

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 Institute of Certified Public Accountants (the “HKICPA”). 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.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(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 31 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.

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.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(b) Consolidation (continued)

In the Company's balance sheet, the interests 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) Jointly controlled entities

A jointly controlled entity 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 interest 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 interests 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.

(e) 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. When an indication of impairment exists, the carrying amount of the related goodwill is assessed and written down immediately to its recoverable amount.

(f) 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.

1. PRINCIPAL ACCOUNTING POLICIES (continued)**(f) Fixed assets (continued)***(i) Investment properties (continued)*

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 and leasehold improvements

Leasehold land and buildings and leasehold 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/amortisation 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%.

(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 their normal working condition to allow continued use of the overall asset are capitalised and depreciated over the period to the next overhaul.

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

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(f) Fixed assets (continued)

(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 an investment property 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.

(g) Investment securities

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

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(h) 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.

(i) Trade receivables

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(j) 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.

(k) 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.

(l) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(m) Contingent liabilities

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

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

(n) Revenue recognition

Revenue in respect of the sales 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.

Dividend income from investment securities is recognised when the right to receive payment is established.

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

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(n) Revenue recognition (continued)

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

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

(o) 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.

(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.

(q) 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.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(q) Employee benefits (continued)

(iii) Pension obligations

The Group participates in 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.

(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 assets and fixed assets, including additions resulting from acquisition through the purchase of subsidiaries.

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

2. TURNOVER, REVENUE AND SEGMENT INFORMATION

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

	<u>Group</u>	
	2004	2003
	HK\$'000	HK\$'000
Turnover		
Trading of motor vehicles	713,983	999,994
Manufacturing and assembly of motor vehicles	344,298	256,171
Manufacturing and trading of automotive equipment and parts	18,792	56,818
Manufacturing and trading of audio equipment	237,632	221,796
	<u>1,314,705</u>	<u>1,534,779</u>
Other revenues		
Dividend income	24	1,129
Interest income	26,146	17,559
Gross rental income from investment properties	1,864	1,739
Gross rental income from other properties	612	699
Handling service charges for motor vehicles registration	2,218	3,845
Other income	1,588	2,732
	<u>32,452</u>	<u>27,703</u>
Total revenues	<u>1,347,157</u>	<u>1,562,482</u>

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 (continued)

Secondary reporting format — geographical segments

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

PRC — trading of motor vehicles, manufacturing and assembly of motor vehicles and manufacturing and trading of automotive equipment and parts

Hong Kong — manufacturing and trading of audio equipment

Australia — manufacturing and trading of automotive equipment and parts

There are no sales between the geographical segments.

Primary reporting format — business segments

	Trading of motor vehicles 2004 HK\$'000	Manufacturing and assembly of motor vehicles 2004 HK\$'000	Manufacturing and trading of automotive equipment and parts 2004 HK\$'000	Manufacturing and trading of audio equipment 2004 HK\$'000	Other operations 2004 HK\$'000	Total 2004 HK\$'000
Turnover	<u>713,983</u>	<u>344,298</u>	<u>18,792</u>	<u>237,632</u>	<u>—</u>	<u>1,314,705</u>
Segment operating (loss)/profit	(6,562)	(14,019)	(32,264)	11,665	1,179	(40,001)
Interest income	<u>1,066</u>	<u>566</u>	<u>10,606</u>	<u>28</u>	<u>13,880</u>	<u>26,146</u>
Operating (loss)/profit	<u>(5,496)</u>	<u>(13,453)</u>	<u>(21,658)</u>	<u>11,693</u>	<u>15,059</u>	<u>(13,855)</u>
Finance costs						(3,870)
Share of profits less losses of:						
A jointly controlled entity		2,270,266				2,270,266
Associated companies	1,694		4,785			6,479
Non-consolidated subsidiaries	102					<u>102</u>
Profit before taxation						2,259,122
Taxation						<u>(199,712)</u>
Profit after taxation						2,059,410
Minority interests						<u>3,037</u>
Profit attributable to shareholders						<u>2,062,447</u>

2. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)**Primary reporting format — business segments (continued)**

	Trading of motor vehicles 2004 HK\$'000	Manufacturing and assembly of motor vehicles 2004 HK\$'000	Manufacturing and trading of automotive equipment and parts 2004 HK\$'000	Manufacturing and trading of audio equipment 2004 HK\$'000	Other operations 2004 HK\$'000	Total 2004 HK\$'000
Segment assets	205,224	413,607	783,277	156,122	1,732,312	3,290,542
Interests in						
A jointly controlled entity		4,249,976				4,249,976
Associated companies	6,666		33,715			40,381
Non-consolidated subsidiaries	2,991					2,991
Unallocated assets						<u>219</u>
Total assets						<u>7,584,109</u>
Segment liabilities	(105,890)	(197,839)	(5,798)	(63,626)	(3,691)	(376,844)
Unallocated liabilities						<u>(79,334)</u>
Total liabilities						<u>(456,178)</u>
Capital expenditure	4,228	32,284	9,490	5,981	66	52,049
Depreciation	2,815	6,001	1,114	5,582	1,970	17,482
Amortisation	1,533	—	—	—	—	1,533
Revaluation gain	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,664</u>	<u>1,389</u>	<u>4,053</u>

2. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

Primary reporting format — business segments (continued)

	Trading of motor vehicles 2003 HK\$'000	Manufacturing and assembly of motor vehicles 2003 HK\$'000	Manufacturing and trading of automotive equipment and parts 2003 HK\$'000	Manufacturing and trading of audio equipment 2003 HK\$'000	Other operations 2003 HK\$'000	Total 2003 HK\$'000
Turnover	<u>999,994</u>	<u>256,171</u>	<u>56,818</u>	<u>221,796</u>	<u>—</u>	<u>1,534,779</u>
Segment operating profit/(loss)	14,453	(43,992)	4,092	16,229	(22,247)	(31,465)
Interest income	<u>1,280</u>	<u>810</u>	<u>7,601</u>	<u>76</u>	<u>7,792</u>	<u>17,559</u>
Operating profit/(loss)	<u>15,733</u>	<u>(43,182)</u>	<u>11,693</u>	<u>16,305</u>	<u>(14,455)</u>	(13,906)
Finance costs						(2,443)
Share of profits less losses of:						
A jointly controlled entity		1,843,205				1,843,205
Associated companies			3,088			3,088
Non-consolidated subsidiaries			1,776			<u>1,776</u>
Profit before taxation						1,831,720
Taxation						<u>(152,903)</u>
Profit after taxation						1,678,817
Minority interests						<u>7,892</u>
Profit attributable to shareholders						<u>1,686,709</u>

2. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

Primary reporting format — business segments (continued)

	Trading of motor vehicles 2003 HK\$'000	Manufacturing and assembly of motor vehicles 2003 HK\$'000	Manufacturing and trading of automotive equipment and parts 2003 HK\$'000	Manufacturing and trading of audio equipment 2003 HK\$'000	Other operations 2003 HK\$'000	Total 2003 HK\$'000
Segment assets	334,138	373,660	768,325	136,167	1,077,946	2,690,236
Interests in						
A jointly controlled entity		3,096,613				3,096,613
Associated companies			7,390			7,390
Non-consolidated subsidiaries			32,912			<u>32,912</u>
Total assets						<u>5,827,151</u>
Segment liabilities	(207,287)	(173,325)	(5,173)	(42,716)	(7,687)	(436,188)
Unallocated liabilities						<u>(57,197)</u>
Total liabilities						<u>(493,385)</u>
Capital expenditure	13,230	139,976	460	9,441	167	163,274
Depreciation	3,268	3,897	1,340	4,145	1,979	14,629
Amortisation	1,533	—	—	—	—	1,533
Revaluation loss	<u>—</u>	<u>—</u>	<u>—</u>	<u>790</u>	<u>—</u>	<u>790</u>

2. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

Secondary reporting format — geographical segments

	Turnover	Segment operating (loss)/profit	Interest income	Operating (loss)/profit	Total assets	Capital expenditure
	2004	2004	2004	2004	2004	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
PRC	1,076,544	(52,406)	12,233	(40,173)	1,394,676	45,823
Hong Kong	237,632	12,844	13,908	26,752	1,888,434	6,047
Australia	529	(439)	5	(434)	7,432	179
	<u>1,314,705</u>	<u>(40,001)</u>	<u>26,146</u>	<u>(13,855)</u>	<u>3,290,542</u>	<u>52,049</u>
Interests in						
A jointly controlled entity					4,249,976	
Associated companies					40,381	
Non-consolidated subsidiaries					2,991	
Unallocated assets					<u>219</u>	
Total assets					<u>7,584,109</u>	
	Turnover	Segment operating (loss)/profit	Interest income	Operating (loss)/profit	Total assets	Capital expenditure
	2003	2003	2003	2003	2003	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
PRC	1,300,568	(26,028)	9,662	(16,366)	1,467,870	153,370
Hong Kong	221,796	(6,018)	7,868	1,850	1,214,113	9,608
Australia	12,415	581	29	610	8,253	296
	<u>1,534,779</u>	<u>(31,465)</u>	<u>17,559</u>	<u>(13,906)</u>	<u>2,690,236</u>	<u>163,274</u>
Interests in						
A jointly controlled entity					3,096,613	
Associated companies					7,390	
Non-consolidated subsidiaries					<u>32,912</u>	
Total assets					<u>5,827,151</u>	

3. OPERATING LOSS

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

	<u>Group</u>	
	2004	2003
	HK\$'000	HK\$'000
Net exchange loss/(gain)	211	(1,344)
Auditors' remuneration	2,560	2,351
Staff costs (including directors' emoluments)	82,092	84,732
Research and development costs	1,946	2,556
Operating lease rentals in respect of land and buildings	9,013	8,550
Outgoings in respect of investment properties	565	585
Outgoings in respect of other properties	190	164
Amortisation of goodwill	1,533	1,533
Depreciation of fixed assets	17,482	14,629
Loss on disposal of fixed assets	1,899	1,913
Revaluation (gain)/loss on investment properties	(4,053)	790
Write-back of provision for impairment loss of fixed assets	(1,750)	—
Loss on disposal of subsidiaries	762	—
Gain on liquidation of subsidiaries	(13,400)	—
Gain on disposal of an associated company	(9,549)	—
Write-back of provision for inventory obsolescence	(6,105)	—
Provision for inventory obsolescence	—	19,396
Write-back of provision for doubtful debts	—	(61)
Provision for doubtful debts	6,585	485
	<u>6,585</u>	<u>485</u>

4. FINANCE COSTS

	<u>Group</u>	
	2004	2003
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	3,161	1,836
Interest on other loans — wholly repayable within five years	709	607
	<u>3,870</u>	<u>2,443</u>

5. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) 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.

5. TAXATION (continued)

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

	<u>Group</u>	
	2004 HK\$'000	2003 HK\$'000
Hong Kong profits tax		
Current year provision	823	1,214
Over provision in prior years	—	(140)
Overseas taxation		
Current year provision	4,306	9,113
Under/(over) provision in prior years	1,321	(1,371)
Deferred taxation relating to the reversal of temporary differences (note 25)	(49)	—
Deferred taxation resulting from an increase in tax rate (note 25)	<u>—</u>	<u>84</u>
	6,401	8,900
Share of taxation attributable to:		
A jointly controlled entity	192,946	143,489
Associated companies	356	514
Non-consolidated subsidiaries	<u>9</u>	<u>—</u>
	<u>199,712</u>	<u>152,903</u>

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the principal applicable tax rate as follows:

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	<u>2,259,122</u>	<u>1,831,720</u>
Calculated at a tax rate of 7.5% (2003: 7.5%)	169,434	137,379
Effect of different tax rates in different tax jurisdictions	30,278	15,440
Increase in opening net deferred tax liabilities resulting from an increase in tax rate	<u>—</u>	<u>84</u>
Taxation charge	<u>199,712</u>	<u>152,903</u>

6. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Included in the Group's profit attributable to shareholders of HK\$2,062,447,000 (2003: HK\$1,686,709,000) is a profit of HK\$801,257,000 (2003: HK\$602,659,000), which is dealt with in the Company's own accounts.

