



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

(incorporated in Bermuda with limited liability)
(stock code: 909)



Annual Report 2007

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Corporate Information

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Mr. Gu Yao Tian (*Chairman*)
Mr. Li Xinzong
Mr. Zhang Yaqing

COMPANY SECRETARY & QUALIFIED ACCOUNTANT

Mr. Fu Yan Ming

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE

No. 100
Kaifang Dadao Road
Yancheng
Jiangsu Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL BANKERS

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

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

AUDITORS

SHINEWING (HK) CPA Limited
Certified Public Accountants

LEGAL ADVISORS

Sidley Austin
Tsun & Partners

STOCK CODE

909

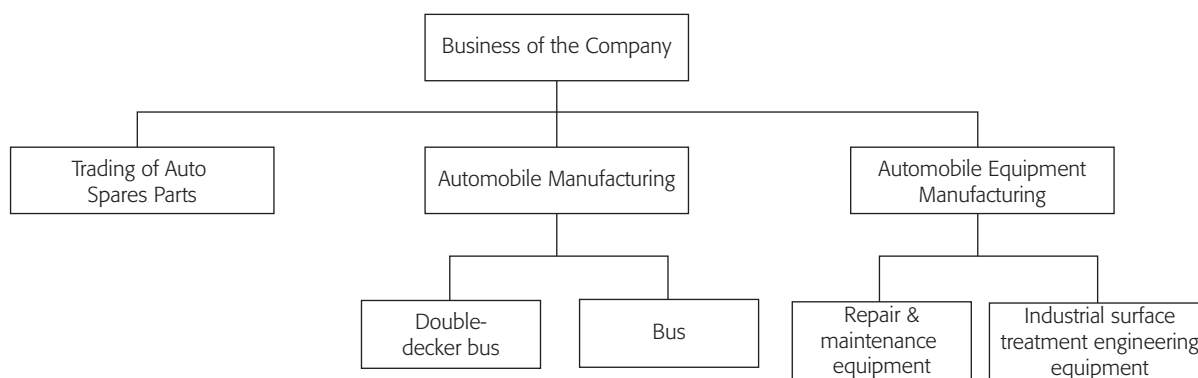
Corporate Profile

Zhongda International Holdings Limited (the “Company” and its subsidiaries, collectively the “Group”) was listed on the main board of The Stock Exchange of Hong Kong Limited on 1 November 2001.

The Group is principally engaged in design, manufacturing and sale of automobile repair and maintenance equipment as well as industrial surface treatment engineering equipment. The Group has also been diversifying into the manufacturing of commercial vehicles.

Based in Yancheng, Jiangsu, the PRC, the Group occupied an area over 80,000 sq. m. Leading by Zhongda Automobile Machinery Manufacture Co. Ltd. which is focused on producing spray booth, each of its subsidiaries is specialized in individual product lines such as car lifter, car bench, testing equipment and washing machine. Over the past decade, the Group’s products has been distributing to over 60 countries and places all over the world, including North America, Europe, Africa and other Asian countries.

With its production base in Nanjing, our vehicle manufacturing arm Nanjing Zhongda Jinling Double-decker Bus Manufacture Co. Ltd. is specialized in the production of double-decker bus, capturing a substantial share of domestic market. For the coming year, the enterprise restarts to exploring the overseas market. Previously, its products were sold to Egypt, United Arab Emirates, Turkey and Ethiopia.



Chairman's Statement



Dear Shareholders,

OVERVIEW

Year 2007 was an important year in Zhongda International holdings Limited (the "Company") and its subsidiaries (the "Group")'s development. Not only did we include the manufacturing of commercial vehicles as our core businesses, but also had reputable institutional investors as our shareholders in return of the improvement in our corporate governance.

AUTOMOBILE MANUFACTURING BUSINESS

Industry

In recent years, the PRC government has implemented a series of policies to support the automobile industry and encourages the development of vehicles export (especially manufacturer with self brand-name), auto parts and the automobiles after-sale-service market.

In response to rising emissions requirements and materials price increases, European bus makers will accelerate the current production migration to low-cost countries and force industry players to choose between focusing on growth markets (i.e. Asia markets which accounted for nearly 70% of the world registration for large buses and coaches) and preparing for intensive competition in the already saturated developed markets (i.e. Western Europe and Americas which accounted for about 28% of the world registration for large buses and coaches). **(By McKinsey & Co. in 2008)**

Chairman's Statement

Business Strategies

Regarding the business opportunities along with the booming economy in emerging markets including Africa, the Middle East, South America, Eastern Europe and Asia, the Group will take advantage of the captioned two industry factors to step up the co-operation with Zhongda Industrial Group Corporation ("ZIG Group") to explore more development opportunities and create more synergies.

With respect to the adverse environment surrounding those advanced European and US coaches/buses manufacturers, the Group will take this chance to look for European or US player to improve our technology and to develop new products together in catering for those emerging market.

Looking ahead, the Group will continue to develop both the domestic and overseas markets. Apart from growing commercial market, we will strive to grow our overseas businesses including the automobile manufacturing projects in Vietnam, which has been making a steady progress with strong support from the government. The Group will also replicate the Vietnam model in other regions such as Africa, South America and Eastern Europe with stable political environment and booming economies. These regions are expected to be less affected by the US's sub-prime problem & the PRC's "Macroeconomic control policy" and to give fruitful return to the Group.

Double-deckers Business

Toward providing public transport to link villages in rural areas to urban areas to help people residing in remote areas and to improve the average quality of living of the population as well as the worsening traffic condition in major cities of the PRC, Jinling has a bright prospect in the PRC market.

Auto Maintenance Equipment Business

Driven by the growing demand for automobiles in the PRC, the automobile maintenance equipment and industrial coating system machinery is expected to bring stable and recurring revenues to the Group with modest growth.

PROSPECT

With the support of the ZIG Group and riding our brand advantage, we will push forward the strategy of active expansion with steady growth and seek to capture more new business opportunities. Thereby, it will consolidate our leadership in the PRC automobile industry and generate good returns to our shareholders.

Chairman's Statement

APPRECIATION

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

Now, I am pleased to present the audited consolidated results of the Group for the year ended 31 December 2007.

Xu Lian Guo

Chairman

Hong Kong, 21 April 2008

Management Discussion and Analysis

OVERVIEW

OPERATIONAL REVIEW AND PROSPECT

Revenue

During the year under review, the Group's turnover recorded a substantial growth by 70.6% to approximately RMB325 million. It was attributable to (i) the commencement of revenue stemming from Nanjing Zhongda Jinling Double-Decker Bus Manufacture Co., Ltd. ("Jinling") since April 2007, and (ii) the contribution of revenue from Yancheng Zhongda Automobiles Equipment Co. Ltd. ("AE"), the new subsidiary of the Group which is engaged in the trading of automobile spare parts.

Automobile Maintenance Equipment Business

During the year under review, export sales of the Group comprising mainly automobile spray booths and car lifters were approximately RMB129 million, representing an increase of 6% when compared with previous year. The overall turnover was approximately RMB183 million, accounting for a slightly drop of 4% when compared to last year, due to the adoption of a more prudent revenue recognition method of our industrial coating system machinery business. For the time being, the Group will continue to develop new products through our investment in research and development in order to retain our competitiveness. Therefore, the core business is expected to provide stable and recur income in coming year.

Trading of automobile spare parts

During the year 2007, AE had been established to centralize the procurement for both the Group and the Zhongda Industrial Group Corporation's ("ZIG") requirements in the purchase of raw materials, auto parts and components from independent third parties. For the year, it gave a turnover of approximately RMB82 million throughout this type of bulk purchase discounts model (in return of reducing unit purchase cost for the Group and ZIG). Going forward, AE is planning to upgrade this platform to service our overseas affiliates (such as Vietnam JV or similar JV) and other manufacturers at a later stage.

Management Discussion and Analysis

Automobile (Double-Deckers) manufacturing

In 2007, Jinling contributed revenue of approximately RMB61.1 million, accounting for approximately 19% of the Group's total revenue, which was booked since April 2007. For the year, not only did the Group complete the acquisition of Jinling, but also completed first phase construction of its production plant in November 2007 (boosting the annual production capacity from 800 units to 3,000 units). The Group also strives to enhance the manufacturing technology, allowing it to ensure all its buses comply with the new environmental production requirements in the future. In view of the additional capacity, Jinling will further exploit the overseas market for buses market, especially in the areas of double-deckers, in order to match the PRC government's policy in promotion of export sales.

Vietnam Joint Venture ("JV")

Although the establishment of the plant for chassis manufacturing and special purpose vehicle of the JV is still undergoing, the Group has been benefited by the well-established relationship with our counterparty (Vinamotor). During the last quarter of 2007, 70 units of complete knock-down ("CKD") of commercial vehicles were initially shipped to fulfill the demand in Vietnam. As advised by the Vietnamese counterparts, the Group is invited to ship more CKDs and involve other vehicle manufacturing businesses in the coming year to satisfy their market. It will enhance our revenue stream from Vietnam.

Co-operation with ZIG

On 8 April 2008, the Group signed an exclusive agency agreement with Zhongwei Bus ("Zhongwei"), pursuant to which Zhongwei appointed the Group's subsidiary as exclusive agent to sell Zhongwei's products in regions outside the PRC. Inevitably, this arrangement is expected to create synergy and provide a win-win situation to both parties. Going ahead, the Group will continue to work closely with ZIG in search of any possible synergies between the two parties so that the Group's revenue stream can be enlarged.

FINANCIAL REVIEW AND LIQUIDITY

Gross Margin

As affected by of (i) the weighted average of gross profit margin of automobile manufacturing and auto parts trading businesses with the original automobile maintenance equipment business, (ii) the increased price of steel and other raw materials, and (iii) the adoption of a prudent revenue recognition method for the industrial surface treatment engineering equipment business of the Group, the gross profit margin of the year declined to 22%, less than 10% when compared with the year 2006.

Management Discussion and Analysis

Net Profit

Net profit reflected a growth of 2.14x up to approximately RMB41 million when compared with last year. The net profit margin was upsurge to 12.45% from 6.76% during the year under review. Basic earnings per share for the year were RMB6.32 cents.

Liquidity

Liquidity as measured by current ratio with a ratio of 1.26x in the year 2007 was considered as acceptable, improving from 0.97x in the year 2006. Regarding the current assets, approximately 22% were cash and bank deposit. This level was considered as sufficient.

Leverage

Net gearing ratio (as defined "Total bank debts – Cash available/Total Net Worth") was improved to 0.23x in the year 2007 from 0.78x in the year 2006. The Group will take effort to retain its leverage at satisfactory level.

As at 31 December 2007, cash and bank balances of the Group amounted to approximately RMB89,841,000 (2006: RMB20,695,000). Cash is mainly denominated in Renminbi. Long and short term bank loans amounted to approximately RMB20,000,000 and RMB147,165,000 respectively (2006: Nil and RMB142,500,000 respectively), representing an increase of approximately RMB20,000,000 and RMB4,665,000 from last year respectively.

The interest rates of bank borrowings ranged between 6.90% and 8.75% per annum (2006: between 5.36% and 7.49%). 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 2007, the net asset value of the Group amounted to approximately RMB336,385,000 (2006: RMB173,114,000), representing an increase of approximately 94.3% from last year. Net current assets amounted to approximately RMB83,667,000 (2006: RMB(7,132,000)), an increase of approximately RMB90,799,000 from last year.

As at 31 December 2007, the Group had no contingent liabilities (2006: RMB1,122,500).

Biography of the Directors

EXECUTIVE DIRECTORS

Mr. XU Lian Guo, aged 46, 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 42, 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 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 55, 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 43, 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 Incutech Investments Limited and Poly Investments Holdings Limited, companies listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), respectively.

Biography of the Directors

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. GU Yao Tian, aged 75, was appointed as an independent non-executive director of the Company in 2001. Prior to his joining to the Company, he was the general manager of the China National Automotive Industry Corporation. He was the general manager of Nanjing Automotive Manufacturing Factory during the period from 1988 to 1994.

Mr. SUN Ka Ziang Henry, aged 50, 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 Poly Investments Holdings Limited, a company listed on the main board of the Stock Exchange.

Mr. LI Xinzhong, aged 50, was appointed as an independent non-executive director of the Company 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 Peregrine Capital Limited in 2000 as an executive director. He joined Anglo Chinese Corporate Finance Limited in 2003 as a director and then joined DBS Asia Capital Limited as China Team Head of Mergers and Acquisitions in June 2004 responsible for origination of China related corporate finance transactions. He is currently a director of Shenzhen Sino-Source Investment Consultants Co., Ltd. Mr. Li has over 15 years experience in corporate finance. He is currently an independent non-executive director of Vitop Bioenergy Holdings Limited, a company listed on the main board of the Stock Exchange.

