entrepreneurship and was the committee member of the China Automobile Service Equipment Committee. Mr. Xu is the younger brother of Mr. Xu Lian Guo.

**Mr. ZHANG Yuqing**, aged 56, is the vice-chairman of the Group. Mr. Zhang oversees the overall management, strategic planning, development planning, corporate external cooperation and financial management of the Group. Mr. Zhang has over 30 years of experience in corporate management in the PRC. Prior to joining the Group in 1994, he was the chairman and general managers of various PRC enterprises in the cement and electronics industries such as Yan Wu Group (燕舞集團). Mr. Zhang is a member of the executive committee of the All China Federation of Industry and Commerce, the postdoctoral lecturer at Tsinghua University, the researcher of the 中國管理科學院國情與管理研究所 and the lecturer of doctorate and MBA program at the Nanjing University.

**Mr. KWOK Ming Fai**, aged 44, is an executive director of the Company. Mr. Kwok oversees the financial management, corporate finance and investor relationship of the Group. Prior to joining the Group in 2006, he possesses over 15 years of experience in banking, finance and accounting and held executive positions at several international financial institutions, accounting firm and listed companies. Mr. Kwok obtained a Bachelor Degree in Accounting & Economics from the University of Sheffield in the United Kingdom and a Master Degree in Business Administration from the University of Adelaide in Australia. He is a member of CPA Australia and an associate member of the Hong Kong Institute of Certified Public Accountants. He is also the independent non-executive director of China Yunnan Tin Minerals Group Company Limited (formerly known as "Poly Investments Holdings Limited") and Incutech Investments Limited, companies listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), respectively.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. GU Yao Tian**, aged 76, was appointed as an independent non-executive director of the Company in 2001. Prior to his joining to the Company, he was the general manager of the China National Automotive Industry Corporation. He was the general manager of Nanjing Automotive Manufacturing Factory during the period from 1988 to 1994.

**Mr. SUN Ka Ziang Henry**, aged 51, was appointed as an independent non-executive director of the Company in 2006. He has over 20 years of experience in international finance, corporate finance, corporate planning, financial management and accounting. He had held executive positions at several international banks including ABN AMRO Bank N.V. and Bank of America, international accounting firm, the Hong Kong Airport Authority, listed company on the main board of the Stock Exchange and information technology company. Mr. Sun obtained a Bachelor Degree in Economics from Monash University in Australia. He is a member of CPA Australia and an associate member of the Hong Kong Institute of Certified Public Accountants. He is currently an independent non-executive director of China Yunnan Tin Minerals Group Company Limited (formerly known as "Poly Investments Holdings Limited"), a company listed on the main board of the Stock Exchange. He was the independent non-executive director of Forefront Group Limited, a company listed on the main board of the Stock Exchange, for the period from 18 April 2007 to 20 July 2007.

**Mr. LI Xinzhong**, aged 51, was appointed as an independent non-executive director in 2004. After graduating from Nankai University in 1983 with a degree in Economics, he spent seven years working in the PRC as a lecturer, part-time lawyer and the deputy general manager of a consulting firm in Tianjian before receiving his LL.M. degree at the University of London in 1991. He joined Miramar Group as an advisor of China affairs in 1992 and then joined Peregrine Capital Limited in 1993 and became a director in 1996. He spent two years with Alta Capital (H.K.) Limited as an executive director before joining BNP Paribas Peregerine Capital Limited in 2000 as an executive director. He joined Anglo Chinese Corporate Finance Limited in 2003 as a director and then joined DBS Asia Capital Limited as China Team Head of Mergers and Acquisitions in June 2004 responsible for origination of China related corporate finance transactions. He is currently a director of Shenzhen Sino-Source Investment Consultants Co., Ltd. Mr. Li has over 15 years experience in corporate finance. He is currently an independent non-executive director of Vitop Bioenergy Holdings Limited, a company listed on the main board of the Stock Exchange.

# Report of the Directors

The board of directors (the "Board") of Zhongda International Holdings Limited (the "Company") is pleased to present the report of the directors of the Company and the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2008.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the subsidiaries are the development, manufacture and sales of automobile equipment and buses and trading of automobile spare parts. The activities of its subsidiaries are set out in note 45 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The state of affairs of the Group as at 31 December 2008 and the results and cash flow of the Group for the year then ended are set out in the consolidated financial statements on pages 26 to 103.

## DIVIDEND

The directors do not recommend the payment of a dividend for the year.

## FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 104 of the annual report.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 17 to the consolidated financial statements.

## SHARE CAPITAL

Details of movement during the year in the share capital of the Company are set out in note 37 to the consolidated financial statements.

## RESERVES

Details of movements in the reserves of the Group during the year are set out on page 29.

## DIRECTORS

The directors of the Company during the year and up to the date of this report are:

### Executive directors

Mr. Xu Lian Guo *(Chairman)*
Mr. Xu Lian Kuan *(Vice-chairman and Chief Executive Officer)*
Mr. Zhang Yuqing *(Vice-chairman)*
Mr. Kwok Ming Fai

### Independent non-executive directors

Mr. Gu Yao Tian
Mr. Li Xinzhong
Mr. Sun Ka Ziang Henry

In accordance with bye-law 87 of the Company's bye-laws, Mr. Zhang Yuqing, Mr. Kwok Ming Fai and Mr. Sun Ka Ziang Henry shall retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and considers all the independent non-executive directors are independent to the Company.

## ARRANGMENTS TO PURCHASE SHARES OR DEBENTURES

On 24 July 2008, the Company announced that (i) an acquisition agreement was entered into between a wholly-owned subsidiary of the Company as purchaser and 中大工業集團公司 (Zhongda Industrial Group Corporation) ("ZIG") as vendor whereby the purchaser shall purchase from ZIG a 20% equity interest in 鹽城中威客車有限公司 (Yancheng Zhongwei Bus Manufacturing Co., Ltd.) ("Zhongwei Bus") at a consideration of RMB18,460,000 (equivalent approximately HK$21,000,000) (the "Acquisition"); and (ii) Zhong Da (BVI) Limited ("Zhong Da (BVI)") and the Company entered into a subscription agreement regarding the subscription for the zero coupon convertible bonds in the principal amount of HK$21,000,000, pursuant to which there will be 25,000,000 new shares of the Company to be allotted and issued to Zhong Da (BVI) upon conversion of the convertible bonds in full at the conversion price of HK$0.84 each (the "Subscription").

As at 31 December 2008, ZIG is controlled by both Mr. Xu Lian Guo and Mr. Xu Lian Kuan and therefore is a connected person of the Company as defined under the Listing Rules. Zhongwei Bus was owned as to 65% by ZIG and is also a connected person of the Company as defined under the Listing Rules. Zhong Da (BVI) is a substantial shareholder of the Company and is beneficially owned as to 57.22% by Mr. Xu Lian Guo and as to 42.78% by Mr. Xu Lian Kuan respectively. Details of the Acquisition and the Subscription are set out in the circular of the Company dated 14 August 2008.

Save as disclosed above, at no time during the year was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

## DIRECTORS' INTEREST IN THE SHARE CAPITAL

### Long position in the shares and underlying shares of the Company

As at 31 December 2008, the interests of the directors, chief executive of the Company or their associates in the issued share capital of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to section 352 of the SFO or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, were as follows:

| | | Number of shares | | Number of | | % of |
|---|---|---|---|---|---|---|
| | | Personal | Corporate | underlying | | total issued |
| **Name of directors** | **Notes** | **interests** | **interests** | **shares** | **Total** | **share capital** |
| Mr. Xu Lian Guo | *1* | – | 204,004,000 | – | 229,004,000 | 43.2% |
| | *2* | – | – | 25,000,000 | | |
| Mr. Xu Lian Kuan | *1* | – | 204,004,000 | – | 229,004,000 | 43.2% |
| | *2* | – | – | 25,000,000 | | |
| Mr. Zhang Yuqing | | 17,600,000 | – | – | 17,600,000 | 3.3% |

Notes:

1. The 204,004,000 shares are held by Zhong Da (BVI) which is beneficially owned as to 57.22% by Mr. Xu Lian Guo and as to 42.78% by Mr. Xu Lian Kuan respectively.

2. Both Mr. Xu Lian Guo and Mr. Xu Lian Kuan are interested in the 25,000,000 shares to be allotted and issued to Zhong Da (BVI) upon exercise of the conversion rights attached to the convertible bonds pursuant to the Subscription.

Save as disclosed above, as at 31 December 2008, none of the directors or chief executive or their associates had any personal, family, corporate or other interests or short positions in the shares and underlying shares of the Company or any of its associated corporations as defined in the SFO.

## SHARES IN A SUBSIDIARY

As at 31 December 2008, the following directors held interests in the shares of Zhongda Automobile Machinery Manufacture Co., Ltd., a 86.7% owned subsidiary of the Company as follows:

| | Proportion of equity interests held |
|---|---|
| Mr. Xu Lian Guo (Note) | 13.3% |
| Mr. Xu Lian Kuan (Note) | 13.3% |

Note: These equity interests are held by ZIG which is controlled by Mr. Xu Lian Guo and Mr. Xu Lian Kuan.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, the following persons had interests in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

### Long position in the shares and underlying shares of the Company

| Name of shareholders | Capacity | Notes | Number of shares held | Number of underlying shares held | % of the issued share capital |
|---|---|---|---|---|---|
| Zhong Da (BVI) | Beneficial owner | *1* | 204,004,000 | – | 38.5% |
| | Beneficial owner | *2* | – | 25,000,000 | 4.7% |
| Shum Yip Holdings Company Limited | Beneficial owner | *3* | 39,576,000 | – | 7.5% |
| Penta Investment Advisers Limited | Investment manager | | 96,024,000 | – | 18.1% |
| L-R Global Partners, L.P. | Investment manager | | 26,606,000 | – | 5.0% |

Notes:

1. The 204,004,000 shares are held by Zhong Da (BVI) which is beneficially owned as to 57.22% by Mr. Xu Lian Guo and as to 42.78% by Mr. Xu Lian Kuan respectively.

2. 25,000,000 shares will be allotted and issued to Zhong Da (BVI) upon exercise of the conversion rights attached to the convertible bonds pursuant to the Subscription.

3. These shares are held by Gainful Outcome Holdings Limited and Outstanding Management Limited, both being wholly-owned subsidiaries of Shum Yip Holdings Company Limited, respectively.

Save as disclosed, as at 31 December 2008, according to the records required to be kept by the Company under section 336 of the SFO, there was no person (except for directors and chief executives of the Company) who had any interest or short positions in the shares and underlying shares of the Company.

## SHARE OPTION SCHEMES

The Company has a share option scheme (the "New Scheme") which was adopted at the annual general meeting of the Company held on 31 May 2007, and the share option scheme (the "Old Scheme") of the Company adopted in 2001 was terminated henceforth. The total number of the shares of the Company which may be allotted and issued upon the exercise of all options to be granted under the New Scheme must not in aggregate exceed 48,000,400 shares, being 10% of the issued share capital of the Company as at the date of the annual general meeting adopting the New Scheme. Share options granted under the Old Scheme prior to its termination remained in force until they lapsed in accordance with the terms of the Old Scheme. Further details of the Old Scheme and New Scheme, respectively, are set out in note 42 to the consolidated financial statements.

The movements in the share options granted under the share option schemes of the Company during the year ended 31 December 2008 are shown below:

(a) Old Scheme

| | | Number of share options | | | | | |
|---|---|---|---|---|---|---|---|
| **Category of participant** | **Date of offer** | **As at 1 Jan 2008** | **Exercised during the year** | **Lapsed during the year** | **At at 31 Dec 2008** | **Exercise price per share** HK$ | **Exercisable period** |
| Eligible persons | 11 Jan 2007 | 12,000,120 | – | – | 12,000,120 | 0.179 | 11 Jul 2007 to 10 Jul 2012 |
| | 5 Feb 2007 | 4,000,040 | – | – | 4,000,040 | 0.465 | 5 Aug 2007 to 4 Aug 2012 |
| | 13 Feb 2007 | 4,000,040 | – | – | 4,000,040 | 0.627 | 13 Aug 2007 to 12 Aug 2012 |
| | TOTAL | 20,000,200 | – | – | 20,000,200 | | |

As at 31 December 2008, the outstanding options entitling the eligible persons under the Old Scheme to subscribe for an aggregate of 20,000,200 shares, representing approximately 3.8% of the issued share capital of the Company.

(b) New Scheme

No share option has been granted or outstanding under the New Scheme since its adoption.

Save as disclosed above, no share option was granted, exercised, lapsed or cancelled during the year ended 31 December 2008.

## CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Details of the connected transactions and continuing connected transactions entered into by the Group during the year are set out in note 40 to the consolidated financial statements.

In the opinion of the directors including the independent non-executive directors of the Company, the connected transactions and the continuing 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.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed herein, no contracts of significant to which the Company, its holding company, or any of its subsidiaries and fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' INTEREST IN COMPETING BUSINESS

During the year, none of the directors have an interest in any business constituting the competing business to the Group.

## MANAGEMENT CONTRACT

No contracts concerning the management and administration of the Company subsisted at the end of the year or at any time during the year.

## EMPLOYEE REMUNERATION POLICIES

As at 31 December 2008, the Group employed a total of 1,300 (2007: 1,300) full time employees.

The Group provides remuneration packages to employees largely based on industry practice, individual performance, qualification and experience. In addition, discretionary bonus and share option may be granted to eligible staff by reference to the Group's performance and individual performance. The Group also provides other benefits to its employees such as medical and statutory retirement benefits for both the directors and employees.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2008, the aggregate amount of turnover and purchases attributable to the Group's five largest customers and suppliers respectively represented less than 30% of the Group's total turnover and purchases.

## BANK AND OTHER BORROWINGS

Details of the Group's bank and other borrowings as at 31 December 2008 are set out in note 36 to the consolidated financial statements.