7. DIVIDENDS

	<u>Company</u>	
	2004	2003
	HK\$'000	HK\$'000
Interim, paid, of HK4 cents (2003: HK2 cents*) per ordinary share	293,264	139,925
Final, proposed, of HK4 cents (2003: HK3 cents*) per ordinary share (<i>note (a)</i>)	296,507	212,059
Special, proposed, of HK Nil cents (2003: HK4 cents*) per ordinary share	<u>—</u>	<u>282,745</u>
	<u>589,771</u>	<u>634,729</u>

- (a) At a meeting held on 14 April 2005, the directors proposed a final dividend of HK4 cents (2003: a final dividend of HK3 cents* and a special dividend of HK4 cents*) per ordinary share. This proposed dividend is not reflected as dividend payable in these accounts but will be reflected as an appropriation of retained profits for the year ending 31 December 2005.

* Adjusted for one for one bonus issue of shares in May 2004.

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the consolidated profit attributable to the shareholders of HK\$2,062,447,000 (2003: HK\$1,686,709,000) and the weighted average number of 7,168,177,464 (2003: 6,986,089,301*) ordinary shares in issue during the year ended 31 December 2004.

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 7,205,282,242 (2003: 7,035,694,956*) ordinary shares which represent the weighted average number of ordinary shares in issue during the year plus the weighted average number of 37,104,778 (2003: 49,605,658) ordinary shares deemed to be issued at nil consideration if all outstanding options had been exercised.

* Adjusted for one for one bonus issue of shares in May 2004.

9. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	<u>Group</u>	
	2004	2003
	HK\$'000	HK\$'000
Wages and salaries	73,224	77,339
Termination benefits	1,852	—
Pension costs — retirement benefit costs	<u>7,016</u>	<u>7,393</u>
	<u>82,092</u>	<u>84,732</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:

	<u>Group</u>	
	2004	2003
	HK\$'000	HK\$'000
Fees	4,040	3,976
Other emoluments		
Basic salary and bonus	1,258	1,194
Share options exercised	1,095	510
	<u>6,393</u>	<u>5,680</u>

- (i) Directors' fees disclosed above include HK\$540,000 (2003: HK\$176,000) paid to the independent non-executive directors. During the year, no emoluments were paid to the directors as an inducement fee to join or as compensation for loss of office.
- (ii) Under the Company's share option scheme approved by shareholders in the Extraordinary General Meeting of the Company held on 6 June 2002, certain directors were granted options to acquire shares in the Company (see note 22). There were in total 41,032,000 share options outstanding as at 31 December 2004. The market value of the share of the Company as at 31 December 2004 was HK\$2.775.

During the year, a director exercised his options to subscribe for 2,000,000 ordinary shares in the Company. The gain related to exercise of the said options amounted in total to HK\$1,095,000. Details of the options exercised are as follows:

<u>Date of grant</u>	<u>Adjusted exercise price</u>	<u>Market price at exercise dates</u>	<u>Number of share options exercised</u>
	HK\$	HK\$	
7 August 2003	<u>2.1525</u>	<u>2.70</u>	<u>2,000,000</u>

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

<u>Emolument bands</u>	<u>Number of directors</u>	
	2004	2003
HK\$Nil – HK\$1,000,000	7	8
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$2,000,000	<u>1</u>	<u>—</u>

No director waived any emoluments during the years ended 31 December 2003 and 2004.

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest for the year do not include any (2003: include one) of the directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the five (2003: remaining four) individuals during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Basic salaries and bonus	978	2,854
Share options exercised	<u>56,930</u>	<u>8,269</u>
	<u><u>57,908</u></u>	<u><u>11,123</u></u>

The emoluments fell within the following bands:

<u>Emolument bands</u>	<u>Number of individuals</u>	
	2004	2003
HK\$1,000,001 – HK\$2,000,000	—	2
HK\$2,000,001 – HK\$3,000,000	—	1
HK\$5,000,001 – HK\$6,000,000	—	1
HK\$10,000,001 – HK\$11,000,000	2	—
HK\$11,000,001 – HK\$12,000,000	2	—
HK\$13,000,001 – HK\$14,000,000	<u>1</u>	<u>—</u>

During the year, no emoluments were paid to the five highest paid individuals as an inducement to join or as compensation for loss of office.

11. INTANGIBLE ASSET

	<u>Group</u>	
	2004 HK\$'000	2003 HK\$'000
Goodwill		
Cost		
At 1 January and 31 December	<u>30,658</u>	<u>30,658</u>
Accumulated amortisation		
At 1 January	4,599	3,066
Amortisation for the year	<u>1,533</u>	<u>1,533</u>
At 31 December	<u><u>6,132</u></u>	<u><u>4,599</u></u>
Net book value		
At 31 December	<u><u>24,526</u></u>	<u><u>26,059</u></u>

