
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Zhongda International Holdings Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or the transferee.

This circular is addressed to the shareholders of Zhongda International Holdings Limited in connection with a special general meeting to be held on 26 June 2009. This circular is not an invitation or offer to acquire, purchase or subscribe for securities of Zhongda International Holdings Limited.

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ZHONGDA INTERNATIONAL HOLDINGS LIMITED

(中大國際控股有限公司*)

(Incorporated in Bermuda with limited liability)

(Stock Code: 00909)

- (1) PROPOSED OPEN OFFER ON THE BASIS OF THREE OFFER SHARES
FOR EVERY FIVE EXISTING SHARES HELD
BY QUALIFYING SHAREHOLDERS WITH
BONUS ISSUE ON THE BASIS OF TWO BONUS SHARES FOR EVERY TEN OFFER
SHARES TAKEN UP UNDER THE OPEN OFFER
- (2) PROPOSED AMENDMENTS TO THE BYE-LAWS
AND
- (3) PROPOSED INCREASE IN THE AUTHORISED
SHARE CAPITAL

Joint Underwriters



UPBEST SECURITIES COMPANY LIMITED

TANRICH

TANRICH CAPITAL LIMITED

Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders

AmCap

Ample Capital Limited
豐盛融資有限公司

It should be noted that the Underwriting Agreement in respect of the Open Offer contains provisions entitling the Joint Underwriters by notice in writing to the Company at any time prior to the Latest Time for Termination to terminate the obligations of the Joint Underwriters thereunder on the occurrence of certain events including force majeure. These events are set out under the section headed "Termination of the Underwriting Agreement" on pages 8 to 9 of this circular. If the Joint Underwriters terminate the Underwriting Agreement in accordance with the terms thereof, the Open Offer with the Bonus Issue will not proceed. In addition, the Open Offer is conditional on all conditions set out on pages 16 to 17 of this circular being fulfilled or waived (as applicable). If such conditions are not fulfilled or waived (as applicable) by the dates stipulated in the conditions or by the Latest Time for Termination, the Underwriting Agreement shall terminate and the Open Offer and the Bonus Issue will not proceed.

A letter from the Board is set out on pages 10 to 22 of this circular and a letter from the Independent Board Committee is set out on pages 23 to 24 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 25 to 39 of this circular.

A notice convening the special general meeting of the Company to be held at Everest Room, Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Admiralty, Hong Kong on Friday, 26 June 2009 at 3:00 p.m. is set out on pages 143 to 146 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar and transfer office of the Company in Hong Kong, Tricor Standard Limited at 26th Floor, Tesbury Center, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

* For identification purposes only

CONTENTS

	<i>Page</i>
Definitions	1
Expected timetable	6
Termination of the Underwriting Agreement	8
Letter from the Board	10
Letter from the Independent Board Committee	23
Letter from the Independent Financial Adviser	25
Appendix I – Financial information of the Group	40
Appendix II – Unaudited pro forma financial information on the Group	100
Appendix III – Summary of the Constitution of the Company and Bermuda Company Law	105
Appendix IV – General information	130
Notice of Special General Meeting	143

DEFINITIONS

In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:

“Acceptance Date”	latest day for acceptance of and payment for the Offer Shares which is expected to be on 15 July 2009
“Announcement”	the announcement of the Company dated 7 May 2009 in relation to the rights issue with the bonus issue, the amendments to the Bye-laws and the increase in the Authorised Share Capital
“Application Form”	the form of application for use by the Qualifying Shareholders to apply for the Offer Shares
“associates”	has the meaning ascribed to it under the Listing Rules
“Authorised Share Capital”	the authorised share capital of the Company
“Board”	the board of Directors
“Bonus Issue”	the issue of 63,977,548 Bonus Shares to the first registered holders of the fully-paid Offer Shares on the basis of two Bonus Shares for every ten Offer Shares subscribed and taken up under the Open Offer
“Bonus Shares”	63,977,548 new Shares to be allotted and issued under the Bonus Issue
“Business Day”	a full day (other than a Saturday or Sunday) on which banks are generally open for business in Hong Kong
“Bye-laws”	the bye-laws of the Company
“Company”	Zhongda International Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
“connected persons”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong

DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board established by the Board to advise the Independent Shareholders in respect of the Open Offer with the Bonus Issue
“Independent Financial Adviser”	Ample Capital Limited, a licensed corporation under the SFO and engages in Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Open Offer with the Bonus Issue
“Independent Shareholders”	Shareholders other than Zhong Da BVI
“Joint Underwriters”	Upbest and Tanrich
“Last Trading Day”	30 April 2009, being the date on which the Shares were last traded on the Stock Exchange prior to the publication of the Announcement
“Latest Practicable Date”	29 May 2009, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Latest Time for Acceptance”	4:00 p.m. on 15 July 2009, the latest time for acceptance of application forms and payment for the Offer Shares under the Open Offer
“Latest Time for Termination”	4:00 p.m. on the second Business Day after the Acceptance Date
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“Non-Qualifying Shareholder(s)”	Shareholder(s) whose name(s) appear(s) on the register of members of the Company on the Record Date and whose address(es) as shown on the register of members of the Company on the Record Date is (are) outside Hong Kong where the Directors, based on the legal opinions provided by legal advisers, consider it necessary or expedient to exclude any such Shareholder because of either the legal restrictions under the laws of the place of his registered address or the requirements of the relevant regulatory body or stock exchange in that place
“Open Offer”	the issue of 319,887,744 Offer Shares at a price of HK\$0.28 per Offer Share on the basis of three Offer Shares for every five existing Shares held on Record Date
“Offer Shares”	319,887,744 Shares to be issued under the Open Offer
“Posting Date”	30 June 2009, the expected date for despatch of the Prospectus Documents to the Qualifying Shareholders or the Prospectus to the Non-Qualifying Shareholders (as the case may be)
“PRC”	the People’s Republic of China
“Prospectus”	the prospectus to be issued by the Company in relation to the Open Offer
“Prospectus Documents”	the Prospectus and the Application Form
“Qualifying Shareholder(s)”	Shareholder(s), other than the Non-Qualifying Shareholder(s), whose name(s) appear(s) on the register of members of the Company on the Record Date
“Record Date”	26 June 2009, the record date by which entitlements to the Open Offer will be determined
“Registrar”	Tricor Standard Ltd. of 26th Floor, Tesbury Center, 28 Queen’s Road East, Wanchai, Hong Kong, the branch share registrar of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“Settlement Date”	the second Business Day after the Acceptance Date or such other date as the Joint Underwriters and the Company may agree in writing

DEFINITIONS

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened to approve the Open Offer with the Bonus Issue, the amendments to the Bye-laws and the increase in the Authorised Share Capital
“Shareholder(s)”	holder(s) of the Share(s)
“Share(s)”	share(s) of HK\$0.10 each in the existing share capital of the Company
“Share Option Schemes”	the share option schemes adopted by the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the same meaning ascribed to it under the Listing Rules
“Tanrich”	Tanrich Capital Limited, a corporation licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities which is independent of and not connected with the Company and its connected persons, whose ordinary course of business includes underwriting
“Underwriting Agreement”	the underwriting agreement dated 6 May 2009 entered into between the Company, Zhong Da BVI and the Joint Underwriters, as supplemented by the supplemental agreement dated 21 May 2009 in relation to the Open Offer
“Underwritten Shares”	not less than 244,887,744 Offer Shares, being all the Offer Shares less the number of Offer Shares confirmed to be taken up by Zhong Da BVI under its entitlement
“Upbest”	Upbest Securities Company Limited, a corporation licensed under the SFO to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities which is independent of and not connected with the Company and its connected persons, whose ordinary course of business includes underwriting

DEFINITIONS

“Zhong Da BVI”

Zhong Da (BVI) Limited, a company incorporated in the British Virgin Islands and is owned as to 57.22% by Mr. Xu Lian Guo, an executive Director and as to 42.78% by Mr. Xu Lian Kuan, another executive Director, the controlling shareholder of the Company

“%”

per cent.

EXPECTED TIMETABLE

Set out below is an indicative timetable for the implementation of the Open Offer with the Bonus Issue. **The timetable is subject to change in accordance with the agreement between the Company and the Joint Underwriters. The Company will notify the Shareholders on any changes to the expected timetable as and when appropriate.**

Despatch of circular, notice of SGM	4 June 2009
Last day of dealings in Shares on cum-rights basis	17 June 2009
First day of dealing in Shares on ex-rights basis	18 June 2009
Latest time for lodging transfers of Shares in order to be entitled to the Open Offer	4:00 p.m. on 19 June 2009
Register of members closes (both dates inclusive)	22 June 2009 to 26 June 2009
Latest time for lodging proxy forms for the SGM	3:00 p.m. on 24 June 2009
Record Date	26 June 2009
SGM	3:00 p.m. on 26 June 2009
Announcement of results of SGM	26 June 2009
Register of members reopens	29 June 2009
Prospectus Documents expected to be despatched on	30 June 2009
Latest time for acceptance of application and payment for Offer Shares	4:00 p.m. on 15 July 2009
Expected time for the Open Offer to become unconditional	4:00 p.m. on 17 July 2009
Announcement of results of the Open Offer	17 July 2009
Certificates for fully-paid Offer Shares and Bonus Shares expected to be despatched on or before	22 July 2009
Dealings in fully-paid Offer Shares and Bonus Shares expected to commence on	24 July 2009

EXPECTED TIMETABLE

Dates or deadlines specified in this circular for events in the timetable for (or otherwise in relation to) the Open Offer are indicative only and may be extended or varied by the Company. Any change to the anticipated timetable for the Open Offer will be published as and when appropriate. The Latest Time for Acceptance will not take place if there is:

- a tropical cyclone warning signal number 8 or above, or
 - a “black” rainstorm warning
- (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on 15 July 2009. Instead the Latest Time for Acceptance will be extended to 5:00 p.m. on the same Business Day;
- (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on 15 July 2009. Instead the Latest Time for Acceptance will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the Latest Time for Acceptance does not take place on 15 July 2009, the dates mentioned in the expected timetable above may be affected. An announcement will be made by the Company in such event advising the revised dates.

TERMINATION OF THE UNDERWRITING AGREEMENT

- (1) The Joint Underwriters shall have the right to terminate the arrangements set out in the Underwriting Agreement by notice in writing given to the Company at any time prior to the Latest Time for Termination, if:
- (i) the occurrence of the following events would, in the reasonable opinion of the Joint Underwriters, materially and adversely affect the business, financial or trading position or prospects of the Group as a whole or otherwise makes it inexpedient or inadvisable for the Company or the Joint Underwriters to proceed with the Open Offer:
 - (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever;
 - (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic, currency or other nature (whether or not ejusdem generis with any of the foregoing) or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets; or
 - (c) the occurrence of any change in market conditions or combination of circumstances in Hong Kong (including without limitation suspension or material restriction on trading in securities);
 - (ii) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities);
 - (iii) there is any change in the circumstances of the Company or any member of the Group which in the reasonable opinion of the Joint Underwriters will adversely affect the prospects of the Group as a whole, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group;
 - (iv) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than five consecutive business days, excluding any suspension in connection with the clearance of the Announcement or the Prospectus Documents or other announcements or circulars in connection with the Open Offer;
 - (v) the Company commits any breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement;

TERMINATION OF THE UNDERWRITING AGREEMENT

- (vi) the Joint Underwriters shall receive notification or shall otherwise become aware of, the fact that any of the representations or warranties contained in the Underwriting Agreement was, when given, untrue or inaccurate or would in any respect be untrue or inaccurate if the Joint Underwriters shall in its reasonable opinion determine that any such untrue representation or warranty represents or is likely to represent a material and adverse change in the business, financial or trading position or prospects of the Group as a whole or is otherwise likely to have a material and adverse effect on the Open Offer; or
 - (vii) the Company, after any matter or event referred to in the Underwriting Agreement has occurred or come to the attention of the Joint Underwriters, fails to promptly send out any announcement or circular (after the despatch of the Prospectus Documents), in such manner (and as appropriate with such contents) as the Joint Underwriters may reasonably request for the purpose of preventing the creation of a false market in the securities of the Company.
- (2) The Joint Underwriters are also entitled by notice in writing to rescind the Underwriting Agreement if prior to the Latest Time for Termination:
 - (i) any material breach of any of the representations, warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of the Joint Underwriters; or
 - (ii) the Joint Underwriters come to the knowledge of any event that would render any of the warranties in the Underwriting Agreement to be untrue or incorrect in any material respect.

LETTER FROM THE BOARD



ZHONGDA INTERNATIONAL HOLDINGS LIMITED

(中大國際控股有限公司*)

(Incorporated in Bermuda with limited liability)

(Stock Code: 00909)

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

Registered office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Independent Non-executive Directors:

Mr. Gu Yao Tian

Mr. Sun Ka Ziang Henry

Mr. Li Xinzhong

Principal place of business

in Hong Kong:

1609, Office Tower

Convention Plaza

1 Harbour Road

Wanchai, Hong Kong

4 June 2009

To the Shareholders

Dear Sir/Madam,

- (1) PROPOSED OPEN OFFER ON THE BASIS OF THREE OFFER SHARES
FOR EVERY FIVE EXISTING SHARES HELD
BY QUALIFYING SHAREHOLDERS WITH
BONUS ISSUE ON THE BASIS OF TWO BONUS SHARES FOR EVERY TEN
OFFER SHARES TAKEN UP UNDER THE OPEN OFFER**
- (2) PROPOSED AMENDMENTS TO THE BYE-LAWS
AND**
- (3) PROPOSED INCREASE IN THE AUTHORISED
SHARE CAPITAL**

INTRODUCTION

The Directors announced on 7 May 2009 that the Company proposes to raise approximately HK\$89.6 million, before expenses, by issuing 319,887,744 new Shares to the Qualifying Shareholders by way of a rights issue at a price of HK\$0.28 per rights share on

* For identification purposes only

LETTER FROM THE BOARD

the basis of three rights shares for every five existing Shares held on the Record Date. The Company will allot and issue two Bonus Shares for every ten rights shares taken up under the rights issue.

On 21 May 2009, the Directors announced that the Company and the Joint Underwriters have entered into a supplemental agreement to revise the fund-raising method from that of a rights issue to an open offer. The Directors considered that the Open Offer, with no trading in nil-paid rights and with the entitlement of new Shares firmly attached to existing Shares held, is a better fund-raising method than rights issue to ensure stability in the Company's shareholders base and would allow the existing Shareholders an opportunity to participate in and enjoy the benefit of the growth in the Company. Accordingly, the Company, after discussions with the Joint Underwriters, has decided to revise the fund-raising method of the Company from that of a rights issue to an open offer.

The Open Offer with the Bonus Issue is only available to the Qualifying Shareholders. Zhong Da BVI has confirmed to subscribe not less than 75,000,000 Offer Shares under its entitlement. The Offer Shares other than the Offer Shares that Zhong Da BVI has already confirmed to subscribe are fully underwritten by the Joint Underwriters.

To facilitate the Open Offer with the Bonus Issue on the basis of only extending the Bonus Shares to the Qualifying Shareholders who have taken up the Offer Shares under the Open Offer, the Directors also propose to amend the Bye-laws.

The Board also proposes to increase the Authorised Share Capital from HK\$100,000,000 to HK\$1,000,000,000 by the creation of an additional 9,000,000,000 Shares of HK\$0.10 each.

The purpose of this circular is:

- (i) to provide the Shareholders with details of the Open Offer with the Bonus Issue;
- (ii) to set out the opinion of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the Open Offer with the Bonus Issue;
- (iii) to set out the recommendation of the Independent Board Committee to the Independent Shareholders on the Open Offer with the Bonus Issue;
- (iv) to provide the Shareholders with details of the proposed amendments to the Bye-laws and the proposed increase in the Authorised Share Capital; and
- (v) to give you notice of the SGM to consider and, if thought fit, to approve the Open Offer with the Bonus Issue, the proposed amendments to the Bye-laws and the proposed increase in the Authorised Share Capital.

LETTER FROM THE BOARD

ISSUE STATISTICS

Basis of Open Offer with Bonus Issue	:	Three Offer Shares for every five existing Shares held on the Record Date, issued with two Bonus Shares for every ten Offer Shares taken up under the Open Offer
Number of Shares in issue	:	533,146,240 Shares as at the Latest Practicable Date
Number of Offer Shares	:	319,887,744 Offer Shares, representing 60.0% of the issued share capital of the Company as at the Latest Practicable Date and approximately 34.9% of the issued share capital of the Company as enlarged by the Open Offer and the Bonus Issue
Number of Bonus Shares	:	63,977,548 Bonus Shares will be issued to the Shareholders who have taken up the Offer Shares on the basis of two Bonus Shares for every ten Offer Shares taken up, representing approximately 12.0% of the issued share capital of the Company as at the Latest Practicable Date and approximately 7.0% of the issued share capital of the Company as enlarged by the Open Offer and the Bonus Issue
Subscription price per Offer Share	:	HK\$0.28 per Offer Share
Joint Underwriters	:	Upbest and Tanrich. To the best knowledge of the Directors, having made reasonable enquiries, each of the Joint Underwriters and their ultimate beneficial owners is an independent third party not connected with the Company or its connected persons. The Joint Underwriters are also independent of and not connected with each other. Each of Upbest and Tanrich underwrites securities as part of its ordinary course of business.

As at the Latest Practicable Date, the Company has outstanding options under the share option scheme of the Company, which was adopted in 2001 and terminated on 31 May 2007, convertible into 16,000,160 Shares, and convertible bonds in the principal amount of HK\$21,000,000 convertible into 25,000,000 Shares (the “**Conversion Shares**”) at HK\$0.84 per Share. Save as disclosed, the Company has no other outstanding options, convertible securities or warrant which confers the right to subscribe for Shares.

Since the Open Offer with the Bonus Issue would increase the issued share capital of the Company by more than 50%, the Open Offer with the Bonus Issue would be made conditional on approval by the Independent Shareholders in a general meeting by a resolution on which any controlling shareholder and their associates will abstain from voting in favour of the Open Offer with the Bonus Issue. As at the Latest Practicable Date, Zhong

LETTER FROM THE BOARD

Da BVI is interested in 204,004,000 Shares and convertible bonds of the Company in the principal amount of HK\$21,000,000 convertible into 25,000,000 Conversion Shares, representing approximately 38.3% and 4.7% of the issued share capital of the Company respectively. Zhong Da BVI is owned as to 57.22% and 42.78% by Mr. Xu Lian Guo and Mr. Xu Lian Kuan, both executive Directors, respectively. Save for their interests in the Company through Zhong Da BVI, each of Mr. Xu Lian Guo and Mr. Xu Lian Kuan does not own any Shares or hold any other interest in the Company. Pursuant to Rule 7.24(5)(a) of the Listing Rules, Zhong Da BVI and its associates will abstain from voting for the resolution(s) to be proposed at the SGM to approve the Open Offer with the Bonus Issue.

Qualifying Shareholders

The Company will send the Prospectus and the Application Form for the Offer Shares to Qualifying Shareholders only.

To qualify for the Open Offer, a Shareholder must on the Record Date:

- (i) be registered as a member of the Company; and
- (ii) not be a Non-Qualifying Shareholder.

