1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements of Denway Motors Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants. They have been prepared under the historical cost convention, as modified by the revaluation of investment properties, which are stated at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

The adoption of new/revised 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 10	Events after the Balance Sheet Date
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 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKAS-Int 15	Operating Leases — Incentives
HKAS-Int 21	Income Taxes — Recovery of Revalued Non-Depreciated Assets
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HK-Int 4	Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 31, 33, HKAS-Int 15 and HK-Int 4 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 jointly controlled entities, associates and non-consolidated subsidiaries and other disclosures.

— HKASs 2, 7, 8, 10, 16, 23, 27, 28, 31, 33, HKAS-Int 15 and HK-Int 4 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.

The adoption of revised 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 income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at cost less accumulated depreciation and accumulated impairment.

The adoption of HKAS 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit and loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

The adoption of HKAS 40 has resulted in a change in the accounting policy of investment properties of which the changes in fair values are recorded in the income statement as part of other gains. 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 income statement.

The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the provision of share options to employees did not result in an expense in the income statement. Effective 1 January 2005, the Group expenses the fair value of share options in the income statement.

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

— amortised on a straight-line basis over the estimated useful life; and

— assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3 (note 1(c)(i)):

— the Group ceased amortisation of goodwill from 1 January 2005;

— accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;

— from the year ended 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

The Group adopted HKFRS 5 from 1 January 2005 prospectively in accordance with the standard's provisions. The adoption of HKFRS 5 has resulted in a change in the accounting policy for non-current assets (or disposal groups) held for sale. The non-current assets (or disposal groups) held for sale were previously neither classified nor presented as current assets or liabilities. There was no difference in measurement for non-current assets (or disposal groups) held for sale or for continuing use.

The application of HKFRS 5 does not impact on the prior-year financial statements other than a change in the presentation of the results and cash flows of discontinued operations.

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 16 — the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

- HKAS 21 — prospective application for accounting goodwill and fair value adjustments as part of foreign operations;

- 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 1 January 2005;

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

- HKAS 40 — since the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative information, any adjustment is made to the retained earnings as at 1 January 2005, including the reclassification of any amount held in revaluation surplus for investment property;

- HKAS-Int 15 does not require the recognition of incentives for leases beginning before 1 January 2005;

- HKFRS 2 — only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 January 2005; and

- HKFRS 3 — prospectively after the adoption date.

The adoption of HKAS 17 resulted in:

	Group	
	2005	2004
	HK$'000	HK$'000
decrease in property, plant and equipment	**29,638**	83,620
increase in leasehold land and land use rights	**29,638**	83,620

There was no impact on all other balance sheet items as at 1 January 2005 and results and earnings per share for the year ended 31 December 2004 from the adoption of the accounting policies described above.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are applicable for the Group's accounting periods beginning on or after 1 January 2006 or later periods but which the Group has not early adopted, as follows:

- HKAS 39 (Amendment), The Fair Value Option (effective 1 January 2006).

- HKAS 39 and HKFRS 4 (Amendments), Financial Instruments: Recognition and Measurement and Insurance Contracts — Financial Guarantee Contracts (effective 1 January 2006).

- HKFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statements — Capital Disclosures (effective 1 January 2007).

- HKFRS-Int 4, Determining whether an Arrangement contains a Lease (effective 1 January 2006).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Consolidation

(i) *Subsidiaries*

The consolidated financial statements include the financial statements of the Company and all its subsidiaries, with the exception of non-consolidated subsidiaries which are accounted for as mentioned below, made up to 31 December.

Subsidiaries are those entities 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.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

The results of consolidated subsidiaries acquired or disposed of during the year are included in the consolidated income statement 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 income statement 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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Consolidation (continued)

(ii) *Jointly controlled entities*

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. Interests in jointly controlled entities are accounted for using the equity method of accounting and are initially recognised at cost. The Group's interests in jointly controlled entities include goodwill (net of any accumulated impairment loss) identified on acquisition (see note 1(c)(i)).

The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

In the Company's balance sheet the interests in jointly controlled entities are stated at cost less provision for impairment losses. The results of jointly controlled entities are accounted for by the Company on the basis of dividend received and receivable.

(iii) *Associates*

Associates are all entities over which the Group has significant influence but not control. Interests in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's interests in associates include goodwill (net of any accumulated impairment loss) identified on acquisition (see note 1(c)(i)).

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Intangible assets

(i) *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/associates/jointly controlled entity at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates 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.

(ii) *Technology*

Technology is shown at historical cost. Technology has a definite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of technology over its estimated useful lives.

(d) Property, plant and equipment

(i) *Depreciation*

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs, including related borrowing costs, of bringing the asset to its present working condition and location for its intended use.

Property, plant and equipment are depreciated at rates sufficient to write off their cost over their estimated useful lives to the Group on a straight-line basis. The principal annual rates used for this purpose are as follows:

Buildings	2%–5%
Plant and machinery	10%
Office equipment and leasehold improvements	20%
Motor vehicles	20%

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

(ii) *Gain or loss on disposal of property, plant and equipment*

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property, plant and equipment (continued)

(iii) *Cost of restoring and improving property, plant and equipment*

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.