## PRE-EMPTIVE RIGHTS

There are no provisions for the pre-emptive rights under the Company's bye-laws or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, the Company repurchased a total of 584,000 shares of the Company on the Stock Exchange at an aggregate purchase price of HK$134,300. Details of the repurchases are as follows:–

| Month of the repurchases | Number of shares repurchased | Price per share | | Aggregate purchase price (excluding expenses) |
|---|---|---|---|---|
| | | **Highest** | **Lowest** | |
| | | HK$ | HK$ | HK$ |
| August 2008 | 528,000 | 0.260 | 0.200 | 125,340 |
| November 2008 | 56,000 | 0.160 | – | 8,960 |
| Total | 584,000 | | | 134,300 |

The above repurchases were effected by the directors, pursuant to the general mandate granted by the shareholders, with a view to benefit shareholders as a whole in enhancing the net assets and earnings per share of the Company.

Save as disclosed above, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company during the year.

## CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules during the year ended 31 December 2008. A corporate governance report for the year ended 31 December 2008 is prepared in accordance with Appendix 15 to the Listing Rules and set out on pages 20 to 23 of the annual report.

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained sufficient public float as required under the Listing Rules during the year and up to the date of this report.

## POST BALANCE SHEET EVENTS

Details of the significant events which occurred subsequent to the balance sheet date are set out in note 46 to the consolidated financial statements.

## AUDITORS

Messrs. KLL Associates CPA Limited were appointed as auditors of the Company on 9 January 2004 and resigned on 11 November 2005. Messrs. SHINEWING (HK) CPA Limited were appointed on 11 November 2005 to fill the casual vacancy following the resignation of Messrs. KLL Associates CPA Limited.

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. SHINEWING (HK) CPA Limited as auditors of the Company.

On behalf of the Board

**Xu Lian Guo**
*Chairman*

Hong Kong, 22 April 2009

# Corporate Governance

The Group strives to enhance its corporate governance standards for increasing the shareholders' value and in strengthening the operational efficiency of the Group.

## CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company has complied with all code provisions as set out in the Code on Corporate Governance Practices ("the Code") in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the year ended 31 December 2008, except for deviations as below:

Rule E.1.2 stipulated that the chairmen of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting.

Neither the chairman nor members of the audit committee attended the Annual General Meeting of the Company held on 27 May 2008 because of their other business engagements. However, no question was raised by shareholders at the meeting. The directors present thereat conducted the meeting in a duly constituted and proper manner.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by directors (the "Code of Conduct") on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

Having made specific enquiry with all directors, each of whom has confirmed compliance with the required standard set out in the Code of Conduct throughout the year ended 31 December 2008.

## BOARD OF DIRECTORS

The Board currently consists of four executive directors and three independent non-executive directors ("INED(s)") as follows:-

*Executive Directors*
Mr. Xu Lian Guo *(Chairman)*
Mr. Xu Lian Kuan *(Vice-chairman and Chief Executive Officer)*
Mr. Zhang Yuqing *(Vice-chairman)*
Mr. Kwok Ming Fai

*Independent Non-executive Directors*
Mr. Gu Yao Tian
Mr. Sun Ka Ziang Henry
Mr. Li Xinzhong

There was no change in the directorate of the Company and their respective functionalities during the year ended 31 December 2008.

During the year ended 31 December 2008, the Board held four meetings:-

| **Directors** | **Meetings Attended** |
|---|---|
| Xu Lian Guo | 4/4 |
| Xu Lian Kuan | 4/4 |
| Zhang Yuqing | 4/4 |
| Kwok Ming Fai | 4/4 |
| Gu Yao Tian | 4/4 |
| Li Xinzhong | 4/4 |
| Sun Ka Ziang Henry | 4/4 |

The Board is responsible for the leadership and control of the Company and oversees the businesses, strategic planning and decision-making of the Group. The Board established the following committees in pertaining to effect the various function of the Group:-

- Executive Committee to focus on the formulation and review of the legal compliance and operational procedures compliance by the Group. The members of the Executive Committee are two executive directors, Mr. Xu Lian Kuan and Mr. Zhang Yuqing.

- Audit Committee to focus on the review and supervision of the financial reporting process and internal control system of the Group pursuant to the Listing Rules. The members of the Audit Committee are all the INEDs.

- Remuneration Committee to focus on the recommendation to the Board of the corporate policy and structure for all remuneration of the directors and senior management of the Group pursuant to the Listing Rules. The members of the Remuneration Committee are two INEDs namely Mr. Gu Yao Tian and Mr. Li Xinzhong, and one executive director namely Mr. Zhang Yuqing.

During the year, three independent board committees of the Company, comprising all INEDs, had been established by the Board for the purpose of the Listing Rules regarding the connected transactions of the Company. The independent board committees followed the same principles, procedures and arrangements as that of the Board and were provided with sufficient resources to discharge their duties. Opinions of the independent board committees had been expressed in their letters which were included in the circulars of the Company dated 21 April 2008, 14 August 2008 and 19 September 2008 respectively. Save as disclosed herein, no other board committee of the Company had been formed during the year under review.

Each INED has, pursuant to Rule 3.13 of the Listing Rules, confirmed that he is independent to the Company and the Company also considers that they are independent.

Save for Mr. Xu Lian Guo and Mr. Xu Lian Kuan are brothers, there is no other relationship (including financial, business, family or other material or relevant relationship) among the members of the Board.

## NON-EXECUTIVE DIRECTORS

As at 31 December 2008, all the existing INEDs, Mr. Gu Yao Tian, Mr. Sun Ka Ziang Henry and Mr. Li Xinzhong, were appointed with specific term and they are subject to retirement and rotation in accordance with the bye-laws of the Company.

## REMUNERATION COMMITTEE

The Remuneration Committee of the Company has been established with written terms of reference on no less exacting than the required standard as set out in the code provisions of the Code. The Remuneration Committee held one meeting in 2008 which was attended by all members for reviewing the policies on the remuneration of the executive directors of the Company.

## AUDITORS' REMUNERATION

The amounts paid to the external auditors of the Group for the year ended 31 December 2008 in respect of the services provided to the Group as follows:

| | **2008**<br>*RMB'000* |
|---|---|
| Audit services | 1,321 |
| Other advisory services | 312 |

## AUDIT COMMITTEE

The Audit Committee of the Company has been established with written terms of reference on no less exacting than the required standard as set out in the code provisions of the Code.

During the year under review, the Audit Committee held two meetings:

| Members | Meetings Attended |
|---|---|
| Sun Ka Ziang Henry | 2/2 |
| Gu Yao Tian | 2/2 |
| Li Xinzhong | 2/2 |

During the meetings, the Audit Committee had considered, reviewed and discussed the auditing and financial reporting matters of the Group in regard to the annual results of the Group for the year ended 31 December 2007 and the interim results of the Group for the six months ended 30 June 2008. The Audit Committee had further reviewed the engagement of the external auditors and the engagement of the Independent Auditor, details of which are disclosed in the section headed "Internal Controls" below.

## INTERNAL CONTROLS

The Company had appointed an independent auditor (the "Independent Auditor") to review the effectiveness of internal control system of the Group which covered all material controls, including financial, operational and compliance controls as well as risk management functions for the two years ended 31 December 2007 respectively.

The Independent Auditor had been further engaged to conduct a review on the effectiveness of the internal control system of the Group for the year ended 31 December 2008. In April 2009, the Audit Committee had reviewed the review report for the year ended 31 December 2008. The Board considered that the Group's internal control system was effective and adequate, and the Group had adopted necessary control mechanism to monitor the compliances during the year under review.

## DIRECTORS' RESPONSIBILITY FOR PREPARING ACCOUNTS

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Group for the year ended 31 December 2008 and ensure that such financial statements are prepared in accordance with statutory requirements and applicable accounting standards.

## AUDITORS' REPORTING RESPONSIBILITIES

The reporting responsibilities of Messrs. SHINEWING (HK) CPA Limited, the auditors of the Company, for the year under review are stated in the Independent Auditor's Report on pages 24 to 25 of the annual report.

# Independent Auditor's Report

信永中和 ShineWing

**SHINEWING** (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

**TO THE MEMBERS OF ZHONGDA INTERNATIONAL HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Zhongda International Holdings Limited (the "Company") and its subsidiaries (collectively referred as the "Group") set out on pages 26 to 103, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

## AUDITOR'S RESPONSIBILITY (Continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**SHINEWING (HK) CPA Limited**
*Certified Public Accountants*
**Chan Wing Kit**
Practising Certificate Number: P03224

Hong Kong
22 April 2009

# Consolidated Income Statement

*For the year ended 31 December 2008*

| | Notes | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| Turnover | 7 | **639,691** | 327,242 |
| Cost of sales | | **(537,472)** | (262,934) |
| Gross profit | | **102,219** | 64,308 |
| Other revenue | 9 | **25,761** | 78,924 |
| Selling and distribution expenses | | **(19,258)** | (19,396) |
| Administrative expenses | | **(67,628)** | (61,936) |
| Other operating expenses | | **(5,004)** | (8,310) |
| Share of loss of an associate | | **–** | (4) |
| Finance costs | 10 | **(17,974)** | (13,884) |
| Profit before taxation | | **18,116** | 39,702 |
| Taxation | 11 | **(10,438)** | 812 |
| Profit for the year | 12 | **7,678** | 40,514 |
| Attributable to: | | | |
| Equity holders of the Company | | **16,198** | 29,811 |
| Minority interests | | **(8,520)** | 10,703 |
| | | **7,678** | 40,514 |
| Dividends | 15 | **–** | – |
| Earnings per share | 16 | **RMB** | RMB |
| – Basic | | **3.06 cents** | 6.32 cents |
| – Diluted | | **3.02 cents** | 6.14 cents |

# Consolidated Balance Sheet

*As at 31 December 2008*

| | Notes | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 17 | **100,233** | 101,396 |
| Prepaid lease payments | 18 | **42,514** | 55,629 |
| Investment properties | 19 | **123,559** | 96,889 |
| Investments in associates | 20 | **–** | – |
| Prepayments for investments in associates | 21 | **18,898** | 474 |
| Available-for-sale investments | 22 | **900** | 900 |
| Deferred tax assets | 23 | **32,188** | 19,405 |
| | | **318,292** | 274,693 |
| Current assets | | | |
| Prepaid lease payments | 18 | **970** | 1,244 |
| Inventories | 24 | **58,581** | 48,736 |
| Amounts due from related companies | 25 | **270,379** | 123,948 |
| Amount due from an associate | 26 | **705** | – |
| Trade and bills receivables | 27 | **95,718** | 85,255 |
| Amounts due from customers for contract work | 28 | **13,953** | 25,594 |
| Held-for-trading investments | 29 | **31** | – |
| Prepayments and other receivables | 30 | **26,557** | 34,199 |
| Restricted deposit placed in a financial institution | 31 | **5,000** | 15,802 |
| Pledged bank deposit | 31 | **10,149** | 16,159 |
| Restricted bank balances | 31 | **82,647** | 4,161 |
| Bank balances and cash | 31 | **31,097** | 53,719 |
| | | **595,787** | 408,817 |
| Current liabilities | | | |
| Amounts due to customers for contract work | 28 | **1,068** | 10,488 |
| Trade and bills payables | 32 | **265,181** | 83,228 |
| Advance receipt from customers | | **25,115** | 38,152 |
| Other payables and accruals | 33 | **35,658** | 26,307 |
| Amount due to an associate | 34 | **37** | 4 |
| Amounts due to related companies | 34 | **1,666** | 386 |
| Amounts due to directors | 34 | **5,288** | 5,008 |
| Loan from ultimate holding company | 35 | **18,614** | – |
| Tax payable | | **27,093** | 14,412 |
| Bank overdrafts | 31 | **7,991** | 9,165 |
| Bank and other borrowings – due within one year | 36 | **175,460** | 138,000 |
| | | **563,171** | 325,150 |
| Net current assets | | **32,616** | 83,667 |
| Total assets less current liabilities | | **350,908** | 358,360 |

| | Notes | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| Capital and reserves | | | |
| Share capital | 37 | **55,074** | 55,125 |
| Reserves | | **263,618** | 252,252 |
| Equity attributable to equity holders of the Company | | **318,692** | 307,377 |
| Minority interests | | **20,488** | 29,008 |
| Total Equity | | **339,180** | 336,385 |
| Non-current liabilities | | | |
| Deferred tax liabilities | 23 | **11,728** | 1,975 |
| Bank and other borrowings – due after one year | 36 | **–** | 20,000 |
| | | **11,728** | 21,975 |
| | | **350,908** | 358,360 |

The consolidated financial statements on pages 26 to 103 were approved and authorised for issue by the Board of Directors on 22 April 2009 and are signed on its behalf by:

**Xu Lian Guo**
*Director*

**Zhang Yuqing**
*Director*

# Consolidated Statement of Changes in Equity

*For the year ended 31 December 2008*

| | Attributable to equity holders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Share premium RMB'000 | Reserve fund RMB'000 (Note) | Enterprise expansion fund RMB'000 (Note) | Share options reserve RMB'000 | Exchange translation reserve RMB'000 | Retained profits RMB'000 | Total RMB'000 | Minority interests RMB'000 | Total equity RMB'000 |
| At 1 January 2007 | 42,386 | 17,073 | 2,720 | 2,720 | – | (1,152) | 93,356 | 157,103 | 16,011 | 173,114 |
| Exchange difference arising on translation of the financial statements of foreign companies of the Group | – | – | – | – | – | (6,726) | – | (6,726) | – | (6,726) |
| Profit for the year | – | – | – | – | – | – | 29,811 | 29,811 | 10,703 | 40,514 |
| Total recognised income and expenses for the year | – | – | – | – | – | (6,726) | 29,811 | 23,085 | 10,703 | 33,788 |
| Capital contributions from minority shareholders | – | – | – | – | – | – | – | – | 2,294 | 2,294 |
| Placing of new shares | 10,801 | 116,147 | – | – | – | – | – | 126,948 | – | 126,948 |
| Share issue expenses | – | (14,119) | – | – | – | – | – | (14,119) | – | (14,119) |
| Recognition of equity-settled share-based payments | – | – | – | – | 7,418 | – | – | 7,418 | – | 7,418 |
| Proceeds from shares issued under share option scheme | 1,938 | 8,776 | – | – | (3,772) | – | – | 6,942 | – | 6,942 |
| At 31 December 2007 and 1 January 2008 | **55,125** | **127,877** | **2,720** | **2,720** | **3,646** | **(7,878)** | **123,167** | **307,377** | **29,008** | **336,385** |
| Exchange difference arising on translation of the financial statements of foreign companies of the Group | **–** | **–** | **–** | **–** | **–** | **(4,765)** | **–** | **(4,765)** | **–** | **(4,765)** |
| Profit (loss) for the year | **–** | **–** | **–** | **–** | **–** | **–** | **16,198** | **16,198** | **(8,520)** | **7,678** |
| Total recognised income and expenses for the year | **–** | **–** | **–** | **–** | **–** | **(4,765)** | **16,198** | **11,433** | **(8,520)** | **2,913** |
| Shares repurchased and cancelled, net of share repurchase expenses | **(51)** | **(67)** | **–** | **–** | **–** | **–** | **–** | **(118)** | **–** | **(118)** |
| At 31 December 2008 | **55,074** | **127,810** | **2,720** | **2,720** | **3,646** | **(12,643)** | **139,365** | **318,692** | **20,488** | **339,180** |

Note:

According to the rules and regulations applicable to the Group's subsidiaries in the People's Republic of China (the "PRC"), when distributing net income of each year, these subsidiaries shall set aside a portion of their income as reported in their statutory financial statements for the reserve fund and enterprise expansion fund. Such amounts that appropriated are determined at the discretion of the Board of Directors. These reserves cannot be used for purposes other than for which they are created and are not distributable as cash dividend.

