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 2010

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

NON-EXECUTIVE DIRECTOR
Mr. Leung Kwok Chun

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 HM 11
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
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
DBS Bank (Hong Kong) Limited
Standard Chartered Bank (Hong Kong) Limited
Agricultural Bank of China, Yancheng Branch
China Minsheng Banking Corp., Ltd., Nanjing Branch
Bank of Jiangsu, Yancheng Branch
Bank of China, Yancheng Branch

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
HSBC Securities Services (Bermuda) Limited
6 Front Street
Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Tricor Standard Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

AUDITORS
SHINEWING (HK) CPA Limited
Certified Public Accountants

LEGAL ADVISERS
As to Hong Kong law
Sidley Austin

As to Bermuda law
Conyers Dill & Pearman

STOCK CODE
00909

Dear shareholders,

First of all, I would like to take this opportunity to express our heartfelt gratitude for your support to Zhongda International Holdings Limited ("Zhongda International" or "the Company"). During 2010, the global economy gradually recovered and the automobile industry witnessed further growth, offering development opportunities to the Company. With the concerted efforts of our management and staff, Zhongda International successfully turned around and reported a profit for 2010.

I hereby present the audited consolidated results of Zhongda International and its subsidiaries ("the Group") for the year ended 31 December 2010.

EXPLOITING GROWTH OPPORTUNITIES IN AUTO INDUSTRY FOR FURTHER DEVELOPMENT

In 2010, motor vehicles sales in the PRC increased by 32.4% as a result of further economic growth, leading to an increased demand for automobile repair and maintenance equipments. In addition, driven by accelerated urbanization in the PRC and the PRC government's vigorous push for better public transportation systems to alleviate urban traffic congestions, the demand structure for commercial vehicles in the PRC has been gradually shifting to large and middle-sized buses. By 2010, the respective shares of large and middle-sized buses among the total number of automobiles in the PRC have risen from 3.35% and 14.14% as in 2001 to 15.52% and 20.30%, respectively.

Chairman's Statement

With the automobile industry generally on an upswing, Zhongda International took advantage of the industry's growth momentum during the year under review to actively prepare itself for future development. The Company conducted further research and development to strengthen its competitiveness and also pursued new opportunities for growth to enhance its sustainable development.

ENJOYING STABLE GROWTH IN AUTO REPAIR AND MAINTENANCE SEGMENT FUELED BY CONTINUOUS DEVELOPMENT OF AUTO INDUSTRY

In respect of the business of automobile repair and maintenance equipments, the Company offers an all-encompassing range of products, including automobile spray booths with quality standards offering better profit margins, car lifters and car bench that can be tailor-made to meet clients' demands. Since leading automobile makers, especially top automobile brands, have certain requirements for the quality and branding of such products, it has thus increased the entry barriers for related industry players. With our comprehensive product range and a quality clientele of famous international brands, we retained our leading edge in the industry during the year under review and the segment contributed a steady stream of profits to the Company. In 2010, the Group reported a turnover of nearly RMB200 million.

RESTRUCTURING AUTOMOBILE MANUFACTURING OPERATION AND LAUNCHING NEW VENTURES FOR GROWTH

During the year under review, the performance of our double-decker bus manufacturing operation was far from satisfactory. The Group, therefore, restructured Nanjing Zhongda Jinling Double-decker Bus Manufacturing Company Limited by introducing new investors and strategic partners into this company to improve its profitability. In 2010, the combined vehicle sales of Zhongda International and its associated companies exceeded RMB400 million.

Apart from restructuring existing operations, we also actively explored new sources of business growth. We pressed ahead with the development of the Bus Rapid System ("BRT") to promote our sales of buses and successfully launched the system in Yancheng, Jiangsu during the year. Meanwhile, our high-quality products and broader range of vehicle types helped us expand into overseas markets. The Company formed a joint venture with South African National Taxi Council to sell tailor-made minibuses and coaches in bulk to South Africa, which is expected to achieve a minimum sales volume of 7,500 minibuses and 300 coaches per annum. The joint venture also plans to build and operate the country's first nationwide electronic fare management system ("EMS") exclusively. It is believed that these two projects will become the Group's new sources of revenue in the future and to facilitate the Group's further overseas expansion.

DEVELOPING NEW ENERGY VEHICLES TO SEIZE BUSINESS OPPORTUNITIES OFFERED BY THE PRC'S 12TH 5-YEAR PLAN

The PRC's 12th 5-year Plan highlighted the development of new energy sector as a key task. To take advantage of the exponential opportunities presented by the PRC's all-out efforts to develop new energy vehicles, the Group focused on the research and development of electric vehicles during the year.

In July 2009, the electric bus manufactured by the Group's associated company made a successful continuous trial run of 500 kilometres on a single battery charge, exceeding the national average level of 200 kilometres. Building on this success, the Group's 30 electric buses debuted in a world economic forum held in Tianjin in 2010 — Summer Davos, which won widespread acclaim from international guests.

To accelerate our venture into the electric bus market, the Company is currently involved in a connected transaction of acquiring Nanjing Zhongda Qingshan Electric Vehicle Company Limited, a company principally engaged in the development of the electric power system (including battery, motor and control system) for electric vehicles. This acquisition will speed up the Group's expansion in the new energy vehicle segment with enormous development potentials and also facilitate its integration with existing electric vehicle production facilities, which will help the Group to achieve an upstream vertical integration, thereby creating synergies among its business segments and enhancing the Group's profitability. The first phase of the battery factory has a production capacity of 100 million ampere hour. The project's second phase, with a projected capacity of 200 million ampere hour, is progressing at full speed.

CONSOLIDATING EXISTING CORE OPERATIONS AND ACTIVELY PURSUING NEW BUSINESS OPPORTUNITIES

The year 2011 marks the beginning of the PRC's 12th 5-year Plan, with the country's economic development maintaining its upward momentum. In the meantime, the acceleration of urbanization will boost the development of the PRC's bus industry. According to the "Outline of the Plan for Urban Public Transport Development in the 12th 5-year Plan", domestic demand for buses will increase by 200,000 units during the 5-year planned period. In 2009, the government has already launched its "Energy-saving and New Energy Vehicle Demonstration and extension of Temporary Financial Assistance Fund Management Pilot Scheme" that encouraged the use of energy-saving and new energy vehicles in public transport services. In the pilot scheme, a subsidy of RMB500,000 was given to each unit of electric bus. The Ministry of Transport is expected to step up its policy and funding support for the integration of urban and rural passenger transport nationwide. Such development will undoubtedly offer huge opportunities for manufacturers of public transport.

Furthermore, it is expected that the "Development Plan for Energy-saving and New Energy Vehicle Industries" will be launched soon, under which the PRC government will invest RMB100 billion over the next 10 years to promote the development of new energy vehicles. In addition, the government will also offer tax concessions and call upon government departments to use new energy vehicles, which aims to make the PRC the world's leading market of new energy vehicles in terms of sales volume by 2020. It is thus believed that, with the blessings of the PRC government, new energy vehicles will become a new momentum for the automobile industry growth.

Looking ahead, Zhongda International will consolidate its existing automobile repair and maintenance equipment operation to generate steady income for the Group in the development of new operations. In terms of automobile manufacturing, we will continue our penetration in the domestic market by focusing on the mid-western part of the PRC. At the same time, we will expand further into emerging markets and actively explore other development opportunities, so as to boost the profitability of the automobile manufacturing segment. On the other hand, we will also accelerate the development of new energy projects in order to seize the opportunities presented by the PRC's promotion of new energy vehicles. The Group has already established its production base for new energy buses in Nanjing, which has already commenced operation in 2011 with an initial production capacity of 2,000 electric buses per annum. This new energy bus production base will become a role model for the application of new energy technology in the PRC. We believe that the new energy vehicle segment will bring the Group's business development to a new level.

Last but not least, we would like to express our sincere gratitude to shareholders for your continuous support during the year. The Group strives to seek further investment opportunities in future to maximize shareholders value and returns for our investors.

Xu Lian Guo
Chairman

Hong Kong, 31 March 2011

INDUSTRY OVERVIEW

With an aim to boost domestic economic growth, the PRC government gave its full support to the development of the auto industry by launching a series of stimulating policies during the year under review, including tax deduction for vehicle purchases, subsidies to rural residents for vehicle purchases, subsidies for replacement of old vehicles with new ones and subsidies on energy-saving products. As a result, the country's annual automobile sales jumped 32.4% to 18.1 million units in 2010, which helped the PRC surpass United States and Japan again to become the world's largest auto market for the second year.

The year 2010 not only witnessed the growth of automobile sales, but also the emergence of a few major trends in the auto industry, including the growing popularity of mid to high-end vehicles, the increasing awareness for better maintenance among car owners, the PRC government's emphasis on the restructuring of the auto repair and maintenance industry. These trends assisted the growth of auto repair and maintenance, testing equipment and tools market. According to the statistics released by China Auto Maintenance Equipment Industry Association, there were about 1,500 players in the market in the PRC, which will help the industry to advance by leaps and bounds in the next 5 to 10 years. At present, the PRC's auto repair and maintenance industry is growing rapidly at a rate of approximately 20% per annum, with an annual purchases of related equipment and consumables amounted to approximately RMB500 billion per annum.

Thanks to auto sales growth and the soaring demand for auto repair and maintenance equipments in the PRC, the Group's auto repair and maintenance business recorded a substantial increase in domestic sales. Nevertheless, this increase was counteracted by weak export sales of the Group due to slow recovery of the global economy. Therefore, the Group recorded a turnover of RMB460.4 million in 2010, representing a slight increase of 1.2% over 2009.

BUSINESS OVERVIEW

As the only non-state-owned commercial-vehicle manufacturing enterprise in the PRC that is listed in Hong Kong, Zhongda International is principally engaged in the production of automobile repair and maintenance equipments, trading of automobile spare parts, manufacturing of buses and coaches and the development of new energy projects.

As the key product of our automobile repair and maintenance equipment segment, the Group's spray booths command a dominant market share in the PRC. The Group exports a diversified range of products to more than 50 countries including Germany, France, United States, Russia, Australia and Japan. The Group takes pride in its prestigious clientele comprising world famous auto manufacturers such as Mercedes-Benz, BMW, Volkswagen, Audi, General Motors, Ford and Toyota.

Zhongda International currently manufactures and sells more than 200 models of commercial vehicles, including long-haul coaches, buses and double-deckers, through its associated companies, namely Nanjing Zhongda Jinling Double-Decker Bus Manufacture Co. Ltd. ("Zhongda Jinling") and Yancheng Zhongwei Bus Manufacturing Company Limited ("Zhongwei Bus"). With an annual production capacity of 5,000 units, Zhongwei Bus specializes in the manufacturing of long-haul coaches, which divided into 8 categories with more than 180 models, and exports to over 40 countries. On the other hand, as a reputable double-decker bus manufacturer in the PRC, Zhongda Jinling is equipped for an annual production capacity of 3,000 vehicles and enjoys a dominate share in the domestic double-decker market. In addition, Zhongda International has embarked on an aggressive expansion program to manufacture new energy vehicles and also geared up for an upstream vertical integration with the production of the electric power system. In 2009, Zhongda Industrial Group Corporation's ("Zhongda Industrial Group") research and development efforts on electric bus bore fruit as proven by its successful trial run of 500 kilometres on a single battery charge in Beijing, which exceeded the average level of 200 kilometres on a single battery charge performed by its counterparts in the PRC.

SEGMENT ANALYSIS

Automobile Repair and Maintenance Equipments

The Group's automobile repair and maintenance equipment segment recorded a sales revenue of RMB186.4 million. Among this segment, the domestic sales comprising mainly automobile spray booths and car lifters rose 44.5% to approximately RMB157.6 million while the export sales was approximately RMB24.1 million, representing an increase of 15.7% over last year.

Trading of Automobile Spare Parts

Yancheng Zhongda Automobiles Equipment Co. Ltd. is the procurement center for the Group and Zhongda Industrial Group. This segment recorded a turnover of approximately RMB196.6 million, representing an increase of 52.1% as compared to last year which was mainly attributable to the robust domestic sales growth of Bus Rapid System ("BRT") by Zhongwei Bus. Moving forward, we are still planning to upgrade this platform to serve our affiliate companies and joint venture. In the long run, we would expand and open this platform to serve outside customers.

Automobile Manufacturing

The Group manufactures and sells commercial vehicles via its associated companies — Zhongda Jinlin and Zhongwei Bus. During the year under review, the combined vehicle sales with the Group exceed RMB400 million.

Zhongda Jinling

During the year under review, Zhongda Jiling recorded a revenue of approximately RMB64.1 million, which accounted for approximately 13.9% of the Group's total turnover. The Group has restructured Zhongda Jinling and introduced new investors and strategic partners into the company. Meanwhile, the Group will continue to develop and explore the double-decker and bus market. In December 2010, the Group sold its 60% equity interest in Zhongda Jinling, following which it became an associated company of the Group.

Zhongwei Bus

Zhongwei Bus specializes in the manufacturing of long-haul coaches and exports its products to over 40 countries and regions around the world. During the year under review, despite continued weak export sales, the company successfully launched its BRT in Yancheng of Jiangsu.

Overseas Project

During the year under review, the Group made a major breakthrough in its overseas expansion that focused on emerging markets. In May 2010, the Group successfully established a joint venture with South Africa National Taxi Council ("SANTACO"). The Group plans to sell tailor-made minibus and coaches in bulk to South Africa. It is expected that the Group will supply or procure the supply of a minimum of 7,500 units of minibuses and 300 coaches to the country. The estimated total turnover could exceed US$150 million.

Furthermore, the Group is also in the process of forming another joint venture with SANTACO, which install and operate the first nationwide electronic fare management system ("EMS") in South Africa exclusively. Zhongda International will own 40% interest in this joint venture and will provide funding for phase one of the EMS Project, which is subject to a maximum commitment of approximately HK$51.5 million. According to the agreement, the joint venture company will receive 5% commission income of the fare. These two projects will create new sources of income for the Group.

New Energy Project

The Group has undertaken new energy projects that involve the manufacturing of electric vehicles and electric power system. In November 2010, the Group has entered into an agreement to acquire a 65% equity interest in Nanjing Zhongda QingShan Electric Vehicle Company Limited at a consideration of RMB200 million. The company specializes in the manufacturing of power battery, motor and control system for electric vehicles. The Group believes that the newly acquired company offers considerable growth potential as it conforms to the comprehensive implementation of new energy automobile industry in the PRC.

LIQUIDITY AND FINANCIAL RESOURCES

Gross Margin

The Group's gross margin recorded a slight drop from 16.7% in last year to 15.6% during the year under review, representing a decrease of 1.1%. The increase in production costs, especially labor and raw material costs, in the past few years has exerted continuous pressure on the Group's margin. Nevertheless, the Group has implemented stringent production control polices to combat against these negative effects.

Net Profit

The Group recorded a net profit before tax of approximately RMB19.06 million. The Group's net profit after tax was approximately RMB11.62 million while it reported a net loss of approximately RMB113.7 million last year. Basic earnings per share for the year was RMB1.83 cents.

Liquidity

Liquidity as measured by current ratio (defined as "Current Assets/Current Liabilities") with a ratio of 1.2x during the year was considered as acceptable. Regarding the current assets, approximately 49.3% was cash and bank deposit. This level is considered as sufficient.

Leverage

Net gearing ratio (defined as "Total bank debts – Cash available/Total Net Worth") was improved to Nil during the year under review from 0.11x as at 31 December 2009. The Group will take effort to retain its leverage at a satisfactory level.

As at 31 December 2010, the Group's cash and bank balances amounted to approximately RMB336,564,000 (31 December 2009: RMB211,478,000). Cash is mainly denominated in Renminbi. The Group did not have any long term loan (31 December 2009: RMB37,095,000) while its short term bank loans amounted to approximately RMB145,361,000 (31 December 2009: RMB217,133,000), a decrease of RMB71,772,000 from last year.

The interest rates of bank borrowings ranged between 2.03% and 7.00% per annum (31 December 2009: between 1.30% and 9.47%). 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 2010, the Group's net asset value amounted to approximately RMB406,807,000 (31 December 2009: RMB374,445,000), representing an increase of approximately 8.6%. Net current assets amounted to approximately RMB127,824,000 (31 December 2009: RMB152,338,000), a decrease of approximately RMB24,514,000 from last year.

