

## 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, 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 2002 and are applicable to the Group:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 34 (revised)	:	Employee benefits

The adoption of the above new/revised SSAPs has no material effect on the Group’s prior year results.

### (b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries, with the exception of non-consolidated subsidiaries, which are accounted for as mentioned below, 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.

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.

## 1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

### (b) Consolidation (cont'd)

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 and cumulated exchange difference taken to reserves, and which were not previously charged or recognised in the consolidated profit and loss account.

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 long-term purpose and significant influence is exercised in its management.

Associated companies are accounted for in the accounts of the Group using the equity method of accounting. 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.

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)

### (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 annually by independent valuers. 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 the People's Republic of China (the "PRC") 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 (other than investment properties which have been dealt with in note 1(e)(i) above) and 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

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 the related 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) Investment securities

Investments other than subsidiaries, associated companies and joint ventures, are shown as investment securities. Investment securities are stated at cost less provision for impairment losses.

Investment securities were classified as long-term investments in previous years' accounts.

### (i) Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost and 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.

## 1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

### (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.

### (l) Provisions

Provisions are recognised 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 recognised as a separate asset but only when the reimbursement is virtually certain.

### (m) Employee benefits

#### (i) *Employee leave entitlements*

Employee entitlements to annual leave and overtime leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and overtime leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

#### (ii) *Profit sharing and bonus plans*

Provisions for profit sharing and bonus plans due wholly within twelve months after the balance sheet date are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

#### (iii) *Pension obligations*

The Group operates a number of defined contribution plans, the assets of which are generally held in independently administered funds. The Group's contributions to the defined contribution retirement schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

## 1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

### (n) 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 the outflow becomes probable, it will then be recognised as a provision.

### (o) 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.

### (p) 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 balance sheets 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 whilst the profit and loss accounts are translated at an average rate. 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.

In prior years, the profit and loss accounts of enterprises expressed in foreign currencies were translated at closing rate. This is a change in accounting policy, however, the translation of the profit and loss accounts of foreign enterprises in prior years has not been restated as the effect of this change is not material to the current and prior years.

## 1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

### (q) Revenue recognition

Revenue in respect of the sale of motor vehicles and related equipment and parts, and other goods is recognised, net of sales 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.

### (r) 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.

### (s) 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.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, investment securities, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to intangible asset (note 11) and fixed assets (note 12), including additions resulting from acquisition through the purchase of a subsidiary (note 26(d)).

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.

**2 TURNOVER, REVENUE AND SEGMENT 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:

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Turnover		
Trading of motor vehicles	<b>962,030</b>	842,352
Manufacturing and assembly of motor vehicles	<b>238,652</b>	230,973
Manufacturing and trading of automotive equipment and parts	<b>20,953</b>	21,818
Manufacturing and trading of audio equipment	<b>235,746</b>	200,765
	<b>1,457,381</b>	1,295,908
Other revenues		
Dividend income	<b>1,682</b>	—
Interest income	<b>11,908</b>	23,724
Gross rental income from investment properties	<b>1,919</b>	2,155
Handling service charges for motor vehicles registration	<b>4,312</b>	6,188
Compensation received from a jointly controlled entity for the relocation of office and production plant of a subsidiary (note 29(a))	<b>18,692</b>	—
Other income	<b>2,083</b>	4,181
	<b>40,596</b>	36,248
Total revenues	<b>1,497,977</b>	1,332,156

**Primary reporting format - business segments**

The Group is organised 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 the holding of investment properties.

There are no sales between the business segments.

**2 TURNOVER, REVENUE AND SEGMENT 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

PRC - 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 SEGMENT INFORMATION** (cont'd)**Primary reporting format - business segments**

	Manufacturing					Group
	Trading of motor vehicles 2002 HK\$'000	Manufacturing and assembly of motor vehicles 2002 HK\$'000	Manufacturing and trading of automotive equipment and parts 2002 HK\$'000	Manufacturing and trading of audio equipment 2002 HK\$'000	Other operations 2002 HK\$'000	
Turnover	962,030	238,652	20,953	235,746	—	1,457,381
Segment operating profit/(loss)	29,993	40	(5,697)	13,384	(24,812)	12,908
Interest income	938	735	3,741	44	6,450	11,908
Operating profit/(loss)	30,931	775	(1,956)	13,428	(18,362)	24,816
Finance costs						(5,643)
Share of profits less losses of:						
A jointly controlled entity		1,220,566				1,220,566
Associated companies			(48,904)			(48,904)
Non-consolidated subsidiaries			1,776			1,776
Profit before taxation						1,192,611
Taxation						(99,125)
Profit after taxation						1,093,486
Minority interests						(1,573)
Profit attributable to shareholders						1,091,913

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

	Manufacturing					Group
	Trading of motor vehicles 2002 HK\$'000	Manufacturing and assembly of motor vehicles 2002 HK\$'000	and trading of automotive equipment and parts 2002 HK\$'000	Manufacturing and trading of audio equipment 2002 HK\$'000	Other operations 2002 HK\$'000	
Segment assets	231,581	228,190	455,287	128,155	709,201	1,752,414
Interests in						
A jointly controlled entity		2,161,095				2,161,095
Associated companies			6,255			6,255
Non-consolidated subsidiaries			20,495			20,495
Total assets						3,940,259
Segment liabilities	(126,317)	(91,302)	(5,895)	(41,179)	(1,514)	(266,207)
Unallocated liabilities						(68,883)
Total liabilities						(335,090)
Capital expenditure	1,505	9,525	1,111	5,650	24	17,815
Depreciation	3,551	1,962	1,710	4,387	1,976	13,586
Amortisation charge	1,533	—	—	—	—	1,533
Impairment charges*	—	—	1,336	5,535	5,008	11,879
Revaluation loss	—	—	—	4,214	3,760	7,974

\* The balance comprises the write-off of interest in a non-consolidated subsidiary and provision for impairment losses on fixed assets and investment securities.