Report of the Directors

The board of directors (the "Board") of Zhongda International Holdings Limited (the "Company") is pleased to present the report of the directors of the Company and the audited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the subsidiaries are the development, manufacture and sales of automobile equipment and buses and trading of automobile spare parts. The activities of its subsidiaries are set out in note 43 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The state of affairs of the Group as at 31 December 2007 and the results and cash flow of the Group for the year then ended are set out in the consolidated financial statements on pages 26 to 31.

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 94 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 34 to the consolidated financial statements.

RESERVES

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

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

Independent non-executive directors

Mr. Gu Yao Tian

Mr. Li Xinzong

Mr. Sun Ka Ziang Henry

In accordance with bye-law 87 of the Company's bye-laws, Mr. Xu Lian Guo, Mr. Xu Lian Kuan and Mr. Gu Yao Tian 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.

Report of the Directors

DIRECTORS' INTEREST IN THE SHARE CAPITAL

Long positions in shares of the Company

As at 31 December 2007, 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:

| Name of directors | Personal interests | Number of ordinary shares | | % of issued share capital |
|---------------------|--------------------|---------------------------|-------------|---------------------------|
| | | Corporate interests | Total | |
| Xu Lian Guo (Note) | — | 204,004,000 | 204,004,000 | 38.5% |
| Xu Lian Kuan (Note) | — | 204,004,000 | 204,004,000 | 38.5% |
| Zhang Yuqing | 17,600,000 | — | 17,600,000 | 3.3% |

Note: These shares are held by Zhong Da (BVI) Limited, a company beneficially owned as to 57.22% and 42.78% by Mr. Xu Lian Guo and Mr. Xu Lian Kuan respectively.

Save as disclosed, as at 31 December 2007, none of the directors or chief executive or their associates had any personal, family, corporate or other interests or short positions in the shares of the Company or any of its associated corporations as defined in the SFO.

Shares in a subsidiary

As at 31 December 2007, the following directors held interests in the shares of Zhongda Automobile Machinery Manufacture Co., Ltd, a 86.7% owned subsidiary of the Company as follows:

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

Note: These equity interests are held by Zhongda Industrial Group Corporation, in which Mr. Xu Lian Guo and Mr. Xu Lian Kuan collectively hold 52.64% of its equity interests.

Report of the Directors

SHARE OPTION SCHEMES

The Company has a share option scheme (the "New Scheme") which was adopted at the annual general meeting of the Company held on 31 May 2007, and the share option scheme (the "Old Scheme") of the Company adopted in 2001 was terminated henceforth. The total number of the shares of the Company which may be allotted and issued upon the exercise of all options to be granted under the New Scheme must not in aggregate exceed 48,000,400 shares, being 10% of the issued share capital of the Company as at the date of the annual general meeting adopting the New Scheme. Share options granted under the Old Scheme prior to its termination remained in force until they lapsed in accordance with the terms of the Old Scheme. There were an aggregate of 40,000,400 share options had been granted and remained outstanding under the Old Scheme immediately prior to the termination of the Old Scheme. Further details of the Old Scheme and New Scheme, respectively, are set out in note 39 to the consolidated financial statements.

The movements in the share options granted under the share option schemes of the Company during the year ended 31 December 2007 are shown below:—

(a) Old Scheme

| Category of participant | Date of offer | Number of share options | | | At 31 Dec 2007 | Exercise price per share HK\$ | Exercisable period |
|-------------------------|---------------|-------------------------|---------------------------|------------------------|----------------|-------------------------------|----------------------------|
| | | Granted during the year | Exercised during the year | Lapsed during the year | | | |
| Eligible persons | 11 Jan 2007 | 24,000,240 | (12,000,120) | — | 12,000,120 | 0.179 | 11 Jul 2007 to 10 Jul 2012 |
| | 5 Feb 2007 | 4,000,040 | — | — | 4,000,040 | 0.465 | 5 Aug 2007 to 4 Aug 2012 |
| | 13 Feb 2007 | 12,000,120 | (8,000,080) | — | 4,000,040 | 0.627 | 13 Aug 2007 to 12 Aug 2012 |
| | TOTAL | 40,000,400 | (20,000,200) | — | 20,000,200 | | |

As at 31 December 2007, the outstanding share options entitling the eligible persons under the Old Scheme to subscribe for an aggregate of 20,000,200 shares, representing approximately 3.8% of the issued share capital of the Company.

Report of the Directors

(b) New Scheme

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

Save as disclosed above, no share option was granted, exercised, lapsed or cancelled during the year ended 31 December 2007.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share option schemes 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' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than the contracts as disclosed under the heading "Connected Transactions and Continuing Connected Transactions" below, 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.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Details of connected transactions and continuing connected transactions entered into by the Group during the year are set out in note 37 to the consolidated financial statements.

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

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, the following persons had interests in the shares or 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 of the Company

| Name of shareholder | Capacity | Note | Number of issued shares held | Percentage of issued share capital |
|-----------------------------------|--------------------|------|------------------------------|------------------------------------|
| Zhong Da (BVI) Limited | Beneficial owner | 1 | 204,004,000 | 38.5% |
| Shum Yip Holdings Company Limited | Beneficial owner | 2 | 39,576,000 | 7.5% |
| Penta Investment Advisers Limited | Investment manager | | 93,456,000 | 17.6% |
| L-R Global Partners, L.P. | Investment manager | | 26,606,000 | 5.0% |

Notes:

1. Zhong Da (BVI) Limited is beneficially owned as to 57.22% by Mr. Xu Lian Guo and as to 42.78% by Mr. Xu Lian Kuan respectively.
2. The 39,576,000 shares are held by Gainful Outcome Holdings Limited and Outstanding Management Limited, both being wholly-owned subsidiaries of Shum Yip Holdings Company Limited, respectively.

Save as disclosed, as at 31 December 2007, 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 or underlying shares of the Company.

EMPLOYEE REMUNERATION POLICIES

As at 31 December 2007, the Group employed a total of 1,300 (2006: 1,200) full time employees.

The Group provides remuneration package 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.

Report of the Directors

CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules during the year ended 31 December 2007. A corporate governance report for the year ended 31 December 2007 is prepared in accordance with Appendix 15 to the Listing Rules and set out on pages 20 to 23 of the annual report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Model Code (Appendix 10) of the Listing Rules. Having made specific enquiry of all directors, all directors confirmed that they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding securities transactions by directors.

AUDIT COMMITTEE

The Company established an audit committee with its terms of reference in compliance with the Code. The primary duties of the audit committee are to review and supervise the financial reporting process and the internal control system of the Group. The audit committee has reviewed the Group's annual results for the year ended 31 December 2007 in conjunction with the Company's external auditors. The audit committee has three members comprising the three independent non-executive directors, namely Mr. Sun Ka Ziang Henry, Mr. Gu Yao Tian and Mr. Li Xinzong. Mr. Sun Ka Ziang Henry is the chairman of the audit committee.

REMUNERATION COMMITTEE

The Company established a remuneration committee with its terms of reference in compliance with the Code. The primary duties of the remuneration committee are to review and make recommendation for the remuneration policy of the directors and senior management. The remuneration committee comprises two independent non-executive directors, Mr. Gu Yao Tian and Mr. Li Xinzong, and one executive director, Mr. Zhang Yuqing. Mr. Gu Yao Tian is the chairman of the remuneration committee.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2007, 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 2007 are set out in note 33 to the consolidated financial statements.

Report of the Directors

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

Neither the Company nor its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2007.

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.

AUDITORS

Messrs. PricewaterhouseCoopers, who acted as auditors of the Company for the year ended 31 December 2002, resigned on 12 December 2003 and Messrs. KLL Associates CPA Limited were appointed as auditors of the Company on 9 January 2004 to fill the casual vacancy following the resignation of Messrs. PricewaterhouseCoopers. Messrs. KLL Associates CPA Limited resigned on 11 November 2005 and Messrs. SHINEWING (HK) CPA Limited were appointed on 11 November 2005 to fill the casual vacancy following the resignation of Messrs. KLL Associates CPA Limited.

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

On behalf of the Board

Xu Lian Guo

Chairman

Hong Kong, 21 April 2008

Corporate Governance

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

CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company has complied with all code provisions as set out in the Code on Corporate Governance Practices ("the Code") in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the year ended 31 December 2007.

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 2007.

BOARD OF DIRECTORS

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

Executive Directors

Mr. Xu Lian Guo (*Chairman*)

Mr. Xu Lian Kuan (*Vice-chairman and Chief Executive Officer*)

Mr. Zhang Yuqing (*Vice-chairman*)

Mr. Kwok Ming Fai

Independent Non-executive Directors

Mr. Gu Yao Tian

Mr. Sun Ka Ziang Henry

Mr. Li Xinzhong

There was no change in the directorate of the Company and their respective functionalities during the year ended 31 December 2007.

Corporate Governance

During the year ended 31 December 2007, the Board held four meetings:—

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

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

- Executive Committee to focus on the formulation and review of the legal compliance and operational procedures compliance by the Group. The members of the Executive Committee are two executive directors, Mr. Xu Lian Kuan and Mr. Zhang Yuqing.
- Audit Committee to focus on the review and supervision of the financial reporting process and internal control system of the Group pursuant to the Listing Rules. The members of the Audit Committee are all the INEDs.
- Remuneration Committee to focus on the recommendation to the Board of the corporate policy and structure for all remuneration of the directors and senior management of the Group pursuant to the Listing Rules. The members of the Remuneration Committee are two INEDs namely Mr. Gu Yao Tian and Mr. Li Xinzhong, and one executive director namely Mr. Zhang Yuqing.

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 2007, 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.

Corporate Governance

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 2007 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 2007 in respect of the services provided to the Group as follows:

| | 2007 <i>RMB'000</i> |
|-------------------------|-------------------------------|
| Audit services | 1,452,000 |
| Other advisory services | 291,000 |

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 Xinzong | 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 2006 and the interim results of the Group for the six months ended 30 June 2007. 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.

Corporate Governance

INTERNAL CONTROLS

The Company had appointed an independent auditor (the “Independent Auditor”) to reviewing the effectiveness of internal control system of the Group which cover all material controls, including financial, operational and compliance controls as well as risk management functions for the year ended 31 December 2006. The relevant review report was submitted to the Audit Committee for review and consideration in April 2007. Effectiveness of the internal control system of the Group for the year ended 31 December 2006 had also been reviewed by the Audit Committee in April 2007.

The Independent Auditor had been further engaged to conduct a review on the effectiveness of the internal control system of the Group for the year ended 31 December 2007. In April 2008, the Audit Committee had reviewed the review report for the year ended 31 December 2007. The Board considered that the Group’s internal control system had been implemented at a satisfactory level during the year under review.

DIRECTORS’ RESPONSIBILITY FOR PREPARING ACCOUNTS

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Group for the year ended 31 December 2007 and ensure that such financial statements are prepared in accordance with statutory requirements and applicable accounting standards.

AUDITORS’ REPORTING RESPONSIBILITIES

The reporting responsibilities of ShineWing, the auditors of the Company for the year under review, are stated in the Independent Auditor’s Report on pages 24 to 25 of the annual report.

