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Corporate Information

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

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Gu Yao Tian
Mr. Sun Ka Ziang Henry
Mr. Li Xin Zhong

AUDIT COMMITTEE
Mr. Sun Ka Ziang Henry *(Chairman)*
Mr. Gu Yao Tian
Mr. Li Xin Zhong

REMUNERATION COMMITTEE
Mr. Gu Yao Tian *(Chairman)*
Mr. Li Xin Zhong
Mr. Zhang Yaqing

COMPANY SECRETARY & QUALIFIED ACCOUNTANT
Mr. Fu Yan Ming

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Yancheng
Jiangsu Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
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Kowloon, Hong Kong

PRINCIPAL BANKERS
Bank of China (Hong Kong) Limited
1 Garden Road
Hong Kong

Industrial Bank of China, Yancheng Branch
124 Jianjun Zhong Road
Yancheng, Jiangsu Province
PRC

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Yancheng, Jiangsu Province
PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
The Bank of Bermuda Limited
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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
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AUDITORS
SHINEWING (HK) CPA Limited
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Hong Kong

LEGAL ADVISORS
Sidley Austin
Tsun & Partners

STOCK CODE
909

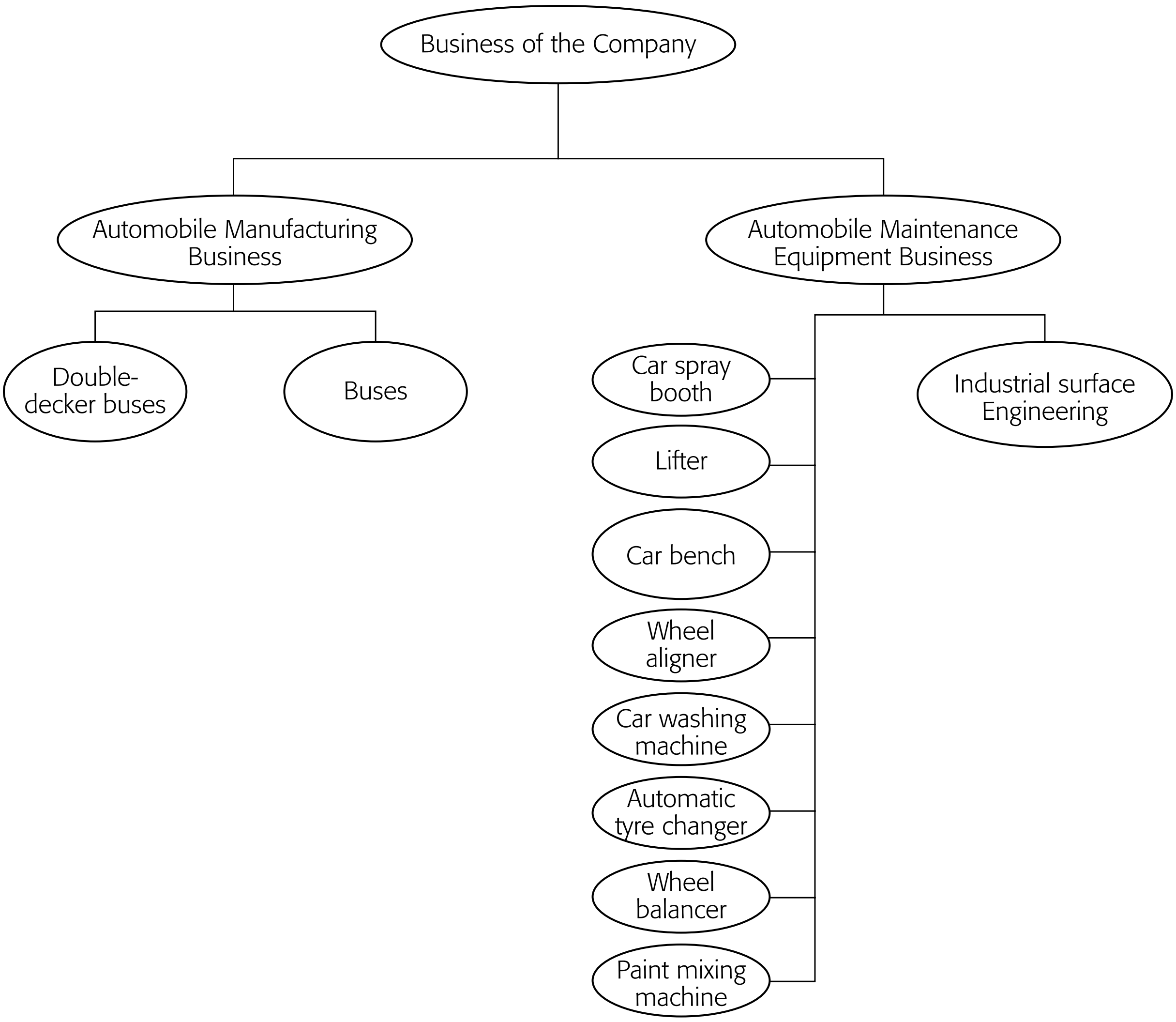
Corporate Profile

Zhongda International Holdings Limited ("Zhongda International" or the "Company" and its subsidiaries, collectively the "Group") was listed on the Main Board of The Stock Exchange of Hong Kong Limited on 1 November 2001.

The Group is engaged in the business of automobile maintenance equipment and automobile manufacturing in the People's Republic of China (the "PRC"), with an overseas sales network covering more than 50 markets. Its main products include car spray booth, car bench, lifter and car washing machines that have been awarded various certifications such as ISP 9001 international equipment system certification, EU CE certification and US ETL safety recognition. For automobile maintenance equipment business, the PRC is the Group's major market. Products are also exported to North America, North Africa, Europe and many other Asian countries.

In 2004, Nanjing Zhongda Jinling Double-decker Bus Manufacture Co. Ltd., the joint venture of the Company, was set up with Jiangsu Jijling Transportation Group Ltd., which is the only enterprise principally engaged in the development of double-decker bus manufacturing in the PRC, capturing a substantial share of the domestic double-decker bus market.

The Group's main production base of automobile maintenance equipment is located in Yancheng City, Jiangsu Province, the PRC and the production base for the double-decker bus is located in Nanjing, the PRC.



Chairman's Statement

Dear Shareholders,

I am pleased to present the audited consolidated results of Zhongda International Holdings Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2006.

OVERVIEW

During the year 2006, the Group continued its resources consolidation, re-deployment and integration.

The Group's turnover for the year ended 31 December 2006 was approximately RMB191 million, representing a 7.6% increase as compared to last year. Profit attributable to the equity holders and the shareholders were approximately RMB15.3 million and RMB12.9 million respectively. Gross profit margin of the Group for the year decreased to approximately 31.9%, while the net profit margin improved to approximately 6.8%.

PROSPECT

Since 2004, the Group has been diversifying its businesses from its original automobile equipment manufacturer into commercial vehicles manufacturer. Since then, the Group had redefined its strategic objectives and undergone a diversification restructuring in order to capture the opportunity in these growing industries.

Looking ahead, the Group will continue to strengthen its leading position in the automobile maintenance equipment sector, and at the same time to expand its automobile manufacturing business.

I. *Automobile Equipments*

In 2006, the growth of the PRC automobile market regains its momentum as reflected by the recent public statistical figures due to the strong growth of the PRC's GDP, and it is expected that the increase in demand of imported and domestic automobiles will give fresh impetus to the demand for automobile maintenance equipments in the next few years. It is expected that in order to cope with the additional traffic to be generated by the demand, Beijing and

Shanghai will need to build more than 1,500 automobile "express service center" so as to provide inspection and maintenance services for various types of vehicles.

II. Buses

For the automobile manufacturing business, we have completed the registration formalities for the acquisition of Nanjing Jinling (Nanjing Jinling Double-decker Bus Manufacture Company Limited) by the end of the year, which results contribution to the Group will be reflected in the year 2007.

As Beijing and Shanghai are going to host the Olympics Games and the World Expo, these large-scale international events will effectively require an efficient mass transportation system to handle the logistics while bus is definitely one of the common tools, which in turn increase the demand for buses especially double-decker.