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

	Manufacturing					Group
	Trading of motor vehicles 2001 HK\$'000	Manufacturing and assembly of motor vehicles 2001 HK\$'000	Manufacturing and trading of automotive equipment and parts 2001 HK\$'000	Manufacturing and trading of audio equipment 2001 HK\$'000	Other operations 2001 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

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

	Manufacturing					Group
	Trading of motor vehicles 2001 HK\$'000	Manufacturing and assembly of motor vehicles 2001 HK\$'000	and trading of automotive equipment and parts 2001 HK\$'000	Manufacturing and trading of audio equipment 2001 HK\$'000	Other operations 2001 HK\$'000	
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
Revaluation loss	—	—	—	2,786	3,948	6,734

\* The balance represents provision for impairment loss on fixed assets.

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

	Segment operating	Interest income	Operating profit/ (loss)	Total assets	Capital expenditure	
Turnover	profit/(loss)					
2002	2002	2002	2002	2002	2002	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
PRC	1,211,902	24,567	5,402	29,969	909,081	11,921
Hong Kong	235,746	(11,428)	6,494	(4,934)	837,356	5,674
Australia	9,733	(231)	12	(219)	5,977	220
	<u>1,457,381</u>	<u>12,908</u>	<u>11,908</u>	<u>24,816</u>	<u>1,752,414</u>	<u>17,815</u>

## Interests in

A jointly controlled entity

2,161,095

Associated companies

6,255

Non-consolidated subsidiaries

20,495

## Total assets

3,940,259

	Segment operating	Interest income	Operating profit/ (loss)	Total assets	Capital expenditure	
Turnover	profit/(loss)					
2001	2001	2001	2001	2001	2001	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
PRC	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

## Total assets

2,976,849

**3 OPERATING PROFIT**

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

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Net exchange gains	(1,725)	(1,014)
Auditors' remuneration	2,331	2,185
Staff costs (including directors' emoluments)	83,236	82,264
Depreciation of fixed assets	13,586	13,170
Operating lease rentals in respect of land and buildings	10,842	5,911
Outgoings in respect of investment properties	575	473
Included in net other operating expenses:		
Loss/(gain) on disposal of fixed assets	3,446	(100)
Provision for impairment loss on fixed assets	6,721	43,021
Revaluation loss on investment properties	7,974	6,734
Amortisation of goodwill	1,533	1,533
(Gain)/loss on liquidation of subsidiaries	(2,796)	1,280
Gain on disposal of partial interest in a subsidiary	(6,020)	—
Write-off of interest in a non-consolidated subsidiary	4,333	—
Provision for impairment loss on investment securities	825	—
Write-back of provision for doubtful debts	(719)	(1,108)
Provision for doubtful debts	8,677	—
Provision for stock obsolescence	3,593	—
	<u>          </u>	<u>          </u>

**4 FINANCE COSTS**

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Interest on bank loans and overdrafts	5,400	10,869
Interest on other loans - wholly repayable within five years	243	539
	<u>          </u>	<u>          </u>
Total borrowing costs incurred	<u>5,643</u>	<u>11,408</u>

**5 TAXATION**

Hong Kong profits tax has been provided at the rate of 16% (2001: 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:

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Hong Kong profits tax		
Current year provision	<b>2,229</b>	946
(Over)/under provision in prior years (note (a))	<b>(5,892)</b>	7,000
Overseas taxation		
Current year provision	<b>5,060</b>	12,559
Over provision in prior years	<b>(969)</b>	—
Deferred taxation (note 25)	<b>(290)</b>	(7)
	<b>138</b>	20,498
Share of taxation attributable to:		
A jointly controlled entity	<b>98,660</b>	—
Associated companies	<b>327</b>	8
	<b>99,125</b>	20,506

- (a) As at 31st December 2002, the Hong Kong Inland Revenue Department (“IRD”) had reviewed and agreed with the Company on its Hong Kong profits tax position for the years of assessment from 1995/1996 to 1999/2000.

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 of assessment 1995/1996 was issued by the IRD in March 2002 which has been provided for in the accounts for the year ended 31st December 2001. In addition, the potential estimated profits tax exposure for other years has also been provided for in the accounts for the same year by the Company.

**5 TAXATION (cont'd)**

The revised assessment of Hong Kong profits tax for each of the other four years of assessment up to 1999/2000 was issued by the IRD in December 2002 with no additional profits tax being levied. Accordingly, the over provision of Hong Kong profits tax amounts totalling HK\$5,892,000 had been written back in the accounts of the Company during the year.

- (b) There was no material unprovided deferred taxation for the years ended 31st December 2002 and 2001.

**6 PROFIT ATTRIBUTABLE TO SHAREHOLDERS**

Included in the profit attributable to shareholders of HK\$1,091,913,000 (2001:HK\$724,242,000) is a profit of HK\$226,279,000 (2001: HK\$706,275,000), which is dealt with in the Company's own accounts.