Notes to the Accounts

31 DECEMBER 2004

12. FIXED ASSETS

	Group					
	Land, land use rights and buildings HK\$'000	Investment properties HK\$'000	Plant and machinery HK\$'000	Office equipment and leasehold improvements HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:						
At 1 January 2004	237,486	35,007	100,751	36,117	23,869	433,230
Exchange adjustment	164	—	256	38	69	527
Additions	29,290	—	6,134	3,781	12,844	52,049
Revaluation	—	4,053	—	—	—	4,053
Disposals	—	(1,320)	(4,379)	(3,835)	(3,024)	(12,558)
Disposal and liquidation of subsidiaries	(449)	—	(14,509)	(4,004)	—	(18,962)
At 31 December 2004	<u>266,491</u>	<u>37,740</u>	<u>88,253</u>	<u>32,097</u>	<u>33,758</u>	<u>458,339</u>
Accumulated depreciation and amortisation and accumulated impairment:						
At 1 January 2004	67,069	—	44,698	24,188	8,908	144,863
Exchange adjustment	—	—	153	26	32	211
Charge for the year	3,962	—	7,364	3,386	2,770	17,482
Disposals	—	—	(2,759)	(2,070)	(2,497)	(7,326)
Disposal and liquidation of subsidiaries	(106)	—	(13,127)	(2,796)	—	(16,029)
Write-back of impairment loss	(1,750)	—	—	—	—	(1,750)
At 31 December 2004	<u>69,175</u>	<u>—</u>	<u>36,329</u>	<u>22,734</u>	<u>9,213</u>	<u>137,451</u>
Net book value:						
At 31 December 2004	<u>197,316</u>	<u>37,740</u>	<u>51,924</u>	<u>9,363</u>	<u>24,545</u>	<u>320,888</u>
At 31 December 2003	<u>170,417</u>	<u>35,007</u>	<u>56,053</u>	<u>11,929</u>	<u>14,961</u>	<u>288,367</u>

The analysis of the cost or valuation at 31 December 2004 of the above assets is as follows:

	Group					
	Land, land use rights and buildings HK\$'000	Investment properties HK\$'000	Plant and machinery HK\$'000	Office equipment and leasehold improvements HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
At cost	266,491	—	88,253	32,097	33,758	420,599
At 2004 professional valuation	—	37,740	—	—	—	37,740
	<u>266,491</u>	<u>37,740</u>	<u>88,253</u>	<u>32,097</u>	<u>33,758</u>	<u>458,339</u>

12. FIXED ASSETS (continued)

The net book values of investment properties, land, land use rights and buildings are analysed as follows:

	<u>Group</u>	
	2004 HK\$'000	2003 HK\$'000
In Hong Kong, held on:		
Leases of over 50 years	38,290	35,736
Leases of between 10 to 50 years	20,990	20,489
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	<u>175,776</u>	<u>149,199</u>
	<u>235,056</u>	<u>205,424</u>

Investment properties were revalued at 31 December 2004 on the basis of their open market values by Colliers International (Hong Kong) Limited, a member of the Hong Kong Institute of Surveyors.

At 31 December 2004, certain land and buildings and investment properties with a total net book value of approximately HK\$60,143,000 (2003: HK\$22,906,000) were pledged as securities for the Group's bank borrowings (see note 24(a)).

	<u>Company</u>			
	Investment properties in the PRC* HK\$'000	Office equipment and leasehold improve- ments HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:				
At 1 January 2004	10,010	3,607	2,683	16,300
Additions	—	66	—	66
Revaluation	<u>(60)</u>	<u>—</u>	<u>—</u>	<u>(60)</u>
At 31 December 2004	<u>9,950</u>	<u>3,673</u>	<u>2,683</u>	<u>16,306</u>
Accumulated depreciation:				
At 1 January 2004	—	2,677	1,851	4,528
Charge for the year	<u>—</u>	<u>385</u>	<u>438</u>	<u>823</u>
At 31 December 2004	<u>—</u>	<u>3,062</u>	<u>2,289</u>	<u>5,351</u>
Net book value:				
At 31 December 2004	<u>9,950</u>	<u>611</u>	<u>394</u>	<u>10,955</u>
At 31 December 2003	<u>10,010</u>	<u>930</u>	<u>832</u>	<u>11,772</u>

12. FIXED ASSETS (continued)

The analysis of the cost or valuation at 31 December 2004 of the above assets is as follows:

	<u>Company</u>			
	Investment properties in the PRC* HK\$'000	Office equipment and leasehold improve- ments HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
At cost	—	3,673	2,683	6,356
At 2004 professional valuation	<u>9,950</u>	<u>—</u>	<u>—</u>	<u>9,950</u>
	<u>9,950</u>	<u>3,673</u>	<u>2,683</u>	<u>16,306</u>

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

13. INVESTMENTS IN SUBSIDIARIES

	<u>Company</u>	
	2004 HK\$'000	2003 HK\$'000
Investments at cost		
— unlisted shares	836,578	836,578
— provision for impairment losses	<u>(89,263)</u>	<u>(75,264)</u>
	747,315	761,314
Amounts due from subsidiaries (note (a))	<u>625,141</u>	<u>514,953</u>
	<u>1,372,456</u>	<u>1,276,267</u>

(a) The balances are unsecured, interest-free and will 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

	<u>Group</u>	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	4,239,959	3,086,596
Capitalisation of interest	<u>10,017</u>	<u>10,017</u>
	<u>4,249,976</u>	<u>3,096,613</u>

14. INTEREST IN A JOINTLY CONTROLLED ENTITY (continued)

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

<u>Name</u>	<u>Place of incorporation/ establishment</u>	<u>Principal activities</u>	<u>Effective interest held</u>
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 (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.

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

	2004	2003
	HK\$'000	HK\$'000
Fixed assets	3,522,236	3,212,156
Intangible assets*	455,111	477,461
Current assets	10,123,418	6,849,054
Current liabilities	(5,168,824)	(4,034,894)
Minority interests	(5,710)	(5,681)
Shareholders' funds	<u>8,926,231</u>	<u>6,498,096</u>
	2004	2003
	HK\$'000	HK\$'000
Turnover	<u>29,338,166</u>	<u>20,958,527</u>
Profit for the year	<u>4,373,304</u>	<u>3,578,349</u>

* Included in this balance is a goodwill of approximately HK\$282,532,000 (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.