Independent Auditor's Report



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

TO THE SHAREHOLDERS OF ZHONGDA INTERNATIONAL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Zhongda International Holdings Limited (the "Company") and its subsidiaries (collectively referred as the "Group") set out on pages 26 to 93, which comprise the consolidated balance sheet as at 31 December 2007, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

AUDITOR'S RESPONSIBILITY (Continued)

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2007 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

21 April 2008

Consolidated Income Statement

For the year ended 31 December 2007

| | Notes | 2007 RMB'000 | 2006 RMB'000 |
|-----------------------------------|-------|-------------------|-----------------|
| Turnover | 7 | 325,472 | 190,736 |
| Cost of sales | | (254,309) | (129,923) |
| Gross profit | | 71,163 | 60,813 |
| Other revenue | 9 | 80,694 | 15,202 |
| Selling and distribution expenses | | (19,396) | (16,716) |
| Administrative expenses | | (70,561) | (29,850) |
| Other operating expenses | | (8,310) | (6,718) |
| Share of loss of an associate | | (4) | – |
| Finance costs | 10 | (13,884) | (9,229) |
| Profit before taxation | 11 | 39,702 | 13,502 |
| Taxation | 14 | 812 | (604) |
| Profit for the year | | 40,514 | 12,898 |
| Attributable to: | | | |
| Equity holders of the Company | | 29,811 | 15,317 |
| Minority interests | | 10,703 | (2,419) |
| | | 40,514 | 12,898 |
| Dividends | 15 | – | – |
| Earnings per share | 16 | RMB | RMB |
| – Basic | | 6.32 cents | 3.83 cents |
| – Diluted | | 6.14 cents | N/A |

Consolidated Balance Sheet

As at 31 December 2007

| | Notes | 2007 RMB'000 | 2006 RMB'000 |
|--|-------|-----------------|-----------------|
| Non-current assets | | | |
| Property, plant and equipment | 17 | 101,396 | 116,270 |
| Prepaid lease payments | 18 | 55,629 | 58,369 |
| Investment properties | 19 | 96,889 | – |
| Investment in an associate | 20 | – | – |
| Prepayment for an investment in an associate | 21 | 474 | 1,087 |
| Available-for-sale investments | 22 | 900 | 900 |
| Deferred tax assets | 23 | 17,430 | 15,620 |
| | | 272,718 | 192,246 |
| Current assets | | | |
| Inventories | 24 | 48,736 | 27,812 |
| Amounts due from related companies | 25 | 123,948 | 26,898 |
| Trade and bills receivables | 26 | 85,255 | 91,554 |
| Prepaid lease payments | 18 | 1,244 | 1,429 |
| Amounts due from customers for contract work | 27 | 25,594 | 46,511 |
| Held-for-trading investments | 28 | – | 200 |
| Prepayments and other receivables | | 34,199 | 19,498 |
| Restricted deposit placed in a financial institution | 29 | 15,802 | – |
| Pledged bank deposit | 29 | 16,159 | – |
| Restricted bank balances | 29 | 4,161 | 3,000 |
| Bank balances and cash | 29 | 53,719 | 17,695 |
| | | 408,817 | 234,597 |
| Current liabilities | | | |
| Amounts due to customers for contract work | 27 | 10,488 | 7,073 |
| Trade and bills payables | 30 | 83,228 | 23,738 |
| Advance receipt from customers | | 38,152 | 353 |
| Other payables and accruals | | 26,307 | 46,691 |
| Amount due to an associate | 31 | 4 | – |
| Amounts due to related companies | 31 | 386 | 1,048 |
| Amounts due to directors | 31 | 5,008 | 6,178 |
| Tax payable | | 14,412 | 14,148 |
| Bank overdrafts | 29 | 9,165 | – |
| Bank and other borrowings – due within one year | 33 | 138,000 | 142,500 |
| | | 325,150 | 241,729 |
| Net current assets/(liabilities) | | 83,667 | (7,132) |
| Total assets less current liabilities | | 356,385 | 185,114 |
| Non-current liabilities | | | |
| Loan from ultimate holding company | 32 | – | 12,000 |
| Bank and other borrowings – due after one year | 33 | 20,000 | – |
| | | 336,385 | 173,114 |

Consolidated Balance Sheet*As at 31 December 2007*

| | Notes | 2007 RMB'000 | 2006 RMB'000 |
|--|-------|-------------------------------|-----------------|
| Capital and reserves | | | |
| Share capital | 34 | 55,125 | 42,386 |
| Reserves | | 252,252 | 114,717 |
| Equity attributable to equity holders of the Company | | 307,377 | 157,103 |
| Minority interests | | 29,008 | 16,011 |
| | | 336,385 | 173,114 |
| | | | |

The consolidated financial statements on pages 26 to 93 were approved and authorised for issue by the Board of Directors on 21 April 2008 and are signed on its behalf by:

Xu Lian Guo
Chairman

Zhang Yuqing
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

| | Attributable to equity holders of the Company | | | | | | | | | |
|--|---|----------------|--------------|--------------|--------------|----------------|----------------|----------------|---------------|----------------|
| | | | Enterprise | | Share | Exchange | Retained | Total | Minority | Total |
| | Share | Share | Reserve | expansion | options | translation | | | | |
| | capital | premium | fund | fund | reserve | reserve | profits | | interests | equity |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | | | (Note) | (Note) | | | | | | |
| At 1 January 2006 | 42,386 | 17,073 | 2,720 | 2,720 | – | (441) | 78,039 | 142,497 | 18,430 | 160,927 |
| Exchange difference arising on translation of the financial statements of foreign companies of the Group | – | – | – | – | – | (711) | – | (711) | – | (711) |
| Profit/(loss) for the year | – | – | – | – | – | – | 15,317 | 15,317 | (2,419) | 12,898 |
| Total recognised income and expense for the year | – | – | – | – | – | (711) | 15,317 | 14,606 | (2,419) | 12,187 |
| At 31 December 2006 and 1 January 2007 | 42,386 | 17,073 | 2,720 | 2,720 | – | (1,152) | 93,356 | 157,103 | 16,011 | 173,114 |
| Exchange difference arising on translation of the financial statements of foreign companies of the Group | – | – | – | – | – | (6,726) | – | (6,726) | – | (6,726) |
| Profit for the year | – | – | – | – | – | – | 29,811 | 29,811 | 10,703 | 40,514 |
| Total recognised income and expense for the year | – | – | – | – | – | (6,726) | 29,811 | 23,085 | 10,703 | 33,788 |
| Capital contributions from minority shareholders | – | – | – | – | – | – | – | – | 2,294 | 2,294 |
| Placing of new shares | 10,801 | 116,147 | – | – | – | – | – | 126,948 | – | 126,948 |
| Share issue expenses | – | (14,119) | – | – | – | – | – | (14,119) | – | (14,119) |
| Recognition of equity-settled share-based payments | – | – | – | – | 7,418 | – | – | 7,418 | – | 7,418 |
| Proceeds from shares issued under share option scheme | 1,938 | 8,776 | – | – | (3,772) | – | – | 6,942 | – | 6,942 |
| At 31 December 2007 | 55,125 | 127,877 | 2,720 | 2,720 | 3,646 | (7,878) | 123,167 | 307,377 | 29,008 | 336,385 |

Note:

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

Consolidated Cash Flow Statement

For the year ended 31 December 2007

| | 2007 RMB'000 | 2006 RMB'000 |
|---|-----------------|-----------------|
| OPERATING ACTIVITIES | | |
| Profit before taxation | 39,702 | 13,502 |
| Adjustments for: | | |
| Interest income | (2,451) | (1,135) |
| Finance costs | 13,884 | 9,229 |
| Depreciation on property, plant and equipment | 5,031 | 4,213 |
| Loss/(gain) on disposal of property, plant and equipment | 180 | (138) |
| Amortisation on prepaid lease payments | 1,244 | 911 |
| Reversal of allowance for inventories | (2,975) | (4,694) |
| Written back of allowance for bad and doubtful debts | – | (3,671) |
| Allowance for bad and doubtful debts | 13,122 | 3,716 |
| Allowance for amounts due from customers for contract work | 8,625 | 1,672 |
| Impairment for prepayment for an investment in an associate | 613 | – |
| Share of result of an associate | 4 | – |
| Increase in fair value of investment properties | (40,733) | – |
| Written off of property, plant and equipment | 92 | – |
| Written off of trade and bills payables | (4,946) | – |
| Written off of other payables and accruals | (20,379) | – |
| Waiver of a director's emoluments | (1,536) | – |
| Gain on disposal of held-for-trading investments | (247) | – |
| Share-based payments | 7,418 | – |
| Operating cash flows before movements in working capital | 16,648 | 23,605 |
| (Increase)/decrease in inventories | (17,949) | 13,337 |
| Increase in amounts due from related companies | (97,050) | (12,222) |
| Increase in trade and bills receivables | (6,823) | (33,736) |
| Decrease/(increase) in amounts due from customers for contract work | 12,292 | (4,494) |
| Increase in prepayments and other receivables | (14,701) | (10,339) |
| Increase in amounts due to customers for contract work | 3,415 | 4,715 |
| Increase/(decrease) in trade and bills payables | 64,436 | (9,788) |
| Increase in advance receipt from customers | 37,799 | 338 |
| (Decrease)/increase in other payables and accruals | (5) | 5,592 |
| (Decrease)/increase in amounts due to related companies | (662) | 642 |
| Increase in amounts due to directors | 366 | 1,594 |
| Net cash used in operating activities | (2,234) | (20,756) |
| Income tax paid | (735) | – |
| NET CASH USED IN OPERATING ACTIVITIES | (2,969) | (20,756) |

Consolidated Cash Flow Statement*For the year ended 31 December 2007*

| | 2007 | 2006 |
|--|------------------|----------|
| | RMB'000 | RMB'000 |
| INVESTING ACTIVITIES | | |
| Purchase of property, plant and equipment and construction-in-progress | (27,073) | (6,422) |
| Purchase of investment properties | (19,478) | – |
| Increase in restricted deposit placed in a financial institution | (15,802) | – |
| Increase in pledged bank deposit | (16,159) | – |
| Increase in restricted bank balances | (1,161) | (3,000) |
| Proceeds from disposal of property, plant and equipment | 1,648 | 2,312 |
| Interest received | 2,451 | 1,135 |
| Proceeds from disposal of held-for-trading investments | 447 | – |
| Acquisition of held-for-trading investments | – | (200) |
| NET CASH USED IN INVESTING ACTIVITIES | (75,127) | (6,175) |
| FINANCING ACTIVITIES | | |
| New bank and other borrowings raised | 158,000 | 81,430 |
| Proceeds from placing of new shares | 126,948 | – |
| Proceeds from shares issued under share option scheme | 6,942 | – |
| Capital contributions from minority shareholder | 2,294 | – |
| Repayment of bank and other borrowings | (142,500) | (43,430) |
| Share issue expenses | (14,119) | – |
| Interest paid | (13,884) | (9,229) |
| (Repayment to)/advanced from ultimate holding company | (12,000) | 12,000 |
| NET CASH FROM FINANCING ACTIVITIES | 111,681 | 40,771 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 33,585 | 13,840 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | 17,695 | 4,566 |
| Effect of foreign exchange rate changes | (6,726) | (711) |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | 44,554 | 17,695 |
| ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS AT END OF THE YEAR | | |
| Bank balances and cash | 53,719 | 17,695 |
| Bank overdrafts | (9,165) | – |
| | 44,554 | 17,695 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

1. GENERAL

The Company was incorporated in Bermuda on 14 September 2000 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. The shares of the Company have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 1 November 2001. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The functional currency of the Company is Hong Kong dollars (HK\$) whereas the presentation currency of the consolidated financial statements is Renminbi ("RMB"). RMB is the currency of the primary economic environment in which the subsidiaries of the Company operate (functional currency of the subsidiaries).

The principal activities of the Group are the development, manufacture and sales of automobile equipment and buses and trading of automobile spare parts. The activities of its subsidiaries are set out in Note 43.

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

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, the following new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), that are effective for accounting periods beginning on or after 1 January 2007.

| | |
|---|---|
| Hong Kong Accounting Standard ("HKAS") 1 (Amendment) | Capital Disclosures |
| HKFRS 7 | Financial Instruments: Disclosures |
| HK(IFRIC) – Interpretation ("Int") 7 | Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies |
| HK(IFRIC) – Int 8 | Scope of HKFRS 2 |
| HK(IFRIC) – Int 9 | Reassessment of Embedded Derivatives |
| HK(IFRIC) – Int 10 | Interim Financial Reporting and Impairment |

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

The Group has not early applied the following new and revised standards, amendment and interpretations that have been issued but are not yet effective as at 31 December 2007. The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

| | |
|---------------------|---|
| HKAS 1 (Revised) | Presentation of Financial Statements ¹ |
| HKAS 23 (Revised) | Borrowing Costs ¹ |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements ² |
| HKFRS 2 (Amendment) | Share-based Payments – Vesting Conditions and Cancellation ¹ |
| HKFRS 3 (Revised) | Business Combinations ² |
| HKFRS 8 | Operating Segments ¹ |
| HK(IFRIC) – Int 11 | HKFRS 2 – Group and Treasury Share Transactions ³ |
| HK(IFRIC) – Int 12 | Service Concession Arrangements ⁴ |
| HK(IFRIC) – Int 13 | Customer Loyalty Programmes ⁵ |
| HK(IFRIC) – Int 14 | HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ⁴ |

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

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

³ Effective for annual periods beginning on or after 1 March 2007.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and financial instruments, which are measured at revalued amounts and fair values, respectively, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements included applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance.

Basis of consolidation

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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

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

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

Investment in an associate

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

Sales of goods are recognised when goods are delivered and title has passed.