**7 DIVIDENDS**

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Interim, paid, of HK3 cents (2001: HK2 cents) per ordinary share	<b>101,177</b>	66,901
Final, proposed, of HK4 cents (2001: HK3 cents) per ordinary share (Note (a))	<b>136,724</b>	100,794
	<b>237,901</b>	167,695

- (a) At a meeting held on 15th April 2003, the directors declared a final dividend of HK4 cents (2001: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 2003.

**8 EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the consolidated profit attributable to the shareholders of HK\$1,091,913,000 (2001: HK\$724,242,000) and the weighted average number of 3,370,094,914 (2001: 3,295,006,456) shares in issue during the year ended 31st December 2002.

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 3,370,133,172 (2001: 3,295,806,572) ordinary shares which represents the weighted average number of ordinary shares in issue during the year plus the weighted average number of 38,258 (2001: 800,116) ordinary shares deemed to be issued at nil consideration if all outstanding options had been exercised.

**9 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)**

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Wages and salaries	<b>75,987</b>	75,383
Unutilised annual leave	<b>216</b>	—
Pension costs - retirement benefit costs	<b>7,033</b>	6,881
	<u><b>83,236</b></u>	<u>82,264</u>

**10 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:

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Fees	<b>3,976</b>	3,936
Other emoluments		
Basic salaries and bonus	<b>493</b>	652
Share options exercised	<b>1,789</b>	34,378
	<u><b>6,258</b></u>	<u>38,966</u>

- (i) Directors' fees disclosed above include HK\$176,000 (2001: HK\$136,000) paid to the independent non-executive directors.
- (ii) The share option scheme which was adopted by the Company on 1st February 1993 ("Old Scheme") expired on 31st January 2003. As a result of certain changes to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), the directors proposed and the shareholders approved at a general meeting on 6th June 2002 the early termination of the Old Scheme and adoption of a new share option scheme ("New Scheme"). After termination of the Old Scheme, all the outstanding options granted under the Old Scheme shall remain in force.

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

During the year, certain directors exercised their options, granted pursuant to the Old Scheme, to subscribe for 10,214,000 (2001: 17,270,000) ordinary shares in the Company. The gain related to exercise of the said options amounted in total to HK\$1,789,316. Details of the options exercised are as follows:

Date of grant	Adjusted exercise price	Market price at exercise dates	Number of share options exercised
	HK\$	HK\$	
18th July 2001	2.156	2.225-2.5	10,214,000

As at 31st December 2002, there were no outstanding options granted to the directors pursuant to the Old Scheme. No option was granted pursuant to the New Scheme since its adoption on 6th June 2002.

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

Emolument bands	Number of directors	
	2002	2001
HK\$nil - HK\$1,000 000	5	7
HK\$1,000,001 - HK\$1,500,000	4	—
HK\$11,000,001 - HK\$12,000,000	—	1
HK\$12,000,001 - HK\$13,000,000	—	2
	—	2

No director waived any emoluments during the years ended 31st December 2001 and 2002.

**10 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS** (cont'd)

**(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include four (2001: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining individual (2001: two individuals) during the year are as follows:

	2002 HK\$'000	2001 HK\$'000
Basic salaries and bonus	963	507
Share options exercised	81	19,246
	<u>1,044</u>	<u>19,753</u>

The emoluments fell within the following bands:

<u>Emolument bands</u>	<u>Number of individuals</u>	
	2002	2001
HK\$1,000,001 - HK\$2,000,000	1	—
HK\$9,000,001 - HK\$10,000,000	—	1
HK\$10,000,001 - HK\$11,000,000	—	1
	<u>—</u>	<u>1</u>

**11 INTANGIBLE ASSET**

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
<b>Goodwill, at cost</b>		
At 1st January	<b>30,658</b>	—
Addition arising on acquisition of a subsidiary during the year (note 26(d))	—	30,658
	<u>30,658</u>	<u>30,658</u>
At 31st December	<u><b>30,658</b></u>	<u>30,658</u>
<b>Accumulated amortisation</b>		
At 1st January	<b>1,533</b>	—
Amortisation for the year	<b>1,533</b>	1,533
	<u>3,066</u>	<u>1,533</u>
At 31st December	<u><b>3,066</b></u>	<u>1,533</u>
<b>Net book value</b>		
At 31st December	<u><b>27,592</b></u>	<u>29,125</u>

## 12 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 2002	105,458	43,771	99,029	38,721	12,199	299,178
Exchange adjustment	—	—	88	25	174	287
Additions	—	—	9,970	1,893	5,952	17,815
Revaluation	—	(7,974)	—	—	—	(7,974)
Disposals	—	—	(24,045)	(9,533)	(638)	(34,216)
At 31st December 2002	<u>105,458</u>	<u>35,797</u>	<u>85,042</u>	<u>31,106</u>	<u>17,687</u>	<u>275,090</u>
Accumulated depreciation:						
At 1st January 2002	65,101	—	43,861	22,845	6,266	138,073
Exchange adjustment	—	—	12	41	108	161
Charge for the year	1,516	—	5,644	4,682	1,744	13,586
Disposals	(7,620)	—	(11,252)	(7,633)	(559)	(27,064)
Impairment charge	5,535	—	1,186	—	—	6,721
At 31st December 2002	<u>64,532</u>	<u>—</u>	<u>39,451</u>	<u>19,935</u>	<u>7,559</u>	<u>131,477</u>
<b>Net book value:</b>						
At 31st December 2002	<u><b>40,926</b></u>	<u><b>35,797</b></u>	<u><b>45,591</b></u>	<u><b>11,171</b></u>	<u><b>10,128</b></u>	<u><b>143,613</b></u>
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>

