

INTERIM RESULTS

The directors of Denway Motors Limited (the “Company”) announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) and its share of the results of a jointly controlled entity, associated companies and non-consolidated subsidiaries for the six months ended 30th June 2004 together with comparative figures for the corresponding period in 2003 as follows:

Condensed Consolidated Profit and Loss Account

For the six months ended 30th June 2004

	Note	Unaudited	
		Six months ended 30th June	
		2004	2003
		HK\$'000	HK\$'000
Turnover	2	664,306	719,890
Cost of sales		(611,986)	(654,562)
Gross profit		52,320	65,328
Other revenues		20,345	10,178
Selling and distribution costs		(13,518)	(10,697)
General and administrative expenses		(50,603)	(61,093)
Other operating expenses		(4,152)	(3,230)
Operating profit	3	4,392	486
Finance costs		(1,352)	(1,767)
Share of profits less losses of:			
A jointly controlled entity	9	1,014,925	739,988
Associated companies		1,798	1,262
Non-consolidated subsidiaries		1,838	1,207
Profit before taxation		1,021,601	741,176
Taxation	4	(96,285)	(65,364)
Profit after taxation		925,316	675,812
Minority interests		(1,087)	(1,483)
Profit attributable to shareholders		924,229	674,329
Interim dividend	5	292,512	139,925
Interim dividend per share	5	4.00 cents	2.00 cents
Basic earnings per share	6	13.10 cents	9.70 cents
Fully diluted earnings per share	6	12.64 cents	9.69 cents

Condensed Consolidated Balance Sheet

As at 30th June 2004

		Unaudited	Audited
		As at	As at
		30th June	31st December
		2004	2003
	<i>Note</i>	HK\$'000	HK\$'000
Non-current assets			
Intangible asset	7	25,286	26,059
Fixed assets	8	294,769	288,367
Interest in a jointly controlled entity	9	3,641,457	3,096,613
Interests in associated companies		6,873	7,390
Interests in non-consolidated subsidiaries		34,775	32,912
Investment securities		3,981	3,964
		<u>4,007,141</u>	<u>3,455,305</u>
Current assets			
Inventories		191,439	152,997
Trade and other receivables	10	242,416	251,216
Tax recoverable		1,076	2,739
Cash and bank balances			
- pledged		56,745	72,406
- others		1,880,977	1,895,227
		<u>2,372,653</u>	<u>2,374,585</u>
Current liabilities			
Trade and other payables	11	401,356	421,833
Tax payable		7,371	8,198
Trust receipt loans		16,576	14,355
Current portion of long-term liabilities	12	61,913	45,415
		<u>487,216</u>	<u>489,801</u>
Net current assets		<u>1,885,437</u>	<u>1,884,784</u>
Total assets less current liabilities		<u>5,892,578</u>	<u>5,340,089</u>
Financed by:			
Share capital	13	708,575	350,853
Reserves			
Proposed final dividend		—	210,512
Proposed special dividend		—	280,683
Others		4,989,158	4,314,056
Shareholders' funds		<u>5,697,733</u>	<u>5,156,104</u>
Minority interests		185,058	171,228
Long-term liabilities	12	8,861	11,782
Deferred taxation		926	975
		<u>5,892,578</u>	<u>5,340,089</u>

