

1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain investment properties are stated at fair value.

In the current year, the Group adopted the following Statements of Standard Accounting Practice (“SSAPs”) issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2001:

SSAP 9 (revised)	:	Events after the balance sheet date
SSAP 14 (revised)	:	Leases (effective for periods commencing on or after 1st July 2000)
SSAP 26	:	Segment reporting
SSAP 28	:	Provisions, contingent liabilities and contingent assets
SSAP 29	:	Intangible assets
SSAP 30	:	Business combinations
SSAP 31	:	Impairment of assets
SSAP 32	:	Consolidated financial statements and accounting for investments in subsidiaries

The effect of adopting these new/revised standards is set out in the accounting policies below.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries, with the exception of non-consolidated subsidiaries, made up to 31st December.

A subsidiary is a company in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital. A non-consolidated subsidiary is a subsidiary which operates under contractual restrictions which significantly impair control by the Company over that subsidiary but in which the Company exercises significant influence. The results of consolidated subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate. Non-consolidated subsidiaries are accounted for by the Group using the equity method of accounting.

1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

(b) Consolidation (cont'd)

The consolidated profit and loss account includes the Group's share of the results of non-consolidated subsidiaries for the year and the consolidated balance sheet includes the Group's share of net assets of the non-consolidated subsidiaries.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account and also any related accumulated exchange reserve.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated profit and loss account includes the Group's share of the results of a jointly controlled entity for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entity and goodwill (net of accumulated amortisation) on acquisition.

(d) Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies.

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

(d) Associated companies (cont'd)

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

(e) Fixed assets

(i) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods of greater than 20 years are valued at intervals of not more than three years by independent valuers; in each of the intervening years valuations are undertaken by professionally qualified executives of the Group. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuations are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised, if any, in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

(ii) Leasehold land and buildings/improvements

Leasehold land and buildings/improvements in Hong Kong and land use rights and buildings in Mainland China are stated at cost less subsequent accumulated depreciation and accumulated impairment losses. Depreciation or amortisation is calculated to write off the cost of the assets less accumulated impairment losses on a straight-line basis over the unexpired periods of the leases or their expected useful lives to the Group, whichever is shorter. The principal annual rate used for this purpose is 2%.

1 PRINCIPAL ACCOUNTING POLICIES (cont'd)**(e) Fixed assets** (cont'd)*(iii) Other tangible fixed assets*

Other tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation of other tangible fixed assets is calculated to write off their costs less accumulated impairment losses on a straight-line basis over their expected useful lives to the Group. The principal annual rates are as follows:

Plant and machinery	10%
Office equipment	20%
Motor vehicles	20%

(iv) Cost of restoring and improving fixed assets

The plant components are depreciated over the period to overhaul. Major costs incurred in restoring the plant components to its normal working condition to allow continued use of the overall asset are capitalized and depreciated over the period to the next overhaul.

Improvement are capitalized and depreciated over their expected useful lives to the Group.

(v) Impairment of fixed assets

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in properties and other fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

(vi) Gain or loss on disposal of fixed assets

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

(f) Goodwill/negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

Goodwill on acquisitions is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill on acquisition of a subsidiary is amortised over a period of 20 years. When an indication of impairment exists, the carrying amount of any goodwill is assessed and written down immediately to its recoverable amount.

(g) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(h) Long-term investments

Investments other than subsidiaries, associated companies and joint ventures, are shown as long-term investments. Long-term investments are stated at cost less provision for impairment losses.

(i) Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost or net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(j) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(k) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

(l) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

(m) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

(n) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(o) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The accounts of subsidiaries, jointly controlled entities and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves. Upon disposal of an overseas subsidiary, jointly controlled entity or associated company, the related cumulative exchange difference is recognised in the profit and loss account as part of the gain or loss on disposal.

1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

(p) Revenue recognition

Revenue in respect of the sale of motor vehicles and related equipment and parts, and other goods is recognised, net of value-added tax, on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Operating lease rental income is recognised on a straight-line basis.

Handling service charges for motor vehicles registration is recognised when the service is rendered.

(q) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(r) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash, and mainly exclude investments in securities. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to intangible assets (note 10) and fixed assets (note 11), including additions resulting from acquisition through the purchase of a subsidiary (note 25(c)).

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

(s) Dividends

In accordance with SSAP 9 (revised), the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This revised SSAP does not have any impact on the Group as no dividend was proposed or declared by the Group in 1999 and 2000.

2 TURNOVER, REVENUE AND SEGMENTAL INFORMATION

The Group is principally engaged in the manufacturing and trading of motor vehicles, motor vehicle related equipment and parts and audio equipment. Revenues recognised during the year are as follows :

	Group	
	2001	2000
	HK\$'000	HK\$'000
Turnover		
Trading of motor vehicles	842,352	350,297
Manufacturing and assembly of motor vehicles	230,973	192,240
Manufacturing and trading of automotive equipment and parts	21,818	63,482
Manufacturing and trading of audio equipment	200,765	180,371
	1,295,908	786,390
Other revenues		
Interest income	23,724	18,396
Gross rental income from investment properties	2,155	1,951
Sales of marketable securities	—	451
Handling service charges for motor vehicles registration	6,188	—
Other income	4,181	4,402
	36,248	25,200
Total revenues	1,332,156	811,590

Primary reporting format - business segments

The Group is organized into four main business segments:

- Trading of motor vehicles
- Manufacturing and assembly of motor vehicles
- Manufacturing and trading of automotive equipment and parts
- Manufacturing and trading of audio equipment

Other operations of the Group mainly comprise investment holding and holding of investment properties.

There are no sales or other transactions between the business segments.

2 TURNOVER, REVENUE AND SEGMENTAL INFORMATION (cont'd)

Secondary reporting format - geographical segments

The Group's business segments operate in three main geographical areas:

Hong Kong - manufacturing and trading of audio equipment

Mainland China - trading of motor vehicles, manufacturing and assembly of motor vehicles and manufacturing and trading of automotive equipment and parts

Australia - manufacturing and trading of automotive equipment and parts

There are no sales between the geographical segments.