**12 FIXED ASSETS** (cont'd)

The analysis of the cost or valuation at 31st December 2002 of the above assets is as follows:

	<b>Land, land use rights and buildings HK\$'000</b>	<b>Investment properties HK\$'000</b>	<b>Plant and machinery HK\$'000</b>	<b>Office equipment and leasehold improvements HK\$'000</b>	<b>Motor vehicles HK\$'000</b>	<b>Total HK\$'000</b>
At cost	105,458	—	85,042	31,106	17,687	239,293
At 2002 professional valuation	—	35,797	—	—	—	35,797
	<u>105,458</u>	<u>35,797</u>	<u>85,042</u>	<u>31,106</u>	<u>17,687</u>	<u>275,090</u>

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

	<b>Group</b>	
	<b>2002</b>	<b>2001</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
In Hong Kong, held on:		
Leases of over 50 years	<b>38,861</b>	45,990
Leases of between 10 to 50 years	<b>19,006</b>	26,775
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	<b>18,856</b>	11,363
	<u><b>76,723</b></u>	<u>84,128</u>

Investment properties were revalued at 31st December 2002 on the basis of their open market values by Insignia Brooke (Hong Kong) Limited, a member of the Hong Kong Institute of Surveyors.

At 31st December 2002, certain land and buildings and investment properties with a total net book value of approximately HK\$24,146,000 (2001: HK\$70,737,000) had been pledged as security for the Group's bank borrowings as mentioned in note 24(a) below.

**12 FIXED ASSETS** (cont'd)

	Company			Total HK\$'000
	Investment properties in the PRC* HK\$'000	Office equipment and leasehold improvements HK\$'000	Motor vehicles HK\$'000	
Cost:				
At 1st January 2002	9,760	3,592	2,683	16,035
Additions	—	24	—	24
Disposals	—	(124)	—	(124)
Revaluation surplus	250	—	—	250
At 31st December 2002	<u>10,010</u>	<u>3,492</u>	<u>2,683</u>	<u>16,185</u>
Accumulated depreciation:				
At 1st January 2002	—	2,028	945	2,973
Charge for the year	—	387	453	840
Disposals	—	(118)	—	(118)
At 31st December 2002	<u>—</u>	<u>2,297</u>	<u>1,398</u>	<u>3,695</u>
<b>Net book value:</b>				
<b>At 31st December 2002</b>	<b><u>10,010</u></b>	<b><u>1,195</u></b>	<b><u>1,285</u></b>	<b><u>12,490</u></b>
At 31st December 2001	<u>9,760</u>	<u>1,564</u>	<u>1,738</u>	<u>13,062</u>

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

The analysis of the cost or valuation at 31st December 2002 of the above assets is as follows:

	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At cost	—	3,492	2,683	6,175
At 2002 professional valuation	10,010	—	—	10,010
	<u>10,010</u>	<u>3,492</u>	<u>2,683</u>	<u>16,185</u>

**13 INVESTMENTS IN SUBSIDIARIES**

	<b>Company</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Investments at cost		
- unlisted shares	<b>777,906</b>	819,832
- provision for impairment loss	<b>(49,251)</b>	(55,428)
	<b>728,655</b>	764,404
Amount due from a subsidiary (note (a))	<b>514,953</b>	521,533
	<b>1,243,608</b>	1,285,937

(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 35 to the accounts.

**14 INTEREST IN A JOINTLY CONTROLLED ENTITY**

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Share of net assets	<b>2,151,078</b>	1,387,344
Capitalisation of interest	<b>10,017</b>	10,017
	<b>2,161,095</b>	1,397,361

**14 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")	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 (2001: 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:

	Group	
	2002 HK\$'000	2001 HK\$'000
Fixed assets	1,873,436	1,332,460
Intangible assets*	417,589	422,693
Current assets	3,645,343	2,536,301
Current liabilities	(1,402,506)	(1,364,386)
Minority interests	(5,283)	(3,414)
Long-term liabilities	—	(2,930)
Shareholders' funds	<u>4,528,579</u>	<u>2,920,724</u>
	2002 HK\$'000	2001 HK\$'000
Turnover	<u>12,313,038</u>	<u>10,677,526</u>
Profit for the year	<u>2,361,906</u>	<u>1,611,941</u>

\* Included in this balance is goodwill of approximately HK\$321,324,000 (2001: HK\$341,396,000) arising from the acquisition of motor vehicle manufacturing business and production plant in Guangzhou by the jointly controlled entity.

**15 INTERESTS IN ASSOCIATED COMPANIES**

	<b>Group</b>		<b>Company</b>	
	<b>2002</b>	2001	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Unlisted investments, at cost	—	—	<b>64,173</b>	64,173
Provision for impairment loss	—	—	<b>(64,173)</b>	(6,177)
Share of net assets	<b>6,255</b>	56,124	—	—
	<b>6,255</b>	56,124	—	57,996

The following are particulars of the principal associated companies of the Group at 31st December 2002:

<b>Name</b>	<b>Place of incorporation/ establishment</b>	<b>Principal activities</b>	<b>Registered capital</b>	<b>Effective interest held</b>
Guangzhou Storage Battery Enterprise Company Limited (note (a))	PRC	Manufacturing of automobile batteries in the PRC	RMB60,000,000	36%
Shanghai Guangchee Automotive Trading and Services Company Limited (note (b))	PRC	Wholesale and retail of various types of motor vehicles in the PRC	RMB10,000,000	30%

- (a) 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\$64,173,000 (2001: HK\$64,173,000). The joint-venture period is 50 years from December 1993.

