

## INTERIM RESULTS

The board of directors (the “Board”) of Denway Motors Limited (the “Company”) announces that the unaudited interim results of the Company and its subsidiaries (together the “Group”), a jointly controlled entity, associated companies and non-consolidated subsidiaries for the six months ended 30th June 2005 together with comparative figures for the corresponding period in 2004, are as follows:

### Condensed Consolidated Profit and Loss Account

For the six months ended 30th June 2005

		Unaudited Six months ended 30th June	
		2005	2004
	Note	HK\$'000	HK\$'000
Turnover	4	498,549	664,306
Cost of sales		<u>(451,248)</u>	<u>(611,986)</u>
Gross profit		47,301	52,320
Other revenues		17,487	20,345
Selling and distribution costs		(15,908)	(13,518)
General and administrative expenses		(56,920)	(50,603)
Other operating expenses		<u>(1,261)</u>	<u>(4,152)</u>
Operating (loss)/profit	5	(9,301)	4,392
Finance costs		(2,029)	(1,352)
Share of profits less losses of:			
A jointly controlled entity	10	987,732	922,882
Associated companies		9,501	1,527
Non-consolidated subsidiaries		<u>(391)</u>	<u>1,838</u>
Profit before taxation		985,512	929,287
Taxation	6	<u>(1,830)</u>	<u>(3,971)</u>
Profit for the period		<u><u>983,682</u></u>	<u><u>925,316</u></u>
Attributable to:			
Equity holders		990,888	924,229
Minority interests		<u>(7,206)</u>	<u>1,087</u>
		<u><u>983,682</u></u>	<u><u>925,316</u></u>
Interim dividend	7	<u><u>300,694</u></u>	<u><u>292,512</u></u>
Earnings per share for profit attributable to the equity holders during the period:			
— Basic	8	<u><u>13.24 cents</u></u>	<u><u>13.10 cents</u></u>
— Fully diluted	8	<u><u>13.21 cents</u></u>	<u><u>12.64 cents</u></u>

## Condensed Consolidated Balance Sheet

As at 30th June 2005

		Unaudited As at 30th June 2005 <i>HK\$'000</i>	Audited As at 31st December 2004 <i>HK\$'000</i>
	<i>Note</i>		
<b>ASSETS</b>			
Non-current assets			
Intangible asset	9	803,376	24,526
Investment properties	9	37,740	37,740
Property, plant and equipment	9	192,734	196,995
Leasehold land and land use rights	9	83,986	86,153
Interest in a jointly controlled entity	10	4,839,165	4,249,976
Interests in associated companies		52,019	43,762
Interests in non-consolidated subsidiaries		2,600	2,991
Investment securities		—	588
Available-for-sale financial assets		<u>588</u>	<u>—</u>
		<b>6,012,208</b>	<b>4,642,731</b>
Current assets			
Inventories		150,560	141,190
Trade and other receivables	11	124,451	205,303
Tax recoverable		588	219
Cash and bank balances			
— pledged		40,251	57,671
— others		<u>2,116,094</u>	<u>2,536,995</u>
		<b>2,431,944</b>	<b>2,941,378</b>
Total assets		<b><u>8,444,152</u></b>	<b><u>7,584,109</u></b>
<b>EQUITY</b>			
Share capital	14	751,736	741,268
Reserves			
Proposed final dividend		—	296,507
Others		<u>7,188,298</u>	<u>5,932,592</u>
		<b>7,940,034</b>	<b>6,970,367</b>
Minority interests		<u>122,614</u>	<u>157,564</u>
Total equity		<b>8,062,648</b>	<b>7,127,931</b>

**Condensed Consolidated Balance Sheet (Continued)**

As at 30th June 2005

	<i>Note</i>	<b>Unaudited As at 30th June 2005 HK\$'000</b>	<b>Audited As at 31st December 2004 HK\$'000</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Long-term loans	13	<b>6,855</b>	8,671
Deferred taxation		<b><u>1,127</u></b>	<u>926</u>
		<b><u>7,982</u></b>	<u>9,597</u>
<b>Current liabilities</b>			
Trade and other payables	12	<b>316,263</b>	353,190
Tax payable		<b>6,613</b>	7,783
Trust receipt loans		<b>7,923</b>	23,654
Current portion of long-term loans	13	<b><u>42,723</u></b>	<u>61,954</u>
		<b><u>373,522</u></b>	<u>446,581</u>
<b>Total liabilities</b>		<b><u>381,504</u></b>	<u>456,178</u>
<b>Total equity and liabilities</b>		<b><u>8,444,152</u></b>	<u>7,584,109</u>
<b>Net current assets</b>		<b><u>2,058,422</u></b>	<u>2,494,797</u>
<b>Total assets less current liabilities</b>		<b><u>8,070,630</u></b>	<u>7,137,528</u>

## Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June 2005

	Unaudited						Total HK\$'000
	Attributable to equity holders					Minority interests	
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Retained profits HK\$'000	HK\$'000	
Balance at 1st January 2004	350,853	2,109,246	703,379	(28,533)	2,021,159	171,228	5,327,332
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	—	(339)	18,516
Profit for the period	—	—	—	—	924,229	1,087	925,316
2003 final dividend paid	—	—	—	—	(494,804)	—	(494,804)
Dividends payable to minority shareholders	—	—	—	—	—	13,082	13,082
Transfer to capital reserve	—	—	3,370	—	(3,370)	—	—
<b>Balance at 30th June 2004</b>	<b><u>708,575</u></b>	<b><u>1,844,873</u></b>	<b><u>706,749</u></b>	<b><u>(9,678)</u></b>	<b><u>2,447,214</u></b>	<b><u>185,058</u></b>	<b><u>5,882,791</u></b>
Balance at 1st January 2005	741,268	2,263,638	876,236	(33,456)	3,122,681	157,564	7,127,931
Issue of shares	10,468	237,843	—	—	—	—	248,311
Exchange difference arising on translation of accounts of foreign subsidiaries, associated companies and a jointly controlled entity	—	—	31	(3,429)	—	(69)	(3,467)
Purchase of partial interest in a subsidiary	—	—	34,293	—	—	(56,456)	(22,163)
Profit for the period	—	—	—	—	990,888	(7,206)	983,682
2004 final dividend paid	—	—	—	—	(300,427)	—	(300,427)
Dividends payable to minority shareholders	—	—	—	—	—	28,781	28,781
Transfer to capital reserve	—	—	30	—	(30)	—	—
<b>Balance at 30th June 2005</b>	<b><u>751,736</u></b>	<b><u>2,501,481</u></b>	<b><u>910,590</u></b>	<b><u>(36,885)</u></b>	<b><u>3,813,112</u></b>	<b><u>122,614</u></b>	<b><u>8,062,648</u></b>

## Condensed Consolidated Cash Flow Statement

For the six months ended 30th June 2005

	Unaudited	
	Six months ended 30th June	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash inflow/(outflow) from operating activities	21,429	(31,405)
Net cash (outflow)/inflow from investing activities	(144,868)	408,292
Net cash outflow from financing activities	<u>(297,462)</u>	<u>(391,137)</u>
Decrease in cash and cash equivalents	(420,901)	(14,250)
Cash and cash equivalents at the beginning of the period	<u>2,536,995</u>	<u>1,895,227</u>
Cash and cash equivalents at the end of the period	<u><u>2,116,094</u></u>	<u><u>1,880,977</u></u>
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	<u><u>2,116,094</u></u>	<u><u>1,880,977</u></u>

## Notes to Condensed Interim Accounts

### 1. Basis of Preparation and Accounting Policies

These unaudited condensed consolidated interim accounts (“condensed interim accounts”) have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

These condensed interim accounts should be read in conjunction with the 2004 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 2004 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (collectively “HKFRS”) which are effective for accounting periods commencing on or after 1st January 2005.

These condensed interim accounts have been prepared in accordance with those HKFRS standards and interpretations issued and effective as at the time of preparing these accounts. The HKFRS standards and interpretations that will be applicable at 31st December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim accounts.

The changes to the Group’s accounting policies and the effect of adopting these new policies are set out in note 2 below.

## Notes to Condensed Interim Accounts

### 2. Changes in Accounting Policies

#### *Effect of adopting new HKFRS*

In 2005, the Group adopted the new/revised standards of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS2	Share-based Payments
HKFRS3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 16, 21, 23, 24, 27, 28, 31 and 33 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interests, share of net after-tax results of a jointly controlled entity, associated companies and non-consolidated subsidiaries and other disclosures.
- HKASs 2, 7, 8, 16, 23, 27, 28, 31 and 33 had no material effect on the Group's policies.
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.
- HKAS 24 has affected the identification of related parties and some other related party disclosures.

## Notes to Condensed Interim Accounts

### 2. Changes in Accounting Policies (Continued)

#### *Effect of adopting new HKFRS (Continued)*

The adoption of HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land are expensed in the profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss account. In prior years, the leasehold land was accounted for at cost less accumulated depreciation and accumulated impairment losses.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to investment securities which are classified as available-for-sale financial assets.

The adoption of HKAS 40 has resulted in a change in the accounting policy relating to investment properties of which the changes in fair values are recorded in the profit and loss account as part of other income. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the profit and loss account.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31st December 2004, the grant of share options to employees had been fully vested and so did not result in an expense in the profit and loss account. Effective on 1st January 2005, the Group expenses the cost of share options in the profit and loss account.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31st December 2004, goodwill was:

- amortised on a straight-line basis over a maximum period of 20 years; and
- assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3 (note 2.3):

- the Group ceased amortisation of goodwill from 1st January 2005;
- accumulated amortisation as at 31st December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;
- from the year ending 31st December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.