2 TURNOVER, REVENUE AND SEGMENTAL INFORMATION (cont'd)**Primary reporting format - business segments**

	Manufacturing					
	Trading	Manufacturing	and trading	Manufacturing		
	of motor	and	of automotive	and trading	Other	Group
	vehicles	assembly of	equipment	of audio	operations	2001
	2001	motor vehicles	and parts	equipment	2001	2001
	HK\$' 000	2001	2001	2001	2001	2001
	HK\$' 000	HK\$' 000	HK\$' 000	HK\$' 000	HK\$' 000	HK\$' 000
Turnover	842,352	230,973	21,818	200,765	—	1,295,908
Segment operating profit/(loss)	33,938	(1,982)	(1,891)	16,545	(64,606)	(17,996)
Interest income	1,121	2,956	73	171	19,403	23,724
Operating profit/(loss)	35,059	974	(1,818)	16,716	(45,203)	5,728
Finance costs						(11,408)
Share of profits less losses of						
A jointly controlled entity		765,672				765,672
Associated companies			(6,057)			(6,057)
Non-consolidated subsidiaries			1,447			1,447
Profit before taxation						755,382
Taxation						(20,506)
Profit after taxation						734,876
Minority interests						(10,634)
Profit attributable to shareholders						724,242
Segment assets	224,776	317,128	253,204	109,671	596,561	1,501,340
Interests in						
A jointly controlled entity		1,397,361				1,397,361
Associated companies			56,124			56,124
Non-consolidated subsidiaries			22,024			22,024
Total assets						2,976,849
Segment liabilities	(127,344)	(113,165)	(8,302)	(25,283)	(7,457)	(281,551)
Unallocated liabilities						(148,025)
Total liabilities						(429,576)
Capital expenditure	14,748	9,931	2,107	2,916	2,828	32,530
Depreciation	1,371	2,060	2,355	3,914	3,470	13,170
Amortisation charge	1,533	—	—	—	—	1,533
Impairment charge	—	7,619	—	—	35,402	43,021

2 TURNOVER, REVENUE AND SEGMENTAL INFORMATION (cont'd)**Primary reporting format - business segments** (cont'd)

	Manufacturing					
	Trading and of motor vehicles 2000 HK\$'000	Manufacturing and assembly of motor vehicles 2000 HK\$'000	and trading of automotive equipment and parts 2000 HK\$'000	Manufacturing and trading of audio equipment 2000 HK\$'000	Other operations 2000 HK\$'000	Group 2000 HK\$'000
Turnover	350,297	192,240	63,482	180,371	—	786,390
Segment operating profit/(loss)	10,182	3,811	2,758	11,590	(24,424)	3,917
Interest income	261	700	384	532	16,519	18,396
Operating profit/(loss)	10,443	4,511	3,142	12,122	(7,905)	22,313
Finance costs						(15,475)
Share of profits less losses of						
A jointly controlled entity		460,367				460,367
Associated companies			(11,422)			(11,422)
Non-consolidated subsidiaries			1,134			1,134
Profit before taxation						456,917
Taxation						(1,195)
Profit after taxation						455,722
Minority interests						(2,519)
Profit attributable to shareholders						453,203
Segment assets	103,076	286,795	279,142	102,606	546,273	1,317,892
Interests in						
A jointly controlled entity		796,442				796,442
Associated companies			64,739			64,739
Non-consolidated subsidiaries			20,577			20,577
Total assets						2,199,650
Segment liabilities	(68,298)	(134,837)	(5,923)	(17,690)	(7,939)	(234,687)
Unallocated liabilities						(136,807)
Total liabilities						(371,494)
Capital expenditure	918	11,071	1,096	6,298	1,294	20,677
Depreciation	566	2,011	2,201	2,940	3,245	10,963
Amortization charge	—	—	—	—	—	—
Impairment charge	—	—	—	—	—	—

2 TURNOVER, REVENUE AND SEGMENTAL INFORMATION (cont'd)**Secondary reporting format - geographical segments**

	Turnover	Segment operating profit/(loss)	Interest income	Operating profit/ (loss)	Total assets	Capital expenditure
	2001	2001	2001	2001	2001	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mainland China	1,086,205	24,693	9,877	34,570	790,344	26,675
Hong Kong	200,765	(42,334)	13,847	(28,487)	706,232	5,744
Australia	8,938	(355)	—	(355)	4,764	111
	<u>1,295,908</u>	<u>(17,996)</u>	<u>23,724</u>	<u>5,728</u>	<u>1,501,340</u>	<u>32,530</u>

Interests in

A jointly controlled entity	1,397,361
Associated companies	56,124
Non-consolidated subsidiaries	22,024
	<u>1,475,509</u>

Total assets

2,976,849

	Turnover	Segment operating profit/(loss)	Interest income	Operating profit/ (loss)	Total assets	Capital expenditure
	2000	2000	2000	2000	2000	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mainland China	590,023	11,615	6,948	18,563	662,719	12,554
Hong Kong	182,642	(7,231)	11,448	4,217	648,879	7,592
Australia	13,725	(467)	—	(467)	6,294	531
	<u>786,390</u>	<u>3,917</u>	<u>18,396</u>	<u>22,313</u>	<u>1,317,892</u>	<u>20,677</u>

Interests in

A jointly controlled entity	796,442
Associated companies	64,739
Non-consolidated subsidiaries	20,577
	<u>881,758</u>

Total assets

2,199,650

3 OPERATING PROFIT

Operating profit is stated after (crediting) and charging the following:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Net exchange (gains)/losses	(1,014)	891
Auditors' remuneration	2,185	1,816
Depreciation of fixed assets	13,170	10,963
Operating lease rentals in respect of land and buildings	5,911	5,664
Outgoings in respect of investment properties	78	67
Staff costs (including directors' emoluments)	82,264	73,443
Included in net other operating expenses:		
Loss on liquidation of a subsidiary	1,280	—
Gain on disposal of fixed assets	(100)	—
Amortisation of goodwill	1,533	—
Impairment loss on land and buildings	43,021	—
Revaluation loss on investment properties	6,734	5,819
Write-back of provision for doubtful debts	(1,108)	—
Provision for doubtful debts	—	1,377
Write-back of long outstanding payable	—	(5,000)
	82,264	73,443

4 FINANCE COSTS

	Group	
	2001	2000
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	10,869	14,911
Interest on other loans - wholly repayable within five years	539	564
	11,408	15,475

5 TAXATION

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Hong Kong profits tax	946	746
Under/(over) provision for Hong Kong profits tax in prior years (note (a))	7,000	(48)
Overseas taxation	12,559	503
Deferred taxation (note 24)	(7)	(14)
	20,498	1,187
Share of taxation attributable to an associated company	8	8
	20,506	1,195

- (a) During the year ended 31st December 2001, the Hong Kong Inland Revenue Department ("IRD") reviewed the Hong Kong profits tax position of the Company for the years from 1995 to 1999.