Given the aims of enhancing environmental protection and to match with international emission standards, the PRC government is implementing a tightening of vehicle emission restriction to require all existing commercial vehicles complying with Euro II Emission Standard to be upgraded to Euro III Standard in the coming few years. On the other hand, the PRC government is also transforming public transportation operators to be social welfare-oriented. Augmented by these favourable factors, it is expected that there will be huge market potential for double-deckers as it is one of the problem solutions for the traffic congestion in the large cities.

III. Coaches business from affiliate companies

With respect to the strong export demand of coaches by overseas markets, our affiliate companies are expecting to obtain orders from this huge market potential in the coming years. As a result, the Group is considering to cooperate with affiliate companies by utilizing the international trading and trade-financing advantages in Hong Kong to capture this opportunity to enhance both the Group's and affiliates' profit in the future.

IV. Vietnam Joint Venture ("JV") – Vehicles manufacturing

The co-operative joint venture with Vietnam Motors Industry Corporation in Vietnam is a great leap forward for the Group. It means more than an overseas project, but an international recognition of our competence with contribution to the Group by the year 2008.

As disclosed by in the press announcement of the Company dated 27 March 2007, this JV is to be the first commercial vehicles and chassis manufacturer in Vietnam in order to fulfill the local demand. It is expected that this project shall enhance our revenue stream in the future.

APPRECIATION

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

Xu Lian Guo
Chairman

Hong Kong, 27 April 2007

Management Discussion and Analysis

OVERVIEW

The Group's turnover during the year amounted to approximately RMB190,736,000, an increase of 7.6% from last year. The Group has diversified its automobile maintenance equipment product line marking for the exploration of new markets and increase its existing market share for the year. The overall gross profit margin decreased from 36.1% of 2005 to 31.9% of this year while the net profit margin improved to approximately 6.8%. Profit attributable to shareholders was approximately RMB15,317,000 (2005: loss of RMB25,703,000).

For the year ended 31 December 2006, the basic earnings per share of the Group was approximately RMB3.83 cents (2005: basic loss per share of approximately RMB6.43 cents).

OPERATING ENVIRONMENT

2006 was another challenging year for the automobile maintenance equipment manufacturing industry in the PRC. The price of steel and raw materials for manufacturing product recorded further increases while the downward adjustment in the selling prices of product continued, putting pressure on the gross profit margin of the sector.

Nevertheless, according to the statistics of China Association of Automobile Manufacturers, the production and sales volumes of vehicles in the PRC for the year 2006 were 7.3 and 7.2 million units, representing an increase of 27% and 25% respectively as compared with 2005. It would be beneficial to the automobile maintenance equipment manufacturing business.

AUTOMOBILE MAINTENANCE EQUIPMENT BUSINESS

In response to the market demand, the Group continued to invest in product research and development to maintain our competitiveness. The Group launched several new products such as wheel balancer and tyre changer for coaches during the year. Market response for these products has been encouraging. The Group has signed a contract with FAW Toyota as the sole supplier of car bench for their new sedan model which enhancing the overall sales of these products as a result.

During the year, the export sales of the Group were approximately RMB39,780,000, representing an increase of approximately 46.4% when compared with last year and approximately 20.9% of the total turnover. It mainly consists of automobile spray booth and car lifters. During the year, the Group sold its export products mainly through distributors. There are altogether three distributors located in the eastern, central and western parts of the United States. On the other hand, the Group further expanded its overseas markets to Middle East and Russia.

In previous years, the Group increased its market share and sales volume through the adoption of preferential sales policies for individual and scattered customers. As the market was very competitive in the past years, a number of small players with frail financial strength were eliminated from the market, and the Group has hence written off or made provision for the trade receivables from such customers. The Group has taken immediate measures by adjusting the relevant sales policies, tightening the credit control as well as reinforcing the collection of receivables.

AUTOMOBILE MANUFACTURING BUSINESS

In 2004, the Group established two joint ventures namely Nanjing Zhongda Jinling Double-Decker Bus Manufacture Company Limited ("Zhongda Jinling") with Jiangsu Jinling Transportation Group Limited and Sichuan Emei Coach Manufacturing Limited ("Sichuan Emei") respectively. The Group indirectly held 60% and 71% interest in Zhongda Jinling and Zhongda Emei respectively.

Zhongda Jinling is the only enterprise designated in the PRC for the development of double-decker city buses. It possesses the leading skills and technologies in manufacturing of double-decker buses. Currently, over 80% of the double-decker buses in the PRC are produced by Zhongda Jinling. The latest model has penetrated into the major cities in the PRC, like Beijing and Shanghai, in replacing the buses which modernized the city image and for tourist sight-seeing. Zhongda Jinling has completed all registration formalities for the sale of its products. We are pleased that its contribution to the Group will commence in 2007. During the year, the Group upgraded the technologies and production capacity of Zhongda Jinling to meet the increasing sales demand. With the expected completion of a new production plant by mid-2007, the annual production capacity of Zhongda Jinling will be substantially increased from 800 units to 3,000 units.

A settlement of the writ of summons sanctioned against Sichuan Emei was reached amongst its shareholder, details of which are disclosed in the press announcement of the Company dated 26 March 2007. Henceforth Sichuan Emei was no longer a subsidiary of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2006, the net asset value of the Group amounted to approximately RMB173,114,000 (2005: RMB160,927,000), representing an increase of approximately 7.6% from last year. Net current liabilities amounted to approximately RMB7,286,000 (2005: RMB6,386,000), a increase of approximately 14.1% from last year.

As at 31 December 2006, cash and bank balances of the Group amounted to approximately RMB17,695,000 (2005: RMB4,566,000). Cash is mainly denominated in Renminbi. Long term and short term bank loans amounted to RMB nil and approximately RMB142,500,000 respectively (2005: RMB 27,070,000 and RMB77,430,000 respectively), representing a increase of approximately RMB38,000,000 from last year. As at 31 December 2006, the Group's bank borrowings as a percentage of net asset value was 82.3% (2005: 64.9%). The Group has been taking step to improve its leverage through equity financing.

The interest rates of bank borrowings ranged between 5.36% and 7.96% per annum (2005: between 4.65% and 7.49%). The collaterals provided for these bank borrowings mainly comprised certain land use rights and buildings of the subsidiaries of the Group. The revenue of the Group was mainly denominated in Renminbi and US Dollar, and the borrowings were mainly settled in Renminbi. The directors are of the view that since the exchange rate between Renminbi and US Dollar is relatively stable, there is no significant risk in relation to foreign exchange fluctuation.

As at 31 December 2006, the Group had contingent liabilities of approximately RMB12,122,500 (2005: RMB12,100,000).

PROSPECT

In 2006, the growth of the PRC automobile market regained its momentum, and it is expected that the increase in imported automobiles would give fresh impetus to the demand for automobile maintenance equipments. Beijing and Shanghai are going to host the Olympics Games and the World Expo. These large-scale international events will effectively increase the logistics which in turn increase the demand for vehicles. The growth in transportation presents the favourable business opportunities for the Group in the development of its automobile manufacturing, and automobile equipment and parts businesses as well as the consolidation of the local market share.

On the other hand, the PRC government is currently implementing a “San Tong” Project. The Project aims at covering rural area with television broadcast, highways and public transport. “Cun Cun Tong” Plan is dedicated to link the villages in rural area to urban area by public transport so as to improve the living standard of the inhabitants. It is estimated that the project would create a demand for more than 150,000 buses in next ten years.

With the enhanced production capacity of Zhongda Jinling by mid-2007, we are optimistic that the market share for double-decker bus in the PRC shall be further strengthened and benefited by the “Cun Cun Tong” Plan. The strong demand in the public transportation as a result of the accelerating nationwide economic development, we are confident with the rosy prospect of Zhongda Jinling and its contribution to the Group in the coming years shall be encouraging.

The Group shall continue to develop the automobile manufacturing business. By Zhongda Jinling in becoming a focal cosmopolitan double-decker bus manufacturer in the PRC, further expansions in the overseas market are the competitive advantages of the Group in the industry. The proposed establishment of a joint venture in Vietnam for chassis manufacturing and special purpose vehicles, as announced by the Company on 27 March 2007, is a milestone in the automobile manufacturing segment of the Group which will enhance future income stream.