When the outcome of a construction contract can be estimated reliably, revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the value of work carried out during the year. Variation in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Interest income from financial assets 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 on the financial asset to that asset's net carrying amount.

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

Consultancy and management fees income are recognised when the respect services have been provided to customers.

Property, plant and equipment

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

Construction-in-progress includes property, plant and equipment in the course of construction for production or for its own use purpose. Construction-in-progress is carried at cost less any recognised impairment loss. Construction-in-progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

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

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

Investment properties

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

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

Construction contracts

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

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Construction contracts (Continued)

Where contract costs incurred to date plus recognised profit less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated balance sheet, as a liability, as advance receipt from customers. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under trade and bills receivables.

Leasing

The Group as lessor

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

The Group as lessee

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

Leasehold land and buildings

The land and building elements of a lease of land and buildings are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

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

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

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

Borrowing costs

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

Retirement benefit costs

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

Notes to the Consolidated Financial Statements*For the year ended 31 December 2007***3. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Taxation**

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on 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, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

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

Financial assets

The Group's financial assets are mainly financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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 on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held-for-trading and those designated at fair value through profit or loss on initial recognition.

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 derivative that is not designated and effective as a hedging instrument.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including amounts due from related companies, trade and bills receivables, other receivables, restricted deposits placed in a financial institution, pledged bank deposit and restricted bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss and loans and receivables.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of financial assets

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

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

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

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, 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 of 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 of 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 and amounts due from customers for contract work where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in the profit and loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit and loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of 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 losses was recognised, the previously recognised impairment is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The financial liabilities of the Group are mainly other financial liabilities.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Other financial liabilities

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

Equity instruments

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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 risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the assets's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit and loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit and loss.

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.

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 recognized in full at the grant date when the share options granted vested immediately, with a corresponding increase in equity (share options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to 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 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as expense immediately.

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 impairment loss is recognised as income immediately.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, 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 following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Depreciation of property, plant and equipment

The Group's carrying book value of property, plant and equipment (excluding construction-in-progress) as at 31 December 2007 was approximately RMB70,453,000. The Group depreciates the property, plant and equipment on a straight-line basis over the estimated useful lives and after taking into account of their estimated residual values, using the straight-line method, at the rate of 1.875% to 50% per annum, commencing from the date the property, plant and equipment when they are available for use. The estimated useful lives that the Group places the property, plant and equipment into productive use reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

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

Estimated allowance for bad and doubtful debts

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

Estimated allowance for inventories

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

Impairment of property, plant and equipment

The impairment loss for property, plant and equipment is recognised for the amounts by which the carrying amounts 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 recoverable. No impairment was provided during the year.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to 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 the bank overdrafts, loan from ultimate holding company and bank and other borrowings as disclosed in Notes 29, 32 and 33 respectively, and cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital and reserves and retained earnings.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

5. CAPITAL RISK MANAGEMENT (Continued)

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

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Credit risk

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

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 15% of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sale, whilst almost 95% of costs are denominated in the group entity's functional currency.

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

| | Liabilities | | Assets | |
|-------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2007 RMB'000 | 2006 RMB'000 | 2007 RMB'000 | 2006 RMB'000 |
| United States dollars ("USD") | 198 | 213 | 10,100 | 222 |
| HK\$ | 6,587 | 6,496 | 42,562 | 11,533 |
| Euro | – | – | 3,745 | 10 |
| Australian dollars ("AUD") | – | – | 1 | 1 |
| | 6,785 | 6,709 | 56,408 | 11,766 |
| | | | | |

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

Sensitivity analysis

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

The following table details the Group's sensitivity to a 10% increase and decrease in Renminbi against the relevant foreign currencies. 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% change in foreign currency rates. A positive number below indicates a decrease in profit and other equity where Renminbi strengthen 10% against the relevant currencies. For a 10% weakening of Renminbi against the relevant currencies, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Currency risk (Continued)

| | USD impact | | HK\$ impact | | Euro impact | |
|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 2007 RMB'000 | 2006 RMB'000 | 2007 RMB'000 | 2006 RMB'000 | 2007 RMB'000 | 2006 RMB'000 |
| Profit or loss | 990 | 1 | 3,598 | 504 | 375 | 1 |
| | | | | | | |

The Group's sensitivity to foreign currency has increased during the current year mainly due to the increase in foreign currency denominated bank balances as at 31 December 2007.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Interest rate risk

The Group has exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank deposits and bank and other borrowings which carry at prevailing market interest rates.

The Group's cash flow interest rate risk relates primarily to its variable rate bank and other borrowings subject to negotiation on annual basis (see Note 33). For variable-rate bank and other borrowings, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 100 basis point 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.

Sensitivity analysis

At 31 December 2007, if interest rates had been increased / decreased by 100 basis points and all other variables were held constant, the Group's profit would decrease / increase by approximately RMB1,580,000 (2006: RMB1,425,000) for the year ended 31 December 2007.

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in variable rate bank and other borrowings.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

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

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

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2007, the Group's available unutilised short-term bank loan facilities was approximately RMB8,585,000 (2006: Nil).

The following table details the Group's remaining contractual maturity for its financial liabilities. For 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

Liquidity and interest risk tables

| | Weighted average effective interest rate % | 0 to 180 days RMB'000 | 181 to 365 days RMB'000 | Over 1 year RMB'000 | Total undiscounted cash flow RMB'000 |
|---|---|-----------------------------|-------------------------------|------------------------|---|
| 2007 | | | | | |
| Non-derivative financial liabilities | | | | | |
| Trade and bills payables | – | 79,810 | 3,418 | – | 83,228 |
| Advance receipt from customers | – | 38,152 | – | – | 38,152 |
| Other payables and accruals | – | 26,307 | – | – | 26,307 |
| Bank overdrafts | – | 9,165 | – | – | 9,165 |
| Bank and other borrowings | | | | | |
| – variable rate | 8.03 | 103,568 | 41,516 | 23,212 | 168,296 |
| | | 257,002 | 44,934 | 23,212 | 325,148 |
| 2006 | | | | | |
| Non-derivative financial liabilities | | | | | |
| Trade and bills payables | – | 23,738 | – | – | 23,738 |
| Advance receipt from customers | – | 353 | – | – | 353 |
| Other payables and accruals | – | 46,691 | – | – | 46,691 |
| Loan from ultimate holding company | – | – | – | 12,000 | 12,000 |
| Bank and other borrowings | | | | | |
| – variable rate | 7.12 | 107,257 | 41,702 | – | 148,959 |
| | | 178,039 | 41,702 | 12,000 | 231,741 |

Fair value

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

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Categories of financial instruments

| | 2007 RMB'000 | 2006 RMB'000 |
|---|-----------------|-----------------|
| <i>Financial assets</i> | | |
| Held-for-trading investments | – | 200 |
| Loans and receivables (including cash and cash equivalents) | 358,837 | 205,156 |
| Available-for-sale investments | 900 | 900 |
| <i>Financial liabilities</i> | | |
| Other financial liabilities | 330,738 | 239,581 |
| | | |

7. TURNOVER

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

| | 2007 RMB'000 | 2006 RMB'000 |
|-------------------------------------|-----------------|-----------------|
| Sales of goods | 315,836 | 148,355 |
| Revenue from construction contracts | 9,636 | 42,381 |
| | 325,472 | 190,736 |
| | | |

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into three (2006: two) operating divisions – automobile equipment, buses and automobile spare parts. These divisions are the bases on which the Group reports its primary segment information.

Principal activities are as follows:

- Automobile equipment – manufacture and sales of automobile equipment
- Bus – manufacture and sales of buses
- Automobile spare parts – trading of automobile spare parts

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

Segment information about these businesses is presented below.

Consolidated income statement

For the year ended 31 December 2007

| | Automobile equipment RMB'000 | Bus RMB'000 | Automobile spare parts RMB'000 | Total RMB'000 |
|--------------------------------|------------------------------------|----------------|--------------------------------------|------------------|
| TURNOVER | 182,661 | 61,118 | 81,693 | 325,472 |
| RESULTS | | | | |
| Segment results | 13,761 | 4,020 | 6,522 | 24,303 |
| Unallocated corporate expenses | | | | (15,837) |
| Unallocated other revenue | | | | 45,124 |
| Share of loss of an associate | | | | (4) |
| Finance costs | | | | (13,884) |
| Profit before taxation | | | | 39,702 |
| Taxation | | | | 812 |
| Profit for the year | | | | 40,514 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

Consolidated balance sheet

At 31 December 2007

| | Automobile equipment RMB'000 | Bus RMB'000 | Automobile spare parts RMB'000 | Total RMB'000 |
|---|------------------------------------|----------------|--------------------------------------|------------------|
| ASSETS | | | | |
| Segment assets | 333,088 | 139,571 | 103,914 | 576,573 |
| Investment in an associate | | | | – |
| Unallocated corporate and other assets | | | | 104,962 |
| Consolidated total assets | | | | 681,535 |
| LIABILITIES | | | | |
| Segment liabilities | 98,355 | 58,565 | 18,316 | 175,236 |
| Unallocated corporate and other liabilities | | | | 169,914 |
| Consolidated total liabilities | | | | 345,150 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

Other information

For the year ended 31 December 2007

| | Automobile equipment RMB'000 | Bus RMB'000 | Automobile spare parts RMB'000 | Unallocated RMB'000 | Total RMB'000 |
|---|------------------------------------|----------------|--------------------------------------|------------------------|------------------|
| Capital additions | 12,433 | 14,353 | – | 19,765 | 46,551 |
| Depreciation of property, plant and equipment | 4,352 | 518 | – | 161 | 5,031 |
| Loss on disposal of property, plant and equipment | 180 | – | – | – | 180 |
| Written off of property, plant and equipment | – | – | – | 92 | 92 |
| Amortisation of prepaid lease payments | 458 | 786 | – | – | 1,244 |
| Reversal of allowance for inventories | (2,975) | – | – | – | (2,975) |
| Allowance for amounts due from customers for contract work | 8,625 | – | – | – | 8,625 |
| Allowance for bad and doubtful debts | 13,122 | – | – | – | 13,122 |
| | | | | | |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

Consolidated income statement

For the year ended 31 December 2006

| | Automobile equipment RMB'000 | Bus RMB'000 | Total RMB'000 |
|--------------------------------|------------------------------------|----------------|------------------|
| TURNOVER | 190,736 | — | 190,736 |
| RESULTS | | | |
| Segment results | 30,023 | (905) | 29,118 |
| Unallocated corporate expenses | | | (6,387) |
| Finance costs | | | (9,229) |
| Profit before taxation | | | 13,502 |
| Taxation | | | (604) |
| Profit for the year | | | 12,898 |

Consolidated balance sheet

At 31 December 2006

| | Automobile equipment RMB'000 | Bus RMB'000 | Total RMB'000 |
|---|------------------------------------|----------------|------------------|
| ASSETS | | | |
| Segment assets | 348,285 | 66,658 | 414,943 |
| Unallocated corporate and other assets | | | 11,900 |
| Consolidated total assets | | | 426,843 |
| LIABILITIES | | | |
| Segment liabilities | 91,995 | 3,040 | 95,035 |
| Unallocated corporate and other liabilities | | | 158,694 |
| Consolidated total liabilities | | | 253,729 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

Other information

For the year ended 31 December 2006

| | Automobile equipment RMB'000 | Bus RMB'000 | Unallocated RMB'000 | Total RMB'000 |
|---|------------------------------------|----------------|------------------------|------------------|
| Capital additions | 6,422 | — | — | 6,422 |
| Depreciation of property, plant and equipment | 3,689 | 472 | 52 | 4,213 |
| Gain on disposal of property, plant and equipment | (138) | — | — | (138) |
| Amortisation of prepaid lease payments | 489 | 422 | — | 911 |
| Reversal of allowance for inventories | — | (4,694) | — | (4,694) |
| Allowance for amounts due from customers for contract work | 1,672 | — | — | 1,672 |
| Allowance for bad and doubtful debts | 3,716 | — | — | 3,716 |
| Written back of allowance for bad and doubtful debts | (3,671) | — | — | (3,671) |

Geographical segments

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

| | 2007 RMB'000 | 2006 RMB'000 |
|-------------------------|-------------------------------|-----------------|
| The PRC | 276,646 | 150,956 |
| Europe | 22,756 | 16,717 |
| Asia other than the PRC | 5,377 | 13,274 |
| Others | 20,693 | 9,789 |
| | 325,472 | 190,736 |