The IRD has a different view on the taxability of certain income and tax-deductibility of certain expenses previously claimed as not taxable or as tax deductible, respectively, by the Company. As a result, an assessment of Hong Kong profits tax of HK\$1,757,460 for the year ended 31st December 1995 was issued by the IRD in March 2002 which has been provided for in the accounts for the year ended 31st December 2001. Although the review for other years has yet to be finalised by the IRD, the potential estimated profits tax exposure for other years has also been provided for in the accounts by the Company accordingly.

- (b) There was no material unprovided deferred taxation for the years ended 31st December 2001 and 2000.

6 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Included in the profit attributable to shareholders of HK\$724,242,000 (2000: HK\$453,203,000) is a profit of HK\$706,275,000 (2000: a loss of HK\$20,771,000), which is dealt with in the Company's own accounts.

7 DIVIDENDS

	2001 HK\$'000	2000 HK\$'000
Interim, paid, of HK2 cents per ordinary share	66,901	—
Final, proposed, of HK3 cents per ordinary share (Note (a))	100,794	—
	<u>167,695</u>	<u>—</u>

- (a) At a meeting held on 11th April 2002, the directors declared a final dividend of HK3 cents per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts but will be reflected as an appropriation of retained earnings for the year ending 31st December 2002.

8 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the consolidated profit attributable to the shareholders of HK\$724,242,000 (2000: HK\$453,203,000) and the weighted average number of 3,295,006,456 (2000: 2,981,721,738*) shares in issue during the year ended 31st December 2001.

The fully diluted earnings per share is not disclosed as it would not be materially different from the basic earnings per share had it been calculated based on 3,295,806,572 (2000: 3,041,220,554*) ordinary shares which represents the weighted average number of ordinary shares in issue during the year plus the weighted average number of 800,116 (2000: 59,498,816) ordinary shares deemed to be issued at nil consideration if all outstanding options had been exercised.

* Adjusted for bonus issue in 2001.

9 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Fees	3,936	3,936
Other emoluments		
Basic salaries and bonus	652	1,250
Share options exercised	34,378	2,250
	38,966	7,436

- (i) Directors' fees disclosed above include HK\$136,000 (2000: HK\$136,000) paid to the independent non-executive directors.
- (ii) Under the Company's share option scheme, certain directors were granted options to acquire shares in the Company. The options are exercisable during a three-year period commencing on the expiry of six months after the date on which the option is granted, and shall expire at the end of the three-year period or 31st January 2003, whichever is earlier.

There were in total 10,214,000 share options outstanding as at 31st December 2001. The market value of the share of the Company as at 31st December 2001 was HK\$2.425 (2000: HK\$1.36).

During the year, certain directors exercised their options to subscribe for 17,270,000 ordinary shares (2000: 3,310,000) in the Company. The gain related to exercise of the said options amounted in total to HK\$34,378,408. Details of the options exercised are as follows :

Date of grant	Adjusted exercise price	Market values at exercise dates	Number of share options exercised
	HK\$	HK\$	
14th July 1998	0.3086	2.175-2.6	7,370,000
5th March 1999	0.2829	2.175-2.6	9,900,000
			<u>17,270,000</u>

9 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (cont'd)**(a) Directors' emoluments** (cont'd)

(iii) The emoluments of the directors fell within the following bands:

<u>Emolument bands</u>	<u>Number of directors</u>	
	2001	2000
HK\$nil - HK\$1,000,000	7	9
HK\$1,000,001 - HK\$1,500,000	—	2
HK\$1,500,001 - HK\$2,000,000	—	1
HK\$11,000,001 - HK\$11,500,000	1	—
HK\$12,500,001 - HK\$13,000,000	2	—
	<u>7</u>	<u>12</u>

No director waived any emoluments during the years ended 31st December 2000 and 2001.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2000: two) individuals during the year are as follows :

	2001	2000
	HK\$'000	HK\$'000
Basic salaries and bonus	507	66
Share options exercised	19,246	4,946
	<u>19,753</u>	<u>5,012</u>

The emoluments fell within the following bands:

<u>Emolument bands</u>	<u>Number of individuals</u>	
	2001	2000
HK\$2,000,001 - HK\$2,500,000	—	1
HK\$2,500,001 - HK\$3,000,000	—	1
HK\$9,000,001 - HK\$9,500,000	1	—
HK\$10,000,001 - HK\$10,500,000	1	—
	<u>1</u>	<u>2</u>

10 INTANGIBLE ASSET

	Group
	<u>HK\$'000</u>
Goodwill, at cost	
At 1st January 2001	—
Addition arising on acquisition during the year (note 25(c))	<u>30,658</u>
At 31st December 2001	<u><u>30,658</u></u>
Accumulated amortisation	
At 1st January 2001	—
Amortisation for the year	<u>1,533</u>
At 31st December 2001	<u><u>1,533</u></u>
Net book value	
At 31st December 2001	<u><u>29,125</u></u>
At 31st December 2000	<u><u>—</u></u>