## Notes to Condensed Interim Accounts

### 2. Changes in Accounting Policies (Continued)

#### *Effect of adopting new HKFRS (Continued)*

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

- HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Statement of Standard Accounting Practice (“SSAP”) 24 “Accounting for investments in securities” to investment securities for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39, if any, are determined and recognised at 1st January 2005.
  - HKAS 40 since the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative information.
  - HKFRS 2 with only retrospective application for all equity instruments granted after 7th November 2002 and not vested at 1st January 2005.
  - HKFRS 3 is applied prospectively after the adoption date.
- (i) The adoption of HKAS 17 resulted in:

	<u>As at</u>	
	<b>30th June 2005</b>	31st December 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
decrease in property, plant and equipment	<b>83,986</b>	86,153
increase in leasehold land	<b>83,986</b>	86,153

- (ii) The adoption of HKFRS 3 and HKAS 38 resulted in:

	<u>As at</u>	
	<b>30th June 2005</b>	31st December 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
increase in intangible asset	<b>773</b>	—
increase in interest in a jointly controlled entity	<b>5,052</b>	—

## Notes to Condensed Interim Accounts

### 2. Changes in Accounting Policies (Continued)

#### *Effect of adopting new HKFRS (Continued)*

	<u>Six months ended 30th June</u>	
	2005 HK\$'000	2004 HK\$'000
decrease in other operating expenses	773	—
increase in share of profit of a jointly controlled entity	5,052	—

The accounting policies used for the condensed interim accounts for the six months ended 30th June 2005 are the same as those set out in note 1 to the 2004 annual accounts except for the following:

#### 2.1 *Investment properties*

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

Changes in fair values are recognised in the profit and loss account.

#### 2.2 *Property, plant and equipment*

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

## Notes to Condensed Interim Accounts

### 2. Changes in Accounting Policies *(Continued)*

#### *Effect of adopting new HKFRS (Continued)*

##### 2.3 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associated company/jointly controlled entity at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies and jointly controlled entities is included in respective investments. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

##### 2.4 Foreign currency translation

###### (a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company and its Hong Kong subsidiaries maintain their books and records in Hong Kong Dollars ("HK\$") while all other major group companies maintain their books and records in Renminbi ("RMB"). The consolidated financial statements are presented in HK\$, which is the Company's functional and presentation currency.

###### (b) Transactions and balances

Transactions denominated in currencies other than HK\$ are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than HK\$ are recognised in the profit and loss account.

###### (c) Group companies

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

## Notes to Condensed Interim Accounts

### 2. Changes in Accounting Policies (Continued)

#### *Effect of adopting new HKFRS (Continued)*

##### 2.5 Investment securities

From 1st January 2004 to 31st December 2004:

Investment securities are stated at cost less provision for impairment losses.

From 1st January 2005 onwards:

The Group classifies its investment securities as available-for-sale financial assets. Available-for-sale financial assets are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from changes in the fair value of available-for-sale securities are recognised in equity. When securities classified as available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments are included in the profit and loss account as gains or losses from investment securities.

### 3. Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets or liabilities are discussed below.

#### (a) *Estimated impairment of goodwill*

On 3rd January 2005, the Group acquired the remaining 5% equity interest in a subsidiary, Guangzhou Denway Enterprises Development Company Limited, from a subsidiary of the ultimate holding company, City Achieve Investments Limited, at a consideration of HK\$996,215,000.

A goodwill of HK\$778,850,000 arose from the above acquisition and the Group tests it annually for impairment in accordance with the accounting policy stated in note 2.3. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

#### (b) *Taxes*

The Group is subject to various taxes. Significant judgement is required in determining the provision for these taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax provisions in the period in which such determination is made.

## Notes to Condensed Interim Accounts

### 4. 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. 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 Six months ended 30th June 2005					Total HK\$'000
	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	280,047	107,693	5,851	104,958	—	498,549
Segment operating profit/ (loss)	2,678	(20,717)	(4,214)	8,075	(9,812)	(23,990)
Interest income	345	200	3,299	31	10,814	14,689
Operating profit/(loss)	3,023	(20,517)	(915)	8,106	1,002	(9,301)
Finance costs						(2,029)
Share of profits less losses of:						
A jointly controlled entity		987,732				987,732
Associated companies	7,090		2,411			9,501
Non-consolidated subsidiaries	(391)					(391)
Profit before taxation						985,512
Taxation						(1,830)
Profit for the period						983,682
Depreciation	973	6,247	387	4,045	949	12,601
Amortisation	—	1,837	—	104	258	2,199

## Notes to Condensed Interim Accounts

### 4. Turnover, Revenue and Segment Information (Continued)

#### Principal business segments: (Continued)

	Unaudited Six months ended 30th June 2004					Total HK\$'000
	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		922,882				922,882
Associated companies	1,527					1,527
Non-consolidated subsidiaries			1,838			1,838
Profit before taxation						929,287
Taxation						(3,971)
Profit for the period						925,316
Depreciation	1,758	1,660	633	2,596	736	7,383
Amortisation	773	761	—	104	258	1,896

#### Geographical segments:

	Unaudited Six months ended 30th June 2005		
	Turnover HK\$'000	Segment operating (loss)/profit HK\$'000	Operating (loss)/profit HK\$'000
People's Republic of China ("PRC")	387,740	(22,274)	(18,440)
Hong Kong	104,958	(1,737)	9,108
Australia	5,851	21	31
	<u>498,549</u>	<u>(23,990)</u>	<u>(9,301)</u>

## Notes to Condensed Interim Accounts

### 4. Turnover, Revenue and Segment Information (Continued)

#### Geographical segments: (Continued)

	Unaudited		
	Six months ended 30th June 2004		
	Turnover	Segment operating (loss)/profit	Operating (loss)/profit
	HK\$'000	HK\$'000	HK\$'000
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>