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

(e) 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 consolidated 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 is 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. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee. These valuations are reviewed annually by external valuers.

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.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Changes in fair values are recognised in the income statement.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Investment properties (continued)

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement.

(f) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(g) Financial assets

From 1 January 2004 to 31 December 2004:

The Group classified its investments other than subsidiaries, associates and jointly controlled entities as investment securities.

Investment securities are stated at cost less accumulated impairment losses. The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair value have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investment will be reduced to its fair value. The impairment loss is recognised as an expense in the income statement. This impairment loss is written back to income statement 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.

From 1 January 2005 onwards:

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial assets (continued)

(i) *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet.

(iii) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the period, the Group did not hold any investments in this category.

(iv) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial assets (continued)

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement — is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade and other receivable is described in note 1(i).

(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 and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(j) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and bank overdrafts.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Non-current assets (or disposal groups) held for sale

Non-current assets (or disposals groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

(l) Provisions

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

(m) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(n) Deferred taxation

Deferred income tax 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 consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income 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.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) 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 financial statements. When a change in the probability of an outflow occurs so that the outflow becomes probable, it will then be recognised as a provision.

(p) 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 is recognised when the right to receive payment is established.

Interest income is recognised on a time-proportion basis using the effective interest method.

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.

(q) 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 income statement on a straight-line basis over the lease periods.

(r) Foreign currency translation

(i) *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 consolidated financial statements are presented in Hong Kong dollars which is the Company's functional and presentation currency.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Foreign currency translation (continued)

(ii) *Transactions and balances*

Foreign currency transactions 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 foreign currencies are recognised in the income statement.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) *Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement 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
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(s) 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Employee benefits (continued)

(i) *Employee leave entitlements (continued)*

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

(ii) *Profit sharing and bonus plans*

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

(iii) *Pension obligations*

The Group 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.

(iv) *Share-based compensation*

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(t) 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 income statement in the year in which they are incurred.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) 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, leasehold land and land use right, property, plant and equipment, 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, leasehold land and land use right, and property, plant and equipment, 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. FINANCIAL RISK MANAGEMENT

2.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit risk, liquidity risk and cash flow and fair value interest-rate risk. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effect on the Group's financial performance. The Group regularly monitors its exposure and currently considers not necessary to hedge any of these financial risks.

(a) *Market risk*

(i) *Foreign exchange risk*

Majority of the subsidiaries of the Group operates in the PRC with most of the transactions denominated in Renminbi. The Group is exposed to foreign exchange risk arising from the exposure of Renminbi against Hong Kong dollars. It has not hedged its foreign exchange rate risk.

In addition, the conversion of Renminbi into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by the PRC government.

(ii) *Price risk*

The Group is exposed to price risk of the automotive industry in the PRC.

2. FINANCIAL RISK MANAGEMENT (continued)

2.1 Financial risk factors (continued)

(b) *Credit risk*

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales are made to customers with an appropriate credit history. The carrying amount of the trade receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to its financial assets.

(c) *Liquidity risk*

Due to the capital intensive nature of the Group's business, the Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements.

(d) *Cash flow and fair value interest rate risk*

As the Group has significant interest-bearing bank balances, the Group's income and operating cash flows are dependent on changes in market interest rates.

The Group's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. The Group has not hedged its cash flow and fair value interest rate risk.

2.2 Fair value estimation

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values.

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

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1(c)(i). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(b) Taxation

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.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred taxation assets and taxation in the periods in which such estimate is changed.

(c) Estimate of fair value of investment properties

The fair value of investment properties have been determined with reference to independent valuations. The best evidence of fair value is current price in an active market for similar lease and other contracts. The Group employed an independent firm of professional surveyor to determine the open market values for the investment properties of the Group. These valuations require the use of judgement and estimates.

4. TURNOVER 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. Turnover recognised during the year are as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Trading of motor vehicles	**563,891**	713,983
Manufacturing and trading of automotive equipment and parts	**11,369**	18,792
Manufacturing and trading of audio equipment	**275,223**	237,632
	850,483	970,407

4. TURNOVER AND SEGMENT INFORMATION (continued)

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 were no sales between the business segments.

Secondary reporting format — geographical segments

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

The People's Republic of China (the "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 were no sales between the geographical segments.