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

9. OTHER REVENUE

| | 2007 RMB'000 | 2006 RMB'000 |
|--|-----------------|-----------------|
| Sales of raw materials | 495 | 1,258 |
| Interest income on bank deposits | 2,451 | 1,135 |
| Rental income from investment properties | 2,590 | 1,796 |
| Reversal of allowance for inventories | 2,975 | 4,694 |
| Waiver of a director's emoluments | 1,536 | — |
| Compensation for removal | 589 | — |
| Exchange gain | 2,091 | — |
| Gain on disposal of held-for-trading investments | 247 | — |
| Written off of trade and bills payables | 4,946 | — |
| Written off of other payables and accruals | 20,379 | — |
| Increase in fair value of investment properties | 40,733 | — |
| Written back of allowance for bad and doubtful debts | — | 3,671 |
| Gain on disposal of property, plant and equipment | — | 138 |
| Others | 1,662 | 2,510 |
| | 80,694 | 15,202 |

10. FINANCE COSTS

| | 2007 RMB'000 | 2006 RMB'000 |
|--|-----------------|-----------------|
| Interest on bank and other borrowings wholly repayable within five years | 13,884 | 9,229 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

11. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

| | 2007 RMB'000 | 2006 RMB'000 |
|---|-----------------|-----------------|
| Amortisation on prepaid lease payments | 1,244 | 911 |
| Auditors' remuneration | | |
| – current year | 1,618 | 928 |
| – over-provision in previous years | (358) | – |
| Allowance for bad and doubtful debts | 13,122 | 3,716 |
| Allowance for amounts due from customers for contract work | 8,625 | 1,672 |
| Impairment of prepayment for an investment in an associate | 613 | – |
| Cost of inventories recognised as an expense (excluding staff costs, depreciation on property, plant and equipment) | 239,161 | 122,233 |
| Depreciation on property, plant and equipment | 5,031 | 4,213 |
| Loss on disposal of property, plant and equipment | 180 | – |
| Written off of property, plant and equipment | 92 | – |
| Staff costs (excluding directors' emoluments) (Note 12) | | |
| – Salaries and wages | 16,548 | 12,558 |
| – Retirement benefits scheme contributions | 2,813 | 2,323 |
| – Share-based payments | 7,418 | – |
| | | |

12. DIRECTORS' EMOLUMENTS

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

| | 2007 RMB'000 | 2006 RMB'000 |
|--|-----------------|-----------------|
| Non-executive directors | | |
| – fees | 279 | 342 |
| Executive directors | | |
| – fees | 2,466 | 2,073 |
| – basic salaries, allowance and benefits in kind | 540 | 288 |
| | 3,285 | 2,703 |
| | | |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

12. DIRECTORS' EMOLUMENTS (Continued)

(b) The emoluments paid or payable to each of the seven (2006: eight) directors were as follows:

| | Directors' fees | Basic salaries, allowance and benefits in kind | Retirement benefit scheme contributions | Total |
|-----------------------|------------------------|---|--|--------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Xu Lian Guo | 1,000 | 180 | – | 1,180 |
| Xu Lian Kuan | 500 | 180 | – | 680 |
| Zhang Yuqing | 500 | 180 | – | 680 |
| Kwok Ming Fai | 466 | – | – | 466 |
| Gu Yao Tian | 93 | – | – | 93 |
| Sun Ka Ziang Henry | 93 | – | – | 93 |
| Li Xinzhong | 93 | – | – | 93 |
| Total for 2007 | 2,745 | 540 | – | 3,285 |
| Xu Lian Guo | 1,000 | 96 | – | 1,096 |
| Xu Lian Kuan | 500 | 96 | – | 596 |
| Zhang Yuqing | 500 | 96 | – | 596 |
| Kwok Ming Fai | 86 | – | – | 86 |
| Gu Yao Tian | 100 | – | – | 100 |
| Sun Ka Ziang Henry | 14 | – | – | 14 |
| Chan Wai Dune | 115 | – | – | 115 |
| Li Xinzhong | 100 | – | – | 100 |
| Total for 2006 | 2,415 | 288 | – | 2,703 |

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

Except for Mr. Xu Lian Guo, no other directors waived or agreed to waive any emoluments in the two years ended 31 December 2007 and 2006.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

12. DIRECTORS' EMOLUMENTS (Continued)

No emoluments were paid to the directors as inducement to join or upon joining the Group or as compensation for loss of office in the two years ended 31 December 2007 and 2006.

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

13. EMPLOYEES' EMOLUMENTS

Of the five highest paid individuals in the Group, three (2006: three) are directors of the Company whose emoluments are included above. The emoluments of the remaining two (2006: two) individuals were as follows:

| | 2007 RMB'000 | 2006 RMB'000 |
|---|-------------------------------|-----------------|
| Salaries and other benefits | 1,294 | 536 |
| Retirement benefit scheme contributions | 22 | 8 |
| Share-based payments | 820 | — |
| | 2,136 | 544 |
| | | |

Their emoluments fall within the following band:

| | Number of employees | |
|-------------------|----------------------------|------|
| | 2007 | 2006 |
| Nil-HK\$1,000,000 | 2 | 2 |
| | | |

No emoluments were paid to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office in two years ended 31 December 2007 and 2006.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

14. TAXATION

| | 2007 RMB'000 | 2006 RMB'000 |
|--------------------------------------|-----------------|-----------------|
| The charge comprises: | | |
| PRC Enterprise Income Tax ("EIT") | 770 | — |
| Hong Kong Profits Tax | 228 | — |
| | 998 | — |
| Deferred tax (Note 23) | | |
| Current year | (1,336) | 604 |
| Attributable to a change in tax rate | (474) | — |
| | (812) | 604 |
| | | |

Except for two subsidiaries, Nanjing Zhongda Jinling Double-Decker Bus Manufacture Co., Ltd. ("Zhongda Jinling") and Nanjing Zonda Zhentong Auto Maintenance Equipment Technical Service Co., Ltd. ("Zonda Zhentong"), which are subject to EIT at statutory rate of 33%, all other subsidiaries of the Company which are established in the PRC are subject to EIT at a rate of 24%.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("New Tax Law") for unified tax rate arrangements among different types of the PRC entities which results in a reduction of income tax rate from 33% to 25% with effect from 1 January 2008. The State Council of the PRC passed an implementation guidance note ("Implementation Guidance") on 26 December 2007, which sets out details of how existing preferential income tax rates will be adjusted to the standard rate of 25%. According to the New Tax Law and the Implementation Guidance, EIT for all the subsidiaries of the Company which are established in the PRC will be adjusted to the standard rate of 25% with effect from 1 January 2008. The new tax rate of 25% has been applied in the measurement of these subsidiaries' deferred tax assets and liabilities as at 31 December 2007, which is expected to be utilised subsequent to 1 January 2008.

Except for Zonda Zhentong, all other PRC subsidiaries are entitled to the benefit of full exemption from EIT for the first two years commencing on the profit-making year followed by 50% reduction in EIT for each of the subsequent three years. At 31 December 2007, Zhongda Jinling has not started to enjoy this benefit, two other subsidiaries of the Company are entitled to EIT exemption for the years 2007 and 2008 and 50% reduction in EIT for the years from 2009 to 2011, and one subsidiary is entitled to 50% reduction in EIT for the years 2007 and 2008. The application of the New Tax Law will not affect the entitlement of the tax benefits for these subsidiaries.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

14. TAXATION (Continued)

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profits for the year. No Hong Kong Profits Tax had been provided for the previous year as the Group had no assessable profits in Hong Kong for that year.

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

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

| | 2007 RMB'000 | 2006 RMB'000 |
|--|-------------------------------|-----------------|
| Profit before taxation | 39,702 | 13,502 |
| Tax at applicable tax rate of 24% | 9,528 | 3,240 |
| Tax effect of expenses not deductible for income tax purpose | 4,680 | 1,708 |
| Tax effect of income not taxable for income tax purpose | (14,878) | (9,277) |
| Tax effect of unrecognised tax losses | 3,287 | 6,024 |
| Increase in opening deferred tax assets resulting from an increase in applicable tax rate | (474) | – |
| Effect of tax exemptions granted to PRC subsidiaries | (1,965) | (1,909) |
| Effect of different tax rates of the subsidiaries operating in other jurisdictions | (990) | 818 |
| Tax (credit)/charge for the year | (812) | 604 |

15. DIVIDENDS

No dividend was paid or proposed during 2007, nor has any dividend been proposed since the balance sheet date (2006: Nil).

16. EARNINGS PER SHARE

The calculation of basic earnings per share was based on the Group's profit attributable to equity holders of the Company of approximately RMB29,811,000 (2006: RMB15,317,000) and the weighted average number of 471,527,000 (2006: 400,004,000) ordinary shares in issue during the year.

The profit used in the calculation of diluted earnings per share measures are the same as those for equivalent basic earnings per share measures as outlined above.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

16. EARNINGS PER SHARE (Continued)

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

| | 2007 '000 |
|--|--------------|
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 471,527 |
| Effect of dilutive potential ordinary shares: share options | 14,054 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | 485,581 |

17. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Leasehold improvements | Plant and machinery | Motor vehicles | Furniture and equipment | Construction- in-progress | Total |
|--|-----------|---------------------------|------------------------|-------------------|----------------------------|------------------------------|----------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| COST | | | | | | | |
| At 1 January 2006 | 38,281 | 501 | 12,581 | 4,685 | 1,270 | 84,099 | 141,417 |
| Additions | – | – | 390 | 2,203 | 830 | 2,999 | 6,422 |
| Transfer from construction-in-progress | 35,740 | – | 17 | – | – | (35,757) | – |
| Reclassification (Note 18) | – | – | – | – | – | (6,738) | (6,738) |
| Disposals | – | – | – | (2,247) | (39) | (1) | (2,287) |
| At 31 December 2006 and 1 January 2007 | 74,021 | 501 | 12,988 | 4,641 | 2,061 | 44,602 | 138,814 |
| Additions | 1,132 | 188 | 1,404 | 3,392 | 221 | 20,736 | 27,073 |
| Transfer from construction-in-progress | 34,224 | – | 171 | – | – | (34,395) | – |
| Reclassification (Note 19) | (35,740) | – | – | – | – | – | (35,740) |
| Disposals | (1,011) | – | (390) | (1,869) | (20) | – | (3,290) |
| Exchange adjustments | – | (69) | – | – | (3) | – | (72) |
| At 31 December 2007 | 72,626 | 620 | 14,173 | 6,164 | 2,259 | 30,943 | 126,785 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

| | Buildings | Leasehold improvements | Plant and machinery | Motor vehicles | Furniture and equipment | Construction-in-progress | Total |
|---|---------------|------------------------|---------------------|----------------|-------------------------|--------------------------|----------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| ACCUMULATED DEPRECIATION AND IMPAIRMENT | | | | | | | |
| At 1 January 2006 | 9,024 | 501 | 7,359 | 938 | 622 | – | 18,444 |
| Charge for the year | 2,401 | – | 852 | 851 | 109 | – | 4,213 |
| Eliminated on disposals | – | – | – | (113) | – | – | (113) |
| At 31 December 2006 and 1 January 2007 | 11,425 | 501 | 8,211 | 1,676 | 731 | – | 22,544 |
| Charge for the year | 2,581 | 94 | 1,000 | 848 | 508 | – | 5,031 |
| Eliminated on disposals | (485) | – | (283) | (589) | (20) | – | (1,377) |
| Reclassification (Note 19) | (743) | – | – | – | – | – | (743) |
| Exchange adjustments | – | (65) | – | – | (1) | – | (66) |
| At 31 December 2007 | 12,778 | 530 | 8,928 | 1,935 | 1,218 | – | 25,389 |
| NET CARRYING VALUES | | | | | | | |
| At 31 December 2007 | 59,848 | 90 | 5,245 | 4,229 | 1,041 | 30,943 | 101,396 |
| At 31 December 2006 | 62,596 | – | 4,777 | 2,965 | 1,330 | 44,602 | 116,270 |

The above items of property, plant and equipment, other than construction-in-progress, are depreciated on a straight-line basis, after taking into account of their estimated residual values, at the following rates per annum:

| Description | Useful Life | Residual value |
|-------------------------|---|----------------|
| Buildings | 10 – 48 years | 10% |
| Leasehold improvements | 2 years or over the relevant terms of lease, if shorter | Nil |
| Plant and machinery | 10 years | 10% |
| Motor vehicles | 5 years | 0% – 10% |
| Furniture and equipment | 5 – 7 years | 0% – 10% |

All buildings are located in the PRC and held under medium-term leases.