# Consolidated Cash Flow Statement

*For the year ended 31 December 2008*

| | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Profit before taxation | **18,116** | 39,702 |
| Adjustments for: | | |
| Interest income | **(2,940)** | (2,451) |
| Finance costs | **17,974** | 13,884 |
| Depreciation on property, plant and equipment | **5,962** | 5,031 |
| Loss on disposal of property, plant and equipment | **18** | 180 |
| Write off of property, plant and equipment | **157** | 92 |
| Amortisation on prepaid lease payments | **1,061** | 1,244 |
| Increase in fair value of investment properties | **(8,108)** | (40,733) |
| Impairment for prepayments for investments in associates | **36** | 613 |
| Allowance for inventories | **2,055** | – |
| Reversal of allowance for inventories | **–** | (2,975) |
| Allowance for trade and bills receivables | **15,340** | 13,122 |
| Allowance for prepayments and other receivables | **2,980** | – |
| Recognition of expected losses for contract work | **10,160** | 8,625 |
| Change in fair value of held-for-trading investments | **69** | – |
| Waiver of trade and bills payables | **(3,622)** | (4,946) |
| Waiver of other payables and accruals | **(2,191)** | (20,379) |
| Share of result of an associate | **–** | 4 |
| Waiver of a director's emoluments | **–** | (1,536) |
| Gain on disposal of held-for-trading investments | **–** | (247) |
| Share-based payments | **–** | 7,418 |
| Operating cash flows before movements in working capital | **57,067** | 16,648 |
| Increase in inventories | **(11,900)** | (17,949) |
| Increase in amounts due from related companies | **(146,431)** | (97,050) |
| Increase in trade and bills receivables | **(25,803)** | (6,823) |
| Decrease in amounts due from customers for contract work | **1,481** | 12,292 |
| Decrease (increase) in prepayments and other receivables | **5,388** | (14,701) |
| (Decrease) increase in amounts due to customers for contract work | **(9,420)** | 3,415 |
| Increase in trade and bills payables | **185,575** | 64,436 |
| (Decrease) increase in advance receipt from customers | **(13,037)** | 37,799 |
| Increase (decrease) in other payables and accruals | **11,295** | (5) |
| Increase in amount due to an associate | **33** | – |
| Increase (decrease) in amounts due to related companies | **1,280** | (662) |
| Cash generated from (used in) operations | **55,528** | (2,600) |
| Income tax paid | **(748)** | (735) |
| NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES | **54,780** | (3,335) |

| | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|
| INVESTING ACTIVITIES | | |
| Increase in restricted bank balances | **(78,486)** | (1,161) |
| Prepayment for investment in an associate | **(18,460)** | – |
| Purchase of property, plant and equipment | **(13,029)** | (27,073) |
| Advance to an associate | **(705)** | – |
| Acquisition of held-for-trading investments | **(100)** | – |
| Purchase of investment properties | **–** | (19,478) |
| Decrease (increase) in restricted deposit placed in a financial institution | **10,802** | (15,802) |
| Decrease (increase) in pledged bank deposit | **6,010** | (16,159) |
| Interest received | **2,214** | 2,451 |
| Proceeds from disposal of property, plant and equipment | **305** | 1,648 |
| Proceeds from disposal of held-for-trading investments | **–** | 447 |
| NET CASH USED IN INVESTING ACTIVITIES | **(91,449)** | (75,127) |
| FINANCING ACTIVITIES | | |
| New bank and other borrowings raised | **155,460** | 158,000 |
| Advanced from (repayment to) ultimate holding company | **18,614** | (12,000) |
| Advanced from directors | **280** | 366 |
| Repayment of bank and other borrowings | **(138,000)** | (142,500) |
| Interest paid | **(17,727)** | (13,884) |
| (Decrease) increase in bank overdrafts | **(1,174)** | 9,165 |
| Repurchase of shares | **(118)** | – |
| Proceeds from placing of new shares | **–** | 126,948 |
| Proceeds from shares issued under share option scheme | **–** | 6,942 |
| Capital contributions from minority shareholder | **–** | 2,294 |
| Share issue expenses | **–** | (14,119) |
| NET CASH FROM FINANCING ACTIVITIES | **17,335** | 121,212 |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | **(19,334)** | 42,750 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | **53,719** | 17,695 |
| Effect of foreign exchange rate changes | **(3,288)** | (6,726) |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash | **31,097** | 53,719 |

## 1. GENERAL

The Company was incorporated in Bermuda on 14 September 2000 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. The shares of the Company have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effective from 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 functional currency of the Company is Hong Kong dollars ("HK$") whereas the presentation currency of the consolidated financial statements is Renminbi ("RMB"). RMB is the currency of the primary economic environment in which the subsidiaries of the Company operate (functional currency of the subsidiaries).

The Company is an investment holding company. Its subsidiaries are principally engaged in the development, manufacture and sales of automobile equipment and buses and trading of automobile spare parts. The principal activities of its subsidiaries are set out in Note 45.

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

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Company and its subsidiaries (collectively referred to as the "Group") have applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

| | |
|---|---|
| Hong Kong Accounting Standard ("HKAS") 39 and HKFRS 7 (Amendments) | Reclassification of Financial Assets |
| HK(IFRIC) – Interpretation ("Int") 11 | HKFRS 2 – Group and Treasury Share Transactions |
| HK(IFRIC) – Int 12 | Service Concession Arrangements |
| HK(IFRIC) – Int 14 | HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction |

The application of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs[1] |
| HKAS 1 (Revised) | Presentation of Financial Statements[2] |
| HKAS 23 (Revised) | Borrowing Costs[2] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[3] |
| HKAS 32 & 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation[2] |
| HKAS 39 (Amendment) | Financial Instruments: Recognition and Measurement – Eligible hedged items[3] |
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2] |
| HKFRS 2 (Amendment) | Share-based Payment – Vesting Conditions and Cancellations[2] |
| HKFRS 3 (Revised) | Business Combinations[3] |
| HKFRS 7 (Amendment) | Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments[2] |
| HKFRS 8 | Operating Segments[2] |
| HK(IFRIC) – Int 9 and HKAS 39 (Amendments) | Embedded Derivatives[7] |
| HK(IFRIC) – Int 13 | Customer Loyalty Programmes[4] |
| HK(IFRIC) – Int 15 | Agreements for the Construction of Real Estate[2] |
| HK(IFRIC) – Int 16 | Hedges of a Net Investment in a Foreign Operation[5] |
| HK(IFRIC) – Int 17 | Distributions of Non-Cash Assets to Owners[3] |
| HK(IFRIC) – Int 18 | Transfer of assets from Customers[6] |

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, which effective for annual periods beginning on or after 1 July 2009.

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

3 Effective for annual periods beginning on or after 1 July 2009.

4 Effective for annual periods beginning on or after 1 July 2008.

5 Effective for annual periods beginning on or after 1 October 2008.

6 Effective for transfer of assets from customers received on or after 1 July 2009.

7 Effective for annual periods ending on or after 30 June 2009.

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning for the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at revalued amounts and fair values, respectively, 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 of Hong Kong Limited and by the Hong Kong Companies Ordinance.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (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 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Investment in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of an associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate is carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit and loss.

When a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

### Revenue recognition

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

Revenue from sales of goods is recognised when the 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. Variation in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Commission income is recognised when services are provided.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue recognition (Continued)

Interest income from a financial asset excluding financial assets at fair value through profit or loss 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.

### Property, plant and equipment

Property, plant and equipment, other than construction-in-progress, including buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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

Construction-in-progress includes property, plant and equipment in the course of construction for production or for its own use purpose. Construction-in-progress is carried at cost less any recognised impairment loss. 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 ready for their intended use.

Useful lives and depreciation method are reviewed and adjusted if appropriate, at each balance sheet date.

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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Investment properties

Investment properties are properties held to earn rental and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gain or loss arising from change in the fair value of investment property is included in profit or loss for the year in which they arise.

When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at the completion date and its previous carrying amount is recognised in the consolidated income statement.

### Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variation in contract work, claims and incentive payments are included to the extent that they have been agreed with the customers.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses 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 advance receipt from customers. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under trade and bills receivables.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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 term of the relevant lease. 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 term.

*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 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 on a straight-line basis.

### 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 the respective 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 loss in which they arise, except for exchange differences arising on a monetary item that forms part of the Company'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.

## 3. SIGNIFICANT 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. 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 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 (exchange translation reserve). Such exchange differences are recognised in profit or loss in the year in which the foreign operation is disposed of.

### Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the year in which they are incurred.

### Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are reported as other revenue.

### Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered services entitling them to the contributions.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on 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 items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Taxation (Continued)

Deferred tax is recognised 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 and an associate, 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, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments

Financial assets and financial liabilities are recognised on the consolidated 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 values. 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 ("FVTPL"), 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.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Interest income is recognised on an effective interest basis for debt instruments.

*Financial assets at fair value through profit or loss*

Financial assets at FVTPL represent the financial assets held for trading. A financial asset is classified as held for trading if:

– it has been acquired principally for the purpose of selling in the near future; or

– it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

– it is a derivation that is not designated and effective as a hedging instrument.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

*Financial assets at fair value through profit or loss (Continued)*

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair values, with changes in fair values recognised directly in profit or loss in the year in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

*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, amounts due from related companies/an associate, restricted deposit placed in a financial institution, pledged bank deposit, restricted bank balances and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment loss.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are not classified as financial assets at FVTPL or loans and receivables or held-to-maturity investments.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair values. Changes in fair values 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 (see accounting policy in respect of impairment loss on financial assets below).

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 loss at each balance sheet date subsequent to initial recognition (see accounting policy in respect of impairment loss on financial assets below).

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

*Impairment loss on financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty; or

– default or delinquency in interest or principal payments; or

– it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 to 180 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, impairment loss is recognised in profit and 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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in the profit and loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit and loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

*Impairment loss on financial assets (Continued)*

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity. 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.

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 financial liabilities of the Group are mainly other financial liabilities.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

*Other financial liabilities*

Other financial liabilities including bank and other borrowings, bank overdrafts, trade and bills payables, loan from ultimate holding company, other payables and accruals and amounts due to an associate/related companies/directors are subsequently measured at amortised cost, using the effective interest method.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

*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 assets' 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 and loss. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities are derecognised 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 and payable is recognised in profit and loss.

### Share-based payment transactions

Equity-settled share-based payment transactions

*Share options granted to employees*

For grants of share options which are conditional upon satisfying specified vesting conditions, the fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve). The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss with a corresponding adjustment to share options reserve.

For share options which are vested at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment on tangible assets

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. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. 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 an expense immediately.

Where the impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss is recognised as income immediately.

## 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### Critical judgments in applying accounting policies

The following is the critical judgment, apart from those involving estimations (see below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

*Buildings*

The building reality certificates of certain of the Group's buildings were not granted by relevant government authorities as detailed in Note 17. In the opinion of the directors, the absence of building reality certificates to these buildings does not impair the value of the relevant buildings to the Group.

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

### Critical judgments in applying accounting policies (Continued)

*Impairment of available-for-sale investments*

The Group follows the guidance of HKAS 39 to determine when an available-for-sale investment is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

*Recognition of deferred tax assets*

As at 31 December 2008, deferred tax assets of approximately RMB32,188,000 (2007: RMB19,405,000) has been recognised in the Group's consolidated balance sheet. The realisation of the deferred tax asset mainly depends on whether the actual future profits or taxable temporary differences will be available in the future. In case where the actual future profits generated are less than expected, a reversal of deferred tax assets may arise, which would be recognised in the consolidated income statement for the year in which such a reversal take place. Also, as at 31 December 2008, the Group has unrecognised deferred tax assets in respect of unused tax losses of approximately RMB5,082,000 (2007: RMB31,244,000). In cases where the actual future profits generated are more than expected, deferred tax assets may arise, which would be recognised in the consolidated income statement for the year in which such condition exists.

*Construction contracts*

Revenue from individual contract is recognised under the percentage of completion method which requires estimation made by management. Anticipant losses are fully provided on contracts when identified. The Group's management estimates the contract revenue, contract costs and foreseeable losses of construction work based on the budgets prepared for the contracts. Because of the nature of the activities undertaken in construction businesses, management reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each contract as the contract progresses, where the actual contract revenue are less than expected or actual contract costs are more than expected, a material impairment loss may arise.

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

### Key sources of estimation uncertainty

The followings are 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.

*Depreciation of property, plant and equipment*

The Group's net carrying value of property, plant and equipment (excluding construction-in-progress) as at 31 December 2008 was approximately RMB100,233,000 (2007: RMB70,453,000). 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 values, using the straight-line method, at the rate of 1.875% 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 intends to derive future economic benefits from the use of the Group's property, plant and equipment.