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

### 5. Operating (loss)/profit

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

	Unaudited	
	Six months ended 30th June	
	2005	2004
	HK\$'000	HK\$'000
Amortisation of goodwill	—	773
Depreciation of property, plant and equipment	12,601	7,383
Amortisation of leasehold land and land use rights	2,199	1,123
Provision for doubtful debts	—	1,284
Staff costs (including directors' emoluments)	<u>42,493</u>	<u>39,675</u>

## Notes to Condensed Interim Accounts

### 6. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 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:

	<b>Unaudited</b>	
	<b>Six months ended 30th June</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Hong Kong profits tax	(393)	366
Overseas taxation	2,022	3,654
Deferred taxation	<u>201</u>	<u>(49)</u>
	<u><b>1,830</b></u>	<u><b>3,971</b></u>

Share of taxation attributable to the following are included in the profit and loss account as share of profits less losses of a jointly controlled entity, associated companies and non-consolidated subsidiaries:

A jointly controlled entity	123,554	92,043
Associated companies	650	271
Non-consolidated subsidiaries	<u>13</u>	<u>—</u>

### 7. Dividend

	<b>Unaudited</b>	
	<b>Six months ended 30th June</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Interim, declared, of HK4 cents (2004: HK4 cents) per ordinary share (note (a))	<u><b>300,694</b></u>	<u><b>292,512</b></u>

- (a) At a meeting held on 13th September 2005, the directors declared an interim dividend of HK4 cents (2004: HK4 cents) per ordinary share for the year ending 31st December 2005. This interim dividend is not reflected as dividend payable in these condensed interim accounts, but will be reflected as an appropriation of retained profits for the year ending 31st December 2005.



## Notes to Condensed Interim Accounts

### 8. Earnings Per Share

The calculation of basic earnings per share is based on the consolidated profit attributable to the equity holders of HK\$990,888,000 (2004: HK\$924,229,000) and the weighted average number of 7,486,410,191 (2004: 7,054,160,249) ordinary shares in issue during the six months ended 30th June 2005.

The fully diluted earnings per share is based on 7,500,629,789 (2004: 7,313,253,399) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of 14,219,598 (2004: 259,093,150) ordinary shares deemed to be issued at nil consideration if all outstanding options had been exercised.

### 9. Capital Expenditures

	Unaudited				Total HK\$'000
	Intangible asset — goodwill HK\$'000	Investment properties HK\$'000	Property, plant and equipment HK\$'000	Leasehold land and land use rights HK\$'000	
At 1st January 2005	24,526	37,740	196,995	86,153	345,414
Exchange differences	—	—	53	32	85
Additions	778,850	—	9,553	—	788,403
Disposals	—	—	(1,266)	—	(1,266)
Depreciation/amortisation	—	—	(12,601)	(2,199)	(14,800)
As at 30th June 2005	<u>803,376</u>	<u>37,740</u>	<u>192,734</u>	<u>83,986</u>	<u>1,117,836</u>
As at 1st January 2004	26,059	35,007	165,949	87,411	314,426
Exchange differences	—	—	533	253	786
Additions	—	—	16,217	—	16,217
Disposals	—	—	(2,095)	—	(2,095)
Amortisation/depreciation	(773)	—	(7,383)	(1,123)	(9,279)
As at 30th June 2004	----- <u>25,286</u>	----- <u>35,007</u>	----- <u>173,221</u>	----- <u>86,541</u>	----- <u>320,055</u>
Exchange differences	—	—	(284)	(186)	(470)
Additions	—	—	35,832	—	35,832
Revaluation	—	4,053	—	—	4,053
Write-back of impairment loss	—	—	875	875	1,750
Disposals	—	(1,320)	(1,817)	—	(3,137)
Disposal and liquidation of subsidiaries	—	—	(2,933)	—	(2,933)
Amortisation/depreciation	(760)	—	(7,899)	(1,077)	(9,736)
As at 31st December 2004	<u>24,526</u>	<u>37,740</u>	<u>196,995</u>	<u>86,153</u>	<u>345,414</u>

## Notes to Condensed Interim Accounts

### 10. Interest in a Jointly Controlled Entity

- (a) 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:

	<b>Unaudited</b> As at <b>30th June</b> <b>2005</b> <i>HK\$'000</i>	Audited As at 31st December 2004 <i>HK\$'000</i>
Property, plant and equipment	3,780,767	3,293,282
Land use rights	244,475	228,954
Intangible assets <sup>1</sup>	430,794	455,111
Current assets	10,809,302	10,123,418
Current liabilities	(5,598,893)	(5,168,824)
Long-term liabilities	(1,879)	—
Minority interests	(6,270)	(5,710)
	<u><b>9,658,296</b></u>	<u><b>8,926,231</b></u>
	<b>Unaudited</b> <b>Six months ended 30th June</b> <b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Turnover	<u><b>14,513,002</b></u>	<u><b>12,271,295</b></u>
Profit for the period	<u><b>1,975,464</b></u>	<u><b>1,942,910</b></u>

This is a Sino-foreign equity joint-venture in which 50% of the equity capital is held by a 100% (2004: 95%) owned subsidiary of the Company (Refer to 2004 annual report for details). The Group's investment cost in this company is HK\$514,333,000 (2004: 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.