15. INTERESTS IN ASSOCIATED COMPANIES

	<u>Group</u>		<u>Company</u>	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted investments, at cost	—	—	—	64,173
Less: provision for impairment loss	—	—	—	(64,173)
Share of net assets	<u>40,381</u>	<u>7,390</u>	<u>—</u>	<u>—</u>
	<u>40,381</u>	<u>7,390</u>	<u>—</u>	<u>—</u>

15. INTERESTS IN ASSOCIATED COMPANIES (continued)

Particulars of the principal associated companies are as follows:

<u>Name</u>	<u>Place of incorporation/ establishment</u>	<u>Principal activities</u>	<u>Registered capital</u>	<u>Effective interest held</u>
Shanghai Guangchee Automotive Trading and Services Company Limited (note (a))	PRC	Wholesale and retail of various types of motor vehicles in the PRC	RMB10,000,000	30%
Guangzhou Hua De Automobile Spring Company Limited (note (b))	PRC	Manufacturing of automobile springs in the PRC	US\$7,061,224	49%

(a) This is a Sino-foreign equity joint venture in which 30% interest in its equity capital is held by a subsidiary of the Company. The Group's investment cost in this company is approximately HK\$2,804,000 (2003: HK\$2,804,000). The joint-venture period is 30 years from March 1999.

(b) This is a Sino-foreign equity joint venture in which 49% interest in its equity capital is held by a wholly owned subsidiary of the Company. The Group's investment cost in this company is HK\$26,877,000 (2003: HK\$27,974,000). The joint venture period is 50 years from December 1993.

16. INTERESTS IN NON-CONSOLIDATED SUBSIDIARIES

	<u>Group</u>	
	<u>2004</u> <u>HK\$'000</u>	<u>2003</u> <u>HK\$'000</u>
Share of net assets	<u>2,991</u>	<u>32,912</u>

17. INVESTMENT SECURITIES

	<u>Group</u>		<u>Company</u>	
	<u>2004</u> <u>HK\$'000</u>	<u>2003</u> <u>HK\$'000</u>	<u>2004</u> <u>HK\$'000</u>	<u>2003</u> <u>HK\$'000</u>
Club debentures, at cost	1,075	1,075	1,075	1,075
Unlisted shares	3,719	3,714	—	—
Less: provision for impairment loss				
— club debentures	(675)	(675)	(675)	(675)
— unlisted shares	(150)	(150)	—	—
	<u>3,969</u>	<u>3,964</u>	<u>400</u>	<u>400</u>

18. INVENTORIES

	<u>Group</u>	
	2004 HK\$'000	2003 HK\$'000
Raw materials	53,986	44,381
Work in progress	31,861	20,253
Finished goods	73,206	112,493
Less: provision	<u>(17,863)</u>	<u>(24,130)</u>
	<u>141,190</u>	<u>152,997</u>

At 31 December 2004 inventories that are carried at net realisable value amounted to HK\$29,136,000 (2003: HK\$15,196,000).

19. TRADE AND OTHER RECEIVABLES

	<u>Group</u>		<u>Company</u>	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Due from subsidiaries (note (a))	—	—	550,717	744,800
Due from immediate holding company (note (a))	56	74	54	71
Due from a jointly controlled entity (note (a))	5,046	4,795	—	—
Due from fellow subsidiaries (notes (a))	—	5,938	—	—
Trade receivables (note (b))	157,587	135,525	—	—
Bills receivable (note (c))	8,962	21,108	—	—
Other receivables, prepayments and deposits	<u>33,652</u>	<u>83,776</u>	<u>4,760</u>	<u>6,162</u>
	<u>205,303</u>	<u>251,216</u>	<u>555,531</u>	<u>751,033</u>

- (a) The balances are unsecured, interest-free and have no fixed terms of repayment.
- (b) The Group allows its trade customers an average credit period of 90 days.
- (c) The bills receivable have maturity dates between 3 to 6 months.

19. TRADE AND OTHER RECEIVABLES (continued)

At 31 December 2004, the ageing analysis of the trade receivables was as follows:

	<u>Group</u>	
	2004 HK\$'000	2003 HK\$'000
Within 3 months	94,815	126,663
4–6 months	46,404	6,344
7–12 months	16,010	775
Over 12 months	358	1,743
	<u>157,587</u>	<u>135,525</u>

20. CASH AND BANK BALANCES

- (a) At 31 December 2004, bank balances of the Group totalling HK\$57,671,000 (2003: HK\$72,406,000) were pledged as securities for the Group's bank borrowing facilities.
- (b) Included in cash and bank balances of the Group and of the Company are cash and deposits with banks in the PRC denominated in Renminbi, totalling RMB878,768,000 (equivalent to HK\$825,289,000 (2003: HK\$854,904,000)) and RMB2,852,000 (equivalent to HK\$2,678,000 (2003: HK\$3,590,000)), respectively. Renminbi is not a freely convertible currency.

21. TRADE AND OTHER PAYABLES

	<u>Group</u>		<u>Company</u>	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Due to subsidiaries (note (a))	—	—	—	508
Due to ultimate holding company (note (b))	10,119	—	—	—
Due to immediate holding company (note (a))	2,194	—	—	—
Due to fellow subsidiaries (note (a))	38	43	—	—
Due to a minority shareholder of a subsidiary (note (c))	443	443	—	—
Trade payables	102,337	83,092	—	—
Bills payable (note (d))	171,896	221,034	—	—
Other payables, deposits received and accrued charges	66,163	117,221	3,617	8,699
	<u>353,190</u>	<u>421,833</u>	<u>3,617</u>	<u>9,207</u>

21. TRADE AND OTHER PAYABLES (continued)

- (a) The balances are unsecured, interest-free and have no fixed terms of repayment.
- (b) The balance is unsecured, bears interest at commercial rate and is due for payment within 12 months.
- (c) The balance is unsecured, bears interest at commercial rate and has no fixed terms of repayment.
- (d) The bills are due for payments within 6 months.