This associated company has been making loss and the Group's share of the net assets in this company has been reduced to zero under the equity method of accounting.

- (b) This is a sino-foreign equity joint venture in which 30% interest in its equity capital and profit sharing is held by a subsidiary of the Company. The Group's investment cost in this company is approximately HK\$2,804,000 (2001: HK\$2,804,000). The joint-venture period is 30 years from March 1999.

**16 INTERESTS IN NON-CONSOLIDATED SUBSIDIARIES**

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Share of net assets	<b>20,495</b>	22,024

The following are particulars of a principal non-consolidated subsidiary of the Group at 31st December 2002:

<b>Name</b>	<b>Place of incorporation/ establishment</b>	<b>Principal activities</b>	<b>Registered capital</b>	<b>Effective interest held</b>
Guangzhou Hua De Automobile Spring Company Limited (note (a))	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 wholly-owned subsidiary of the Company. The Group's investment cost in this company is HK\$19,775,000 (2001: 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.

**17 INVESTMENT SECURITIES**

	<b>Group</b>		<b>Company</b>	
	<b>2002</b>	2001	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Club debentures, at cost	<b>1,075</b>	1,075	<b>1,075</b>	1,075
Unlisted shares	<b>2,393</b>	2,393	—	—
Provision for impairment loss				
– club debentures	<b>(675)</b>	—	<b>(675)</b>	—
– unlisted shares	<b>(150)</b>	—	—	—
	<b>2,643</b>	3,468	<b>400</b>	1,075

**18 INVENTORIES**

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Raw materials	<b>44,475</b>	34,156
Work in progress	<b>24,570</b>	26,461
Finished goods	<b>94,900</b>	109,907
Less: provision	<b>(3,593)</b>	—
	<b>160,352</b>	170,524

At 31st December 2002 and 2001, no inventories were carried at net realisable value.

**19 TRADE AND OTHER RECEIVABLES**

	<b>Group</b>		<b>Company</b>	
	<b>2002</b>	2001	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Due from subsidiaries (note (a))	—	—	<b>569,240</b>	448,614
Due from immediate holding company (note (a))	<b>53</b>	—	<b>53</b>	—
Due from intermediate holding company (note (a))	—	350	—	—
Due from a jointly controlled entity (note (a))	<b>4,840</b>	2,839	—	—
Due from fellow subsidiaries (notes (a) and (c))	<b>6,309</b>	6,737	—	—
Due from a minority shareholder of a subsidiary (note (b))	<b>940</b>	962	—	—
Trade receivables (note (d))	<b>95,444</b>	135,644	—	—
Bills receivables (note (e))	<b>17,526</b>	—	—	—
Other receivables, prepayments and deposits	<b>56,975</b>	62,108	<b>2,364</b>	3,531
	<b>182,087</b>	208,640	<b>571,657</b>	452,145

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

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

**19 TRADE AND OTHER RECEIVABLES** (cont'd)

- (c) Included in the balance is a rental prepayment to a fellow subsidiary of HK\$6,309,000 (2001: HK\$6,737,000). The rental is for a period of 20 years with a yearly rental charge of approximately HK\$393,000.
- (d) The Group allows an average credit period of 90 days to its trade customers.
- (e) The bills receivables have maturity dates of between 3 to 6 months.

At 31st December 2002, the ageing analysis of the trade receivables was as follows:

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Within 3 months	<b>75,901</b>	104,865
4-6 months	<b>6,617</b>	9,934
7-12 months	<b>151</b>	11,687
Over 12 months	<b>12,775</b>	9,158
	<b>95,444</b>	135,644

**20 CASH AND BANK BALANCES**

- (a) At 31st December 2002, bank balances totalling HK\$52,636,000 (2001: HK\$68,613,000) had been pledged as security for the Group's bank borrowings as mentioned in note 24(a).
- (b) Included in the amount of the Group and of the Company are cash and bank balances and deposits with banks in the PRC denominated in Renminbi, totalling RMB587,480,000 (equivalent to HK\$549,047,000 (2001: HK\$530,867,000)) and RMB955,000 (equivalent to HK\$893,000 (2001: HK\$152,068,000)) respectively. Renminbi is not a freely convertible currency.

**21 TRADE AND OTHER PAYABLES**

	<b>Group</b>		<b>Company</b>	
	<b>2002</b>	2001	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Due to subsidiaries (note (a))	—	—	<b>3</b>	53
Due to immediate holding company (note (a))	<b>1,240</b>	3,618	—	—
Due to fellow subsidiaries (note (a))	<b>503</b>	501	—	—
Trade payables	<b>76,675</b>	100,207	—	—
Bills payable (note (b))	<b>125,511</b>	135,310	—	—
Other payables, deposits received and accrued charges	<b>50,509</b>	33,298	<b>2,610</b>	6,147
	<b>254,438</b>	272,934	<b>2,613</b>	6,200

(a) The balances due to subsidiaries, immediate holding company and fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

(b) The bills are due for payments within 6 months.