PROSPECT

With the commencement of the PRC's 12th 5-Year Plan, the country's economy is poised to expand further. The PRC government will continue to support the growth of automobile industry, especially the development of new energy vehicles for the benefits of environmental protection. These trends have created enormous business opportunities for the Group. Zhongda International will enhance the profitability of its core businesses and step up its efforts in the research and development of new products for the auto repair and maintenance equipment segment, thereby strengthening its overall competitiveness. In addition, the Group also plans to upgrade its trading platform for auto spare parts, which will be opened up to clients ultimately. Furthermore, the Group will explore overseas expansion opportunities and venture into the mid-western part of the PRC. The Group will also speed up the penetration of its BRT in domestic market to enhance the profitability of the automobile manufacturing segment. Looking ahead, as the Group anticipates that new energy vehicle industry will take off, it will accelerate the development of its electric vehicle and electric-vehicle battery project that is expected to become a key profit driver for Zhongda International in the future.

EXECUTIVE DIRECTORS

Mr. XU Lian Guo, aged 49, 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 45, 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 58, 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 46, 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, Incutech Investments Limited and China Tycoon Beverage Holdings Limited, companies listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), respectively.

Biography of the Directors

NON-EXECUTIVE DIRECTOR

Mr. LEUNG Kwok Chun, aged 57, was appointed a non-executive director of the Company on 25 March 2011. He is currently the Executive Director of Shenzhen Angel Food Company Limited and the Non-executive Director of China Angel Food Limited ("China Angel"), a company previously listed on the Singapore Exchange Securities Trading Limited and it was privatized on 8 March 2011. He has been working in China Angel group since 1999 and now overseeing the operation of the company. Before joining China Angel group, he was the Regional General Manager of Remy Martin (Hong Kong) Co., Limited for China and Hong Kong from 1998 to 1999. Prior to that, Mr. Leung spent 20 years with Inchcape JDH Limited. His last position held was its Director and Chief Executive Officer for South China and Hong Kong. Mr. Leung graduated from Hong Kong Polytechnic in 1977 with a Higher Diploma in Business Studies.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. GU Yao Tian, aged 78, was appointed as an independent non-executive director of the Company in 2001. Prior to joining the Group, 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 53, 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, a company listed on the main board of the Stock Exchange.

Mr. LI Xinzhong, aged 53, 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 founded Shenzhen Sino-Source Investment Consultants Co., Ltd. in 2008 and has been an executive director of Bohai Industrial Investment Fund Management Co., Ltd. since September 2009. Mr. Li has over 18 years experience in capital market. He is currently an independent non-executive director of Vitop Bioenergy Holdings Limited, a company listed on the main board of the Stock Exchange.

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 2010.

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 principal subsidiaries are set out in Note 46 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The state of affairs of the Group as at 31 December 2010 and the results and cash flows of the Group for the year then ended are set out in the consolidated financial statements on pages 30 to 37.

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 136 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 38 to the consolidated financial statements.

SHARE PREMIUM AND RESERVES

Details of movements in the share premium and reserves of the Group during the year are set out on page 35.

Report of the Directors

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

Non-executive director

Mr. Leung Kwok Chun (appointed on 25 March 2011)

Independent non-executive directors

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

Pursuant to bye-law 86(2) of the Company's bye-laws, Mr. Leung Kwok Chun shall retire and being eligible, offer himself for re-election at the forthcoming annual general meeting. In accordance with bye-law 87 of the Company's bye-laws, Mr. Xu Lian Guo, Mr. Zhang Yuqing and Mr. Kwok Ming Fai 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.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Pursuant to the sale and purchase agreement dated 4 November 2010 entered into between (i) Zhongda International Trading Limited, an indirect wholly-owned subsidiary of the Company, as purchaser and (ii) Caesar Overseas Enterprise Inc. ("Caesar") and Mr. Cao Qing Shan as vendors for the proposed acquisition of the entire issued share capital of Cherry Hill Enterprise Ltd. at a consideration of HK$365.93 million (the "Acquisition"), the consideration will be partly settled by way of an issue of convertible bonds (the "Convertible Bonds") to Caesar in the principal amount of HK$174 million. There will be up to 174 million shares ("Shares") of the Company falling to be allotted and issued at the conversion price of HK$1.00 each upon the exercise by Caesar of the conversion rights attaching to the Convertible Bonds.

The Acquisition is deemed a very substantial acquisition and connected transaction of the Company under the Listing Rules. Details of the Acquisition are set out in the announcements of the Company dated 4 November 2010 and 22 November 2010.

Caesar is wholly owned by Mr. Xu Lian Guo.

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 2010, 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*	–	294,004,000	–	294,004,000	27.9%
	2	–	–	174,000,000	174,000,000	16.5%
Mr. Xu Lian Kuan	*1*	–	294,004,000	–	294,004,000	27.9%
Mr. Zhang Yuqing		30,272,000	–	–	40,795,237	3.9%
	3	–	–	10,523,237		
Mr. Kwok Ming Fai	*4*	–	–	10,523,237	10,523,237	1.0%

Notes:

1. The 294,004,000 Shares are held by Zhong Da (BVI) Limited 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. 174,000,000 Shares will be allotted and issued at the price of HK$1.00 per Share upon the exercise of the conversion rights attaching to the convertible bonds proposed to be issued to Caesar in the principal amount of HK$174 million, details of which are set out in the announcement of the Company dated 4 November 2010.

3. The share options were granted to Mr. Zhang Yuqing to subscribe for 917,011 Shares and 9,606,226 Shares at the exercise prices of HK$0.792 each and HK$0.588 each respectively.

4. The share options were granted to Mr. Kwok Ming Fai to subscribe for 917,011 Shares and 9,606,226 Shares at the exercise prices of HK$0.792 and HK$0.588 each respectively.

Associated Corporation

Name of associated corporation	*Note*	Nature of interests	Amount of equity interests held	% of the equity interests
鹽城中威客車有限公司 (Yancheng Zhongwei Bus Manufacturing Co., Ltd.) ("Zhongwei Bus")	*1*	Corporate interests	RMB73,840,000	80%

Note:

1. 中大工業集團公司 (Zhongda Industrial Group Corporation) ("ZIG"), a corporation jointly controlled by Mr. Xu Lian Guo and Mr. Xu Lian Kuan, holds 80% equity interests of Zhongwei Bus.

Save as disclosed above, as at 31 December 2010, 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 2010, the following directors of the Company 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.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2010, 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) Limited	Beneficial owner	*1*	294,004,000	–	27.9%
Caesar	Beneficial owner	*2*	–	174,000,000	16.5%

Notes:

1. The 294,004,000 Shares are held by Zhong Da (BVI) Limited 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. 174,000,000 Shares will be allotted and issued at the price of HK$1.00 per Share upon the exercise of the conversion rights attaching to the convertible bonds proposed to be issued to Caesar in the principal amount of HK$174 million, details of which are set out in the announcement of the Company dated 4 November 2010. Caesar is wholly owned by Mr. Xu Lian Guo.

Save as disclosed, as at 31 December 2010, 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. 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 the New Scheme, respectively, are set out in Note 44 to the consolidated financial statements.

The scheme mandate limit of the New Scheme was refreshed at the special general meeting of the Company held on 17 March 2010. The total number of Shares may be allotted and issued upon the share options to be granted under the refreshed scheme mandate limit of the New Scheme must not in aggregate exceed 103,387,371 Shares, being 10% of the issued share capital of the Company as at the date of the special general meeting.

The Shares which may be issued upon the exercise of all outstanding share options granted and yet to be exercised under the New Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the Shares in issue from time to time.

The movements in the share options granted under the share option schemes of the Company during the year ended 31 December 2010 are shown below:

(a) Old Scheme

		Number of share options					
Category of participant	**Date of offer**	**As at 1 Jan 2010**	**Exercised during the year**	**Lapsed during the year**	**As at 31 Dec 2010**	**Exercise price per Share** *HK$*	**Exercisable period**
Eligible Persons	5 Feb 2007	5,931,094	–	–	5,931,094	0.314	5 Aug 2007 to 4 Aug 2012
	13 Feb 2007	5,931,094	–	–	5,931,094	0.423	13 Aug 2007 to 12 Aug 2012
	TOTAL	11,862,188	–	–	11,862,188		

As at 31 December 2010, the outstanding options entitling the eligible persons under the Old Scheme to subscribe for an aggregate of 11,862,188 Shares, representing approximately 1.1% of the issued share capital of the Company.

(b) New Scheme

Category of participant	Date of offer	Number of share options: As at 1 Jan 2010	Granted during the year	Exercised during the year	As at 31 Dec 2010	Exercise price per Share *HK$*	Exercisable period
Directors							
Mr. Zhang Yuqing	13 Nov 2009	917,011	–	–	917,011	0.792	13 Nov 2009 to 12 Nov 2014
	12 Jul 2010	–	9,606,226	–	9,606,226	0.588	12 Jul 2010 to 11 Jul 2015
		917,011	9,606,226	–	10,523,237		
Mr. Kwok Ming Fai	13 Nov 2009	917,011	–	–	917,011	0.792	13 Nov 2009 to 12 Nov 2014
	12 Jul 2010	–	9,606,226	–	9,606,226	0.588	12 Jul 2010 to 11 Jul 2015
		917,011	9,606,226	–	10,523,237		
		1,834,022	19,212,452	–	21,046,474		
Eligible participants	13 Nov 2009	45,850,575	–	–	45,850,575	0.792	13 Nov 2009 to 12 Nov 2014
	TOTAL	47,684,597	19,212,452	–	66,897,049		

As at 31 December 2010, the outstanding options entitling the option holders under the New Scheme to subscribe for an aggregate of 66,897,049 Shares, representing approximately 6.4% of the issued share capital of the Company.

Save as disclosed above, no share option was granted, exercised, lapsed or cancelled during the year ended 31 December 2010.

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 42 to the consolidated financial statements.

The directors of the Company have reviewed the continuing connected transactions and received the confirmation from the auditors and have confirmed that the continuing connected transactions contemplated by the Group for the year ended 31 December 2010:

(i) have received the approval of the Board;

(ii) have been entered into in accordance with the terms of the relevant agreements governing such transactions; and

(iii) have not exceed the cap disclosed in the relevant announcements/circulars of the company, if any.

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 significance 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 2010, the Group employed a total of 1,300 (2009: 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 2010, 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 2010 are set out in Note 35 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

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 end 31 December 2010.

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 2010. A corporate governance report for the year ended 31 December 2010 is prepared in accordance with Appendix 15 to the Listing Rules and set out on pages 24 to 27 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.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events which occurred subsequent to the reporting period are set out in Note 48 to the consolidated financial statements.

AUDITORS

Messrs. SHINEWING (HK) CPA Limited has acted as auditors of the Company for the past three years.

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, 31 March 2011

Corporate Governance

CORPORATE GOVERNANCE

The Group continues to uphold its corporate governance standards so as to keep abreast with the fast-changing environments, with a view to increasing the shareholders' value, enhancing market competitiveness and strengthening the operational efficiency and effectiveness 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 2010.

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 2010.

BOARD OF DIRECTORS

The Board currently consists of four executive directors, a non-executive director 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

Non-executive Director
Mr. Leung Kwok Chun (appointed on 25 March 2011)

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 2010. Subsequent to the reporting period, Mr. Leung Kwok Chun was appointed the non-executive director of the Company on 25 March 2011.

During the year ended 31 December 2010, 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
Sun Ka Ziang Henry	4/4
Li Xinzhong	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.

Save as disclosed, 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 2010, 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.

Subsequent to the reporting period, Mr. Leung Kwok Chun was appointed as a non-executive director of the Company on 25 March 2011. He was appointed with specific term and he is 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 2010 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 2010 in respect of the services provided to the Group as follows:

	2010 *RMB'000*
Audit services	1,726
Other advisory services	306

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 final results of the Group for the year ended 31 December 2009 and the interim results of the Group for the six months ended 30 June 2010. 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 engaged an 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 year ended 31 December 2010. In March 2011, the Audit Committee had reviewed the review report for the year ended 31 December 2010. 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.

The Board considered that the resources, qualifications and experience of the staff of the accounting and financial function of the Group, and their training programmes and budget were sufficient and reasonable for 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 2010 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 28 to 29 of the annual report.

Independent Auditor's Report

信永中和 ShineWing

SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, 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 30 to 135, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 of the consolidated financial statements that give a true and fair view 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 2010, 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
31 March 2011

Consolidated Income Statement

For the year ended 31 December 2010

	NOTES	**2010** **RMB'000**	2009 RMB'000
Revenue	7	**460,442**	455,026
Cost of sales		**(388,603)**	(378,899)
Gross profit		**71,839**	76,127
Other revenue	9	**12,455**	13,496
Selling and distribution expenses		**(19,153)**	(22,099)
Administrative expenses		**(59,822)**	(54,187)
Impairment loss on trade receivables	27	**–**	(24,254)
Reversal of impairment loss on trade receivables	27	**10,943**	–
Impairment loss on other receivables	30	**(1,455)**	(9,903)
Impairment loss on amounts due from a related company	25	**–**	(7,678)
Gain on disposal of a subsidiary	39	**26,308**	–
Recognition of equity-settled share-based payments	44	**(4,296)**	(11,083)
Changes in fair value of investment properties	19	**12,549**	(19,370)
Other operating expenses		**(4,573)**	(4,003)
Share of profit (loss) of associates	20	**1,428**	(381)
Finance costs	10	**(27,163)**	(20,929)
Profit (loss) before tax		**19,060**	(84,264)
Income tax expense	11	**(7,440)**	(29,469)
Profit (loss) for the year	12	**11,620**	(113,733)
Profit (loss) for the year attributable to:			
Owners of the Company		**19,189**	(91,790)
Non-controlling interests		**(7,569)**	(21,943)
		11,620	(113,733)
Earnings (loss) per share	16		
– Basic (RMB cents per share)		**1.83**	(12.15)
– Diluted (RMB cents per share)		**1.81**	(12.15)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
Profit (loss) for the year	**11,620**	(113,733)
Other comprehensive expense		
Gain on revaluation of properties	**3,635**	–
Exchange differences arising on translation	**(7,508)**	(4,296)
Income tax relating to components of other comprehensive income	**(909)**	–
	(4,782)	(4,296)
Total comprehensive income (expense) for the year	**6,838**	(118,029)
Total comprehensive income (expense) attributable to:		
Owners of the Company	**14,053**	(96,086)
Non-controlling interests	**(7,215)**	(21,943)
	6,838	(118,029)

Consolidated Statement of Financial Position

At 31 December 2010

	NOTES	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment	17	**56,460**	100,194
Prepaid lease payments	18	**6,755**	41,544
Investment properties	19	**123,016**	103,816
Interests in associates	20	**19,507**	18,079
Prepayment for investments	21	**78,894**	–
Available-for-sale investments	22	**–**	900
		284,632	264,533
Current assets			
Prepaid lease payments	18	**184**	970
Inventories	24	**30,128**	25,166
Amounts due from related companies	25	**62,743**	115,139
Amounts due from associates	26	**101,480**	287,483
Trade and bills receivables	27	**52,575**	77,901
Amounts due from customers for contract work	28	**44,293**	53,216
Held for trading investments	29	**4,964**	–
Prepayments and other receivables	30	**49,514**	41,362
Restricted deposit placed in a financial institution	31	**6,000**	–
Deposits placed in financial institutions	31	**15,023**	–
Restricted bank balances	31	**80,066**	115,628
Pledged bank deposit	31	**9,729**	9,994
Bank balances and cash	31	**225,746**	85,856
		682,445	812,715
Current liabilities			
Amounts due to customers for contract work	28	**38,861**	43,965
Trade and bills payables	32	**267,817**	308,266
Advance receipts from customers		**5,706**	4,417
Other payables and accruals	33	**48,222**	46,475
Amounts due to an associate	34	**4,661**	–
Amounts due to related companies	34	**3,766**	4,453
Amounts due to directors	34	**7,178**	5,485
Tax payable		**33,049**	30,183
Bank overdrafts	31	**–**	6,257
Bank and other borrowings	35	**145,361**	210,876
		554,621	660,377
Net current assets		**127,824**	152,338
Total assets less current liabilities		**412,456**	416,871