The Group will continue to strengthen its leading position in the automobile maintenance equipment sector in the PRC. The automobile maintenance equipment business is expected to grow steadily. We would continue to invest in product research and development and the high-value specialized equipment will be piloting the future business growth of this business segment.

The market ecology of automobile maintenance equipment sector will shift from price to quality and service competition. The favourable government policy of “One Control Three Encourage” in the automobile sector would benefit the Group in a longer term. It explicitly advocates accelerating the development of commercial vehicle as well as automobile spare parts sector.

Biography of the Directors

EXECUTIVE DIRECTORS

Mr. XU Lian Guo, aged 45, 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 elder brother of Mr. Xu Lian Kuan.

Mr. XU Lian Kuan, aged 41, is the vice-chairman and chief executive officer of the Group. Mr. Xu is in charge of the daily management and formulation of overall strategies for the Group. He is responsible for the overseas business development of the Group and has successfully led the Group to exploiting the various Asian, European and United States markets. Also, he oversees the product quality control for the Group. Mr. Xu has 20 years of experience in the automobile maintenance and repairs industry. He joined the Group in 1993. He was appointed a member of a surface treatment engineering technology committee in the PRC (全國金屬與非金屬蓋層標準化技術委員會塗裝分技術委員會) and a member of the People's Political Consultative Committee of Jiangsu Province. He was appointed the anti-corruption supervisor for the Intermediary People's Court of Yancheng, Jiangsu Province. Also, he had been accredited several awards for his entrepreneurship and was the committee member of the China Automobile Service Equipment Committee. Mr. Xu is the younger brother of Mr. Xu Lian Guo.

Mr. ZHANG Yuqing, aged 54, 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 42, is an executive director of the Company. Mr. Kwok oversees the financial management, corporate finance and investors 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 an independent non-executive director of Poly Investments Holdings Limited, a company listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Biography of the Directors

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. GU Yao Tian, aged 74, was appointed as an independent non-executive director of the Company in 2001. Prior to his joining to the Company, he was the general manager of the China National Automotive Industry Corporation. He was the general manager of Nanjing Automotive Manufacturing Factory during the period from 1988 to 1994.

Mr. SUN Ka Ziang Henry, aged 49, 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's 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 the independent non-executive director of Forefront International Holding Limited and Poly Investments Holdings Limited, companies listed on the main board the Stock Exchange respectively.

Mr. LI Xin Zhong, aged 49, was appointed as an independent non-executive director of the Company in 2004. He was graduated with a bachelor's degree in economics from the Nankai University in 1983. Before he obtained a LL.M. degree from the University of London in 1991, 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. He returned to Hong Kong in 1992 and joined the Miramar Group and Peregrine Capital Limited respectively. He was the director of Alta Capital (H.K.) Limited, BNP Paribas Peregrine Capital Limited and Anglo Chinese Corporate Finance, Limited respectively. He is currently the China Team Head – Mergers & Acquisitions at DBS Asia Capital Limited and is responsible for origination of China related corporate finance transactions. He has over 12 years of experience in corporate finance.

Report of the Directors

The board of directors (the "Board") of Zhongda International Holdings Limited (the "Company") are pleased to present the report of the directors of the Company and the audited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the subsidiaries are the development, manufacturing and sales of automobile equipment and buses and provision of industrial surface treatment engineering equipment. The activities of its subsidiaries are setout in note 39 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The state of affairs of the Group at 31 December 2006 and the results and cash flow of the Group for the year then ended are set out in the consolidated financial statements on pages 26 to 31.

DIVIDEND

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

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 76 of the annual report.

PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION-IN-PROGRESS

Details of movements during the year in the property, plant and equipment and construction-in-progress of the Group are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL AND WARRANTS

Details of movements during the year in the share capital and warrants of the Company are set out in note 31 to the consolidated financial statements.

RESERVES

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

Report of the Directors

DIRECTORS

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

Executive directors

Mr. Xu Lian Guo *(Chairman)*
Mr. Xu Lian Kuan *(Vice-chairman and Chief Executive Officer)*
Mr. Zhang Yuqing *(Vice-chairman)*
Mr. Kwok Ming Fai (appointed as independent non-executive director on 22 September 2006, and redesignated as executive director on 9 November 2006)

Independent non-executive directors

Mr. Gu Yao Tian
Mr. Li Xin Zhong
Mr. Sun Ka Ziang Henry (appointed on 9 November 2006)
Mr. Chan Wai Dune (resigned on 22 September 2006)

In accordance with bye-law 86(2) of the Company's bye-laws, Mr. Kwok Ming Fai and Mr. Sun Ka Ziang Henry shall retire and being eligible, offer themselves for re-election at the forthcoming annual general meeting. In accordance with bye-law 87 of the Company's bye-laws, Mr. Zhang Yuqing and Mr. Li Xin Zhong shall retire by rotation and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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

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

DIRECTORS' INTEREST IN THE SHARE CAPITAL

Long positions in shares of the Company

As at 31 December 2006, the interests of the directors, chief executive of the Company or their associates in the issued share capital of the Company (within the meaning or Part XV of the Securities and Futures Ordinance (the "SFO")), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) and required to be entered in the registered maintained by the Company pursuant to section 352 of the SFO or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, were as follows:

	Number of ordinary shares			
Name of directors	**Personal interests**	**Corporate interests**	**Total**	**% of issued share capital**
Xu Lian Guo (Note)	–	234,720,000	234,720,000	58.7%
Xu Lian Kuan (Note)	–	234,720,000	234,720,000	58.7%
Zhang Yuqing	17,600,000	–	17,600,000	4.4%

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

Save as disclosed, as at 31 December 2006, none of the directors or chief executive or their associates had any personal, family, corporate or other interests or short positions in the shares of the Company or any of its associated corporations as defined in the SFO.

Shares in a subsidiary

As at 31 December 2006, the following directors held interests in the shares of Zhongda Automobile Machinery Manufacture Co., Ltd, a 86.7% owned subsidiary of the Company as follows:

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

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

SHARE OPTION SCHEME

The Company adopted a share option scheme on 8 October 2001 (refreshed on 24 June 2004), under which the directors may, at their discretion, invite any executive and/or employee of the Company and/or its subsidiaries ("Eligible Person") 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 Exchange's daily quotations sheet on the date of grant, which shall be a business day; (ii) the average closing price of the shares as stated in the Exchange's daily quotations sheets for the five business days immediately preceding the date of grant, and (iii) the par value of the shares.

The total number of shares which may be issued, upon exercise of all options to be granted under this scheme and any other scheme (if any), shall not in aggregate exceed 10% of the shares in issue at 24 June 2004 (the date of refreshment of the Share Option Scheme). On the basis of 400,004,000 shares in issue at 24 June 2004, the maximum number of shares which may fall to be issued upon exercise of all options that may be granted by the Company under the refreshed limited would be 40,000,400 shares.

The total number of shares issued and to be issued upon exercise of options granted or to be granted to each Eligible Person (including both exercised and outstanding options) in any 12- month period up to and including the date of grant shall not exceed 1% of the shares in issue. Offers of options shall be open for acceptance in writing (nil consideration) received by the secretary of the Company until 5:00 pm on the date specified in the offer provided that an offer shall not be open for acceptance after the 10th anniversary of 8 October 2001, or after the Share Option Scheme has been terminated in accordance with the provisions of the Share Option Scheme.

During the year ended 31 December 2006, no share option was granted, exercised, lapsed or cancelled. No option was outstanding as at 31 December 2006.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than the contracts as disclosed under the heading "Connected Transactions" below, no contracts of significance to which the Company, its holding company, or any of its subsidiaries and fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

MANAGEMENT CONTRACT

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

CONNECTED TRANSACTIONS

Details of connected transactions entered into by the Group during the year are set out in note 32 to the consolidated financial statements.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, the following persons had interests in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Long position in shares of the Company

Name of shareholder	**Capacity**	Notes	**Number of issued ordinary shares held**	**Percentage of issued share capital**
Zhong Da (BVI) Limited	Beneficial owner	1, 2	204,004,000	51.0%
Thousand Riches Limited	Beneficial owner	1	30,716,000	7.7%
Shum Yip Holdings Company Limited	Beneficial owner		39,576,000	9.9%
Tanrich Finance Limited	Person having a security interest in shares	2, 3	204,004,000	51.0%

Notes:

1. Zhong Da (BVI) Limited and Thousand Riches Limited are beneficially owned as to 57.22% and 42.78% by Mr. Xu Lian Guo and Mr. Xu Lian Kuan respectively.