11 FIXED ASSETS

	Group					Total HK\$'000
	Land, land use rights and buildings HK\$'000	Investment properties HK\$'000	Plant and machinery HK\$'000	Office and leasehold improvements HK\$'000	Motor vehicles HK\$'000	
Cost or valuation:						
At 1st January 2001	108,703	50,839	86,376	24,959	8,574	279,451
Exchange adjustment	—	—	(82)	(24)	(160)	(266)
Transfers	300	(300)	—	—	—	—
Additions	—	—	12,097	3,596	3,216	18,909
Purchase of a subsidiary	—	—	2,248	10,217	1,156	13,621
Revaluation	—	(6,768)	—	—	—	(6,768)
Disposals	(3,545)	—	(1,449)	(27)	(587)	(5,608)
Disposal of a subsidiary	—	—	(161)	—	—	(161)
At 31st December 2001	<u>105,458</u>	<u>43,771</u>	<u>99,029</u>	<u>38,721</u>	<u>12,199</u>	<u>299,178</u>
Accumulated depreciation:						
At 1st January 2001	21,877	—	38,583	16,513	5,275	82,248
Exchange adjustment	—	—	(5)	(7)	(77)	(89)
Transfers	(34)	34	—	—	—	—
Revaluations	—	(34)	—	—	—	(34)
Charge for the year	3,216	—	6,246	2,341	1,367	13,170
Purchase of a subsidiary	—	—	561	4,024	187	4,772
Disposals	(2,979)	—	(1,382)	(26)	(486)	(4,873)
Disposal of a subsidiary	—	—	(142)	—	—	(142)
Impairment charge	43,021	—	—	—	—	43,021
At 31st December 2001	<u>65,101</u>	<u>—</u>	<u>43,861</u>	<u>22,845</u>	<u>6,266</u>	<u>138,073</u>
Net book value:						
At 31st December 2001	<u>40,357</u>	<u>43,771</u>	<u>55,168</u>	<u>15,876</u>	<u>5,933</u>	<u>161,105</u>
At 31st December 2000	<u>86,826</u>	<u>50,839</u>	<u>47,793</u>	<u>8,446</u>	<u>3,299</u>	<u>197,203</u>
The analysis of the cost or valuation at 31st December 2001 of the above assets is as follows:						
At cost	105,458	—	99,029	38,721	12,199	255,407
At 2001 professional valuation	—	43,771	—	—	—	43,771
	<u>105,458</u>	<u>43,771</u>	<u>99,029</u>	<u>38,721</u>	<u>12,199</u>	<u>299,178</u>

11 FIXED ASSETS (cont'd)

The Group's interests in investment properties, land, land use rights and buildings at their net book values are analysed as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
In Hong Kong, held on:		
Leases of over 50 years	45,990	101,951
Leases of between 10 to 50 years	26,775	14,170
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	11,363	21,544
	84,128	137,665

Investment properties were revalued at 31st December 2001 on the basis of their open market values by Insignia Brooke International Real Estate Advisors, a member of the Hong Kong Institute of Surveyors.

11 FIXED ASSETS (cont'd)

At 31st December 2001, certain land and buildings and investment properties with a total net book value of HK\$70,737,000 (2000: HK\$118,245,000) had been pledged as security for the Group's bank borrowings as mentioned in note 23(a) below.

	Company			Total HK\$'000
	Investment properties in Mainland China* HK\$'000	Office equipment and leasehold improvements HK\$'000	Motor vehicles HK\$'000	
Cost or valuation:				
At 1st January 2001	9,760	2,127	1,638	13,525
Additions	—	1,465	1,324	2,789
Disposals	—	—	(279)	(279)
At 31st December 2001	<u>9,760</u>	<u>3,592</u>	<u>2,683</u>	<u>16,035</u>
Accumulated depreciation:				
At 1st January 2001	—	1,812	783	2,595
Charge for the year	—	216	408	624
Disposals	—	—	(246)	(246)
At 31st December 2001	<u>—</u>	<u>2,028</u>	<u>945</u>	<u>2,973</u>
Net book value:				
At 31st December 2001	<u>9,760</u>	<u>1,564</u>	<u>1,738</u>	<u>13,062</u>
At 31st December 2000	<u>9,760</u>	<u>315</u>	<u>855</u>	<u>10,930</u>

* The investment properties are held under leases of between 10 to 50 years.

The analysis of the cost or valuation at 31st December 2001 of the above assets is as follows:

	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At cost	—	3,592	2,683	6,275
At 2001 professional valuation	<u>9,760</u>	<u>—</u>	<u>—</u>	<u>9,760</u>
	<u>9,760</u>	<u>3,592</u>	<u>2,683</u>	<u>16,035</u>

12 INVESTMENTS IN SUBSIDIARIES

	Company	
	2001	2000
	HK\$'000	HK\$'000
Investments at cost		
- unlisted shares	819,832	656,346
- provision for permanent diminution in value	(55,428)	(179,426)
	764,404	476,920
Amount due from a subsidiary (note (a))	521,533	521,533
	1,285,937	998,453

(a) The balance is unsecured, interest-free and not repayable within the next twelve months.

(b) Particulars of principal consolidated subsidiaries are set out in note 34 to the accounts.

13 INTEREST IN A JOINTLY CONTROLLED ENTITY

	Group	
	2001	2000
	HK\$'000	HK\$'000
Share of net assets	1,387,344	786,425
Capitalisation of interest	10,017	10,017
	1,397,361	796,442

13 INTEREST IN A JOINTLY CONTROLLED ENTITY (cont'd)

- (a) Particulars of the jointly controlled entity are as follows:

Name	Place of incorporation/ establishment	Principal activities	Effective interest held
Guangzhou Honda Automobile Co., Ltd. ("Guangzhou Honda")	People's Republic of China ("PRC")	Manufacturing and assembly of motor vehicles in the PRC	47.5%

This is a sino-foreign equity joint-venture in which 50% of the equity capital, voting power and profit sharing is held by a 95% directly owned subsidiary of the Company. The Group's investment cost in this company is HK\$514,333,000 (2000: HK\$514,333,000). The Group has no unilateral control over the joint venture company. The joint venture period is 30 years from May 1998.

- (b) Financial information of the jointly controlled entity is as follows:

	2001 HK\$'000	2000 HK\$'000
Fixed assets	1,332,460	979,569
Intangible assets*	422,693	378,615
Current assets	2,536,301	1,305,008
Current liabilities	(1,364,386)	(1,000,377)
Minority interests	(3,414)	(4,257)
Long-term liabilities	(2,930)	(2,930)
Shareholders' funds	<u>2,920,724</u>	<u>1,655,628</u>
Turnover	<u>10,677,526</u>	<u>6,624,437</u>
Profit for the year before minority interests	1,611,946	969,206
Minority interests	(5)	(13)
Profit for the year	<u>1,611,941</u>	<u>969,193</u>

* Included in this balance is goodwill of approximately HK\$341,396,000 (2000: HK\$361,479,000) arising from the acquisition of motor vehicle manufacturing business and production plant in Guangzhou by the jointly controlled entity.