At 31st December 2002, the ageing analysis of the trade payables was as follows:

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Within 3 months	<b>69,277</b>	97,982
4-6 months	<b>4,376</b>	415
7-12 months	<b>96</b>	6
Over 12 months	<b>2,926</b>	1,804
	<b>76,675</b>	100,207

**22 SHARE CAPITAL**

	<b>Ordinary shares of HK\$0.1 each</b>	
	<b>No. of shares</b>	<b>HK\$'000</b>
Authorised:		
At 31st December 2001 and 2002	4,000,000,000	400,000
Issued and fully paid:		
At 31st December 2000	2,963,956,970	296,396
Bonus issue (note (a))	298,380,297	29,838
Exercise of options (notes (a) and (b))	97,451,000	9,745
At 31st December 2001	3,359,788,267	335,979
Exercise of options (note (b))	58,310,000	5,831
At 31st December 2002	3,418,098,267	341,810

- (a) In May 2001, a bonus issue of one bonus share, credited as fully paid, for every ten shares was made by way of capitalization of a total amount of approximately HK\$29,838,000 standing to the credit of the share premium account of the Company. These bonus shares rank pari passu in all respects with the existing shares.

**22 SHARE CAPITAL** (cont'd)

- (b) 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 (iv)	Number of share options outstanding as at 31st December		Number of share options exercised		Exercise price HK\$
		2002	2001	2002	2001	
14th July 1998/ 42,600,000	1,030,000	—	—	—	15,232,000	0.3086 (i)
5th March 1999/ 70,000,000	4,717,800	—	550,000	—	51,345,800	0.2829 (i) & (ii)
15th June 1999/ 44,744,000	1,392,200	—	385,000	—	30,873,200	0.3687 (i) & (iii)
18th July 2001/ 59,094,000	—	<b>784,000</b>	59,094,000	<b>58,310,000</b>	—	2.156
	7,140,000	<b>784,000</b>	60,029,000	<b>58,310,000</b>	97,451,000	

- (i) The exercise prices have been adjusted as a result of the bonus issue in 2001.
- (ii) 550,000 options lapsed during the year.
- (iii) 385,000 options lapsed during the year.
- (iv) Pursuant to the bonus issue of shares as mentioned in point (a) 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.

**23 RESERVES**

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
<b>Share premium</b>				
At 1st January	1,751,039	1,759,304	1,751,039	1,759,304
Issue of shares	119,884	21,573	119,884	21,573
Share issue expenses	(121)	—	(121)	—
Bonus issue	—	(29,838)	—	(29,838)
At 31st December	<u>1,870,802</u>	<u>1,751,039</u>	<u>1,870,802</u>	<u>1,751,039</u>
<b>Exchange reserve</b>				
At 1st January	(31,159)	(30,358)	—	—
Exchange difference on translation of accounts of foreign subsidiaries, associated companies and a jointly controlled entity	104	(1,431)	—	—
Transfer to profit and loss account upon liquidation of subsidiaries	(1)	630	—	—
At 31st December	<u>(31,056)</u>	<u>(31,159)</u>	<u>—</u>	<u>—</u>
<b>Retained profits/(accumulated losses) (note (a))</b>				
At 1st January	169,468	(318,204)	238,235	(401,139)
Profit for the year	1,091,913	724,242	226,279	706,275
2001 final dividend paid	(100,794)	—	(100,794)	—
Interim dividend paid	(101,177)	(66,901)	(101,177)	(66,901)
Transfer to capital reserves	(156,829)	(169,669)	—	—
At 31st December	<u>902,581</u>	<u>169,468</u>	<u>262,543</u>	<u>238,235</u>

**23 RESERVES** (cont'd)

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
<b>Capital reserve (note (b))</b>				
At 1st January	255,108	85,439	—	—
Transfer to profit and loss accounts upon liquidation of subsidiaries	(12)	—	—	—
Transfer from the profit and loss account	156,829	169,669	—	—
At 31st December	<u>411,925</u>	<u>255,108</u>	<u>—</u>	<u>—</u>
Total reserves	<u>3,154,252</u>	<u>2,144,456</u>	<u>2,133,345</u>	<u>1,989,274</u>

## (a) Retained profits/(accumulated losses)

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Company and subsidiaries	(312,586)	(525,697)	262,543	238,235
A jointly controlled entity	1,256,050	688,593	—	—
Non-consolidated subsidiaries and associated companies	(40,883)	6,572	—	—
	<u>902,581</u>	<u>169,468</u>	<u>262,543</u>	<u>238,235</u>

- (b) 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.

**24 LONG-TERM LIABILITIES**

	Note	Group	
		2002 HK\$'000	2001 HK\$'000
Bank loans, secured	(a)	59,178	130,400
Other loans	(b)	—	2,410
		<u>59,178</u>	<u>132,810</u>
Current portion of long-term liabilities		<u>(42,564)</u>	<u>(113,060)</u>
		<u><u>16,614</u></u>	<u><u>19,750</u></u>

(a) At 31st December 2002, the bank loans were repayable as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Within one year	42,564	110,650
In the second year	4,709	3,764
In the third to fifth year inclusive	7,867	10,282
After the fifth year	4,038	5,704
	<u>59,178</u>	<u>130,400</u>
Less: portion due within one year included in current liabilities	<u>(42,564)</u>	<u>(110,650)</u>
	<u><u>16,614</u></u>	<u><u>19,750</u></u>

Included in the above balance are amounts totalling HK\$20,585,000 (2001: HK\$64,591,000) which are secured by certain land and buildings, investment properties (note 12) and bank balances (note 20(a)) of the Group.