2. A charge of the 204,000,000 shares has been created by Zhong Da (BVI) Limited in favour of Tanrich Finance Limited, a wholly-owned subsidiary of Tanrich Financial Holdings Limited, for a short-term financing loan.

3. By virtue of the interests in the 204,000,000 shares in relation to which Mr. Yip Man Fan has a duty of disclosure under the SFO in the issued share capital of the Company as disclosed in note (2) above, Mr. Yip is taken to have a duty of disclosure in relation to the such shares under the SFO.

Save as disclosed, as at 31 December 2006, according to the records required to be kept by the Company under section 336 of the SFO, there was no person (except for directors and chief executives of the Company) who had any interest or short positions in the shares or underlying shares of the Company.

EMPLOYEE REMUNERATION POLICIES

As at 31 December 2006, the Group employed a total of 1,200 (2005: 912) full time employees.

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

CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in the Appendix 14 of the Listing Rules during the year ended 31 December 2006. A Corporate Governance report for the financial year ended 31 December 2006 is prepared in accordance with Appendix 15 of the Listing Rules and set out on pages 19 to 23.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE

The Company established an audit committee with terms of reference in compliance with the CG Code. The primary duties of the audit committee are to review and supervise the financial reporting process and the internal control system of the Group. The audit committee has reviewed the Group's annual results for the year ended 31 December 2006 in conjunction with the Company's external auditors. The audit committee has three members comprising the three independent non-executive directors, namely Mr. Sun Ka Ziang Henry, Mr. Gu Yao Tian and Mr. Li Xin Zhong. Mr. Sun Ka Ziang Henry is the chairman of the audit committee.

REMUNERATION COMMITTEE

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2006, the aggregate amount of turnover and purchases attributable to the Group's five largest customers and suppliers respectively represented less than 30% of the Group's total turnover and purchases.

BORROWINGS

Details of the Group's borrowings as at 31 December 2006 are set out in note 30 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION

Neither the Company nor its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2006.

PUBLIC FLOAT

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

AUDITORS

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

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

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

On behalf of the Board

Xu Lian Guo
Chairman

Hong Kong, 27 April 2007

Corporate Governance

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

CORPORATE GOVERNANCE PRACTICES

The Code on Corporate Governance Practices ("the Code") in Appendix 14 to the Listing Rules has become effective on 1 January 2005. The Company has complied with the code provisions set out in the Code for the year ended 31 December 2006, except for deviations as below:

(a) Rule C.2.1: The Company has engaged an independent auditor (the "Independent Auditor") of the Group which cover all material controls, including financial, operational and compliance controls as well as risk management functions.

(b) Rule E.1.2: The Chairman of the Board did not attend the annual general meeting of the Company held on 22 September 2006 because of another business engagement. The directors present thereat conducted the meeting in a duly constituted and proper manner.

DIRECTORS' SECURITIES TRANSACTIONS

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

Having made specific enquiry with all Directors, each of whom has confirmed compliance with the required standard set out in the Code of Conduct throughout the year ended 31 December 2006.

BOARD OF DIRECTORS

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

Executive Directors

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

Independent Non-executive Directors

Mr Gu Yao Tian
Mr Sun Ka Ziang Henry*
Mr Li Xi Zhong

Corporate Governance

During the year ended 31 December 2006, the Board held 4 meetings:-

Directors	Meetings Attended
Xu Lian Guo	4/4
Xu Lian Kuan	4/4
Zhang Yuqing	4/4
Kwok Ming Fai[#]	1/4
Gu Yao Tian	3/4
Li Xin Zhong	3/4
Sun Ka Ziang Henry*	0/4
Chan Wai Dune[§]	4/4

Notes:

[#] Appointed as an independent non-executive director on 22 September 2006 and subsequently redesignated as executive director on 9 November 2006.

* Appointed as an independent non-executive director on 9 November 2006.

[§] Resigned as an independent non-executive director on 22 September 2006.

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

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

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

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

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

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

NON-EXECUTIVE DIRECTORS

As at 31 December 2006, all the existing INEDs, Mr. Gu Yao Tian, Mr. Sun Ka Ziang Henry and Mr. Li Xin Zhong, were appointed with specific term and they are subject to retirement and rotation in accordance with the bye-laws of the Company.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company has been established with terms of reference on no less exacting than the required standard as set out in the code provisions of the Code. The Remuneration Committee held one meeting in 2006 which was attended by all members for reviewing the policies on the remuneration of the executive directors of the Company.

AUDITORS' REMUNERATION

The amounts paid to the external auditors of the Group for the year ended 31 December 2006 in respect of the services provided to the Group as follows:

	2006 RMB'000
Audit services	928
Advisory services	–

AUDIT COMMITTEE

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

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

Members	Meetings Attended
Chan Wai Dune[1]	4/4
Gu Yao Tian	4/4
Li Xin Zhong	4/4

Notes:

1. Mr Chan Wai Dune resigned as independent non-executive director on 22 September 2006.

2. All meetings in 2006 were held prior to the appointment of Mr. Kwok Ming Fai and Mr. Sun Ka Ziang Henry as the then independent non-executive directors of the Company respectively.

During the meetings, the Audit Committee had considered, reviewed and discussed the auditing and financial reporting matters of the Group in regard to the final results of the Group for the year ended 31 December 2005 and the interim results of the Group for the six months ended 30 June 2006. The Audit Committee had further reviewed the engagement of the external auditors and the engagement of the Independent Auditor, details of which are disclosed in the section headed "Internal Controls" below.

INTERNAL CONTROLS

The Group has had since 2004 implemented an internal control system with a comprehensive set of guidelines for all operational staff of the Group at our headquarters in Yancheng, the PRC. The purpose of the guidelines is to support the operational staff in discharging their daily duties and responsibilities at a satisfactory level in regard to the rules and regulations in Hong Kong, especially to the Listing Rules aspects and the connected relationships among the Group in its normal course of business. The Group has been continuously monitoring the due compliance with the guidelines and that regular reportings on the connected transactions conducted by the Group are made to the Board quarterly and to the Audit Committee half-yearly respectively.

An independent auditor (the "Independent Auditor") has been engaged by the Company in 2006 to review the effectiveness of internal control system of the Group which cover all material controls, including financial, operational and compliance controls as well as risk management functions. The Independent Auditor has performed review of the internal control system of the Group for the year ended 31 December 2006 and the relevant review report has been submitted to the Audit Committee for review and consideration in April 2007. Effectiveness of the internal control system of the Group for the year ended 31 December 2006 has also been reviewed by the Audit Committee in April 2007. As such, the Board considers that the Group's internal control system has been implemented at a sufficient level.

DIRECTORS' RESPONSIBILITY FOR PREPARING ACCOUNTS

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Group for the year ended 31 December 2006 and ensure that such financial statements are prepared in accordance with statutory requirements and applicable accounting standards.