Consolidated Statement of Financial Position

At 31 December 2010

	NOTES	2010 RMB'000	2009 RMB'000
Capital and reserves			
Share capital	38	**100,784**	99,166
Reserves		**303,781**	274,252
Equity attributable to owners of the Company		**404,565**	373,418
Non-controlling interests		**2,242**	1,027
Total equity		**406,807**	374,445
Non-current liabilities			
Bank and other borrowings	35	**–**	37,095
Deferred tax liabilities	23	**5,649**	5,331
		5,649	42,426
		412,456	416,871

The consolidated financial statements on pages 30 to 135 were approved and authorised for issue by the board of directors on 31 March 2011 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 2010

	Attributable to owners of the Company										
	Share capital RMB'000	Share premium RMB'000	Convertible bond reserve RMB'000	Reserve fund RMB'000 (Note)	Enterprise expansion fund RMB'000 (Note)	Share options reserve RMB'000	Translation reserve RMB'000	Retained profits RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2009	55,074	127,810	–	2,720	2,720	3,646	(12,643)	139,365	318,692	20,488	339,180
Loss for the year	–	–	–	–	–	–	–	(91,790)	(91,790)	(21,943)	(113,733)
Other comprehensive expense	–	–	–	–	–	–	(4,296)	–	(4,296)	–	(4,296)
Total comprehensive expense for the year	–	–	–	–	–	–	(4,296)	(91,790)	(96,086)	(21,943)	(118,029)
Recognition of equity component of convertible bond (Note 36)	–	–	6,315	–	–	–	–	–	6,315	–	6,315
Transfer to retained profits upon redemption of convertible bond (Note 36)	–	–	(261)	–	–	–	–	261	–	–	–
Effect of early redemption of convertible bond (Note 36)	–	–	(6,054)	–	–	–	–	–	(6,054)	–	(6,054)
Shares repurchased and cancelled (Note 38(ii))	(24)	(13)	–	–	–	–	–	–	(37)	–	(37)
Recognition of equity-settled share-based payments	–	–	–	–	–	11,083	–	–	11,083	–	11,083
Shares issued under share option scheme (Note 38(iii))	1,388	1,724	–	–	–	(1,075)	–	–	2,037	–	2,037
Placing of new shares (Note 38(v))	9,174	56,239	–	–	–	–	–	–	65,413	–	65,413
Shares issued under open offer (Note 38(iv))	27,962	50,332	–	–	–	–	–	–	78,294	–	78,294
Bonus shares issued under open offer (Note 38(iv))	5,592	(5,592)	–	–	–	–	–	–	–	–	–
Transactions costs attributable to cancellation and issue of shares	–	(6,239)	–	–	–	–	–	–	(6,239)	–	(6,239)
Contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	2,482	2,482
At 31 December 2009	99,166	224,261	–	2,720	2,720	13,654	(16,939)	47,836	373,418	1,027	374,445

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Attributable to owners of the Company										
	Share capital RMB'000	Share premium RMB'000	Revaluations reserve RMB'000	Reserve fund RMB'000 (Note)	Enterprise expansion fund RMB'000 (Note)	Share options reserve RMB'000	Translation reserve RMB'000	Retained profits RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2010	**99,166**	**224,261**	**-**	**2,720**	**2,720**	**13,654**	**(16,939)**	**47,836**	**373,418**	**1,027**	**374,445**
Profit (loss) for the year	-	-	-	-	-	-	-	19,189	19,189	(7,569)	11,620
Other comprehensive income (expense)	-	-	2,372	-	-	-	(7,508)	-	(5,136)	354	(4,782)
Total comprehensive income (expense) for the year	-	-	2,372	-	-	-	(7,508)	19,189	14,053	(7,215)	6,838
Disposal of a subsidiary (Note 39)	-	-	-	-	-	-	-	-	-	8,430	8,430
Transfer from disposal of a subsidiary	-	-	-	(20)	(20)	-	-	40	-	-	-
Recognition of equity-settled share-based payments (Note 44)	-	-	-	-	-	4,296	-	-	4,296	-	4,296
Transaction costs attributable to issuance of shares	-	(305)	-	-	-	-	-	-	(305)	-	(305)
Placing of new shares (Note 38(vi))	1,618	11,485	-	-	-	-	-	-	13,103	-	13,103
At 31 December 2010	**100,784**	**235,441**	**2,372**	**2,700**	**2,700**	**17,950**	**(24,447)**	**67,065**	**404,565**	**2,242**	**406,807**

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 of the Company. These reserves cannot be used for purposes other than for which they are created and are not distributable as cash dividend.

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
OPERATING ACTIVITIES		
Profit (loss) before tax	**19,060**	(84,264)
Adjustments for:		
Interest income	**(3,078)**	(2,420)
Finance costs	**27,163**	20,929
Share of (profit) loss of associates	**(1,428)**	381
Depreciation on property, plant and equipment	**8,087**	7,460
Amortisation on prepaid lease payments	**970**	970
Gain on disposal of property, plant and equipment	**(748)**	(333)
Changes in fair value of investment properties	**(12,549)**	19,370
Impairment loss on prepayments for investments	**–**	438
Impairment loss (reversal of impairment loss) on inventories	**1,670**	(747)
(Reversal of impairment loss) impairment loss on trade receivables	**(10,943)**	24,254
Impairment loss on other receivables	**1,455**	9,903
Impairment loss on amount due from a related company	**–**	7,678
Gain on disposal of a subsidiary	**(26,308)**	–
Change in fair value of held for trading investments	**(111)**	–
Waiver of trade payables and other payables	**(1,194)**	(5,484)
Gain on disposal of held for trading investments	**(166)**	(26)
Equity-settled share-based payments	**4,296**	11,083
Operating cash flows before movement in working capital	**6,176**	9,192
(Increase) decrease in inventories	**(8,865)**	34,162
Decrease (increase) in trade and bills receivables	**15,951**	(6,437)
Increase in prepayments and other receivables	**(11,020)**	(24,708)
Decrease (increase) in amounts due from customers for contract work	**8,923**	(39,263)
Decrease in amounts due from related companies	**39,377**	148,314
Decrease (increase) in amounts due from associates	**187,351**	(286,778)
(Decrease) increase in trade and bills payables	**(19,310)**	48,107
Increase in other payables and accruals	**8,606**	11,279
Increase (decrease) in advance receipt from customers	**2,996**	(20,698)
(Decrease) increase in amounts due to customers for contract work	**(5,104)**	42,897
Decrease in amounts due to an associate	**–**	(37)
Cash generated from (used in) operations	**225,081**	(83,970)
Income tax paid	**(1,147)**	(588)
Net cash generated from (used in) operating activities	**223,934**	(84,558)

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
INVESTING ACTIVITIES		
Prepayment for investments	**(78,894)**	–
Net cash outflow on disposal of a subsidiary	**(17,900)**	–
Increase in deposits placed in financial institutions	**(15,023)**	–
Purchase of property, plant and equipment	**(11,589)**	(7,883)
(Increase) decrease in restricted deposit placed in a financial institution	**(6,000)**	5,000
Acquisition of held for trading investments	**(5,982)**	–
Decrease in pledged bank deposit	**246**	155
Proceeds from disposal of held for trading investments	**1,295**	57
Proceeds from disposal of property, plant and equipment	**2,145**	795
Interest received	**3,078**	2,420
Decrease (increase) in restricted bank balances	**32,562**	(32,981)
Net cash used in investing activities	**(96,062)**	(32,437)
FINANCING ACTIVITIES		
New bank and other borrowings raised	**241,242**	248,261
Proceeds from placing of shares	**13,103**	65,413
Repayment from related companies	**7,291**	2,035
Advance from directors	**1,693**	197
Transactions costs attributable to issuance of shares	**(305)**	–
Proceeds from shares issued under open offer	**–**	78,294
Contribution from a non-controlling shareholder	**–**	2,482
Exercise of share options	**–**	2,037
Payment for redemption of convertible bond	**–**	(21,229)
Expenses on cancellation and issue of shares	**–**	(6,239)
Repurchase of shares	**–**	(37)
Interest paid	**(27,163)**	(17,899)
Repayment of bank and other borrowings	**(210,876)**	(175,750)
Net cash generated from financing activities	**24,985**	177,565
Net increase in cash and cash equivalents	**152,857**	60,570
Cash and cash equivalent at 1 January	**79,599**	23,106
Effect of foreign exchange rate changes	**(6,710)**	(4,077)
Cash and cash equivalent at 31 December	**225,746**	79,599
Represented by:		
Bank balances and cash	**225,746**	85,856
Bank overdrafts	**–**	(6,257)
	225,746	79,599

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its parent and ultimate parent is Zhong Da (BVI) Limited (incorporated in the British Virgin Islands (the "BVI")). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

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

The principal activities of the Company and its subsidiaries (collectively referred as the "Group") 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 46.

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

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to Hong Kong Financial Reporting Standards 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
Hong Kong Accounting Standard ("HKAS") 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Revised)	First-time Adoption of HKFRSs
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) – Interpretation ("Int") 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners

2. APPLICATION OF NEW AND REVISED HKFRSs (Continued)

HKFRS 3 (Revised) Business Combinations and HKAS 27 (Revised) Consolidated and Separate Financial Statements

The Group applies HKFRS 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) Consolidated and Separate Financial Statements in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

The application of HKAS 27 (Revised 2008) has resulted in changes in the Group's accounting policies regarding increases or decreases in ownership interests in subsidiaries of the Group. In prior years, in the absence of specific requirements in HKFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. The impact of decreases in interests in subsidiaries that did not involve loss of control (being the difference between the consideration received and the carrying amount of the share of net assets disposed of) was recognised in profit or loss. Under HKAS 27 (Revised 2008), all increases or decreases in such interests are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised standard requires that the Group derecognises all assets, liabilities and non-controlling interests at their carrying amount. Any retained interest in the former subsidiary is recognised at its fair value at the date the control is lost. A gain or loss on loss of control is recognised in profit or loss as the difference between the proceeds, if any, and these adjustments.

For the loss incurred by loss making subsidiary companies, the Group is required by the revised standard to account for the losses attributable to its non-controlling interests even if that results in a deficit balance for the non-controlling interests in the Group's accounts. At 31 December 2010, total comprehensive expenses attributable to the non-controlling interests in relation to share of deficiency of subsidiaries have increased by approximately RMB9,942,000 (2009: RMB3,135,000) have been recognised in consolidated statement of comprehensive income.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

2. APPLICATION OF NEW AND REVISED HKFRSs (Continued)

Amendment to HKAS 17 Leases

As part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendment to HKAS 17 has removed such a requirement. The amendment requires that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendment to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases. The application of amendment to HKAS 17 had no material effect on the consolidated financial statements.

HK(IFRIC) – Int 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

HK(IFRIC) – Int 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ('repayment on demand clause') should be classified by the borrower as current liabilities. The Group has applied HK(IFRIC) – Int 5 for the first time in the current year. HK(IFRIC) – Int 5 requires retrospective application.

In order to comply with the requirements set out in HK(IFRIC) – Int 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK(IFRIC) – Int 5, term loans with a repayment on demand clause are classified as current liabilities.

As at 31 December 2009, no bank loans have been reclassified from non-current liabilities to current liabilities. As at 31 December 2010, no bank loans (that are repayable more than one year after the end of the reporting period but contain a repayment on demand clause) have been classified as current liabilities. The application of HK(IFRIC) – Int 5 has had no impact on the reported profit or loss for the current and prior years.

Such term loans have been presented in the earliest time band in the maturity analysis for financial liabilities that reflects the remaining contractual maturities.

The application of other new and revised HKFRS had no effect on the consolidated financial statements of the Group for the current or prior accounting periods.

2. APPLICATION OF NEW AND REVISED HKFRSs (Continued)

New and revised Standards and Interpretations issued but not yet effective

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010 except for the amendments to HKFRS 3 (Revised in 2008), HKFRS 7, HKAS 1 and HKAS 28[1]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3]
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[5]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[5]
HKFRS 9	Financial Instruments[7]
HKFRS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets[6]
HKAS 24 (Revised)	Related Party Disclosures[4]
HKAS 32 (Amendment)	Classification of Rights Issues[2]
HK(IFRIC) – Int 14 (Amendment)	Prepayment of a Minimum Funding Requirement[4]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 February 2010.
3 Effective for annual periods beginning on or after 1 July 2010.
4 Effective for annual periods beginning on or after 1 January 2011.
5 Effective for annual periods beginning on or after 1 July 2011.
6 Effective for annual periods beginning on or after 1 January 2012.
7 Effective for annual periods beginning on or after 1 January 2013.

HKFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

2. APPLICATION OF NEW AND REVISED HKFRSs (Continued)

HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard will have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The amendments to HKFRS 7 Disclosures Transfers of Financial Assets increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors of the Company do not anticipate that these amendments to HKFRS 7 will have a significant effect on the Group's disclosures. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

2. APPLICATION OF NEW AND REVISED HKFRSs (Continued)

The amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 Investment Property. Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. The directors of the Company anticipate that the application of the amendments to HKAS 12 may have a significant impact on deferred tax recognised for investment properties that are measured using the fair value model. The directors of the Company anticipate that the application of the amendments to HKAS 12 will not have a significant impact on deferred tax recognised for investment properties that are measured using the fair value model.

HKAS 24 Related Party Disclosures (Revised) modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in HKAS 24 (Revised) do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised version of the standard is applied in future accounting periods because that did not previously meet the definition of a related party may come within the scope of the Standard.

The amendments to HKAS 32 Classification of Rights Issues address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to HKAS 32 will have an impact on the classification of those rights issues.

The amendments to HK(IFRIC) – Int 14 (Amendment) Prepayment of a Minimum Funding Requirement require entities to recognise as an economic benefit any prepayment of minimum funding requirement contributions. As the Group has no defined benefit scheme, the amendments are unlikely to have any financial impact on the Group.

HK(IFRIC) – Int 19 Extinguishing Financial Liabilities with Equity Instruments provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, HK(IFRIC) – Int 19 will affect the required accounting. In particular, under HK(IFRIC) – Int 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

2. APPLICATION OF NEW AND REVISED HKFRSs (Continued)

The directors of the Company anticipate that the application of other new and revise 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 in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for investment properties and financial instruments, which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policy are set out below.

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 in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in a subsidiary

Investment in a subsidiary is stated at cost less any identified impairment loss on the Company's statement of financial position.

Investments 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. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. 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. Additional losses are 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 cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates (Continued)

From 1 January 2010 onwards, upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

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 and title has passed.

Revenue from construction contracts are recognised in accordance with the Group's accounting policy on construction contracts (see below accounting policy for construction contracts).

Commission income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Rental income arising from investment property under operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

Deposits and instalments received from purchases prior to meeting the above criteria on revenue recognition are included in the statement of financial position under current liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment 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, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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 disposal or retirement of an item of property, plant and equipment is determined as the difference between sales disposal proceeds and the carrying amount of the asset and is recognised in profit or loss.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment properties are initially 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. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash as defined above.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 end of the reporting period, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where 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 period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits 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 billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and bills receivables.

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 profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of relevant lease. Except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasehold land and buildings

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

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 the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that 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 retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

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. RMB) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive expenses and accumulated in equity (translation reserve).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

From 1 January 2010 onwards, on the disposal of a foreign operation (i.e. a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale for which the commencement date for capitalisation is on or after 1 January 2009, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefit plans included both the mandatory provident fund and state-managed retirement benefit scheme 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 end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, 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.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which 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 end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Inventories

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

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

The Group's financial assets are classified into one of the three categories, including 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 timeframe 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 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 to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in other revenue.

Financial assets at fair value through profit or loss

Financial assets at FVTPL, includes financial assets held for trading on initial recognition.

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.

Financial assets at FVTPL are measured at fair values, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss exclude any dividend or interest earned on the financial assets.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables including trade and bills receivables, other receivables, amounts due from related companies and associates, restricted deposit placed in a financial institution, deposits placed in financial institutions, restricted bank balances, pledged bank deposit and bank balances and cash are carried at amortised cost using the effective interest method, less any identified impairment loss (see accounting policy on impairment loss on the financial assets below).

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.

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 the end of each reporting period (see accounting policy in respect of impairment loss on financial assets below).