**24 LONG-TERM LIABILITIES** (cont'd)

- (b) At 31st December 2002, other loans mainly represent unsecured loans granted by third parties. Such loans bear interest at prevailing market rates. They are repayable as follows:

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Within one year	—	2,410
In the second year	—	—
	—	2,410
Less: portion due within one year included in current liabilities	—	(2,410)
	—	—
	<u>—</u>	<u>—</u>

**25 DEFERRED TAXATION**

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
At 1st January	<b>1,181</b>	1,188
Transfer to profit and loss account (note 5)	<b>(290)</b>	(7)
At 31st December	<b>891</b>	1,181
Provided for in respect of:		
Accelerated depreciation allowances	<b>891</b>	1,181
	<u>891</u>	<u>1,181</u>

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

**26 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**

(a) Reconciliation of profit before taxation to cash generated from operations:

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Profit before taxation	<b>1,192,611</b>	755,382
Revaluation loss on investment properties	<b>7,974</b>	6,734
Interest income	<b>(11,908)</b>	(23,724)
Interest expenses	<b>5,643</b>	11,408
Share of (profits) less losses of		
A jointly controlled entity	<b>(1,220,566)</b>	(765,672)
Associated companies	<b>48,904</b>	6,057
Non-consolidated subsidiaries	<b>(1,776)</b>	(1,447)
Amortisation of goodwill	<b>1,533</b>	1,533
Depreciation of fixed assets	<b>13,586</b>	13,170
Loss/(gain) on disposal of fixed assets	<b>3,446</b>	(100)
Provision for impairment loss on fixed assets	<b>6,721</b>	43,021
Gain on disposal of part of the interest in a subsidiary	<b>(6,020)</b>	—
(Gain)/loss on liquidation of subsidiaries	<b>(2,796)</b>	1,280
Write-off of interest in a non-consolidated subsidiary	<b>4,333</b>	—
Provision for impairment loss on investment securities	<b>825</b>	—
	<hr/>	<hr/>
Operating profit before working capital changes	<b>42,510</b>	47,642
Decrease/(increase) in inventories	<b>10,172</b>	(52,044)
Decrease in trade and other receivables	<b>26,531</b>	18,138
(Decrease)/increase in trade and other payables	<b>(15,914)</b>	23,031
Effect of foreign exchange rate changes	<b>—</b>	(177)
	<hr/>	<hr/>
Cash generated from operations	<b>63,299</b>	36,590
	<hr/> <hr/>	<hr/> <hr/>

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

## (b) Analysis of changes in financing during the year

	<b>Share capital (including share premium) HK\$'000</b>	<b>Trust receipt, bank and other loans HK\$'000</b>	<b>Minority interests HK\$'000</b>	<b>Total HK\$'000</b>
At 1st January 2001	2,055,700	132,138	35,579	2,223,417
Minority interests in share of profit	—	—	19,305	19,305
Minority interests in share of exchange reserves	—	—	(125)	(125)
Cash inflow from financing	31,318	4,616	8,533	44,467
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	2,087,018	141,427	66,838	2,295,283
Issue of shares upon exercise of share options	125,715	—	—	125,715
Share issue expenses	(121)	—	—	(121)
Minority interests in share of profit	—	—	1,573	1,573
Minority interests in share of exchange reserves	—	—	(439)	(439)
Cash outflow from financing	—	(70,480)	—	(70,480)
Dividends paid to minority shareholders	—	—	(2,318)	(2,318)
Disposal of partial interest in a subsidiary	—	—	43,704	43,704
Liquidation of a subsidiary	—	—	(251)	(251)
At 31st December 2002	<u>2,212,612</u>	<u>70,947</u>	<u>109,107</u>	<u>2,392,666</u>

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

(c) Liquidation of subsidiaries

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Net assets disposed of:		
Interest in a non-consolidated subsidiary	<b>4,333</b>	—
Fixed assets	—	19
Trade and other receivables	<b>22</b>	3,056
Cash and bank balances	<b>28</b>	178
Taxation	—	(29)
Trade and other payables	<b>(2,582)</b>	(2,357)
Minority interests	<b>(251)</b>	(217)
Exchange reserve	<b>(1)</b>	630
Capital reserve	<b>(12)</b>	—
	<u><b>1,537</b></u>	<u>1,280</u>
Gain/(loss) on liquidation of subsidiaries	<b>2,796</b>	(1,280)
Write-off of interest in a non-consolidated subsidiary	<b>(4,333)</b>	—
	<u>—</u>	<u>—</u>

Analysis of net outflow of cash and cash equivalents in respect of the liquidation of subsidiaries

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Cash and bank balances disposed of	<b>(28)</b>	(178)
	<u><b>(28)</b></u>	<u>(178)</u>

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

## (d) Purchase of a subsidiary

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Net assets acquired:		
Investment securities	—	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)
	—	12,333
Goodwill (note 11)	—	30,658
	—	42,991
Satisfied by:		
Cash	—	42,991

The subsidiary acquired during 2001 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.

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

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Cash consideration	—	42,991
Cash and bank balances acquired	—	(27,910)
Net cash outflow in respect of the purchase of a subsidiary	—	15,081

**27 COMMITMENTS**

## (a) Commitments under operating leases

At 31st December 2002, 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:

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>8,501</b>	7,525
In the second to fifth year inclusive	<b>32,406</b>	17,944
After the fifth year	<b>44,410</b>	15,918
	<b>85,317</b>	41,387

The Company had no operating lease commitments as at 31st December 2001 and 2002.

## (b) Capital commitments

At 31st December 2002, the Group had capital commitments in respect of purchase of fixed assets as follows:

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Contracted but not provided for	<b>2,201</b>	3,393

In addition to the above, on 11th December 2002, a subsidiary of the Company entered into a conditional agreement with Guangdong Province Bus Factory ("GPBF"), a subsidiary of the intermediate holding company of the Company, whereby the subsidiary has conditionally agreed to purchase a property from GPBF for a cash consideration of approximately HK\$67,234,000. The property will be used as the subsidiary's new factory site for its operation.