AUDITORS' REPORTING RESPONSIBILITIES

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

Independent Auditor's Report

信永中和 ShineWing

SHINEWING (HK) CPA Limited
20/F., Shui On Centre
6-8 Harbour Road, Hong Kong

TO THE SHAREHOLDERS OF ZHONGDA INTERNATIONAL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Zhongda International Holdings Limited (the "Company") and its subsidiaries (collectively referred as the "Group") set out on pages 26 to 75, which comprise the consolidated balance sheet as at 31 December 2006, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

AUDITOR'S RESPONSIBILITY (Continued)

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

Hong Kong
27 April 2007

Consolidated Income Statement

For the year ended 31 December 2006

	Notes	**2006 RMB'000**	2005 RMB'000
Turnover	6	**190,736**	177,313
Cost of sales		**(129,923)**	(113,360)
Gross profit		**60,813**	63,953
Other revenue	8	**15,202**	4,364
Selling and distribution expenses		**(16,716)**	(16,906)
Administrative expenses		**(29,850)**	(66,575)
Other operating expenses		**(6,718)**	(2,352)
Loss on deemed disposal of a subsidiary	36	**–**	(7,990)
Finance costs	9	**(9,229)**	(7,029)
Profit/(loss) before taxation	10	**13,502**	(32,535)
Taxation	13	**(604)**	3,157
Profit/(loss) profit for the year		**12,898**	(29,378)
Attributable to:			
Equity holders of the Company		**15,317**	(25,703)
Minority interests		**(2,419)**	(3,675)
		12,898	(29,378)
Dividends	14	**–**	–
Earnings/(loss) per share	15	**RMB**	RMB
– Basic		**3.83 cents**	(6.43) cents
– Diluted		**N/A**	N/A

Consolidated Balance Sheet

As at 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
Non-current assets			
Property, plant and equipment and construction-in-progress	16	**116,270**	122,973
Prepaid lease payments on land use rights	17	**58,523**	53,199
Prepayment for an investment in an associate	18	**1,087**	1,087
Available-for-sale investments	19	**900**	900
Deferred tax assets	20	**15,620**	16,224
		192,400	194,383
Current assets			
Prepaid lease payments on land use rights	17	**1,275**	772
Financial asset at fair value through profit or loss	21	**200**	–
Inventories	22	**27,812**	36,455
Trade and bills receivables	24	**138,065**	101,552
Prepayments and other receivables		**19,198**	9,159
Amounts due from related companies	25	**27,198**	14,676
Restricted bank balances	26	**3,000**	–
Bank balances and cash		**17,695**	4,566
		234,443	167,180
Current liabilities			
Trade and bills payables	27	**23,738**	33,526
Advance receipt from customers		**7,426**	2,373
Other payables and accruals		**46,691**	40,963
Amounts due to related companies	28	**1,048**	406
Amounts due to directors	28	**6,178**	4,584
Tax payable		**14,148**	14,284
Bank borrowings – due within one year	30	**142,500**	77,430
		241,729	173,566
Net current liabilities		**(7,286)**	(6,386)
Total assets less current liabilities		**185,114**	187,997
Non-current liabilities			
Loan from an ultimate holding company	29	**12,000**	–
Bank borrowings – due after one year	30	**–**	27,070
		173,114	160,927

Consolidated Balance Sheet

As at 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
Capital and reserves			
Share capital	31	**42,386**	42,386
Reserves		**114,717**	100,111
Equity attributable to equity holders of the the Company		**157,103**	142,497
Minority interests		**16,011**	18,430
		173,114	160,927

The consolidated financial statements on pages 26 to 75 were approved and authorised for issue by the Board of Directors on 27 April 2007 and are signed on its behalf by:

Xu Lian Guo
Chairman

Zhang Yuqing
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Attributable to equity holders of the Company								
	Share capital	Share premium	Reserve fund	Enterprise expansion fund	Exchange translation reserve	Accumulated 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
At 1 January 2005	42,386	17,073	2,720	2,720	(25)	103,742	168,616	24,856	193,472
Exchange difference arising on translation of the financial statements of foreign companies of the Group	–	–	–	–	(416)	–	(416)	–	(416)
Deemed disposal of a subsidiary (note 36)	–	–	–	–	–	–	–	(2,751)	(2,751)
Loss for the year	–	–	–	–	–	(25,703)	(25,703)	(3,675)	(29,378)
At 31 December 2005 and 1 January 2006	**42,386**	**17,073**	**2,720**	**2,720**	**(441)**	**78,039**	**142,497**	**18,430**	**160,927**
Exchange difference arising on translation of the financial statements of foreign companies of the Group	**-**	**-**	**-**	**-**	**(711)**	**-**	**(711)**	**-**	**(711)**
Profit/(loss) for the year	**-**	**-**	**-**	**-**	**-**	**15,317**	**15,317**	**(2,419)**	**12,898**
At 31 December 2006	**42,386**	**17,073**	**2,720**	**2,720**	**(1,152)**	**93,356**	**157,103**	**16,011**	**173,114**

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 net 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 those for which they are created and are not distributable as cash dividends.

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	2006 RMB'000	2005 RMB'000
Operating activities		
Profit/(loss) before taxation	**13,502**	(32,535)
Adjustments for:		
Interest income	**(1,135)**	(590)
Finance costs	**9,229**	7,029
Loss on deemed disposal of a subsidiary (note 36)	**–**	7,990
Depreciation on property, plant and equipment	**4,213**	3,194
Gain on disposal of property, plant and equipment	**(138)**	(80)
Amortisation on prepaid lease payments on land use rights	**911**	350
(Written back of allowance)/allowance for inventories	**(4,694)**	7,378
Written back of allowance for bad and doubtful debts	**(3,671)**	–
Allowance for bad and doubtful debts	**5,388**	15,926
Write-off of bad debts	**–**	16,498
Operating cash flows before movements in working capital	**23,605**	25,160
Decrease in inventories	**13,337**	1,879
Increase in trade and bills receivables	**(38,230)**	(31,211)
(Increase)/decrease in prepayments and other receivables	**(10,039)**	7,243
Increase in amounts due from related companies	**(12,522)**	(4,296)
(Decrease)/increase in trade and bills payables	**(9,788)**	6,333
Increase/(decrease) in advance receipt from customers	**5,053**	(9,058)
Increase in other payables and accruals	**5,592**	10,610
Increase/(decrease) in amounts due to related companies	**642**	(8,147)
Increase in amounts due to directors	**1,594**	3,054
Net cash (used in)/from operating activities	**(20,756)**	1,567

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	2006 RMB'000	2005 RMB'000
Investing activities		
Purchase of property, plant and equipment and expenditure on construction-in-progress	**(6,422)**	(10,835)
Purchase of land use rights	**–**	(38,170)
Proceeds from disposal of property, plant and equipment	**2,312**	526
Interest received	**1,135**	590
Increase in prepayment for investment in an associate	**–**	(1,087)
Increase in restricted bank balances	**(3,000)**	–
Cash outflow from deemed disposal of a subsidiary (note 36(c))	**–**	(3,410)
Acquisition of financial asset at fair value through profit or loss	**(200)**	–
Net cash used in investing activities	**(6,175)**	(52,386)
Financing activities		
Repayment of bank borrowings	**(43,430)**	(133,750)
New bank loans raised	**81,430**	164,750
Interest paid	**(9,229)**	(7,029)
Advance from an ultimate holding company	**12,000**	–
Net cash generated from financing activities	**40,771**	23,971
Net increase/(decrease) in cash and cash equivalents	**13,840**	(26,848)
Cash and cash equivalents at beginning of the year	**4,566**	31,830
Effect of foreign exchange rate changes	**(711)**	(416)
Cash and cash equivalents at end of the year	**17,695**	4,566
Analysis of the balances of cash and cash equivalents at end of the year,		
Bank balances and cash	**17,695**	4,566

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

1. GENERAL AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

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

The principal activities of the Group are the development, manufacture and sales of automobile equipment and buses and provision of industrial surface treatment engineering equipment. The activities of its subsidiaries are set out in note 39.

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

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

(a) the ultimate holding company and a controlling shareholder of the Group have agreed to provide adequate financial support to the Group to enable it to meet in full all its financial obligations as they fall due in the foreseeable future;

(b) the directors are in the process of securing the ongoing support of the Group's major banker and new bank loans of approximately RMB30 million have been raised subsequent to the balance sheet date;

(c) the directors anticipate that the Group will generate positive cash flows from its business in the coming year; and

(d) the directors are considering various alternatives to strengthen the capital base of the Company through various fund raising exercise including but not limited to private placements.

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

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

3. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below. The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance.

Basis of consolidation

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

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

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

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

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

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Revenue recognition

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

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

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

When the outcome of a construction contract can be estimated reliably, revenue from cost plus contracts is recognised by reference to the recoverable costs incurred during the period plus the fee earned, measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

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

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

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

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an qualifying asset are capitalised as part of the cost of that asset. Capitalisation of such borrowing costs ceases when the asset is substantially ready for its intended use or sale.

All other borrowing costs are charged to the consolidated income statement in the year in which they are incurred.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Leasing

The Group as lessor

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

The Group as lessee

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

Financial instruments

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

Financial assets

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

Financial assets at fair value through profit or loss

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

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and bills receivables, other receivables and amounts due from related companies) are carried at amortised cost using the effective interest method, less any identified impairment losses. Impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, and loans and receivables. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in profit or loss in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. Impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not be reversed in subsequent years.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are classified as other financial liabilities. The accounting policies adopted in respect of other financial liabilities and equity instruments are set out below.