In order to be registered as a member of the Company on the Record Date, Shareholders must lodge any transfer of Shares (together with the relevant share certificate(s)) with the Registrar, on or before 4:00 p.m. (Hong Kong time) on 19 June 2009.

Shareholders with their Shares held by a nominee company should note that the Board will regard the nominee as a single shareholder according to the register of members of the Company. Shareholders with their Shares held by a nominee company are advised to consider whether they would like to arrange for the registration of the relevant Shares in the name of the beneficial owner(s) prior to the Record Date.

For Shareholders whose Shares are held by their nominee(s) and would like to have their names registered on the register of members of the Company, they must lodge all necessary documents with the Registrar for completion of the relevant registration by 4:00 p.m. on 19 June 2009.

Closure of Register of members

The register of members of the Company will be closed from 22 June 2009 to 26 June 2009, both days inclusive for the purposes of establishing entitlements to the Open Offer. No transfer of Shares will be registered during this period.

LETTER FROM THE BOARD

TERMS OF THE OPEN OFFER

Subscription price

The subscription price for the Offer Shares is HK\$0.28 per Offer Share and is payable in full when a Qualifying Shareholder accepts the relevant allotment of Offer Shares.

The subscription price of HK\$0.28 per Offer Share was arrived at after arm's length negotiations between the Company and the Joint Underwriters with reference to recent closing prices of the Shares on the Stock Exchange and represents:

- (i) a discount of approximately 3.4% to the closing price of HK\$0.290 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 11.4% to the average closing price of HK\$0.316 per Share as quoted on the Stock Exchange for the last 5 trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 42.9% to the closing price of HK\$0.490 per Share as quoted on the Stock Exchange as at the Latest Practicable Date; and
- (iv) a premium of approximately 5.2% to the theoretical ex-entitlement price of HK\$0.2663 per Share based on the closing price of HK\$0.290 per Share as quoted on the Stock Exchange on the Last Trading Day.

The Directors (including the independent non-executive Directors) consider that the discount of the subscription price of the Offer Share to closing price of the Share on the Last Trading Day is reasonable on the basis that the terms of the Open Offer (including the price) are arrived at after arms-length negotiation with the Joint Underwriters and that it is a general market practice to issue Offer Shares at a discount to the market price of the Shares. The Directors consider that the discount will encourage Qualifying Shareholders to take up their entitlements, so as to share the potential growth of the Company.

The Offer Shares have a nominal value of HK\$31,988,774.40 and a market value of approximately HK\$92.8 million, based on the closing price of the Shares of HK\$0.290 per Share on the Last Trading Day.

Basis of allotments

Three Offer Shares for every five existing Shares held by a Qualifying Shareholder on the Record Date.

Status of the Offer Shares

When fully paid, issued and allotted, the Offer Shares will rank pari passu in all respects with the then existing Shares. Holders of fully-paid Offer Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of issue and allotment of the fully-paid Offer Shares.

LETTER FROM THE BOARD

Dealings in the Offer Shares will be subject to the payment of stamp duty in Hong Kong. A board lot for the Offer Shares will be 2,000 new Shares.

Rights of Non-Qualifying Shareholders

The Prospectus Documents will not be registered or filed under the applicable securities or equivalent legislation of any jurisdictions other than Hong Kong and Bermuda.

As at the Latest Practicable Date, according to the register of members of the Company, the Company has only one Shareholder with an overseas address in the British Virgin Islands. The Company has obtained advice from legal advisers in the British Virgin Islands that no local regulatory compliance is required to be made in this jurisdiction for the Company to offer the Offer Shares to the Shareholders who reside there. Accordingly, the Open Offer will be extended to the Shareholder with an address at the British Virgin Islands and the Company has no Non-Qualifying Shareholders.

If there are any Shareholders whose addresses as shown on the register of members of the Company are outside Hong Kong as at the Record Date, the Company will comply with all necessary requirements under Rule 13.36(2) of the Listing Rules and will only exclude the Non-Qualifying Shareholders from the Open Offer after making enquiry regarding the legal restrictions under the laws of the relevant places. If based on legal opinions provided by the legal advisers, the Directors consider that (i) it is necessary or expedient not to offer the Offer Shares to any particular Shareholder because of either the legal restrictions under the laws of the place of his registered address or the requirements of the relevant regulatory body or stock exchange in that place; or (ii) the legal opinions provided by the legal advisers do not support the statement in paragraph (i) above, the Offer Shares will not be offered to such Non-Qualifying Shareholder. The Company will send the Prospectus Documents to the Qualifying Shareholders and the Prospectus to the Non-Qualifying Shareholders (if any) for their information only. The Company will not send the Application Forms to the Non-Qualifying Shareholders.

Any Offer Shares, which would otherwise have been allotted to any Non-Qualifying Shareholders there may be, will be underwritten by the Joint Underwriters.

Fractions of Offer Shares

The Company will not allot and issue fractions of Offer Shares. The Company will sell any such Offer Shares created by adding together fractions of Offer Shares, and will keep the proceeds for its own benefit.

No excess Offer Shares will be offered

No excess Offer Shares will be offered to the Qualifying Shareholders and any Offer Shares not taken up by the Qualifying Shareholders in accordance with their proportional allocation will be underwritten by the Joint Underwriters.

LETTER FROM THE BOARD

Share certificates

Subject to the fulfillment of the conditions of the Open Offer, certificates for all fully-paid Offer Shares and Bonus Shares are expected to be posted to those entitled thereto by ordinary mail at their own risk on or before 22 July 2009.

The Bonus Issue

Subject to the satisfaction of the conditions of the Open Offer as set out in the section headed “Conditions of the Open Offer” below, the Bonus Shares will be issued to the first registered holders of the Offer Shares on the basis of two Bonus Shares for every ten fully paid Offer Shares taken up under the Open Offer. The issue of the Bonus Shares will be out of the reserves of the Company and subject to the approval of the Open Offer with the Bonus Issue by the Independent Shareholders by way of a special resolution, the approval of the amendments to the Bye-laws by way of a special resolution and the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Bonus Shares. Dealings in the Bonus Shares will be subject to the payment of stamp duty in Hong Kong.

On the basis of 319,887,744 Offer Shares to be issued under the Open Offer, an aggregate of 63,977,548 Bonus Shares will be issued, representing approximately 12.0% of the issued share capital of the Company as at the Latest Practicable Date and approximately 7.0% of the issued share capital of the Company as enlarged by the Open Offer and the Bonus Issue.

The Bonus Shares have a nominal value of HK\$6,397,754.80 and a market value of approximately HK\$18.6 million, based on the closing price of the Shares of HK\$0.290 per Share on the Last Trading Day.

Conditions of the Open Offer

The Open Offer is conditional upon the following conditions being fulfilled:

- (i) the approval of the Open Offer with the Bonus Issue and the amendments to the Bye-laws by the Independent Shareholders at the SGM;
- (ii) the signing by or on behalf of all of the Directors of one printed copy of each of the Prospectus Documents and the certification by all Directors (or by their agents duly authorised in writing) of two copies of each of the Prospectus Documents;
- (iii) the delivery of one such signed copy of each of the Prospectus Documents to the Joint Underwriters;
- (iv) the delivery to the Stock Exchange and filing and registration with the Registrar of Companies in Hong Kong of the Prospectus Documents;
- (v) the filing of the Prospectus Documents with the Bermuda Registrar of Companies in accordance with the requirements of the Companies Act 1981 of Bermuda;

LETTER FROM THE BOARD

- (vi) the posting of copies of the Prospectus Documents to the Qualifying Holders on the Posting Date;
- (vii) compliance by the Company with all its obligations under the terms of the Underwriting Agreement;
- (viii) the Listing Committee of the Stock Exchange (a) agreeing to grant the listing of, and permission to deal in, the Offer Shares and the Bonus Shares either unconditionally or subject to such conditions which the Joint Underwriters in their reasonable opinion accept and the satisfaction of such conditions (if any); and (b) not having withdrawn or revoked such listing and permission on or before 4:00 p.m. on the Settlement Date;
- (ix) the performance and compliance by Zhong Da BVI of its obligations and undertakings under the terms of the Underwriting Agreement; and
- (x) if required, the Bermuda Monetary Authority granting their consent to the Open Offer and the Bonus Issue and the issue of the Offer Shares and the Bonus Shares.

The conditions are incapable of being waived. If the conditions have not been satisfied by the date(s) stipulated therein or by the Latest Time for Termination or such later date as the Joint Underwriters may agree with the Company, the Underwriting Agreement will terminate and no party shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches.

Application for listing

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Offer Shares and the Bonus Shares.

LETTER FROM THE BOARD

UNDERWRITING ARRANGEMENT

Underwriting Agreement

Date	:	6 May 2009, as supplemented by a supplemental agreement dated 21 May 2009
Parties	:	the Company, Zhong Da BVI and the Joint Underwriters
Number of Offer Shares underwritten	:	Not less than 244,887,744 Offer Shares, being the total number of Offer Shares less the 75,000,000 Offer Shares that Zhong Da BVI has undertaken to take up, and will be underwritten by the Joint Underwriters in the following manner: Upbest: a limit of 227,029,744 Offer Shares Tanrich: a limit of 17,858,000 Offer Shares
Commission	:	2.5% of the subscription price for the Underwritten Shares, the Directors consider that such rate is fair and reasonable and was determined after arm's length negotiations between the Company and the Joint Underwriters

As at the Latest Practicable Date, Zhong Da BVI has confirmed to the Company that it will subscribe not less than 75,000,000 Offer Shares under its entitlement.

Termination of the Underwriting Agreement

The Joint Underwriters have the right by notice in writing to the Company at any time prior to the Latest Time for Termination to terminate the obligations of the Joint Underwriters under the Underwriting Agreement on the occurrence of certain events including force majeure. These events are set out under the section headed "Termination of the Underwriting Agreement" of this document. If the Joint Underwriters terminate the Underwriting Agreement in accordance with the terms thereof, the Open Offer with the Bonus Issue will not proceed.

LETTER FROM THE BOARD

Effects on shareholding structure

The following is the shareholding structure of the Company immediately before and after completion of the Open Offer with the Bonus Issue, assuming that (i) there is no change to the shareholding structure of the Company as at (a) the Latest Practicable Date, (b) the Record Date, and (c) immediately before completion of the Open Offer, and (ii) the Joint Underwriters have taken up all the Offer Shares other than the 75,000,000 Offer Shares already committed by Zhong Da BVI.

	Immediately before completion of the Open Offer with the Bonus Issue		Immediately after completion of the Open Offer with the Bonus Issue (assuming the Directors, the substantial shareholder and the public shareholders have taken up the Offer Shares in full)		Immediately after completion of the Open Offer with the Bonus Issue (assuming Zhong Da BVI has only taken up 75,000,000 Offer Shares and none of the Directors and the other substantial shareholder and the public shareholders has taken up the Offer Shares and the Joint Underwriters honor their underwriting commitment)	
	Shares	Approximately %	Shares	Approximately %	Shares	Approximately %
Zhong Da BVI (Note 1)	204,004,000	38.26%	350,886,880	38.26%	294,004,000	32.06%
Zhang Yuqing (Note 2)	17,600,000	3.30%	30,272,000	3.30%	17,600,000	1.92%
Underwriter – Upbest	0	0%	0	0%	272,435,692	29.71%
Underwriter – Tanrich	0	0%	0	0%	21,429,600	2.34%
Public shareholders	311,542,240	58.44%	535,852,652	58.44%	311,542,240	33.97%
Total	533,146,240	100.00%	917,011,532	100.00%	917,011,532	100.00%

Notes:

- (1) Zhong Da BVI is also interested in the convertible bonds in the principal amount of HK\$21,000,000 convertible into the 25,000,000 Conversion Shares. Pursuant to the terms of such convertible bonds, the bondholder may not exercise its conversion right attaching to the convertible bonds until after the expiry of the 6th month of the date following the issue of the convertible bonds. As such moratorium period will fall outside the Record Date, the shareholding of Zhong Da BVI in the table above has not taken into account its interest in the convertible bonds.
- (2) Zhang Yuqing is an executive Director.
- (3) Pursuant to the Underwriting Agreement, the Company shall not issue any Shares or issue or grant any share options until after the Latest Time for Acceptance. As at the Latest Practicable Date, the Company was advised by the holders of the outstanding share options under the Share Option Schemes that they have no intention to exercise any options until the Latest Time for Acceptance.

LETTER FROM THE BOARD

The above scenarios are for illustration purpose only. Upbest has already entered into sub-underwriting arrangements with sub-underwriters to sub-underwrite its commitment under the Underwriting Agreement which will result in Upbest holding less than 20% of the issued share capital of the Company after completion of the Open Offer and the Bonus Issue.

WARNING OF THE RISKS OF DEALING IN SHARES

Existing Shares are expected to be dealt in on an ex-rights basis from 18 June 2009.

If the Underwriting Agreement is terminated (see the section headed “Termination of the Underwriting Agreement” above), or if the conditions of the Open Offer (see the section headed “Conditions of the Open Offer” above) are not fulfilled or waived, the Open Offer will not proceed.

Any buying or selling of the Shares from now up to the date on which all such conditions are fulfilled are at investors’ own risk.

If in any doubt, investors should consider obtaining professional advice.

REASONS FOR THE OPEN OFFER WITH THE BONUS ISSUE AND USE OF PROCEEDS OF THE OPEN OFFER

The Directors consider that it is prudent to finance the Group’s long-term growth by long term funding, preferably in the form of equity which will not increase the Group’s finance costs. Furthermore, the Directors consider that it is in the interest of the Company to enlarge its capital base by way of the Open Offer with the Bonus Issue which will allow the Qualifying Shareholders the opportunity to participate in the growth of the Company.

Expenses in relation to the Open Offer with the Bonus Issue is estimated to be approximately HK\$4.5 million. The net proceeds of the Open Offer with the Bonus Issue is estimated to be approximately HK\$85.1 million, representing approximately a net price of HK\$0.233 per Offer Share. The proceeds from the Open Offer will be used by the Company for the development of alternative energy vehicles and as general working capital of the Group.

CAPITAL-RAISING ACTIVITIES DURING PAST 12 MONTHS

The Company has not carried out any capital raising activities during the 12 months immediately preceding the date of the Announcement or the Latest Practicable Date.

AMENDMENTS TO THE BYE-LAWS

The existing Bye-laws provide that the capitalisation of the Company’s reserves by distribution of bonus shares to the Shareholders should be in the same proportion to the shareholdings of the Shareholders. Since the Qualifying Shareholders who do not take up the Offer Shares will not be entitled to the Bonus Shares, the Bonus Issue will not be in the

LETTER FROM THE BOARD

same proportion to the shareholding of the Shareholders. To facilitate the Open Offer with the Bonus Issue, the Directors propose to amend the Bye-laws accordingly such that any declaration, making or payment of a distribution or dividend to the Shareholders otherwise than pro-rata to their shareholdings upon the capitalisation of any part of the Company's reserves or undivided profits shall require a special resolution of the Shareholders. Upon the amendment becoming effective and the necessary special resolution approving the Bonus Issue being passed, the Bonus Shares can be allotted and issued in the proportions that the Board have proposed. Accordingly, the existing Bye-law 148 will be amended by inserting the words "or such other proportion as the Members by special resolution may determine." immediately after the words "in the same proportions". The Directors consider the amendments would facilitate the issue of the Bonus Shares and to provide the Company with flexibility in raising capital from its Shareholders. The Bonus Issue is subject to the Open Offer becoming unconditional and approval by the Shareholders in the SGM.

PROPOSED INCREASE IN THE AUTHORISED SHARE CAPITAL

The Authorised Share Capital and the issued share capital of the Company as at the Latest Practicable Date are HK\$100,000,000 divided into 1,000,000,000 shares of HK\$0.10 each and HK\$53,314,624 divided into 533,146,240 shares of HK\$0.10 each respectively. In order to provide greater flexibility for the Company to issue Shares in the future, it is proposed that the Authorised Share Capital be increased from HK\$100,000,000 to HK\$1,000,000,000 by the creation of an additional 9,000,000,000 Shares of HK\$0.10 each. After the increase, the Authorised Share Capital will be HK\$1,000,000,000 divided into 10,000,000,000 Shares of HK\$0.10 each. Save as disclosed herein, the Company does not have any present intention to issue Shares after the increase in the Authorised Share Capital passed at the SGM.

GENERAL

The Independent Board Committee comprising the independent non-executive Directors has been formed to advise the Independent Shareholders on the Open Offer with the Bonus Issue. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Open Offer with the Bonus Issue.

SGM

Set out in this circular is a notice convening the SGM which will be held on Friday, 26 June 2009 at Everest Room, Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Admiralty, Hong Kong at 3:00 p.m at which resolutions will be proposed to approve the Open Offer with the Bonus Issue. Voting in the SGM will be taken by poll in accordance with the Listing Rules.

The form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return to the principal place of business of the Company in Hong Kong at 1609, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong as soon as practicable but in any event not less than 48 hours before

LETTER FROM THE BOARD

the time appointed for holding the SGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned thereof (as the case may be) should you so wish.

Pursuant to Rule 7.24(5)(a) of the Listing Rules, Zhong Da BVI, being the controlling shareholder of the Company, and its associates will abstain from voting for the resolution(s) to be proposed at the SGM to approve the Open Offer with the Bonus Issue.

Subject to the Open Offer with the Bonus Issue being approved at the SGM, the Prospectus Documents setting out details of the Open Offer with the Bonus Issue will be despatched to the Qualifying Shareholders as soon as practicable and the Prospectus will be despatched to the Non-Qualifying Shareholders for information only.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 23 to 24 of this circular which contains its recommendation to the Independent Shareholders on the Open Offer with the Bonus Issue. Your attention is also drawn to the letter of advice from the Independent Financial Adviser as set out on pages 25 to 39 of this circular which contains, amongst other matters, its advice to the Independent Board Committee and the Independent Shareholders in relation to the Open Offer with the Bonus Issue. Based on the advice from the Independent Financial Adviser and the Independent Board Committee, the Directors recommend the Independent Shareholders to approve the Open Offer with the Bonus Issue.

The Directors also consider that the proposed resolutions set out in the Notice of SGM, including the proposed Open Offer with the Bonus Issue, the proposed amendments to the Bye-laws and the proposed increase in the Authorised Share Capital are in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend you to vote in favour of the ordinary and special resolutions to be proposed at the SGM.

Your attention is also drawn to the Appendices to this circular.

By Order of the Board
Zhongda International Holdings Limited
Xu Lian Guo
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter of recommendation, prepared for the purpose of incorporation in the circular, from the Independent Board Committee to the Independent Shareholders regarding the Open Offer with the Bonus Issue.