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June 2004

	Unaudited					
	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1st January 2003	341,810	1,870,802	(31,056)	902,581	411,925	3,496,062
Issue of shares	69	1,425	—	—	—	1,494
Exchange difference arising on translation of accounts of foreign subsidiaries, associated companies and a jointly controlled entity	—	—	21,882	—	66	21,948
Profit for the period	—	—	—	674,329	—	674,329
2002 final dividend paid	—	—	—	(136,751)	—	(136,751)
Balance at 30th June 2003	<u>341,879</u>	<u>1,872,227</u>	<u>(9,174)</u>	<u>1,440,159</u>	<u>411,991</u>	<u>4,057,082</u>
Balance at 1st January 2004	350,853	2,109,246	(28,533)	2,021,159	703,379	5,156,104
Issue of shares	4,290	89,059	—	—	—	93,349
Bonus issue	353,432	(353,432)	—	—	—	—
Exchange difference arising on translation of accounts of foreign subsidiaries, associated companies and a jointly controlled entity	—	—	18,855	—	—	18,855
Profit for the period	—	—	—	924,229	—	924,229
2003 final dividend paid	—	—	—	(494,804)	—	(494,804)
Transfer to capital reserve	—	—	—	(3,370)	3,370	—
Balance at 30th June 2004	<u>708,575</u>	<u>1,844,873</u>	<u>(9,678)</u>	<u>2,447,214</u>	<u>706,749</u>	<u>5,697,733</u>

Condensed Consolidated Cash Flow Statement

For the six months ended 30th June 2004

	Unaudited	
	Six months ended 30th June	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash (outflow)/inflow from operating activities	(31,405)	61,966
Net cash inflow from investing activities	408,292	369,291
Net cash outflow from financing activities	(391,137)	(101,954)
(Decrease)/increase in cash and cash equivalents	(14,250)	329,303
Cash and cash equivalents at the beginning of the period	1,895,227	1,183,491
Cash and cash equivalents at the end of the period	1,880,977	1,512,794
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	1,880,977	1,512,794

Notes to Condensed Interim Accounts

30th June 2004

1. Basis of Preparation and Accounting Policies

These unaudited consolidated condensed interim accounts (“condensed interim accounts”) are prepared in accordance with Hong Kong Statement of Standard Accounting Practice 25, “Interim Financial Reporting” issued by the Hong Kong Society of Accountants.

These condensed interim accounts should be read in conjunction with the 2003 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31st December 2003.

Notes to Condensed Interim Accounts

30th June 2004

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. An analysis of the Group's revenue and results for the period by principal business segments and markets is as follows:

Principal business segments:

	Unaudited					Total HK\$'000
	Six months ended 30th June 2004					
	Trading of motor vehicles HK\$'000	Manufacturing and assembly of motor vehicles HK\$'000	Manufacturing and trading of automotive equipment and parts HK\$'000	Manufacturing and trading of audio equipment HK\$'000	Other operations HK\$'000	
Turnover	409,044	138,975	10,831	105,456	—	664,306
Segment operating profit/(loss)	1,258	(3,350)	(9,208)	4,685	(2,222)	(8,837)
Interest income	800	353	8,667	9	3,400	13,229
Operating profit/(loss)	2,058	(2,997)	(541)	4,694	1,178	4,392
Finance costs						(1,352)
Share of profits less losses of:						
A jointly controlled entity		1,014,925				1,014,925
Associated companies	1,798					1,798
Non-consolidated subsidiaries			1,838			1,838
Profit before taxation						1,021,601
Taxation						(96,285)
Profit after taxation						925,316
Minority interests						(1,087)
Profit attributable to shareholders						924,229

Notes to Condensed Interim Accounts

30th June 2004

2. Turnover, Revenue and Segment Information *(Continued)***Principal business segments:** *(Continued)*

	Unaudited					Total HK\$'000
	Six months ended 30th June 2003					
	Trading of motor vehicles HK\$'000	Manufacturing and assembly of motor vehicles HK\$'000	Manufacturing and trading of automotive equipment and parts HK\$'000	Manufacturing and trading of audio equipment HK\$'000	Other operations HK\$'000	
Turnover	521,712	88,614	27,272	82,292	—	719,890
Segment operating profit/(loss)	6,385	(14,074)	948	9,896	(9,039)	(5,884)
Interest income	618	379	2,950	51	2,372	6,370
Operating profit/(loss)	7,003	(13,695)	3,898	9,947	(6,667)	486
Finance costs						(1,767)
Share of profits less losses of:						
A jointly controlled entity		739,988				739,988
Associated companies	1,262					1,262
Non-consolidated subsidiaries			1,207			1,207
Profit before taxation						741,176
Taxation						(65,364)
Profit after taxation						675,812
Minority interests						(1,483)
Profit attributable to shareholders						674,329

A jointly controlled entity made sales to a subsidiary of the Company during the period. Unrealised profits resulting from these transactions are immaterial to the interim accounts. Apart from the aforesaid transactions, there were no sales or other transactions between the business segments.