Impairment loss on financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. 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 affected.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment loss on financial assets (Continued)

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

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter into bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

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, an 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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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 or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (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 other comprehensive income and accumulated in equity.

Financial liabilities and equity instruments

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into 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, other payables and accruals and amounts due to an associate, related companies and directors are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Convertible bond

Convertible bond issued by the Group that contain liability, conversion option and early redemption option (which is not closely related to the host liability component) are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument. At the date of issue, both the liability and early redemption option components are measured at fair value. The difference between the gross proceeds of the issue of the convertible bond and the fair values assigned to the liability and early redemption option components respectively, representing the conversion option for the holder to convert the notes into equity, is included in equity (convertible bond reserve).

In subsequent periods, the liability component of the convertible bond is carried at amortised cost using the effective interest method. The early redemption option is measured at fair value with changes in fair value recognised in profit or loss.

The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible bond reserve until the embedded conversion option is exercised (in which case the balance stated in convertible bond reserve will be transferred to share premium). Where the conversion option remains unexercised at the expiry date, the balance stated in convertible bond reserve will be released to the retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Upon redemption of the convertible bond, the redemption consideration will be allocated to the liability component and equity component using the same allocation basis as when the convertible bond was originally issued.

Differences between the fair value and the carrying amount of the liability component will be recognised in the consolidated income statement. The difference between the redemption consideration and the fair value of the liability component will be included in equity (convertible bond reserve) and released to retained profits.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

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 in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

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 on the basis of the relative fair values of those parts.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

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).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

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.

Share options granted to consultants

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods and services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred income in the statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. 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. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are 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.

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Buildings

The building ownership certificates of certain of the Group's buildings were not granted by relevant government authorities as detailed in Note 17 and Note 19. In the opinion of the directors of the Company, the absence of building ownership certificates to these buildings does not impair the value of the relevant buildings of the Group.

Construction contracts

Revenue from individual contract is recognised under the percentage of completion method which requires estimation made by the directors of the Company. Anticipated 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. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Depreciation of property, plant and equipment

The Group's net carrying value of property, plant and equipment as at 31 December 2010 was approximately RMB56,460,000 (2009: RMB100,194,000). 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 impairment loss on trade receivables

The policy for impairment loss on trade receivables of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's estimation. A considerable amount of estimation 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 impairment may be required. At 31 December 2010, the carrying amount of trade receivables was approximately RMB52,575,000, net of impairment loss on trade receivables of approximately RMB83,517,000 (2009: carrying amount of trade receivables was approximately RMB77,601,000, net of impairment loss on trade receivables of approximately RMB94,460,000).

Estimated impairment loss on other receivables, amounts due from associates and related companies

When there is objective evidence of impairment losses on other receivables, amounts due from associates and related companies, the Group takes into consideration the estimation of future discounted cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2010, the carrying amounts of prepayments and other receivables and amounts due from related companies are approximately RMB49,514,000 (2009: RMB41,362,000) and RMB62,743,000 (2009: RMB115,139,000) respectively, net of impairment loss of approximately RMB31,697,000 (2009: RMB22,564,000) and nil (2009: RMB7,678,000) respectively. At 31 December 2010, the carrying amounts of amounts due from associates are approximately RMB101,480,000 (2009: RMB287,483,000), no impairment loss made during the two years ended 31 December 2010 and 2009.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Estimated impairment loss on inventories

The management of the Group reviews an ageing analysis at the end of the reporting period, and makes impairment 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 the end of the reporting period and makes impairment for obsolete and slow-moving items. At 31 December 2010, the carrying amount of inventories was approximately RMB30,128,000 (2009: RMB25,166,000), net of impairment loss on obsolete inventories of approximately RMB7,372,000 (2009: RMB5,702,000).

Estimated impairment loss on 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 for the two years ended 31 December 2010 and 2009.

Estimated fair value of investment properties

Investment properties are carried in the consolidated statement of financial position as at 31 December 2010 at their fair value of investment properties of approximately RMB123,016,000 (2009: RMB103,816,000). The fair value was based on a valuation on these properties conducted by an independent firm of professional valuers using open market value by reference to comparable market transactions which involve certain assumptions of market conditions. Favourable or unfavourable changes to these assumptions would result in changes in the fair value of the Group's investment properties and corresponding adjustments to the amount of gain or loss reported in the consolidated statement of comprehensive income.

Estimated fair value of equity-settled share-based payments

The fair value of the share options granted to directors and employees determined at the date of grant of the respective share options is recognised in the consolidated income statement, with a corresponding adjustment to the Group's share options reserve. In assessing the fair value of the share options, the generally accepted options pricing models were used to calculate the fair value of the share options. The option pricing models require the input of subjective assumptions, including the expected dividend yield and expected life of options. Any changes in these assumptions can significantly affect the estimate of the fair value of the share options.

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 shareholders 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 and bank and other borrowings, as disclosed in Notes 31 and 35 respectively, and cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital as disclosed in Note 38, reserves 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 of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, 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 INSTRUMENTS

a. Categories of financial instruments

	2010 RMB'000	2009 RMB'000
Financial assets		
FVTPL		
– held for trading investments	4,964	–
Loan and receivables		
– amounts due from related companies	62,743	115,139
– amounts due from associates	101,480	287,483
– trade and bills receivables	52,575	77,901
– other receivables	14,965	15,830
– restricted deposit placed in a financial institution	6,000	–
– deposits placed in financial institutions	15,023	–
– pledged bank deposit	9,729	9,994
– restricted bank balances	80,066	115,628
– bank balances and cash	225,746	85,856
	568,327	707,831
Available-for-sale investments	–	900
	573,291	708,731
Financial liabilities		
Other financial liabilities at amortised cost		
– trade and bills payables	267,817	308,266
– other payables and accruals	13,627	46,475
– amounts due to an associate	4,661	–
– amounts due to related companies	3,766	4,453
– amounts due to directors	7,178	5,485
– bank overdrafts	–	6,257
– bank and other borrowings	145,361	247,971
	442,410	618,907

6. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies

The Group's major financial instruments to raise finance for the Group's operations comprise bank and other borrowings, bank overdrafts and convertible bond. The Group has various other financial instruments such as available-for-sale investments, held for trading investments, trade and bills receivables, other receivables, pledged bank deposit, restricted bank balances, restricted deposit placed in a financial institution, deposits placed in financial institutions, bank balances and cash, amounts due from related companies/associates, trade and bills payables, other payables and accruals and amounts due to an associate/related companies/directors, which arise directly from its operations.

The risks associated with these financial instruments include market risk (foreign currency risk, interest rate risk), credit risk, other price risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Foreign currency risk

Several subsidiaries of the Company have foreign currency sales which expose the Group to foreign currency risk. For the year ended 31 December 2010, approximately 6% (2009: 6%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sale, whilst approximately 100% (2009: 100%) 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 end of the reporting period are as follows:

	Liabilities		**Assets**	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
United States dollars ("USD")	**117**	106	**3,001**	37,734
Hong Kong dollars ("HK$")	**27,136**	49,643	**33,977**	64,827
Euro ("Euro")	**–**	–	**57**	760
Japanese Yen ("JPY")	**–**	–	**–**	139
Australian dollars ("AUD")	**–**	–	**–**	1
	27,253	49,749	**37,035**	103,461

6. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Foreign currency risk (Continued)

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% (2009: 10%) increase or decrease in RMB against the relevant foreign currencies. 10% (2009: 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% (2009: 10%) change in foreign currency rates.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the USD and HK$ exchange rate, with all other variables held constant, of the Group's profit (loss) before tax.

6. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Foreign currency risk (Continued)

Sensitivity analysis (Continued)

For the year ended 31 December 2010	**Increase (decrease) in foreign exchange rate %**	**Increase (decrease) in profit before tax for the year RMB'000**
If RMB weakens against USD	**10**	**288**
If RMB strengthens against USD	**(10)**	**(288)**
If RMB weakens against HK$	**10**	**684**
If RMB strengthens against HK$	**(10)**	**(684)**

For the year ended 31 December 2009	Increase (decrease) in foreign exchange rate %	Increase (decrease) in loss before tax for the year RMB'000
If RMB weakens against USD	(10)	(3,763)
If RMB strengthens against USD	10	3,763
If RMB weakens against HK$	(10)	(1,518)
If RMB strengthens against HK$	10	1,518

6. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank and other borrowings (see Note 35 for details of these borrowings). The Group historically has not used any financial instruments to hedge potential fluctuations in interest rates.

The Group's cash flow interest rate risk relates primarily to its variable rate bank borrowings as detailed in Note 35. 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 based 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 end of the reporting period and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis points (2009: 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.

At 31 December 2010, if interest rates had been increased/decreased by 100 basis points and all other variables were held constant, the Group's profit before tax would decrease/increase by approximately RMB1,912,000 (2009: loss before tax would decrease/increase by approximately RMB1,072,000).

The Group's sensitivity to interest rates has increased during the year ended 31 December 2010 mainly due to the increment in the Group's variable rate bank deposits and bank and other borrowings.

6. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Credit risk

The Group's credit risk is primarily attributable to its amounts due from related companies and associates, prepayment for investments, trade and bills receivables, other receivables, held for trading investments, restricted deposit placed in a financial institution, deposits placed in financial institutions, restricted bank balances, pledged bank deposit and bank balances. As at 31 December 2010 and 2009, 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 statement of financial position.

Amounts due from related companies and associates and trade receivables 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 in respect of trade receivables, 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 the end of each reporting period 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's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for approximately 100% (2009: 100%) of the trade receivables, amounts due from related companies in trade nature and amounts due from associates in trade nature (collectively referred as "Total Trade Receivables") as at 31 December 2010.

The Group has concentration of credit risk as approximately 62% (2009: 60%) and 93% (2009: 92%) of the Total Trade Receivables were due from the Group's largest customer and the five largest 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 and securities brokers with high credit ratings assigned by international credit-rating agencies.

6. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Other price risk

The Group is exposed to equity price risk through its investments in listed equity securities which is classified as held for trading investments. The management considered the price risk is immaterial as the maximum exposure to the loss of market value of held for trading investments was approximately RMB4,964,000 for the year ended 31 December 2010 (2009: Nil).

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If the prices of the respective equity instruments had been increased/decreased by 10% (2009: Nil) and all other variables were held constant, other comprehensive income and profit would increase/decrease by approximately HK$496,000 for the year ended 31 December 2010 (2009: Nil) as a result of the changes in fair value of held for trading investments.

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 those loan covenants of the existing banking facilities.

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 2010, the Group's available unutilised banking facilities were approximately RMB16,379,000 (2009: RMB129,189,000).

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

6. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity tables

	0 to 180 days RMB'000	181 to 365 days RMB'000	Over 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
2010					
Non-derivative financial liabilities					
Trade and bills payables	**267,817**	**–**	**–**	**267,817**	**267,817**
Other payables and accruals	**13,627**	**–**	**–**	**13,627**	**13,627**
Amounts due to an associate	**4,661**	**–**	**–**	**4,661**	**4,661**
Amounts due to related companies	**3,766**	**–**	**–**	**3,766**	**3,766**
Amounts due to directors	**7,178**	**–**	**–**	**7,178**	**7,178**
Bank and other borrowings	**75,728**	**74,901**	**–**	**150,629**	**145,361**
	372,777	**74,901**	**–**	**447,678**	**442,410**
2009					
Non-derivative financial liabilities					
Trade and bills payables	308,266	–	–	308,266	308,266
Other payables and accruals	46,475	–	–	46,475	46,475
Amounts due to related companies	4,453	–	–	4,453	4,453
Amounts due to directors	5,485	–	–	5,485	5,485
Bank overdrafts	6,722	–	–	6,722	6,257
Bank and other borrowings	111,538	109,882	38,950	260,370	247,971
	482,939	109,882	38,950	631,771	618,907

6. FINANCIAL INSTRUMENTS (Continued)

c. Fair value

The fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively.

The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

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

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	31 December 2010			
	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Financial assets at FVTPL				
Held for trading investments	**4,964**	**–**	**–**	**4,964**

No financial assets and liabilities were measured at fair value as at 31 December 2009.

There were no transfers between Levels 1 and 2 in the current and prior years.

7. REVENUE

Revenue represents the amounts received and receivable for goods sold net of discounts and sales related taxes, revenue arising on construction contracts, commission income received from agency sales transaction and rental income arising from investment properties under operating leases. An analysis of the Group's revenue for the year is as follows:

	2010 **RMB'000**	2009 RMB'000
Sales of goods	**428,629**	372,436
Revenue from construction contracts	**18,460**	65,400
Commission income	**4,770**	9,190
Gross rental income from investment properties (Note)	**8,583**	8,000
	460,442	455,026

Note: Direct operating expenses from investment properties included in cost of sales that generated rental income during the year ended 31 December 2010 was approximately RMB475,000 (2009: RMB462,000).

8. SEGMENT INFORMATION

Information reported to the board of directors of the Company, being the chief operating decision makers, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

The Group's reportable segments under HKFRS 8 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. SEGMENT INFORMATION (Continued)

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segment.

For the year ended 31 December 2010

	Automobile equipment RMB'000	Buses RMB'000	Automobile spare parts RMB'000	Property investment RMB'000	Total RMB'000
External sales	186,351	68,917	196,591	8,583	460,442
Inter-segment sales	–	–	112,644	–	112,644
Segment revenue	186,351	68,917	309,235	8,583	573,086
Eliminations					(112,644)
Group revenue					460,442
Segment profit (loss)	11,214	(5,604)	21,933	20,103	47,646
Unallocated corporate expenses					(33,154)
Unallocated other revenue					3,995
Share of profit of associates					1,428
Gain on disposal of a subsidiary					26,308
Finance costs					(27,163)
Profit before tax					19,060

8. SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

For the year ended 31 December 2009

	Automobile equipment RMB'000	Buses RMB'000	Automobile spare parts RMB'000	Property investment RMB'000	Total RMB'000
External sales	197,060	120,722	129,244	8,000	455,026
Inter-segment sales	–	–	83,013	–	83,013
Segment revenue	197,060	120,722	212,257	8,000	538,039
Eliminations					(83,013)
Group revenue					455,026
Segment profit (loss)	(32,369)	451	6,419	(11,281)	(36,780)
Unallocated corporate expenses					(28,594)
Unallocated other revenue					2,420
Share of loss of associates					(381)
Finance costs					(20,929)
Loss before tax					(84,264)

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3. Segment profit (loss) represents the profit earned by or loss from each segment without allocation of central administration costs, directors' salaries, share of profit (loss) of associates, gain on disposal of trading investments, change in fair value of held for trading investments, bank interest income and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

8. SEGMENT INFORMATION (Continued)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

Segment assets

	2010	2009
	RMB'000	RMB'000
Automobile equipment	**277,508**	189,584
Buses	**5,507**	223,361
Automobile spare parts	**103,981**	302,909
Property investment	**123,016**	103,816
Total segment assets	**510,012**	819,670
Unallocated corporate assets	**457,065**	257,578
Consolidated assets	**967,077**	1,077,248

Segment liabilities

	2010	2009
	RMB'000	RMB'000
Automobile equipment	**267,478**	138,038
Buses	**2,659**	49,488
Automobile spare parts	**107,002**	212,462
Property investment	**285**	153
Total segment liabilities	**377,424**	400,141
Unallocated corporate liabilities	**182,846**	302,662
Consolidated liabilities	**560,270**	702,803

8. SEGMENT INFORMATION (Continued)

Segment assets and liabilities (Continued)

For the purposes of monitoring segment performance and allocating resources between segments:

– all assets are allocated to reportable segment assets other than interests in associates, available-for-sale investments, held for trading investments, restricted deposit placed in a financial institution, deposits placed in financial institutions, pledged bank deposit, restricted bank balances, bank balances and cash, prepayment for investments, the equipment of head office and part of prepayments and other receivables; and

– all liabilities are allocated to reportable segment liabilities other than amounts due to directors, tax payable, bank overdrafts, bank and other borrowings, deferred tax liabilities and part of other payables and accruals.