ZHONGDA INTERNATIONAL HOLDINGS LIMITED

(中大國際控股有限公司*)

(Incorporated in Bermuda with limited liability)

(Stock Code: 00909)

4 June 2009

To the Independent Shareholders

Dear Sir or Madam,

**PROPOSED OPEN OFFER ON THE BASIS OF THREE OFFER SHARES
FOR EVERY FIVE EXISTING SHARES HELD
BY QUALIFYING SHAREHOLDERS WITH
BONUS ISSUE ON THE BASIS OF TWO BONUS SHARES FOR EVERY TEN OFFER
SHARES TAKEN UP UNDER THE OPEN OFFER**

We refer to the circular of the Company to the Shareholders dated 4 June 2009 (the “**Circular**”), in which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter will have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders on whether the Open Offer with the Bonus Issue are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole.

We wish to draw your attention to the letter of advice from the Independent Financial Adviser as set out on pages 25 to 39 of the Circular and the letter from the Board as set out on pages 10 to 22 of the Circular.

Having considered, among other things, the factors and reasons considered by, and the opinion of the Independent Financial Adviser as stated in its letter of advice, we consider that the Open Offer with the Bonus Issue are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole.

* *For identification purposes only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote in favour of the special resolutions in relation to the Open Offer and the Bonus Issue to be proposed at the SGM.

Yours faithfully,

For and on behalf of the
Independent Board Committee

Mr. Gu Yao Tian
*Independent non-executive
Director*

Mr. Sun Ka Ziang Henry
*Independent non-executive
Director*

Mr. Li Xinzhong
*Independent non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from Ample Capital Limited setting out its advice to the Independent Board Committee and the Independent Shareholders for inclusion in this circular.

AmCap

Ample Capital Limited
豐盛融資有限公司

Ample Capital Limited
Unit A, 14th Floor
Two Chinachem Plaza
135 Des Voeux Road Central
Hong Kong

4 June 2009

*To: The Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

**PROPOSED OPEN OFFER
ON THE BASIS OF THREE OFFER SHARES FOR EVERY FIVE EXISTING
SHARES HELD BY QUALIFYING SHAREHOLDERS WITH BONUS ISSUE
ON THE BASIS OF TWO BONUS SHARES FOR EVERY TEN OFFER
SHARES TAKEN UP UNDER THE OPEN OFFER**

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Open Offer with the Bonus Issue, details of which are contained in the letter from the Board (the “**Letter from the Board**”) set out in the circular (the “**Circular**”) of the Company to the Shareholders dated 4 June 2009, of which this letter forms part. Terms used in this letter have the same meanings as defined in the Circular unless the context otherwise requires.

The Board announced on 7 May 2009, as amended by the announcement on 21 May 2009, that the Company proposed to raise approximately HK\$89.6 million, before expenses, by way of the Open Offer at the Subscription Price of HK\$0.28 per Offer Share on the basis of three Offer Shares for every five existing Shares held on the Record Date, with Bonus Shares on the basis of two Bonus Shares for every ten Offer Shares taken up under the Open Offer. Pursuant to the underwriting agreement dated 6 May 2009, as amended by the supplemental agreement on 21 May 2009, the Underwritten Shares, being not less than 244,887,744 Offer Shares will be fully underwritten by the Joint Underwriters in the proportion and subject to the terms and conditions set out in the said underwriting agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In accordance with Rule 7.24(5) of the Listing Rules, the Open Offer with the Bonus Issue must be made conditional upon the approval of the Shareholders in general meeting by a resolution on which any controlling shareholder and their associates shall abstain from voting in favour of the Open Offer with the Bonus Issue. As at the Latest Practicable Date, Zhong Da BVI is interested in 204,004,000 Shares and convertible bonds of the Company in the principal amount of HK\$21,000,000 convertible into 25,000,000 Conversion Shares, representing approximately 38.3% and 4.7% of the issued share capital of the Company respectively. Zhong Da BVI is owned as to 57.22% and 42.78% by Mr. Xu Lian Guo and Mr. Xu Lian Kuan, both executive Directors, respectively. Save for their interests in the Company through Zhong Da BVI, each of Mr. Xu Lian Guo and Mr. Xu Lian Kuan does not own any Shares or hold any other interest in the Company. Pursuant to Rule 7.24(5)(a) of the Listing Rules, Zhong Da BVI and its associates will abstain from voting for the resolution(s) to be proposed at the SGM to approve the Open Offer with the Bonus Issue.

An Independent Board Committee comprising Mr. Gu Yao Tian, Mr. Sun Ka Ziang Henry and Mr. Li Xinzhong (all being independent non-executive Directors) has been established to advise the Independent Shareholders on whether the terms of the Open Offer with the Bonus Issue are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole. All the members of the Independent Board Committee have confirmed to the Company that they are independent with respect to the Open Offer and thus are suitable to advise the Independent Shareholders. We have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

In arriving at our recommendation, we have relied on the statements, information and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Company. We have assumed that all information and representations contained or referred to in the Circular and all information and representations which have been provided by the Directors and the management of the Company for which they are solely responsible, are true and accurate at the time they were made and will continue to be accurate at the date of the despatch of the Circular. We have no reason to doubt the truth, accuracy and completeness of the information and presentation provided to us by the Directors.

We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps as required under Rule 13.80 of the Listing Rules to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge, they believe there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading. We have

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

not, however, carried out any independent verification of the information provided by the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs of the Group.

PRINCIPAL FACTORS AND REASONS TAKEN INTO ACCOUNT

In arriving at our opinion in respect of the Open Offer, we have taken into consideration the following principal factors and reasons:

(A) Background of and reasons for the Open Offer

(1) *Business and financial information of the Group*

The principal activities of the Group are the development, manufacture and sales of automobile equipment and buses and trading of automobile spare parts.

Set out below is a summary of the financial information of the Group for the two years ended 31 December 2007 and 2008 as extracted from the Company's audited annual report for the year ended 31 December 2008 (the "**2008 Annual Report**"):

	For the year ended 31 December 2007 (RMB'000)	For the year ended 31 December 2008 (RMB'000)
Turnover	327,242	639,691
Profit before taxation	39,702	18,116
Profit for the year	40,514	7,678
	As at 31 December 2007 (RMB'000)	As at 31 December 2008 (RMB'000)
Total assets	683,510	914,079
Total liabilities	347,125	574,899
Net assets	336,385	339,180

As set out in the 2008 Annual Report, we note that the Company made a profit in both financial years namely approximately HK\$40.5 million and HK\$7.7 million for the two years ended 31 December 2007 and 2008 respectively. According to the Chairman's Statement as set out in the 2008 Annual Report, the decline in profit was a result of the combined effects of higher steel and petrochemical product prices and the global credit crunch which dampened consumer demands.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(2) Reasons for the Open Offer with the Bonus Issue

According to the Letter from the Board, the Directors consider that it is prudent to finance the Group's long-term growth by long term funding, preferably in the form of equity which will not increase the Group's finance costs. Furthermore, the Directors consider that it is in the interest of the Company to enlarge its capital base by way of the Open Offer with the Bonus Issue which will allow the Qualifying Shareholders the opportunity to participate in the growth of the Company.

Expenses in relation to the Open Offer with the Bonus Issue is estimated to be approximately HK\$4.5 million. The net proceeds of the Open Offer with the Bonus Issue is estimated to be approximately HK\$85.1 million, representing approximately a net price of HK\$0.233 per Offer Share. The proceeds from the Open Offer will be used by the Company for the development of alternative energy vehicles and as general working capital of the Group.

The Company has not carried out any capital raising activities during the 12 months immediately preceding the date of the Announcement or the Latest Practicable Date.

We concur with the Director's view that an Open Offer with the Bonus Issue is an appropriate financing method if they intend to allow Qualifying Shareholders to participate in the growth of the Company.

(3) Terms of the Open Offer (including the Bonus Issue)

Subscription price

The subscription price for the Offer Shares is HK\$0.28 per Offer Share and is payable in full when a Qualifying Shareholder accepts the relevant allotment of Offer Shares. The Offer Shares have a market value of approximately HK\$92.8 million based on the closing price of the Shares on the Last Trading Day.

According to the Letter from the Board, the subscription price of HK\$0.28 per Offer Share was arrived at after arm's length negotiations between the Company and the Joint Underwriters with reference to recent closing prices of the Shares on the Stock Exchange and represents:

- (i) a discount of approximately 3.4% to the closing price of HK\$0.290 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 11.4% to the average closing price of HK\$0.316 per Share as quoted on the Stock Exchange for the last 5 trading days up to and including the Last Trading Day;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (iii) a discount of approximately 42.9% to the closing price of HK\$0.490 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- (iv) a premium of approximately 5.2% to the theoretical ex-entitlement price of HK\$0.2663 per Share based on the closing price of HK\$0.290 per Share as quoted on the Stock Exchange on the Last Trading Day; and
- (v) a premium of approximately 33,233% to the average cost per Offer Share of HK\$0.00084 for each Qualifying Shareholder who take up their Offer Shares taking into consideration the Bonus Issue.

The Directors (including the independent non-executive Directors) consider that the discount of the subscription price of the Offer Share to closing price of the Share on the Last Trading Day is reasonable on the basis that the terms of the Open Offer (including the price) are arrived at after arm's length negotiation with the Joint Underwriters and that it is a general market practice to issue offer shares at a discount to the market price of the Shares. The Directors consider that the discount will encourage Qualifying Shareholders to take up their entitlements, so as to share the potential growth of the Company.

The Offer Shares have a nominal value of HK\$31,988,774.40 and a market value of approximately HK\$92.8 million, based on the closing price of the Shares of HK\$0.290 per Share on the Last Trading Day.

Basis of allotments

Three Offer Shares for every five existing Shares held by a Qualifying Shareholder on the Record Date.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(B) Analyses of the subscription price

In order to assess the fairness and reasonableness of the subscription price, we set out the following information for illustrative purposes:

(i) *Review of Share price*

The highest and lowest closing prices and the average daily closing price of the Shares as quoted on the Stock Exchange in each of the 12 months during the period commencing from 1 May 2008 up to and including the Last Trading Day (the “**Review Period**”) are shown as follows:

Month	Highest closing price HK\$	Lowest closing price HK\$	Average daily closing price HK\$
2008			
May	0.650	0.500	0.574
June	0.540	0.246	0.394
July	0.290	0.233	0.258
August	0.270	0.202	0.235
September	0.250	0.176	0.213
October	0.196	0.150	0.173
November	0.190	0.150	0.170
December	0.172	0.140	0.158
2009			
January	0.201	0.148	0.163
February	0.310	0.195	0.228
March	0.420	0.209	0.263
April	0.495	0.290	0.408

Source: Stock Exchange

During the Review Period, the average daily closing price of the Shares ranged from HK\$0.158 to HK\$0.574 per Share in each month and followed a downward trend in 2008 and gradually improved in 2009. The highest and lowest closing prices of the Shares as quoted on the Stock Exchange were HK\$0.650 per Share recorded on 2 May 2008 and HK\$0.140 per Share recorded on 2 December 2008 respectively during the Review Period. We note that the highest closing price of the Shares of HK\$0.650 represented a premium of more than 360% over the lowest closing price of the Shares of HK\$0.14. We also note that the subscription price of HK\$0.28 falls within this price range and represents a premium of approximately 100% over the lowest closing price of HK\$0.14 and a discount of approximately 57% below the highest closing price of HK\$0.65.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(ii) *Review on trading liquidity of the Shares*

The average daily number of the Shares traded per month, and the respective percentages of the Shares' monthly trading volume as compared to the total number of issued Shares on the Last Trading Day during the Review Period are tabulated as follows:

Month	Average daily trading volume Number of Shares	% of the Average Volume to total number of issued Shares on the Last Trading Day (Note 1)
2008		
May	381,900	0.07%
June	2,053,700	0.39%
July	1,957,091	0.37%
August	908,632	0.17%
September	238,095	0.04%
October	576,190	0.11%
November	108,800	0.02%
December	114,248	0.02%
2009		
January	924,889	0.17%
February	3,604,400	0.68%
March	3,861,675	0.72%
April	3,968,600	0.74%

Source: Bloomberg and Stock Exchange

Note 1: Based on 533,146,240 Shares in issue on the Last Trading Day

The above table illustrates that the average daily trading volume of the Shares per month was thin during the Review Period, with a range of approximately 0.02% to 0.74% of the total number of issued Shares on the Last Trading Day. We note that trading in the Shares during the Review Period were inactive with average daily trading volume less than 1% of the Shares in issue on the Last Trading Day.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(iii) Comparison with other open offer transactions

We have identified and reviewed, on a best effort basis, the transactions involving issue of offer shares by companies listed on the Stock Exchange (the “Comparables”) from 1 January 2009 to the Last Trading Day. Shareholders should note that the business nature, scale of operations and future prospects of the Company is not the same as the Comparables and thus the Comparables can only be used to provide a general reference for open offer transactions of companies listed in Hong Kong. Summarised below are the terms of the respective transactions:

Company name (Stock code)	Date of announcement	Basis of entitlement	Underwriting commission (%)	Discount/ (Premium) of the subscription price to the closing price of last trading day prior to the date of announcement (%)	Discount/ (Premium) of the subscription price to the theoretical ex-entitlement price of last trading day prior to the date of announcement (%)	Excess application
RBI Holdings Limited (566)	27-Apr-09	4-for-1	2.50	86.11	55.36	No
Heng Tai Consumables Group Ltd. (197)	14-Apr-09	1-for-2	2.50	60.90	51.00	No
Xpress Group Ltd. (185)	9-Apr-09	1-for-5	1.50	27.50	24.10	Yes
The Sun’s Group Limited (988)	13-Mar-09	2-for-5	–	1.49	1.05	Yes
Uni-Bio Science Group Ltd. (690) (Note)	9-Mar-09	1-for-6	0.50	(78.60)	(106.70)	Yes
Tidetime Sun (Group) Ltd. (307)	20-Feb-09	1-for-2	–	17.72	12.16	Yes
China Star Investment Holdings Limited (764)	17-Feb-09	1-for-2	–	2.91	1.96	Yes
Wang On Group Limited (1222)	13-Feb-09	3-for-1	2.50	83.33	33.33	No
Hembly International Holdings Ltd. (3989)	21-Jan-09	1-for-2	2.50	13.00	9.10	No
Global Green Tech Group Ltd. (274)	20-Jan-09	12-for-25	3.50	31.50	23.80	Yes

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Company name (Stock code)	Date of announcement	Basis of entitlement	Underwriting commission (%)	Discount/ (Premium) of the subscription price to the closing price of last trading day prior to the date of announcement (%)	Discount/ (Premium) of the subscription price to the theoretical ex-entitlement price of last trading day prior to the date of announcement (%)	Excess application
Royale Furniture Holdings Limited (1198)	15-Jan-09	1-for-2	2.50	20.60	14.80	No
Hanny Holdings Limited (275)	7-Jan-09	3-for-1	2.50	74.64	42.39	Yes
		Max.	3.50	86.11	55.36	
		Min.	0.00	1.49	1.05	
		Mean	2.00	38.15	24.46	
The Company	7-May-09	3-for-5	2.50	3.40	(5.20)	No

Source: Stock Exchange

Note: The open offer announced by Uni-Bio Science Group Ltd. was priced at a significant premium over the closing price per share of last trading day prior to the respective open offer announcement and to the theoretical ex-entitlement price per share based on the closing price per share on the last trading day prior to the respective open offer announcement. The pricing of that open offer is considered exceptional as compared to that of other Comparables and thus may distort the result of our analysis. Therefore, such open offer is excluded in our analysis.

As shown by the above table, the subscription price of the Comparables (excluding Uni-Bio Science Group Ltd.) ranged from discounts of approximately 86.11% to 1.49% to the respective closing price of their shares on the last trading day prior to the release of the open offer announcements. The discount of approximately 3.40% to the closing price of the Shares on the Last Trading Day as represented by the subscription price of HK\$0.28 falls within the range of the Comparables and also lower than the mean discount of 38.15%.

The subscription price of the Comparables ranged from a discount of approximately 55.36% to a 1.05% to the respective theoretical ex-entitlement price of their shares on the last trading day prior to the release of the open offer announcements. We noted that the premium of approximately 5.20% to the theoretical ex-entitlement price as represented by the subscription price of HK\$0.28 is falls outside the range of the Comparables. The Qualifying Shareholders are offered an equal opportunity to participate in the Open Offer and to take up their entitlements in full at the same price to maintain their respective shareholdings in the Company and the Open Offer and provides the Qualifying Shareholders with a fair and equal opportunity to share the future possible

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

benefits that may be brought about from the expansion of the Group's business through future investments. Accordingly, we are of the view that insignificant premium of 5.20% to the theoretical ex-entitlement price is acceptable and reasonable.

In view of the above, we concur with the Directors that the discount of the subscription price of the Offer Share to closing price of the Share on the Last Trading Day is reasonable, which as arrived at after arm's length negotiations with the Joint Underwriters, is reasonable.

Pursuant to the terms of the Underwriting Agreement, no provision is stipulated for excess application arrangement of the Offer Shares. In this regard, the Qualifying Shareholders will not be entitled to subscribe for any Offer Shares in excess of their assured entitlements. Based on the Comparables, 5 of which did not offer a facility for excess application. We are of the view that the absence of excess application for open offer is not an uncommon market practice and the Company will also be able to save costs incurred from the administrative procedures for implementing the arrangement for excess application for the Open Offer. As a result, we consider that the absence of excess application under the Open Offer is fair and reasonable.

(C) The Bonus Issue

Subject to the satisfaction of the conditions of the Open Offer as set out in the section headed "Conditions of the Open Offer" in the Letter from the Board, the Bonus Shares will be issued to the first registered holders of the Offer Shares on the basis of two Bonus Shares for every ten fully paid Offer Shares taken up under the Open Offer. The issue of the Bonus Shares will be out of the reserves of the Company and subject to the approval of the Open Offer with the Bonus Issue by the Independent Shareholders by way of a special resolution, the approval of the amendments to the Bye-laws by way of a special resolution and the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Bonus Shares. Dealings in the Bonus Shares will be subject to the payment of stamp duty in Hong Kong.

On the basis of 319,887,744 Offer Shares to be issued under the Open Offer, an aggregate of 63,977,548 Bonus Shares will be issued, representing approximately 12.0% of the issued share capital of the Company as at the Latest Practicable Date and approximately 7.0% of the issued share capital of the Company as enlarged by the Open Offer and the Bonus Issue.

The Bonus Shares have a nominal value of HK\$6,397,754.80 and a market value of approximately HK\$18.6 million, based on the closing price of the Shares of HK\$0.290 per Share on the Last Trading Day.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Bonus Shares will only be issued to Qualifying Shareholders who take up their Offer Shares and can be considered as a sweetener. On the basis that two Bonus Shares will be issued for every ten fully paid Offer Shares taken up, this will have the effect of reducing the price per Offer Shares taken up. For every ten Offer Shares taken up, the additional issue of the two Bonus Shares will reduce the average price per Offer Shares to approximately HK\$0.23, representing a discount of approximately 17% to the subscription price of HK\$0.28.