At 31 December 2004, the ageing analysis of the trade payables was as follows:

	<u>Group</u>	
	2004	2003
	HK\$'000	HK\$'000
Within 3 months	84,722	72,226
4–6 months	6,669	7,814
7–12 months	1,958	481
Over 12 months	8,988	2,571
	<u>102,337</u>	<u>83,092</u>

22. SHARE CAPITAL

	<u>Ordinary shares of HK\$0.1 each</u>	
	No. of shares	HK\$'000
Authorised:		
At 31 December 2003	4,000,000,000	400,000
Increase in authorised share capital (note (a))	<u>6,000,000,000</u>	<u>600,000</u>
At 31 December 2004	<u>10,000,000,000</u>	<u>1,000,000</u>
Issued and fully paid:		
At 31 December 2002	3,418,098,267	341,810
Exercise of options (note (c))	<u>90,436,500</u>	<u>9,043</u>
At 31 December 2003	3,508,534,767	350,853
Bonus issue (note (b))	3,534,317,767	353,432
Exercise of options (note (c))	<u>369,828,000</u>	<u>36,983</u>
At 31 December 2004	<u>7,412,680,534</u>	<u>741,268</u>

- (a) By an ordinary resolution passed on 10 May 2004, the authorised share capital of the Company increased from HK\$400,000,000 to HK\$1,000,000,000 by the creation of 6,000,000,000 ordinary shares of HK\$0.1 each.
- (b) In May 2004, a bonus issue of one bonus share, credited as fully paid, for every one share was made by way of capitalisation from the share premium account of the Company. These bonus shares rank pari passu in all respects with the existing ordinary shares.

22. SHARE CAPITAL (continued)

- (c) On 1 February 1993, a share option scheme (“Old 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 under the Old Scheme are as follows:

Date of grant/ number of share options granted	Number of share options outstanding as at 31 December		Number of share options exercised		Exercise price HK\$
	2004	2003	2004	2003	
18 July 2001/59,094,000	—	—	—	693,000	2.156

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 31 January 2003, whichever is earlier.

The Old Scheme was terminated on 6 June 2002. After termination of the Old Scheme, no more option can be granted pursuant to the Old Scheme and in respect of all the outstanding options granted under the Old Scheme, the provisions of the Old Scheme shall remain in force.

On 6 June 2002, a new share option scheme (“New Scheme”) was approved at an Extraordinary General Meeting of the Company under which the directors may, at their discretion, invite any participant who has rendered services or will render services to the Group to take up options. Details of share options granted under the New Scheme are as follows:

Date of grant/ number of share options granted	Additional options due to bonus issue of shares (iii)	Number of share options outstanding as at 31 December		Number of share options exercised		Exercise price HK\$
		2004	2003	2004	2003	
9 May 2003/ 275,342,000	169,008,000	31,434,000	193,555,000	331,129,000	81,787,000	2.65 (1.325*) (i)
2 July 2003/ 27,130,000	18,267,500	1,072,000	19,503,500	36,699,000	7,626,500	3.65 (1.825*) (i)
7 August 2003/ 24,678,000	24,348,000	46,696,000	24,348,000	2,000,000	330,000	4.305 (2.1525*) (ii)
	211,623,500	79,202,000	237,406,500	369,828,000	89,743,500	

- (i) Share options may be exercised during the three-year period commencing on the date of grant, and shall expire at the end of the three-year period.
- (ii) Share options may be exercised during the ten-year period commencing on the date of grant, and shall expire at the end of the ten-year period or 5 June 2012, whichever is earlier.
- (iii) Pursuant to the bonus issue of shares as mentioned in point (b) above, additional number of options were issued according to the terms of the share option scheme.

* Adjusted for one for one bonus issue of shares in May 2004.

Notes to the Accounts

31 DECEMBER 2004

23. RESERVES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Share premium				
At 1 January	2,109,246	1,870,802	2,109,246	1,870,802
Issue of shares	507,824	238,444	507,824	238,444
Bonus issue	(353,432)	—	(353,432)	—
At 31 December	2,263,638	2,109,246	2,263,638	2,109,246
Exchange reserve				
At 1 January	(28,533)	(31,056)	—	—
Exchange difference on translation of accounts of foreign subsidiaries, associated companies and a jointly controlled entity	2,805	2,523	—	—
Transfer to profit and loss account upon disposal and liquidation of subsidiaries	(45)	—	—	—
Transfer to profit and loss account upon disposal of an associated company	(7,683)	—	—	—
At 31 December	(33,456)	(28,533)	—	—
Retained profits (note (a))				
At 1 January	2,021,159	902,581	588,525	262,543
Profit for the year	2,062,447	1,686,709	801,257	602,659
2003 final and special dividends/ 2002 final dividend paid	(494,804)	(136,752)	(494,804)	(136,752)
Interim dividend paid	(293,264)	(139,925)	(293,264)	(139,925)
Transfer to capital reserve	(190,673)	(291,454)	—	—
Transfer from capital reserve upon disposal and liquidation of subsidiaries	7,920	—	—	—
Transfer from capital reserve upon disposal of an associated company	9,896	—	—	—
At 31 December	3,122,681	2,021,159	601,714	588,525

23. RESERVES (continued)

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Capital reserve (note (b))				
At 1 January	703,379	411,925	—	—
Transfer to retained profits upon disposal and liquidation of subsidiaries	(7,920)	—	—	—
Transfer to retained profits upon disposal of an associated company	(9,896)	—	—	—
Transfer from profit and loss account	190,673	291,454	—	—
At 31 December	<u>876,236</u>	<u>703,379</u>	<u>—</u>	<u>—</u>
Total reserves	<u>6,229,099</u>	<u>4,805,251</u>	<u>2,865,352</u>	<u>2,697,771</u>

(a) Retained profits/(accumulated losses)

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Company and subsidiaries	373,306	201,555	601,714	588,525
A jointly controlled entity	2,772,999	1,857,266	—	—
Non-consolidated subsidiaries and associated companies	(23,624)	(37,662)	—	—
	<u>3,122,681</u>	<u>2,021,159</u>	<u>601,714</u>	<u>588,525</u>

- (b) The reserve represents transfers made to reserve funds and enterprise development funds 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, reserve funds may be used for making up losses, if any, and increasing capital while enterprise development funds may be used for increasing capital.