Notes to Condensed Interim Accounts

30th June 2004

2. Turnover, Revenue and Segment Information *(Continued)***Principal markets:**

	Unaudited		
	Six months ended 30th June 2004		
	Turnover	Segment operating profit/(loss)	Operating profit/(loss)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
People's Republic of China ("PRC")	552,370	(16,472)	(6,669)
Hong Kong	105,456	7,747	11,156
Australia	6,480	(112)	(95)
	<u>664,306</u>	<u>(8,837)</u>	<u>4,392</u>

	Unaudited		
	Six months ended 30th June 2003		
	Turnover	Segment operating profit/(loss)	Operating profit/(loss)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
PRC	631,895	(7,070)	(3,123)
Hong Kong	82,292	857	3,280
Australia	5,703	329	329
	<u>719,890</u>	<u>(5,884)</u>	<u>486</u>

Sales are based on the country in which the customer is located. There were no sales between the segments.

Notes to Condensed Interim Accounts

30th June 2004

3. Operating Profit

Operating profit is stated after charging the following:

	Unaudited	
	Six months ended	
	30th June	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amortisation of goodwill	773	773
Depreciation of fixed assets	8,506	6,413
Provision for doubtful debts	1,284	403
Staff costs (including directors' emoluments)	39,675	39,207
	<u> </u>	<u> </u>

4. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged/(credited) to the consolidated profit and loss account represents:

	Unaudited	
	Six months ended	
	30th June	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong profits tax	366	689
Overseas taxation	3,654	4,051
Deferred taxation	(49)	—
	<u> </u>	<u> </u>
	3,971	4,740
Share of taxation attributable to:		
A jointly controlled entity	92,043	60,435
Associated companies	271	189
	<u> </u>	<u> </u>
	<u>96,285</u>	<u>65,364</u>

Notes to Condensed Interim Accounts

30th June 2004

5. Dividend

The declared interim dividend was as follows:

	Unaudited	
	Six months ended	
	30th June	
	2004	2003
	HK\$'000	HK\$'000
2004 interim, declared, of HK4 cents (2003: HK2 cents per ordinary share ¹) per ordinary share (note (a))	292,512	139,925

- (a) At a meeting held on 16th September 2004, the directors declared an interim dividend of HK4 cents per ordinary share (2003: HK2 cents per ordinary share¹) for the year ending 31st December 2004. This interim dividend is not reflected as a dividend payable in these condensed accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2004. The interim dividend will be payable on 8th October 2004 to shareholders whose name appear on the register of members of the Company on 6th October 2004.

¹ Adjusted for bonus issue in 2004.

Notes to Condensed Interim Accounts

30th June 2004

6. Earnings Per Share

The calculation of basic earnings per share is based on the consolidated profit attributable to the shareholders of approximately HK\$924,229,000 (2003: HK\$674,329,000) and the weighted average number of 7,054,160,249 (2003: 6,953,051,056 ¹) shares in issue during the six months ended 30th June 2004.

The fully diluted earnings per share is based on 7,313,253,399 (2003: 6,962,407,419 ¹) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of 259,093,150 (2003: 9,356,363) ordinary shares deemed to be issued at nil consideration if all outstanding options had been exercised.

¹ Adjusted for bonus issue in 2004.