(D) Underwriting arrangements

To the best knowledge of the Directors, having made reasonable enquiries, Upbest and Tanrich and their respective ultimate beneficial owners are independent third parties not connected with the Company and its connected persons. Pursuant to the underwriting agreement dated 6 May 2009, as amended by the supplemental agreement on 21 May 2009, the Underwritten Shares, being not less than 244,887,744 Offer Shares will be fully underwritten by the Joint Underwriters in the proportion and subject to the terms and conditions set out in the said underwriting agreement. The Joint Underwriters will charge an underwriting commission of 2.5% of the subscription price for the Underwritten Shares. We have done a research on open offers conducted by listed companies in Hong Kong from 1 January 2009 to the Last Trading Day and note that this underwriting commission falls within the market range of between 0% to 3.50% received by underwriters in other open offers. We consider that the underwriting commission is fair and reasonable and is in line with common market practice.

The Joint Underwriters have the right by notice in writing to the Company at any time prior to the Latest Time for Termination to terminate the obligations of the Joint Underwriters under the Underwriting Agreement on the occurrence of certain events including force majeure. These events are set out under the section headed "Termination of the Underwriting Agreement" of this document. If the Joint Underwriters terminate the Underwriting Agreement in accordance with the terms thereof, the Open Offer with the Bonus Issue will not proceed. We consider that such provisions are on normal commercial terms and in line with market practice.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(E) Alternative financing methods

As stated in the Company's announcement dated 21 May 2009, we noted that the Company and the Joint Underwriters entered into a supplemental agreement to the Underwriting Agreement to revise the fund-raising method of the Company from that of a rights issue to an open offer. The Open Offer will be on the same basis as that of the rights issue that announced on 7 May 2009. As advised by the Directors, they consider the Open Offer a better fund-raising method than rights issue to ensure stability in the Company's shareholders base and would allow the existing Shareholders an opportunity to participate in and enjoy the benefit of the growth in the Company. We noted that an open offer is similar to a rights issue, in that shareholders are entitled to buy newly issued shares in proportion to their existing holdings. However, the investors should note that the open offer does not allow shareholders to sell the right to subscribe to shares.

In addition, we note that the administration costs in relation to the open offer will be lower than the rights issue.

Having considered that (i) the Open Offer allows the Qualifying Shareholders to maintain their respective pro rata shareholdings in the Company, (ii) the stability in the Company's shareholders base and (iii) the decrease in the related administration costs, we are of the view that the Open Offer is in the best interests of the Company and its Shareholders as a whole.

Management of the Company advised that they have considered alternative financing methods such as bank borrowings and share placement. Taken into account the existing financial position of the Group and the effect of the recent financial crisis, it will be difficult for the Group to secure any financing facilities from any financial institutions and/or to raise funds from the market by means of placement of new Shares. The Open Offer is possibly the only alternative to Shareholders for strengthening the financial position of the Group for future growth and development. In addition, the Open Offer will allow the Qualifying Shareholders to maintain their respective pro rata shareholdings in the Company. Accordingly, we consider that the entering into of the Underwriting Agreement, as supplemented by the supplemental agreement dated 21 May 2009, is in the best interest of the Company and its Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(F) Dilution effect on the shareholding interests of the Independent Shareholders

The following is the shareholding structure of the Company immediately before and after completion of the Open Offer with the Bonus Issue, assuming that (i) there is no change to the shareholding structure of the Company as at the Latest Practicable Date to (a) the Record Date, and (b) immediately before completion of the Open Offer, respectively; and (ii) the Joint Underwriters have taken up all the Offer Shares other than the 75,000,000 Offer Shares already committed by Zhong Da BVI.

	Immediately before completion of the Open Offer with the Bonus Issue		Immediately after completion of the Open Offer with the Bonus Issue (assuming the Directors, the substantial shareholder and the public shareholders have taken up the Offer Shares in full)		Immediately after completion of the Open Offer with the Bonus Issue (assuming Zhong Da BVI has only taken up 75,000,000 Offer Shares and none of the Directors and the other substantial shareholder and the public shareholders has taken up the Offer Shares and the Joint Underwriters honor their underwriting commitment)	
	Approximately		Approximately		Approximately	
	Shares	%	Shares	%	Shares	%
Zhong Da BVI (Note 1)	204,004,000	38.26%	350,886,880	38.26%	294,004,000	32.06%
Zhang Yuqing (Note 2)	17,600,000	3.30%	30,272,000	3.30%	17,600,000	1.92%
Underwriter – Upbest	0	0%	0	0%	272,435,692	29.71%
Underwriter – Tanrich	0	0%	0	0%	21,429,600	2.34%
Public shareholders	<u>311,542,240</u>	<u>58.44%</u>	<u>535,852,652</u>	<u>58.44%</u>	<u>311,542,240</u>	<u>33.97%</u>
Total	<u>533,146,240</u>	<u>100.00%</u>	<u>917,011,532</u>	<u>100.00%</u>	<u>917,011,532</u>	<u>100.00%</u>

Notes:

- (1) Zhong Da BVI is also interested in the convertible bonds in the principal amount of HK\$21,000,000 convertible into the 25,000,000 Conversion Shares. Pursuant to the terms of such convertible bonds, the bondholder may not exercise its conversion right attaching to the convertible bonds until after the expiry of the 6th month of the date following the issue of the convertible bonds. As such moratorium period will fall outside the Record Date, the shareholding of Zhong Da BVI in the table above has not taken into account its interest in the convertible bonds.
- (2) Zhang Yuqing is an executive Director.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (3) Pursuant to the Underwriting Agreement, the Company shall not issue any Shares or issue or grant any share options until after the Latest Time for Acceptance. As at the Latest Practicable Date, the Company was advised by the holders of the outstanding share options that they have no intention to exercise any options until the Latest Time for Acceptance.

The above scenarios are for illustration purpose only. According to the Letter from the Board, Upbest has already entered into sub-underwriting arrangements with sub-underwriters to sub-underwrite its commitment under the Underwriting Agreement which will result in Upbest holding less than 20% of the issued share capital of the Company after completion of the Open Offer and the Bonus Issue.

All Qualifying Shareholders are entitled to subscribe for the Offer Shares. For those Qualifying Shareholders who take up their entitlements in full under the Open Offer, their shareholding interests in the Company will remain unchanged after the Open Offer. In the event that all Qualifying Shareholders do not accept the Open Offer and thus the Joint Underwriters are obliged to take up the unsubscribed Offer Shares, other than the 75,000,000 Offer Shares already committed by Zhong Da BVI, the Qualifying Shareholders' shareholding interest in the Company will be diluted to 33.97%. Details of such dilution effect are presented in the above table.

Having considered the above, we consider that the potential dilution effect on the shareholding interests of the Independent Shareholders, which will only occur if the Qualifying Shareholders do not subscribe for their pro-rata Offer Shares, to be acceptable.

(G) Financial effects of the Open Offer with the Bonus Issue

(i) Effect on NTAV

A statement of unaudited pro forma adjusted consolidated net tangible asset value ("NTAV") of the Group based on the unaudited consolidated NTAV of the Group as at 31 December 2008 assuming that completion of the Open Offer with the Bonus Issue had taken place on 31 December 2008 is set out in Appendix II to the Circular (the "Statement").

The audited pro forma adjusted consolidated NTAV and the unaudited pro forma adjusted consolidated NTAV per Share of the Group were approximately HK\$318.7 million and RMB0.60 respectively as at 31 December 2008 according to the Statement and based on 533,146,240 Shares in issue on the Last Trading Day. Upon completion of the Open Offer with the Bonus Issue, the unaudited pro forma adjusted consolidated NTAV and the unaudited pro forma adjusted consolidated NTAV per Share of the Group would increase by approximately 23.5% to approximately RMB393.6 million and decrease by approximately 28.3% to RMB0.43 respectively according to the Statement. We noted that the Shares have generally been trading at a significant discount to the Company's underlying net tangible asset value. The closing price of HK\$0.29 per Share on the Last Trading Day represents a discount of approximately 57.4% to the consolidated net tangible asset per Share of approximately RMB0.60 (equivalent to approximately HK\$0.68) as at 31 December 2008. Shareholders should note that the arithmetical

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

relationship that when the market price of shares are traded at a discount to the relevant net tangible asset per share value, any new issue of shares which is priced at a discount to the prevailing market price (as in the case of the Open Offer) would inevitably result in a further dilution in the net assets per share. Accordingly, we consider that increase in the unaudited pro forma adjusted consolidated NTAV to be in the interests of the Group and the Shareholders as a whole and the decrease in the unaudited pro forma adjusted consolidated NTAV per Share is reasonable.

(ii) Effect on gearing position

According to the 2008 Annual Report, the net gearing ratio of the Group was approximately 0.16 times as at 31 December 2008. As the total capital base of the Group would be enlarged upon completion of the Open Offer with the Bonus Issue but total borrowings of the Group is not expected to change, the gearing position of the Group would be improved. On this basis we consider that the Open Offer with the Bonus Issue to be in the interests of the Group and the Shareholders as a whole.

(iii) Effect on liquidity

According to the 2008 Annual Report, the Company had bank balances and cash of approximately RMB 31 million. The proceeds from the Open Offer will be used by the Company for the development of alternative energy vehicles and as general working capital of the Group. We consider that such improvement to general working capital to be in the interests of the Group and the Shareholders as a whole.

RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the terms of the Open Offer with the Bonus Issue are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant special resolution(s) at the SGM to approve the Open Offer with the Bonus Issue.

Yours faithfully,
For and on behalf of
Ample Capital Limited
H. W. Tang
President

1. FINANCIAL SUMMARY

Set out below is a summary of the consolidated income statements for each of the three years ended 31 December 2008 as extracted from the respective annual reports of the Company. No qualification opinion or modified audited opinion had been issued by the Company's auditors, SHINEWING (HK) CPA Limited, Certified Public Accountants, for each of the three years ended 31 December 2008.

CONSOLIDATED INCOME STATEMENTS

	Year ended 31 December		
	2008	2007	2006
	RMB'000	RMB'000	RMB'000
Turnover	639,691	327,242	190,736
Cost of sales	<u>(537,472)</u>	<u>(262,934)</u>	<u>(129,923)</u>
Gross profit	102,219	64,308	60,813
Other revenue	25,761	78,924	15,202
Selling and distribution expenses	(19,258)	(19,396)	(16,716)
Administrative expenses	(67,628)	(61,936)	(29,850)
Other operating expenses	(5,004)	(8,310)	(6,718)
Share of loss of an associate	–	(4)	–
Finance costs	<u>(17,974)</u>	<u>(13,884)</u>	<u>(9,229)</u>
Profit before taxation	18,116	39,702	13,502
Taxation	<u>(10,438)</u>	<u>812</u>	<u>(604)</u>
Profit for the year	<u>7,678</u>	<u>40,514</u>	<u>12,898</u>
Attributable to:			
Equity holders of the Company	16,198	29,811	15,317
Minority interests	<u>(8,520)</u>	<u>10,703</u>	<u>(2,419)</u>
	<u>7,678</u>	<u>40,514</u>	<u>12,898</u>
Dividends	<u>–</u>	<u>–</u>	<u>–</u>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Earnings per share			
– Basic	<u>3.06 cents</u>	<u>6.32 cents</u>	<u>3.83 cents</u>
– Diluted	<u>3.02 cents</u>	<u>6.14 cents</u>	<u>N/A</u>

The following is a summary of the consolidated balance sheets as at 31 December 2006, 2007 and 2008 as extracted from the respective annual reports of the Company.

CONSOLIDATED BALANCE SHEETS

	As at 31 December		
	2008	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Property, plant and equipment	100,233	101,396	116,270
Prepaid lease payments	42,514	55,629	58,369
Investment properties	123,559	96,889	–
Investments in associates	–	–	–
Prepayments for investments in associates	18,898	474	1,087
Available-for-sale investments	900	900	900
Deferred tax assets	32,188	19,405	15,620
	<u>318,292</u>	<u>274,693</u>	<u>192,246</u>
Current assets			
Prepaid lease payments	970	1,244	1,429
Inventories	58,581	48,736	27,812
Amounts due from related companies	270,379	123,948	26,898
Amount due from an associate	705	–	–
Trade and bills receivables	95,718	85,255	91,554
Amounts due from customers for contract work	13,953	25,594	46,511
Held-for-trading investments	31	–	200
Prepayments and other receivables	26,557	34,199	19,498
Restricted deposit placed in a financial institution	5,000	15,802	–
Pledged bank deposit	10,149	16,159	–
Restricted bank balances	82,647	4,161	3,000
Bank balances and cash	31,097	53,719	17,695
	<u>595,787</u>	<u>408,817</u>	<u>234,597</u>

CONSOLIDATED BALANCE SHEETS (cont'd)

	As at 31 December		
	2008	2007	2006
	RMB'000	RMB'000	RMB'000
Current liabilities			
Amounts due to customers for contract work	1,068	10,488	7,073
Trade and bills payables	265,181	83,228	23,738
Advance receipt from customers	25,115	38,152	353
Other payables and accruals	35,658	26,307	46,691
Amount due to an associate	37	4	–
Amounts due to related companies	1,666	386	1,048
Amounts due to directors	5,288	5,008	6,178
Loan from ultimate holding company	18,614	–	–
Tax payable	27,093	14,412	14,148
Bank overdrafts	7,991	9,165	–
Bank and other borrowings – due within one year	175,460	138,000	142,500
	<u>563,171</u>	<u>325,150</u>	<u>241,729</u>
Net current assets/(liabilities)	<u>32,616</u>	<u>83,667</u>	<u>(7,132)</u>
Total assets less current liabilities	<u>350,908</u>	<u>358,360</u>	<u>185,114</u>
Capital and reserves			
Share capital	55,074	55,125	42,386
Reserves	<u>263,618</u>	<u>252,252</u>	<u>114,717</u>
Equity attributable to equity holders of the Company	318,692	307,377	157,103
Minority interests	<u>20,488</u>	<u>29,008</u>	<u>16,011</u>
Total Equity	<u>339,180</u>	<u>336,385</u>	<u>173,114</u>
Non-current liabilities			
Loan from ultimate holding company	–	–	12,000
Deferred tax liabilities	11,728	1,975	–
Bank and other borrowings – due after one year	–	<u>20,000</u>	–
	<u>11,728</u>	<u>21,975</u>	<u>12,000</u>
	<u>350,908</u>	<u>358,360</u>	<u>185,114</u>

2. AUDITED FINANCIAL INFORMATION

Set out below is the audited consolidated financial statements of the Group for the year ended 31 December 2008 as extracted from the annual report of the Company for the year ended 31 December 2008.

Consolidated Income Statement

For the year ended 31 December 2008

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

Consolidated Balance Sheet*As at 31 December 2008*

	<i>Notes</i>	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment	<i>17</i>	100,233	101,396
Prepaid lease payments	<i>18</i>	42,514	55,629
Investment properties	<i>19</i>	123,559	96,889
Investments in associates	<i>20</i>	–	–
Prepayments for investments in associates	<i>21</i>	18,898	474
Available-for-sale investments	<i>22</i>	900	900
Deferred tax assets	<i>23</i>	<u>32,188</u>	<u>19,405</u>
		<u>318,292</u>	<u>274,693</u>
Current assets			
Prepaid lease payments	<i>18</i>	970	1,244
Inventories	<i>24</i>	58,581	48,736
Amounts due from related companies	<i>25</i>	270,379	123,948
Amount due from an associate	<i>26</i>	705	–
Trade and bills receivables	<i>27</i>	95,718	85,255
Amounts due from customers for contract work	<i>28</i>	13,953	25,594
Held-for-trading investments	<i>29</i>	31	–
Prepayments and other receivables	<i>30</i>	26,557	34,199
Restricted deposit placed in a financial institution	<i>31</i>	5,000	15,802
Pledged bank deposit	<i>31</i>	10,149	16,159
Restricted bank balances	<i>31</i>	82,647	4,161
Bank balances and cash	<i>31</i>	<u>31,097</u>	<u>53,719</u>
		<u>595,787</u>	<u>408,817</u>

Consolidated Balance Sheet (cont'd)

	<i>Notes</i>	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Current liabilities			
Amounts due to customers for contract work	28	1,068	10,488
Trade and bills payables	32	265,181	83,228
Advance receipt from customers		25,115	38,152
Other payables and accruals	33	35,658	26,307
Amount due to an associate	34	37	4
Amounts due to related companies	34	1,666	386
Amounts due to directors	34	5,288	5,008
Loan from ultimate holding company	35	18,614	–
Tax payable		27,093	14,412
Bank overdrafts	31	7,991	9,165
Bank and other borrowings – due within one year	36	<u>175,460</u>	<u>138,000</u>
		<u>563,171</u>	<u>325,150</u>
Net current assets		<u>32,616</u>	<u>83,667</u>
Total assets less current liabilities		<u><u>350,908</u></u>	<u><u>358,360</u></u>
Capital and reserves			
Share capital	37	55,074	55,125
Reserves		<u>263,618</u>	<u>252,252</u>
Equity attributable to equity holders of the Company		318,692	307,377
Minority interests		<u>20,488</u>	<u>29,008</u>
Total Equity		<u>339,180</u>	<u>336,385</u>
Non-current liabilities			
Deferred tax liabilities	23	11,728	1,975
Bank and other borrowings – due after one year	36	<u>–</u>	<u>20,000</u>
		<u>11,728</u>	<u>21,975</u>
		<u><u>350,908</u></u>	<u><u>358,360</u></u>

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

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

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

Consolidated Cash Flow Statement*For the year ended 31 December 2008*

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

Consolidated Cash Flow Statement (cont'd)

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

Notes to the Consolidated Financial Statements*For the year ended 31 December 2008***1. GENERAL**

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

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

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

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSS”)

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

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

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

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

HKFRSS (Amendments)	Improvements to HKFRSS ¹
HKAS 1 (Revised)	Presentation of Financial Statements ²
HKAS 23 (Revised)	Borrowing Costs ²
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ³
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation ²
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – Eligible hedged items ³
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate ²
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations ²
HKFRS 3 (Revised)	Business Combinations ³

HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments ²
HKFRS 8	Operating Segments ²
HK(IFRIC) – Int 9 and HKAS 39 (Amendments)	Embedded Derivatives ⁷
HK(IFRIC) – Int 13	Customer Loyalty Programmes ⁴
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate ²
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operations ⁵
HK(IFRIC) – Int 17	Distributions of Non-Cash Assets to Owners ³
HK(IFRIC) – Int 18	Transfer of assets from Customers ⁶

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

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

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

Investment in associates

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

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

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

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

Revenue recognition

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

Revenue from sales of goods is recognised when the goods are delivered to customers and title has passed.

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

Commission income is recognised when services are provided.

Interest income from a financial asset excluding financial assets at fair value through profit or loss is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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

Property, plant and equipment

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

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

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

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

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

Investment properties

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

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

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

Construction contracts

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

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

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

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

Leasing

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

The Group as lessor

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

The Group as lessee

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

Foreign currencies

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

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

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

Borrowing costs

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

Government grants

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

Retirement benefit costs

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

Taxation

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

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

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Inventories

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

Financial instruments

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

Financial assets

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

Effective interest method

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

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

Financial assets at fair value through profit or loss

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

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivation that is not designated and effective as a hedging instrument.