4. TURNOVER AND SEGMENT INFORMATION (continued)

Primary reporting format — business segments

	Trading of motor vehicles 2005 HK$'000	Manufacturing and assembly of motor vehicles 2005 HK$'000	Manufacturing and trading of automotive equipment and parts 2005 HK$'000	Manufacturing and trading of audio equipment 2005 HK$'000	Other operations 2005 HK$'000	Total 2005 HK$'000
Turnover	563,891	—	11,369	275,223	—	850,483
Segment operating profit/(loss)	7,316	—	(8,244)	27,951	(7,391)	19,632
Interest income	541	—	13,038	145	20,140	33,864
Operating profit	7,857	—	4,794	28,096	12,749	53,496
Finance costs						(1,418)
Share of profits less losses of:						
A jointly controlled entity		1,900,443				1,900,443
Other jointly controlled entities			16,232			16,232
Associates	10,248		2,889			13,137
Non-consolidated subsidiaries	(966)					(966)
Profit before taxation						1,980,924
Taxation						(7,650)
Profit/(loss) for the year from:						
Continuing operations						1,973,274
Discontinued operations		(113,026)				(113,026)
						1,860,248
Segment assets	202,442		1,390,010	165,162	1,038,780	2,796,394
Interests in						
A jointly controlled entity		5,339,947				5,339,947
Other jointly controlled entities			721,368			721,368
Associates	13,950		37,901			51,851
Non-consolidated subsidiaries	2,105					2,105
Non-current assets classified as held for sale		243,394				243,394
Unallocated assets						252
Total assets						9,155,311
Segment liabilities	(110,069)		(11,424)	(44,345)	(9,886)	(175,724)
Liabilities directly associated with non-current assets classified as held for sale		(194,571)				(194,571)
Unallocated liabilities						(30,358)
Total liabilities						(400,653)
Capital expenditure	825	—	1,650	2,072	198	4,745
Depreciation	2,272	5,826	787	5,695	1,864	16,444
Amortisation	—	1,237	—	229	359	1,825
Provision/(write-back of provision) for impairment loss	—	23,487	—	(4,846)	(7,369)	11,272

4. TURNOVER 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
Turnover	713,983	—	18,792	237,632	—	970,407
Segment operating (loss)/profit	(6,562)	—	(32,264)	11,665	1,179	(25,982)
Interest income	1,066	—	10,606	28	13,880	25,580
Operating (loss)/profit	(5,496)	—	(21,658)	11,693	15,059	(402)
Finance costs						(1,427)
Share of profits less losses of:						
A jointly controlled entity		2,077,320				2,077,320
Associates	1,338		4,785			6,123
Non-consolidated subsidiaries	93					93
Profit before taxation						2,081,707
Taxation						(6,401)
Profit/(loss) for the year from:						
Continuing operations						2,075,306
Discontinued operations		(15,896)				(15,896)
						2,059,410
Segment assets	201,843	413,607	783,277	156,122	1,732,312	3,287,161
Interests in						
A jointly controlled entity		4,249,976				4,249,976
Associates	10,047		33,715			43,762
Non-consolidated subsidiaries	2,991					2,991
Unallocated assets						219
Total assets						7,584,109
Segment liabilities	(105,890)	(197,839)	(5,798)	(39,972)	(3,691)	(353,190)
Unallocated liabilities						(102,988)
Total liabilities						(456,178)
Capital expenditure	4,228	32,284	9,490	5,981	66	52,049
Depreciation	2,815	4,760	1,114	5,353	1,600	15,642
Amortisation	1,533	1,241	—	229	370	3,373
Write-back of provision for impairment loss	—	—	—	—	(1,750)	(1,750)

4. TURNOVER AND SEGMENT INFORMATION (continued)

Secondary reporting format — geographical segments

	Turnover 2005 HK$'000	Segment operating (loss)/profit 2005 HK$'000	Interest income 2005 HK$'000	Operating profit/(loss) 2005 HK$'000	Total assets 2005 HK$'000	Capital expenditure 2005 HK$'000
PRC	**563,891**	**(441)**	**13,549**	**13,108**	**1,586,136**	**2,475**
Hong Kong	**275,223**	**20,560**	**20,285**	**40,845**	**1,203,942**	**2,232**
Australia	**11,369**	**(487)**	**30**	**(457)**	**6,316**	**38**
	850,483	**19,632**	**33,864**	**53,496**	**2,796,394**	**4,745**
Interests in						
A jointly controlled entity					**5,339,947**	
Other jointly controlled entities					**721,368**	
Associates					**51,851**	
Non-consolidated subsidiaries					**2,105**	
Non-current assets classified as held for sale					**243,394**	
Unallocated assets					**252**	
Total assets					**9,155,311**	

	Turnover 2004 HK$'000	Segment operating (loss)/profit 2004 HK$'000	Interest income 2004 HK$'000	Operating (loss)/profit 2004 HK$'000	Total assets 2004 HK$'000	Capital expenditure 2004 HK$'000
PRC	732,246	(38,387)	11,667	(26,720)	1,391,295	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
	970,407	(25,982)	25,580	(402)	3,287,161	52,049
Interests in						
A jointly controlled entity					4,249,976	
Associates					43,762	
Non-consolidated subsidiaries					2,991	
Unallocated assets					219	
Total assets					7,584,109	

5. OTHER GAINS

	Group	
	2005	2004
	HK$'000	HK$'000
Interest income	**33,864**	25,580
Gross rental income from investment properties	**574**	1,864
Gross rental income from other properties	**829**	612
Handling service charges for motor vehicles registration	**2,484**	2,218
Fair value gains on investment properties (note 18(a))	**8,780**	4,053
Others	**2,878**	1,588
	49,409	35,915

6. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

The assets and liabilities related to Guangzhou Denway Bus Company Limited ("Guangzhou Denway Bus") (the manufacturing and assembly of motor vehicles segment) have been presented as held for sale following the approval of the Group's management and shareholders on 23 March 2006 to sell Guangzhou Denway Bus in the PRC.