14 INTERESTS IN ASSOCIATED COMPANIES

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted investments, at cost	—	—	64,173	64,173
Provision for diminution in value	—	—	(6,177)	(6,177)
Share of net assets	56,124	64,739	—	—
	56,124	64,739	57,996	57,996

The following are particulars of a principal associated company of the Group at 31st December 2001:

Name	Place of incorporation/ establishment	Principal activities	Registered capital	Effective interest held
Guangzhou Storage Battery Enterprise Company Limited	PRC	Manufacturing of automobile batteries in the PRC	RMB60,000,000	36%

This is a sino-foreign equity joint venture in which the Company has a 36 % interest in its equity capital and profit sharing. The investment cost is approximately HK\$64,172,000 (2000: HK\$64,172,000). The joint-venture period is 50 years from December 1993.

15 INTERESTS IN NON-CONSOLIDATED SUBSIDIARIES

	Group	
	2001	2000
	HK\$'000	HK\$'000
Share of net assets	22,024	20,577

At 31st December 2001, the Company had indirect interests in the equity capital of the following non-consolidated subsidiaries:

Name	Place of incorporation/ establishment	Principal activities	Registered capital	Effective interest held
Guangzhou Denway Development Corporation Limited (note a)	PRC	Car washing service and sale of motor vehicle spare parts in the PRC	RMB 10,000,000	26%
Guangzhou Hua De Automobile Spring Company Limited (note b)	PRC	Manufacturing of automobile springs in the PRC	US\$5,000,000	51%

(a) This is a sino-foreign equity joint venture in which 51% interest in its equity capital and profit sharing is held by a 51% directly owned subsidiary of the Company. The Group's investment cost in this company is HK\$4,800,000 (2000: HK\$4,800,000). This joint venture is operated under contractual restrictions which significantly impair control by the Company over it but in which the Company exercises significant influence. The joint venture period is 20 years from July 1994.

(b) This is a sino-foreign equity joint venture in which 51% interest in its equity capital and profit sharing is held by a wholly-owned subsidiary of the Company. The Group's investment cost in this company is HK\$19,775,000 (2000: HK\$19,775,000). This joint venture is operated under contractual restrictions which significantly impair control by the Company over it but in which the Company exercises significant influence. The joint venture period is 50 years from December 1993.

16 LONG-TERM INVESTMENTS

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Club debentures, at cost	1,075	1,075	1,075	1,075
Unlisted shares	2,393	431	—	—
	3,468	1,506	1,075	1,075

17 INVENTORIES

	Group	
	2001	2000
	HK\$'000	HK\$'000
Raw materials	34,156	26,673
Work in progress	26,461	22,611
Finished goods	109,907	65,649
	170,524	114,933

At 31st December 2001 and 2000, no inventories were carried at net realisable value.

18 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Due from subsidiaries (note (a))	—	—	448,614	176,110
Due from intermediate holding company (note (a))	350	146	—	—
Due from non-consolidated subsidiaries	—	19,330	—	—
Due from a jointly controlled entity (note (a))	2,839	256	—	—
Due from fellow subsidiaries (notes (a), (c))	6,737	17,848	—	—
Due from a minority shareholder of a subsidiary (note (b))	962	—	—	—
Trade receivables	135,644	139,910	—	—
Other receivables, prepayments and deposits	62,108	35,647	3,531	2,858
	208,640	213,137	452,145	178,968

(a) The balances are unsecured, interest-free and have no fixed terms of repayment.

(b) The balance is unsecured, interest bearing at commercial rate and has no fixed terms of repayment.

(c) Included in the balance is a rental prepayment to a fellow subsidiary of HK\$6,737,000 (2000: HK\$7,170,000). The rental is for a period of 20 years with yearly rental charge of HK\$433,000.

The Group allows an average credit period of 90 days to its trade customers.

At 31st December 2001, the ageing analysis of the trade receivables was as follows :

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Within 3 months	104,865	131,891	—	—
4-6 months	9,934	904	—	—
7-12 months	11,687	4,304	—	—
Over 12 months	9,158	2,811	—	—
	135,644	139,910	—	—

19 CASH AND BANK BALANCES

- (a) At 31st December 2001, bank balance of HK\$68,613,000 (2000: HK\$42,256,000) had been pledged as security for the Group's bank borrowings as mentioned in note 23(a).
- (b) Included in the amount of the Group and the Company are cash and bank balances and deposit with banks in the PRC denominated in Renminbi, totalling RMB568,028,000 (equivalent to HK\$530,867,000 (2000: HK\$333,199,000)) and RMB162,713,000 (equivalent to HK\$152,068,000 (2000: HK\$Nil)) respectively. Renminbi is not a freely convertible currency.

20 TRADE AND OTHER PAYABLES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Due to subsidiaries*	—	—	53	4,871
Due to immediate holding company*	3,618	4,051	—	—
Due to fellow subsidiaries*	501	34,732	—	—
Trade payables	235,517	167,320	—	—
Bills payable	8,617	3,865	—	—
Other payables, deposits received and accrued charges	33,298	24,719	6,147	6,865
	<u>281,551</u>	<u>234,687</u>	<u>6,200</u>	<u>11,736</u>

* The balances are unsecured, interest-free and have no fixed terms of repayment.

At 31st December 2001, the ageing analysis of the trade payables was as follows:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Within 3 months	233,292	152,815	—	—
4-6 months	415	11,941	—	—
7-12 months	6	80	—	—
Over 12 months	1,804	2,484	—	—
	<u>235,517</u>	<u>167,320</u>	<u>—</u>	<u>—</u>

21 SHARE CAPITAL

	Ordinary shares of HK\$0.1 each	
	No. of shares	HK\$'000
Authorised:		
At 31st December 2000 and 2001	<u>4,000,000,000</u>	<u>400,000</u>
Issued and fully paid:		
At 31st December 1999	2,567,256,970	256,726
Issue of shares (note (a))	350,000,000	35,000
Exercise of options	<u>46,700,000</u>	<u>4,670</u>
At 31st December 2000	2,963,956,970	296,396
Bonus issue (note (b))	298,380,297	29,838
Exercise of options (notes (b) and (c))	<u>97,451,000</u>	<u>9,745</u>
At 31st December 2001	<u>3,359,788,267</u>	<u>335,979</u>

- (a) On 21st September 2000, 350,000,000 shares of HK\$0.1 each were issued to China Lounge Investments Limited, the immediate holding company of the Company, at a price of HK\$1.28 per share ("Subscription Price"). These shares rank pari passu with the existing shares. The net proceeds to the Company will be used as working capital for the Company and its subsidiaries and associated companies.