*Estimated 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 judgment. A considerable amount of judgment is required in assessing the ultimate realisable amount 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. At 31 December 2008, the carrying amount of trade and bills receivables was approximately RMB95,718,000 (net of allowance for trade receivables of approximately RMB70,206,000).

*Estimated 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 inventories 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. At 31 December 2008, the carrying amount of inventories was approximately RMB58,581,000 (net of allowance for obsolete inventories of approximately RMB6,449,000).

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

### Key sources of estimation uncertainty (Continued)

*Impairment of property, plant and equipment*

The impairment loss for property, plant and equipment is recognised for the amounts by which the carrying amounts exceed its recoverable amount, in accordance with the Group's accounting policy. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The Group has assessed and reviewed annually for impairment loss whenever events or change in circumstances indicate that the carrying amount may not be recoverable. No impairment was provided during the year.

## 5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes bank overdrafts, loan from ultimate holding company and bank and other borrowings as disclosed in Notes 31, 35 and 36 respectively, and cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital as disclosed in Note 37, reserves and retained profits as disclosed in consolidated statement of changes in equity.

The directors of the Company review the capital structure periodically. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues, repurchase of shares as well as the issue of new debt or the redemption of existing debts.

## 6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments to raise finance for the Group's operations comprise bank and other borrowings, bank overdrafts and loan from ultimate holding company. The Group has various other financial instruments such as trade and bills receivables, other receivables, pledged bank deposit, restricted bank balances, restricted deposit placed in a financial institution, bank balances and cash, amounts due from related companies/ an associate, trade and bills payables, other payables and accruals and amounts due to an associate/related companies/directors, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk, currency risk, interest rate risk and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below.

### Credit risk

The Group's credit risk is primarily attributable to its amounts due from related companies and an associate, trade and bills receivables, other receivables, restricted deposit placed in a financial institution, pledged bank deposit, restricted bank balances and bank balances. At the respective balance sheet dates, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is the carrying amount of the respective recognised financial assets stated in the consolidated balance sheet.

Amounts due from related companies and an associate are continuously monitored by assessing the credit quality of the counterparties, taking into account their financial position, past experience and other factors. Where necessary, impairment loss is made for estimated irrecoverable amounts.

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 debt 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 spreading over a large number of counterparties and customers.

The credit risk on liquid funds is limited because the counterparties are either authorised banks or a financial institution supervised by China Banking Regulory Commission in the PRC or banks with high credit ratings assigned by international credit-rating agencies.

Except for restricted deposit placed in a financial institution, pledged bank deposit and restricted bank balances, none of the Group's financial assets are secured by collateral or other credit enhancements.

## 6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Foreign currency risk

Several subsidiaries of the Company have foreign currency sales and purchases which expose the Group to foreign currency risk. For the year ended 31 December 2008, approximately 12% (2007: 15%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sale, whilst all (2007: 95%) of costs are denominated in the group entity's functional currency.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

| | Liabilities | | Assets | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| United States dollars ("USD") | **187** | 198 | **41,748** | 10,100 |
| HK$ | **38,363** | 6,587 | **27,020** | 42,562 |
| Euro ("Euro") | **–** | – | **83** | 3,745 |
| Japanese Yen ("JPY") | **–** | – | **950** | – |
| Australian dollars ("AUD") | **–** | – | **1** | 1 |
| | **38,550** | 6,785 | **69,802** | 56,408 |

The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

*Sensitivity analysis*

The Group is mainly exposed to USD and HK$, and the directors of the Company consider that the risk exposed to Euro, JPY and AUD are not material.

The following table details the Group's sensitivity to a 10% (2007: 10%) increase or decrease in Renminbi against the relevant foreign currencies. 10% (2007: 10%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 10% (2007: 10%) change in foreign currency rates. A positive number below indicates a decrease in profit and other equity where Renminbi strengthen 10% (2007: 10%) against the relevant currencies. For a 10% (2007: 10%) weakening of Renminbi against the relevant currencies, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

## 6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Foreign currency risk (Continued)

*Sensitivity analysis (Continued)*

| | USD impact | | HK$ impact | | Euro impact | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Profit or loss | **4,156** | 990 | **(1,134)** | 3,598 | **8** | 375 |

The Group's sensitivity to USD has increased during the current year mainly due to the increase in the USD denominated due from a related company and bank account balances as at 31 December 2008. The Group's sensitivity to HK$ has decreased during the current year mainly due to the decrease in HK$ denominated pledged bank deposit and bank balances and the increase in HK$ loan from ultimate holding company.

### Interest rate risk

The Group's cash flow interest rate risk relates primarily to its variable rate bank and other borrowings as detailed in Note 36. It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the RMB Base Lending Rate stipulated by the People's Bank of China arising from the Group's RMB denominated bank and other borrowings and bank balances.

*Sensitivity analysis*

The sensitivity analysis below is prepared assuming that a change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis points (2007: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate exposure should the need arise.

## 6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Interest rate risk (Continued)

*Sensitivity analysis (Continued)*

At 31 December 2008, if interest rates had been increased/decreased by 100 basis points and all other variables were held constant, the Group's pre-tax profit would decrease/increase by approximately RMB466,000 (2007: RMB682,000).

The Group's sensitivity to interest rates has decreased during the current year mainly due to the increment in the Group's variable rate bank deposits.

### Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank and other borrowings and ensures compliance with loan covenants.

Individual operating entities within the Group are responsible for their own cash management, including the short-term investment of cash surplus and the raising of loans to cover expected cash demands, subject to approval by the Company's directors when the borrowings exceed certain predetermined levels of authority.

The Group relies on bank and other borrowings as a significant source of liquidity. As at 31 December 2008, the Group's available unutilised banking facilities were approximately RMB26,745,000 (2007: RMB8,585,000).

The following table details the Group's remaining contractual maturities for its non-derivative financial liabilities which are included in the maturity analysis provided internally to the key management personnel for the purpose of managing liquidity risk. The tables reflect the undiscounted cash flows of financial liabilities based on the earliest date the Group can be required to pay. The tables include both interest and principal cash flows.

## 6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Liquidity risk (Continued)

*Liquidity and interest risk tables*

| | Weighted average effective interest rate | Carrying Amount | Total Contractual Undiscounted cash flow | 0 to 180 days | 181 to 365 days | Over 1 year |
|---|---|---|---|---|---|---|
| | % | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **2008** | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Trade and bills payables | **–** | **265,181** | **265,181** | **265,181** | **–** | **–** |
| Other payables and accruals | **–** | **35,658** | **35,658** | **35,658** | **–** | **–** |
| Amount due to an associate | **–** | **37** | **37** | **37** | **–** | **–** |
| Amounts due to related companies | **–** | **1,666** | **1,666** | **1,666** | **–** | **–** |
| Amounts due to directors | **–** | **5,288** | **5,288** | **5,288** | **–** | **–** |
| Loan from ultimate holding company | **–** | **18,614** | **18,614** | **18,614** | **–** | **–** |
| Bank overdrafts | **7.04%** | **7,991** | **8,267** | **8,267** | **–** | **–** |
| Bank and other borrowings | | | | | | |
| – variable rate | **8.05%** | **175,460** | **185,823** | **95,457** | **90,366** | **–** |
| | | **509,895** | **520,534** | **430,168** | **90,366** | **–** |
| **2007** | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Trade and bills payables | – | 83,228 | 83,228 | 79,810 | 3,418 | – |
| Other payables and accruals | – | 26,307 | 26,307 | 26,307 | – | – |
| Amounts due to an associate | – | 4 | 4 | 4 | – | – |
| Amounts due to related companies | – | 386 | 386 | 386 | – | – |
| Amounts due to directors | – | 5,008 | 5,008 | 5,008 | – | – |
| Bank overdrafts | 7.47% | 9,165 | 9,501 | 9,501 | – | – |
| Bank and other borrowings | | | | | | |
| – variable rate | 8.03% | 158,000 | 168,296 | 103,568 | 41,516 | 23,212 |
| | | 282,098 | 292,730 | 224,584 | 44,934 | 23,212 |

## 6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Fair value of financial instruments

The fair values of the Group's financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities are recorded at amortised cost in the consolidated financial statements approximate their fair values due to short-term maturities.

### Categories of financial instruments

| | **2008** | 2007 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| *Financial assets* | | |
| Held-for-trading investments | **31** | – |
| Available-for-sale investments | **900** | 900 |
| Loans and receivables (including cash and cash equivalents) | **511,415** | 315,085 |
| *Financial liabilities* | | |
| Other financial liabilities | **509,895** | 282,098 |

## 7. TURNOVER

Turnover represents the revenue arising on construction contracts, commission income received from agency sales transaction and amounts received and receivable for goods sold net of discounts, returns and sales related taxes. An analysis of the Group's turnover for the year is as follows:

| | **2008** **RMB'000** | 2007 RMB'000 |
|---|---|---|
| Sales of goods | **583,633** | 313,893 |
| Revenue from construction contracts | **13,848** | 9,636 |
| Commission income | **36,036** | 1,943 |
| Rental income | **6,174** | 1,770 |
| | **639,691** | 327,242 |

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS

### Business segments

For management purposes, the Group is currently organised into four (2007: four) operating divisions – automobile equipment, buses, automobile spare parts and property investment. These divisions are the bases on which the Group reports its primary segment information.

Principal activities are as follows:

| | | |
|---|---|---|
| Automobile equipment | – | manufacture and sales of automobile equipment |
| Buses | – | manufacture and sales of buses |
| Automobile spare parts | – | trading of automobile spare parts |
| Property investment | – | leasing of investment properties |

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

### Business segments (Continued)

Segment information about these businesses is presented below.

*Consolidated income statement*

For the year ended 31 December 2008

| | Automobile equipment RMB'000 | Buses RMB'000 | Automobile spare parts RMB'000 | Property investment RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| TURNOVER | 189,679 | 201,387 | 242,451 | 6,174 | 639,691 |
| RESULTS | | | | | |
| Segment results | (14,674) | 24,346 | 17,519 | 14,282 | 41,473 |
| Unallocated corporate expenses | | | | | (10,370) |
| Unallocated other revenue | | | | | 4,987 |
| Share of loss of associates | | | | | – |
| Finance costs | | | | | (17,974) |
| Profit before taxation | | | | | 18,116 |
| Taxation | | | | | (10,438) |
| Profit for the year | | | | | 7,678 |

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

### Business segments (Continued)

*Consolidated balance sheet*

At 31 December 2008

| | Automobile equipment RMB'000 | Buses RMB'000 | Automobile spare parts RMB'000 | Property investment RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Segment assets | 230,958 | 170,122 | 208,751 | 129,893 | 739,724 |
| Unallocated corporate and other assets | | | | | 174,355 |
| Consolidated total assets | | | | | 914,079 |
| LIABILITIES | | | | | |
| Segment liabilities | 150,523 | 87,398 | 99,615 | 159 | 337,695 |
| Unallocated corporate and other liabilities | | | | | 237,204 |
| Consolidated total liabilities | | | | | 574,899 |

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

### Business segments (Continued)

*Other information*

For the year ended 31 December 2008

| | Automobile equipment RMB'000 | Buses RMB'000 | Automobile spare parts RMB'000 | Property investment RMB'000 | Unallocated RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| Capital additions | **5,201** | **6,970** | **858** | **–** | **–** | **13,029** |
| Depreciation of property, plant and equipment | **5,171** | **621** | **66** | **–** | **104** | **5,962** |
| Loss on disposal of property, plant and equipment | **18** | **–** | **–** | **–** | **–** | **18** |
| Write off of property, plant and equipment | **157** | **–** | **–** | **–** | **–** | **157** |
| Amortisation of prepaid lease payments | **276** | **785** | **–** | **–** | **–** | **1,061** |
| Impairment of prepayments for investments in associates | **–** | **–** | **–** | **–** | **36** | **36** |
| Allowance for inventories | **2,055** | **–** | **–** | **–** | **–** | **2,055** |
| Recognition of expected losses for contract work | **10,160** | **–** | **–** | **–** | **–** | **10,160** |
| Allowance for trade and bills receivables | **15,340** | **–** | **–** | **–** | **–** | **15,340** |

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

### Business segments (Continued)

*Consolidated income statement*

For the year ended 31 December 2007

| | Automobile equipment RMB'000 | Buses RMB'000 | Automobile spare parts RMB'000 | Property investment RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| TURNOVER | 180,718 | 63,061 | 81,693 | 1,770 | 327,242 |
| RESULTS | | | | | |
| Segment results | 10,542 | 4,923 | 6,522 | 42,503 | 64,490 |
| Unallocated corporate expenses | | | | | (16,450) |
| Unallocated other revenue | | | | | 5,550 |
| Share of loss of an associate | | | | | (4) |
| Finance costs | | | | | (13,884) |
| Profit before taxation | | | | | 39,702 |
| Taxation | | | | | 812 |
| Profit for the year | | | | | 40,514 |

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

### Business segments (Continued)

*Consolidated balance sheet*

At 31 December 2007

| | Automobile equipment RMB'000 | Buses RMB'000 | Automobile spare parts RMB'000 | Property investment RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Segment assets | 264,040 | 110,472 | 98,343 | 98,685 | 571,540 |
| Unallocated corporate and other assets | | | | | 111,970 |
| Consolidated total assets | | | | | 683,510 |
| LIABILITIES | | | | | |
| Segment liabilities | 71,757 | 58,565 | 17,034 | – | 147,356 |
| Unallocated corporate and other liabilities | | | | | 199,769 |
| Consolidated total liabilities | | | | | 347,125 |

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

### Business segments (Continued)

*Other information*

For the year ended 31 December 2007

| | Automobile equipment RMB'000 | Buses RMB'000 | Automobile spare parts RMB'000 | Property investment RMB'000 | Unallocated RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| Capital additions | 12,433 | 14,353 | – | 19,478 | 287 | 46,551 |
| Depreciation of property, plant and equipment | 4,352 | 518 | – | – | 161 | 5,031 |
| Loss on disposal of property, plant and equipment | 180 | – | – | – | – | 180 |
| Write off of property, plant and equipment | – | – | – | – | 92 | 92 |
| Amortisation of prepaid lease payments | 458 | 786 | – | – | – | 1,244 |
| Impairment of prepayments for investments in associates | – | – | – | – | 613 | 613 |
| Reversal of allowance for inventories | (2,975) | – | – | – | – | (2,975) |
| Recognition of expected losses for contract work | 8,625 | – | – | – | – | 8,625 |
| Allowance for trade and bills receivables | 13,122 | – | – | – | – | 13,122 |

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

### 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:

| | **2008** | 2007 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| The PRC | **599,347** | 278,416 |
| Europe | **18,420** | 22,756 |
| Asia other than the PRC | **8,643** | 5,377 |
| Others | **13,281** | 20,693 |
| | **639,691** | 327,242 |

Over 90% of the carrying amount of segment assets and capital additions of the Group are located in the PRC.