An analysis of the result of discontinued operations is as follows:

	2005	2004
	HK$'000	HK$'000
Revenue	**179,526**	344,298
Expense	**(292,552)**	(360,194)
Loss for the year	**(113,026)**	(15,896)

	2005	2004
	HK$'000	HK$'000
Operating cash flows	**(31,006)**	(10,378)
Investing cash flows	**15,396**	(35,260)
Financing cash flows	**(3,500)**	18,829
Total cash flows	**(19,110)**	(26,809)

6. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)

	2005 HK$'000
Non-current assets classified as held for sale:	
Land use right	40,742
Property, plant and equipment	124,226
Inventories	18,950
Trade and other receivables	24,342
Cash and bank balances	
— pledged	14,263
— others	20,871
	243,394
Liabilities directly associated with non-current assets classified as held for sale:	
Bank borrowings	
— non-current	4,804
— current	48,045
Trade and other payables	
— due to intermediate holding company	10,719
— others	131,003
	194,571

7. EXPENSES BY NATURE

	Group	
	2005	2004
	HK$'000	HK$'000
Expenses included in cost of sales, selling and distribution costs, general and administrative expenses and other operating income of continuing operations are analysed as follows:		
Auditors' remuneration	**2,898**	2,560
Staff costs (including directors' emoluments) *(note 13)*	**40,562**	42,473
Operating lease rentals in respect of land and buildings	**7,658**	8,504
Outgoings in respect of investment properties	**574**	565
Outgoings in respect of other properties	**46**	190
Amortisation of goodwill *(note 15)*	**—**	1,533
Amortisation of prepaid leasehold land and land use rights *(note 16)*	**588**	599
Depreciation of property, plant and equipment *(note 17)*	**10,618**	10,882
Loss on disposal of property, plant and equipment	**622**	1,816
Write-back of provision for impairment loss *(notes 16 and 17(a))*	**(12,215)**	(1,750)
Loss on disposal of subsidiaries	**—**	762
Gain on liquidation of subsidiaries	**—**	(13,400)
Gain on disposal of an associate	**—**	(9,549)
(Write-back of provision)/provision for inventory obsolescence	**(480)**	2,194
(Write-back of provision)/provision for doubtful debts	**(27)**	807
Net exchange (gain)/loss	**(22,742)**	211
Expenses included in discontinued operations are analysed as follows:		
Staff costs		
— Termination benefits	**36,439**	—
— Others	**39,805**	39,619
Operating lease rentals in respect of land and buildings	**952**	509
Amortisation of prepaid leasehold land and land use rights *(note 16)*	**1,237**	1,241
Depreciation of property, plant and equipment *(note 17)*	**5,826**	4,760
Provision for impairment loss *(notes 16 and 17(a))*	**23,487**	—
Provision/(write-back of provision) for inventory obsolescence	**14,896**	(8,299)
(Write-back of provision)/provision for doubtful debts	**(2,908)**	5,778

8. FINANCE COSTS

	Group	
	2005	2004
	HK$'000	HK$'000
Interest on bank borrowings	**530**	718
Interest on other loans — wholly repayable within five years	**888**	709
	1,418	1,427

9. TAXATION

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

The amount of taxation charged/(credited) to the consolidated income statement represents:

	Group	
	2005	2004
	HK$'000	HK$'000
Current taxation		
Hong Kong profits tax	**2,061**	823
PRC enterprise income tax	**5,379**	5,619
Overseas income tax	**9**	8
	7,449	6,450
Deferred taxation *(note 30)*		
Hong Kong profits tax	**201**	(49)
	7,650	6,401

The taxation differs from the theoretical amount that would arise using the PRC enterprise income tax rate as follows:

	2005	2004
	HK$'000	HK$'000
Profit/(loss) before taxation, less share of profits less losses of jointly controlled entities, associates and non-consolidated subsidiaries	**52,078**	(1,829)
Calculated at a tax rate of 33% (2004: 33%)	**17,186**	(604)
Effect of different tax rates in different tax jurisdictions	**(1,825)**	(729)
Income not subject to tax	**(7,896)**	(5,927)
Unrecognised tax losses	**—**	12,340
Underprovision in prior years	**185**	1,321
Taxation charge	**7,650**	6,401

10. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS

Included in the Group's profit attributable to equity holders of HK$1,905,529,000 (2004: HK$2,062,447,000) is a profit of HK$995,631,000 (2004: HK$801,257,000), which is dealt with in the Company's own financial statements.

11. EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders by the weighted average number of ordinary shares in issue during the year.