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

Loans and receivables

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

Available-for-sale financial assets

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

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

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

Impairment loss on financial assets

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

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

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

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

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

For financial assets carried at amortised cost, impairment loss is recognised in profit and loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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

Financial liabilities and equity

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

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Other financial liabilities

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

Equity instruments

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

Derecognition

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

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

Share-based payment transactionsEquity-settled share-based payment transactions*Share options granted to employees*

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

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

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

Impairment on tangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered impairment loss. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgments in applying accounting policies

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

Buildings

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

Impairment of available-for-sale investments

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

Recognition of deferred tax assets

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

Construction contracts

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

Key sources of estimation uncertainty

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

Depreciation of property, plant and equipment

The Group's net carrying value of property, plant and equipment (excluding construction-in-progress) as at 31 December 2008 was approximately RMB100,233,000 (2007: RMB70,453,000). The Group depreciates the property, plant and equipment on a straight-line basis over the estimated useful lives and after taking into account of their estimated residual values, using the straight-line method, at the rate of 1.875% to 50% per annum, commencing from the date the property, plant and equipment when they are available for use. The estimated useful lives that the Group places the property, plant and equipment into productive use reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

Estimated allowance for bad and doubtful debts

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisable amount of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in impairment of their ability to make payments, additional allowance may be required. At 31 December 2008, the carrying amount of trade and bills receivables was approximately RMB95,718,000 (net of allowance for trade receivables of approximately RMB70,206,000).

Estimated allowance for inventories

The management of the Group reviews an ageing analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sales. The management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete and slow-moving items. At 31 December 2008, the carrying amount of inventories was approximately RMB58,581,000 (net of allowance for obsolete inventories of approximately RMB6,449,000).

Impairment of property, plant and equipment

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

5. CAPITAL RISK MANAGEMENT

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

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

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

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Credit risk

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

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

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

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

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

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

Foreign currency risk

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

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

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

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

Sensitivity analysis

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

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

	USD impact		HK\$ impact		Euro impact	
	2008	2007	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit or loss	<u>4,156</u>	<u>990</u>	<u>(1,134)</u>	<u>3,598</u>	<u>8</u>	<u>375</u>

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

Interest rate risk

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

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

Sensitivity analysis

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

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

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

Liquidity risk

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

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

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

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

Liquidity and interest risk tables

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

Fair value of financial instruments

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

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

Categories of financial instruments

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

7. TURNOVER

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

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

8. BUSINESS AND GEOGRAPHICAL SEGMENTS**Business segments**

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

Principal activities are as follows:

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

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

Segment information about these businesses is presented below.

Consolidated income statement

For the year ended 31 December 2008

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

Consolidated balance sheet

At 31 December 2008

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

APPENDIX I
FINANCIAL INFORMATION OF THE GROUP
Other information

For the year ended 31 December 2008

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

Consolidated income statement

For the year ended 31 December 2007

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

Consolidated balance sheet

At 31 December 2007

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

Other information

For the year ended 31 December 2007

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

Geographical segments

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

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

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

9. OTHER REVENUE

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

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

10. FINANCE COSTS

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

11. TAXATION

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

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

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

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

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

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

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

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

12. PROFIT FOR THE YEAR

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

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

13. DIRECTORS' EMOLUMENTS

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

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

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

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

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

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

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

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

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

14. EMPLOYEES' EMOLUMENTS

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

	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries and other benefits	641	1,294
Retirement benefit scheme contributions	11	22
Share-based payments	—	820
	<u>652</u>	<u>2,136</u>

Their emoluments fall within the following band:

	Number of employees	
	2008	2007
Nil – HK\$1,000,000	<u>1</u>	<u>2</u>

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

15. DIVIDENDS

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

16. EARNINGS PER SHARE

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

	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Earnings for the purpose of both basic and diluted earnings per share	<u>16,198</u>	<u>29,811</u>

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

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

17. PROPERTY, PLANT AND EQUIPMENT

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

APPENDIX I
FINANCIAL INFORMATION OF THE GROUP

	Buildings <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Furniture and equipment <i>RMB'000</i>	Construction- in-progress <i>RMB'000</i>	Total <i>RMB'000</i>
DEPRECIATION							
At 1 January 2007	11,425	501	8,211	1,676	731	–	22,544
Charge for the year	2,581	94	1,000	848	508	–	5,031
Elimination on disposals	(485)	–	(283)	(589)	(20)	–	(1,377)
Reclassification as investment properties (<i>Note 19</i>)	(743)	–	–	–	–	–	(743)
Exchange adjustments	–	(65)	–	–	(1)	–	(66)
At 31 December 2007	12,778	530	8,928	1,935	1,218	–	25,389
Charge for the year	3,476	88	855	1,130	413	–	5,962
Eliminated on disposals	–	–	–	(27)	–	–	(27)
Exchange adjustments	–	(26)	–	–	(1)	–	(27)
At 31 December 2008	16,254	592	9,783	3,038	1,630	–	31,297
NET CARRYING VALUES							
At 31 December 2008	85,711	27	7,994	4,427	2,074	–	100,233
At 31 December 2007	59,848	90	5,245	4,229	1,041	30,943	101,396

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

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

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

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

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

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

18. PREPAID LEASE PAYMENTS

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

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

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

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

19. INVESTMENT PROPERTIES

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

The fair values of the Group's investment properties at 31 December 2008 and 2007 have been arrived at on the basis of a valuation carried out on that date by Castores Magi (Hong Kong) Limited, an independent qualified professional valuer not connected to the Group. Castores Magi (Hong Kong) Limited is a member of the Institute of Valuers, and has appropriate qualifications and recent experience in the valuation of similar properties

in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of recent transaction prices for similar properties in the same locations and conditions.

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

The carrying value of investment properties shown above comprises:

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

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

20. INVESTMENTS IN ASSOCIATES

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Cost of investment in unlisted associates	4	4
Share of post-acquisition loss	<u>(4)</u>	<u>(4)</u>
	<u><u>-</u></u>	<u><u>-</u></u>

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

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

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

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

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

	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Unrecognised share of loss of associates for the year	<u>34</u>	<u>134</u>
Accumulated unrecognised share of losses of associates	<u>168</u>	<u>134</u>

21. PREPAYMENTS FOR INVESTMENTS IN ASSOCIATES

	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	474	1,087
Addition	18,460	–
Impairment recognised in the consolidated income statement	<u>(36)</u>	<u>(613)</u>
At 31 December	<u>18,898</u>	<u>474</u>

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

Besides, the Group had made a prepayment of approximately RMB1,087,000 to Yancheng Zhongda Ceccato Washing Systems Co., Ltd. ("Zhongda Ceccato") in 2006, which represented 8.35% of its total registered capital. According to an agreement signed in April 2004, the Group is required to contribute USD735,000 representing 49% of the total registered capital of Zhongda Ceccato. During the year ended 31 December 2008, the relevant company has not yet commenced its business and no further capital injection has been made by the Group.

22. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Unlisted equity securities	<u>900</u>	<u>900</u>
Analysed for reporting purposes as:		
Non-current assets	<u>900</u>	<u>900</u>

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

23. DEFERRED TAXATION

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

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

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

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

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

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Deferred tax assets	32,188	19,405
Deferred tax liabilities	<u>(11,728)</u>	<u>(1,975)</u>
	<u>20,460</u>	<u>17,430</u>

24. INVENTORIES

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Raw materials	26,315	17,742
Work in progress	27,866	26,356
Finished goods	<u>4,400</u>	<u>4,638</u>
	<u>58,581</u>	<u>48,736</u>

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

25. AMOUNTS DUE FROM RELATED COMPANIES

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

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

- ¹ Xu Lian Guo and Xu Lian Kuan are the common directors with beneficial interests.
- ² Xu Lian Guo and Xu Lian Kuan are the common directors.
- ³ It is a subsidiary of Jiangsu Jinling Transportation Group Co., Ltd, which is the shareholder of Nanjing Zhongda Jinling Double-decker Bus Manufacture Company Limited, a subsidiary of the Company.
- ⁴ Xu Lian Kuan is the common director.
- ⁵ It is a subsidiary of Zhongda Industrial Group.

Notes:

- (i) The amounts are unsecured, interest-free and repayable on demand.
- (ii) The amount is mainly trading in nature.
- (iii) The amount mainly represented cash received on behalf of the Group.

26. AMOUNT DUE FROM AN ASSOCIATE

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

	Zhongda EMS Limited RMB'000
Balance as at 31 December 2008	<u>705</u>
Balance as at 31 December 2007	<u>–</u>
Maximum amount owed to the Group during the year ended 31 December 2008	<u>705</u>

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

27. TRADE AND BILLS RECEIVABLES

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

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

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

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

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

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

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

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

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

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

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

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

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

29. HELD FOR TRADING INVESTMENTS (OTHER THAN DERIVATIVES)

	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Listed securities		
– equity securities listed in Hong Kong	<u>31</u>	<u>–</u>

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

30. PREPAYMENTS AND OTHER RECEIVABLES

	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Advances to sales representatives	9,189	9,821
Prepayments	905	902
Deposit paid	9,932	17,256
Other receivables	<u>6,531</u>	<u>6,220</u>
	<u>26,557</u>	<u>34,199</u>

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

Movements in the allowance for prepayments and other receivables

	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Balance at beginning of the year	9,681	9,681
Allowance recognised during the year	<u>2,980</u>	<u>–</u>
Balance at end of the year	<u><u>12,661</u></u>	<u><u>9,681</u></u>

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

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

Restricted deposit placed in a financial institution

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

Pledged bank deposit

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

Restricted bank balances

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

Bank balances

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

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

Bank overdrafts

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

32. TRADE AND BILLS PAYABLES

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

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

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

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

33. OTHER PAYABLES AND ACCRUALS

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

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

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

35. LOAN FROM ULTIMATE HOLDING COMPANY

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

36. BANK AND OTHER BORROWINGS

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

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

- (a) The loans with an aggregate principal amount of approximately RMB57.7 million were secured by the Group's land use rights with net carrying value of approximately RMB6.5 million, buildings with net carrying value of approximately RMB12.5 million and investment properties with fair value of approximately RMB87.9 million.
- (b) The loan with a principal amount of RMB20 million was secured by the Group's land use rights with net carrying value of approximately RMB0.8 million, buildings with net carrying value of approximately RMB4.1 million and investment properties with fair value of approximately RMB35.4 million, and guarantee given by Zhongwei Bus.
- (c) The loans with an aggregate principal amount of approximately RMB11.2 million were guaranteed by 江蘇恆達毛皮有限責任公司, an independent third party to the Group.
- (d) The loan with a principal amount of approximately RMB23.4 million was secured by the land use rights and buildings of Zhongda Industrial Group, a company in which Mr. Xu Lian Guo and Mr. Xu Lian Kuan have beneficial interests.

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

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

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

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

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

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

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

At 31 December 2007, the Group had obtained a borrowing of RMB20 million from 江蘇恆達毛皮有限責任公司 which was secured by land use rights of the Group with net carrying value of approximately RMB37 million.

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

37. SHARE CAPITAL

	Number of shares	HK\$'000	Equivalent to RMB'000
<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 2007	400,004,000	40,000	42,386
Placing of new shares (i)	110,000,000	11,000	10,801
Exercise of share options (ii)	20,000,200	2,000	1,938
At 31 December 2007	530,004,200	53,000	55,125
Repurchase of shares (iii)	(584,000)	(58)	(51)
At 31 December 2008	529,420,200	52,942	55,074

- (i) Placing of new shares:

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

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

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

(ii) Exercise of share options

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

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

(iii) Repurchase of shares

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

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

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

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

38. OPERATING LEASES

The Group as lessor

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

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

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

The Group as lessee

	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Minimum lease payments in respect of rented premises paid under operating leases during the year	<u>699</u>	<u>809</u>

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

	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	381	350
In the second to fifth year inclusive	<u>392</u>	<u>842</u>
	<u>773</u>	<u>1,192</u>

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

39. COMMITMENTS

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

40. RELATED PARTY TRANSACTIONS

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

	2008 RMB'000	2007 RMB'000
Transactions with Zhongda Industrial Group		
– Service fee expense (a)	750	750
– Patent fee expense (b)	200	200
– Trademark fee expense (c)	150	150
– Rental expense for office premises (d)	100	100
	<u> </u>	<u> </u>
Transactions with Yancheng Celette		
– Purchase of products and raw materials	7,270	10,244
– Sales of products and raw materials (e)	6,289	972
	<u> </u>	<u> </u>
Transactions with Zhongwei Bus		
– Sales of products and raw materials (e)	237,363	81,693
– Purchase of finished goods	3,057	–
– Purchase of raw materials	1	–
– Rental income for investment properties (f)	6,333	1,770
	<u> </u>	<u> </u>
Transactions with Jiangsu Jinling Transportation Group Co., Ltd. ¹		
– Rental income for property, plant and equipment	–	400
	<u> </u>	<u> </u>
Transactions with Nanjing Jinling		
– Purchase of raw materials	–	4,891
– Management fee income	–	1,324
	<u> </u>	<u> </u>
Transactions with International Trading		
– Sales of products (g)	4,000	1,481
– Sales commission income (h)	37,933	–
– Consultancy fee income	–	878
	<u> </u>	<u> </u>
Transaction with 江蘇中大汽車銷售有限公司 ²		
– Consultancy fee income	–	290
	<u> </u>	<u> </u>
Transaction with 中大汽車產業集團有限公司 ²		
– Consultancy fee income	–	775
	<u> </u>	<u> </u>
Transaction with Zhongda Sankyo		
– Purchase of raw materials	87	115
	<u> </u>	<u> </u>
Transaction with Jiangsu Sankyo Automobile Equipment Co., Ltd. ³		
– Rental expense for office premises	300	275
	<u> </u>	<u> </u>
Transaction with 上通汽車		
– Sales of raw materials	10	–
	<u> </u>	<u> </u>
Transaction with Ausen Co., Ltd.		
– Sales of products	–	767
	<u> </u>	<u> </u>
Transaction with 鹽城中大億美		
– Sales of raw materials	33	–
	<u> </u>	<u> </u>

- ¹ It is a minority shareholder of a subsidiary of the Company.
- ² Xu Lian Guo and Xu Lian Kuan are common director.
- ³ Xu Lian Kuan is a common director.

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

- (a) Pursuant to an integrated services agreement dated 31 August 2001, the annual fee for integrated services provided by Zhongda Industrial Group to the Group is RMB750,000, determined on the basis of the relevant fee fixed by the National Price Bureau, or market price if there is no applicable fee set by the National Price Bureau for any such services. The agreement is for a term of ten years commenced on 31 August 2001.
- (b) Pursuant to a patent agreement dated 31 August 2001, Zhongda Industrial Group and one of the directors of the Company granted to the Group an exclusive right to use certain patents at an annual fee of RMB200,000 for periods commencing 31 August 2001 to expiry of the patent certificate of the relevant patents.
- (c) Pursuant to a trademark agreement dated 31 August 2001, Zhongda Industrial Group granted to the Group an exclusive right to use certain trademarks at an annual fee of RMB150,000. The agreement is for a term of ten years commencing 31 August 2001.
- (d) Pursuant to an office license agreement dated 30 May 2006, the rental of office premises is charged at a rate of RMB100,000 per annum for a period of five years commenced 1 June 2006.
- (e) The prices were determined based on the actual cost of production plus a profit margin of approximately nine per cent in respect of sales of raw materials to Zhongwei Bus and Yancheng Celette.
- (f) Pursuant to rental agreements, two of the Company's subsidiaries rented out their investment properties to Zhongwei Bus for rental income under operating lease at RMB250,000 per month for a period of three years commenced on 12 July 2007 and at RMB5,000,000 per annum for a period of twenty months commenced on 1 May 2008.
- (g) The prices were determined based on the actual cost of production plus a profit margin of approximately seven per cent in respect of sales of products to International Trading.
- (h) The agency commission income is charged at fixed percentage on the actual agency sales amount by Yancheng Zhongda International Trading Co., Ltd.

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

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

41. RETIREMENT BENEFITS SCHEME

The employees of the Group in the PRC are members of defined contribution plans organised by the relevant local government authorities in the PRC. The subsidiaries were required to make monthly contributions to these plans at 17% (2007: 17%) of the employee's basic salary. The only obligation of the Group with respect to the retirement benefit scheme in the PRC is to make the required contributions under the scheme.

The Group participates in a retirement benefits scheme, which was registered under the Mandatory Provident Fund Scheme Ordinance (the "MPF Ordinance"), for all its employees in Hong Kong. The scheme is a defined contribution scheme effective from December 2000 and is funded by contributions from employer and

employees according to the provisions of the MPF Ordinance. The employer's contributions vested fully with the employees when contributed into the scheme. The only obligation of the Group with respect to the scheme is to make the specified contributions.

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

42. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme

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

During the year ended 31 December 2007, the Company terminated the share option scheme approved and adopted on 8 October 2001 (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 Directors may, at their discretion, invite any executive and/or employees of the Company and/or its subsidiaries to take up options to subscribe for shares of the Company. The exercise price is determined by the Directors and will at least be the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which shall be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant, and (iii) the par value of the shares. During the year ended 31 December 2007, a total of 40,000,400 share options have been granted to eligible employees.

Details of specific categories of options are as follows:

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

APPENDIX I
FINANCIAL INFORMATION OF THE GROUP

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

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

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

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

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

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

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

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

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

43. SUMMARISED BALANCE SHEET OF THE COMPANY

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

44. RESERVES

The Company

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

45. SUBSIDIARIES

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

Name of subsidiary	Place of incorporation/operation	Class of shares held	Registered and fully paid capital	Issued and fully paid share capital	Effective percentage of equity interest/voting rights held by the Group	Principal activities
Held directly by the Company						
Zhong Da (BVI) Investments Limited	British Virgin Islands/Hong Kong	Ordinary	–	US\$1,175	100%	Investment holding
Held indirectly by the Company						
Grandy Rich Limited	Hong Kong	Ordinary	–	HK\$1	100%	Investment property holding
Zhong Da International Limited	Hong Kong	Ordinary, Deferred and non-voting	–	HK\$2 HK\$9,998	100%	Investment holding
Zhongda International Automobile Assets Group Ltd.	British Virgin Islands/Hong Kong	Ordinary	–	US\$10	100%	Investment holding
Zhongda International Automobile Industrial Ltd.	British Virgin Islands/Hong Kong	Ordinary	–	US\$10	100%	Investment holding
Zhongda Group (USA) Inc.	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 SJC Ltd.	Hong Kong	Ordinary	–	HK\$1	100%	Inactive
Zhongda Group (Europe) GmbH	The Federal Republic of Germany	–	–	EUR30,000	100%	Inactive

APPENDIX I
FINANCIAL INFORMATION OF THE GROUP

Name of subsidiary	Place of incorporation/ operation	Class of shares held	Registered and fully paid capital	Issued and fully paid share capital	Effective percentage of equity interest/ voting rights held by the Group	Principal activities
Yancheng Dasheng Automotive Equipment Co., Ltd.*	PRC	Contributed capital	US\$500,000	–	43.4%	Manufacture and sale of automobile equipment
Jiangsu Zhongda Industrial Painting and Environmental Protection Co., Ltd.	PRC	Contributed capital	RMB15,600,000	–	90.0%	Design, production, installation and sales of surface treatment systems
Yancheng Yuntong Automobile Machinery Co., Ltd.	PRC	Contributed capital	RMB500,000	–	86.7%	Inactive
Yancheng Luhua Machinery Co., Ltd.	PRC	Contributed capital	RMB5,000,000	–	86.7%	Inactive
Yancheng Zhongda Industrial Equipment Manufacture Co., Ltd.	PRC	Contributed capital	US\$1,515,500	–	96.0%	Manufacture and sale of automobile equipment
Nanjing Zhongda Jinling Double-decker Bus Manufacture Co., Ltd.	PRC	Contributed capital	RMB30,375,650	–	58.5%	Manufacture and sale of bus
Nanjing Zonda Zhentong Auto Maintenance Equipment Technical Service Co., Ltd.	PRC	Contributed capital	RMB500,000	–	100%	Sale of automobile equipment
Yancheng Ausen Industrial Equipment Manufacture Limited	PRC	Contributed Capital	RMB15,000,000	–	100%	Manufacture and sale of automobile equipment
Yancheng Ausen Automobile Equipment Co., Ltd.*	PRC	Contributed capital	USD200,000	–	44.22%	Manufacture and sale of automobile maintenance equipment
Yancheng Zhongda Automobiles Equipment Co., Ltd.	PRC	Contributed capital	HK\$50,000,000	–	100%	Trading of automobile spare parts

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

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

46. POST BALANCE SHEET EVENT

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

47. COMPARATIVE FIGURES

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

3. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the present available financial resources, the existing banking facilities available and the estimated net proceeds from the Open Offer, the Group has sufficient working capital for its present requirements and for the period up to twelve months from the date of this circular in the absence of unforeseen circumstances.