<sup>1</sup> Included in this balance is a goodwill of approximately HK\$282,532,000 (2004: HK\$282,532,000) 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

### 10. Interest in a Jointly Controlled Entity (Continued)

#### (b) Capital commitments

At 30th June 2005, the Group's share of capital commitments in respect of construction and purchase of property, plant and equipment of the jointly controlled entity itself were as follows:

	Unaudited As at 30th June 2005 <i>HK\$'000</i>	Audited As at 31st December 2004 <i>HK\$'000</i>
Authorised but not contracted for	<u>863,103</u>	<u>—</u>
Contracted but not provided for	<u>112,750</u>	<u>—</u>

### 11. Trade and Other Receivables

Included in this balance are trade receivables of approximately HK\$82,714,000 (2004: HK\$157,587,000). At 30th June 2005, the ageing analysis of the trade receivables, net of provision, was as follows:

	Unaudited As at 30th June 2005 <i>HK\$'000</i>	Audited As at 31st December 2004 <i>HK\$'000</i>
Within 3 months	65,774	94,815
4-6 months	15,878	46,404
7-12 months	1,062	16,010
Over 12 months	<u>—</u>	<u>358</u>
	<u>82,714</u>	<u>157,587</u>

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

## Notes to Condensed Interim Accounts

### 12. Trade and Other Payables

Included in this balance are trade payables of approximately HK\$108,960,000 (2004: HK\$102,337,000). At 30th June 2005, the ageing analysis of the trade payables was as follows:

	<b>Unaudited</b> As at <b>30th June</b> <b>2005</b> <i>HK\$'000</i>	Audited As at 31st December 2004 <i>HK\$'000</i>
Within 3 months	99,278	84,722
4-6 months	2,918	6,669
7-12 months	4,298	1,958
Over 12 months	<u>2,466</u>	<u>8,988</u>
	<b><u>108,960</u></b>	<b><u>102,337</u></b>

### 13. Long-term Loans

	<b>Unaudited</b> As at <b>30th June</b> <b>2005</b> <i>HK\$'000</i>	Audited As at 31st December 2004 <i>HK\$'000</i>
Bank loans ( <i>note (a)</i> )	49,578	70,625
Current portion of long-term loans	<u>(42,723)</u>	<u>(61,954)</u>
	<b><u>6,855</u></b>	<b><u>8,671</u></b>

## Notes to Condensed Interim Accounts

### 13. Long-term Loans (Continued)

(a) At 30th June 2005, the bank loans were repayable as follows:

	<b>Unaudited</b> As at <b>30th June</b> <b>2005</b> <i>HK\$'000</i>	Audited As at 31st December 2004 <i>HK\$'000</i>
Within one year	42,723	61,954
In the second year	2,492	6,751
In the third to fifth year inclusive	3,861	1,403
After the fifth year	<u>502</u>	<u>517</u>
	<b>49,578</b>	70,625
Less: portion due within one year included under current liabilities	<u>(42,723)</u>	<u>(61,954)</u>
	<u><b>6,855</b></u>	<u>8,671</u>

Included in the above balance are amounts totalling HK\$11,995,000 (2004: HK\$10,640,000) which are secured by certain leasehold land and buildings of the Group.

## Notes to Condensed Interim Accounts

### 14. Share Capital

	<b>Ordinary shares of HK\$0.1 each</b>	
	<i>Number of shares</i>	<i>HK\$'000</i>
Authorised:		
At 1st January 2004	4,000,000,000	400,000
Increase in authorised share capital	<u>6,000,000,000</u>	<u>600,000</u>
At 30th June 2004, 31st December 2004 and 30th June 2005	<u><u>10,000,000,000</u></u>	<u><u>1,000,000</u></u>
Issued and fully paid:		
At 1st January 2004	3,508,534,767	350,853
Bonus issue	3,534,317,767	353,432
Exercise of options	<u>42,895,000</u>	<u>4,290</u>
At 30th June 2004	7,085,747,534	708,575
Exercise of options	<u>326,933,000</u>	<u>32,693</u>
At 31st December 2004	7,412,680,534	741,268
Issue upon purchase of partial interest in a subsidiary	73,800,000	7,380
Exercise of options	<u>30,878,000</u>	<u>3,088</u>
At 30th June 2005	<u><u>7,517,358,534</u></u>	<u><u>751,736</u></u>

Movements in the number of share options outstanding are as follows:

	<b>Unaudited Six months ended 30th June 2005 (thousands)</b>	<b>Audited Year ended 31st December 2004 (thousands)</b>
At the beginning of the period/year	<b>79,202</b>	237,407
Bonus issue	—	211,623
Exercised	<u><b>(30,878)</b></u>	<u>(369,828)</u>
At the end of the period/year	<u><u><b>48,324</b></u></u>	<u><u>79,202</u></u>

## Notes to Condensed Interim Accounts

### 15. Contingent Liabilities

	Unaudited As at 30th June 2005 HK\$'000	Audited As at 31st December 2004 HK\$'000
Guarantees for bank loans borrowed by:		
— an associated company	13,812	13,805
— independent third parties	<u>142,979</u>	<u>62,173</u>
	<u><u>156,791</u></u>	<u><u>75,978</u></u>

### 16. Commitments

#### (a) *Commitments under operating leases*

At 30th June 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of leasehold land, land-use rights and buildings as follows:

	Unaudited As at 30th June 2005 HK\$'000	Audited As at 31st December 2004 HK\$'000
Not later than one year	8,718	9,632
Later than one year and not later than five years	26,042	29,858
Later than five years	<u>27,234</u>	<u>16,811</u>
	<u><u>61,994</u></u>	<u><u>56,301</u></u>

#### (b) *Capital commitments*

At 30th June 2005, the Group had capital commitments in respect of purchase of property, plant and equipment as follows:

	Unaudited As at 30th June 2005 HK\$'000	Audited As at 31st December 2004 HK\$'000
Contracted but not provided for	<u><u>6,917</u></u>	<u><u>8,756</u></u>

## Notes to Condensed Interim Accounts

### 17 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 period:

	<b>Unaudited</b>	
	<b>Six months ended 30th June</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	<b>HK\$'000</b>
Sales to a jointly controlled entity ( <i>note (a)</i> )	<b>814</b>	417
Sales to fellow subsidiaries ( <i>note (a)</i> )	<b>1,870</b>	—
Purchases from a jointly controlled entity ( <i>note (a)</i> )	<b>157,655</b>	190,980
Purchases from a fellow subsidiary ( <i>note (a)</i> )	—	805
Administration and management fees for retired employees paid to a fellow subsidiary ( <i>note (a)</i> )	<b>405</b>	283
Interest paid to a holding company ( <i>note (b)</i> )	<b>241</b>	179

(a) These transactions were conducted in accordance with the terms as disclosed in note 29(a) of the 2004 annual report.

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

#### Period-end balances

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>30th June</b>	31st December
	<b>2005</b>	2004
	<b>HK\$'000</b>	<b>HK\$'000</b>
Included in trade and other receivables:		
— a jointly controlled entity	<b>4,632</b>	5,046
— holding company	<b>72</b>	56
Included in trade and other payables:		
— fellow subsidiaries	<b>38</b>	38
— holding company	<b>4,732</b>	12,313



## INTERIM DIVIDEND

The directors have resolved to pay an interim dividend for the year ending 31st December 2005 of HK4 cents per share which will be payable on Monday, 17th October 2005 to shareholders whose names appear on the register of members of the Company on Friday, 14th October 2005.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 10th October 2005 to Friday, 14th October 2005, both days inclusive, during which no transfer of shares will be registered. In order to qualify for the interim dividend, all share certificates with completed transfer forms either overleaf or separately must be lodged with the Company's Registrars, Abacus Share Registrars Limited, G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, 7th October 2005.

## BUSINESS REVIEW

For the six months ended 30th June 2005, the Group generated a total turnover of HK\$498,549,000 (2004: HK\$664,306,000) and an unaudited interim consolidated profit attributable to shareholders of HK\$990,888,000 (2004: HK\$924,229,000). Basic earnings per share amounted to HK13.24 cents (2004: HK13.1 cents).

China's economy continued to grow in line with the adoption of the austerity measures with an overall sound performance in the first half of the year. Despite an increase in raw material prices and upsurge of oil price, the automobile industry managed to sustain a relatively steady growing trend. According to the statistics of China Association of Automobile Manufacturers, the number of vehicles produced and sold nationwide during the six months from January to June amounted to approximately 2,815,200 units and 2,792,400 units respectively, representing respective increases of approximately 5.15% and 9.35%, of which the number of sedans produced and sold amounted to approximately 1,851,700 units and 1,843,000 units respectively, representing respective increases of approximately 3.28% and 10.55%.

For the six months ended 30th June 2005, an aggregate of 109,137 units and 106,600 units of vehicles were produced and sold by the Group respectively, through a jointly controlled entity (hereinafter, the "Sedan Company") and a subsidiary (hereinafter, the "Bus Company"), representing an increase of approximately 32% for both. Among the total, the production and sales of sedans accounted for 108,753 units and 106,203 units respectively, representing an increase of approximately 32% for both, whilst the production and sales of buses accounted for 384 units and 397 units respectively, representing a decrease of approximately 24% for both.

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

## FUTURE PROSPECTS

Given the steady growth of China's economy and the increase of household income in both urban and rural regions, it is expected that the next couple of years will see exponential growth in household demand for sedans, and a steady and sustainable trend in such demand will continue.

In view of intensified market competition and in conformity with the resolution of its board of directors, the Sedan Company will endeavour to achieve its annual sales and production plan of 230,000 units of sedans in the second half of the year by the full-scale construction of its second plant, fostering its marketing efforts, expanding its sales network, enhancing its after-sales services and providing products that better meet market demand and consumer preference. In addition to strengthening the internal management, it is also the Sedan Company's target to increase the domestic contents, enhance the quality of its products and lower productions costs to improve its competitiveness, in order to lay a good foundation for the Sedan Company's further development. The Bus Company is actively seeking for new opportunities and improving its operating conditions.

The increase in oil price and the general rise in environmental awareness have aroused consumers' major concerns over the energy-saving capability and environmental friendliness of vehicles. The new policy on Maximum Fuel Consumption by Passenger Vehicles has laid down more specific and stringent requirements for the energy-saving capability of passenger vehicles. The Sedan Company has always attached great importance to these factors and all its products have fuel consumption values well below the maximum values specified by the new policy. All models and specifications of its production have emission performance in line with or better than Euro III standards.