Details of the property, plant and equipment pledged are set out in Note 33.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

18. PREPAID LEASE PAYMENTS

| | 2007 RMB'000 | 2006 RMB'000 |
|-------------------------------------|-------------------------------|-----------------|
| Net carrying value at 1 January | 59,798 | 53,971 |
| Reclassification (Notes 17 & 19) | (1,681) | 6,738 |
| Amortisation charge for the year | (1,244) | (911) |
| Net carrying value at 31 December | 56,873 | 59,798 |
| Leasehold land in the PRC: | | |
| Medium-term lease | 56,873 | 59,798 |
| Analysed for reporting purposes as: | | |
| Current asset | 1,244 | 1,429 |
| Non-current asset | 55,629 | 58,369 |
| | 56,873 | 59,798 |

19. INVESTMENT PROPERTIES

| | RMB'000 |
|--|----------------|
| FAIR VALUE | |
| At 1 January 2006 and 2007 | – |
| Additions | 19,478 |
| Reclassified from property, plant and equipment (Note 17) | 34,997 |
| Reclassified from prepaid lease payments (Note 18) | 1,681 |
| Increase in fair value recognised in the consolidated income statement | 40,733 |
| At 31 December 2007 | 96,889 |

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

Notes to the Consolidated Financial Statements

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19. INVESTMENT PROPERTIES (Continued)

All of the Group's properties interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties. Gross rental income generated from the investment properties during the year amounted to approximately RMB2,590,000 (2006: RMB1,796,000).

The carrying value of investment properties shown above comprises:

| | RMB'000 |
|--------------------------------------|---------|
| In Hong Kong under medium-term lease | 31,669 |
| In the PRC under medium-term lease | 65,220 |
| | 96,889 |
| | |

All the Group's investment properties located in the PRC have been pledged to secure bank borrowings granted to the Group.

20. INVESTMENT IN AN ASSOCIATE

| | 2007 RMB'000 | 2006 RMB'000 |
|---|-----------------|-----------------|
| Cost of investment in an unlisted associate | 4 | — |
| Share of post acquisition loss | (4) | — |
| | — | — |
| | | |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

20. INVESTMENT IN AN ASSOCIATE (Continued)

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

| | 2007 RMB'000 | 2006 RMB'000 |
|--|-----------------|-----------------|
| Total assets | 1,060 | — |
| Total liabilities | (1,395) | — |
| Net liabilities | (335) | — |
| Group's share of net liabilities of an associate | — | — |
| Revenue | 131 | — |
| Loss for the year | (344) | — |
| Group's share of result of an associate for the year | (4) | — |

As at 31 December 2007, the Group had interest in the following associate:

| Name of entity | Place of incorporation/ operation | Class of share held | Issued and fully paid Registered capital | Proportion of nominal value of registered capital held by the Company | Principal activities |
|------------------------|---|---------------------------|---|---|---|
| Zhongda EMS Limited | Hong Kong | Ordinary share capital | HK\$10,000 | 40% | Trading of environmental detergents for the automobile industry in the PRC |

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

| | 2007 RMB'000 | 2006 RMB'000 |
|--|-----------------|-----------------|
| Unrecognised share of loss of associate for the year | 134 | — |
| Accumulated unrecognised share of loss of associate | 134 | — |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

21. PREPAYMENT FOR AN INVESTMENT IN AN ASSOCIATE

| | 2007 RMB'000 | 2006 RMB'000 |
|--|-------------------------------|-----------------|
| At 1 January | 1,087 | 1,087 |
| Impairment recognised in the consolidated income statement | (613) | — |
| At 31 December | 474 | 1,087 |
| | | |

The Group had made a prepayment of approximately RMB1,087,000 to Yancheng Zhongda Ceccato Washing Systems Co., Ltd. ("Zhongda Ceccato") in 2006, which represented 8.35% of its total registered capital. According to an agreement signed in April 2004, the Group is required to contribute USD735,000 representing 49% of the total registered capital of Zhongda Ceccato. During the year ended 31 December 2007, the associate has not yet commenced its business and no further capital injection has been made by the Group.

22. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

| | 2007 RMB'000 | 2006 RMB'000 |
|----------------------------|-------------------------------|-----------------|
| Unlisted equity securities | 900 | 900 |
| | | |

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

23. DEFERRED TAXATION

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

| | Allowance for bad and doubtful debts | Allowance for inventories | Accelerated depreciation | Total |
|---|---|--------------------------------------|-------------------------------------|---------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2006 | 15,261 | 1,570 | (607) | 16,224 |
| Credit/(charged) to consolidated income statement for the year | 283 | — | (887) | (604) |
| At 31 December 2006 and 1 January 2007 | 15,544 | 1,570 | (1,494) | 15,620 |
| Effect on change in tax rate | 511 | 65 | (102) | 474 |
| Credit/(charged) to consolidated income statement for the year | 1,937 | (523) | (78) | 1,336 |
| At 31 December 2007 | 17,992 | 1,112 | (1,674) | 17,430 |

At 31 December 2007, the Company's subsidiaries in the PRC had an aggregate amount of unused tax losses of RMB28,752,000 (2006: RMB15,056,000) available to offset against future profits. No deferred tax asset has been recognised in respect of these tax losses due to the unpredictability of future profit streams of those subsidiaries. Pursuant to the relevant laws and regulations in the PRC, the unutilised tax losses can be carried forward for a period of five years from the date of incurrence. Losses amounting to approximately RMB4,018,000 (2006: RMB2,596,000) will expire in 2008.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

24. INVENTORIES

| | 2007 RMB'000 | 2006 RMB'000 |
|---------------------------------|-------------------------------|-----------------|
| Inventories | 53,130 | 35,181 |
| Less: Allowance for inventories | (4,394) | (7,369) |
| | 48,736 | 27,812 |
| | | |

During the year, there was a significant increase in the net realisable value of raw materials due to market shortage in raw materials. As a result, a reversal of write-down of raw materials of approximately RMB2,975,000 (2006: RMB4,694,000) has been recognised in the current year.

| | 2007 RMB'000 | 2006 RMB'000 |
|------------------|-------------------------------|-----------------|
| Raw materials | 17,742 | 12,971 |
| Work in progress | 26,356 | 5,182 |
| Finished goods | 4,638 | 9,659 |
| | 48,736 | 27,812 |
| | | |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

25. AMOUNTS DUE FROM RELATED COMPANIES

Amounts due from related companies (as detailed in Note 37) disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

| | Notes | 2007 RMB'000 | 2006 RMB'000 | Maximum amounts owed to the Group during the year RMB'000 |
|--|---------|-----------------|-----------------|---|
| Yancheng Zhongwei Bus Manufacturing Co., Ltd. ("Zhongwei Bus") ¹ | i & ii | 101,068 | 9,310 | 102,098 |
| Yancheng Zhongda Automobile Service Co., Ltd. ¹ | i & ii | 4 | 217 | 217 |
| Yancheng Zhongda Steel Structure Engineering Co., Ltd. ¹ | i & iii | – | 145 | 145 |
| Zhongda Industrial Group Corporation ("Zhongda Industrial") ¹ | i & iv | 14,473 | 4,858 | 14,473 |
| Yancheng Zhongda International Trading Co. Ltd. ("International Trading") ¹ | i & ii | 3,321 | – | 7,142 |
| Nanjing Jinlin Double-decker Bus Manufacture Co. ("Nanjing Jinlin") ³ | i & ii | 4,990 | 11,315 | 11,315 |
| Yancheng Celette Body Repairing Equipment Co., Ltd. ("Yancheng Celette") ² | i & ii | – | 1,051 | 1,051 |
| Yancheng Zhongda Sankyo Automobile Equipment Co. Ltd. ("Zhongda Sankyo") ⁴ | i & ii | 10 | 2 | 10 |
| Ausen Co., Ltd. ⁵ | i & ii | 82 | – | 323 |
| | | 123,948 | 26,898 | 136,774 |

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.

⁴ Xu Lian Kuan is the common director.

⁵ It is a subsidiary of Zhongda Industrial.

Notes:

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

(ii) The amount is mainly trade in nature.

(iii) The amount represented cash advance and was fully recovered during the year ended 31 December 2007.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

26. TRADE AND BILL RECEIVABLES

| | 2007 RMB'000 | 2006 RMB'000 |
|--|-------------------------------|-----------------|
| Trade receivables | 137,451 | 112,321 |
| Less: Allowance for bad and doubtful debts | (54,866) | (41,744) |
| | 82,585 | 70,577 |
| Bill receivables | 2,670 | 20,977 |
| | 85,255 | 91,554 |
| | | |

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

| | 2007 RMB'000 | 2006 RMB'000 |
|----------------|-------------------------------|-----------------|
| 0 – 180 days | 56,893 | 33,332 |
| 181 – 365 days | 6,083 | 2,510 |
| 1 – 2 years | 19,494 | 34,735 |
| Over 2 years | 115 | – |
| Total | 82,585 | 70,577 |
| | | |

Included in the Group's trade receivables are debtors with an aggregate carrying amount of approximately RMB62,261,000 (2006: RMB67,863,000) which are past due at the reporting date for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 131 days (2006: 183 days).

Notes to the Consolidated Financial Statements

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26. TRADE AND BILL RECEIVABLES (Continued)

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

| | 2007 RMB'000 | 2006 RMB'000 |
|----------------|-------------------------------|-----------------|
| 0 – 180 days | 36,569 | 30,618 |
| 181 – 365 days | 6,083 | 2,510 |
| 1 – 2 years | 19,494 | 34,735 |
| Over 2 years | 115 | – |
| Total | 62,261 | 67,863 |

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

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

Movement in the allowance for bad and doubtful debts:

| | 2007 RMB'000 | 2006 RMB'000 |
|-------------------------------------|-------------------------------|-----------------|
| Balance at beginning of the year | 41,744 | 41,699 |
| Allowance recognised on receivables | 13,122 | 3,716 |
| Allowance reversed | – | (3,671) |
| Balance at the end of the year | 54,866 | 41,744 |

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

| | 2007 RMB'000 | 2006 RMB'000 |
|--|-----------------|-----------------|
| Contracts in progress at the balance sheet date: | | |
| Contract costs incurred plus recognised profits less recognised losses | 176,356 | 223,631 |
| Less: progress payments | (161,250) | (184,193) |
| | 15,106 | 39,438 |
| Analysed for reporting purposes as: | | |
| Amounts due from customers for contract work | 25,594 | 46,511 |
| Amounts due to customers for contract work | (10,488) | (7,073) |
| | 15,106 | 39,438 |
| | | |

At 31 December 2007, retentions held by customers for contract works amounted to approximately RMB11,184,000 (2006: RMB5,145,000). There was no advance received from customers for contract work as at 31 December 2007 (2006: RMB7,054,000).

28. HELD-FOR-TRADING INVESTMENTS

Held-for-trading investments at 31 December 2007 comprises:

| | 2007 RMB'000 | 2006 RMB'000 |
|----------------------------|-----------------|-----------------|
| Unlisted equity securities | — | 200 |
| | | |

The above investments have been disposed of during the year for the consideration of RMB447,000.

Notes to the Consolidated Financial Statements

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

Restricted deposit placed in a financial institution

At 31 December 2007, restricted deposit placed in a financial institution represents deposit required and restricted by 南京市六合區農村信用合作聯社 in respect of the issue of letter of credit to certain suppliers. The deposit carried interest at 0.5% per annum for the year ended 31 December 2007, and will be released upon the completion of the respective transactions. The deposit is denominated in RMB.

Pledged bank deposit

At 31 December 2007, pledged bank deposits comprised approximately RMB10.9 million deposit pledged to a bank to secure a bank overdraft facility of RMB9,200,000. This deposit is denominated in USD and carried interest at market rates which range from 1.0% to 3.4% per annum for the year ended 31 December 2007 (2006: Nil).

Restricted bank balances

At 31 December 2007 and 2006, restricted bank balances represent deposits required and restricted by banks in respect of the issue of letter of credit to certain suppliers. The balances carried interest at 0.72% per annum for the years ended 31 December 2007 and 2006, and will be released upon the completion of the respective transactions. All the restricted bank balances are denominated in RMB.

Bank balances

Bank balances carried interest at market rates which range from 0.01% to 3.6% per annum for the year ended 31 December 2007 (2006: 0.01% to 3.3125%).

At 31 December 2007, bank balances of approximately RMB2,889,000 (2006: RMB228,000), RMB25,857,000 (2006: RMB11,402,000) and RMB3,745,000 (2006: RMB10,000) were originally denominated in USD, HK\$ and Euro respectively.