4. INDEBTEDNESS

(a) Borrowings

As at the close of business on 30 April 2009, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had an aggregate outstanding borrowings of approximately RMB226.05 million comprising (i) secured bank loans of approximately RMB86.68 million; (ii) secured bank overdraft of approximately RMB8 million; (iii) secured other loans of approximately RMB35 million; and (iv) unsecured bank loans of approximately RMB77.77 million; and (v) unsecured loan from ultimate holding company of approximately RMB18.6 million.

Details of securities and guarantees in respect of the bank borrowings of the Group at 30 April 2009 were as follows:

- (i) The loans with an aggregate principal amount of approximately RMB66.68 million were secured by the Group's land use rights with net carrying value of approximately RMB6.4 million, buildings with net carrying value of approximately RMB12.09 million and investment properties with fair value of approximately RMB87.94 million.
- (ii) The loan with a principal amount of approximately RMB20 million was secured by the Group's land use rights with net carrying value of approximately RMB0.85 million, buildings with net carrying value of approximately RMB4 million and investment properties with fair value of approximately RMB35.62 million, and guarantee given by Zhongwei Bus Manufacturing Company Limited, an associate of the Group.
- (iii) The loans with an aggregate principal amount of approximately RMB11.22 million were guaranteed by an independent third party.
- (iv) The loan with a principal amount of approximately RMB23.35 million was secured by the land use rights and buildings of Zhongda Industrial Group Corporation, a related company in which Mr. Xu Lian Guo and Mr. Xu Lian Kuan have beneficial interests.
- (v) The bank overdraft was secured by a pledged deposit of approximately RMB8.8 million.

At 30 April 2009, the Group had also obtained a loan of RMB35 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 RMB35.91 million and buildings with net carrying value of approximately RMB27.38 million.

(b) Commitments

At the close of business on 30 April 2009, the Group had total future minimum lease payments under non-cancellable operating leases in respect of rented premises amounted to approximately RMB635,000.

At 30 April 2009, the Group also had commitments in respect of capital contribution on investment in an associate of approximately RMB4,161,000 and acquisition of land use rights and buildings of approximately RMB11,128,000.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, as at the close of business on 30 April 2009, the Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

5. MATERIAL CHANGE

The Directors confirm that there has been no material change in the financial or trading position or outlook of the Group since 31 December 2008, being the date to which the latest audited consolidated financial statements of the Group were made up.

6. BUSINESS REVIEW AND PROSPECTS OF THE GROUP

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

Business Review

The Group recorded a turnover of approximately RMB639.7 million for the year ended 31 December 2008. During the year, export sales of the Group were approximately RMB33.9 million. The Group will continue to develop new products such as energy saving and environmental friendly spray booth through our investment in research and development in order to retain our competitiveness. We have already been working actively with our affiliates to develop pure electricity city buses in order to seize the business opportunities under the strong PRC government support in fuel efficiency and alternative fuels for automobile market.

During the last year, we have been actively developing our business in emerging markets which are less affected by the global financial turmoil to certain extent. Recently we are negotiating a business co-operation in South Africa to promote our

automobile repair and maintenance equipment as well as our coaches. It is expected the demand for automobile related products in the country will increase substantially due to coming World Cup 2010 event.

Prospects

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

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

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

For illustrative purpose only, set out below is the unaudited pro forma statement of consolidated net tangible assets of the Group after completion of the Open Offer. Although reasonable care has been exercised in preparing the unaudited pro forma financial information, Shareholders who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a complete picture of the Group's financial results and positions for the financial periods concerned.

1. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The unaudited pro forma statement of adjusted consolidated net tangible assets (the “Unaudited Pro Forma Financial Information”) of the Group attributable to the equity holders of the Company has been prepared by the Directors in accordance with Rule 4.29 of the Listing Rules to illustrate the effect of the Open Offer of 319,887,744 Offer Shares at the Subscription Price of HK\$0.28 per Offer Share payable in full upon acceptance on the basis of three Offer Shares for every five Shares held and 63,977,548 Bonus Shares on the basis of two Bonus Shares for every ten Offer Shares taken up under the Open Offer on the consolidated net tangible assets of the Group as if the Open Offer had been completed on 31 December 2008.

The Unaudited Pro Forma Financial Information of the Group is prepared for illustrative purposes only and, because of its nature, it may not give a true picture of the financial position of the Group as at the date to which it is made up or at any future date.

The Unaudited Pro Forma Financial Information of the Group is prepared based on the audited consolidated balance sheet of the Group as at 31 December 2008, extracted from the published annual report of the Group as set out in Appendix I to this circular, with adjustments described below.

	Audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 31 December 2008 <i>RMB'000</i> <i>(Note 1)</i>	Audited consolidated net tangible assets of the Group attributable to the equity holders of the Company per Share as at 31 December 2008 <i>RMB</i> <i>(Note 1)</i>	Estimated net proceeds from the Open Offer <i>RMB'000</i> <i>(Note 2)</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the equity holders of the Company after completion of Open Offer <i>RMB'000</i> <i>(Note 3)</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the equity holders of the Company per Share after completion of Open Offer <i>RMB</i> <i>(Note 4)</i>
Based on 319,887,744 Offer Shares and 63,977,548 Bonus Shares	318,692	0.60	74,905	393,597	0.43

Notes:

- (1) The audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 31 December 2008 is extracted from the published annual report of the Company for the year ended 31 December 2008 as set out in Appendix I to this circular. The audited consolidated net tangible assets of the Group attributable to the equity holders of the Company per Share as at 31 December 2008 is calculated based on 529,420,200 Shares in issue as at 31 December 2008.
- (2) The estimated net proceeds from the Open Offer of approximately HK\$85,090,000 (equivalent to approximately RMB74,905,000) are based on 319,887,744 Offer Shares to be issued (based on 533,146,240 Shares in issue on the Record Date) at a subscription price of HK\$0.28 per Offer Share and after deduction of estimated related expenses, include among others, underwriting commission, financial advisory fee and other professional fees, which are directly attributable to the Open Offer, of approximately HK\$4,478,000 (equivalent to approximately RMB3,942,000).
- (3) The unaudited pro forma consolidated net tangible assets of the Group attributable to the equity holders of the Company represents the sum of the audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 31 December 2008 (Note 1) and the estimated net proceeds from the Open Offer (Note 2).
- (4) Based on 913,285,492 Shares (calculated as 529,420,200 Shares in issue as at 31 December 2008 plus 319,887,744 Offer Shares expected to be issued under the Open Offer and 63,977,548 Bonus Shares expected to be taken up under the Open Offer) in issue after the Open Offer.

Subsequent to the repurchase of 274,000 Shares in January 2009 and subscription of 4,000,040 Shares by the exercise of share options by one of the option holders in April 2009, the Company's Shares in issue on the Record Date has become 533,146,240. Should this number of shares were used to calculate the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the equity holders of the Company per Share after completion of Open Offer, the amount would remain RMB0.43 while the total number of Shares in issue after the Open Offer would be 917,011,532 (calculated as 533,146,240 Shares in issue on the Record Date plus 319,887,744 Offer Shares to be issued under the Open Offer as referred to Note 2 above and 63,977,548 Bonus Shares to be taken up under the Open Offer).

- (5) At 31 December 2008, there were outstanding share options to subscribe for 12,000,120 Shares at the subscription price of HK\$0.179 (equivalent to approximately RMB0.158) per Share, 4,000,040 Shares at the subscription price of HK\$0.465 (equivalent to approximately RMB0.409) per Share and 4,000,040 Shares at the subscription price of HK\$0.627 (equivalent to approximately RMB0.552) per Share.

Pursuant to the Underwriting Agreement, the Company shall not issue any Shares or issue or grant any share options until after the Latest Time for Acceptance. As at the Latest Practicable Date, the Company was advised by the holders of the outstanding share options under the Share Option Schemes that they have no intention to exercise any options until the Latest Time for Acceptance. Therefore, no pro forma adjustment should be provided for the share options.

- (6) At the date of this circular, the Company has outstanding convertible notes in the principal amount of HK\$21,000,000 convertible into 25,000,000 Conversion Shares. Pursuant to the terms of such convertible bonds, the bondholders may not exercise its conversion right attaching to the convertible bonds until after the expiry of the 6th month of the date following the issue of the convertible bonds. As such moratorium period will fall outside the Record Date, no pro forma adjustment should be provided for the convertible bonds.
- (7) The exchange rate used to translate HK\$ into RMB was HK\$1.00 equal to RMB0.8803.

2. REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a letter from SHINEWING (HK) CPA Limited, the reporting accountants to the Company, in respect of the statement of unaudited pro forma adjusted consolidated net tangible assets of the Group.



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

4 June 2009

The Board of Directors
Zhongda International Holdings Limited
1609, Office Tower
Convention Plaza
1 Harbour Road
Wanchai, Hong Kong

Dear Sirs,

Zhongda International Holdings Limited (the “Company”) and its subsidiaries (the “Group”)

We report on the unaudited pro forma statement relating to the adjusted consolidated net tangible assets of the Group (the “**Unaudited Pro Forma Financial Information**”) as set out in the section headed “UNAUDITED PRO FORMA FINANCIAL INFORMATION” in Appendix II to the Company’s circular dated 4 June 2009 (the “**Circular**”) in connection with the proposed open offer (the “**Open Offer**”) on the basis of three offer shares for every five existing shares held by qualifying shareholders at the subscription price of HK\$0.28 per offer share with bonus issue on the basis of two bonus shares for every ten offer shares taken up under the Open Offer. The Unaudited Pro Forma Financial Information is unaudited and has been prepared by the directors of the Company (the “**Directors**”) solely for illustrative purposes, to provide information to the shareholders of the Company about how the Open Offer might affect the consolidated net tangible assets of the Group upon the completion of the Open Offer.

The basis of preparation is set out in the accompanying Unaudited Pro Forma Statement of Adjusted Consolidated Net Tangible Assets of the Group.

Respective Responsibilities of the Directors and Reporting Accountants

It is the responsibility solely of the Directors to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing**”

Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

It is our responsibility to form an opinion, as required by paragraph 29 (7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the Directors. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29 (1) of Chapter 4 of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgements and assumptions of the Directors, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2008 or at any future date.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and

- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29 (1) of Chapter 4 of the Listing Rules.

Yours faithfully,
SHINEWING (HK) CPA Limited
Certified Public Accountants
Chan Wing Kit
Practising Certificate Number: P03224
Hong Kong

Set out below is a summary of certain provisions of the existing memorandum of association (“Memorandum of Association”) and bye-laws (“Bye-laws”) of the Company and certain aspects of Bermuda company law.

1. MEMORANDUM OF ASSOCIATION

The Memorandum of Association states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the Company is an exempted company as defined in the Companies Act. The Memorandum of Association also sets out the objects for which the Company was formed, including acting as a holding and investment company, and its powers, including the powers set out in the First Schedule to the Companies Act, excluding paragraph 8 thereof. As an exempted company, the Company will be carrying on business outside Bermuda from a place of business within Bermuda.

In accordance with and subject to section 42A of the Companies Act, the Memorandum of Association empowers the Company to purchase its own shares and pursuant to its Bye-laws, this power is exercisable by the Board upon such terms and subject to such conditions as it thinks fit.

2. BYE-LAWS

The following is a summary of certain provisions of the Bye-laws:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Subject to the Companies Act, any preference shares may be issued or converted into shares that are liable to be redeemed, at a determinable date or at the option of the Company or, if so authorised by the Memorandum of Association, at the option of the holder, on such terms and in such manner as the Company before the issue or conversion may by ordinary resolution determine. The Board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Act, the Bye-laws, any direction that may be given by the Company in general meeting and, where applicable, the rules of any Designated Stock Exchange (as defined in the Bye-laws) and without prejudice to any special rights or restrictions for the time being attached to any

shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount. Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the Board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any of its subsidiaries

There are no specific provisions in the Bye-laws relating to the disposal of the assets of the Company or any of its subsidiaries.

Note: The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Bye-laws or the Companies Act to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are no provisions in the Bye-laws relating to the making of loans to Directors. However, the Companies Act contains restrictions on companies making loans or providing security for loans to their directors, the relevant provisions of which are summarised in the paragraph headed “Bermuda Company Law” in this Appendix.

(v) Financial assistance to purchase shares of the Company

Neither the Company nor any of its subsidiaries shall directly or indirectly give financial assistance to a person who is acquiring or proposing to acquire shares in the Company for the purpose of that acquisition whether before or at the same time as the acquisition takes place or afterwards, provided that the Bye-laws shall not prohibit transactions permitted under the Companies Act.

(vi) *Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of auditor of the Company) in conjunction with his office of Director for such period and, subject to the Companies Act, upon such terms as the Directors may determine, and may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Bye-laws. A Director may be or become a director or other officer of, or a member of, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Bye-laws, the Directors may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as they think fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company. A Director shall not vote or be counted in the quorum on any resolution of the Directors concerning his own appointment or the appointment of any of his associates as the holder of any office or place of profit with the Company or any other company in which the Company is interested (including the arrangement or variation of the terms thereof, or the termination thereof).

Subject to the Companies Act and the Bye-laws, no Director or proposed or intending Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. If to the knowledge of a Director, he or any of his associates, is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company, he must declare the nature of his or, as the case may be, his associate(s)' interest at the meeting of the Directors at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest or that of his associates then exists, or in any other case, at the first meeting of the Directors after he knows that he is or his associate(s) is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;
- (ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or an executive or shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in five per cent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived);
or
- (ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

In addition, any such Director shall excuse himself from any meeting or part of any meeting of the Board and shall not participate in any discussions in respect of any resolutions where any contract or arrangement or other proposal in which he or any of his associates is materially interested is discussed or resolved, unless the attendance or participation of such Director at such meeting of the Board is specifically requested by the remaining Directors.

(vii) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such remuneration (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the Board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably incurred or expected to be incurred by them in attending any Board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration provided for by or pursuant to any other Bye-law. A Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The Board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependants or any class or classes of such persons.

The Board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependants, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependants are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the Board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(viii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not greater than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years.

Note: There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or, subject to authorisation by the members in general meeting, as an addition to the existing Board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the members in general meeting. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for reelection at the meeting. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) provided that the notice of any such meeting convened for the purpose of removing a Director shall contain a statement of the intention to do so and be served on such Director 14 days before the meeting and, at such meeting, such Director shall be entitled to be heard on the motion for his removal. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors unless otherwise determined from time to time by members of the Company.

The Board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period (subject to their continuance as Directors) and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments (but

without prejudice to any claim for damages that such Director may have against the Company or vice versa). The Board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the Board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(ix) Borrowing powers

The Board may from time to time at its discretion exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Act, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Bye-laws in general, can be varied with the sanction of a special resolution of the Company.

(b) Alterations to constitutional documents

The Bye-laws may be rescinded, altered or amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association, to confirm any such rescission, alteration or amendment to the Bye-laws or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Act:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association;

- (v) change the currency denomination of its share capital;
- (vi) make provision for the issue and allotment of shares which do not carry any voting rights; and
- (vii) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may, by special resolution, subject to any confirmation or consent required by law, reduce its authorised or issued share capital or, save for the use of share premium as expressly permitted by the Companies Act, any share premium account or other un-distributable reserve.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Act, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Bye-laws relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons (or in the case of a member being a corporation, its duly authorised representative) holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person (or in the case of a member being a corporation, its duly authorized representative) or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

(e) Special resolution by majority required

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given.

(f) Voting rights (generally and on a poll) and rights to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Bye-laws, at any general meeting on a show of hands, every member who is present in person (or being a corporation, is present by its duly authorised representative) or by proxy shall have one vote and on a poll every member present in person or by proxy or, being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share.

Notwithstanding anything contained in the Bye-laws, where more than one proxy is appointed by a member which is a clearing house (as defined in the Bye-laws) (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless voting by way of a poll is required by the rules of the Designated Stock Exchange (as defined in the Bye-laws) or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares held by that clearing house (or its nominee(s)) in respect of the number and class of shares specified in the relevant authorisation including the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Bye-laws), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year other than the year in which its statutory meeting is convened at such time (within a period of not more than 15 months after the holding of the last preceding annual general meeting unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Bye-laws)) and place as may be determined by the Board.

(h) Accounts and audit

The Board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the provisions of the Companies Act or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or, subject to the Companies Act, at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right of inspecting any accounting record or book or document of the Company except as conferred by law or authorised by the Board or the Company in general meeting.

Subject to the Companies Act, a printed copy of the Directors' report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Company under convenient heads and a statement of income and expenditure, together with a copy of the auditors' report, shall be sent to each person entitled thereto at least 21 days before the date of the general meeting and at the same time as the notice of annual general meeting and laid before the Company in general meeting in accordance with the requirements of the Companies Act provided that this provision shall not require a copy of those documents to be sent to any person whose address the Company is not aware of or to more than one of the joint holders of any shares or debentures; however, to the extent permitted by and subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Bye-laws), the Company may send to such persons a summary financial statement derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the

Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Subject to the Companies Act, at the annual general meeting or at a subsequent special general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the members appoint another auditor. Such auditor may be a member but no Director or officer or employee of the Company shall, during his continuance in office, be eligible to act as an auditor of the Company. The remuneration of the auditor shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than Bermuda. If the auditing standards of a country or jurisdiction other than Bermuda are used, the financial statements and the report of the auditor should disclose this fact and name such country and jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting and any special general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least 21 clear days' notice in writing, and any other special general meeting shall be called by at least 14 clear days' notice (in each case exclusive of the day on which the notice is given or deemed to be given and of the day for which it is given or on which it is to take effect). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange or in such other form as the Board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The Board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The Board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in Bermuda or such other place in Bermuda at which the principal register is kept in accordance with the Companies Act.