The Subscription Price represents a discount of approximately 5.2% to the closing price of HK\$1.35 per share quoted on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at the close of business on 6th September 2000 and a discount of approximately 1.8% to the average closing price of the shares as quoted on the Stock Exchange for the ten trading days prior to 7th September 2000, the announcement date.

- (b) In May 2001, a bonus issue of one bonus share, credited as fully paid, for every ten shares was made by way of capitalization from the share premium account of the Company. These bonus shares rank pari passu in all respects with the existing shares.

21 SHARE CAPITAL (cont'd)

- (c) On 1st February 1993, a share option scheme was approved at an Extraordinary General Meeting of the Company under which the directors may, at their discretion, invite full time employees including executive directors of any member of the Group to take up options to subscribe for shares in the Company subject to the terms and conditions stipulated therein. Details of share options granted to the employees and directors of the Group are as follows:

Date of grant/ Number of share options granted	Effect of bonus issue (iii)	Number of share options outstanding as at 31st December		Number of share options exercised		Exercise price HK\$
		2001	2000	2001	2000	
4th August 1997/ 39,600,000	—	—	1,400,000	—	18,100,000	1.0398 (i) (ii)
14th July 1998/ 42,600,000	1,030,000	—	14,202,000	15,232,000	902,000	0.3395/ 0.3086 (i)
5th March 1999/ 70,000,000	4,717,800	550,000	47,178,000	51,345,800	12,820,000	0.3112/ 0.2829 (i)
15th June 1999/ 44,744,000	1,392,200	385,000	29,866,000	30,873,200	14,878,000	0.4056/ 0.3687 (i)
18th July 2001/ 59,094,000	—	59,094,000	—	—	—	2.156
		<u>7,140,000</u>	<u>92,646,000</u>	<u>97,451,000</u>	<u>46,700,000</u>	

- (i) The exercise prices have been adjusted as a result of the rights issue in 1999 or/and the bonus issue in 2001.
- (ii) 1,400,000 options lapsed during the year.
- (iii) Pursuant to the bonus issue of shares as mentioned in point (b) above, additional options were issued.

Share options may be exercised during the three-year period commencing on the expiry of six months after the date on which the option is granted, and shall expire at the end of the three-year period or 31st January 2003, whichever is earlier.

22 RESERVES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Share premium				
At 1st January	1,759,304	1,333,865	1,759,304	1,333,865
Issue of shares	21,573	437,483	21,573	437,483
Share issue expenses	—	(12,044)	—	(12,044)
Bonus issue	(29,838)	—	(29,838)	—
At 31st December	<u>1,751,039</u>	<u>1,759,304</u>	<u>1,751,039</u>	<u>1,759,304</u>
Exchange reserve				
At 1st January	(30,358)	(30,277)	—	—
Exchange difference on translation of accounts of foreign subsidiaries and associated companies	(1,431)	(415)	—	—
Transfer to profit and loss account upon liquidation of subsidiaries	630	334	—	—
At 31st December	<u>(31,159)</u>	<u>(30,358)</u>	<u>—</u>	<u>—</u>
Retained profits/(accumulated losses) (note b)				
At 1st January	(318,204)	(707,120)	(401,139)	(380,368)
Profit/(loss) for the year	724,242	453,203	706,275	(20,771)
Interim dividend paid	(66,901)	—	(66,901)	—
Transfer to capital reserves	(169,669)	(64,287)	—	—
At 31st December	<u>169,468</u>	<u>(318,204)</u>	<u>238,235</u>	<u>(401,139)</u>
Capital reserve (note c)				
At 1st January	85,439	21,266	—	—
Transfer from the profit and loss account	169,669	64,287	—	—
Transfer to profit and loss account upon liquidation of subsidiaries	—	(114)	—	—
At 31st December	<u>255,108</u>	<u>85,439</u>	<u>—</u>	<u>—</u>
Total reserves	<u>2,144,456</u>	<u>1,496,181</u>	<u>1,989,274</u>	<u>1,358,165</u>

22 RESERVES (cont'd)

(a) The reserves of the Group and the Company as at 31st December 2001 are analysed as follows:

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reserves	2,043,662	1,496,181	1,888,480	1,358,165
Proposed final dividend	100,794	—	100,794	—
	2,144,456	1,496,181	1,989,274	1,358,165

(b) Retained profits/(accumulated losses)

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Company and subsidiaries	(525,697)	(545,611)	238,235	(401,139)
A jointly controlled entity	688,593	216,217	—	—
Non-consolidated subsidiaries and associated companies	6,572	11,190	—	—
	169,468	(318,204)	238,235	(401,139)

(c) The reserve represents transfers made to the reserve fund and the enterprise development fund set up by certain subsidiaries, associated companies and a jointly controlled entity, which are foreign investment enterprises in the PRC, pursuant to regulations in the PRC. According to the regulations, the reserve fund may be used for making up losses, if any, and increasing capital while the enterprise development fund may be used for increasing capital.

23 LONG-TERM LIABILITIES

	Note	Group		Company	
		2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Bank loans, secured	(a)	130,400	125,563	—	18,799
Other loans	(b)	2,410	2,710	—	—
		132,810	128,273	—	18,799
Current portion of long-term liabilities		(113,060)	(103,872)	—	(18,799)
		19,750	24,401	—	—

(a) At 31st December 2001, the bank loans were repayable as follows:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Within one year	110,650	101,162	—	18,799
In the second year	3,764	4,268	—	—
In the third to fifth years inclusive	10,282	11,402	—	—
After the fifth year	5,704	8,731	—	—
	130,400	125,563	—	18,799
Less: portion due within one year included in current liabilities	(110,650)	(101,162)	—	(18,799)
	19,750	24,401	—	—

Included in the above balance amounts totalling HK\$64,591,000 (2000: HK\$47,755,000) were secured by certain land and building investment properties (note 11) and bank balances (note 19(a)) of the Group.