7. Intangible Asset

	<i>HK\$'000</i>
Goodwill	
Net book value as at 31st December 2003	26,059
Movement during the period	
Amorisation	(773)
	<hr/>
Net book value as at 30th June 2004	<u>25,286</u>

8. Fixed Assets

	<i>HK\$'000</i>
Net book value as at 31st December 2003	288,367
Movements during the period	
Additions	16,217
Disposals	(2,095)
Depreciation	(8,506)
Exchange differences	786
	<hr/>
Net book value as at 30th June 2004	<u>294,769</u>

Notes to Condensed Interim Accounts

30th June 2004

9. Interest in a Jointly Controlled Entity

Financial information of a jointly controlled entity incorporated in the PRC prepared in accordance with accounting principles generally accepted in Hong Kong is as follows:

	Unaudited As at 30th June 2004 <i>HK\$'000</i>	Audited As at 31st December 2003 <i>HK\$'000</i>
Fixed assets	3,450,355	3,212,156
Intangible assets ¹	449,763	477,461
Current assets	8,587,666	6,849,054
Current liabilities	(4,836,799)	(4,034,894)
Minority interests	(5,849)	(5,681)
Investors' funds	<u>7,645,136</u>	<u>6,498,096</u>
	Unaudited Six months ended 30th June 2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover	<u>12,271,295</u>	<u>8,818,106</u>
Profit for the period	<u>1,942,910</u>	<u>1,430,637</u>

This is a Sino-foreign equity joint-venture in which 50% of the equity capital is held by a 95% directly owned subsidiary of the Company (Refer to 2003 annual report for details). The Group's investment cost in this company is HK\$514,333,000 (2003: 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.

¹ Included in this balance is a goodwill of approximately HK\$293,634,000 (2003: HK\$302,343,000) arising from the acquisition of motor vehicle manufacturing business and a production plant in Guangzhou by the jointly controlled entity.

Notes to Condensed Interim Accounts

30th June 2004

10. Trade and Other Receivables

Included in this balance are trade receivables of approximately HK\$124,722,000 (2003: HK\$135,525,000). At 30th June 2004, the ageing analysis of the trade receivables, net of provision, is as follows:

	Unaudited	Audited
	As at	As at
	30th June	31st December
	2004	2003
	HK\$'000	HK\$'000
Within 3 months	95,446	126,663
4-6 months	15,174	6,344
7-12 months	12,391	775
Over 12 months	1,711	1,743
	<u>124,722</u>	<u>135,525</u>

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

11. Trade and Other Payables

Included in this balance are trade payables of approximately HK\$140,293,000 (2003: HK\$83,092,000). At 30th June 2004, the ageing analysis of the trade payables is as follows:

	Unaudited	Audited
	As at	As at
	30th June	31st December
	2004	2003
	HK\$'000	HK\$'000
Within 3 months	124,888	72,226
4-6 months	7,375	7,814
7-12 months	7,054	481
Over 12 months	976	2,571
	<u>140,293</u>	<u>83,092</u>

Notes to Condensed Interim Accounts

30th June 2004

12. Long-term Liabilities

	Unaudited As at 30th June 2004 <i>HK\$'000</i>	Audited As at 31st December 2003 <i>HK\$'000</i>
Bank loans (note (a))	70,774	57,197
Current portion of long-term liabilities	(61,913)	(45,415)
	8,861	11,782

(a) At 30th June 2004, the bank loans were repayable as follows:

	Unaudited As at 30th June 2004 <i>HK\$'000</i>	Audited As at 31st December 2003 <i>HK\$'000</i>
Within one year	61,913	45,415
In the second year	3,434	7,089
In the third to fifth year inclusive	4,557	4,147
After the fifth year	870	546
	70,774	57,197
Less: portion due within one year included under current liabilities	(61,913)	(45,415)
	8,861	11,782

Included in the above balance are amounts totalling HK\$14,171,000 (2003: HK\$15,003,000) which are secured by certain land and buildings, investment properties and bank balances of the Group.