8. SEGMENT INFORMATION (Continued)

Other segment information

For the year ended 31 December 2010

	Automobile equipment RMB'000	Buses RMB'000	Automobile spare parts RMB'000	Property investment RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measure of segment profit or loss or segment assets:						
Recognition of equity-settled share-based payments	–	–	–	–	4,296	4,296
Gain on disposal of a subsidiary	–	(26,308)	–	–	–	(26,308)
Addition to property, plant and equipment	10,272	–	1,317	–	–	11,589
Depreciation of property, plant and equipment	5,909	1,933	228	–	17	8,087
Gain on disposal of property, plant and equipment	(748)	–	–	–	–	(748)
Amortisation on prepaid lease payments	184	786	–	–	–	970
Impairment loss on inventories	–	–	1,670	–	–	1,670
Reversal of impairment loss on trade receivables	(10,943)	–	–	–	–	(10,943)
Impairment loss on other receivables	1,455	–	–	–	–	1,455
Changes in fair value of investment properties	–	–	–	(12,549)	–	(12,549)

8. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

For the year ended 31 December 2010

	Automobile equipment RMB'000	Buses RMB'000	Automobile spare parts RMB'000	Property investment RMB'000	Unallocated RMB'000	Total RMB'000
Amounts regularly provided to the chief operating decision marker but not included in the measure of segment profit or loss or segment assets:						
Interests in associates	–	19,507	–	–	–	19,507
Share of profit of associates	–	–	–	–	(1,428)	(1,428)
Change in fair value of held for trading investments	–	–	–	–	(111)	(111)
Gain on disposal of held for trading investments	–	–	–	–	(166)	(166)
Interest income	–	–	–	–	(3,078)	(3,078)
Interest expenses	–	–	–	–	27,163	27,163
Income tax expenses	1,648	1,193	1,500	3,099	–	7,440

8. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

For the year ended 31 December 2009

	Automobile equipment RMB'000	Buses RMB'000	Automobile spare parts RMB'000	Property investment RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measure of segment profit or loss or segment assets:						
Addition to property, plant and equipment	3,666	4,016	201	–	–	7,883
Depreciation of property, plant and equipment	5,443	1,790	211	–	16	7,460
Gain on disposal of property, plant and equipment	(333)	–	–	–	–	(333)
Amortisation on prepaid lease payments	185	785	–	–	–	970
Reversal of impairment loss on inventories	(747)	–	–	–	–	(747)
Impairment loss on trade receivables	17,636	6,618	–	–	–	24,254
Impairment loss on other receivables	615	6,137	3,151	–	–	9,903
Changes in fair value of investment properties	–	–	–	19,370	–	19,370
Waiver of other payables and accruals	(171)	–	(291)	–	–	(462)
Waiver of trade payables	(4,731)	–	(291)	–	–	(5,022)

8. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

For the year ended 31 December 2009

	Automobile equipment RMB'000	Buses RMB'000	Automobile spare parts RMB'000	Property investment RMB'000	Unallocated RMB'000	Total RMB'000
Amounts regularly provided to the chief operating decision marker but not included in the measure of segment profit or loss or segment assets:						
Interests in associates	–	18,079	–	–	–	18,079
Interest income	–	–	–	–	(2,420)	(2,420)
Interest expenses	–	–	–	–	20,929	20,929
Income tax expenses	28,423	1,046	–	–	–	29,469

Note: Non-current assets excluded those interests in associates, available-for-sale investments and prepayment for investments.

8. SEGMENT INFORMATION (Continued)

Geographical information

The Group's revenue from external customers and information about its non-current assets (other than interests in associates, available-for-sale investments and prepayment for investments) by geographical location of the assets are detailed below:

	Revenue from external customers		Non-current assets	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
The PRC (country of domicile)	**437,650**	437,353	**155,415**	219,772
Europe	**9,548**	4,963	**–**	–
Asia other than the PRC	**5,733**	4,074	**30,816**	25,782
Others	**7,511**	8,636	**–**	–
	460,442	455,026	**186,231**	245,554

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the turnover of the Group is as follows:

	2010	2009
	RMB'000	RMB'000
Customer A[1]	**196,482**	135,000

[1] Revenue from automobile spare parts and property investment.

9. OTHER REVENUE

	2010 RMB'000	2009 RMB'000
Sales of raw materials	**5,064**	4,185
Interest income	**3,078**	2,420
Waiver of trade payables	**29**	5,022
Waiver of other payables and accruals	**1,165**	462
Government grants (Note)	**640**	–
Gain on disposal of held for trading investments	**166**	26
Increase in fair value of held for trading investments	**111**	–
Gain on disposal of property, plant and equipment	**748**	333
Others	**1,454**	1,048
	12,455	13,496

Note: Pursuant to the notices issued by the relevant government authorities, a PRC subsidiary of the Company was entitled to enjoy subsidies on interest paid from bank borrowing for business development.

10. FINANCE COSTS

	2010 RMB'000	2009 RMB'000
Interest on bank overdrafts, bank and other borrowings wholly repayable within five years	**15,639**	11,683
Interest on discounted bills	**11,524**	6,216
Effective interest expense on convertible bond (Note 36)	**–**	256
Total interest	**27,163**	18,155
Loss on early redemption of convertible bond	**–**	5
Debt extinguishment loss (Note 36)	**–**	2,769
	27,163	20,929

11. INCOME TAX EXPENSE

	2010 **RMB'000**	2009 RMB'000
Current tax:		
– PRC Enterprise Income Tax ("EIT")	**4,341**	3,678
Deferred taxation (Note 23):		
– Current year	**3,099**	25,791
	7,440	29,469

No provision for Hong Kong Profits Tax has been made for the two years ended 31 December 2010 and 2009 as the Group does not have any assessable profits subject to Hong Kong Profit Tax for the period.

Under the Law of the EIT and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

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

11. INCOME TAX EXPENSE (Continued)

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

	2010	2009
	RMB'000	RMB'000
Profit (loss) before tax	**19,060**	(84,264)
Tax at the domestic income tax rate of 25% (2009: 25%)	**4,765**	(21,066)
Tax effect of income not taxable for tax purpose	**(6,868)**	–
Tax effect of expense not deductible for income tax purpose	**4,832**	2,771
Tax effect of deductible temporary difference not recognised	**782**	10,382
Reversal of deferred tax assets	**–**	31,136
Tax effect of tax losses not recognised	**9,598**	6,191
Tax effect of share of (profit) loss of associates	**(357)**	95
Utilisation of tax losses and deductible temporary difference previously not recognised	**(5,312)**	(40)
Tax charge for the year	**7,440**	29,469

12. PROFIT (LOSS) FOR THE YEAR

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

	2010 **RMB'000**	2009 RMB'000
Amortisation on prepaid lease payments	**970**	970
Auditor's remuneration	**1,726**	1,742
Impairment loss (reversal of impairment loss) on inventories (included in cost of sales)	**1,670**	(747)
Net foreign exchange losses (gain)	**658**	(162)
Impairment loss on prepayments for investments in associates (included in administrative expenses) (Note 21(a))	**–**	438
Cost of inventories recognised as an expense	**377,240**	361,433
Depreciation on property, plant and equipment	**8,087**	7,460
Equity-settled share-based payments to consultants	**–**	8,526
Staff costs (excluding directors' emoluments (Note 13))		
— Salaries and wages	**23,924**	20,320
— Retirement benefits scheme contributions	**3,098**	2,422
— Equity-settled share-based payments	**–**	2,131
Total staff costs	**27,022**	24,873
Minimum lease payments under operating lease charges	**1,074**	1,281

13. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the seven (2009: seven) directors were as follows:

	Directors' fees RMB'000	Salaries and other benefits RMB'000	Equity-settled share-based payments RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
For the year ended 31 December 2010					
Executive director					
Xu Lian Guo	1,193	180	–	12	1,385
Xu Lian Kuan	729	180	–	12	921
Zhang Yuqing	729	180	2,148	12	3,069
Kwok Ming Fai	729	–	2,148	10	2,887
Independent non-executive director					
Gu Yao Tian	85	–	–	–	85
Sun Ka Ziang Henry	85	–	–	–	85
Li Xinzhong	85	–	–	–	85
	3,635	540	4,296	46	8,517

13. DIRECTORS' EMOLUMENTS (Continued)

	Directors' fees RMB'000	Salaries and other benefits RMB'000	Equity-settled share-based payments RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
For the year ended 31 December 2009					
Executive director					
Xu Lian Guo	992	180	–	–	1,172
Xu Lian Kuan	793	180	–	–	973
Zhang Yuqing	793	180	213	–	1,186
Kwok Ming Fai	793	–	213	10	1,016
Independent non-executive director					
Gu Yao Tian	87	–	–	–	87
Sun Ka Ziang Henry	87	–	–	–	87
Li Xinzhong	87	–	–	–	87
	3,632	540	426	10	4,608

None of the directors of the Company waived or agreed to waive any emoluments paid by the Group. No emoluments have been paid by the Group to the directors of the Company as inducement to join or upon joining the Group, or as compensation for loss of office during the two years ended 31 December 2010 and 2009.

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 individuals with the highest emoluments in the Group, four (2009: four) were directors of the Company whose emoluments are included in the disclosures in Note 13 above. The emoluments of the remaining one (2009: one) individual were as follows:

	2010 **RMB'000**	2009 RMB'000
Salaries and other benefits	**617**	243
Contributions to retirement benefit schemes	**10**	11
Equity-settled share-based payments	**–**	2,131
	627	2,385

The above emoluments fall within the following bands:

	Number of employees	
	2010	2009
Nil to HK$1,000,000 (equivalent RMB Nil to RMB871,300)	**1**	–
HK$2,500,001 to HK$3,000,000 (equivalent to RMB2,182,001 to RMB2,618,400)	**–**	1

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 2010 and 2009.

15. DIVIDENDS

No dividend was paid or proposed during 2010, nor has any dividend been proposed since the end of the reporting period (2009: Nil).

16. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share attributable to owners of the Company are based on the following data.

Earnings (loss)	**2010 RMB'000**	2009 RMB'000
Profit (loss) for the year attributable to owners of the Company for the purposes of basic and diluted earnings (loss) per share	**19,189**	(91,790)

Number of shares	**2010 '000**	2009 '000
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	**1,047,421**	755,308
Effect of dilutive potential ordinary share for share options	**9,871**	–
Weighted average number of ordinary shares for the purposes of diluted earnings (loss) per share	**1,057,292**	755,308

Diluted loss per share and basic loss per share for the year ended 31 December 2009 were the same, as the conversion of convertible bond and the exercise of share options would result in reduction in loss per share.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Plant and machinery	Motor vehicles	Furniture and equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2009	101,965	619	17,777	7,465	3,704	131,530
Additions	292	–	4,132	3,232	227	7,883
Disposals	–	–	–	(886)	–	(886)
Exchange adjustments	–	(9)	–	–	–	(9)
At 31 December 2009 and 1 January 2010	**102,257**	**610**	**21,909**	**9,811**	**3,931**	**138,518**
Additions	**6,754**	**–**	**3,346**	**1,190**	**299**	**11,589**
Reclassified to investment properties	**(6,877)**	**–**	**–**	**–**	**–**	**(6,877)**
Disposals	**(387)**	**–**	**–**	**(2,109)**	**(275)**	**(2,771)**
Disposal of a subsidiary (Note 39)	**(34,512)**	**–**	**(10,908)**	**(1,382)**	**(698)**	**(47,500)**
Exchange adjustments	**–**	**(43)**	**–**	**–**	**(7)**	**(50)**
At 31 December 2010	**67,235**	**567**	**14,347**	**7,510**	**3,250**	**92,909**
ACCUMULATED DEPRECIATION						
At 1 January 2009	16,254	592	9,783	3,038	1,630	31,297
Charge for the year	4,292	6	1,438	1,261	463	7,460
Eliminated on disposals	–	–	–	(424)	–	(424)
Exchange adjustments	–	(9)	–	–	–	(9)
At 31 December 2009 and 1 January 2010	**20,546**	**589**	**11,221**	**3,875**	**2,093**	**38,324**
Charge for the year	**4,548**	**–**	**1,668**	**1,372**	**499**	**8,087**
Reclassified to investment properties	**(3,032)**	**–**	**–**	**–**	**–**	**(3,032)**
Eliminated on disposals	**(198)**	**–**	**(424)**	**(493)**	**(259)**	**(1,374)**
Disposal of a subsidiary (Note 39)	**(1,044)**	**–**	**(3,099)**	**(1,147)**	**(241)**	**(5,531)**
Exchange adjustments	**–**	**(22)**	**–**	**–**	**(3)**	**(25)**
At 31 December 2010	**20,820**	**567**	**9,366**	**3,607**	**2,089**	**36,449**
CARRYING VALUES						
At 31 December 2010	**46,415**	**–**	**4,981**	**3,903**	**1,161**	**56,460**
At 31 December 2009	81,711	21	10,688	5,936	1,838	100,194

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment 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.

At 31 December 2010, the building ownership certificates of certain buildings have not been granted by the relevant government authorities with the aggregate values of approximately RMB2,656,000 (2009: RMB34,677,000). In the opinion of the directors of the Company, the absence of building ownership certificates to these buildings does not impair the value of the relevant buildings to the Group.

Due to the management change the intention of certain buildings during the year ended 31 December 2010, the building of approximately RMB3,845,000 (2009: Nil) was reclassified to investment property.

Details of the property, plant and equipment pledged are set out in Note 37.

18. PREPAID LEASE PAYMENTS

	2010 RMB'000	2009 RMB'000
Analysed for reporting purposes as:		
Current assets	**184**	970
Non-current assets	**6,755**	41,544
	6,939	42,514
The Group's prepaid lease payments comprise:		
Leasehold land in the PRC:		
Medium-term lease	**6,939**	42,514

Details of the prepaid lease payments pledged are set out in Note 37.

19. INVESTMENT PROPERTIES

	2010 RMB'000	2009 RMB'000
FAIR VALUE		
At 1 January	**103,816**	123,559
Reclassifications from property, plant and equipment	**3,845**	–
Changes in fair value of investment properties	**12,549**	(19,370)
Changes in fair value recognised in revaluations reserve	**3,635**	–
Exchange adjustments	**(829)**	(373)
At 31 December	**123,016**	103,816

19. INVESTMENT PROPERTIES (Continued)

The fair values of the Group's investment properties at 31 December 2010 and 2009 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 was arrived by using open market value by reference to comparable market transactions which involves certain assumptions of market conditions.

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 RMB8,583,000 (2009: RMB8,000,000).

Details of the investment properties pledged are set out in Note 37.

The carrying value of investment properties shown above comprises:

	2010 **RMB'000**	2009 RMB'000
In Hong Kong under medium-term lease	**30,816**	25,746
In the PRC under medium-term lease	**92,200**	78,070
	123,016	103,816

At 31 December 2010, the building ownership certificates of certain buildings have not been granted by the relevant government authorities with the aggregate values of approximately RMB16,000,000 (2009: Nil). In the opinion of the directors of the Company, the absence of building ownership certificates to these buildings does not impair the value of the relevant buildings to the Group.

20. INTERESTS IN ASSOCIATES

	2010 RMB'000	2009 RMB'000
Cost of investment in unlisted associates	**18,464**	18,464
Share of post-acquisition profit (loss) and other comprehensive income (expenses)	**1,043**	(385)
	19,507	18,079

Yancheng Zhongwei Bus Manufacturing Company Limited

On 17 April 2009, the Group completed the acquisition of 20% equity interest in Yancheng Zhongwei Bus Manufacturing Company Limited ("Zhongwei Bus") from Zhongda Industrial Group Corporation ("Zhongda Industrial Group"), a related company with common directors of the Company. The consideration was approximately RMB18,460,000. Details of the acquisition were set out in a circular of the Company dated 14 August 2008.

Yancheng Zhongda Industrial Equipment Manufacture Co., Ltd. ("Yancheng Equipment")

On 31 December 2010, the Group completed to dispose of 60% equity interests in Yancheng Equipment to Talent Treasure Asia Limited, an independent third party, at a cash consideration of HK$1,000,000 (equivalent to approximately RMB850,000). After the completion of disposal, the equity interest of Yancheng Equipment owned by the Group has reduced from 96% to 36%. The remaining interests in Yancheng Equipment was recorded as interests in associates on the date of disposal at a cost of zero as Yancheng Equipment maintained a negative net assets as stated at fair value immediately after the disposal as a subsidiary of the Group (Note 39).