The Board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The Board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Bye-laws) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in an appointed newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Bye-laws), at such times and for such periods as the Board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

(k) Power for the Company to purchase its own shares

The Bye-laws supplement the Company's Memorandum of Association (which gives the Company the power to purchase its own shares) by providing that the power is exercisable by the Board upon such terms and conditions as it thinks fit.

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Bye-laws relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Companies Act, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board. The Company in general meeting may also make a distribution to its members out of contributed surplus (as ascertained in accordance with the Companies Act). No dividend shall be paid or distribution made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium account.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to a member by the Company on or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the Board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit. The Company may also upon the recommendation of the Board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the Board and shall revert to the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

(o) Call on shares and forfeiture of shares

Subject to the Bye-laws and to the terms of allotment, the Board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20 per cent. per annum as the Board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the Board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the Board may serve not less than 14 clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of nonpayment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect.

Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture. A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding 20 per cent. per annum as the Board determines.

(p) Inspection of register of members

The register and branch register of members shall be open to inspection between 10:00 a.m. and 12:00 noon on every business day by members without charge, or by any other person upon a maximum payment of five Bermuda dollars, at the registered office or such other place in Bermuda at which the register is kept in accordance with the Companies Act or, upon a maximum payment of \$10, at the Registration Office (as defined in the Bye-laws), unless the register is closed in accordance with the Companies Act.

(q) Quorum for meetings and separate class meetings

For all purposes the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Bye-laws relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Bermuda law, as summarised in paragraph 4(e) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Act, divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division

shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

The Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Bye-laws) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Bye-laws), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Bye-laws) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Other provisions

The Bye-laws provide that to the extent that it is not prohibited by and is in compliance with the Companies Act, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

The Bye-laws also provide that the Company is required to maintain at its registered office a register of directors and officers in accordance with the provisions of the Companies Act and such register is open to inspection by members of the public without charge between 10:00 a.m. and 12:00 noon on every business day.

3. VARIATION OF MEMORANDUM OF ASSOCIATION AND BYE-LAWS

The Memorandum of Association may be altered by the Company in general meeting. The Bye-laws may be amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association or to confirm any amendment to the Bye-laws or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of 21 clear days' notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95 percent in nominal value of the shares giving that right.

4. BERMUDA COMPANY LAW

The Company is incorporated in Bermuda and, therefore, operates subject to Bermuda law. Set out below is a summary of certain provisions of Bermuda company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Bermuda company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Share capital

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account", to which the provisions of the Companies Act relating to a reduction of share capital of a company shall apply as if the share premium account were paid up share capital of the company except that the share premium account may be applied by the company:

- (i) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;
- (ii) in writing off:
 - (aa) the preliminary expenses of the company; or
 - (bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or

- (iii) in providing for the premiums payable on redemption of any shares or of any debentures of the company.

In the case of an exchange of shares the excess value of the shares acquired over the nominal value of the shares being issued may be credited to a contributed surplus account of the issuing company.

The Companies Act permits a company to issue preference shares and subject to the conditions stipulated therein to convert those preference shares into redeemable preference shares.

The Companies Act includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. Where provision is made by the memorandum of association or bye-laws for authorising the variation of rights attached to any class of shares in the company, the consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required, and where no provision for varying such rights is made in the memorandum of association or bye-laws and nothing therein precludes a variation of such rights, the written consent of the holders of three-fourths of the issued shares of that class or the sanction of a resolution passed as aforesaid is required.

(b) Financial assistance to purchase shares of a company or its holding company

A company is prohibited from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares unless there are reasonable grounds for believing that the company is, and would after the giving of such financial assistance be, able to pay its liabilities as they become due. In certain circumstances, the prohibition from giving financial assistance may be excluded such as where the assistance is only an incidental part of a larger purpose or the assistance is of an insignificant amount such as the payment of minor costs.

(c) Purchase of shares and warrants by a company and its subsidiaries

A company may, if authorised by its memorandum of association or bye-laws, purchase its own shares. Such purchases may only be effected out of the capital paid up on the purchased shares or out of the funds of the company otherwise available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose. Any premium payable on a purchase over the par value of the shares to be purchased must be provided for out of funds of the company otherwise available for dividend or distribution or out of the company's share premium account. Any amount due to a shareholder on a purchase by a company of its own shares may (i) be paid in cash; (ii) be satisfied by the transfer of any part of the undertaking or property of the company having the same value; or (iii) be satisfied partly under (i) and partly under (ii). Any purchase by a company of its own shares may be authorised by its Board of directors or otherwise by or in accordance with the provisions of its bye-laws. Such purchase may not be made if, on the date on which the purchase is to be effected, there

are reasonable grounds for believing that the company is, or after the purchase would be, unable to pay its liabilities as they become due. The shares so purchased may either be cancelled or held as treasury shares. Any purchased shares that are cancelled will, in effect, revert to the status of authorised but unissued shares. If shares of the company are held as treasury shares, the company is prohibited to exercise any rights in respect of those shares, including any right to attend and vote at meetings, including a meeting under a scheme of arrangement, and any purported exercise of such a right is void. No dividend shall be paid to the company in respect of shares held by the company as treasury shares; and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) shall be made to the company in respect of shares held by the company as treasury shares. Any shares allotted by the company as fully paid bonus shares in respect of shares held by the company as treasury shares shall be treated for the purposes of the Companies Act as if they had been acquired by the company at the time they were allotted.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Bermuda law that a company's memorandum of association or its bye-laws contain a specific provision enabling such purchases.

Under Bermuda law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. The holding company is, however, prohibited from giving financial assistance for the purpose of the acquisition, subject to certain circumstances provided by the Companies Act. A company, whether a subsidiary or a holding company, may only purchase its own shares for cancellation if it is authorised to do so in its memorandum of association or bye-laws pursuant to section 42A of the Companies Act.

(d) Dividends and distributions

A company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts. Contributed surplus is defined for purposes of section 54 of the Companies Act to include the proceeds arising from donated shares, credits resulting from the redemption or conversion of shares at less than the amount set up as nominal capital and donations of cash and other assets to the company.

(e) Protection of minorities

Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. The Bermuda courts, however, would ordinarily be expected to permit a shareholder to commence an action in the name of a company to

remedy a wrong done to the company where the act complained of is alleged to be beyond the corporate power of the company or is illegal or would result in the violation of the company's memorandum of association and bye-laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than actually approved it.

Any member of a company who complains that the affairs of the company are being conducted or have been conducted in a manner oppressive or prejudicial to the interests of some part of the members, including himself, may petition the court which may, if it is of the opinion that to wind up the company would unfairly prejudice that part of the members but that otherwise the facts would justify the making of a winding up order on just and equitable grounds, make such order as it thinks fit, whether for regulating the conduct of the company's affairs in future or for the purchase of shares of any members of the company by other members of the company or by the company itself and in the case of a purchase by the company itself, for the reduction accordingly of the company's capital, or otherwise. Bermuda law also provides that the company may be wound up by the Bermuda court, if the court is of the opinion that it is just and equitable to do so. Both these provisions are available to minority shareholders seeking relief from the oppressive conduct of the majority, and the court has wide discretion to make such orders as it thinks fit.

Except as mentioned above, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in Bermuda.

A statutory right of action is conferred on subscribers of shares in a company against persons, including directors and officers, responsible for the issue of a prospectus in respect of damage suffered by reason of an untrue statement therein, but this confers no right of action against the company itself. In addition, such company, as opposed to its shareholders, may take action against its officers including directors, for breach of their statutory and fiduciary duty to act honestly and in good faith with a view to the best interests of the company.

(f) Management

The Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Furthermore, the Companies Act requires that every officer should comply with the Companies Act, regulations passed pursuant to the Companies Act and the bye-laws of the company. The directors of a company may, subject to the bye-laws of the company, exercise all the powers of the company except those powers that are required by the Companies Act or the bye-laws to be exercised by the members of the Company.

(g) Accounting and auditing requirements

The Companies Act requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company. Furthermore, it requires that a company keeps its records of account at the registered office of the company or at such other place as the directors think fit and that such records shall at all times be open to inspection by the directors or the resident representative of the company. If the records of account are kept at some place outside Bermuda, there shall be kept at the office of the company in Bermuda such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each three month period, except that where the company is listed on an appointed stock exchange, there shall be kept such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each six month period.

The Companies Act requires that the directors of the company must, at least once a year, lay before the company in general meeting financial statements for the relevant accounting period. Further, the company's auditor must audit the financial statements so as to enable him to report to the members. Based on the results of his audit, which must be made in accordance with generally accepted auditing standards, the auditor must then make a report to the members. The generally accepted auditing standards may be those of a country or jurisdiction other than Bermuda or such other generally accepted auditing standards as may be appointed by the Minister of Finance of Bermuda under the Companies Act; and where the generally accepted auditing standards used are other than those of Bermuda, the report of the auditor shall identify the generally accepted auditing standards used. All members of the company are entitled to receive a copy of every financial statement prepared in accordance with these requirements, at least five days before the general meeting of the company at which the financial statements are to be tabled. A company the shares of which are listed on an appointed stock exchange may send to its members summarized financial statements instead. The summarized financial statements must be derived from the company's financial statements for the relevant period and contain the information set out in the Companies Act. The summarized financial statements sent to the company's members must be accompanied by an auditor's report on the summarized financial statements and a notice stating how a member may notify the company of his election to receive financial statements for the relevant period and/or for subsequent periods.

The summarized financial statements together with the auditor's report thereon and the accompanied notice must be sent to the members of the company not less than 21 days before the general meeting at which the financial statements are laid. Copies of the financial statements must be sent to a member who elects to receive the same within 7 days of receipt by the company of the member's notice of election.

(h) Auditors

At each annual general meeting, a company must appoint an auditor to hold office until the close of the next annual general meeting; however, this requirement may be waived if all of the shareholders and all of the directors, either in writing or at the general meeting, agree that there shall be no auditor. A person, other than an incumbent auditor, shall not be capable of being appointed auditor at an annual general meeting unless notice in writing of an intention to nominate that person to the office of auditor has been given not less than 21 days before the annual general meeting. The company must send a copy of such notice to the incumbent auditor and give notice thereof to the members not less than 7 days before the annual general meeting. An incumbent auditor may, however, by notice in writing to the secretary of the company waive the requirements of the foregoing. Where an auditor is appointed to replace another auditor, the new auditor must seek from the replaced auditor a written statement as to the circumstances of the latter's replacement. If the replaced auditor does not respond within 15 days, the new auditor may act in any event. An appointment as auditor of a person who has not requested a written statement from the replaced auditor is voidable by a resolution of the shareholders at a general meeting. An auditor who has resigned, been removed or whose term of office has expired or is about to expire, or who has vacated office is entitled to attend the general meeting of the company at which he is to be removed or his successor is to be appointed; to receive all notices of, and other communications relating to, that meeting which a member is entitled to receive; and to be heard at that meeting on any part of the business of the meeting that relates to his duties as auditor or former auditor.

(i) Exchange control

An exempted company is usually designated as "non-resident" for Bermuda exchange control purposes by the Bermuda Monetary Authority. Where a company is so designated, it is free to deal in currencies of countries outside the Bermuda exchange control area which are freely convertible into currencies of any other country. The permission of the Bermuda Monetary Authority is required for the issue of shares and securities by the company and the subsequent transfer of such shares and securities. In granting such permission, the Bermuda Monetary Authority accepts no responsibility for the financial soundness of any proposals or for the correctness of any statements made or opinions expressed in any document with regard to such issue. Before the company can issue or transfer any further shares and securities in excess of the amounts already approved, it must obtain the prior consent of the Bermuda Monetary Authority.

The Bermuda Monetary Authority has granted general permission for the issue and transfer of shares and securities to and between persons regarded as resident outside Bermuda for exchange control purposes without specific consent for so long as any equity securities, including shares, are listed on an appointed stock exchange (as defined in the Companies Act). Issues to and transfers involving persons regarded as "resident" for exchange control purposes in Bermuda will be subject to specific exchange control authorisation.

(j) Taxation

Under present Bermuda law, no Bermuda withholding tax on dividends or other distributions, nor any Bermuda tax computed on profits or income or on any capital asset, gain or appreciation will be payable by an exempted company or its operations, nor is there any Bermuda tax in the nature of estate duty or inheritance tax applicable to shares, debentures or other obligations of the company held by nonresidents of Bermuda. Furthermore, a company may apply to the Minister of Finance of Bermuda for an assurance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, that no such taxes shall be so applicable until 28th March 2016, although this assurance will not prevent the imposition of any Bermuda tax payable in relation to any land in Bermuda leased or let to the company or to persons ordinarily resident in Bermuda.

(k) Stamp duty

An exempted company is exempt from all stamp duties except on transactions involving “Bermuda property”. This term relates, essentially, to real and personal property physically situated in Bermuda, including shares in local companies (as opposed to exempted companies). Transfers of shares and warrants in all exempted companies are exempt from Bermuda stamp duty.

(l) Loans to directors

Bermuda law prohibits the making of loans by a company to any of its directors or to their families or companies in which they hold more than a 20 per cent. interest, without the consent of any member or members holding in aggregate not less than nine-tenths of the total voting rights of all members having the right to vote at any meeting of the members of the company. These prohibitions do not apply to (a) anything done to provide a director with funds to meet the expenditure incurred or to be incurred by him for the purposes of the company, provided that the company gives its prior approval at a general meeting or, if not, the loan is made on condition that it will be repaid within six months of the next following annual general meeting if the loan is not approved at or before such meeting; (b) in the case of a company whose ordinary business includes the lending of money or the giving of guarantees in connection with loans made by other persons, anything done by the company in the ordinary course of that business; or (c) any advance of moneys by the company to any officer or auditor under Section 98(2)(c) of the Companies Act which allows the company to advance moneys to an officer or auditor of the company for the costs incurred in defending any civil or criminal proceedings against them, on condition that the officer or auditor shall repay the advance if any allegation of fraud or dishonesty is proved against them. If the approval of the company is not given for a loan, the directors who authorised it will be jointly and severally liable for any loss arising therefrom.

(m) Inspection of corporate records

Members of the general public have the right to inspect the public documents of a company available at the office of the Registrar of Companies in Bermuda which will include the company's certificate of incorporation, its memorandum of association (including its objects and powers) and any alteration to the company's memorandum of association. The members of the company have the additional right to inspect the bye-laws of a company, minutes of general meetings and the company's audited financial statements, which must be presented to the annual general meeting. Minutes of general meetings of a company are also open for inspection by directors of the company without charge for not less than two hours during business hours each day. The register of members of a company is open for inspection by members of the public without charge. The company is required to maintain its share register in Bermuda but may, subject to the provisions of the Companies Act, establish a branch register outside Bermuda. Any branch register of members established by the company is subject to the same rights of inspection as the principal register of members of the company in Bermuda. Any person may on payment of a fee prescribed by the Companies Act require a copy of the register of members or any part thereof which must be provided within fourteen days of a request. Bermuda law does not, however, provide a general right for members to inspect or obtain copies of any other corporate records.

A company is required to maintain a register of directors and officers at its registered office and such register must be made available for inspection for not less than two hours in each day by members of the public without charge. If summarized financial statements are sent by a company to its members pursuant to section 87A of the Companies Act, a copy of the summarized financial statements must be made available for inspection by the public at the registered office of the company in Bermuda.

(n) Winding up

A company may be wound up by the Bermuda court on application presented by the company itself, its creditors or its contributors. The Bermuda court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Bermuda court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where, on a voluntary winding up, a majority of directors make a statutory declaration of solvency, the winding up will be a members' voluntary winding up. In any case where such declaration has not been made, the winding up will be a creditors' voluntary winding up.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators within the period prescribed by the Companies Act for the purpose of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice published in an appointed newspaper in Bermuda.

In the case of a creditors' voluntary winding up of a company, the company must call a meeting of creditors of the company to be summoned on the day following the day on which the meeting of the members at which the resolution for winding up is to be proposed is held. Notice of such meeting of creditors must be sent at the same time as notice is sent to members. In addition, such company must cause a notice to appear in an appointed newspaper on at least two occasions.

The creditors and the members at their respective meetings may nominate a person to be liquidator for the purposes of winding up the affairs of the company provided that if the creditors nominate a different person, the person nominated by the creditors shall be the liquidator. The creditors at the creditors' meeting may also appoint a committee of inspection consisting of not more than five persons.

If a creditors' winding up continues for more than one year, the liquidator is required to summon a general meeting of the company and a meeting of the creditors at the end of each year to lay before such meetings an account of his acts and dealings and of the conduct of the winding up during the preceding year. As soon as the affairs of the company are fully wound up, the liquidator must make an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon shall call a general meeting of the company and a meeting of the creditors for the purposes of laying the account before such meetings and giving an explanation thereof.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with respect to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

The Authorised Share Capital and the issued share capital of the Company as at the Latest Practicable Date and immediately following completion of the Open Offer and the Bonus Issue (assuming no conversion rights of the convertible bonds of the Company are exercised on or before the Record Date) were as follows:

<i>Authorised:</i>		<i>HK\$</i>
<u>1,000,000,000</u>	Shares of HK\$0.10 each	<u>100,000,000.00</u>
 <i>Issued and to be issued:</i>		
533,146,240	Shares in issue as at the Latest Practicable Date	53,314,624.00
	Offer Shares to be allotted and issued under the Open	
319,887,744	Offer	31,988,774.40
	Bonus Shares to be allotted and issued under the Bonus	
<u>63,977,548</u>	Issue upon the Open Offer becoming unconditional	<u>6,397,754.80</u>
	Shares in issue immediately after completion of the	
<u>917,011,532</u>	Open Offer with the Bonus Issue	<u>91,701,153.20</u>

All of the Offer Shares and Bonus Shares to be issued will rank pari passu in all respect with each other, including as to dividends, voting rights and capital, and with all the Shares in issue as at the date of allotment and issue of the Offer Shares and the Bonus Shares. The Offer Shares and the Bonus Shares to be issued will be listed on the Stock Exchange.

No part of the share capital or any other securities of the Company is listed or dealt in on any securities exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares, the Offer Shares or the Bonus Shares or any other securities of the Company to be listed or dealt in on any other securities exchange.

As at the Latest Practicable Date, the Company has outstanding options under the share option scheme of the Company, which was adopted in 2001 and terminated on 31 May 2007, convertible into 16,000,160 Shares, and convertible bonds in the principal amount of

HK\$21,000,000 convertible into 25,000,000 Conversion Shares at HK\$0.84 per Share. Save as disclosed, the Company has no other outstanding options, convertible securities or warrant which confers the right to subscribe for Shares.