24. LONG-TERM LIABILITIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Bank loans, secured (note (a))	70,625	57,197
Current portion of long-term liabilities	<u>(61,954)</u>	<u>(45,415)</u>
	<u>8,671</u>	<u>11,782</u>

24. LONG-TERM LIABILITIES (continued)

(a) At 31 December 2004, bank loans were repayable as follows:

	<u>Group</u>	
	2004	2003
	HK\$'000	HK\$'000
Within one year	61,954	45,415
In the second year	6,751	7,089
In the third to fifth year inclusive	1,403	4,147
After the fifth year	<u>517</u>	<u>546</u>
	70,625	57,197
Less: portion due within one year included under current liabilities	<u>(61,954)</u>	<u>(45,415)</u>
	<u><u>8,671</u></u>	<u><u>11,782</u></u>

Certain bank loans of the Group totalling HK\$10,640,000 (2003: HK\$15,003,000) are secured by certain land and buildings and investment properties (note 12) of the Group.

25. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal tax rate of 17.5% (2003: 17.5%).

The movement on the deferred tax liabilities account is as follows:

	<u>Group</u>	
	2004	2003
	HK\$'000	HK\$'000
At 1 January	975	891
Deferred taxation (credited)/charged to profit and loss account (note 5)	<u>(49)</u>	<u>84</u>
At 31 December	<u><u>926</u></u>	<u><u>975</u></u>
Provided in respect of:		
Accelerated depreciation allowances	<u><u>926</u></u>	<u><u>975</u></u>

Deferred income tax assets are only recognised for tax losses carried forward to the extent that realisation of the related tax benefits through the future taxable profits is probable. Total potential deferred taxation asset not provided for in the accounts is as follows:

	2004	2003
	HK\$'000	HK\$'000
Tax losses	<u><u>25,755</u></u>	<u><u>20,983</u></u>

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**(a) Reconciliation of profit before taxation to net cash (used in)/generated from operations:**

	2004	2003
	HK\$'000	HK\$'000
Profit before taxation	2,259,122	1,831,720
Interest income	(26,146)	(17,559)
Interest expense	3,870	2,443
Share of profits less losses of:		
A jointly controlled entity	(2,270,266)	(1,843,205)
Associated companies	(6,479)	(3,088)
Non-consolidated subsidiaries	(102)	(1,776)
Amortisation of goodwill	1,533	1,533
Revaluation (gain)/loss on investment properties	(4,053)	790
Depreciation of fixed assets	17,482	14,629
Loss on disposal of fixed assets	1,899	1,913
Write-back of provision for impairment loss of fixed assets	(1,750)	—
Loss on disposal of subsidiaries	762	—
Gain on liquidation of subsidiaries	(13,400)	—
Gain on disposal of an associated company	(9,549)	—
Write-back of provision for inventory obsolescence	(6,105)	—
Provision for inventory obsolescence	—	19,396
Write-back of provision for doubtful debts	—	(61)
Provision for doubtful debts	6,585	485
	<hr/>	<hr/>
Operating (loss)/profit before working capital changes	(46,597)	7,220
Decrease/(increase) in inventories	17,912	(12,041)
Decrease/(increase) in trade and other receivables	34,454	(69,553)
(Decrease)/increase in trade and other payables	(43,890)	207,897
	<hr/>	<hr/>
Net cash (used in)/generated from operations	<u>(38,121)</u>	<u>133,523</u>

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)**(b) Analysis of changes in financing during the year**

	Share capital (including share premium) HK\$'000	Trust receipt, bank and other loans HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2003	2,212,612	70,947	109,107	2,392,666
Issue of shares upon exercise of share options	247,487	—	—	247,487
Minority interests	—	—	(7,892)	(7,892)
Minority interests in share of exchange reserve	—	—	794	794
Cash inflow from financing	—	605	—	605
Dividends paid to minority shareholders	—	—	(31,744)	(31,744)
Dividends payable to minority shareholders	—	—	40,502	40,502
Capital injection from a minority shareholder	—	—	60,461	60,461
	<u>2,460,099</u>	<u>71,552</u>	<u>171,228</u>	<u>2,702,879</u>
At 31 December 2003	2,460,099	71,552	171,228	2,702,879
Issue of shares upon exercise of share options	544,807	—	—	544,807
Minority interests	—	—	(3,037)	(3,037)
Minority interests in share of exchange reserve	—	—	144	144
Cash inflow from financing	—	22,727	—	22,727
Dividends paid to minority shareholders	—	—	(8,464)	(8,464)
Disposal of subsidiaries	—	—	(1,811)	(1,811)
Liquidation of subsidiaries	—	—	(496)	(496)
	<u>3,004,906</u>	<u>94,279</u>	<u>157,564</u>	<u>3,256,749</u>
At 31 December 2004	<u>3,004,906</u>	<u>94,279</u>	<u>157,564</u>	<u>3,256,749</u>

(c) Disposal of subsidiaries

	2004 HK\$'000
Net assets disposed of:	
Fixed assets	1,382
Trade and other receivables	5,173
Cash and bank balances	9,155
Trade and other payables	(2,665)
Minority interests	(1,811)
Exchange reserve	(45)
	<u>11,189</u>
Loss on disposal of subsidiaries	(762)
Cash consideration received	<u>10,427</u>

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Disposal of subsidiaries (continued)

Analysis of net inflow of cash and cash equivalents in respect of the disposal of subsidiaries

	2004
	HK\$'000
Cash consideration received	10,427
Cash and bank balances disposed of	<u>(9,155)</u>
Net cash inflow	<u><u>1,272</u></u>

(d) Liquidation of subsidiaries

	2004
	HK\$'000
Net liabilities disposed of:	
Fixed assets	1,551
Trade and other receivables	2,108
Cash and bank balances	7,932
Trade and other payables	(22,088)
Minority interests	<u>(496)</u>
	(10,993)
Gain on liquidation of subsidiaries	<u>13,400</u>
Proceeds receivable on liquidation	<u><u>2,407</u></u>
Analysis of net outflow of cash and cash equivalents in respect of the liquidation of subsidiaries	

	2004
	HK\$'000
Cash and bank balances disposed of	<u><u>(7,932)</u></u>

27. COMMITMENTS

(a) Commitments under operating leases

At 31 December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Not later than one year	9,632	6,788
Later than one year and not later than five years	29,858	27,990
Later than five years	<u>16,811</u>	<u>35,042</u>
	<u><u>56,301</u></u>	<u><u>69,820</u></u>

The Company had no operating lease commitments as at 31 December 2003 and 2004.