Notes to Condensed Interim Accounts

30th June 2004

13. Share Capital

	Ordinary shares of HK\$0.1 each	
	Number of shares	HK\$'000
Authorised:		
At 31st December 2003	4,000,000,000	400,000
Increase in authorised ordinary share capital	6,000,000,000	600,000
	<hr/>	<hr/>
At 30th June 2004	<u>10,000,000,000</u>	<u>1,000,000</u>
Issued and fully paid:		
At 31st December 2003	3,508,534,767	350,853
Exercise of options	42,895,000	4,290
Bonus issue	3,534,317,767	353,432
	<hr/>	<hr/>
At 30th June 2004	<u>7,085,747,534</u>	<u>708,575</u>

14. Contingent Liabilities

	Unaudited	Audited
	As at	As at
	30th June	31st December
	2004	2003
	HK\$'000	HK\$'000
Guarantees for bank loans borrowed by a non-consolidated subsidiary	<u>14,419</u>	<u>13,873</u>

Notes to Condensed Interim Accounts

30th June 2004

15. Commitments

(a) Commitments under operating leases

At 30th June 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Unaudited	Audited
	As at	As at
	30th June	31st December
	2004	2003
	HK\$'000	HK\$'000
Not later than one year	6,816	6,788
Later than one year and not later than five years	26,520	27,990
Later than five years	30,417	35,042
	<u>63,753</u>	<u>69,820</u>

(b) Capital commitments

At 30th June 2004, the Group had capital commitments in respect of purchase of fixed assets as follows:

	Unaudited	Audited
	As at	As at
	30th June	31st December
	2004	2003
	HK\$'000	HK\$'000
Authorised but not provided for	20,221	34,090
	<u>20,221</u>	<u>34,090</u>

Notes to Condensed Interim Accounts

30th June 2004

16. Related Party Transactions

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 period:

	Unaudited	
	Six months ended 30th June	
	2004	2003
	HK\$'000	HK\$'000
Sales to a jointly controlled entity (note (a))	417	737
Purchases from a jointly controlled entity (note (a))	190,980	290,934
Purchases from a fellow subsidiary (note (a))	805	—
Administration and management fees for retired employees paid to a fellow subsidiary (note (a))	283	—
Interest paid to ultimate holding company (note (b))	179	—
	<u>179</u>	<u>—</u>

(a) These transactions were conducted in accordance with the terms as disclosed in note 29(b) of the 2003 annual report.

(b) The directors are of the opinion that the interest rate was charged at commercial lending rate.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 4th October 2004 to Wednesday, 6th October 2004, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrars, Abacus Share Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 30th September 2004.

BUSINESS REVIEW

For the six months ended 30th June 2004, the Group's total turnover was HK\$664,306,000 (2003: HK\$719,890,000). The unaudited interim consolidated profit attributable to shareholders was HK\$924,229,000 (2003: HK\$674,329,000). Basic earnings per share were HK13.1 cents (2003: HK9.7 cents).

In the first half of this year, the PRC implemented austerity measures to curb the growth in capital investment with banks tightening credit on auto industry. Consumer sentiment for cash rose with a deferment in the purchase of vehicles which affected the demand for vehicles to a certain extent as evidenced by the slow growth rate when compared with that during the two-year period before China's accession to the WTO. For the first six month of this year, the number of vehicles produced and sold amounted to 2.67 million units and 2.55 million units, representing an increase of 27% and 24% respectively, of which the number of sedans produced and sold amounted to 1.25 million units and 1.13 million units, representing an increase of approximately 36% and 32% respectively.

For the six months ended 30th June 2004, the Company through its jointly controlled entity (hereinafter called the Sedan Company) and its subsidiary together produced and sold 82,415 vehicles and 80,639 vehicles, representing an increase of approximately 68% and 65% respectively; of which 81,939 and 80,145 sedans were produced and sold respectively, representing an increase of approximately 69% and 66% respectively. Production and sales of buses amounted to 476 vehicles and 494 vehicles respectively, representing a decrease of approximately 3% in production and an increase of approximately 20% in sales over the same period of last year.

As for other business operations of the Group including the trading of motor vehicles, manufacturing and trading of automotive equipment and parts and manufacture and trading of audio equipment, all the targets set out in the medium-term plan have been achieved.