## 9. OTHER REVENUE

| | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|
| Change in fair value of investment properties | **8,108** | 40,733 |
| Gross rental income from buildings | **235** | 820 |
| Sales of raw materials | **3,019** | 495 |
| Interest income on bank deposits | **2,940** | 2,451 |
| Waiver of trade payables | **3,622** | 4,946 |
| Waiver of other payables and accruals | **2,191** | 20,379 |
| Government grants (Note) | **2,053** | – |
| Recovery of impairment loss on an investment | **1,810** | – |
| Reversal of allowance for inventories | **–** | 2,975 |
| Net foreign exchange gain | **–** | 2,091 |
| Waiver of a director's emoluments | **–** | 1,536 |
| Compensation for removal | **–** | 589 |
| Gain on disposal of held-for-trading investments | **–** | 247 |
| Others | **1,783** | 1,662 |
| | **25,761** | 78,924 |

Note: Pursuant to the notices issued by the relevant government authorities, a PRC subsidiary of the Company was entitled to enjoy subsidies for business development of automobile equipment.

## 10. FINANCE COSTS

| | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|
| Interest on overdrafts, bank and other borrowings wholly repayable within five years | **14,208** | 11,708 |
| Interest on discounted bills | **3,766** | 2,176 |
| | **17,974** | 13,884 |

## 11. TAXATION

| | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|
| The taxation comprises: | | |
| PRC Enterprise Income Tax ("EIT") | | |
| – Current year | **13,768** | 770 |
| – Over-provision in prior years | **(90)** | – |
| | **13,678** | 770 |
| Hong Kong Profits Tax | | |
| – Current year | **–** | 228 |
| – Over-provision in prior years | **(210)** | – |
| | **(210)** | 228 |
| Deferred tax (Note 23) | | |
| – Current year | **(3,030)** | (1,336) |
| – Attributable to a change in tax rate | **–** | (474) |
| | **(3,030)** | (1,810) |
| | **10,438** | (812) |

On 16 March 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council issued Implementation Regulation of the New Law. The New Law and Implementation Regulation changed the tax rate of the Company's PRC subsidiaries to 25% from 1 January 2008 onwards.

In accordance with the relevant rules and regulations in the PRC, except for Yancheng Ausen Industrial Equipment Manufacture Co., Ltd. ("Ausen Industrial Equipment"), all other PRC subsidiaries are subject to EIT at a rate of 25% (2007: 24% to 33%).

## 11. TAXATION (Continued)

Pursuant to an approval document dated 20 December 2004 issued by the State Tax Bureau of Yancheng, Ausen Industrial Equipment, being a foreign investment enterprise, is qualified as a production enterprise and entitles to EIT exemption for the years 2004 and 2005 and a 50% reduction in EIT for the years from 2006 to 2008. The application of the New Tax Law has not altered the entitlement of Ausen Industrial Equipment for the preferential tax rate. The applicable income tax rate of Ausen Industrial Equipment is 12.5% (2007: 12%).

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% which is effective from the year of assessment 2008/2009. Hong Kong Profits Tax of the Company's HK subsidiaries are calculated at 16.5% (2007: 17.5%) on the estimated assessable profits for the year.

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 before taxation as per the consolidated income statement as follows:

| | **2008**<br>**RMB'000** | 2007<br>RMB'000 |
|---|---|---|
| Profit before taxation | **18,116** | 39,702 |
| Tax at the applicable tax rate of 25% (2007: 24%) | **4,529** | 9,528 |
| Net tax effect of expenses not deductible for income tax purpose | **7,705** | 4,680 |
| Net tax effect of income not taxable for income tax purpose | **–** | (10,183) |
| Tax effect of tax losses not recognised | **3,230** | 3,287 |
| Increase in opening deferred tax assets resulting from an increase in applicable tax rate | **–** | (474) |
| Effect of tax exemptions granted to PRC subsidiaries | **(91)** | (1,965) |
| Effect of different tax rates of the subsidiaries operating in other jurisdictions | **–** | (85) |
| Over provision in respect of prior year | **(300)** | – |
| Utilisation of tax losses previously not recognised | **(4,635)** | (5,600) |
| Taxation for the year | **10,438** | (812) |

## 12. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging (crediting):

| | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|
| Amortisation on prepaid lease payments | **1,061** | 1,244 |
| Auditors' remuneration | | |
| – current year | **1,321** | 1,618 |
| – over-provision in previous years | **–** | (358) |
| Allowance for trade and bills receivables | **15,340** | 13,122 |
| Allowance for inventories (included in cost of sales) | **2,055** | – |
| Allowance of prepayments and other receivables (included in administrative expenses) | **2,980** | – |
| Recognition of expected losses for contract work (included in cost of sales) | **10,160** | 8,625 |
| Change in fair value of held-for-trading investments | **69** | – |
| Net foreign exchange losses | **1,258** | – |
| Impairment of prepayments for investments in associates (included in administrative expenses) | **36** | 613 |
| Cost of inventories recognised as an expense (excluding staff costs, depreciation on property, plant and equipment and allowance for inventories) | **514,233** | 239,161 |
| Depreciation on property, plant and equipment | **5,962** | 5,031 |
| Loss on disposal of property, plant and equipment | **18** | 180 |
| Write off of property, plant and equipment (included in administrative expenses) | **157** | 92 |
| Staff costs (excluding directors' emoluments) (Note 13) | | |
| – Salaries and wages | **25,900** | 16,548 |
| – Retirement benefits scheme contributions | **2,847** | 2,813 |
| – Share-based payments | **–** | 7,418 |

## 13. 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:

| | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|
| Non-executive directors | | |
| – fees | **267** | 279 |
| Executive directors | | |
| – fees | **3,341** | 2,466 |
| – basic salaries, allowance and benefits in kind | **540** | 540 |
| – retirement benefit scheme contributions | **48** | – |
| | **4,196** | 3,285 |

(b) The emoluments paid or payable to each of the seven (2007: seven) directors are analysed as follows:

| | Directors' fees<br>RMB'000 | Basic salaries, allowance and benefits in kind<br>RMB'000 | Retirement benefit scheme contributions<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|
| **Year 2008** | | | | |
| Xu Lian Guo | **1,011** | **180** | **–** | **1,191** |
| Xu Lian Kuan | **808** | **180** | **–** | **988** |
| Zhang Yuqing | **810** | **180** | **–** | **990** |
| Kwok Ming Fai | **712** | **–** | **48** | **760** |
| Gu Yao Tian | **89** | **–** | **–** | **89** |
| Sun Ka Ziang Henry | **89** | **–** | **–** | **89** |
| Li Xinzhong | **89** | **–** | **–** | **89** |
| Total for 2008 | **3,608** | **540** | **48** | **4,196** |

## 13. DIRECTORS' EMOLUMENTS (Continued)

(b) The emoluments paid or payable to each of the seven (2007: seven) directors are analysed as follows: (Continued)

| | Directors' fees | Basic salaries, allowance and benefits in kind | Retirement benefit scheme contributions | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Year 2007** | | | | |
| Xu Lian Guo | 1,000 | 180 | – | 1,180 |
| Xu Lian Kuan | 500 | 180 | – | 680 |
| Zhang Yuqing | 500 | 180 | – | 680 |
| Kwok Ming Fai | 466 | – | – | 466 |
| Gu Yao Tian | 93 | – | – | 93 |
| Sun Ka Ziang Henry | 93 | – | – | 93 |
| Li Xinzhong | 93 | – | – | 93 |
| Total for 2007 | 2,745 | 540 | – | 3,285 |

During the year ended 31 December 2007, one of the directors, Mr. Xu Lian Guo, had waived the emoluments payable to him by the Company for the period from 1 July 2004 to 31 December 2005 amounted to approximately RMB1,536,000.

Except for Mr. Xu Lian Guo, no other directors waived or agreed to waive any emoluments in the two years ended 31 December 2008 and 2007.

No emoluments were paid to the directors as inducement to join or upon joining the Group or as compensation for loss of office in the two years ended 31 December 2008 and 2007.

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

## 14. EMPLOYEES' EMOLUMENTS

Of the five highest paid individuals in the Group, four (2007: three) are directors of the Company whose emoluments are included in the Note 13 above. The emoluments of the remaining one (2007: two) individuals were as follows:

| | **2008 RMB'000** | 2007 RMB'000 |
|---|---|---|
| Salaries and other benefits | **641** | 1,294 |
| Retirement benefit scheme contributions | **11** | 22 |
| Share-based payments | **–** | 820 |
| | **652** | 2,136 |

Their emoluments fall within the following band:

| | **Number of employees 2008** | 2007 |
|---|---|---|
| Nil – HK$1,000,000 | **1** | 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 the two years ended 31 December 2008 and 2007.

## 15. DIVIDENDS

No dividend was paid or proposed during 2008, nor has any dividend been proposed since the balance sheet date (2007: Nil).

## 16. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data.

| | **2008 RMB'000** | 2007 RMB'000 |
|---|---|---|
| Earnings for the purpose of both basic and diluted earnings per share | **16,198** | 29,811 |

## 16. EARNINGS PER SHARE (Continued)

The weighted average number of ordinary shares for the purpose of diluted earnings per share reconciled to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

| | 2008<br>'000 | 2007<br>'000 |
|---|---|---|
| Weighted average number of ordinary shares for the purposes of basic earnings per share | **529,788** | 471,527 |
| Effect of dilutive potential ordinary shares: share options | **7,095** | 14,054 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | **536,883** | 485,581 |

## 17. PROPERTY, PLANT AND EQUIPMENT

| | Buildings<br>RMB'000 | Leasehold improvements<br>RMB'000 | Plant and machinery<br>RMB'000 | Motor vehicles<br>RMB'000 | Furniture and equipment<br>RMB'000 | Construction-in-progress<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|---|---|---|
| COST | | | | | | | |
| At 1 January 2007 | 74,021 | 501 | 12,988 | 4,641 | 2,061 | 44,602 | 138,814 |
| Additions | 1,132 | 188 | 1,404 | 3,392 | 221 | 20,736 | 27,073 |
| Transfer from construction-in-progress | – | – | 171 | – | – | (171) | – |
| Reclassification as investment properties (Note 19) | (1,516) | – | – | – | – | (34,224) | (35,740) |
| Disposals/write off | (1,011) | – | (390) | (1,869) | (20) | – | (3,290) |
| Exchange adjustments | – | (69) | – | – | (3) | – | (72) |
| At 31 December 2007 | **72,626** | **620** | **14,173** | **6,164** | **2,259** | **30,943** | **126,785** |
| Additions | **2,308** | **29** | **2,243** | **1,647** | **1,165** | **5,637** | **13,029** |
| Transfer from construction-in-progress | **27,188** | **–** | **1,361** | **–** | **289** | **(28,838)** | **–** |
| Reclassification as investment properties (Note 19) | **–** | **–** | **–** | **–** | **–** | **(7,742)** | **(7,742)** |
| Disposals/write off | **(157)** | **–** | **–** | **(346)** | **(4)** | **–** | **(507)** |
| Exchange adjustments | **–** | **(30)** | **–** | **–** | **(5)** | **–** | **(35)** |
| At 31 December 2008 | **101,965** | **619** | **17,777** | **7,465** | **3,704** | **–** | **131,530** |

## 17. PROPERTY, PLANT AND EQUIPMENT (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 |
| DEPRECIATION | | | | | | | |
| At 1 January 2007 | 11,425 | 501 | 8,211 | 1,676 | 731 | – | 22,544 |
| Charge for the year | 2,581 | 94 | 1,000 | 848 | 508 | – | 5,031 |
| Elimination on disposals | (485) | – | (283) | (589) | (20) | – | (1,377) |
| Reclassification as investment properties (Note 19) | (743) | – | – | – | – | – | (743) |
| Exchange adjustments | – | (65) | – | – | (1) | – | (66) |
| At 31 December 2007 | **12,778** | **530** | **8,928** | **1,935** | **1,218** | **–** | **25,389** |
| Charge for the year | **3,476** | **88** | **855** | **1,130** | **413** | **–** | **5,962** |
| Eliminated on disposals | **–** | **–** | **–** | **(27)** | **–** | **–** | **(27)** |
| Exchange adjustments | **–** | **(26)** | **–** | **–** | **(1)** | **–** | **(27)** |
| At 31 December 2008 | **16,254** | **592** | **9,783** | **3,038** | **1,630** | **–** | **31,297** |
| NET CARRYING VALUES | | | | | | | |
| At 31 December 2008 | **85,711** | **27** | **7,994** | **4,427** | **2,074** | **–** | **100,233** |
| At 31 December 2007 | 59,848 | 90 | 5,245 | 4,229 | 1,041 | 30,943 | 101,396 |

The above items of property, plant and equipment, other than construction-in-progress, are depreciated on a straight-line basis, after taking into account of their estimated residual values, 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 lease, if shorter | Nil |
| Plant and machinery | 10 years | 10% |
| Motor vehicles | 5 years | 0% – 10% |
| Furniture and equipment | Up to 7 years | 0% – 10% |

All buildings of the Group were located in the PRC and held under medium-term leases.

## 17. PROPERTY, PLANT AND EQUIPMENT (Continued)

At 31 December 2008, the building reality certificates of certain buildings have not been granted by the relevant government authorities with the aggregate values of approximately RMB64,780,000 (2007: RMB38,170,000). In the opinion of the directors, the absence of building reality certificates to these buildings does not impair the value of the relevant buildings to the Group.