	2005 **HK$'000**	2004 HK$'000
Profit/(loss) attributable to equity holders		
— continuing operations	**1,962,548**	2,069,896
— discontinued operations	**(57,019)**	(7,449)
	1,905,529	2,062,447
Weighted average number of ordinary shares in issue ('000)	**7,502,012**	7,168,177
Basic earnings/(losses) per share (HK cents)		
— continuing operations	**26.2**	28.9
— discontinued operations	**(0.8)**	(0.1)
	25.4	28.8

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has share options outstanding during the period which are dilutive potential ordinary shares. Calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average daily market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

11. EARNINGS PER SHARE (continued)

Diluted (continued)

	2005 **HK$'000**	2004 HK$'000
Profit/(loss) attributable to equity holders		
— continuing operations	**1,962,548**	2,069,896
— discontinued operations	**(57,019)**	(7,449)
	1,905,529	2,062,447
Weighted average number of ordinary shares in issue ('000)	**7,502,012**	7,168,177
Adjustments for — share options ('000)	**10,543**	37,105
Weighted average number of ordinary shares for diluted earnings per share ('000)	**7,512,555**	7,205,282
Diluted earnings/(losses) per share (HK cents)		
— continuing operations	**26.1**	28.7
— discontinued operations	**(0.8)**	(0.1)
	25.3	28.6

12. DIVIDENDS

	Company	
	2005 **HK$'000**	2004 HK$'000
Interim, paid, of HK4 cents (2004: HK4 cents) per ordinary share	**300,694**	293,264
Final, proposed, of HK4 cents (2004: HK4 cents) per ordinary share *(note (a))*	**300,694**	296,507
Special, proposed, of HK5 cents (2004: Nil) per ordinary share *(note (a))*	**375,868**	—
	977,256	589,771

(a) At a meeting held on 19 April 2006, the directors proposed a final dividend of HK4 cents (2004: HK4 cents) and a special dividend of HK5cents (2004: Nil) per ordinary share. These proposed dividends are not reflected as dividend payable in these financial statements but will be reflected as an appropriation of retained earnings for the year ending 31 December 2006.

13. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	Group	
	2005	2004
	HK$'000	HK$'000
Wages and salaries	**37,665**	37,691
Termination benefits	**—**	1,852
Pension costs — retirement benefit costs	**2,897**	2,930
	40,562	42,473

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. There were no (2004: HK$62,000) forfeited contributions utilised during the year. There was no outstanding balance available at the balance sheet dates of 2004 and 2005 to reduce future contributions. As at 31 December 2005, contributions totalling HK$79,000 (2004: HK$67,000) 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% (2004: 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 2005, 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 income statement for the year was approximately HK$2,897,000 (2004: HK$2,930,000).

14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) The remuneration of every Director for the year ended 31 December 2005 is set out below:

Name of Director	Fees HK$'000	Salaries, allowances, and benefits in kind HK$'000	Retirement benefit costs HK$'000	Share options exercised HK$'000	Total HK$'000
Executive director:					
Zhang Fangyou	1,000	—	—	—	1,000
Lu Zhifeng	800	—	—	—	800
Yang Dadong	800	—	—	—	800
Zeng Qinghong	300	—	—	—	300
Zhang Baoqing	300	1,384	48	—	1,732
Ding Baoshan	300	—	—	—	300
	3,500	1,384	48	—	4,932
Independent non-executive director:					
Cheung Doi Shu	180	—	—	—	180
Lee Ka Lun	180	—	—	—	180
Fung Ka Pun	180	—	—	—	180
	540	—	—	—	540
	4,040	1,384	48	—	5,472

The remuneration of every Director for the year ended 31 December 2004 is set out below:

Name of Director	Fees HK$'000	Salaries, allowances, and benefits in kind HK$'000	Retirement benefit costs HK$'000	Share options exercised HK$'000	Total HK$'000
Executive director:					
Zhang Fangyou	1,000	—	—	—	1,000
Lu Zhifeng	800	—	—	—	800
Yang Dadong	800	—	—	—	800
Chen Xuejun *(b)*	—	—	—	—	—
Zeng Qinghong	300	—	—	—	300
Zhang Baoqing	300	1,214	44	—	1,558
Ding Baoshan	300	—	—	—	300
	3,500	1,214	44	—	4,758
Independent non-executive director:					
Cheung Doi Shu	180	—	—	1,095	1,275
Lee Ka Lun	180	—	—	—	180
Fung Ka Pun *(a)*	180	—	—	—	180
	540	—	—	1,095	1,635
	4,040	1,214	44	1,095	6,393

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

(a) Notes:

(a) Appointed on 23 September 2004

(b) Resigned on 23 September 2004

No director waived any emoluments and no emoluments were paid to the directors as an inducement fee to join or as compensation for loss of office during the years ended 31 December 2004 and 2005.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest for the year include two (2004: Nil) of the directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2004: five) individuals during the year are as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Basic salaries and bonus	**2,651**	978
Share options exercised	**300**	56,930
	2,951	57,908

The emoluments fell within the following bands:

	Number of individuals	
Emolument bands	**2005**	2004
Below HK$1,000,000	**3**	—
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	**—**	1

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

15. INTANGIBLE ASSET

	Group
	Goodwill
	HK$'000
At 1 January 2004	
Cost	30,658
Accumulated amortisation	(4,599)
Net book amount	26,059
Year ended 31 December 2004	
Opening net book amount	26,059
Amortisation *(note 7)*	(1,533)
Closing net book amount	24,526
At 31 December 2004	
Cost	30,658
Accumulated amortisation	(6,132)
Net book amount	24,526
Year ended 31 December 2005	
Opening net book amount	24,526
Additions	778,850
Exchange differences	689
Closing net book amount	804,065
At 31 December 2005	
Cost[1]	804,065

1 Pursuant to the adoption of HKFRS 3 as set out in note 1(a), accumulated amortisation of goodwill of HK$6,132,000 has been eliminated against cost as at 31 December 2004.