3. DISCLOSURE OF INTERESTS

(a) Directors and Chief Executive

As at the Latest Practicable Date, no Directors or chief executive of the Company, save as disclosed below, had or was deemed to have any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be 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 deemed or taken to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO to be entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”), to be notified to the Company and the Stock Exchange:

(i) Long position in the Shares and underlying Shares

Name of Directors	Notes	Number of Shares		Number of underlying Shares	Total	% of total issued share capital
		Personal interests	Corporate interests			
Mr. Xu Lian Guo	1	–	204,004,000	–	304,004,000	57.0%
	2	–	–	25,000,000		
	3	–	–	75,000,000		
Mr. Xu Lian Kuan	1	–	204,004,000	–	304,004,000	57.0%
	2	–	–	25,000,000		
	3	–	–	75,000,000		
Mr. Zhang Yuqing		17,600,000	–	–	17,600,000	3.3%

Notes:

1. The 204,004,000 Shares are held by Zhong Da BVI which is beneficially owned as to 57.22% by Mr. Xu Lian Guo and as to 42.78% by Mr. Xu Lian Kuan respectively.
2. Both Mr. Xu Lian Guo and Mr. Xu Lian Kuan are interested in the 25,000,000 Shares to be allotted and issued to Zhong Da BVI upon exercise of the conversion rights attached to the convertible bonds in the principal amount of HK\$21,000,000.
3. Pursuant to the Underwriting Agreement, Zhong Da BVI has undertaken to take up not less than 75,000,000 Offer Shares under its entitlement according to the Open Offer. Both Mr. Xu Lian Guo and Mr. Xu Lian Kuan are interested in such 75,000,000 Offer Shares by virtue of their interests in Zhong Da BVI.

(ii) Associated Corporation

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

Note:

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

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be 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 the Directors and chief executive were deemed or taken to have under provisions of the SFO), or which were required to be and are recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Substantial Shareholders

Save as disclosed below, as at the Latest Practicable Date, according to the register of interests kept by the Company under section 336 of the SFO and so far as is known to the Directors, the following are details of the persons (other than a Director or chief executive of the Company) had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital

carrying rights to vote in all circumstances at general meeting of any other member of the Group or had any option in respect of such capital:

Name of Shareholders	Capacity	Notes	Number of Shares held	Number of underlying Shares held	% of the issued share capital
Zhong Da BVI	Beneficial owner	1	204,004,000	–	38.3%
	Beneficial owner	2	–	25,000,000	4.7%
	Beneficial owner	3	–	75,000,000	14.1%
Shum Yip Holdings Company Limited	Beneficial owner	4	39,576,000	–	7.4%
Upbest Securities Company Limited	Beneficial owner	5	–	272,435,692	51.1%

Notes:

1. The 204,004,000 Shares are held by Zhong Da BVI which is beneficially owned as to 57.22% by Mr. Xu Lian Guo and as to 42.78% by Mr. Xu Lian Kuan respectively.
2. 25,000,000 Shares will be allotted and issued to Zhong Da BVI upon exercise of the conversion rights attached to the convertible bonds in the principal amount of HK\$21,000,000.
3. Pursuant to the Underwriting Agreement, Zhong Da BVI has undertaken to take up not less than 75,000,000 Offer Shares under the Open Offer.
4. These Shares are held by Gainful Outcome Holdings Limited and Outstanding Management Limited, both being wholly-owned subsidiaries of Shum Yip Holdings Company Limited, respectively.
5. Upbest is interested in the 272,435,692 Shares immediately upon completion of the Open Offer and the Bonus Issue.

Save as disclosed above, so far as is known to the Directors or chief executive of the Company, as at the Latest Practicable Date, no other person (other than a Director or chief executive of the Company) had, or was deemed or taken to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or held any option in respect of such capital.

Save as disclosed herein, none of the Directors or proposed Director is a director or employee of a company which has an interest in the Shares and underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(c) Service Contracts

As at the Latest Practicable Date, none of the Directors had any service contract with the Company or any of its subsidiaries which is not expiring or determinable by the Group within one year without payment of compensation, other than statutory compensation.

(d) As at the Latest Practicable Date:

- (i) none of the Directors had any direct or indirect interest in any assets which have been, since the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries; and
- (ii) none of the Directors is materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries which contract or arrangement is subsisting at the date of this circular and which is significant in relation to the business of the Group.

4. LITIGATION

No member of the Group was engaged in any litigation or arbitration proceedings of material importance as at the Latest Practicable Date and there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

5. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, in so far as the Directors are aware, none of the Directors or their respective associates (as defined in the Listing Rules) had any interest in a business which competes or likely to compete with the business of the Group.

6. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position or contingent liabilities of the Group since 31 December 2008, being the date to which the latest published audited financial statements of the Company were made up.

7. EXPERTS AND CONSENT

The following are the qualifications of the professional advisers whose opinions or advice are contained in this circular:

Name	Qualification
Ample Capital Limited	a licensed corporation under the SFO and engages in Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Open Offer with Bonus Issue
SHINEWING (HK) CPA Limited	Certified Public Accountants

Each of the above experts has given and have not withdrawn their respective written consent to the issue of this circular with the inclusion of their respective letters and/or reports and/or references to their names, as the case may be, in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of the above experts had any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, and none of the above experts had any direct or indirect interest in any assets which have been or proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2008, being the date to which the latest published audited accounts of the Company were made up.

8. MATERIAL CONTRACTS

During the two years immediately preceding the date of this circular, the following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Group and are or may be material:

- (i) the Yancheng Celette Purchase Agreement (as defined in the circular of the Company dated 4 October 2007) dated 23 August 2007 entered into between a wholly-owned subsidiary of the Company and Yancheng Celette Body Repairing Equipment Ltd. (鹽城使力得整形設備有限公司) (“**Yancheng Celette**”) for the purchases of products, parts and components by the Group;
- (ii) the Zhongwei Bus Sales Agreement (as defined in the circular of the Company dated 4 October 2007) dated 23 August 2007 entered into between a wholly-owned subsidiary of the Company and Zhongwei Bus for the sales of products and raw materials by the Group;

- (iii) the Yancheng Celette Sales Agreement (as defined in the announcement of the Company dated 23 August 2007) dated 23 August 2007 entered into between a wholly-owned subsidiary of the Company and Yancheng Celette for the sales of raw materials, parts and components by the Group;
- (iv) the Exclusive Agency Agreement (as defined in the circular of the Company dated 21 April 2008) dated 8 April 2008 entered into between Zhongda International Trading Limited (“ZIT”), wholly-owned subsidiary of the Company and Zhongwei Bus for the appointment of ZIT as the exclusive agent of the overseas sales of the products manufactured by Zhongwei Bus;
- (v) the Acquisition Agreement dated 24 July 2008 entered into between a wholly-owned subsidiary of the Company as purchaser and ZIG as vendor for the transfer of 20% equity interests in Zhongwei Bus at a consideration of RMB18,460,000, details of which are disclosed in the circular of the Company dated 14 August 2008;
- (vi) the Subscription Agreement dated 24 July 2008 entered into between the Company and Zhong Da BVI for the issue of zero coupon convertible bonds in the principal amount of HK\$21,000,000, details of which are disclosed in the circular of the Company dated 14 August 2008;
- (vii) the tenancy agreement dated 14 August 2008 entered into between a 96% owned subsidiary of the Company and Zhongwei Bus for the leasing of the land and buildings in the PRC at a rental of RMB5 million per annum;
- (viii) the Zhongwei Bus Sales Supplemental Agreement (as defined in the circular of the Company dated 19 September 2008) dated 14 August 2008 entered into between a wholly-owned subsidiary of the Company and Zhongwei Bus which is supplemental to the Zhongwei Bus Sales Agreement, as referred to in item (iii) above, in respect of the revised annual caps; and
- (ix) the Underwriting Agreement and the supplemental agreement.

9. CORPORATE INFORMATION

Registered Office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Head Office	No. 100 Kai Fang Da Dao Yancheng Jiangsu Province PRC
Principal Place of Business in Hong Kong	1609, Office Tower Convention Plaza 1 Harbour Road Wanchai Hong Kong
Authorised Representatives	Mr. Kwok Ming Fai Flat A, 15/F, Foong Shan Mansion Taikoo Shing Hong Kong Mr. Fu Yan Ming 18D, Block 4, Metro City Phase 1 1 Wan Hang Road Tseung Kwan O New Territories
Company Secretary	Mr. Fu Yan Ming, <i>FCCA</i>
Principal share registrar	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 16/F, United Centre 95 Queensway Hong Kong

Principal bankers

The Hongkong and Shanghai Banking
Corporation Limited
1 Queen's Road Central
Hong Kong

Bank of China (Hong Kong) Limited
1 Garden Road
Central
Hong Kong

Hang Seng Bank Limited
83 Des Voeux Road Central
Hong Kong

DBS Bank (Hong Kong) Limited
16th Floor, The Centre
99 Queen's Road Central
Hong Kong

Fubon Bank (Hong Kong) Limited
Fubon Bank Building
38 Des Voeux Road
Hong Kong

Agricultural Bank of China, Yancheng Branch
中國江蘇省鹽城市大慶忠路86號
(86 Da Qing Zhong Lu, Yancheng, Jiangsu
Province, the PRC)

Industrial and Commerce Bank of China,
Yancheng Branch
中國江蘇省鹽城市開發區商業街4號
(4 Shang Ye Jie, Ka Fa Qu, Yancheng,
Jiangsu Province, the PRC)

China Minsheng Banking Corp., Ltd.,
Nanjing Branch
中國江蘇省南京市中山北路212號
(212 Zhong Shan Bei Lu, Nanjing,
Jiangsu Province, the PRC)

10. PARTIES INVOLVED IN THE OPEN OFFER

Joint Underwriters	Upbest Securities Company Limited 2/F, Wah Kit Commercial Centre 302 Des Voeux Road Central Hong Kong
	Tanrich Capital Limited 16/F, Central Plaza 18 Harbour Road Wanchai Hong Kong
Independent Financial Adviser	Ample Capital Limited Unit A, 14/F, Two Chinachem Plaza 135 Des Voeux Road Central Central Hong Kong
Legal advisers to the Company	<i>As to Hong Kong law</i> Sidley Austin Level 39 Two International Finance Centre 8 Finance Street Central Hong Kong
	<i>As to Bermuda law</i> Conyers Dill & Pearman 2901 One Exchange Square 8 Connaught Place Hong Kong

11. DIRECTORS**Particulars of Directors**

Name	Address
Executive Directors	
Xu Lian Guo	No.56 Tongyu Zhong Road, Yancheng, Jiangsu, the PRC
Xu Lian Kuan	Room 2003-2004, No.56 Tongyu Zhong Road, Yancheng, Jiangsu, the PRC

Zhang Yuqing No.21, 35 Jianjun East Road, Tinghu District, Yancheng, Jiangsu, the PRC

Kwok Ming Fai Flat A, 15/F, Foong Shan Mansion, Taikoo Shing, Hong Kong

Independent non-executive Directors

Gu Yao Tian No.15 Beifengwo Zhonglu, Haidian District, Beijing, the PRC

Sun Ka Ziang Henry 2E Kennedy Court, 7A Shiu Fai Terrace, Wanchai, Hong Kong

Li Xinzhong 8E, Block 1, Phase II, East Pacific Garden, Futian District, Shenzhen, the PRC

Executive Directors

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

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

Mr. ZHANG Yuqing, aged 56, is the vice-chairman of the Group. Mr. Zhang oversees the overall management, strategic planning, development planning, corporate external cooperation and financial management of the Group. Mr. Zhang has over 30 years of experience in corporate management in the PRC. Prior to joining the Group in 1994, he was the chairman and general managers of various PRC enterprises in the

cement and electronics industries such as Yan Wu Group (燕舞集團). Mr. Zhang is a member of the executive committee of the All China Federation of Industry and Commerce, the postdoctoral lecturer at Tsinghua University, the researcher of the 中國管理科學院國情與管理研究所 and the lecturer of doctorate and MBA program at the Nanjing University.

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

Independent non-executive Directors

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

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

Mr. LI Xinzhong, aged 51, was appointed as an independent non-executive director in 2004. After graduating from Nankai University in 1983 with a degree in Economics, he spent seven years working in the PRC as a lecturer, part-time lawyer and the deputy general manager of a consulting firm in Tianjin 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.

12. GENERAL

- (a) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company's principal place of business in Hong Kong at 1609, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong during normal business hours on any weekdays, except public holidays, from the date of this circular up to and including the date of the SGM:

- (a) the bye-laws of the Company;
- (b) the annual reports of the Company for each of the two years ended 31 December 2008;
- (c) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 23 to 24 of this circular;
- (d) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 25 to 39 of this circular;
- (e) the material contracts referred to in the section headed "Material Contracts" in this appendix;
- (f) the written consent from the experts referred to in the section headed "Experts and Consent" above; and
- (g) this circular.

NOTICE OF SPECIAL GENERAL MEETING



ZHONGDA INTERNATIONAL HOLDINGS LIMITED

(中大國際控股有限公司*)

(Incorporated in Bermuda with limited liability)

(Stock Code: 00909)

NOTICE IS HEREBY GIVEN that a special general meeting (the “**Meeting**”) of Zhongda International Holdings Limited (the “**Company**”) will be held at Everest Room, Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Admiralty, Hong Kong on Friday, 26 June 2009 at 3:00 p.m. for the purpose of considering and, if thought fit, passing, with or without modification, the following resolutions:

SPECIAL RESOLUTIONS

1. “**THAT** the existing bye-law 148 of the Company (the “**Bye-laws**”) be amended by inserting the following words immediately after the words “in the same proportions”:

“or such other proportion as the Members by special resolution may determine.”

2. “**THAT**, conditional upon (i) the passing of the special resolution numbered 1 set out in the notice convening this Meeting; (ii) the Listing Committee of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) granting or agreeing to grant and not having withdrawn or revoked the listing of, and permission to deal in, the Offer Shares (as defined below) and the Bonus Shares (as defined below) either conditionally or subject to such conditions which the Joint Underwriters (as defined below) and in their reasonable opinion accept and the satisfaction of such conditions (if any); (iii) the registration and filing of all relevant documents relating to the Open Offer (as hereinafter defined) required by law to be registered or filed with the Registrar of Companies in Hong Kong and the Bermuda Registrar of Companies in accordance with the requirements of the Companies Act 1981 of Bermuda; and (iv) the underwriting agreement dated 6 May 2009 and the supplemental agreement dated 21 May 2009 (together, the “**Underwriting Agreement**”) between the Company, Zhong Da (BVI) Limited, Upbest Securities Company Limited and Tanrich Capital Limited (the “**Joint Underwriters**”), copy of which are tabled at the meeting and marked “**A**” and “**B**” respectively and initialled by the chairman of this Meeting for the purpose of identification, becoming unconditional:

- (a) the issue by way of open offer (the “**Open Offer**”) of 319,887,744 new shares of HK\$0.10 each (“**Offer Shares**”) to the shareholders of the Company (the “**Shareholders**”) whose names appear on the register of members of the Company as at the close of business on Friday, 26 June

* For identification purposes only

NOTICE OF SPECIAL GENERAL MEETING

2009 (the “**Record Date**”), excluding those Non-Qualifying Shareholders (as defined below) (the “**Qualifying Shareholders**”) in the proportion of three Offer Shares for every five existing Shares held, subject to the terms and conditions set out in the circular to the shareholders of the Company dated 4 June 2009 (the “**Circular**”, a copy of which is tabled at the meeting and marked “**C**” and initialled by the chairman of this Meeting for the purpose of identification), be and is hereby approved and the directors of the Company (the “**Directors**”) be and are hereby authorised to allot and issue the Offer Shares pursuant to or in connection with the Open Offer;

- (b) the issue (the “**Bonus Issue**”) by way of bonus shares (the “**Bonus Shares**”) to the registered holders of the Offer Shares in the proportion of two Bonus Shares for every ten Offer Shares subscribed, subject to the terms and conditions set out in the Circular, be and is hereby approved and the Directors be and are hereby authorised to allot and issue the Bonus Shares pursuant to or in connection with the Open Offer notwithstanding that the same may be offered, allotted or issued otherwise than pro rata to the existing Shareholders;
- (c) the Directors be and are hereby authorised to make such other exclusions or other arrangements in relation to those Shareholders whose names appear on the register of members of the Company on the Record Date and having registered addresses outside the Hong Kong Special Administration of the People’s Republic of China (“**Hong Kong**”) or stipulated in place(s) where, in the Director’s opinion, the Offer Shares and the Bonus Shares may not be offered without compliance with the registration and/or other legal or regulatory requirements of that jurisdiction or jurisdictions outside Hong Kong (the “**Non-Qualifying Shareholders**”) as they may deem necessary or expedient and having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or stock exchange in, any territory outside Hong Kong and generally to do such things or make such arrangements as they may think fit to effect the Open Offer and the Bonus Issue; and
- (d) the Directors be and are hereby authorised to do all such acts and things and to sign and execute all such further deeds, documents, instruments, agreements and to take such steps as the Directors may in their absolute discretion consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Open Offer and the Bonus Issue and all transactions contemplated thereunder.”

NOTICE OF SPECIAL GENERAL MEETING

ORDINARY RESOLUTION

3. “**THAT**

- (a) the authorised share capital of the Company be and is hereby increased from HK\$100,000,000 to HK\$1,000,000,000 by the creation of an additional 9,000,000,000 shares of HK\$0.10 each (the “**Increase in Authorised Share Capital**”); and
- (b) any one of the directors of the Company be and is hereby authorised for and on behalf of the Company to execute all such documents, instruments and agreements and to do all such acts or things deemed by him to be incidental to, ancillary to or in connection with the matters contemplated in and for giving effect to the Increase in Authorised Share Capital.”

By Order of the Board
Zhongda International Holdings Limited
Xu Lian Guo
Chairman

Hong Kong, 4 June 2009

Principal place of business:

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

Notes:

- (1) Any member entitled to attend and vote at the meeting is entitled to appoint another person as his proxy to attend and vote in his stead. A member who is the holder of two or more shares of the Company may appoint one or more proxies to attend and vote instead of him/her. A proxy need not be a member of the Company.
- (2) A form of proxy for use at the meeting is enclosed.
- (3) The form of proxy must be signed by you or your attorney duly authorised in writing or, in the case of a corporation, must be under its seal or the hand of an officer, attorney or other person duly authorised.
- (4) The form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be lodged at the principal place of business of the Company in Hong Kong at 1609, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong, not later than 48 hours before the time appointed for holding the meeting or any adjourned meeting (as the case may be) and in default the proxy shall not be treated as valid. Completion and return of the form of proxy shall not preclude members from attending and voting in person at the meeting or at any adjourned meeting (as the case may be) should they so wish.
- (5) Where there are joint registered holders of any share, any one of such persons may vote at any meeting, either in person or by proxy, in respect of such share as if he/she was solely entitled thereto; but if more than one of such joint holders be present at the meeting personally or by proxy, the vote of that one of the said persons so present whose name stands first on the register of members in respect of such share shall be accepted to the exclusion of the votes of the other joint holders.

NOTICE OF SPECIAL GENERAL MEETING

- (6) As at the date hereof, the board of directors of the Company comprises Messrs. Xu Lian Guo, Xu Lian Kuan, Zhang Yuqing and Kwok Ming Fai as executive directors, and Messrs. Gu Yao Tian, Sun Ka Ziang Henry and Li Xinzhong as independent non-executive directors of the Company respectively.