Going ahead, the Group will continue to seek better investment opportunities in automobile businesses. The Board believes that the Group will be able to grasp such opportunities and expedite its development, thereby creating admirable returns for its shareholders.

## FINANCIAL SUMMARY

The Group's turnover for the six months ended 30th June 2005 was about HK\$498,549,000, representing a decrease of about 25.0% compared to that of 2004. The turnover of the trading of motor vehicles decreased by HK\$128,997,000 which represented a decrease of about 31.5% in 2005 compared that of 2004. However, the operating profit of this segment increased by HK\$965,000 or an increase of about 46.9% in 2005, mainly due to reduction of cost of goods sold. The turnover of the manufacturing and assembly of motor vehicles decreased by HK\$31,282,000 which represented a decrease of about 22.5% in 2005 compared with that of 2004. The turnover of the manufacturing and trading of automotive equipment and parts decreased by HK\$4,980,000 which represented a decrease of about 46.0% in 2005, mainly due to the disposal and liquidation of subsidiaries in the second half of 2004. The turnover of manufacturing and trading of audio equipment decreased by HK\$498,000 which represented a decrease of about 0.5% in 2005. However, the operating profit of this segment increased by HK\$3,412,000 or an increase of about 72.7% in 2005, mainly due to reduction 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 automotive equipment and parts were about RMB29,170,000 (or equivalent to HK\$27,466,000) and HK\$49,600,000 respectively as at 30th June 2005.

The total bank loans of the Group were decreased from about HK\$70,625,000 at the end of 2004 to about HK\$49,578,000 at 30th June 2005. The Group maintained a low ratio of borrowings relative to total equity at about 0.6% as at 30th June 2005 compared with that of at about 1.0% as at 31st December 2004. The ratio of total liabilities relative to total equity was decreased to only about 4.7% at 30th June 2005 from about 6.4% as at 31st December 2004. The Group's bank borrowings were secured by leasehold land and buildings with a total net book value of about HK\$14,377,000 and bank balances of about HK\$40,251,000. As at 30th June 2005, the Group had contingent liabilities of about HK\$156,791,000 which mainly represented guarantees of bank loans borrowed by an associated company and independent third parties.

The Group had cash and bank balances of about HK\$2,156,345,000 as at 30th June 2005. This included the cash inflow from operating activities of about HK\$21,429,000. During the period, the payment of dividend by the Company was financed by the receipt of cash dividend from the investment vehicles.

The Group's general and administrative expenses for the six months ended 30th June 2005 were about HK\$56,920,000, representing an increase of about 12.5% compared with that of 2004, mainly due to increase in depreciation expenses, amortisation charges and staff costs (including a one-off termination benefit expense). The finance costs were modestly increased by HK\$677,000, mainly due to increase of interest rates. The interest cover remained at a high level of 487 multiples in 2005 compared to that of 688 multiples in 2004. The Group did not experience any significant exchange rate fluctuation in terms of Reminbi, the major operating currency of the Group for the six months ended 30th June 2005, since the currency appreciation of Reminbi was announced and effective in July 2005.

Share of losses of non-consolidated subsidiaries were about HK\$391,000 in 2005 compared with that of share of profits of about HK\$1,838,000 in 2004. Further, share of profits of associated companies were about HK\$9,501,000 in 2005, represented an increase of about 522.2% compared to that of 2004.

Share of after tax profit from the jointly controlled entity was the major source of profit for the Group, which contributed about HK\$987,732,000, and represented an increase of about 7.0% compared with that of 2004, mainly due to moderate growth in sales of sedans in 2005 and increase of share of after tax profit from the jointly controlled entity after the partial acquisition of a subsidiary from 95% to 100% during the period.

## EMPLOYEES AND REMUNERATION POLICY

As at 30th June 2005, the Group employed approximately 2,800 (2004: 2,900) staff in the PRC, Hong Kong and Australia.

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.

## SHARE OPTION SCHEME

The Company has a share option scheme which was adopted on 6th June 2002 (“Share Option Scheme”) and remains in force for a period of 10 years from the date of adoption. Each option granted under the Share Option Scheme 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			Notes
	As at 1st January 2005	Exercised during the period	As at 30th June 2005	
ZHANG Fangyou	8,528,000	—	8,528,000	(3)
LU Zhifeng	7,684,000	—	7,684,000	(3)
YANG Dadong	5,664,000	—	5,664,000	(3)
ZENG Qinghong	5,664,000	—	5,664,000	(3)
ZHANG Baoqing	6,488,000	—	6,488,000	(3)
DING Baoshan	5,664,000	—	5,664,000	(3)
CHEUNG Doi Shu	—	—	—	(3)
LEE Ka Lun	1,340,000	—	1,340,000	(3)
Aggregate total of employees	480,000	480,000	—	(1)
Aggregate total of other participants	30,954,000	29,326,000	1,628,000	(1)
	1,072,000	1,072,000	—	(2)
	5,664,000	—	5,664,000	(3)(4)
	79,202,000	30,878,000	48,324,000	

### Notes:

- (1) These options were granted on 9th May 2003 at an adjusted exercise price of HK\$1.325\* per share 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 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 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\$2.8418.
- (5) No option was granted, lapsed or cancelled during the period.