Bank overdrafts

Bank overdrafts carried interest at market rates which range from 6.21% to 6.57% for the year ended 31 December 2007. All bank overdrafts are denominated in RMB and secured by a bank deposit of USD1.3 million.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

30. TRADE AND BILLS PAYABLES

An ageing analysis of trade payables is as follows:

| | 2007 RMB'000 | 2006 RMB'000 |
|--|-------------------------------|-----------------|
| Within six months | 50,509 | 6,277 |
| Over six months but less than one year | 6,971 | 5,159 |
| Between one and two years | 1,815 | 5,816 |
| Between two and three years | 2,717 | 3,486 |
| More than three years | 1,253 | — |
| | 63,265 | 20,738 |
| Bills payable | 19,963 | 3,000 |
| | 83,228 | 23,738 |
| | | |

The average credit period on purchases of goods ranging from 1 to 6 months.

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

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

32. LOAN FROM ULTIMATE HOLDING COMPANY

The amount was unsecured, interest-free and has no fixed term of repayment.

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33. BANK AND OTHER BORROWINGS

| | 2007 RMB'000 | 2006 RMB'000 |
|---|------------------|-----------------|
| Bank loans | | |
| Secured | 64,780 | 80,180 |
| Unsecured | 73,220 | 62,320 |
| | 138,000 | 142,500 |
| Other loans – secured | 20,000 | – |
| | 158,000 | 142,500 |
| Carrying amount repayable: | | |
| On demand or within one year | 138,000 | 142,500 |
| More than one year, but not exceeding two years | 20,000 | – |
| | 158,000 | 142,500 |
| Less: Amounts due within one year shown under current liabilities | (138,000) | (142,500) |
| | 20,000 | – |
| | | |

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

- The loans with an aggregate principal amount of approximately RMB64.8 million were secured by land use rights and buildings of the Group with an aggregate net carrying values of approximately RMB68 million.
- The loans with an aggregate principal amount of RMB13 million were guaranteed by Zhongwei Bus, a company in which Mr. Xu Lian Guo and Mr. Xu Lian Kuan have beneficial interests.
- The loan with a principal amount of RMB23 million was secured by the land use rights and buildings of Zhongda Industrial, a company in which Mr. Xu Lian Guo and Mr. Xu Lian Kuan have beneficial interests.
- The loan with a principal amount of RMB6.2 million was guaranteed by 江蘇恆達毛皮有限責任公司, an independent third party to the Group.

At 31 December 2007, the Group has bank loan of approximately RMB31 million (2006: RMB32 million) which are neither secured nor guaranteed.

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

Notes to the Consolidated Financial Statements

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33. BANK AND OTHER BORROWINGS (Continued)

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

The above bank loans are all denominated in RMB and expose to cash flow interest rate risk.

Details of securities and guarantees in respect of the bank loans of the Group at 31 December 2006 were as follows:

- (a) The loans with an aggregate principal amount of approximately RMB80.2 million were secured by land use rights and buildings of the Group with an aggregate net carrying values of approximately RMB104 million.
- (b) The loans with an aggregate principal amount of RMB24.1 million were guaranteed by Zhongwei Bus and 江蘇英豪汽車實業有限公司, companies in which Mr. Xu Lian Guo and Mr. Xu Lian Kuan have beneficial interests.
- (c) The loan with a principal amount of RMB6.2 million was guaranteed by 江蘇恆達毛皮有限責任公司, an independent third party to the Group.

As at 31 December 2006, the Group's bank borrowings were subject to variable interest rates ranging from 5.36% to 7.49% per annum.

34. SHARE CAPITAL

| | Number of shares | HK\$'000 | Equivalent to RMB'000 |
|--|----------------------|----------------|--------------------------|
| <i>Authorised:</i> | | | |
| Ordinary shares of HK\$0.1 each | 1,000,000,000 | 100,000 | |
| <i>Issued and fully paid:</i> | | | |
| Ordinary shares of HK\$0.1 each at 1 January 2006, 31 December 2006 and 1 January 2007 | 400,004,000 | 40,000 | 42,386 |
| Placing of new shares (i) | 110,000,000 | 11,000 | 10,801 |
| Exercise of share options (ii) | 20,000,200 | 2,000 | 1,938 |
| At 31 December 2007 | 530,004,200 | 53,000 | 55,125 |

Notes to the Consolidated Financial Statements

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34. SHARE CAPITAL (Continued)

(i) Placing of new shares:

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

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

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

(ii) Exercise of share options

Details of the Company's share option schemes and the share options issued under the schemes are included in Note 39.

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

35. OPERATING LEASES

The Group as lessee

| | 2007 RMB'000 | 2006 RMB'000 |
|--|-------------------------------|-----------------|
| Minimum lease payments in respect of rented premises paid under operating leases during the year | 809 | 712 |
| | | |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

35. OPERATING LEASES (Continued)

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

| | 2007 RMB'000 | 2006 RMB'000 |
|---------------------------------------|-------------------------------|-----------------|
| Within one year | 350 | 738 |
| In the second to fifth year inclusive | 842 | 1,410 |
| | 1,192 | 2,148 |
| | | |

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for an average term of three to four years (2006: four years) and rentals are fixed during the relevant lease periods.

The Group as lessor

At the balance sheet date, the Group had commitments for future minimum lease receipts contracted with tenants in respect of rented premises under non-cancellable operating leases which fall due as follows:

| | 2007 RMB'000 | 2006 RMB'000 |
|---------------------------------------|-------------------------------|-----------------|
| Within one year | 3,180 | 1,810 |
| In the second to fifth year inclusive | 3,180 | 5,300 |
| | 6,360 | 7,110 |
| | | |

Operating lease receipts represent rental receivable by the Group for leasing its investment properties. The properties are expected to generate rental yield of 7.6% on an ongoing basis. Lease and rentals are negotiated and fixed for an average of 2.5 years (2006: 3 years).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

36. CAPITAL COMMITMENTS

| | 2007 RMB'000 | 2006 RMB'000 |
|--|-------------------------------|-----------------|
| Contracted for but not provided in the consolidated financial statements | | |
| – acquisition of land use rights and buildings | 15,757 | 40,209 |
| – capital contribution on investment in an associate | 4,831 | 4,927 |
| – capital contribution on investment in a subsidiary | – | 9,206 |
| | 20,588 | 54,342 |

37. RELATED PARTY TRANSACTIONS

Details of the balances with related parties as at balance sheet date are set out in the consolidated balance sheet and relevant notes to the consolidated financial statements.

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

| | 2007 RMB'000 | 2006 RMB'000 |
|--|-------------------------------|-----------------|
| Transactions with Zhongda Industrial: | | |
| – Service fee expenses (a) | 750 | 750 |
| – Patent fee expense (b) | 200 | 200 |
| – Trademark fee expense (c) | 150 | 150 |
| – Rental expense for office premises (d) | 100 | 100 |
| Transactions with Yancheng Celette: | | |
| – Purchases of products (e) | 10,244 | 8,514 |
| – Sales of products and raw materials (f) | 972 | 963 |
| Transactions with Zhongwei Bus: | | |
| – Sales of products and raw materials (g) | 81,693 | 329 |
| – Rental income for land (h) | 1,770 | 996 |
| Transactions with Jiangsu Jinling Transportation Group Co., Ltd ² : | | |
| – Rental income for property, plant and equipment (i) | 400 | 800 |

Notes to the Consolidated Financial Statements

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37. RELATED PARTY TRANSACTIONS (Continued)

| | 2007 RMB'000 | 2006 RMB'000 |
|--|-----------------|-----------------|
| Transactions with Nanjing Jinlin: | | |
| — Purchase of raw materials (j) | 4,891 | — |
| — Sales of raw materials (j) | — | 4,694 |
| — Management fee income (o) | 1,324 | — |
| Transactions with Yancheng Zhongda International Trading Co. Ltd ¹ : | | |
| — Sales of products (k) | 1,481 | — |
| — Consultancy fee income (l) | 878 | — |
| Transaction with 江蘇中大汽車銷售有限公司 ¹ : | | |
| — Consultancy fee income (l) | 290 | — |
| Transaction with 中大汽車產業集團有限公司 ¹ : | | |
| — Consultancy fee income (l) | 775 | — |
| Transactions with Zhongda Sankyo: | | |
| — Purchase of raw materials (e) | 115 | — |
| Transactions with Jiangsu Zhongda Sankyo Automobile Equipment Co., Ltd. ("Jiangsu Sankyo"): | | |
| — Rental expenses for office premise (m) | 275 | — |
| Transactions with Ausen Co., Ltd. ³ : | | |
| — Sales of products (n) | 767 | — |

¹ Xu Lian Guo and Xu Lian Kuan are common directors.

² It is a shareholder of subsidiary of the Company.

³ It is a subsidiary of Zhongda Industrial.

In addition, Zhongwei Bus has given its corporate guarantee to a bank to secure certain bank loans granted to a subsidiary of the Company to the extent of approximately RMB13 million (2006: RMB24.1 million). Zhongda Industrial has pledged certain of its land use rights and buildings to a bank to secure a bank loan granted to a subsidiary of the Company to the extent of approximately RMB23 million.

Notes to the Consolidated Financial Statements

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37. 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 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 and one of the directors of the Company granted to the Group an exclusive right to use certain patents at an annual fee of RMB200,000 for periods commencing 31 August 2001 to expiry of the patent certificate of the relevant patents.
- (c) Pursuant to a trademark agreement dated 31 August 2001, Zhongda Industrial granted to the Group an exclusive right to use certain trademarks at an annual fee of RMB150,000. The agreement is for a term of ten years commencing 31 August 2001.
- (d) Pursuant to an office license agreement dated 30 May 2006, the rental of office premises is charged at a rate of RMB100,000 per annum for a period of five years commenced 1 June 2006.
- (e) Purchases from Yancheng Celette and Zhongda Sankyo were made at the prevailing market price.
- (f) The prices were determined based on the actual cost of production plus a profit margin of approximately zero to 5 per cent in respect of sales of raw materials to Yancheng Celette.
- (g) The prices were at prevailing market price in respect of sales of products and on the actual cost of production plus a profit margin of approximately 9 per cent in respect of sales of raw materials to Zhongwei Bus.
- (h) Pursuant to a rental agreement, the rental of land is charged at RMB83,000 per month for a period of three years commenced on 12 July 2004. The agreement was renewed with rental charge at RMB250,000 per month for another three years commenced on 12 July 2007.
- (i) Pursuant to a rental agreement, the rental of equipment and machinery is charged at RMB800,000 per annum commenced on 1 January 2005. The agreement was terminated on 30 June 2007.
- (j) Purchase from and sales to Nanjing Jinlin were at cost.

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37. RELATED PARTY TRANSACTIONS (Continued)

- (k) The prices were determined based on the actual cost of production plus a profit margin of approximately 7 per cent in respect of sales of products to Yanzheng Zhongda International Trading Co. Ltd.
- (l) Pursuant to the agreement dated 1 January 2007, non-recurring consultancy fees of RMB878,000 was charged on Yanzheng Zhongda International Trading Co., Ltd. for arranging international trade finance; RMB290,000 was charged on 江蘇中大汽車銷售有限公司 for arranging trade finance; and RMB775,000 was charged on 中大汽車產業集團有限公司 for studying and re-arranging the existing international trading and financing arrangement and participating in the negotiation with overseas buyers.
- (m) Pursuant to a rental agreement, the rental of office premises is charged at RMB25,000 per month commenced on 1 February 2007.
- (n) Sales to Ausen Co., Ltd. were at prevailing market price.
- (o) Management services were provided to Nanjing Jinlin on normal commercial terms.

38. RETIREMENT BENEFITS SCHEME

The employees of the Group in the PRC are members of defined contribution plans organised by the relevant local government authorities in the PRC. The subsidiaries were required to make monthly contributions to these plans at 17% 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 RMB2,813,000 (2006: RMB2,323,000) represents contributions payable to the retirement schemes by the Group.

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39. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option schemes

During the year ended 31 December 2007, the Company terminated the share option scheme approved and adopted on 8 October 2001 (the “Old Scheme”) and approved and adopted a new share option scheme for employee compensation on 31 May 2007 as details below.