Other financial liabilities

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

Equity instruments

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

Derecognition

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

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Property, plant and equipment

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

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

Construction-in-progress represents buildings in the course of construction for production and for its own administrative purposes is carried at cost less any identified impairment loss, and is not depreciated. Construction-in-progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are completed and ready for their intended use.

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

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as revaluation decrease under that standard.

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

Inventories

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

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Construction contracts

When the outcome of a construction contract can be estimated reliably, contract costs are charged to the consolidated income statement by reference to the percentage of completion of the contract activity at the balance sheet date, as measured by the value of work carried out during the year.

When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the year in which they are incurred.

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

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

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefit plan are charged as expense when employees have rendered service entitling them to the contributions.

Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

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

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

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

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

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

Foreign currencies

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

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

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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

Provision

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 3 above, management has made the following judgements that have significant effect on the amounts recognised in the consolidated financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Depreciation of property, plant and equipment

The Group's net book value of property, plant and equipment (excluding construction-in-progress) as at 31 December 2006 was approximately RMB71,668,000. The Group depreciates the property, plant and equipment on a straight-line basis over the estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, at the rate of 3.33% to 50% per annum, commencing from the date the property, plant and equipment when they are available for use. The estimated useful lives that the Group places the property, plant and equipment into productive use reflects the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's property, plant and equipment.

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

Allowance for bad and doubtful debts

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

Allowance for inventories

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

Impairment of property, plant and equipment

The impairment loss for property, plant and equipment is recognised for the amounts by which the carrying amounts exceeds its recoverable amount, in accordance with the Group's accounting policy. The recoverable amounts have been determined based on value-in-use calculations. The recoverable amounts have been determined based on value-in-use calculations. These calculations require the use of estimates such as the future revenue and discount rates. No impairment was provided during the year.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and bills receivables, other receivables, trade and bills payables, other payables and accruals, advance receipt from customers, amounts due from/to related companies/ directors, loan from an ultimate holding company and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Currency risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. It did not have significant exposure to foreign exchange risk. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Interest rate risk

The Group is exposed to interest rate risk through the impact of the Group's cash flows in respect of rate changes on variable interest bearing bank borrowings. The interest rates and terms of repayment of bank borrowings of the Group are disclosed in note 30.

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

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

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

(a) the ultimate holding company and a controlling shareholder, the Group have agreed to provide adequate financial support to the Group to enable it to meet in full all its financial obligations as they fall due in the foreseeable future;

(b) the directors are in the process of securing the ongoing support of the Group's major banker and new bank loans of approximately RMB30 million have been raised subsequent to the balance sheet date;

(c) the directors anticipate that the Group will generate positive cash flows from its business in the coming year; and

(d) the directors are considering various alternatives strengthen the capital base of the Company through various fund raising exercise including but not limited to private placements.

The Group's exposure to liquidity risk is minimal.

6. TURNOVER

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

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

7. SEGMENT INFORMATION

(a) Business segments

For management purposes, the Group is currently organised into two operating divisions – automobile equipment and bus. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Automobile equipment	–	manufacture and sales of automobile equipment
Bus	–	manufacture and sales of buses

Segment information about these businesses is presented below:

For the year ended 31 December

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

7. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

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

7. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

As at 31 December

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

(b) Geographical segments

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

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

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

8. OTHER REVENUE

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

9. FINANCE COSTS

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

10. PROFIT/(LOSS) BEFORE TAXATION

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

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

11. DIRECTORS' EMOLUMENTS

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

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

11. DIRECTORS' EMOLUMENTS (Continued)

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

11. DIRECTORS' EMOLUMENTS (Continued)

	Directors' fees RMB'000	Basic salaries, allowance and benefits in kind RMB'000	Retirement Benefit Scheme contributions RMB'000	Total RMB'000
Xu Lian Guo	1,000	96	–	1,096
Xu Lian Kuan	500	96	–	596
Zhang Yuqing	500	130	–	630
Gu Yao Tian	104	–	–	104
Chan Wai Dune	166	–	–	166
Li Xin Zhong	104	–	–	104
Total for 2005	2,374	322	–	2,696

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

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

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

12. EMPLOYEES' EMOLUMENTS

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

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

Their emoluments fall within the following band:

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

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

13. TAXATION

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

No Hong Kong Profits Tax for both years has been provided for in the consolidated financial statements as the Group has no assessable profits in Hong Kong.

The Company's subsidiaries established in the PRC are subject to Enterprise Income Tax ("EIT") at a rate of 24% and are subject to the benefit of full exemption from EIT for 2 years starting from the first profitable year followed by a 50% of deduction for the next 3 years. Certain of these subsidiaries are still enjoying a 50% deduction in EIT rate under the benefit.

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

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

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

14. DIVIDENDS

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

15. EARNINGS/(LOSS) PER SHARE

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

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

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

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture and equipment RMB'000	Construction-in-progress RMB'000	Total RMB'000
COST							
At 1 January 2005	94,965	501	24,402	4,189	1,578	78,469	204,104
Deemed disposal of a subsidiary	(57,354)	–	(12,226)	(2,635)	(425)	(176)	(72,816)
Additions	928	–	61	3,579	117	6,150	10,835
Transfer from construction-in-progress	–	–	344	–	–	(344)	–
Disposals	(258)	–	–	(448)	–	–	(706)
At 31 December 2005 and 1 January 2006	**38,281**	**501**	**12,581**	**4,685**	**1,270**	**84,099**	**141,417**
Additions	**–**	**–**	**390**	**2,203**	**830**	**2,999**	**6,422**
Transfer from construction-in-progress	**35,740**	**–**	**17**	**–**	**–**	**(35,757)**	**–**
Reclassification (note 17)	**–**	**–**	**–**	**–**	**–**	**(6,738)**	**(6,738)**
Disposals	**–**	**–**	**–**	**(2,247)**	**(39)**	**(1)**	**(2,287)**
At 31 December 2006	**74,021**	**501**	**12,988**	**4,641**	**2,061**	**44,602**	**138,814**

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

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture and equipment RMB'000	Construction-in-progress RMB'000	Total RMB'000
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
At 1 January 2005	9,779	501	13,197	1,587	718	–	25,782
Deemed disposal of a subsidiary	(2,131)	–	(6,898)	(1,006)	(237)	–	(10,272)
Charge for the year	1,634	–	1,060	359	141	–	3,194
Written back on disposals	(258)	–	–	(2)	–	–	(260)
At 31 December 2005 and 1 January 2006	**9,024**	**501**	**7,359**	**938**	**622**	**-**	**18,444**
Charge for the year	**2,401**	**-**	**852**	**851**	**109**	**-**	**4,213**
Written back on disposals	**-**	**-**	**-**	**(113)**	**-**	**-**	**(113)**
At 31 December 2006	**11,425**	**501**	**8,221**	**1,676**	**731**	**-**	**22,544**
NET CARRYING VALUES							
At 31 December 2006	**62,596**	**-**	**4,777**	**2,965**	**1,330**	**44,602**	**116,270**
At 31 December 2005	29,257	–	5,222	3,747	648	84,099	122,973

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

Property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

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

17. PREPAID LEASE PAYMENTS ON LAND USE RIGHTS

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

18. PREPAYMENT FOR AN INVESTMENT IN AN ASSOCIATE

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

19. AVAILABLE-FOR-SALE INVESTMENTS

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

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

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

20. DEFERRED TAX ASSETS

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

	Allowance for bad and doubtful debts RMB'000	Allowance for inventories RMB'000	Others RMB'000	Total RMB'000
At 1 January 2005	11,068	1,124	(511)	11,681
Credited to the consolidated income statement				
– as originally stated	4,193	446	–	4,639
– effect of adoption of HKAS 17	–	–	(96)	(96)
– as restated *(note 13)*	4,193	446	(96)	4,543
At 31 December 2005 and 1 January 2006	**15,261**	**1,570**	**(607)**	**16,224**
Charged to the consolidated income statement *(note 13)*	**283**	**–**	**(887)**	**(604)**
At 31 December 2006	**15,544**	**1,570**	**(1,494)**	**15,620**

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

21. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

22. INVENTORIES

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

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

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

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

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

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

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

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

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24. TRADE AND BILLS RECEIVABLES

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

Included in trade receivables was an amount of nil (2005: RMB5,780,000) due from Yancheng Zhongwei Bus Manufacturing Co., Limited in which Xu Lian Kuan and Zhang Yuqing are the common directors.