Goodwill is allocated to the Group's cash-generating units identified according to business segment.

15 INTANGIBLE ASSET (continued)

A segment-level summary of the goodwill is presented below.

	2005			2004		
	Trading of motor vehicles HK$'000	**Manufacturing and assembly of motor vehicles HK$'000**	**Manufacturing and trading of automotive equipment and parts (note 20(b)) 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
PRC	**25,215**	**778,850**	**208,467**	24,526	—	—

16. LEASEHOLD LAND AND LAND USE RIGHTS

	Group	
	2005 HK$'000	2004 HK$'000
At 1 January	**81,378**	81,385
Exchange differences	**1,129**	83
Transfer to investment properties *(note 18)*	**(3,224)**	—
Transfer from investment properties *(note 18)*	**6,332**	—
Amortisation of prepaid operating lease payment *(note 7)*	**(1,825)**	(1,840)
Provision for impairment loss	**(18,096)**	—
Write-back of provision for impairment loss	**4,686**	1,750
Transfer to non-current assets classified as held for sale *(note 6)*	**(40,742)**	—
At 31 December	**29,638**	81,378

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	2005 HK$'000	2004 HK$'000
In Hong Kong, held on:		
Leases of over 50 years	**3,577**	2,725
Leases of between 10 to 50 years	**24,238**	18,028
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	**1,823**	60,625
	29,638	81,378

16. LEASEHOLD LAND AND LAND USE RIGHTS (continued)

The net book value of land use rights included in non-current assets classified as held for sale is analysed as follows:

	2005 HK$'000
Outside Hong Kong, held on:	
Leases of between 10 to 50 years	40,742

At 31 December 2005, certain leasehold land with a total net book value of approximately HK$4,683,000 (2004: HK$37,458,000) were pledged as security for the Group's bank borrowings (see note 29).

17. PROPERTY, PLANT AND EQUIPMENT

(a)

	Group				
	Buildings HK$'000	Plant and machinery HK$'000	Office equipment and leasehold improvements HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2004					
Cost	121,070	100,751	36,117	23,869	281,807
Accumulated depreciation and accumulated impairment	(32,038)	(44,698)	(24,188)	(8,908)	(109,832)
Net book amount	89,032	56,053	11,929	14,961	171,975
Year ended 31 December 2004					
Opening net book amount	89,032	56,053	11,929	14,961	171,975
Exchange differences	81	103	12	37	233
Additions	29,290	6,134	3,781	12,844	52,049
Disposals	—	(1,620)	(1,765)	(527)	(3,912)
Disposal and liquidation of subsidiaries	(343)	(1,382)	(1,208)	—	(2,933)
Depreciation	(2,122)	(7,364)	(3,386)	(2,770)	(15,642)
Closing net book amount	115,938	51,924	9,363	24,545	201,770
At 31 December 2004					
Cost	149,992	88,253	32,097	33,758	304,100
Accumulated depreciation and accumulated impairment	(34,054)	(36,329)	(22,734)	(9,213)	(102,330)
Net book amount	115,938	51,924	9,363	24,545	201,770
Year ended 31 December 2005					
Opening net book amount	**115,938**	**51,924**	**9,363**	**24,545**	**201,770**
Exchange differences	**2,354**	**496**	**71**	**456**	**3,377**
Additions	**—**	**1,911**	**821**	**2,013**	**4,745**
Disposals	**—**	**(12)**	**(535)**	**(75)**	**(622)**
Transfer to investment properties *(note 18)*	**(2,566)**	**—**	**—**	**—**	**(2,566)**
Transfer from investment properties *(note 18)*	**4,818**	**—**	**—**	**—**	**4,818**
Depreciation *(note 7)*	**(3,568)**	**(7,795)**	**(2,600)**	**(2,481)**	**(16,444)**
Provision for impairment losses	**(2,678)**	**(815)**	**—**	**(1,898)**	**(5,391)**
Write-back of provision for impairment loss	**7,529**	**—**	**—**	**—**	**7,529**
Transfer to non-current assets classified as held for sale *(note 6)*	**(76,577)**	**(29,974)**	**—**	**(17,675)**	**(124,226)**
Closing net book amount	**45,250**	**15,735**	**7,120**	**4,885**	**72,990**
At 31 December 2005					
Cost	**70,309**	**42,834**	**18,826**	**11,280**	**143,249**
Accumulated depreciation and accumulated impairment	**(25,059)**	**(27,099)**	**(11,706)**	**(6,395)**	**(70,259)**
Net book amount	**45,250**	**15,735**	**7,120**	**4,885**	**72,990**

The above assets are carried at cost at 31 December 2005 and 2004.

17. PROPERTY, PLANT AND EQUIPMENT (continued)

At 31 December 2005, certain property, plant and equipment with a total net book value of approximately HK$5,474,000 (2004: HK$5,495,000) were pledged as security for the Group's bank borrowings (see note 29).