20. INTERESTS IN ASSOCIATES (Continued)

As at 31 December 2010 and 2009, the Group had interests in the following associates:

Name of entity	Form of entity	Place of incorporation/ operation	Class of share held	Proportion of nominal value of issued capital held by the Group	Proportion of voting power held	Principal activities
Zhongwei Bus	Incorporated	PRC	Contributed capital	20%	20%	Manufacturing and trading of motor vehicles and automobile spare parts and provision of maintenance services for motor vehicles
Zhongda EMS Limited ("Zhongda EMS")	Incorporated	Hong Kong	Ordinary share capital	40%	40%	Trading of environmental detergents or automobile industry in Hong Kong
Yancheng Zhongda EMS Clearing Equipment Co., Ltd	Incorporated	PRC	Contributed capital	40%	40%	Trading of environmental detergents or automobile industry in the PRC
Yancheng Equipment	Incorporated	PRC	Contributed capital	36% (2009: Nil)	36% (2009: Nil)	Manufacturing and sale of automobile equipment
Nanjing Zhongda Jinling Double-decker Bus Manufacture Co., Ltd ("Nanjing Zhongda Jinling")	Incorporated	PRC	Contributed capital	22% (2009: Nil)	22% (2009: Nil)	Manufacturing and sale of bus

Included in the cost of investment in unlisted associates is goodwill of approximately RMB14,881,000 (2009: RMB14,881,000) arising on acquisition of an associate during the year ended 31 December 2009.

20. INTERESTS IN ASSOCIATES (Continued)

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

	2010 **RMB'000**	2009 RMB'000
Total assets	**670,281**	670,363
Total liabilities	**(640,764)**	(655,125)
Net assets	**29,517**	15,238
Group's share of net assets of associates	**4,626**	3,198
Total revenue	**390,149**	151,719
Loss for the year	**(10,249)**	(2,667)
Group's share of profit (loss) of associates for the year	**1,428**	(381)

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

	2010 **RMB'000**	2009 RMB'000
Unrecognised share of loss of associates for the year	**578**	306
Accumulated unrecognised share of losses of associates	**1,052**	474

21. PREPAYMENT FOR INVESTMENTS

	Notes	2010 RMB'000	2009 RMB'000
Prepayment for investments in associates	(a)	**–**	–
Deposits paid for acquisition of subsidiaries	(b)	**70,248**	–
Deposit paid for investment in a jointly controlled entity	(c)	**8,646**	–
		78,894	–

(a) Prepayment for investments in associates

	2010 RMB'000	2009 RMB'000
Prepayment for investments in associates	**1,087**	19,547
Less: Transfer to interests in associates (Note 20)	**–**	(18,460)
Less: Impairment loss recognised	**(1,087)**	(1,087)
At 31 December	**–**	–

	2010 RMB'000	2009 RMB'000
At 1 January	**1,087**	649
Impairment loss recognised	**–**	438
At 31 December	**1,087**	1,087

On 24 July 2008, Ausen Industrial Equipment had entered into an equity transfer agreement (the "Agreement") with Zhongda Industrial Group, a related company, for the acquisition of 20% equity interest of 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 had not been fully fulfilled as at 31 December 2008, the amount paid was regarded as prepayments for investments in associates in the consolidated statement of financial position at that date.

On 17 April 2009, the Group completed the acquisition of 20% equity interest in Zhongwei Bus from Zhongda Industrial Group. Details of the acquisition were set out in a circular of the Company dated 14 August 2008.

21. PREPAYMENTS FOR INVESTMENTS (Continued)

(a) Prepayment for investments in associates (Continued)

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 approximately USD735,000 representing 49% of the total registered capital of Zhongda Ceccato. During the year ended 31 December 2009, the relevant company has not yet commenced its business and no further capital injection has been made by the Group.

As Zhongda Ceccato reported capital deficiency, and the directors of the Company considered that no future cash inflow can be generated from Zhongda Ceccato. The prepayment for investment in Zhongda Ceccato of approximately RMB438,000 (2010: Nil) had been impaired during the year ended 31 December 2009.

(b) Deposits paid for acquisition of subsidiaries

On 4 November 2010, the Group entered into the first sale and purchase agreement with Zhongda Electric Vehicle Company Limited ("Zhongda Electric"), a related company of the Group, and Mr. Cao Qing Shan ("Mr. Cao"), an independent third party of the Group to acquire 65% equity interests in Nanjing Zhongda QingShan Electric Vehicle Company Limited ("Zhongda Qingshan"). The consideration is approximately RMB200,000,000 and will be satisfied by cash. Zhongda Qingshan is principally engaged in the development of electric power system to be used in electric vehicles. During the year ended 31 December 2010, the Group paid a refundable deposit of RMB46,000,000 and RMB20,000,000 to Zhongda Electric and Mr. Cao respectively.

On the same date, the Group entered into the second sale and purchase agreement with Caesar Overseas Enterprise Inc., a related company of the Group, and Mr. Cao to acquire the entire interest of Cherry Hill Enterprise Ltd. ("Cherry Hill"). The consideration is approximately RMB312,870,000 and will be settled by cash of approximately RMB50,000,000 and by way of the issue of the convertible bond of approximately RMB148,770,000 and new ordinary shares of approximately RMB114,100,000 respectively. Cherry Hill is principally engaged in the distribution of the products of Zhongda Qingshan to overseas markets other than the PRC. During the year ended 31 December 2010, the Group paid a refundable deposit of RMB4,248,000 to the vendor.

Details of the above acquisitions are set out in the announcement of the Company dated 4 November 2010.

21. PREPAYMENTS FOR INVESTMENTS (Continued)

(c) Deposit paid for investment in a jointly controlled entity

On 19 May 2010, the Group entered into a joint venture agreement with Santaco Trading (Proprietary) Limited, SJC (S.A.) International Investment Group (Proprietary) Limited and Santaco Veterans (Proprietary) Limited, three independent third parties to the Group, in relation to the formation of a jointly controlled entity for the construction and operation of an exclusive electronic management system ("EMS") for the collection of taxi fares as authorised by the relevant authorities in South Africa.

The total investment cost by cash is approximately RMB44,935,000. As at 31 December 2010, the Group advanced a deposit of approximately RMB8,646,000 to Sciocento (PTY) Limited, a subsidiary of Santaco Veterans (Proprietary) Limited, to assist the other three parties to form the joint venture as the Group is responsible for providing funding and financial support to the joint venture. The other three parties are responsible for co-ordinating and assisting the joint venture to roll out the EMS project.

Details of the investment are set out in the announcement of the Company dated 19 May 2010.

22. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2010 **RMB'000**	2009 RMB'000
Unlisted equity securities	**–**	900
Analysed for reporting purposes as:		
Non-current assets	**–**	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 the end of the reporting period 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.

Due to the disposal of Yancheng Equipment, all available-for-sale investments were deconsolidated as at 31 December 2010.

23. DEFERRED TAXATION

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

	Impairment loss on trade receivables RMB'000	Impairment loss on prepayments and other receivables RMB'000	Recognition of expected losses for contract work RMB'000	Impairment loss on inventories RMB'000	Accelerated depreciation RMB'000	Change in fair value of investment properties RMB'000	Estimated tax losses RMB'000	Total RMB'000
At 1 January 2009	17,550	745	6,816	1,627	(737)	(10,676)	5,135	20,460
Credited (charged) to profit or loss (Note 11)	(17,550)	(745)	(6,816)	(1,627)	737	5,345	(5,135)	(25,791)
At 31 December 2009 and 1 January 2010	**-**	**-**	**-**	**-**	**-**	**(5,331)**	**-**	**(5,331)**
Disposal of a subsidiary (Note 39)	**-**	**-**	**-**	**-**	**-**	**3,690**	**-**	**3,690**
Charged to profit or loss (Note 11)	**-**	**-**	**-**	**-**	**-**	**(3,099)**	**-**	**(3,099)**
Charged to revaluations reserve	**-**	**-**	**-**	**-**	**-**	**(909)**	**-**	**(909)**
At 31 December 2010	**-**	**-**	**-**	**-**	**-**	**(5,649)**	**-**	**(5,649)**

23. DEFERRED TAXATION (Continued)

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to the profits earned by the PRC subsidiaries amounting to RMB3,045,000 (2009: RMB76,262,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

At the end of the reporting period, the Group has unused tax losses of approximately RMB42,166,000 (2009: RMB50,226,000) available to offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. These unrecognised losses will expire in 2010 to 2014.

At the end of the reporting period, the Group has deductible temporary differences of approximately RMB137,714,000 (2009: RMB145,532,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

24. INVENTORIES

	2010 RMB'000	2009 RMB'000
Raw materials	**23,193**	20,180
Work in progress	**8,813**	4,559
Finished goods	**5,494**	6,129
	37,500	30,868
Less: Impairment loss recognised	**(7,372)**	(5,702)
	30,128	25,166

During the year ended 31 December 2009, there was a significant increase in 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 RMB747,000 has been recognised and included in administrative expenses for the year ended 31 December 2009.

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	2010 RMB'000	2009 RMB'000	Maximum amount outstanding during the year RMB'000
Yancheng Zhongda Automobile Service Co., Ltd. [1]	i & ii	**1**	13	13
Zhongda Industrial Group [1]	i & ii	**5,085**	10,206	10,206
Yancheng Zhongda International Trading Co., Ltd. ("International Trading") [1]	i & ii	**55,071**	104,327	104,327
Nanjing Jinling Double-decker Bus Manufacture Co. ("Nanjing Jinling") [3]	i	**–**	7,678	7,678
Yancheng Celette Body Repairing Equipment Co., Ltd. ("Yancheng Celette") [2]	i & ii	**888**	364	891
Nanjing Zhongda Electric Vehicle Company Limited [2]	i & ii	**1,698**	–	1,698
Ausen Co., Ltd. [4]	i & ii	**–**	139	139
Jiangsu Zhongda Auto Sales Co., Ltd. [4]	i & ii	**–**	90	90
		62,743	122,817	
Less: Impairment loss recognised		**–**	(7,678)	
		62,743	115,139	

[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] It is a subsidiary of Zhongda Industrial Group.

Notes:

(i) The amounts are unsecured and interest-free.

(ii) The amounts are mainly trading in nature.

25. AMOUNTS DUE FROM RELATED COMPANIES (Continued)

The Group allows credit period of 30 to 180 days to its related companies. The following is an aged analysis of its related companies net of impairment loss on amounts due from related companies based on the invoice date at the end of the reporting period.

	2010 RMB'000	2009 RMB'000
0 to 180 days	**56,456**	74,406
181 to 365 days	**6,287**	8,000
Over 1 year	**–**	32,733
Total	**62,743**	115,139

Included in the amounts due from related companies are balances of approximately RMB6,287,000 (2009: RMB40,733,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss as there has not been a significant change in credit quality. The Group does not hold any collateral over these balances.

Ageing of amounts due from related companies which are past due but not impaired is as follows:

	2010 RMB'000	2009 RMB'000
Neither past due nor impaired	**56,456**	74,406
Over 1 to 180 days	**6,287**	8,000
Over 181 days to 365 days	**–**	32,733
Total	**62,743**	115,139

The Group's neither past due nor impaired amounts due from related companies mainly represent sales and purchases with related companies. They usually settled the accounts in accumulated amounts thereby lengthen the age of these receivables.

25. AMOUNTS DUE FROM RELATED COMPANIES (Continued)

In determining the recoverability of amounts due from related companies, the Group considers any change in credit quality of amounts due from related companies 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 of the Company consider that there is no further credit provision required in excess of the impairment loss recognised for the year.

At 31 December 2009, the impairment loss recognised represented an advance to a related company. In view of financial difficulties of Nanjing Jinling, the directors of the Company considered that the possibility of recovery of approximately RMB7,678,000 is remote. Full impairment was made during the year ended 31 December 2009.

Following the disposal of Yancheng Equipment during the year ended 31 December 2010 (Note 39), balance of approximately RMB7,678,000 classified as other receivables, accordingly, the corresponding impairment loss of approximately RMB7,678,000 recognised was also reclassified as provision of impairment loss for other receivables.

At 31 December 2010, amounts due from related companies of approximately RMB55,071,000 (2009: RMB36,331,000), Nil (2009: RMB106,000) and RMB259,000 (2009: Nil) were denominated in HK$, USD and JPY respectively.

26. AMOUNTS DUE FROM ASSOCIATES

Amounts due from associates disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance is as follows:

	2010	2009	Maximum amount outstanding during the year
	RMB'000	RMB'000	RMB'000
Zhongda EMS	**680**	698	698
Zhongwei Bus	**86,126**	286,785	286,785
Yancheng Equipment	**14,674**	–	14,674
	101,480	287,483	

The amounts are unsecured, interest-free and trading in nature.

26. AMOUNTS DUE FROM ASSOCIATES (Continued)

The Group allows credit period of 365 days to its associates. The following is an aged analysis of its associates based on the invoice date at the end of the reporting period.

	2010 **RMB'000**	2009 RMB'000
0 to 365 days	**101,480**	135,000
Over 1 year	**–**	152,483
Total	**101,480**	287,483

Included in the amount due from associates are balances of nil (2009: RMB152,483,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss as there has not been a significant change in credit quality. The Group does not hold any collateral over these balances.

Ageing of amount due from associates which are past due but not impaired is as follows:

	2010 **RMB'000**	2009 RMB'000
Neither past due nor impaired	**101,480**	135,000
Over 1 to 365 days	**–**	152,483
Total	**101,480**	287,483

The Group's neither past due nor impaired amount due from associates mainly represent the sales made to Zhongwei Bus and Yancheng Equipment. They usually settled the accounts in accumulated amounts thereby lengthen the age of these receivables.

In determining the recoverability of amounts due from associates, the Group considers any change in credit quality of amounts due from associates from the date credit was initially granted up to the reporting date. In view of the good settlement repayment history from the associates of the Group, the directors of the Company consider that there is no credit provision required for the year.

At 31 December 2010, amounts due from associates of approximately RMB680,000 (2009: RMB698,000) were denominated in HK$.

27. TRADE AND BILLS RECEIVABLES

	2010 **RMB'000**	2009 RMB'000
Trade receivables	**136,092**	172,061
Less: Impairment loss recognised	**(83,517)**	(94,460)
	52,575	77,601
Bills receivables	**–**	300
	52,575	77,901

The Group allows credit period ranging from 30 to 180 days (2009: 30 to 365 days) to its trade customers. Due to the financial turmoil, the Group had offered a longer credit period of 30 to 365 days to its trade customers in 2009. As the economy had recovered in 2010, the credit period had changed back to 30 to 180 days as in 2008. The following is an aged analysis of trade receivables net of impairment loss on trade receivables presented based on the invoice date at the end of the reporting period.

	2010 **RMB'000**	2009 RMB'000
0 to 180 days	**40,816**	49,148
181 to 365 days	**11,759**	28,453
Total	**52,575**	77,601

Included in the Group's trade receivables are debtors with an aggregate carrying amount of approximately RMB47,724,000 (2009: RMB39,000,000) which are past due at the end of the reporting period 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:

	2010 RMB'000	2009 RMB'000
Neither past due nor impaired	**4,851**	38,551
0 to 180 days	**35,965**	10,597
181 to 365 days	**11,759**	28,453
Total	**52,575**	77,601

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 regard, 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 of the Company consider that there is no further credit provision required in excess of the impairment loss recognised for the year.

Movement in the impairment loss on trade receivables is as follows:

	2010 RMB'000	2009 RMB'000
Balance at beginning of the year	**94,460**	70,206
Reversal of impairment loss	**(10,943)**	–
Impairment loss recognised	**–**	24,254
Balance at end of the year	**83,517**	94,460

The Group has provided impairment loss for all receivables over 365 days because historical experience is such that receivables that are past due beyond 365 days are generally not recoverable. The Group does not hold any collateral over these balances.

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

	2010 RMB'000	2009 RMB'000
Contracts in progress at the end of the reporting period:		
Contract costs incurred plus recognised profits less recognised losses	**32,743**	45,295
Less: progress billings	**(27,311)**	(36,044)
	5,432	9,251
Analysed for reporting purposes as:		
Amounts due from customers for contract work	**44,293**	53,216
Amounts due to customers for contract work	**(38,861)**	(43,965)
	5,432	9,251

At 31 December 2010, retentions held by customers for contract works amounted to approximately RMB2,544,000 (2009: RMB2,223,000). There was no advance received from customers for contract work as at 31 December 2010 and 2009.