During the year ended 31 December 2008, the Group leased certain of its buildings in the PRC with net carrying value of approximately RMB4,452,000 (2007: RMB29,107,000) for rental income under operating lease.

Details of the property, plant and equipment pledged are set out in Note 36.

## 18. PREPAID LEASE PAYMENTS

| | **2008**<br>**RMB'000** | 2007<br>RMB'000 |
|---|---|---|
| Net carrying value at 1 January | **56,873** | 59,798 |
| Reclassification as investment properties (Note 19) | **(12,328)** | (1,681) |
| Amortisation charge for the year | **(1,061)** | (1,244) |
| Net carrying value at 31 December | **43,484** | 56,873 |
| Leasehold land in the PRC: | | |
| Medium-term lease | **43,484** | 56,873 |

The Group's prepaid lease payments complies land in the PRC under medium-term leases.

| | **2008**<br>**RMB'000** | 2007<br>RMB'000 |
|---|---|---|
| Analysed for reporting purposes as: | | |
| Current asset | **970** | 1,244 |
| Non-current asset | **42,514** | 55,629 |
| | **43,484** | 56,873 |

Details of the prepaid lease payments pledged are set out in Note 36.

## 19. INVESTMENT PROPERTIES

| | RMB'000 |
|---|---|
| FAIR VALUE | |
| At 1 January 2007 | – |
| Additions | 19,478 |
| Reclassifications | |
| – from property, plant and equipment and prepaid lease payments at carrying amounts (Notes 17 & 18) | 36,678 |
| – fair value change upon date of transfer | 28,542 |
| Increase in fair value in the consolidated income statement | 12,191 |
| At 31 December 2007 | **96,889** |
| Reclassifications | |
| – from property, plant and equipment and prepaid lease payments at carrying amounts (Notes 17 & 18) | **20,070** |
| – fair value change upon date of transfer | **5,551** |
| Increase in fair value in the consolidated income statement | **2,557** |
| Exchange adjustment | **(1,508)** |
| At 31 December 2008 | **123,559** |

The fair values of the Group's investment properties at 31 December 2008 and 2007 have been arrived at on the basis of a valuation carried out on that date by Castores Magi (Hong Kong) Limited, an independent qualified professional valuer not connected to the Group. Castores Magi (Hong Kong) Limited is a member of the Institute of Valuers, and has appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of recent transaction prices for similar properties in the same locations and conditions.

All of the Group's properties interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties. Gross rental income generated from the investment properties during the year amounted to approximately RMB6,333,000 (2007: RMB1,770,000).

## 19. INVESTMENT PROPERTIES (Continued)

The carrying value of investment properties shown above comprises:

| | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|
| In Hong Kong under medium-term lease | **24,108** | 31,669 |
| In the PRC under medium-term lease | **99,451** | 65,220 |
| | **123,559** | 96,889 |

Details of the investment properties pledged are set out in Note 36.

## 20. INVESTMENTS IN ASSOCIATES

| | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|
| Cost of investment in unlisted associates | **4** | 4 |
| Share of post-acquisition loss | **(4)** | (4) |
| | **–** | – |

As at 31 December 2008 and 2007, the Group had interest in the following associates:

| Name of entity | Place of incorporation/ operation | Class of share held | Issued and fully paid registered capital | Group effective interest | Principal activities |
|---|---|---|---|---|---|
| Zhongda EMS Limited | Hong Kong | Ordinary share capital | HK$10,000 | 40% | Trading of environmental detergents for the automobile industry |
| 鹽城中大億美清洗設備有限公司 ("鹽城中大億美") | PRC | Contributed capital | HK$1,000,000 | 40% | Trading of environmental detergents for the automobile industry in the PRC |

## 20. INVESTMENTS IN ASSOCIATES (Continued)

The summarised financial information in respect of the Group's associates are set out below:

| | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|
| Total assets | **989** | 1,060 |
| Total liabilities | **(1,392)** | (1,395) |
| Net liabilities | **(403)** | (335) |
| Group's share of net liabilities of associates | **–** | – |
| Revenue | **234** | 131 |
| Loss for the year | **(85)** | (344) |
| Group's share of result of associates for the year | **–** | (4) |

The Group has discontinued recognition of its share of loss of these associates. The amounts of unrecognised share of loss of these associates, extracted from the relevant management accounts of the associates, both for the year and cumulatively, are as follows:

| | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|
| Unrecognised share of loss of associates for the year | **34** | 134 |
| Accumulated unrecognised share of losses of associates | **168** | 134 |

## 21. PREPAYMENTS FOR INVESTMENTS IN ASSOCIATES

| | **2008** **RMB'000** | 2007 RMB'000 |
|---|---|---|
| At 1 January | **474** | 1,087 |
| Addition | **18,460** | – |
| Impairment recognised in the consolidated income statement | **(36)** | (613) |
| At 31 December | **18,898** | 474 |

On 24 July 2008, Ausen Industrial Equipment has entered into an Equity Transfer Agreement (the "Agreement") with Zhongda Industrial Group Corporation ("Zhongda Industrial Group"), a related company, for the acquisition of 20% equity interests of Yancheng Zhongwei Bus Manufacturing Company Limited ("Zhongwei Bus") for the consideration of approximately RMB18,460,000 (equivalent to HK$21,000,000). The consideration was paid by Ausen Industrial Equipment to Zhongda Industrial Group on 9 October 2008. Since the conditions as set out in the Agreement have not been fully fulfilled as at 31 December 2008, the amount paid is regarded as prepayments for investments in associates in the consolidated balance sheet.

Besides, the Group had made a prepayment of approximately RMB1,087,000 to Yancheng Zhongda Ceccato Washing Systems Co., Ltd. ("Zhongda Ceccato") in 2006, 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 2008, the relevant company has not yet commenced its business and no further capital injection has been made by the Group.

## 22. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

| | **2008** **RMB'000** | 2007 RMB'000 |
|---|---|---|
| Unlisted equity securities | **900** | 900 |
| Analysed for reporting purposes as: | | |
| Non-current assets | **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.

## 23. DEFERRED TAXATION

The following are the major deferred tax assets (liabilities) recognised and movements thereon during the current and prior years:

| | Allowance for trade and bills receivables RMB'000 | Allowance for prepayments and other receivables RMB'000 | Recognition of expected losses for contract work RMB'000 | Allowance for inventories RMB'000 | Accelerated depreciation RMB'000 | Change in fair value of properties RMB'000 | Estimated tax losses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2007 | 13,310 | – | 2,035 | 1,769 | (1,494) | – | – | 15,620 |
| Effect on change in tax rate | 417 | – | 85 | 74 | (102) | – | – | 474 |
| Credited (charged) to consolidated income statement for the year (Note 11) | (12) | – | 2,156 | (730) | (78) | – | – | 1,336 |
| At 31 December 2007 | **13,715** | **-** | **4,276** | **1,113** | **(1,674)** | **-** | **-** | **17,430** |
| Credited (charged) to consolidated income statement for the year (Note 11) | **3,835** | **745** | **2,540** | **514** | **937** | **(10,676)** | **5,135** | **3,030** |
| At 31 December 2008 | **17,550** | **745** | **6,816** | **1,627** | **(737)** | **(10,676)** | **5,135** | **20,460** |

At the balance sheet date, the Company's subsidiaries in the PRC had an aggregate amount of unused tax losses of approximately RMB5,082,000 (2007: RMB31,244,000) available to offset against future profits. No deferred tax asset has been recognised in respect of these tax losses due to the unpredictability of future profit streams of those subsidiaries. Pursuant to the relevant laws and regulations in the PRC, the unutilised tax losses can be carried forward for a period of five years from the date of occurrence. Losses amounting to approximately RMB163,000 (2007: RMB 4,018,000) will expire in next year end date.

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been set off. The following is the analysis of the deferred tax balances for financial reporting purposes:

| | **2008 RMB'000** | 2007 RMB'000 |
|---|---|---|
| Deferred tax assets | **32,188** | 19,405 |
| Deferred tax liabilities | **(11,728)** | (1,975) |
| | **20,460** | 17,430 |

## 24. INVENTORIES

| | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|
| Raw materials | **26,315** | 17,742 |
| Work in progress | **27,866** | 26,356 |
| Finished goods | **4,400** | 4,638 |
| | **58,581** | 48,736 |

For the year ended 31 December 2007, there was a significant increase in the net realisable value of raw materials due to market shortage in raw materials. As a result, a reversal of write-down of raw materials of approximately RMB2,975,000 was recognised in that year.

## 25. AMOUNTS DUE FROM RELATED COMPANIES

Amounts due from related companies disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

| | Notes | 2008 RMB'000 | 2007 RMB'000 | Maximum amounts owed to the Group during the year RMB'000 |
|---|---|---|---|---|
| Zhongwei Bus [1] | i & ii | **208,468** | 101,068 | **208,480** |
| Yancheng Zhongda Automobile Service Co., Ltd. [1] | i & ii | **10** | 4 | **10** |
| Zhongda Industrial Group [1] | i & iii | **14,867** | 14,473 | **14,867** |
| Yancheng Zhongda International Trading Co., Ltd. ("International Trading") [1] | i & ii | **39,766** | 3,321 | **223,979** |
| Nanjing Jinlin Double-decker Bus Manufacture Co. ("Nanjing Jinling") [3] | i & ii | **6,926** | 4,990 | **6,994** |
| Yancheng Celette Body Repairing Equipment Co., Ltd. ("Yancheng Celette") [2] | i & ii | **177** | – | **594** |
| Yancheng Zhongda Sankyo Automobile Equipment Co., Ltd. ("Zhongda Sankyo") [4] | i & ii | **–** | 10 | **166** |
| 鹽城市上通汽車銷售有限公司 ("上通汽車")[5] | i & ii | **165** | – | **165** |
| Ausen Co., Ltd.[5] | i & ii | **–** | 82 | **82** |
| | | **270,379** | 123,948 | |

## 25. AMOUNTS DUE FROM RELATED COMPANIES (Continued)

[1] Xu Lian Guo and Xu Lian Kuan are the common directors with beneficial interests.

[2] Xu Lian Guo and Xu Lian Kuan are the common directors.

[3] It is a subsidiary of Jiangsu Jinling Transportation Group Co., Ltd, which is the shareholder of Nanjing Zhongda Jinling Double-decker Bus Manufacture Company Limited, a subsidiary of the Company.

[4] Xu Lian Kuan is the common director.

[5] It is a subsidiary of Zhongda Industrial Group.

Notes:

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

(ii) The amount is mainly trading in nature.

(iii) The amount mainly represented cash received on behalf of the Group.

## 26. AMOUNT DUE FROM AN ASSOCIATE

Amount due from an associate disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance is as follows:

| | **Zhongda EMS Limited** |
|---|---|
| | RMB'000 |
| Balance as at 31 December 2008 | **705** |
| Balance as at 31 December 2007 | – |
| Maximum amount owed to the Group during the year ended 31 December 2008 | 705 |

The amount is unsecured, interest-free and repayable on demand.

## 27. TRADE AND BILLS RECEIVABLES

| | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|
| Trade receivables | **164,409** | 137,451 |
| Less: Allowance for bad and doubtful debts | **(70,206)** | (54,866) |
| | **94,203** | 82,585 |
| Bills receivables | **1,515** | 2,670 |
| | **95,718** | 85,255 |

The Group allows credit period ranging from 30 to 180 days to its trade customers. The following is an aged analysis of trade receivables net of allowance for bad and doubtful debts at the reporting date:

| | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|
| 0 – 180 days | **68,383** | 56,893 |
| 181 – 365 days | **8,886** | 6,083 |
| 1 – 2 years | **10,199** | 19,494 |
| Over 2 years | **6,735** | 115 |
| Total | **94,203** | 82,585 |

Included in the Group's trade receivables are debtors with an aggregate carrying amount of approximately RMB58,906,000 (2007: RMB62,261,000) which are past due at the reporting date for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

## 27. TRADE AND BILLS RECEIVABLES (Continued)

Ageing of trade receivables which are past due but not impaired is as follows:

| | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|
| 0 – 180 days | **33,086** | 36,569 |
| 181 – 365 days | **8,886** | 6,083 |
| 1 – 2 years | **10,199** | 19,494 |
| Over 2 years | **6,735** | 115 |
| Total | **58,906** | 62,261 |

The Group's neither past due nor impaired trade receivables mainly represent sales made to sale agents which widely spread over different locations in the PRC. They usually settled the accounts in accumulated amounts thereby lengthen the age of these receivables. In this regards, sales are required to be made to recognised and creditworthy customers. These customers who trade on credit terms are subject to credit verification procedures.

In determining the recoverability of a trade receivable, the Group considers any change in credit quality of the trade receivable from the date credit was initially granted up to the reporting date. In view of the good settlement repayment history from the debtors of the Group, the directors consider that there is no further credit provision required in excess of the impairment loss recognised for the year.

| | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|
| Balance at beginning of the year | **54,866** | 41,744 |
| Allowance recognised during the year | **15,340** | 13,122 |
| Balance at end of the year | **70,206** | 54,866 |

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

| | **2008** **RMB'000** | 2007 RMB'000 |
|---|---|---|
| Contracts in progress at the balance sheet date: | | |
| Contract costs incurred plus recognised profits less recognised losses | **53,039** | 176,356 |
| Less: progress payments | **(40,154)** | (161,250) |
| | **12,885** | 15,106 |
| Analysed for reporting purposes as: | | |
| Amounts due from customers for contract work | **13,953** | 25,594 |
| Amounts due to customers for contract work | **(1,068)** | (10,488) |
| | **12,885** | 15,106 |

At 31 December 2008, retentions held by customers for contract works amounted to approximately RMB4,737,000 (2007: RMB6,614,000). There was no advance received from customers for contract work as at 31 December 2008 and 2007.

## 29. HELD FOR TRADING INVESTMENTS (OTHER THAN DERIVATIVES)

| | **2008** **RMB'000** | 2007 RMB'000 |
|---|---|---|
| Listed securities | | |
| – equity securities listed in Hong Kong | **31** | – |

Fair values of the above listed equity securities are determined with reference to quoted market bid prices available on the Stock Exchange.