23 LONG-TERM LIABILITIES (cont'd)

- (b) At 31st December 2001, other loans mainly represent unsecured loans granted by third parties. Such loans bear interest at prevailing market rates. They are repayable as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Within one year	2,410	2,710
In the second year	—	—
	2,410	2,710
Less: portion due within one year included in current liabilities	(2,410)	(2,710)
	—	—
	—	—

24 DEFERRED TAXATION

	Group	
	2001	2000
	HK\$'000	HK\$'000
At 1st January	1,188	1,202
Transfer to profit and loss account (note 5)	(7)	(14)
At 31st December	1,181	1,188
Provided for in respect of:		
Accelerated depreciation allowances	1,181	1,188

No other potential deferred taxation has been provided in the accounts as the effect is not material to the Group.

25 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash inflow from operating activities:

	2001	2000
	HK\$'000	HK\$'000
Profit before taxation	755,382	456,917
Deficit on revaluation of investment properties	6,734	5,819
Impairment of land and buildings	43,021	—
Interest income	(23,724)	(18,396)
Interest expenses	11,408	15,475
Share of profits less losses of		
A jointly controlled entity	(765,672)	(460,367)
Associated companies	6,057	11,422
Non-consolidated subsidiaries	(1,447)	(1,134)
Amortisation of goodwill	1,533	—
Depreciation of fixed assets	13,170	10,963
(Gain)/loss on disposal of fixed assets	(100)	57
Loss/(gain) on liquidation of subsidiaries	1,280	(114)
Loss on liquidation of an associated company	—	151
Increase in inventories	(52,044)	(29,915)
Decrease/(increase) in trade and other receivables	18,138	(19,403)
Increase in trade and other payables	27,783	53,410
Effect of foreign exchange rate changes	(177)	(256)
	<hr/>	<hr/>
Net cash inflow from operating activities	41,342	24,629
	<hr/> <hr/>	<hr/> <hr/>

25 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(b) Analysis of changes in financing during the year

	Share capital (including share premium) HK\$'000	Bank and other loans HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1st January 2000	1,590,591	108,398	22,604	1,721,593
Minority interests in share of profit	—	—	10,920	10,920
Minority interests in share of exchange reserve	—	—	(1,051)	(1,051)
Cash inflow from financing	465,109	19,875	3,106	488,090
At 31st December 2000	2,055,700	128,273	35,579	2,219,552
Minority interests in share of profit	—	—	19,305	19,305
Minority interests in share of exchange reserves	—	—	(125)	(125)
Cash inflow/(outflow) from financing	31,318	(136)	8,533	39,715
Dividends paid to minority shareholders of subsidiaries	—	—	(8,087)	(8,087)
Purchase of a subsidiary	—	4,673	11,850	16,523
Liquidation of a subsidiary	—	—	(217)	(217)
At 31st December 2001	<u>2,087,018</u>	<u>132,810</u>	<u>66,838</u>	<u>2,286,666</u>

25 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(c) Purchase of a subsidiary

	2001
	HK\$'000
Net assets acquired:	
Long-term investments	1,962
Fixed assets	8,849
Trade and other receivables	16,697
Inventories	3,547
Cash and bank balances	27,910
Trade and other payables	(30,109)
Short-term loan	(4,673)
Minority interests	(11,850)
	<u>12,333</u>
Goodwill (note 10)	<u>30,658</u>
	<u><u>42,991</u></u>
Satisfied by:	
Cash	<u><u>42,991</u></u>

The subsidiary acquired during the year contributed HK\$17,100,000 to the Group's net operating cash flows, paid HK\$6,500,000 in respect of taxation, utilized HK\$300,000 for investing activities and HK\$4,700,000 for financing activities.

(d) Analysis of the net cash outflow in respect of the purchase of a subsidiary:

	2001
	HK\$'000
Cash consideration	42,991
Cash and bank balances acquired	(27,910)
	<u>15,081</u>
Net cash outflow in respect of the purchase of a subsidiary	<u><u>15,081</u></u>

25 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(e) Liquidation of a subsidiary

	2001
	HK\$'000
Net assets disposed of:	
Fixed assets	19
Trade and other receivables	3,056
Cash and bank balances	178
Taxation	(29)
Trade and other payables	(2,357)
Minority interests	(217)
Exchange reserve	630
	<hr/>
	1,280
Loss on liquidation of a subsidiary	(1,280)
	<hr/>
	—
	<hr/> <hr/>

(f) Analysis of net outflow of cash and cash equivalents in respect of the liquidation of a subsidiary

	2001
	HK\$'000
Cash and bank balances disposed	(178)
	<hr/> <hr/>

26 COMMITMENTS**(a) Commitments under operating leases**

At 31st December 2001, the Group had commitments to make payments in the next twelve months under operating leases in respect of land and buildings which expire as follows:

	Group	
	2001	Restated 2000
	HK\$'000	HK\$'000
Within one year	7,525	5,916
In the second to fifth years inclusive	17,944	15,353
After the fifth year	15,918	12,804
	41,387	34,073

(b) Capital commitments

At 31st December 2001, the Group had capital commitments in respect of purchase of fixed assets as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Contracted but not provided for	3,393	4,372

27 CONTINGENT LIABILITIES

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
A guarantee issued to a bank for facilities granted to a subsidiary	—	—	—	20,000
Guarantees for bank loans borrowed by a non-consolidated subsidiary	1,907	2,804	—	—
	1,907	2,804	—	20,000

28 RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these accounts, the following is a summary of significant related party transactions which were carried out in the normal course of the Group's business during the year:

	Group	
	2001	2000
	HK\$'000	HK\$'000
(a) Sales to a jointly controlled entity	3,187	1,993
(b) Purchase from a jointly controlled entity	428,172	—
(c) Reimbursement of payments made on behalf of the Group		
– salaries and expenses paid by a fellow subsidiary	—	2,767
(d) Purchase deposit received from a jointly controlled entity	12,704	—
	<u><u> </u></u>	<u><u> </u></u>

The directors are of the opinion that the above transactions were conducted in the normal course of business at prices and terms no less than those charged to and contracted with other third party customers of the Group.