(b)

	Company		
	Office equipment and leasehold improvements HK$'000	**Motor vehicles HK$'000**	**Total HK$'000**
At 1 January 2004			
Cost	3,607	2,683	6,290
Accumulated depreciation	(2,677)	(1,851)	(4,528)
Net book amount	930	832	1,762
Year ended 31 December 2004			
Opening net book amount	930	832	1,762
Additions	66	—	66
Depreciation	(385)	(438)	(823)
Closing net book amount	611	394	1,005
At 31 December 2004			
Cost	3,673	2,683	6,356
Accumulated depreciation	(3,062)	(2,289)	(5,351)
Net book amount	611	394	1,005
Year ended 31 December 2005			
Opening net book amount	**611**	**394**	**1,005**
Additions	**197**	**—**	**197**
Depreciation	**(443)**	**(322)**	**(765)**
Disposals	**(12)**	**—**	**(12)**
Closing net book amount	**353**	**72**	**425**
At 31 December 2005			
Cost	**3,449**	**2,683**	**6,132**
Accumulated depreciation	**(3,096)**	**(2,611)**	**(5,707)**
Net book amount	**353**	**72**	**425**

The above assets are carried at cost at 31 December 2005 and 2004.

18. INVESTMENT PROPERTIES

(a)

	Group 2005 HK$'000	2004 HK$'000
At 1 January	**37,740**	35,007
Transfer from leasehold land and buildings *(notes 16 and 17(a))*	**5,790**	—
Transfer to leasehold land and buildings *(notes 16 and 17(a))*	**(11,150)**	—
Fair value gains *(note 5)*	**8,780**	4,053
Disposals	**—**	(1,320)
At 31 December	**41,160**	37,740

Investment properties were revalued at 31 December 2005 on the basis of their open market values by Colliers International (Hong Kong) Limited, a member of the Hong Kong Institute of Surveyors.

The Group's interests in investment properties at their net book values are analysed as follows:

	2005 HK$'000	2004 HK$'000
In Hong Kong, held on:		
Leases of over 50 years	**8,230**	6,270
Leases of between 10 to 50 years	**19,820**	18,950
Outside Hong Kong, held on:		
Leases of over 50 years	**590**	510
Leases of between 10 to 50 years	**12,520**	12,010
	41,160	37,740

At 31 December 2005, certain investment properties with a total net book value of approximately HK$21,430,000 (2004: HK$17,190,000) were pledged as security for the Group's bank borrowings (see note 29).

18. INVESTMENT PROPERTIES (continued)

(b)

	Company 2005 HK$'000	Company 2004 HK$'000
At 1 January	**9,950**	10,010
Fair value gains/(losses)	**410**	(60)
At 31 December	**10,360**	9,950

The Company's interest in investment properties at their net book values are analysed as follows:

	2005 HK$'000	2004 HK$'000
Outside Hong Kong, held on:		
Leases of over 50 years	**590**	510
Leases of between 10 to 50 years	**9,770**	9,440
	10,360	9,950

19. INVESTMENTS IN SUBSIDIARIES

	Company 2005 HK$'000	Company 2004 HK$'000
Investments at cost		
— unlisted shares	**1,974,251**	836,578
— provision for impairment losses	**(159,993)**	(89,263)
	1,814,258	747,315
Amounts due from subsidiaries	**—**	625,141
	1,814,258	1,372,456

Particulars of principal consolidated subsidiaries are set out in note 38 to the financial statements.

20. INTERESTS IN JOINTLY CONTROLLED ENTITIES

(a) Interest in a jointly controlled entity

	Group 2005 HK$'000	Group 2004 HK$'000
Share of net assets	**5,339,947**	4,239,959
Capitalisation of interest	**—**	10,017
	5,339,947	4,249,976

Particulars of a jointly controlled entity are as follows:

Name	Place of incorporation/ establishment	Principal activities	Effective interest held
Guangzhou Honda Automobile Co. Ltd. ("Guangzhou Honda")	PRC	Manufacturing and assembly of motor vehicles in the PRC	50%

This is a Sino-foreign equity joint-venture in which 50% (2004: 50%) of the equity capital, voting power and profit sharing is held by a 100% (2004: 95%) owned subsidiary of the Company. 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.

20. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

(a) Interest in a jointly controlled entity (continued)

The following amounts represent the Group's 50% (2004: 47.5%) share of assets and liabilities, income and expenses of the jointly controlled entity:

	2005 HK$'000	2004 HK$'000
Assets:		
Property, plant and equipment	**2,029,928**	1,564,309
Land use rights	**126,962**	108,753
Intangible assets[1]	**230,429**	216,177
Current assets	**5,605,088**	4,808,623
	7,992,407	6,697,862
Liabilities:		
Non-current liabilities	**(961)**	—
Current liabilities	**(2,648,532)**	(2,455,191)
	(2,649,493)	(2,455,191)
Minority interests	**(2,967)**	(2,712)
	5,339,947	4,239,959
Income	**16,059,400**	13,935,629
Expenses	**(14,158,957)**	(11,858,309)
Profit for the year	**1,900,443**	2,077,320

[1] Included in this balance is a goodwill of approximately HK$144,538,000 (2004: HK$134,203,000) arising from the acquisition of motor vehicle manufacturing business and a production plant in Guangzhou by the jointly controlled entity.