FUTURE PROSPECTS

From the sales trend of motor vehicles made in China for the first six months of this year, it is estimated that the annual sales of motor vehicles will exceed 5 million units of which sedans will amount to 2.4 million units. As China's austerity measures have been effective, China's economy will grow steadily. The recently announced policy on automobile industry together with other complimentary policies will bring positive effects on car consumption. It is believed that the automobile industry will continue to grow steadily in the future and will continue to be the key industry which provides momentum for the growth of China's economy. However, as the production volume of vehicles continues to rise, there is a shift from a seller market to a buyer market in China's automobile market. Thus, competition in China's automobile market will become more intense.

The Board of Directors of the Sedan Company resolves that under such a considerably competitive market, more effort will be placed on market analysis and research in order to prepare for production and launch of new models of vehicles. In addition, the Sedan Company will strengthen its management and use its best endeavors in order to reduce its production costs and enhance its product quality with a focus on brand building so as to improve its competitiveness. The Sedan Company will devote its best effort to achieve the Board's annual production and sales plan formulated during the annual Board meeting so as to build a good foundation for the company's further development and growth as well as to increase its market shares.

The Group will continue to seek investment opportunities of better returns with focus on the automobile business. The Board believes that the Group will be able to grasp any opportunity arising and speed up the development process, thereby creating admirable return for the shareholders.

FINANCIAL SUMMARY

The Group's turnover for the six months ended 30th June 2004 was about HK\$664,306,000, representing a decrease of about 7.7% compared to that of 2003. The turnover of the trading of motor vehicles and automotive equipment and parts decreased by HK\$130,231,000 which represented a decrease of about 25% compared to that of 2003. However, the rate of decrease in turnover was compensated by the rate of increase in the second major revenue source of the Group, the manufacturing and assembly of motor vehicles, which registered a turnover of around HK\$138,975,000 representing an increase of about 56.8% compared to that of 2003. The turnover of other business of manufacturing and trading of audio equipment has got an increase of about 28.1% compared to that of 2003. However, the net profit of this segment is decreased by about HK\$4,694,000 or a decrease of about 52.8%, due to the increase of cost of goods sold. The orders on hand of the Group for the business of the manufacturing and assembly of motor vehicles, and the manufacturing and trading of audio equipment were about RMB56,350,000 (or equivalent to HK\$53,105,000) and HK\$38,000,000 respectively as at 30th June 2004.

The total bank loans of the Group was increased from HK\$57,197,000 at the end of year 2003 to HK\$70,774,000 at 30th June 2004. However, the Group maintains a low ratio of borrowings relative to total equity at 1.2% as at 30th June 2004. The ratio of total liabilities (including minority interests) relative to total equity was slightly decreased to only 12.0%, compared with the ratio of 13.1% at 31st December 2003.

The Group's bank borrowings were secured by land and buildings and investment properties with a total net book value of HK\$24,205,000 and bank balance of HK\$56,745,000. As at 30th June 2004, the Group had contingent liabilities of about HK\$14,419,000 which mainly represented guarantees for bank loans borrowed by a non-consolidated subsidiary.

The Group had cash and bank balances of about HK\$1,937,722,000 as at 30th June 2004. This had included the cash outflow from operating activities of around HK\$31,405,000. During the period, the payment of dividend by the company was financed by the receipt of cash dividend from the investment vehicles.

General and administrative expenses for the Group were decreased by about HK\$10,490,000, representing a decrease of about 17.2% compared to that of 2003. However, the expenses were decreased due to the exchange rate differences occurred during the period. The finance costs amounted HK\$1,352,000 was further decreased by around 23.5% due to the fact of the huge amount of cash held in Group. The interest cover still maintains at a recorded high level of 757 multiples compared to that of 420 multiples in 2003. The Group did not experience any significant exchange rate fluctuation in terms of Reminbi, the major operating currency of the Group during 2004.

Share of net profits of non-consolidated subsidiaries was about HK\$1,838,000 which represented an increase of 52.3% compared to that of 2003. Further, share of profits from associated company for the period was increased by about 42.5% compared to the same period of 2003 and got about HK\$1,798,000.