## 30. PREPAYMENTS AND OTHER RECEIVABLES

| | **2008** | 2007 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Advances to sales representatives | **9,189** | 9,821 |
| Prepayments | **905** | 902 |
| Deposit paid | **9,932** | 17,256 |
| Other receivables | **6,531** | 6,220 |
| | **26,557** | 34,199 |

Recoverability of prepayments and other receivables is assessed on individual basis. At the balance sheet dates, management assesses each of the outstanding balance of prepayments and other receivables to determine whether impairment loss has been adequately provided for, taking into account their credit position, repayment history and age of the amount owing to the Group.

*Movements in the allowance for prepayments and other receivables*

| | **2008** | 2007 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Balance at beginning of the year | **9,681** | 9,681 |
| Allowance recognised during the year | **2,980** | – |
| Balance at end of the year | **12,661** | 9,681 |

Allowance for prepayments and other receivables recognised during the year represent an amount advanced to a customer in previous year. In view of its financial difficulty, management considers that the recoverability of the relevant amount is remote and full impairment has been made.

## 31. RESTRICTED DEPOSIT PLACED IN A FINANCIAL INSTITUTION/PLEDGED BANK DEPOSIT/RESTRICTED BANK BALANCES/BANK BALANCES/BANK OVERDRAFTS

### Restricted deposit placed in a financial institution

At 31 December 2008 and 2007, restricted deposit placed in a financial institution represented deposit required and restricted by 南京市六合區農村信用合作聯社 in respect of the issue of trade bills to certain suppliers. The deposit carried interest at market rate of 0.72% (2007: 0.5%) per annum, and will be released upon the completion of the respective transactions. The deposit is denominated in RMB.

### Pledged bank deposit

At 31 December 2008 and 2007, pledged bank deposit represented deposit pledged to a bank to secure the bank overdraft facility granted to a PRC subsidiary of the Company of RMB10,149,000 (2007: RMB9,165,000). This deposit is denominated in HK$ and carried interest at market rate of 0.01% (2007: 2.0%) per annum.

### Restricted bank balances

At 31 December 2008 and 2007, restricted bank balances represented deposits required and restricted by banks in respect of the issue of trade bills to certain suppliers. The balances carried interest at market rates which ranged from 1.98% to 3.78% (2007: 2.43% to 3.78%) per annum, and will be released upon the completion of the respective transactions. All the restricted bank balances are denominated in RMB.

### Bank balances

Bank balances carried interest at market rates which ranged from 0.01% to 0.72% per annum for the year ended 31 December 2008 (2007: 0.01% to 3.6%).

At 31 December 2008, bank balances of approximately RMB20,000 (2007: RMB2,889,000), RMB13,511,000 (2007: RMB25,857,000) and RMB82,000 (2007: RMB3,745,000) were denominated in USD, HK$ and Euro respectively.

### Bank overdrafts

Bank overdrafts carried interest at market rates which ranged from 5.31% to 7.47% (2007: 6.21% to 6.57%) per annum for the year ended 31 December 2008. All bank overdrafts are denominated in RMB and secured by a pledged bank deposit of approximately RMB10.1 million (2007: RMB16.2 million).

## 32. TRADE AND BILLS PAYABLES

The following is an aged analysis of trade and bills payables at the balance sheet date:

| | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|
| Within six months | **136,662** | 50,509 |
| Over six months but less than one year | **9,725** | 6,971 |
| Between one and two years | **5,617** | 1,815 |
| Between two and three years | **1,002** | 2,717 |
| More than three years | **–** | 1,253 |
| | **153,006** | 63,265 |
| Bills payable | **112,175** | 19,963 |
| | **265,181** | 83,228 |

The average credit period on purchases of goods ranges from 1 to 6 months. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

At 31 December 2008, the Group's bills payable was supported by restricted deposit placed in a financial institution of RMB5,000,000 (2007: RMB15,802,000) and restricted bank balances of approximately RMB82,647,000 (2007: RMB4,161,000).

## 33. OTHER PAYABLES AND ACCRUALS

| | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|
| Accrued expenses | **9,412** | 2,890 |
| Other payables | **14,249** | 12,835 |
| Other tax payable | **11,997** | 10,582 |
| | **35,658** | 26,307 |

## 34. AMOUNTS DUE TO AN ASSOCIATE/RELATED COMPANIES/DIRECTORS

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

## 35. LOAN FROM ULTIMATE HOLDING COMPANY

The loan is unsecured, interest-free and repayable on demand.

## 36. BANK AND OTHER BORROWINGS

| | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|
| Bank borrowings | | |
| Secured | **77,690** | 64,780 |
| Unsecured | **77,770** | 73,220 |
| | **155,460** | 138,000 |
| Other borrowings – secured | **20,000** | 20,000 |
| | **175,460** | 158,000 |
| Carrying amounts repayable: | | |
| On demand or within one year | **175,460** | 138,000 |
| More than one year, but not exceeding two years | **–** | 20,000 |
| | **175,460** | 158,000 |
| Less: Amounts due within one year shown under current liabilities | **(175,460)** | (138,000) |
| | **–** | 20,000 |

Details of securities and guarantees in respect of the bank borrowings of the Group at 31 December 2008 were as follows:

(a) The loans with an aggregate principal amount of approximately RMB57.7 million were secured by the Group's land use rights with net carrying value of approximately RMB6.5 million, buildings with net carrying value of approximately RMB12.5 million and investment properties with fair value of approximately RMB87.9 million.

(b) The loan with a principal amount of RMB20 million was secured by the Group's land use rights with net carrying value of approximately RMB0.8 million, buildings with net carrying value of approximately RMB4.1 million and investment properties with fair value of approximately RMB35.4 million, and guarantee given by Zhongwei Bus.

## 36. BANK AND OTHER BORROWINGS (Continued)

(c) The loans with an aggregate principal amount of approximately RMB11.2 million were guaranteed by 江蘇恒達毛皮有限責任公司, an independent third party to the Group.

(d) The loan with a principal amount of approximately RMB23.4 million was secured by the land use rights and buildings of Zhongda Industrial Group, a company in which Mr. Xu Lian Guo and Mr. Xu Lian Kuan have beneficial interests.

At 31 December 2008, the Group has bank borrowings of approximately RMB43.2 million which are neither secured nor guaranteed.

At 31 December 2008, the Group has obtained a loan of RMB20 million from 南京市六合區農村信用合作聯社 which was secured by land use rights of the Group with net carrying value of approximately RMB36.2 million.

As at 31 December 2008, the Group's bank and other borrowings were subject to variable interest rates ranging from 1.25% to 9.71% per annum.

Except for a bank borrowing of approximately RMB2.3 million which are denominated in HK$, all other borrowings as disclosed above are denominated in RMB. The above borrowings expose the Group to cash flow interest rate risk.

Details of securities and guarantees in respect of the bank borrowings of the Group at 31 December 2007 were as follows:

(a) The loans with an aggregate principal amount of approximately RMB64.8 million were secured by land use rights and buildings of the Group with an aggregate net carrying value of approximately RMB68 million.

(b) The borrowings with an aggregate principal amount of RMB13 million were guaranteed by Zhongwei Bus, a company in which Mr. Xu Lian Guo and Mr. Xu Lian Kuan have beneficial interests.

(c) The borrowing with a principal amount of RMB23 million was secured by the land use rights and buildings of Zhongda Industrial Group, a company in which Mr. Xu Lian Guo and Mr. Xu Lian Kuan have beneficial interests.

(d) The borrowing with a principal amount of RMB6.2 million was guaranteed by 江蘇恒達毛皮有限責任公司, an independent third party to the Group.

At 31 December 2007, the Group had bank borrowing of approximately RMB31 million which were neither secured nor guaranteed.

## 36. BANK AND OTHER BORROWINGS (Continued)

At 31 December 2007, the Group had obtained a borrowing of RMB20 million from 南京市六合區農村信用合作聯社 which was secured by land use rights of the Group with net carrying value of approximately RMB37 million.

As at 31 December 2007, the Group's bank and other borrowings were subject to variable interest rates ranging from 6.90% to 8.75% per annum.

## 37. SHARE CAPITAL

| | Number of shares | HK$'000 | Equivalent to RMB'000 |
|---|---|---|---|
| *Authorised:* | | | |
| Ordinary shares of HK$0.1 each | **1,000,000,000** | **100,000** | |
| *Issued and fully paid:* | | | |
| Ordinary shares of HK$0.1 each at 1 January 2007 | **400,004,000** | **40,000** | **42,386** |
| Placing of new shares (i) | **110,000,000** | **11,000** | **10,801** |
| Exercise of share options (ii) | **20,000,200** | **2,000** | **1,938** |
| At 31 December 2007 | **530,004,200** | **53,000** | **55,125** |
| Repurchase of shares (iii) | **(584,000)** | **(58)** | **(51)** |
| At 31 December 2008 | **529,420,200** | **52,942** | **55,074** |

## 37. SHARE CAPITAL (Continued)

(i) Placing of new shares:

On 17 May 2007, 80,000,000 ordinary shares of HK$0.1 each were issued and allotted to an independent placing agent at the placing price of HK$0.82 each. Net proceeds from the placing of new shares, after deducting all related expenses, were approximately HK$59,368,000 (equivalent to approximately RMB58,418,000).

On 26 June 2007, 30,000,000 ordinary shares of HK$0.1 each were issued and allotted to an independent placing agent at the placing price of HK$2.13 each. Net proceeds from the placing of new shares, after deducting all related expenses, were approximately HK$55,720,000 (equivalent to approximately RMB54,411,000).

Proceeds from the above new issues of shares had been used for the Group's general working capital requirements and for potential investments.

(ii) Exercise of share options

Details of the Company's share option scheme and the share options issued under the scheme are included in Note 42.

All the above shares rank pari passu in all respects with other shares in issue.

(iii) Repurchase of shares

During the year ended 31 December 2008, the Company repurchased its own shares through the Stock Exchange as follow:

| Month of repurchase | No. of ordinary shares at HK$0.1 each | Price per share Highest HK$ | Price per share Lowest HK$ | Consideration paid HK$'000 |
|---|---|---|---|---|
| August 2008 | **528,000** | **0.26** | **0.20** | **125** |
| November 2008 | **56,000** | **0.16** | **0.16** | **9** |
| | **584,000** | | | **134** |

## 37. SHARE CAPITAL (Continued)

(iii) Repurchase of shares (Continued)

The above shares were cancelled upon repurchase at total consideration of HK$134,000 (approximately RMB118,000) and accordingly, the issued capital of the Company was reduced by the nominal value thereof. The premium payable on repurchase was charged against the share premium account of the Company as set out in the consolidated statement of changes in equity.

None of the Company's subsidiaries repurchased, sold or redeemed any of the Company's listed shares during the year.

## 38. OPERATING LEASES

### The Group as lessor

Property rental income earned during the year was approximately RMB6,568,000 (2007: RMB2,590,000). The properties are expected to generate rental yield of 6.3% (2007: 2.7%) on an ongoing basis. Lease and rentals are negotiated and fixed for an average of two to three years (2007: two to three years).

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease receipts:

| | **2008**<br>**RMB'000** | 2007<br>RMB'000 |
|---|---|---|
| Within one year | **8,180** | 3,180 |
| In the second to fifth year inclusive | **1,842** | 3,180 |
| | **10,022** | 6,360 |

### The Group as lessee

| | **2008**<br>**RMB'000** | 2007<br>RMB'000 |
|---|---|---|
| Minimum lease payments in respect of rented premises paid under operating leases during the year | **699** | 809 |

## 38. OPERATING LEASES (Continued)

### The Group as lessee (Continued)

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | **2008** **RMB'000** | 2007 RMB'000 |
|---|---|---|
| Within one year | **381** | 350 |
| In the second to fifth year inclusive | **392** | 842 |
| | **773** | 1,192 |

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for an average term of two years (2007: three to four years) and rentals are fixed during the relevant lease periods.

## 39. COMMITMENTS

| | **2008** **RMB'000** | 2007 RMB'000 |
|---|---|---|
| Commitments contracted but not provided for in respect of | | |
| Capital contribution on investment in an associate | **4,189** | 4,831 |
| Acquisition of land use rights and buildings | **11,128** | 15,757 |
| | **15,317** | 20,588 |

## 40. RELATED PARTY TRANSACTIONS

Apart from the balances with related parties disclosed in the consolidated balance sheet and Notes 21, 25, 26, 34 and 35, the Group also entered into the following transactions with its related parties:

| | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|
| Transactions with Zhongda Industrial Group | | |
| – Service fee expense (a) | **750** | 750 |
| – Patent fee expense (b) | **200** | 200 |
| – Trademark fee expense (c) | **150** | 150 |
| – Rental expense for office premises (d) | **100** | 100 |
| Transactions with Yancheng Celette | | |
| – Purchase of products and raw materials | **7,270** | 10,244 |
| – Sales of products and raw materials (e) | **6,289** | 972 |
| Transactions with Zhongwei Bus | | |
| – Sales of products and raw materials (e) | **237,363** | 81,693 |
| – Purchase of finished goods | **3,057** | – |
| – Purchase of raw materials | **1** | – |
| – Rental income for investment properties (f) | **6,333** | 1,770 |
| Transactions with Jiangsu Jinling Transportation Group Co., Ltd. [1] | | |
| – Rental income for property, plant and equipment | **–** | 400 |
| Transactions with Nanjing Jinling | | |
| – Purchase of raw materials | **–** | 4,891 |
| – Management fee income | **–** | 1,324 |
| Transactions with International Trading | | |
| – Sales of products (g) | **4,000** | 1,481 |
| – Sales commission income (h) | **37,933** | – |
| – Consultancy fee income | **–** | 878 |

## 40. RELATED PARTY TRANSACTIONS (Continued)

| | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|
| Transaction with 江蘇中大汽車銷售有限公司[2] | | |
| – Consultancy fee income | **–** | 290 |
| Transaction with 中大汽車產業集團有限公司[2] | | |
| – Consultancy fee income | **–** | 775 |
| Transaction with Zhongda Sankyo | | |
| – Purchase of raw materials | **87** | 115 |
| Transaction with Jiangsu Sankyo Automobile Equipment Co., Ltd.[3] | | |
| – Rental expense for office premises | **300** | 275 |
| Transaction with 上通汽車 | | |
| – Sales of raw materials | **10** | – |
| Transaction with Ausen Co., Ltd. | | |
| – Sales of products | **–** | 767 |
| Transaction with 鹽城中大億美 | | |
| – Sales of raw materials | **33** | – |

1 It is a minority shareholder of a subsidiary of the Company.

2 Xu Lian Guo and Xu Lian Kuan are common director.

3 Xu Lian Kuan is a common director.

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 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 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.