The Old Scheme

Under the Old Scheme, the maximum number of shares which may be issued shall not in aggregate exceed 40,000,400 shares. The Board of Directors of the Company (the “Directors”) may, at their discretion, invite any executive and/or employees of the Company and/or its subsidiaries to take up options to subscribe for shares of the Company. The exercise price is determined by the Directors and will at least be the higher of (i) the closing price of the shares as stated in the Stock Exchange’s daily quotation sheet on the date of grant, which shall be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange’s daily quotation sheet for the five business days immediately preceding the date of grant, and (iii) the par value of the shares. During the year, a total of 40,000,400 share options have been granted to eligible employees (2006: Nil)

Details of specific categories of options are as follows:

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

Notes to the Consolidated Financial Statements

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39. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

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

| Option type | Outstanding at 1/1/2006 and 1/1/2007 | Granted during year | Exercised during year | Forfeited/ expired during year | Outstanding at 31/12/2007 |
|------------------------------------|--|------------------------|--------------------------|--------------------------------------|------------------------------|
| Jan 2007 | – | 24,000,240 | (12,000,120) | – | 12,000,120 |
| Feb 2007 (1) | – | 4,000,040 | – | – | 4,000,040 |
| Feb 2007 (2) | – | 12,000,120 | (8,000,080) | – | 4,000,040 |
| | – | 40,000,400 | (20,000,200) | – | 20,000,200 |
| Exercisable at end of the year | | | | | 20,000,200 |
| Weighted average exercise price | – | HK\$0.342 | HK\$0.358 | – | HK\$0.326 |

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise is HK\$2.06.

During the year ended 31 December 2007, options were granted on 11 January, 5 February and 13 February. The estimated fair values of the options granted on those dates are approximately RMB2,459,000, RMB999,000 and RMB3,960,000 respectively. No share option was granted during the year ended 31 December 2006.

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

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

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39. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

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

In total, approximately HK\$7,462,000 (equivalent to approximately RMB7,418,000) of employee benefit expense has been included in the consolidated income statement for 2007 (2006: Nil), the corresponding amount of which has been credited to share options reserve. No liabilities were recognised on the equity-settled share-based payment transactions.

Upon termination of the Old Scheme on 31 May 2007, no further option 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.

The New Scheme

A new share option scheme (the "New Scheme") was approved and adopted by the Company on 31 May 2007. Under the New Scheme, the Directors may, at their discretion, grant to any eligible person as defined under the New Scheme to take up options to subscribe for shares of the Company at a subscription price to be determined by the Directors and notified to eligible person but in any case shall not be less than the highest of (1) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of the grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities; (2) the average of closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant; or (3) the nominal value of a share. Upon acceptance of the share option, the grantee shall pay HK\$1 to the Company by way of consideration for the grant. The maximum number of shares which may be allotted and issued upon the exercise of all options to be granted under the New Scheme and any other share option schemes 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 New Scheme. Moreover, the ordinary shares which may be issued upon exercise of all outstanding 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 of time. An option may be exercised in accordance with the terms of the New 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.

No share option was granted under the New Scheme during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

40. SUMMARISED BALANCE SHEET OF THE COMPANY

| | Notes | 2007 RMB'000 | 2006 RMB'000 |
|---------------------------------------|-------|-----------------|-----------------|
| Investments in subsidiaries | | 30,387 | 30,387 |
| Plant and equipments | | 166 | — |
| Prepayments and other receivables | | 355 | 131 |
| Bank balances and cash | | 10,910 | 11,391 |
| Amounts due from subsidiaries | | 114,571 | 20,261 |
| Other payables and accruals | | (1,987) | (2,114) |
| Amounts due to directors | | (4,338) | (5,843) |
| Loan from an ultimate holding company | | — | (12,000) |
| | | 150,064 | 42,213 |
| Share capital | 34 | 55,125 | 42,386 |
| Share premium | 41 | 127,877 | 17,073 |
| Share options reserve | 41 | 3,646 | — |
| Exchange translation reserve | 41 | (7,928) | (1,143) |
| Accumulated losses | 41 | (28,656) | (16,103) |
| | | 150,064 | 42,213 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

41. RESERVES

Company

| | Share premium RMB'000 | Share options reserve RMB'000 | Exchange translation reserve RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
|--|-----------------------------|--|---|----------------------------------|------------------|
| At 1 January 2006 | 17,073 | – | (724) | (9,792) | 6,557 |
| Loss for the year | – | – | – | (6,311) | (6,311) |
| Exchange difference | – | – | (419) | – | (419) |
| At 31 December 2006 and 1 January 2007 | 17,073 | – | (1,143) | (16,103) | (173) |
| Placing of new shares | 116,147 | – | – | – | 116,147 |
| Share issue expenses | (14,119) | – | – | – | (14,119) |
| Recognition of equity-settled share-based payments | – | 7,418 | – | – | 7,418 |
| Proceeds from shares issued under share option scheme | 8,776 | (3,772) | – | – | 5,004 |
| Loss for the year | – | – | – | (12,553) | (12,553) |
| Exchange difference | – | – | (6,785) | – | (6,785) |
| At 31 December 2007 | 127,877 | 3,646 | (7,928) | (28,656) | 94,939 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

42. POST BALANCE SHEET EVENTS

- (a) On 24 March 2008, Vietnam Motors Industry Corporation ("Vinamotor") and Zhongda International Automobile Industrial Limited ("ZIAI") entered into a joint venture co-operation agreement for the establishment of a chassis manufacturing joint venture in Vietnam (the "JV Company"). Upon establishment of the JV Company, Vinamotor and ZIAI will be interested in 50% and 50% of the issued share capital of the JV Company respectively. The legal capital of the JV Company is approximately USD20 million.
- (b) Pursuant to the announcement dated 5 February 2008, Yancheng Aoshen Industrial Equipment, an indirect wholly-owned subsidiary of the Company, has entered into a non-legally binding letter of intent to acquire from Zhongda Industrial of not exceeding 60% equity interest in Yancheng International Trading Co., Ltd. at a consideration of not more than RMB6 million.

43. PRINCIPAL SUBSIDIARIES

The following is a list of the subsidiaries as at 31st December 2007:

| Name of subsidiary | Place of incorporation/ operation | Class of shares held | Registered and fully paid capital | Issued and fully paid share capital | Effective percentage of equity | Principal activities |
|--|--------------------------------------|--------------------------------------|-----------------------------------|-------------------------------------|--|--------------------------------|
| | | | | | interest/voting rights held by the Group | |
| Held directly by the Company | | | | | | |
| Zhong Da (BVI) Investments Limited | British Virgin Islands/ Hong Kong | Ordinary | – | US\$1,175 | 100% | Investment holding |
| Held indirectly by the Company | | | | | | |
| Grandy Rich Limited | Hong Kong | Ordinary | – | HK\$1 | 100% | Investment Property holding |
| Zhong Da International Limited | Hong Kong | Ordinary, Deferred and non-voting | – | HK\$2 HK\$9,998 | 100% | Investment holding |
| Zhongda International Automobile Assets Group Ltd. | British Virgin Islands/ Hong Kong | Ordinary | – | US\$10 | 100% | Investment holding |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

43. PRINCIPAL SUBSIDIARIES (Continued)

| Name of subsidiary | Place of incorporation/ operation | Class of shares held | Registered and fully paid capital | Issued and fully paid share capital | Effective percentage of equity | Principal activities |
|--|--------------------------------------|----------------------|-----------------------------------|-------------------------------------|--|---|
| | | | | | interest/voting rights held by the Group | |
| Zhongda International Automobile Industrial Ltd. | British Virgin Islands/ Hong Kong | Ordinary | – | US\$10 | 100% | Investment holding |
| Zhongda Group (USA) Inc. | United States of America ("USA") | Ordinary | – | US\$100,000 | 100% | Inactive |
| Ausen Group, Inc. | USA | – | – | US\$50,000 | 100% | Inactive |
| Zhongda International Trading Limited | Hong Kong | Ordinary | – | HK\$1 | 100% | Service provider |
| Zhongda Automobile (Asia) Development Limited | British Virgin Islands/ Hong Kong | Ordinary | – | US\$10 | 100% | Inactive |
| Zhongda Automobile Machinery Manufacture Co., Ltd. | PRC | Contributed capital | RMB45,861,500 | – | 86.7% | Manufacture and sale of automobile equipment |
| Zhongda Group (Europe) GmbH | The Federal Republic of Germany | – | – | EUR30,000 | 100% | Inactive |
| Yancheng Dasheng Automotive Equipment Co., Ltd.* | PRC | Contributed capital | US\$500,000 | – | 43.4% | Manufacture and sale of automobile equipment |
| Jiangsu Zhongda Industrial Painting and Environmental Protection Co., Ltd. | PRC | Contributed capital | RMB 15,600,000 | – | 90.0% | Design, production, installation and sales of surface treatment systems |
| Yancheung Yuntong Automobile Machinery Co., Ltd. | PRC | Contributed capital | RMB500,000 | – | 86.7% | Inactive |
| Yancheng Luhua Machinery Co., Ltd. | PRC | Contributed capital | RMB5,000,000 | – | 86.7% | Inactive |
| Yancheng Zhongda Industrial Equipment Manufacture Co., Ltd. | PRC | Contributed capital | US\$1,515,500 | – | 96.0% | Manufacture and sale of automobile equipment |

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43. PRINCIPAL SUBSIDIARIES (Continued)

| Name of subsidiary | Place of incorporation/ operation | Class of shares held | Registered and fully paid capital | Issued and fully paid share capital | Effective percentage of equity interest/voting rights held | Principal activities |
|---|--------------------------------------|----------------------|-----------------------------------|-------------------------------------|--|--|
| | | | | | by the Group | |
| Nanjing Zhongda Jinling Double-decker Bus Manufacture Co., Ltd. | PRC | Contributed capital | RMB30,375,650 | – | 58.5% | Manufacture and sale of bus |
| Nanjing Zonda Zhentong Auto Maintenance Equipment Technical Service Co., Ltd. | PRC | Contributed capital | RMB500,000 | – | 100% | Sale of automobile equipment |
| Yancheng Aoshen Industrial Equipment Manufacturing Co., Ltd. | PRC | Contributed Capital | RMB15,000,000 | | 100% | Manufacture and sale of automobile equipemnt |
| Yancheng Aoshen Automobile Equipment Co., Ltd. * | PRC | Contributed capital | USD200,000 | | 44.22% | Manufacture and sale of automobile maintenance equipment |
| Yancheng Zhongda Automobiles Equipment Co., Ltd. | PRC | Contributed capital | HK\$25,000,000 | | 100% | Trading of automobile spare parts |

Note:

- * Zhongda Automobile Machinery Manufacture Co., Ltd. held 50% and 51% equity interests in Yangcheng Dasheng Automotive Equipment Co., Ltd. ("Dasheng") and Yancheng Aoshen Automobile Equipment Co., Ltd. ("Aoshen Automobile") respectively. Dasheng and Aoshen Automobile are therefore accounted for as subsidiaries of the Company as the Company has control over their operational and financial policies. As at 31 December 2007, the Group has 43.4% and 44.22% effective equity interests in Dasheng and Aoshen Automobile respectively.

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

44. COMPARATIVE FIGURES

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

Financial Summary

RESULTS

| | 2007 RMB'000 | Year ended 31 December | | | |
|---|-------------------------------|-------------------------------|-----------------|-------------------------------|-------------------------------|
| | | 2006 RMB'000 | 2005 RMB'000 | 2004 RMB'000 (restated) | 2003 RMB'000 (restated) |
| Turnover | 325,472 | 190,736 | 177,313 | 217,706 | 227,515 |
| Profit/(loss) before taxation | 39,702 | 13,502 | (32,535) | 21,089 | 18,677 |
| Taxation | 812 | (604) | 3,157 | (5,033) | (4,604) |
| Profit/(loss) for the year | 40,514 | 12,898 | (29,378) | 16,056 | 14,073 |
| Minority interests | (10,703) | 2,419 | 3,675 | (3,094) | (2,470) |
| Profit/(loss) attributable to equity holders of the Company | 29,811 | 15,317 | (25,703) | 12,962 | 11,603 |
| | | | | | |

ASSETS AND LIABILITIES

| | 2007 RMB'000 | As at 31 December | | | |
|--|-----------------------------------|--------------------------|---------------------|-------------------------------|-------------------------------|
| | | 2006 RMB'000 | 2005 RMB'000 | 2004 RMB'000 (restated) | 2003 RMB'000 (restated) |
| Total assets | 681,535 | 426,843 | 361,563 | 460,499 | 318,859 |
| Total liabilities | (345,150) | (253,729) | (200,636) | (267,027) | (146,914) |
| Minority interests | 336,385 (29,008) | 173,114 (16,011) | 160,927 (18,430) | 193,472 (24,856) | 171,945 (16,289) |
| Equity attributable to equity holders of the Company | 307,377 | 157,103 | 142,497 | 168,616 | 155,656 |
| | | | | | |