Share of after tax profit from the jointly-controlled entity was the major source of profit, which contributed about HK\$922,882,000, and represented an increase of about 35.8% compared to that of 2003. The amount of tax refund derived from consumption tax for this year was not included in the accounts, since the amount and timing is yet to be ascertained. However, part of tax refund derived from consumption tax was included in the same period of last year. Due to the differences of the accounting treatment between the PRC and Hong Kong, the time when the tax refund derived from consumption tax is recognized in the accounting statements prepared under PRC accounting standards is also different from that prepared under Hong Kong accounting standards. Thus, the rate of increase of the profit would have been more prominent if the tax refund derived from consumption tax was included.

EMPLOYEES AND REMUNERATION POLICY

As at 30th June 2004, the Group employed approximately 2,900 (2003: 2,900) staff in the PRC and Hong Kong.

The remuneration package adopted by the Group includes discretionary bonus and share options being granted to eligible staff based on the Group's performance and individual performance. Staff training and development programs are conducted on a regular basis. The Group's staff costs for the six months ended 30th June 2004 amounted to approximately HK\$39,675,000 (2003:HK\$39,207,000).

SHARE OPTION SCHEME

During the period, the Company has a share option scheme which was adopted on 6th June 2002 (“Share Option Scheme”). Each option gives the holder the right to subscribe for one share of the Company. Movement of the share options during the period was as follows :

Name	Number of options				As at 30th June 2004	Notes
	As at 1st January 2004	Exercised before the bonus issue of shares during the period	Additional options due to bonus issue of shares	Exercised after the bonus issue of shares during the period		
ZHANG Fangyou	4,264,000	—	4,264,000	—	8,528,000	(3)
LU Zhifeng	3,842,000	—	3,842,000	—	7,684,000	(3)
YANG Dadong	2,832,000	—	2,832,000	—	5,664,000	(3)
CHEN Xuejun	2,832,000	—	2,832,000	—	5,664,000	(3)
ZHANG Baoqing	3,244,000	—	3,244,000	—	6,488,000	(3)
ZENG Qinghong	2,832,000	—	2,832,000	—	5,664,000	(3)
DING Baoshan	2,832,000	—	2,832,000	—	5,664,000	(3)
CHEUNG Doi Shu	1,000,000	—	1,000,000	—	2,000,000	(3)
LEE Ka Lun	670,000	—	670,000	—	1,340,000	(3)
Aggregate total of employees	44,060,000	6,159,000	37,901,000	5,880,000	69,922,000	(1)
	8,658,000	898,000	7,760,000	1,552,000	13,968,000	(2)
Aggregate total of other participants	149,495,000	18,388,000	131,107,000	9,004,000	253,210,000	(1)
	10,845,500	338,000	10,507,500	676,000	20,339,000	(2)

Notes:

- (1) These options were granted on 9th May 2003 at an adjusted exercise price of HK\$1.325 per share (after adjustment of one for one bonus issue of shares in May 2004) for an exercise period of three years from the date of grant of the options. The consideration paid by each grantee for the options granted was HK\$1. The adjusted closing price of the share immediately before the date on which the options were granted was HK\$1.35.
- (2) These options were granted on 2nd July 2003 at an adjusted exercise price of HK\$1.825 per share (after adjustment of one for one bonus issue of shares in May 2004) for an exercise period of three years from the date of grant of options. The consideration paid by each grantee for options granted was HK\$1. The adjusted closing price of the share immediately before the date on which the options were granted was HK\$1.7625.
- (3) These options were granted on 7th August 2003 at an adjusted exercise price of HK\$2.1525 per share (after adjustment of one for one bonus issue of shares in May 2004) for an exercise period of ten years from the date of grant of the options. The consideration paid by each grantee for the options granted was HK\$1. The adjusted closing price of the share immediately before the date on which the options were granted was HK\$2.075.
- (4) The weighted average closing price per share immediately before the date on which the options were exercised was HK\$3.86 (as adjusted per one for one bonus issue of shares in May 2004).
- (5) No option was granted, lapsed or cancelled during the period.