\* adjusted for one for one bonus issue shares in May 2004.

## DIRECTORS' INTERESTS IN SHARES

As at 30th June 2005, 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 ("Model Code") 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 2005
CHEUNG Doi Shu	3,000,000	0.03990%
LEE Ka Lun	100,000	0.00133%

### (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 2005
ZHANG Fangyou	8,528,000	0.113%
LU Zhifeng	7,684,000	0.102%
YANG Dadong	5,664,000	0.075%
ZENG Qinghong	5,664,000	0.075%
ZHANG Baoqing	6,488,000	0.086%
DING Baoshan	5,664,000	0.075%
LEE Ka Lun	1,340,000	0.018%

*Note: Details of the options held by the directors are disclosed in the section "SHARE OPTION SCHEME" in this report.*

Save as disclosed above, as at 30th June 2005, 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 Scheme, at no time during the six months ended 30th June 2005 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.

Save as disclosed above and in the section “**SHARE OPTION SCHEME**”, during the six months ended 30th June 2005, 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.

## **DIRECTORS’ INTEREST IN COMPETING BUSINESS**

Guangzhou Toyota Motor Co. Ltd. (“Guangzhou Toyota”), a Sino-foreign equity joint venture incorporated in the PRC, was established in September 2004 and owned as to 50% by Guangzhou Automobile Group Co. Ltd. (“GAC”) and as to 50% by Toyota Motor Corporation (“Toyota Motor”). GAC is a wholly-owned subsidiary of Guangzhou Automobile Industry Group Co. Ltd. (“Guangzhou Automobile Industry Group”), the ultimate holding company of the Company.

Guangzhou Toyota will be engaged in the development, manufacture, sale and after-sale service of automobiles and their parts and accessories. At present, the production plant of Guangzhou Toyota is under construction and is expected to come into initial operation in mid 2006.

The Board is of the view that the business of Guangzhou Toyota might compete with that of the Group after mid 2006 when it commences its production. Guangzhou Toyota and Guangzhou Honda are both jointly-controlled entities whereby no joint venture partner can control or dominate the board, the business and management of each company will be decided by the respective joint venture partners. The day-to-day operation of Guangzhou Toyota and Guangzhou Honda will be undertaken by different groups of staff and management. As the Board is independent of the board of Guangzhou Toyota (save for Mr. Zhang Fangyou who is the Chairman of the Company and Guangzhou Toyota, is the only common director in both of these companies), the Group is therefore capable of carrying on the business independently or, and at arm’s length from, the business of Guangzhou Toyota.

Save as disclosed above and within the knowledge of the directors, as at the date of this report, none of directors and their respective associates had any interest in a business which competes or may compete with the business of the Group.

## **SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY**

As at 30th June 2005, 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:

<b>Name</b>	<b>Long position in shares</b>	<b>Percentage of total shareholding as at 30th June 2005</b>
China Lounge Investments Limited (“China Lounge”)	2,849,544,904	37.91%
GAC	2,849,544,904	37.91%
Guangzhou Automobile Industry Group	2,849,544,904	37.91%

*Notes:*

- (a) As at 30th June 2005, China Lounge held 2,775,744,904 shares of the Company and City Achieve Investments Limited, which was wholly-owned by China Lounge, held 73,800,000 shares of the Company. Accordingly, China Lounge was deemed to be interested under the SFO in a total of 2,849,544,904 shares of the Company.
- (b) As at 30th June 2005, China Lounge was wholly-owned by GAC which was accordingly deemed to be interested under the SFO in 2,849,544,904 shares.
- (c) As at 30th June 2005, GAC was 91.93% owned by Guangzhou Automobile Industry Group which was accordingly deemed to be interested under the SFO in 2,849,544,904 shares of the Company.

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 2005.

## CORPORATE GOVERNANCE

On 1st January 2005, the Code of Best Practices was replaced by the Code on Corporate Governance Practices (“Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”). During the six months ended 30th June 2005, the Company adopted all the code provisions in the Code as its own code on corporate governance practices. The Company has complied with the code provisions set out in the Code during the period and there has been no material deviations from the Code.

The Audit Committee comprises three independent non-executive directors namely Mr. CHEUNG Doi Shu, Mr. LEE Ka Lun and Mr. FUNG Ka Pun. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited consolidated interim financial statements for the six months ended 30th June 2005.

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the directors. Having made specific enquiry of all directors of the Company, the Company confirmed that all directors have complied with the required standard set out in the Model Code.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

The Company has not redeemed any of its shares during the six months ended 30th June 2005. Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30th June 2005.

## DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

The 2005 Interim Report of the Company containing all the information required by Appendix 16 to the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited and will be sent to shareholders of the Company as soon as practicable.

## LIST OF DIRECTORS

As at the date of this report, the Board comprised the following directors:

**Executive Directors:**

Mr. Zhang Fangyou, Mr. Lu Zhifeng, Mr. Yang Dadong, Mr. Zeng Qinghong, Mr. Zhang Baoqing and Mr. Ding Baoshan

**Independent Non-Executive Directors:**

Mr. Cheung Doi Shu, Mr. Lee Ka Lun and Mr. Fung Ka Pun

By the Order of the Board  
**Zhang Baoqing**  
*Managing Director*

Hong Kong, 13th September 2005