27. COMMITMENTS (continued)

(b) Capital commitments

At 31 December 2004, the Group had capital commitments in respect of purchase of fixed assets as follows:

	<u>Group</u>	
	2004	2003
	HK\$'000	HK\$'000
Authorised but not provided for	<u>8,756</u>	<u>34,090</u>

The Company had no capital commitments as at 31 December 2003 and 2004.

28. CONTINGENT LIABILITIES

	<u>Group</u>	
	2004	2003
	HK\$'000	HK\$'000
Guarantees for bank loans borrowed by:		
— an associated company	13,805	—
— a non-consolidated subsidiary	—	13,873
— independent third parties	<u>62,173</u>	<u>—</u>
	<u>75,978</u>	<u>13,873</u>

The Company had no contingent liabilities as at 31 December 2003 and 2004.

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:

	<u>Group</u>	
	2004	2003
	HK\$'000	HK\$'000
Sales to a jointly controlled entity (note (a))	1,932	—
Purchases from a jointly controlled entity (note (a))	358,498	428,772
Purchases from fellow subsidiaries (note (a))	2,348	—
Disposal of a partial interest in a non-consolidated subsidiary to a fellow subsidiary (note (a))	822	—
Rental expenses paid to a fellow subsidiary (note (a))	263	696
Administration and management fees for retired employees paid to a fellow subsidiary (note (a))	486	3,114
Purchase of land use rights and buildings from a subsidiary of an intermediate holding company (note (a))	<u>—</u>	<u>67,234</u>

- (a) 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 parties of the Group.

30. BANKING FACILITIES

At 31 December 2004, the Group had total banking facilities amounted to HK\$396,993,000 (2003: HK\$367,518,000), of which HK\$266,175,000 (2003: HK\$292,586,000) was utilised as at that date.

31. RETIREMENT BENEFIT COSTS

The Company and certain of its Hong Kong subsidiaries (the “Employers”) participate in 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\$62,000 (2003: HK\$463,000) were utilised during the year. There was no outstanding balance available at the balance sheet dates of 2003 and 2004 to reduce future contributions. As at 31 December 2004, contributions totalling HK\$67,000 (2003: HK\$482,000) were payable to the ORSO and MPF Schemes and are included in other payables. The assets of the schemes are held separately from those of the Group in independently administered funds.

The subsidiaries of the Group 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% (2003: 23%) of the entire payroll of its staff while the employees need to contribute 3% of their payroll. The pension plan has been paying monthly pensions to the retired employees of these subsidiaries. In 2004, there was no material contribution forfeited by employees who left the scheme prior to vesting fully in such contributions. The Group has no further obligations for the actual payment of the pensions or post-retirement benefits beyond the annual contributions made.

The Group’s retirement benefit costs were expensed as incurred and the total amount charged to the profit and loss account for the year was HK\$7,016,000 (2003: HK\$7,393,000).

32. ULTIMATE HOLDING COMPANY

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

33. POST BALANCE SHEET EVENTS

On 3 January 2005, the Company entered into an agreement with City Achieve Investments Limited, a fellow subsidiary of the Company, pursuant to which the Company has conditionally agreed to acquire the remaining 5% equity interest in Guangzhou Denway Enterprises Development Company Limited from City Achieve Investments Limited at a consideration of HK\$996,215,000.

34. APPROVAL OF ACCOUNTS

The accounts were approved by the Board on 14 April 2005.

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 31 December 2004 or formed a substantial portion of the net assets of the Group at 31 December 2004:

<u>Name</u>	<u>Place of incorporation/ establishment</u>	<u>Principal activities</u>	<u>Registered capital/issued share capital</u>	<u>Effective interest held</u>
Interest held directly:				
Guangzhou Denway Enterprises Development Company Limited (notes (a) and (c))	PRC	Investment and management	US\$87,272,700	95%
Guangzhou Denway Bus Limited (notes (a), (b) and (c))	PRC	Assembly and sales of coaches and sales of other vehicles	US\$29,900,000	50%
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%
Interest held indirectly:				
Guangzhou Auto Group Corporation (notes (a) and (c))	PRC	Investment and management	RMB468,200,000	95%
Guangzhou Automotive Industry Trading Company Limited (notes (a) and (c))	PRC	Wholesale and retail of various types of motor vehicles	RMB20,000,000	90%
Guangzhou Honda Automobile No. 1 Sales Company Limited (notes (a), (b) and (c))	PRC	Trading of motor sedan	RMB18,000,000	48%
Promowide Technology Limited	Hong Kong	Investment holding and management	HK\$42,394,938	63%

35. SUBSIDIARIES (continued)

<u>Name</u>	<u>Place of incorporation/ establishment</u>	<u>Principal activities</u>	<u>Registered capital/issued share capital</u>	<u>Effective interest held</u>
Interest held indirectly: (continued)				
Arkon Industrial Limited	Hong Kong	Investment holding and management	HK\$10,000,000	61%
Art Sea Metal Works Limited	Hong Kong	Manufacture of metal parts	HK\$400,000	61%
Uni-Art Precise Products Limited	Hong Kong	Manufacture of audio equipment	HK\$400,000	61%
Classic Tech Development Limited	Hong Kong	Property holding	HK\$35,010,000	63%
Baker and Priem Bull Bars Pty Limited (note (c))	Australia	Design and manufacture of motor vehicles accessories	AUD215,710	51%
Baker and Priem Sales Pty Limited (note (c))	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) The composition of the board of directors of each of these entities is controlled by the Company.
- (c) Statutory accounts of these subsidiaries were not audited by PricewaterhouseCoopers.
- (d) All the above subsidiaries mainly operate in their respective places of incorporation/establishment.