DIRECTORS' INTERESTS IN SHARES

As at 30th June 2004, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows :

(a) Long positions in shares of the Company

Name of Director	Number of shares Personal interest (as Beneficial Owner)	Percentage of shareholding as at 30th June 2004
LEE Ka Lun	100,000	0.0014%

(b) Long positions in underlying shares of equity derivatives of the Company

Name of Director	Number of underlying shares in respect of options granted Personal Interest (as Beneficial Owner)	Percentage of shareholding as at 30th June 2004
ZHANG Fangyou	8,528,000	0.12%
LU Zhifeng	7,684,000	0.11%
YANG Dadong	5,664,000	0.08%
CHEN Xuejun	5,664,000	0.08%
ZHANG Baoqing	6,488,000	0.09%
ZENG Qinghong	5,664,000	0.08%
DING Baoshan	5,664,000	0.08%
CHEUNG Doi Shu	2,000,000	0.03%
LEE Ka Lun	1,340,000	0.02%

Save as disclosed above, as at 30th June 2004, none of the directors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Apart from the share option schemes, at no time during the six months ended 30th June 2004 was the Company or its holding companies or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

During the six months ended 30th June 2004, no rights to subscribe for equity or debt securities of the Company has been granted by the Company to, nor have any such rights been exercised by, any directors and chief executives of the Company.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 30th June 2004, the corporations having an interest in 5% or more of the issued share capital of the Company as recorded in the register of interests in shares and short positions required to be kept under Section 336 of the Part XV of SFO were as follows :

Name	Number of shares of the Company		Percentage of total shareholding as at 30th June 2004		Notes
	Long position	Lending pool	Long position	Lending pool	
Guangzhou Automobile Industry Group Co. Ltd. ("Guangzhou Automobile Industry")	2,775,744,904	—	39.17%	—	(a)
Guangzhou Automobile Group Co. Ltd. ("Guangzhou Automobile")	2,775,744,904	—	39.17%	—	(b)
China Lounge Investments Limited ("China Lounge Investments")	2,775,744,904	—	39.17%	—	(c)

Notes :

- (a) The interest of Guangzhou Automobile Industry represents the total number of shares of the Company held by certain subsidiaries of Guangzhou Automobile Industry where Guangzhou Automobile Industry is taken to be interested in such shares under Part XV of SFO.
- (b) Guangzhou Automobile is a wholly-owned subsidiary of Guangzhou Automobile Industry and its interests in the shares of the Company is duplicated in the interest of Guangzhou Automobile Industry.
- (c) China Lounge Investments is a wholly-owned subsidiary of Guangzhou Automobile and its interest in the shares of the Company is duplicated in the interests of Guangzhou Automobile.

Save as disclosed herein, no other person was recorded in the register of substantial shareholders maintained under Section 336 of Part XV of the SFO as having an interest in 5% or more of the issued share capital of the Company as at 30th June 2004.

PURCHASE, SALE OR REDEMPTION OF THE SHARES OF THE COMPANY

During the six months ended 30th June 2004, the Company has not redeemed any of its shares. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

CODE OF BEST PRACTICE

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th June 2004, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong ("Listing Rules") except that the independent non-executive directors of the Company are not appointed for a specific term as they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association. The audit committee was established with written terms of reference which deal clearly with its authority and duties in pursuance of paragraph 14 of Appendix 14 of the Listing Rules. Amongst the audit committee's principal duties are the review and supervision of the Company's financial reporting process and internal control system.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

The 2004 Interim Report of the Company containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 to the Listing Rules (in force prior to 31st March 2004 and applicable to this interim report under the transitional arrangement) will be published on the website of The Stock Exchange of Hong Kong Limited in due course.

By the Order of the Board
Zhang Baoqing
Deputy Managing Director

16th September 2004, Hong Kong