29 BANKING FACILITIES

At 31st December 2001, the Group had total banking facilities amounted to HK\$218,708,000 (2000: HK\$242,313,000), of which HK\$138,585,000 (2000: HK\$102,800,000) had been utilised at that date.

Save as disclosed in notes 11 and 19(a), the Group's banking facilities are secured by a corporate guarantee given by the immediate holding company amounting to HK\$137,000,000 (2000: HK\$137,000,000).

30 ULTIMATE HOLDING COMPANY

The directors regard Guangzhou Automobile Industry Group Company Limited, a company incorporated in the PRC, as being the ultimate holding company.

31 RETIREMENT BENEFIT COSTS

The Company and certain of its Hong Kong subsidiaries (the “Employers”) operate two defined contribution schemes as defined in the Occupational Retirement Schemes Ordinance (the “ORSO Schemes”) and a Mandatory Provident Fund Scheme (“MPF Scheme”). Contributions to the schemes by the Employers and employees are calculated as a percentage of employees’ basic salaries, and the relevant income as defined by the Mandatory Provident Fund Schemes Ordinance respectively.

The Group’s contributions are reduced by contributions forfeited by those employees who leave the ORSO Schemes prior to the vesting fully in the contributions. Forfeited contributions totalling HK\$71,000 (2000: HK\$223,000) were utilised during the year. There is no outstanding balance available at the balance sheet dates of 2000 and 2001 to reduce future contributions. Contributions totalling HK\$28,000 (2000: HK\$68,000) were payable to the ORSO and MPF Schemes at the year end and are included in accounts payable. The assets of the scheme are held separately from those of the Group in the independently administered funds.

The subsidiaries in the PRC have participated in an employees’ retirement scheme of Guangzhou city. The implementation of such scheme by the Guangzhou Municipal Government is an administrative measure to provide pensions for retired employees. Pursuant to the relevant provisions, the subsidiaries in the PRC make a monthly defined contribution of 23% (2000: 23%) of the entire payroll of its staff while the employees need to contribute 3% of their payroll. The provider of pension payments has been paying monthly pension to the retired employees of these subsidiaries. In 2001, there was no material contribution forfeited for employees who left the scheme prior to vesting fully in such contributions.

The Group’s retirement benefit cost was expensed as incurred and the total amount charged to the profit and loss account for the year was HK\$6,881,000 (2000: HK\$5,753,000).

32 POST BALANCE SHEET EVENTS

On 28th March 2002, the Company entered into an agreement with Guangzhou Automobile Group Company Limited, the Company’s intermediate holding company. Pursuant to the agreement, the Company has conditionally agreed to transfer 45% equity interest in Guangzhou Denway Bus Company Limited to Guangzhou Automobile Group Company Limited at a consideration of RMB53,205,000 (equivalent to approximately HK\$49,724,000). Guangzhou Denway Bus Company Limited will remain as a consolidated subsidiary of the Company after the above transaction.

33 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 11th April 2002.

34 SUBSIDIARIES

The following includes the principal consolidated subsidiaries of the Company which, in the opinion of the directors, were significant to the results for the year ended 31st December 2001 or formed a substantial portion of the net assets of the Group at 31st December 2001 :

Name	Place of incorporation/ establishment	Principal activities	Registered capital/issued share capital	Effective interest held
Interest held directly:				
Guangzhou Denway Enterprises Development Company Limited (formerly known as Guangzhou Weida Machinery Enterprises Corporation Limited) (note a)	PRC	Investment and management	US\$87,272,700/ 87,272,700	95%
Guangzhou Weida Machinery Enterprises Limited - Automotive Industry Trading Company (note a)	PRC	Wholesale and retail of various types of motor vehicles	US\$1,340,600/ 1,889,235	95%
Guangzhou Denway Bus Company Limited (note a)	PRC	Assembly and sales of coaches and sales of other vehicles	US\$14,637,800/ 13,361,207	95%
Guangzhou Weida Machinery Enterprises Limited - Light Automotive Supply & Marketing United Service Company (note a)	PRC	Trading of pick-up trucks, sedans and other motor vehicles	US\$5,186,700/ 4,963,877	95%
Easeco Enterprises Limited	Hong Kong	Properties holding	HK\$2	100%
Gardex Development Limited	Hong Kong	Properties holding	HK\$2	100%
National Grade Limited	Hong Kong	Properties holding	HK\$2	100%

34 SUBSIDIARIES (cont'd)

Name	Place of incorporation/ establishment	Principal activities	Registered capital/issued share capital	Effective interest held
Interest held indirectly:				
Guangzhou Auto Group Corporation (note a)	PRC	Investment and management	RMB4,200,000	95%
Guangzhou Junyang Vehicle Lamps Company (note b)	PRC	Manufacture and sales of motor vehicle lamps	US\$1,540,000	90%
Guangzhou Honda Automobile No. 1 Sales Company Limited	PRC	Trading of motor sedan	RMB18,000,000	48%
Promowide Limited	Hong Kong	Investment holding and management	HK\$10,000	63%
Arkon Industrial Limited	Hong Kong	Investment holding and properties holding	HK\$10,000,000	61%
Art Sea Metal Works Limited	Hong Kong	Manufacture of metal parts	HK\$400,000	61%
Uni-Art Precise Products Limited	Hong Kong	Manufacture of audio equipment	HK\$400,000	61%
Classic Tech Development Limited	Hong Kong	Properties holding	HK\$10,000	63%
Baker and Priem Bull Bars Pty Limited	Australia	Design and manufacture of motor vehicles accessories	AUD215,710	51%
Baker and Priem Sales Pty Limited	Australia	Sales of motor vehicle accessories	AUD2	51%

34 SUBSIDIARIES (cont'd)

Notes:

- (a) These are sino-foreign equity joint ventures with a joint-venture period of 30 years from January 1993.
- (b) This is a sino-foreign equity joint venture with a joint-venture period of 20 years from August 1994.
- (c) All the above subsidiaries mainly operate in their places of incorporation/establishment.
- (d) The aggregate turnover of subsidiaries audited by PricewaterhouseCoopers amounted to approximately 97% of the Group's total turnover.