Trade receivables, which have credit terms pursuant to the provisions of the relevant contracts, are recognised and carried at invoiced amount. Apart from the amounts withheld by customers according to the terms of contracts pending the satisfactory performance of the equipment sold, the Group generally allows a credit period to its customers ranging from three to six months.

An ageing analysis of trade receivables net of allowance for bad and doubtful debts is as follows:

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

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

25. AMOUNTS DUE FROM RELATED COMPANIES

Amounts due from related companies (as detailed in note 32) disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

	2006 RMB'000	2005 RMB'000	**Maximum amounts owed to the Group during the year RMB'000**
Yancheng Zhongwei Bus Manufacturing Co., Ltd. ("Zhongwei Bus")[1]	**9,310**	2,504	**9,310**
Yancheng Zonda Automobile Service Co., Ltd.[2]	**217**	45	**217**
Yancheng Zonda Steel Structure Engineering Co., Ltd.[3]	**145**	145	**145**
Zhongda Industrial Group Corporation[4]	**4,858**	8,863	**8,863**
Jiangsu Jinling Transportation Group Co., Ltd.[5]	**–**	3,119	**3,119**
南京金陵雙層客車製造廠[6]	**11,315**	–	**11,315**
Yancheng Celette Body Repairing Equipment Co., Ltd.[7]	**1,051**	–	**1,051**
Yancheng Zhongda Sankyo Automobile Equipment Co. Ltd.[8]	**2**	–	**2**
Sichuan Zhongda Emei Coach Manufacturing Ltd.[9]	**300**	–	**300**
	27,198	14,676	

1 Xu Lian Kuan and Zhang Yuqing are the common directors.

2 It is a subsidiary of Zhongda Industrial Group Corporation.

3 Xu Lian Guo is the common director.

4 Xu Lian Guo, Xu Lian Kuan and Zhang Yuqing are the common directors.

5 It is a shareholder of a subsidiary of the Company.

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

7 It is a subsidiary of Zhongda Industrial Group Corporation.

8 It is an associate of Zhongda Industrial Group Corporation.

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

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

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

26. RESTRICITED BANK BALANCES

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

27. TRADE AND BILLS PAYABLES

An ageing analysis of trade payables is as follows:

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

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

28. AMOUNTS DUE TO RELATED COMPANIES/DIRECTORS

The amounts are unsecured, interest-free and repayable on demand. The fair values of the Group's amounts due to related companies/directors at the balance sheet date approximate to the corresponding carrying amounts due to short-term maturities.

29. LOAN FROM AN ULTIMATE HOLDING COMPANY

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

30. BORROWINGS

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

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

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

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

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

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

31. SHARE CAPITAL

	2006 and 2005		
	Number of shares	HK$	Equivalent to RMB'000
Authorised:			
Ordinary shares of HK$0.1 each	**1,000,000,000**	**100,000,000**	
Issued and fully paid:			
Ordinary shares of HK$0.1 each	**400,004,000**	**40,000,400**	**42,386**

There was no movement in both authorised share capital and share capital issued and fully paid during the two years ended 31 December 2006 and 2005.

In 2005, the Company had outstanding warrants in issue which allow the holders to subscribe up to a total of 49,996,000 ordinary shares in the Company at an exercise price of HK$0.675 each, subject to adjustment, at any time on or after 1 November 2001 until 31 October 2006.

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

The Company has a share option scheme ("the Scheme"), under which the directors may, at their discretion, invite any executive and/or employee of the Company and/or its subsidiaries to take up options to subscribe for shares of the Company. The exercise price is determined by the directors and will at least be the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which shall be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant, and (iii) the par value of the shares. No share options were granted to directors or employees since adoption of the Scheme.

32. RELATED PARTY TRANSACTIONS

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

	2006 **RMB'000**	2005 RMB'000
Transactions with Zhongda Industrial Group Corporation:		
– Service fee expenses (a)	**750**	750
– Patent fee expense (b)	**200**	200
– Trademark fee expense (c)	**150**	150
– Rental expense for office premises (d)	**100**	100
Transactions with Yancheng Celette Body Repairing Equipment Co., Ltd. ("Yancheng Celette")[1]:		
– Purchases of products (e)	**8,514**	8,380
– Sales of products and raw materials (f)	**963**	1,524
Transactions with Zhongwei Bus:		
– Sales of products and raw materials (e & f)	**329**	24
– Rental income for land (g)	**996**	996
Transactions with Jiangsu Jinling Transportation Group Co., Ltd:		
– Rental income for property, plant and equipment (h)	**800**	800

[1] Xu Lian Kuan is the common director

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

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

32. RELATED PARTY TRANSACTIONS (Continued)

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

(a) Pursuant to an integrated services agreement dated 31 August 2001, the annual fee for integrated services provided by Zhongda Industrial Group Corporation to the Group is RMB750,000, determined on the basis of the relevant fee fixed by the National Price Bureau, or market price if there is no applicable fee set by the National Price Bureau for any such services. The agreement is for a term of ten years commenced on 31 August 2001.

(b) Pursuant to a patent agreement dated 31 August 2001, Zhongda Industrial Group Corporation and one of the directors of the Company granted to the Group an exclusive right to use certain patents at an annual fee of RMB200,000 for periods commencing 31 August 2001 to expiry of the patent certificate of the relevant patents.

(c) Pursuant to a trademark agreement dated 31 August 2001, Zhongda Industrial Group Corporation granted to the Group an exclusive right to use certain trademarks at an annual fee of RMB150,000. The agreement is for a term of ten years commencing 31 August 2001.

(d) Pursuant to an office license agreement dated 30 May 2006, the rental of office premises is charged at a rate of RMB100,000 per annum for a period of five years commencing 1 June 2006.

(e) Purchases from Yancheng Celette and sales to Zhongwei Bus were at the prevailing market price.

(f) The prices were determined based on the actual cost of production plus a profit margin of approximately zero to 5 per cent in respect of sales of raw materials to Yancheng Celette and Zhongwei Bus.

(g) Pursuant to a rental agreement, the rental of land is charged at RMB83,000 per month for a period of three years commenced on 12 July 2004.

(h) Pursuant to a rental agreement, the rental of equipment and machinery is charged at RMB800,000 per annum commenced on 1 January 2005.

32. RELATED PARTY TRANSACTIONS (Continued)

In the opinion of the directors including independent non-executive directors of the Group, the above related party transactions were (i) entered into by the Group in the ordinary and normal course of its business; (ii) on normal commercial terms or on terms that are fair and reasonable so far as the shareholders of the Group are concerned; (iii) in accordance with the terms of the agreements governing such transactions or on terms no less favourable than terms available to third parties; and (iv) within the relevant cap as specified by the Stock Exchange.

Details of key management personnel compensations are set out in note 11.

33. COMMITMENTS

At the balance sheet date, the Group had the commitments as follows:-

(a) Capital commitments in respect of acquisition of machinery and equipment and construction of buildings:

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

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

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

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases and rentals are negotiated and fixed for an average of four years (2005: four years).

33. COMMITMENTS (Continued)

(c) Operating lease commitment for future minimum lease receipts contracted with tenants under non-cancellable operating lease in respect of land use rights, plant and machinery which fall due as follows:

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

Operating lease receipts represent rental receivable by the Group for leasing its land use rights. Leases and rentals are negotiated and fixed for an average of three years (2005: three years).

34. CONTINGENT LIABILITIES

At the balance sheet date, the Group had contingent liabilities so far as not provided for in the consolidated financial statements in respect of the unpaid capital contribution of the deemed disposal of a subsidiary amounting to approximately RMB11,000,000 and 5% of the total registered capital of the deemed disposal of a subsidiary approximately RMB1,122,500 according to the joint venture contract. Pursuant to the settlement of the writ of summons sanctioned by the Chengdu Intermediate People's Court of the PRC as detailed in note 37(b), the joint venture contract was rescinded and cancelled.