The Company had no capital commitments as at 31st December 2001 and 2002.

**28 CONTINGENT LIABILITIES**

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Guarantees for bank loans borrowed by a non-consolidated subsidiary	<b>16,252</b>	1,907

The Company had no contingent liabilities as at 31st December 2001 and 2002.

**29 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:

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Compensation received from a jointly controlled entity for the relocation of office and production plant of a subsidiary (note (a))	<b>18,692</b>	—
Disposal of fixed assets to a jointly controlled entity (note (a))	<b>5,445</b>	—
Purchase deposits received from a jointly controlled entity (note (a))	—	12,704
Sales to a jointly controlled entity (note (b))	<b>2,688</b>	3,187
Purchases from a jointly controlled entity (note (b))	<b>366,812</b>	428,172
Disposal of partial interest in a subsidiary to the intermediate holding company (note (b))	<b>49,724</b>	—
Rental expense paid to a fellow subsidiary (note (b))	<b>5,234</b>	—

- (a) The terms of the compensation and the consideration for the disposal of fixed assets were agreed between the Group and the jointly controlled entity.
- (b) The directors are of the opinion that these 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.

## 30 BANKING FACILITIES

At 31st December 2002, the Group had total banking facilities amounted to HK\$235,291,000 (2001: HK\$218,708,000), of which HK\$196,458,000 (2001: HK\$138,585,000) had been utilized as at that date.

Save as disclosed in notes 12 and 20(a), the Group's banking facilities are secured by a corporate guarantee given by the immediate holding company amounting to HK\$Nil (2001: HK\$137,000,000).

## 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.

The Group's contributions are reduced by contributions forfeited by those employees who leave the ORSO Schemes prior to vesting fully in the contributions. Forfeited contributions totalling HK\$117,000 (2001: HK\$71,000) were utilised during the year. There is no outstanding balance available at the balance sheets dates of 2001 and 2002 to reduce future contributions. Contributions totalling HK\$99,000 (2001: HK\$28,000) were payable to the ORSO and MPF Schemes at the year end and are included in other payable. The assets of the scheme are held separately from those of the Group in an 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% (2001: 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 2002, there was no material contribution forfeited by the employer 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\$7,033,000 (2001: HK\$6,881,000).

## 32 POST BALANCE SHEET EVENT

On 20th February 2003, a subsidiary of the Company entered into an agreement with Guangzhou Guangyue Asset Management Limited ("Guangyue"), a subsidiary of the Company's ultimate holding company. Pursuant to which the subsidiary agreed to pay Guangyue a lump sum of approximately HK\$2,551,000 and a fixed annual payment of approximately HK\$563,000 until the death of the relevant retired employees as consideration for Guangyue to take up the subsidiary's obligations in the administration and management of its retired employees.

### 33 ULTIMATE HOLDING COMPANY

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

### 34 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 15th April 2003.

### 35 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 2002 or formed a substantial portion of the net assets of the Group at 31st December 2002:

Name	Place of incorporation/ establishment	Principal activities	Registered capital/issued share capital	Effective interest held
<b>Interest held directly:</b>				
Guangzhou Denway Enterprises Development Company Limited (note (a))	PRC	Investment and management	US\$87,272,700/ 87,272,700	95%
Guangzhou Weida Machinery 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 Limited (notes (a) and (c))	PRC	Assembly and sales of coaches and sales of other vehicles	US\$14,637,800/ 13,361,207	50%

**35 SUBSIDIARIES** (cont'd)

Name	Place of incorporation/ establishment	Principal activities	Registered capital/issued share capital	Effective interest held
<b>Interest held directly:</b> (cont'd)				
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	Property holding	HK\$2	100%
Gardex Development Limited	Hong Kong	Property holding	HK\$2	100%
National Grade Limited	Hong Kong	Property holding	HK\$2	100%
<b>Interest held indirectly:</b>				
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 (note (c))	PRC	Trading of motor sedan	RMB18,000,000	48%
Promowide Technology Limited (formerly known as "Promowide Limited")	Hong Kong	Investment holding and management	HK\$10,000	63%
Arkon Industrial Limited	Hong Kong	Investment holding and investment	HK\$10,000,000	61%
Art Sea Metal Works Limited	Hong Kong	Manufacture of metal parts	HK\$400,000	61%

**35 SUBSIDIARIES** (cont'd)

<b>Name</b>	<b>Place of incorporation/ establishment</b>	<b>Principal activities</b>	<b>Registered capital/issued share capital</b>	<b>Effective interest held</b>
<b>Interest held indirectly:</b> (cont'd)				
Uni-Art Precise Products Limited	Hong Kong	Manufacture of audio equipment	HK\$400,000	61%
Classic Tech Development Limited	Hong Kong	Property holding	HK\$10,000	63%
Baker and Priem Bull Bars Pty Limited (note (d))	Australia	Design and manufacture of motor vehicles accessories	AUD215,710	51%
Baker and Priem Sales Pty Limited (note (d))	Australia	Sales of motor vehicle accessories	AUD2	51%

*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) The composition of the board of directors of each of these entities is controlled by the Company.
- (d) These subsidiaries were not audited by PricewaterhouseCoopers. The aggregate turnover of these subsidiaries was less than 1% of the Group's total turnover.
- (e) All the above subsidiaries mainly operate in their respective places of incorporation/establishment.