29. HELD FOR TRADING INVESTMENTS

	2010 RMB'000	2009 RMB'000
Listed securities		
– equity securities listed in Hong Kong	**4,964**	–

30. PREPAYMENTS AND OTHER RECEIVABLES

	2010	2009
	RMB'000	RMB'000
Advances to sales representatives	**7,475**	6,289
Prepayments	**364**	890
Deposits paid	**65,882**	50,426
Other receivables	**7,490**	6,321
	81,211	63,926
Less: impairment loss recognised	**(31,697)**	(22,564)
	49,514	41,362

Recoverability of prepayments and other receivables is assessed on individual basis. At the end of each reporting period, 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 impairment loss on prepayments and other receivables are as follows:

	2010	2009
	RMB'000	RMB'000
Balance at beginning of the year	**22,564**	12,661
Transfer from amount due from related companies (Note 1)	**7,678**	–
Impairment loss recognised (Note 2)	**1,455**	9,903
Balance at end of the year	**31,697**	22,564

Note 1: Following the disposal of Yancheng Equipment during the year ended 31 December 2010 (Note 39), balance of approximately RMB7,678,000 was classified as other receivables, accordingly, the corresponding impairment loss of approximately RMB7,678,000 recognised was also reclassified as provision of impairment loss for other receivables.

Note 2: Impairment loss on other receivables recognised during the year ended 31 December 2010 and 2009 represented the amount advanced to suppliers in 2008. For the year ended 31 December 2010, in view of the financial difficulties and liquidation, the directors of the Company considered that the recoverability of the amount of approximately RMB1,455,000 (2009: RMB9,903,000) were remote and full impairment has been made.

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

Restricted deposit placed in a financial institution

At 31 December 2010, approximately RMB6,000,000 (2009: Nil) restricted deposit placed in a financial institution represented, deposit required and restricted by 徐州市郊信用聯社福水井分社 in respect of the issue of trade bills to certain suppliers. The deposit carried interest at market rate of 1.98% (2009: Nil) per annum, and will be released upon the completion of the respective transactions. The deposit was denominated in RMB.

Deposits placed in financial institutions

At 31 December 2010, approximately RMB15,023,000 (2009: Nil) deposits placed in financial institutions represented deposit held in non-bank financial institution. The deposit carried interest at market rate of 0.36% to 1.98% (2009: 0.01% 0.36%). The deposit was denominated in RMB.

Restricted bank balances

At 31 December 2010, restricted bank balances of approximately RMB80,066,000 (2009: 115,628,000) 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 2.20% (2009: 1.98% to 3.78%) per annum, and will be released upon the completion of the respective transactions.

Pledged bank deposit

Pledged bank deposit of approximately RMB9,729,000 (2009: RMB9,994,000) represented deposit pledged to a bank to secure the bank overdraft facility granted to a PRC subsidiary of the Company. This deposit is denominated in HK$ and carried interest at market rate of 0.01% (2009: 0.01%) per annum.

Bank balances

Bank balances carry interest at market rates which ranged from 0.01% to 0.36% (2009: 0.01% to 0.36%).

At 31 December 2010, bank balances of approximately RMB2,904,000 (2009: RMB1,336,000), approximately RMB2,535,000 (2009: RMB54,130,000) and approximately RMB57,000 (2009: RMB760,000) were denominated in USD, HK$ and Euro respectively.

31. RESTRICTED DEPOSIT PLACED IN A FINANCIAL INSTITUTION/DEPOSITS PLACED IN FINANCIAL INSTITUTIONS/RESTRICTED BANK BALANCES/PLEDGED BANK DEPOSIT/BANK BALANCES/BANK OVERDRAFTS (Continued)

Bank overdrafts

Bank overdrafts as at 31 December 2009 carry interest at market rates which ranged from 5.35% to 7.47% per annum.

At 31 December 2009, bank overdrafts of approximately RMB6,127,000 and RMB130,000 are denominated in RMB and HK$ respectively. Bank overdraft denominated in RMB was secured by a pledged bank deposit of approximately RMB9,994,000.

32. TRADE AND BILLS PAYABLES

The following is an aged analysis of trade and bills payables presented based on the invoice date at the end of the reporting period.

	2010 **RMB'000**	2009 RMB'000
0 to 180 days	**89,881**	105,764
181 to 365 days	**11,591**	10,264
1 to 2 years	**8,997**	12,446
Over 2 years	**8,030**	11,424
	118,499	139,898
Bills payable	**149,318**	168,368
	267,817	308,266

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

At 31 December 2010, the Group's bills payable was supported by restricted bank balances and restricted deposit placed in a financial institution of approximately RMB80,066,000 (2009: RMB115,628,000) and RMB6,000,000 (2009: Nil) respectively.

33. OTHER PAYABLES AND ACCRUALS

	2010 RMB'000	2009 RMB'000
Accrued expenses	**5,271**	9,440
Other payables	**8,356**	8,875
Other tax payable	**34,595**	28,160
	48,222	46,475

At 31 December 2010, other payables and accruals of approximately RMB5,190,000 (2009: RMB4,619,000) and RMB117,000 (2009: RMB106,000) were denominated in HK$ and USD respectively.

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

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

At 31 December 2010, amounts due to directors of approximately RMB6,585,000 (2009: RMB4,923,000) are denominated in HK$.

35. BANK AND OTHER BORROWINGS

	2010 **RMB'000**	2009 RMB'000
Bank borrowings:		
Secured	**92,102**	62,573
Unsecured	**53,259**	145,398
	145,361	207,971
Other borrowings:		
Secured	**–**	40,000
	145,361	247,971
Carrying amounts repayable:		
On demand or within one year	**145,361**	210,876
More than one year, but not exceeding two years	**–**	37,095
	145,361	247,971
Less: Amounts due within one year shown under current liabilities	**(145,361)**	(210,876)
	–	37,095

As at 31 December 2010, the Group's bank and other borrowings were subject to fixed and variable interest rates from 2.03% to 7.00% (2009: 1.30% to 9.47%) per annum.

35. BANK AND OTHER BORROWINGS (Continued)

At 31 December 2010, bank loans of approximately RMB92,102,000 (2009: RMB62,573,000) were secured by certain of the Group's prepaid lease payments with net carrying values of approximately RMB6,939,000 (2009: RMB7,123,000), buildings with net carrying value of approximately RMB8,465,000 (2009: RMB42,700,000) and investment properties with fair value of approximately RMB122,405,000 (2009: RMB103,816,000).

At 31 December 2010, bank loans of approximately RMB53,259,000 (2009: RMB88,220,000) were secured by corporate guarantees issued by an independent third party and Zhongda Industrial Group, a related company of the Company, and certain assets of Zhongda Industrial Group.

At 31 December 2009, the other loan of approximately RMB40,000,000 (2010: Nil) was secured by prepaid lease payments of the Group with net carrying value of approximately RMB35,391,000 and were secured by corporate guarantees issued by Zhongda Industrial Group.

At 31 December 2009, the Group had bank borrowings of RMB57,178,000 (2010: Nil) which were neither secured nor guaranteed.

At 31 December 2010, bank borrowings of approximately RMB15,361,000 (2009: RMB39,971,000) were denominated in HK$.

36. CONVERTIBLE BOND

The Company issued a five-year zero coupon convertible bond with principal amount of HK$21,000,000 (approximately RMB18,460,000) to Zhong Da (BVI) Limited, the ultimate holding company of the Company on 8 May 2009 (the "Issue Date") (the "Convertible Bond") to settle the loan from ultimate holding company.

The Convertible Bond entitled the holders to convert them into ordinary shares of the Company at any time between 8 November 2009 and 30 April 2013 at a conversion price of HK$0.84 per share. If the Convertible Bond has not been converted, they will be redeemed on maturity date on 7 May 2013 (the "Maturity Date") at par.

The number of shares to be issued on conversion of the Convertible Bond were 25,000,000 shares, which is determined by dividing the HK$ principal amount of the Convertible Bond to be converted (translated into Hong Kong dollars at the fixed exchange rate of HK$1 = RMB0.879) by the conversion price of HK$0.84 in effect at the conversion date.

The Company was entitled to redeem the Convertible Bond at any time prior to the Maturity Date. On 9 August 2009 ("Redemption Date"), the Convertible Bond was wholly redeemed by the Company at the Redemption Date. The early redemption give rise to a debt extinguishment loss of approximately HK$3,165,000 (equivalent to approximately RMB2,769,000) included in finance costs for the year end 31 December 2009 (see Note 10).

The Convertible Bond contains the following components that were required to be separately accounted for:

(i) Liability component for the Convertible Bond represents the present value of the contractually determined stream of future cash flows discounted at the interest rate at the date of issue with reference to the market rate for instruments of comparable credit status taking into account the credit risk of the Company as well as the amount of the Convertible Bond, but without the conversion portion. The effective interest rate of the liability component is 8% per annum.

(ii) Embedded derivative comprises of the fair value of redemption option represents the Company's option to early redeem all or part of the Convertible Bond. The amount payable for any early redemption shall be the 115% of the outstanding principal amount of the Convertible Bond so redeemed. In the opinion of an independent qualified profession valuer not connected with the Group, the fair value of the embedded redemption option was Nil.

(iii) The equity component represents the difference between the gross proceeds of the issue of the Convertible Bond and the fair value assigned to the liability and early redemption option components respectively.

36. CONVERTIBLE BOND (Continued)

The movement of the liability portion of the Convertible Bond for the year ended 31 December 2009 were set out below:

	RMB'000
At Issue Date	12,145
Effective interest charged (Note 10)	256
Early redemption	(12,401)
At 31 December 2009	–

The movement of the equity portion of the Convertible Bond for the year ended 31 December 2009 were set out below:

	RMB'000
At Issue Date	6,315
Transfer to retained profits upon redemption of convertible bond	(261)
Effect of early redemption of convertible bond	(6,054)
At 31 December 2009	–

The fair values of the Group's Convertible Bond on both Issue Date and Redemption Date had been arrived at on the basis of a valuation carried out on those dates by Ample Appraisal Limited, an independent qualified professional valuer not connected to the Group. The valuations were arrived at by adopting the method of discounted cash flow method.

37. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to secure bank and other borrowings (Note 35) and bank overdrafts (Note 31) of the Group.

	2010 **RMB'000**	2009 RMB'000
Prepaid lease payments	**6,939**	42,514
Buildings	**8,465**	42,700
Investment properties	**122,405**	103,816
Pledged bank deposit	**9,729**	9,994
	147,538	199,024

38. SHARE CAPITAL

	Notes	**Number of shares**	**HK$'000**	**Equivalent to RMB'000**
Ordinary shares of HK$0.10 each				
Authorised:				
At 1 January 2009		1,000,000,000	100,000	
Increase on 26 June 2009	(i)	9,000,000,000	900,000	
At 31 December 2009, 1 January 2010 and 31 December 2010		**10,000,000,000**	**1,000,000**	
Issued and fully paid:				
At 1 January 2009		529,420,200	52,942	55,074
Shares repurchased and cancelled	(ii)	(274,000)	(27)	(24)
Exercise of share options	(iii)	15,862,227	1,586	1,388
Shares issued under open offer	(iv)	319,887,744	31,989	27,962
Bonus shares issued under open offer	(iv)	63,977,548	6,398	5,592
Placing of new shares	(v)	105,000,000	10,500	9,174
At 31 December 2009 and 1 January 2010		**1,033,873,719**	**103,388**	**99,166**
Placing of new shares	(vi)	**18,450,000**	**1,845**	**1,618**
At 31 December 2010		**1,052,323,719**	**105,233**	**100,784**

38. SHARE CAPITAL (Continued)

(i) Increase in authorised share capital

An ordinary resolution was passed at the special general meeting on 26 June 2009 to approve the increase of authorised share capital of the Company from HK$100,000,000 (divided into 1,000,000,000 ordinary shares of HK$0.10 each) to HK$1,000,000,000 (divided into 10,000,000,000 ordinary shares of HK$0.10 each) by the creation of 9,000,000,000 new shares of HK$0.10 each, which upon issue shall rank pari passu in all respects with the existing shares.

(ii) Shares repurchased and cancelled

During the year ended 31 December 2009, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	No. of ordinary shares at HK$0.1 each	Price per share Highest HK$	Price per share Lowest HK$	Aggregate consideration paid HK$'000
January 2009	274,000	0.20	0.14	42

The above shares were cancelled upon repurchase at total consideration of equivalent to HK$42,000 (approximately RMB37,000) 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.

(iii) Exercise of share options

Details of the Company's share option scheme and the share options issued under the scheme are included in Note 44.

38. SHARE CAPITAL (Continued)

(iv) Shares and bonus shares issued under open offer

On 17 July 2009, the allotment and issue by way of open offer of 319,887,744 offer shares at HK$0.28 (the "Open Offer") each on the basis of three shares for every five existing shares held and payable in full upon acceptance with 63,977,548 bonus shares (the "Bonus Issue") issue on the basis of two bonus shares for every ten offer shares. Proceeds from the Open Offer with Bonus Issue were approximately HK$89,569,000 (equivalent to approximately RMB78,294,000).

Proceeds from the Open Offer with Bonus Issue will be used by the Company for the development of alternative energy vehicles and as general working capital of the Group.

(v) Placing of new shares

On 12 November 2009, 105,000,000 ordinary shares of HK$0.10 each were issued and allotted to the ultimate holding company at the placing price of HK$0.713 each. Proceeds from the placing of new shares were approximately HK$74,865,000 (equivalent to approximately RMB65,413,000).

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

(vi) Placing of new shares

On 9 April 2010, 18,450,000 ordinary shares of HK$0.10 each were issued and allotted to Midway International Holdings Limited, an independent third party, at the placing price of HK$0.813 each. Proceeds from the placing of new shares were approximately HK$15,000,000 (equivalent to approximately RMB13,103,000).

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

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

39. DISPOSAL OF A SUBSIDIARY

On 31 December 2010, the Group completed to dispose of 60% equity interest in Yancheng Equipment to Talent Treasure Asia Limited ("Talent Treasure"), an independent third party, at a cash consideration of HK$1,000,000 (equivalent to approximately RMB850,000). After the completion of disposal, the equity interest of Yancheng Equipment owned by the Group has been reduced from 96% to 36%. The investment in Yancheng Equipment were then changed from investment in a subsidiary to investment in an associate.

Pursuant to the agreement, two directors of Yancheng Equipment who were appointed by the Company are required to resign as directors of Yancheng Equipment and Talent Treasure appointed three directors of Yancheng Equipment. On 31 December 2010, such directors resigned as directors of Yancheng Equipment accordingly. The directors of the Company considered that the Group's control over Yancheng Equipment and its subsidiary, Nanjing Zhongda Jinling was lost on 31 December 2010 and Yancheng Equipment and Nanjing Zhongda Jinling ceased to be the Group's subsidiaries. The results of Yancheng Equipment and Nanjing Zhongda Jinling were included in the consolidated income statement of the Group up to 31 December 2010 and Yancheng Equipment became an associate of the Group since 31 December 2010.

Analysis of fair value of assets and liabilities over which control was lost:

	As at 31 December 2010 RMB'000
Property, plant and equipment	**41,969**
Prepaid lease payment	**34,605**
Available-for-sale investments	**900**
Inventories	**2,233**
Trade and bill receivables	**20,318**
Prepayments and other receivables	**1,423**
Amounts due from related companies	**5,041**
Amounts due from associates	**13,333**
Restricted bank balances	**3,000**
Bank balances and cash	**18,750**
Amount due to the Group from Nanjing Zhongda Jinling	**(10,020)**
Amounts due from the Group to Yancheng Equipment	**39,577**
Trade and bill payables	**(21,110)**
Other payables and accruals	**(5,705)**
Advance receipts from customers	**(1,707)**
Bank and other borrowings	**(132,900)**
Tax payable	**(328)**
Deferred tax liabilities	**(3,690)**
Net assets disposed of	**5,689**

39. DISPOSAL OF A SUBSIDIARY (Continued)

	As at 31 December 2010 RMB'000
Consideration received	850
Fair value of interest retained in interests in associates (Note 20)	–
Waiver of amount due to Yancheng Equipment	39,577
Release of non-controlling interests	(8,430)
	31,997
Less: net assets of subsidiary derecognised on disposal	(5,689)
Gain on disposal of a subsidiary	26,308
Net cash outflow arising on disposal:	
Cash consideration	850
Less: bank balances and cash disposed of	(18,750)
Net cash outflow	(17,900)

The financial impact of disposal of Yancheng Equipment on the Group's turnover, results and cash flows for the year ended 31 December 2010 and 2009 as follows:

	2010 RMB'000	2009 RMB'000
Revenue	70,895	121,056
Loss for the year	(17,409)	(29,740)
Net cash flow from		
– Operating activities	6,797	(648)
– Financing activities	14,900	14,800
– Investing activities	(27,789)	(749)

40. OPERATING LEASES COMMITMENTS

The Group as lessor

Property rental income earned during the year was approximately RMB8,583,000 (2009: RMB8,000,000). The properties are expected to generate rental yield of 11.26% (2009: 7.7%) on an ongoing basis. Lease and rentals are negotiated and fixed for an average of one to two years (2009: three years).