35. RETIREMENT BENEFITS

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

The Group operates a Mandatory Provident Fund Scheme (the "Scheme") for all qualifying employees in Hong Kong, the assets of which are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs subject to a monthly limit of HK$1,000 for each employee, to the Scheme, which contribution is matched by employees.

The total cost charged to the consolidated income statement of approximately RMB2,369,000 (2005: RMB2,761,000) represents contributions payable to the retirement schemes by the Group.

36. DEEMED DISPOSAL OF A SUBSIDIARY

Details of the Group's deemed disposal of a subsidiary in 2005 are as follows:

Name of subsidiary	Place of incorporation and operations	Class of equity held	Registered capital	Effective percentage of equity interests/voting rights indirectly held by the Company	Principal activities
Sichuan Zhongda Emei Coach Manufacturing Ltd.	PRC	Registered capital	RMB22,450,000	71%	Manufacturing and sales of buses

Sichuan Zhongda Emei Coach Manufacturing Ltd. was originally acquired on 15 December 2004 with an investment cost and paid-up capital of RMB16,000,000 and RMB5,000,000 respectively. In 2005, the Group's control over the subsidiary had been lost. As a result, the Group has recognised a loss on deemed disposal of the subsidiary amounting to approximately RMB7,990,000 including a profit of RMB2,990,000 recognised in 2004.

36. DEEMED DISPOSAL OF A SUBSIDIARY (Continued)

On 1 January 2005, deemed disposal of the net assets and the net cash outflow arising on deemed disposal of a subsidiary are as follows:

	2005 RMB'000
Deemed disposal of net assets:	
Goodwill	12,254
Property, plant and equipment and construction-in-process	62,544
Prepaid lease payments on land use rights	18,761
Available-for-sale investments	201
Inventories	9,385
Trade receivables	4,269
Prepayments and other receivables	1,486
Bank balances and cash	3,410
Trade payables	(25,598)
Advance receipt from customers	(1,567)
Other payables and accruals	(34,653)
Tax payable	(541)
Bank borrowings	(39,210)
Minority interests	(2,751)
Loss on deemed disposal of a subsidiary	7,990
Net cash outflow arising on deemed disposal:	
Bank balances and cash	3,410

37. POST BALANCE SHEET EVENTS

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

37. POST BALANCE SHEET EVENTS (Continued)

(b) Pursuant to a settlement of the writ of summons sanctioned by the Chengdu Intermediate People's Court of the PRC on 5 March 2007, Sichuan Bus Manufacturing Limited ("Sichuan Bus") and ZIAI agreed that the joint venture contract was rescinded and cancelled (the "Settlement"). As a result of the Settlement, on 5 March 2007, the shareholders of Sichuan Bus and ZIAI entered into an agreement (the "Settlement Agreement") for, inter alia, the rescission of the joint venture contract and that the sum of RMB5.3 million contributed by ZIAI shall be repayable thereto but subject to the relevant government approval of the dissolution of the joint venture.

(c) According to an announcement dated 17 April 2007, the Company entered into a placing agreement with 3V Capital Limited (the "Placing Agent") in relation to the placing of the placing shares. Pursuant to the placing agreement, the Company has conditionally agreed to place, through the Placing Agent on a best endeavor basis, 80,000,000 placing shares at a placing price of HK$0.82 per placing share. The placing shares represent about 20.0% of the existing issued share capital of the Company and about 16.7% of the issued share capital of the Company as enlarged by the placing shares respectively. The gross proceeds from the placing will be approximately HK$65.6 million and the net proceeds from the placing will be approximately HK$62 million which will be applied for the general working capital requirement and the Group for its existing businesses and any future potential investments.

38. SUMMARISED BALANCE SHEET OF THE COMPANY

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

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39. SUBSIDIARIES

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

Name of subsidiary	Place of incorporation/ operation	Class of shares held	Registered and fully paid capital	Issued and fully paid share capital	Effective percentage of equity interest/ voting rights held by the Group	Principal activities
Held directly by the Company						
Zhong Da (BVI) Investments Limited	British Virgin Islands/ Hong Kong	Ordinary	–	US$1,175	100%	Investment holding
Held indirectly by the Company						
Zhong Da International Limited	Hong Kong	Ordinary,	–	HK$2	100%	Investment holding
		Deferred and non-voting		HK$9,998		
Zhongda International Automobile Assets Group Ltd.	British Virgin Islands/ Hong Kong	Ordinary	–	US$10	100%	Investment holding
Zhongda International Automobile Industrial Ltd	British Virgin Islands/ Hong Kong	Ordinary	–	US$10	100%	Investment holding
Zhongda Group (USA) Inc.	USA	Ordinary	–	US$100,000	100%	Trading and procurement
Ausen Group, Inc.	USA	–	–	US$50,000	100%	Inactive
Zhongda Automobile Machinery Manufacture Co., Ltd.	PRC	Contributed capital	RMB34,327,500	–	86.7%	Manufacture and sale of automobile equipment
Zhongda Group (Europe) GmbH	The Federal Republic of Germany	–	–	EUR30,000	100%	Inactive
Yancheng Dasheng Automotive Equipment Co., Ltd.**	PRC	Contributed capital	US$500,000	–	43.4%	Manufacture and sale of automobile equipment
Jiangzu Zhongda Industrial Painting and Environmental Protection Co., Ltd.	PRC	Contributed capital	RMB5,600,000	–	90.0%	Design, production, installation and sale of surface treatment systems

39. SUBSIDIARIES (Continued)

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

Name of subsidiary	Place of incorporation/ operation	Class of shares held	Registered and fully paid capital	Issued and fully paid share capital	Effective percentage of equity interest/ voting rights held by the Group	Principal activities
Yancheung Yuntong Automobile Machinery Co., Ltd.	PRC	Contributed capital	RMB500,000	–	86.7%	Inactive
Yancheng Luhua Machinery Co., Ltd.	PRC	Contributed capital	RMB5,000,000	–	86.7%	Inactive
Yancheng Zhongda Industrial Equipment Manufacture Co., Ltd.	PRC	Contributed capital	US$1,515,500	–	96.0%	Manufacture and sale of automobile equipment
Nanjing Zhongda Jinling Double-Decker Bus Manufacture Co., Ltd.	PRC	Contributed capital	RMB21,170,000	–	60%	Manufacture and sale of bus
Yancheng Aoshen Industry Equipment Manufacturing Co., Ltd.	PRC	Contributed capital	RMB3,000,000	–	100%	Manufacture and sale of automobile equipment
Nanjing Zonda Zhentong Auto Maintenance Equipment Technical Service Co., Ltd.	PRC	Contributed capital	RMB500,000	–	100%	Sale of automobile equipment

** Zhongda Automobile Machinery Manufacture Co., Ltd. held 50% of the equity interests in Yancheng Dasheng Automotive Equipment Co., Ltd. ("Dasheng"). Dasheng is therefore accounted for as a subsidiary as the Group has control over Dasheng as to its operational and financial policies. As at 31 December 2006, the Group had 43.4% effective interests in Dasheng.

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

Financial Summary

RESULTS

	Year ended 31 December				
	2006	2005	2004	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(restated)	(restated)	(restated)
Turnover	**190,736**	177,313	217,706	227,515	173,431
Profit/(loss) before taxation	**13,502**	(32,535)	21,089	18,677	4,280
Taxation	**(604)**	3,157	(5,033)	(4,604)	691
Profit/(loss) for the year	**12,898**	(29,378)	16,056	14,073	4,971
Minority interests	**2,419**	3,675	(3,094)	(2,470)	(126)
Profit/(loss) profit attributable to equity holders of the Company	**15,317**	(25,703)	12,962	11,603	4,845

ASSETS AND LIABILITIES

	As at 31 December				
	2006	2005	2004	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(restated)	(restated)	(restated)
Total assets	**426,843**	361,563	460,499	318,859	262,770
Total liabilities	**(253,729)**	(200,636)	(267,027)	(146,914)	(104,861)
	173,114	160,927	193,472	171,945	157,909
Minority interests	**(16,011)**	(18,430)	(24,856)	(16,289)	(13,819)
Equity attributable to equity holders of the Company	**157,103**	142,497	168,616	155,656	144,090