## 40. RELATED PARTY TRANSACTIONS (Continued)

(c) Pursuant to a trademark agreement dated 31 August 2001, Zhongda Industrial Group 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 commenced 1 June 2006.

(e) The prices were determined based on the actual cost of production plus a profit margin of approximately nine per cent in respect of sales of raw materials to Zhongwei Bus and Yancheng Celette.

(f) Pursuant to rental agreements, two of the Company's subsidiaries rented out their investment properties to Zhongwei Bus for rental income under operating lease at RMB250,000 per month for a period of three years commenced on 12 July 2007 and at RMB5,000,000 per annum for a period of twenty months commenced on 1 May 2008.

(g) The prices were determined based on the actual cost of production plus a profit margin of approximately seven per cent in respect of sales of products to International Trading.

(h) The agency commission income is charged at fixed percentage on the actual agency sales amount by Yancheng Zhongda International Trading Co., Ltd.

Zhongwei Bus has given its corporate guarantee to a bank for certain bank borrowings granted to a subsidiary of the Company to the extent of RMB13 million (2007: RMB24.1 million).

Zhongda Industrial Group has pledged certain of its land use rights and buildings to a bank to secure a bank borrowing granted to a subsidiary of the Company to the extent of approximately RMB23.4 million (2007: RMB23 million). At 31 December 2008, RMB650,000 (2007: RMB1,000,000) of the relevant bank borrowing was unutilised.

## 41. RETIREMENT BENEFITS SCHEME

The employees of the Group 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% (2007: 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 required contributions under the scheme.

## 41. RETIREMENT BENEFITS SCHEME (Continued)

The Group participates in a retirement benefits scheme, which was registered under the Mandatory Provident Fund Scheme Ordinance (the "MPF Ordinance"), for all its employees in Hong Kong. The scheme is a defined contribution scheme effective from December 2000 and is funded by contributions from employer and employees according to the provisions of the MPF Ordinance. The employer's contributions vested fully with the employees when contributed into the scheme. The only obligation of the Group with respect to the scheme is to make the specified contributions.

The total cost charged to the consolidated income statement of approximately RMB2,847,000 (2007: RMB2,813,000) represents contributions payable to the retirement schemes by the Group.

## 42. SHARE-BASED PAYMENT TRANSACTIONS

### Equity-settled share option scheme

The Company's share option scheme (the "Scheme") was approved and adopted by the Company on 31 May 2007 for the primary purpose of providing incentives to directors and eligible persons. Under the Scheme, the Board of Directors of the Company (the "Directors") may, at their discretion, grant to any eligible person as defined under the Scheme to take up options to subscribe for shares of the Company at a subscription price to be determined by the Directors and notified to eligible person but in any case shall not be less than the highest of (1) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of the grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities; (2) the average of closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant; or (3) the nominal value of a share. Upon acceptance of the share option, the grantee shall pay HK$1 to the Company by way of consideration for the grant. The maximum number of shares which may be allotted and issued upon the exercise of all options to be granted under the Scheme and any other share option scheme of the Company must not in aggregate exceed 10% of the ordinary shares in issue as at the date of passing the relevant resolution adopting the Scheme. Moreover, the ordinary shares which may be issued upon exercise of all outstanding options granted and yet to be exercise under the Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the shares in issue from time of time. An option may be exercised in accordance with the terms of the Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date.

During the year ended 31 December 2007, the Company terminated the share option scheme approved and adopted on 8 October 2001 (the "Old Scheme").

## 42. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

### Equity-settled share option scheme (Continued)

Under the Old Scheme, the maximum number of shares which may be issued shall not in aggregate exceed 40,000,400 shares. The Directors may, at their discretion, invite any executive and/or employees 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 quotation 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 quotation sheet for the five business days immediately preceding the date of grant, and (iii) the par value of the shares. During the year ended 31 December 2007, a total of 40,000,400 share options have been granted to eligible employees.

Details of specific categories of options are as follows:

| | Date of grant | Vesting period | Exercise period | Exercise price |
|---|---|---|---|---|
| Jan 2007 | 11/1/2007 | N/A | 11/1/2007 to 10/7/2012 | HK$0.179 |
| Feb 2007 (1) | 5/2/2007 | N/A | 5/2/2007 to 4/8/2012 | HK$0.465 |
| Feb 2007 (2) | 13/2/2007 | N/A | 13/2/2007 to 12/8/2012 | HK$0.627 |

## 42. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The following table discloses movements of the Company's share options held by employees during the two years ended 31 December 2008 and 2007:

| Option type | Outstanding at 1/1/2007 | Granted during year | Exercised during year | Forfeited/ expired during year | Outstanding at 31/12/2007 and 31/12/2008 |
|---|---|---|---|---|---|
| Jan 2007 | – | 24,000,240 | (12,000,120) | – | 12,000,120 |
| Feb 2007 (1) | – | 4,000,040 | – | – | 4,000,040 |
| Feb 2007 (2) | – | 12,000,120 | (8,000,080) | – | 4,000,040 |
| | – | 40,000,400 | (20,000,200) | – | 20,000,200 |
| Exercisable at end of the year | | | | | 20,000,200 |
| Weighted average exercise price | – | HK$0.342 | HK$0.358 | – | HK$0.326 |

At 31 December 2008, the outstanding options entitling by the eligible persons under the Old scheme to subscribe for an aggregate of 20,000,200 shares, representing approximately 3.8% (2007: 3.8%) of total issued share capital of the Company.

During the year ended 31 December 2007, options were granted on 11 January, 5 February and 13 February. The estimated fair values of the options granted on those dates are approximately RMB2,459,000, RMB1,016,000 and RMB4,031,000 respectively.

These fair values were calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

| Date of grant | 11 January 2007 | 5 February 2007 | 13 February 2007 |
|---|---|---|---|
| Spot Price | HK$0.2 | HK$0.465 | HK$0.62 |
| Exercise Price | HK$0.179 | HK$0.465 | HK$0.62 |
| Risk-free interest rate | 3.693% | 4.172% | 4.287% |
| Expected life of the options | 3 years | 3 years | 3 years |
| Expected volatility | 75.5% | 81.08% | 82.62% |
| Expected dividend yield | Nil | Nil | Nil |

## 42. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The expected volatility is based on the historical volatility of the Company's share price, adjusted for any expected changes to future volatility based on publicly available information. The expected life used in the model has been adjusted based on management's best estimate.

The Group did not recognise any employee benefit expenses for the year ended 31 December 2008 (2007: RMB 7,418,000) in relation to share options granted by the Company.

Upon termination of the Old Scheme on 31 May 2007, no further options can be granted under the Old Scheme but it will in all other respects remain in force to the extent necessary to give effect to the exercise of the outstanding options prior to the termination of the Old Scheme. The Old Scheme will continue to be valid and exercisable in accordance with the provisions of the Old Scheme.

## 43. SUMMARISED BALANCE SHEET OF THE COMPANY

| | Notes | **2008 RMB'000** | 2007 RMB'000 |
|---|---|---|---|
| Investments in subsidiaries | | **30,387** | 30,387 |
| Plant and equipment | | **54** | 166 |
| Prepayments and other receivables | | **345** | 355 |
| Bank balances and cash | | **12,859** | 10,910 |
| Amounts due from subsidiaries | | **114,869** | 114,571 |
| Amount due from an associate | | **709** | – |
| Other payables and accruals | | **(1,343)** | (1,987) |
| Amounts due to directors | | **(5,288)** | (4,338) |
| Loan from ultimate holding company | | **(18,614)** | – |
| | | **133,978** | 150,064 |
| Share capital | 37 | **55,074** | 55,125 |
| Share premium | 44 | **127,810** | 127,877 |
| Share options reserve | 44 | **3,646** | 3,646 |
| Exchange translation reserve | 44 | **(13,590)** | (7,928) |
| Accumulated losses | 44 | **(38,962)** | (28,656) |
| | | **133,978** | 150,064 |

## 44. RESERVES

### The Company

| | Share premium RMB'000 | Share options reserve RMB'000 | Exchange reserve RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At 1 January 2007 | 17,073 | – | (1,143) | (16,103) | (173) |
| Exchange difference | – | – | (6,785) | – | (6,785) |
| Loss for the year | – | – | – | (12,553) | (12,553) |
| Placing of new shares | 116,147 | – | – | – | 116,147 |
| Share issue expenses | (14,119) | – | – | – | (14,119) |
| Recognition of equity-settled share-based payments | – | 7,418 | – | – | 7,418 |
| Proceeds from shares issued under share option scheme | 8,776 | (3,772) | – | – | 5,004 |
| At 31 December 2007 | **127,877** | **3,646** | **(7,928)** | **(28,656)** | **94,939** |
| Exchange difference | **–** | **–** | **(5,662)** | **–** | **(5,662)** |
| Loss for the year | **–** | **–** | **–** | **(10,306)** | **(10,306)** |
| Shares repurchased and cancelled | **(67)** | **–** | **–** | **–** | **(67)** |
| At 31 December 2008 | **127,810** | **3,646** | **(13,590)** | **(38,962)** | **78,904** |

## 45. SUBSIDIARIES

The following is a list of the subsidiaries as at 31 December 2008:

| 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** | | | | | | |
| Grandy Rich Limited | Hong Kong | Ordinary | – | HK$1 | 100% | Investment property holding |
| Zhong Da International Limited | Hong Kong | Ordinary,<br>Deferred and non-voting | – | HK$2<br>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. | United States of America ("USA") | Ordinary | – | US$100,000 | 100% | Inactive |
| Ausen Group, Inc. | USA | – | – | US$50,000 | 100% | Inactive |
| Zhongda International Trading Limited | Hong Kong | Ordinary | – | HK$1 | 100% | Service provider |
| Zhongda Automobile (Asia) Development Limited | British Virgin Islands/ Hong Kong | Ordinary | – | US$10 | 100% | Inactive |

## 45. SUBSIDIARIES (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 of equity interest/voting rights held by the Group | Principal activities |
|---|---|---|---|---|---|---|
| Zhongda Automobile Machinery Manufacture Co., Ltd. | PRC | Contributed capital | RMB45,861,500 | – | 86.7% | Manufacture and sale of automobile equipment |
| Zhongda SJC Ltd. | Hong Kong | Ordinary | – | HK$1 | 100% | Inactive |
| 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 |
| Jiangsu Zhongda Industrial Painting and Environmental Protection Co., Ltd. | PRC | Contributed capital | RMB15,600,000 | – | 90.0% | Design, production, installation and sales of surface treatment systems |
| Yancheng 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 | RMB30,375,650 | – | 58.5% | Manufacture and sale of bus |
| Nanjing Zonda Zhentong Auto Maintenance Equipment Technical Service Co., Ltd. | PRC | Contributed capital | RMB500,000 | – | 100% | Sale of automobile equipment |

## 45. SUBSIDIARIES (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 of equity interest/voting rights held by the Group | Principal activities |
|---|---|---|---|---|---|---|
| Yancheng Ausen Industrial Equipment Manufacture Limited | PRC | Contributed Capital | RMB15,000,000 | – | 100% | Manufacture and sale of automobile equipment |
| Yancheng Ausen Automobile Equipment Co., Ltd. * | PRC | Contributed capital | USD200,000 | – | 44.22% | Manufacture and sale of automobile maintenance equipment |
| Yancheng Zhongda Automobiles Equipment Co., Ltd. | PRC | Contributed capital | HK$50,000,000 | – | 100% | Trading of automobile spare parts |

* At 31 December 2008, Zhongda Automobile Machinery Manufacture Co., Ltd. held 50% (2007: 50%) and 51% (2007: 51%) equity interests in Yancheng Dasheng Automotive Equipment Co., Ltd. ("Dasheng") and Yancheng Ausen Automobile Equipment Co., Ltd. ("Ausen Automobile") respectively. Dasheng and Ausen Automobile are therefore accounted for as subsidiaries of the Company as the Company has control over their operational and financial policies.

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

## 46. POST BALANCE SHEET EVENT

Subsequent to 31 December 2008, the Group completed its negotiations with Zhongda Industrial Group for the acquisition of 20% equity interests of Zhongwei Bus. The transaction was completed on 17 April 2009 and the consideration of RMB18,460,000 was satisfied in cash.

## 47. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in conformity to the presentation of the consolidated financial statements for the year.

# Financial Summary

## RESULTS

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2008** | 2007 | 2006 | 2005 | 2004 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | | | | | (restated) |
| Turnover | **639,691** | 327,242 | 190,736 | 177,313 | 217,706 |
| Profit/(loss) before taxation | **18,116** | 39,702 | 13,502 | (32,535) | 21,089 |
| Taxation | **(10,438)** | 812 | (604) | 3,157 | (5,033) |
| Profit/(loss) for the year | **7,678** | 40,514 | 12,898 | (29,378) | 16,056 |
| Minority interests | **8,520** | (10,703) | 2,419 | 3,675 | (3,094) |
| Profit/(loss) attributable to equity holders of the Company | **16,198** | 29,811 | 15,317 | (25,703) | 12,962 |

## ASSETS AND LIABILITIES

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2008** | 2007 | 2006 | 2005 | 2004 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | | | | | (restated) |
| Total assets | **914,079** | 683,510 | 426,843 | 361,563 | 460,499 |
| Total liabilities | **(574,899)** | (347,125) | (253,729) | (200,636) | (267,027) |
| | **339,180** | 336,385 | 173,114 | 160,927 | 193,472 |
| Minority interests | **(20,488)** | (29,008) | (16,011) | (18,430) | (24,856) |
| Equity attributable to equity holders of the Company | **318,692** | 307,377 | 157,103 | 142,497 | 168,616 |