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease receipts:

	2010 **RMB'000**	2009 RMB'000
Within one year	**417**	1,842

The Group as lessee

	2010 **RMB'000**	2009 RMB'000
Minimum lease payments in respect of rented premises paid under operating leases during the year	**1,074**	1,281

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2010 **RMB'000**	2009 RMB'000
Within one year	**97**	136
In the second to fifth year inclusive	**10**	66
	107	202

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for an average term of two to three years (2009: two to three years) and rentals are fixed during the relevant lease periods.

41. CAPITAL COMMITMENTS

	2010 RMB'000	2009 RMB'000
Commitments contracted but not provided for in respect of		
Capital contribution on investment in an associate	**4,162**	4,162
Investment in a jointly controlled entity (Note 21(c))	**36,289**	–
Acquisition of subsidiaries (Note 21(b))	**442,622**	–
Acquisition of property, plant and equipment	**8,892**	10,836
	491,965	14,998

The capital commitment of acquisition of subsidiaries would be satisfied by cash of approximately RMB179,752,000, convertible bond of approximately of RMB148,770,000 and new ordinary shares of RMB114,100,000.

42. RELATED PARTY TRANSACTIONS

Apart from the balances with related parties disclosed in the consolidated statement of financial position and Notes 25, 26 and 34, the Group also entered into the following transactions with its related parties:

	Notes	2010 RMB'000	2009 RMB'000
Transactions with Zhongda Industrial Group[4]:			
– 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
– Acquisition for 20% equity interest of Zhongwei Bus (Note 20)	(e)	**–**	18,460
Transactions with Yancheng Celette[5]:			
– Sales of products and raw materials	(f)	**6,385**	2,554
– Purchase of products and raw materials	(g)	**11,111**	7,591
Transactions with Zhongwei Bus[2]:			
– Sales of products and raw materials	(f)	**189,581**	135,000
– Purchase of products and raw materials	(g)	**50**	–
– Rental income for investment properties	(h)&(i)	**8,000**	8,000

42. RELATED PARTY TRANSACTIONS (Continued)

	Notes	2010 RMB'000	2009 RMB'000
Transactions with International Trading[4]:			
– Sales commission income	(j)	**5,008**	9,190
Transaction with Zhongda Sankyo[3]:			
– Purchase of raw materials	(g)	**35**	150
Transaction with Jiangsu Sankyo Automobile Equipment Co., Ltd[1]:			
– Rental expense for office premises	(k)	**300**	300
Transaction with Yancheng Sheung Tong[3]:			
– Purchase of products and raw materials	(g)	**22**	–
– Sales of raw materials	(l)	**8**	181
Transaction with Ausen Co., Ltd[3]:			
– Sales of products	(m)	**–**	2,504
Transaction with Zhongda Electric[5] and Caesar Overseas Enterprise Inc.[6]:			
– Deposits paid for acquisition of subsidiaries	(n)	**50,248**	–

1 It is an associate of Zhongda Industrial Group.
2 It is an associate of the Group.
3 It is a subsidiary of Zhongda Industrial Group.
4 Xu Lian Guo and Xu Lian Kuan are the common directors with beneficial interests.
5 Xu Lian Guo and Xu Lian Kuan are the common directors.
6 Xu Lian Guo is the common director.

42. RELATED PARTY TRANSACTIONS (Continued)

Details and terms of the above transactions with related parties are as follows:

(a) Pursuant to an integrated services agreement dated 31 August 2001, the annual fee for integrated services provided by Zhongda Industrial Group 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 approximately RMB200,000 for periods commenced on 31 August 2001 to expiry of the patent certificate of the relevant patents.

(c) Pursuant to a trademark agreement dated 31 August 2001, Zhongda Industrial Group granted to the Group an exclusive right to use certain trademarks at an annual fee of approximately RMB150,000. The agreement is for a term of ten years commenced on 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 approximately RMB100,000 per annum for a period of five years commenced on 1 June 2006.

(e) The Group completed the acquisition of 20% equity interest in Zhongwei Bus from Zhongda Industrial Group at a consideration of approximately RMB18,460,000. Details are set out in Note 20.

(f) The selling 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.

(g) The purchase terms were agreed by both parties.

(h) Pursuant to a rental agreement, the rental of land is charged at approximately RMB250,000 per month for a period of one year commenced on 1 January 2010 (2009: 1 January 2009). The agreement was renewed with rental charge at RMB250,000 per month for another one year commenced on 1 January 2011.

(i) Pursuant to a rental agreement, the rental of land and buildings is charged at approximately RMB5,000,000 per annum for the period from 1 January 2010 to 31 December 2010 (2009: 1 January 2009 to 31 December 2009). The agreement was renewed with rental charge at RMB5,000,000 per annum for the period from 1 January 2011 to 31 December 2011.

42. RELATED PARTY TRANSACTIONS (Continued)

(j) Pursuant to an exclusive agency agreement dated 8 April 2008, International Trading has appointed Zhongda International Trading Limited, a subsidiary of the Company, as the exclusive overseas agent for selling the products which is including but not limited to buses, coaches, auto parts and components manufactured by Zhongwei Bus (the "Products") outside the PRC. Zhongda International Trading Limited will be entitled to receive a commission at a rate of nine per cent on the selling prices of the Products.

(k) Pursuant to a rental agreement, the rental of office premises was charged at approximately RMB25,000 per month.

(l) Sales to Yancheng Sheung Tong of approximately RMB8,000 (2009: RMB181,000) were made on mutually agreed terms.

(m) For the year ended 31 December 2009, sales of approximately RMB2,504,000 (2010: Nil) were made with Ausen Co., Ltd.

The above sales were made on mutually agreed terms.

(n) During the year ended 31 December 2010, the Group entered into sales and purchase agreements with related parties for acquisition of subsidiaries and paid deposits of approximately of RMB50,248,000. Details were set out in Note 21(b).

(o) Zhongda Industrial Group has pledged certain assets and provided the corporate guarantee of approximately RMB72,000,000 (2010: Nil) to the bank and financial institution to secure the bank and other borrowings of approximately RMB77,020,000 (2010: Nil).

42. RELATED PARTY TRANSACTIONS (Continued)

(p) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2010 RMB'000	2009 RMB'000
Short-term benefits	**4,605**	4,807
Post-employment benefits	**56**	21
Equity-settled share-based payments	**4,296**	426
	8,957	5,254

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

43. 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 20% (2009: 20%) 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.

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 RMB3,144,000 (2009: RMB2,432,000) represents contributions payable to the retirement schemes by the Group.

44. 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 directors of the Company 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 of the Company 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 daily quotations sheet of the Stock Exchange 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 daily quotations sheets of the Stock Exchange 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 exercised 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 to 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.

On 8 October 2001, a share option scheme approved and adopted (the "Old Scheme") which was terminated by the Company during the year ended 31 December 2007. Under the Old Scheme, the maximum number of shares which may be issued shall not in aggregate exceed 40,000,400 shares. The directors of the Company 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 of the Company and will at least be the higher of (i) the closing price of the shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant, which shall be a business day; (ii) the average closing price of the shares as stated in the daily quotation sheet of the Stock Exchange for the five business days immediately preceding the date of grant, and (iii) the par value of the shares.

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.

44. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

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$0.121 (Note a)
Feb 2007 (1)	5/2/2007	N/A	5/2/2007 to 4/8/2012	HK$0.314 (Note a)
Feb 2007 (2)	13/2/2007	N/A	13/2/2007 to 12/8/2012	HK$0.423 (Note a)
Nov 2009	6/11/2009	N/A	6/11/2009 to 5/11/2014	HK$0.792
Jul 2010	6/7/2010	N/A	6/7/2010 to 5/7/2015	HK$0.588

The following table discloses movements of the Company's share options held by employees and consultants during the two years ended 31 December 2010 and 2009:

Option type	Outstanding at 1/1/2009	Adjustment during the year (Note (a))	Granted during the year	Exercised during the year	Forfeited/ expired during year	Outstanding at 31/12/2009
Jan 2007	12,000,120	3,862,107	–	(15,862,227)	–	–
Feb 2007 (1)	4,000,040	1,931,054	–	–	–	5,931,094
Feb 2007 (2)	4,000,040	1,931,054	–	–	–	5,931,094
Nov 2009	–	–	47,684,597	–	–	47,684,597
	20,000,200	7,724,215	47,684,597	(15,862,227)	–	59,546,785
Exercisable at end of the year						59,546,785
Weighted average exercise price	HK$0.326	HK$0.245	HK$0.792	HK$0.136	–	HK$0.708

Note a: The exercise price and number of share options have been adjusted as the result of the Open Offer and bonus issue of ordinary shares during the year ended 31 December 2009.

44. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Option type	Outstanding at 1/1/2010	Granted during the year	Exercised during the year	Forfeited/ expired during the year	Outstanding at 31/12/2010
Jan 2007	–	–	–	–	**–**
Feb 2007 (1)	5,931,094	–	–	–	**5,931,094**
Feb 2007 (2)	5,931,094	–	–	–	**5,931,094**
Nov 2009	47,684,597	–	–	–	**47,684,597**
Jul 2010	–	19,212,452	–	–	**19,212,452**
	59,546,785	19,212,452	–	–	**78,759,237**
Exercisable at end of the year					**78,759,237**
Weighted average exercise price	HK$0.708	HK$0.588	–	–	**HK$0.679**

At 31 December 2010, the outstanding options entitling by the eligible person under Scheme and the Old Schedule to subscribe for aggregate 66,897,049 (2009: 47,684,597) and 11,862,188 (2009: 11,862,188) shares represent approximately 6.3% (2009: 4.6%) and 1.1% (2009: 1.2%) of the total issued share capital of the Company respectively.

During the year ended 31 December 2010, share options were granted on 6 July 2010 and its estimated fair values of the options granted on those date is approximately RMB4,296,000.

The Group recognised the total expense of approximately RMB4,296,000 for the year ended 31 December 2010 (2009: RMB11,083,000) in relation to share options granted by the Company.

The fair value was calculated using the Binomial Option pricing model. The inputs into the model were as follows:

Date of grant	6 July 2010	6 November 2009
Spot Price	HK$0.580	HK$0.780
Exercise Price	HK$0.588	HK$0.792
Risk-free interest rate	2.10%	1.74%
Expected life of the options	5 years	5 years
Expected volatility	52.98%	108.8%
Expected dividend yield	Nil	Nil

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.

45. SUMMARISED STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2010 RMB'000	2009 RMB'000
Investment in subsidiaries		**30,387**	30,387
Plant and equipment		**22**	36
Prepayments and other receivables		**396**	373
Prepayment for investments		**32,894**	–
Bank balances and cash		**424**	50,462
Amounts due from subsidiaries	(a)	**201,688**	187,337
Amount due from an associate	(a)	**680**	698
Other payables and accruals		**(2,515)**	(4,432)
Amounts due to directors	(a)	**(6,689)**	(4,923)
		257,287	259,938
Share capital	38	**100,784**	99,166
Other reserves		**227,322**	222,403
Accumulated losses		**(70,819)**	(61,631)
		257,287	259,938

Note:

(a) The amounts due from (to) subsidiaries and an associate and amounts due to directors are unsecured, interest-free and repayable on demand.

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

The following is a list of the principal subsidiaries of the Company as at 31 December 2010 and 2009:

Name of subsidiaries	Place/ Country of incorporation or registration/ operations	Class of shares held	Paid up issued/ registered ordinary share capital	Proportion ownership interest held by the Company	Proportion of voting power held by the Company	Principal activities
Grandy Rich Limited	Hong Kong	Ordinary	HK$1	100%	100%	Investment property holding
Zhongda International Trading Limited	Hong Kong	Ordinary	HK$1	100%	100%	Service provider
Zhongda Automobile Machinery Manufacture Co., Ltd.	PRC	Contributed capital	RMB45,861,500	86.7%	86.7%	Manufacture and sale of automobile equipment
Jiangsu Zhongda Industrial Painting and Environmental Protection Co., Ltd.	PRC	Contributed capital	RMB15,600,000	90.0%	90.0%	Design, production, installation and sales of surface treatment systems
Ausen Industrial Equipment	PRC	Contributed capital	RMB15,000,000	100%	100%	Manufacture and sale of automobile equipment

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

The above table lists the subsidiaries of the Group which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in opinion of the directors of the Company, result in particulars of excessive length.

47. MAJOR NON-CASH TRANSACTIONS

On 8 May 2009, the Company settled the loan from ultimate holding company with carrying amount of HK$21,000,000 (equivalent to approximately RMB18,460,000) by issuing a five-year zero coupon convertible bond.

During the year ended 31 December 2009, 63,977,548 bonus shares were issued under the Open Offer with Bonus Issue, by capitalisation of approximately RMB5,592,000 to share premium account.

48. EVENTS AFTER THE REPORTING PERIOD

(i) Equity line facilities

On 12 January 2011, the Company entered into a supplemental agreement to the equity line facility agreement dated 16 November 2010 (the "Facility Agreement") (together, the "Agreements") with YA Global Master SPV Ltd ("YA Global"), pursuant to which the Company has been granted an option to require YA Global to subscribe for up to approximately HK$275,000,000 worth shares of the Company structured under the Agreements.

The option is exercisable by the Company during the commitment period commencing on (and including) the activation the Agreements and expiring upon the earlier of (i) the fifth anniversary of the date of the Facility Agreement, and (ii) the date on which the equity facility line has been fully utilised by the Company by way of allotting and issuing shares for total issue price equals to the total commitment amount (i.e. HK$275,000,000).

There is a minimum issue price for the draw down shares at the floor price at HK$0.5922 per share.

On 14 February 2011, the Agreements have been approved by shareholders.

Relevant details are set out in the circular of the Company dated 24 January 2011.

(ii) Placing of unlisted warrants

On 26 Januaury 2011, the Company completed to place 206,500,000 unlisted warrants to six independent placees not connected to the Group, at the issue price of HK$0.01 per warrant and the subscription price of HK$0.59 per warrant share. The warrant shares would be allotted and issued under the general mandate which was granted to the directors at the special general meeting of the Company on 17 March 2010.

Relevant details are set out in the announcements of the Company dated 8 July 2010 and 26 January 2011.

Financial Summary

RESULTS

	Year ended 31 December				
	2010	2009	2008	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**460,442**	455,026	639,691	327,242	190,736
Profit (loss) before taxation	**19,060**	(84,264)	18,116	39,702	13,502
Income tax expense	**(7,440)**	(29,469)	(10,438)	812	(604)
Profit (loss) for the year	**11,620**	(113,733)	7,678	40,514	12,898
Non-controlling interests	**7,569**	21,943	8,520	(10,703)	2,419
Profit (loss) attributable to owners of the Company	**19,189**	(91,790)	16,198	29,811	15,317

ASSETS AND LIABILITIES

	As at 31 December				
	2010	2009	2008	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**967,077**	1,077,248	914,079	683,510	426,843
Total liabilities	**(560,270)**	(702,803)	(574,899)	(347,125)	(253,729)
	406,807	374,445	339,180	336,385	173,114
Non-controlling interests	**(2,242)**	(1,027)	(20,488)	(29,008)	(16,011)
Equity attributable to owners of the Company	**404,565**	373,418	318,692	307,377	157,103