Capital commitments

At 31 December 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 was as follows:

	2005 HK$'000	2004 HK$'000
Authorised but not contracted for	**247,896**	—
Contracted but not provided for	**1,192,919**	—

20. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

(b) Interests in other jointly controlled entities

	Group 2005 HK$'000
Share of net assets	319,542
Intangible assets	
— Technology	193,359
— Goodwill *(note 15)*	208,467
	401,826
	721,368

Particulars of the principal jointly controlled entity are as follows:

Name	Place of incorporation/ establishment	Principal activities	Effective interest held
Guangzhou Automobile Group Component Co., Limited ("Guangzhou Component")	PRC	Investment holding in entities engaged in manufacturing and assembly of parts and components for motor vehicles in the PRC	49%

This is a Sino-foreign equity joint-venture in which 49% of the equity capital is held by a 100% owned subsidiary of the Company. The Group's investment cost in this company is HK$710,000,000 (2004: Nil). The Group has no unilateral control over the joint venture company. The joint venture period is 40 years from September 2005.

21. INTERESTS IN ASSOCIATES

	Group	
	2005	2004
	HK$'000	HK$'000
At 1 January	**43,762**	39,678
Share of results	**13,137**	6,123
Dividend paid	**(5,324)**	(2,074)
Exchange difference	**276**	35
At 31 December	**51,851**	43,762

22. INTERESTS IN NON-CONSOLIDATED SUBSIDIARIES

	Group	
	2005	2004
	HK$'000	HK$'000
At 1 January	**2,991**	2,890
Share of results	**(966)**	93
Exchange difference	**80**	8
At 31 December	**2,105**	2,991

23. INVESTMENT SECURITIES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Club debentures, at cost	**—**	1,075	**—**	1,075
Unlisted shares	**—**	338	**—**	—
Less: provision for impairment loss				
— club debentures	**—**	(675)	**—**	(675)
— unlisted shares	**—**	(150)	**—**	—
	—	588	**—**	400

24. INVENTORIES

	Group	
	2005	2004
	HK$'000	HK$'000
Raw materials	**22,660**	53,986
Work in progress	**8,602**	31,861
Finished goods	**60,390**	73,206
Less: provision	**(2,942)**	(17,863)
	88,710	141,190

The cost of inventories recognised as expense and included in cost of sales amounted to HK$722,493,000 (2004: HK$870,066,000).

25. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Due from subsidiaries *(note (a))*	**—**	—	**2,243,046**	550,717
Due from immediate holding company *(note (a))*	**5**	56	**—**	54
Due from a jointly controlled entity *(note (a))*	**7,071**	5,046	**—**	—
Trade receivables *(note (b))*	**58,336**	157,587	**—**	—
Bills receivable *(note (c))*	**—**	8,962	**—**	—
Other receivables, prepayments and deposits	**31,222**	33,652	**4,510**	4,760
	96,634	205,303	**2,247,556**	555,531

(a) The balances are unsecured, interest-free and repayable on demand.

(b) The Group allows its trade customers an average credit period of 90 days.

(c) Bills receivable have maturity dates between 3 to 6 months.

The carrying amounts of trade and other receivables approximate their fair values.

25. TRADE AND OTHER RECEIVABLES (continued)

At 31 December 2005, the ageing analysis of the trade receivables was as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Within 3 months	**45,893**	94,815
4–6 months	**6,593**	46,404
7–12 months	**177**	16,010
Over 12 months	**5,673**	358
	58,336	157,587

The ageing analysis of the trade receivables included in non-current assets classified as held for sale was as follows:

	2005
	HK$'000
Within 3 months	**5,864**
4–6 months	**8,217**
7–12 months	**2,258**
	16,339

Trade and other receivables are denominated in the following currencies:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong dollar	**57,259**	39,650	**690,622**	4,760
Renminbi	**37,869**	164,093	**1,556,934**	550,771
Others	**1,506**	1,560	**—**	—
	96,634	205,303	**2,247,556**	555,531

26. CASH AND BANK BALANCES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and in hand	**225,970**	388,315	**9,706**	12,340
Short-term bank deposits	**1,437,227**	2,206,351	**183,528**	1,665,096
	1,663,197	2,594,666	**193,234**	1,677,436

Cash and bank balances are denominated in the following currencies:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong dollar	**29,682**	298,649	**8,181**	207,789
US dollar	**185,079**	1,469,118	**184,342**	1,466,480
Renminbi *(note (c))*	**1,446,884**	825,289	**—**	2,678
Others	**1,552**	1,610	**711**	489
	1,663,197	2,594,666	**193,234**	1,677,436

(a) At 31 December 2005, bank balances of the Group totalling HK$30,684,000 (2004: HK$57,671,000) were pledged as collateral for the Group's bank borrowing facilities (note 29).

(b) The weighted average effective interest rate on short-term bank deposits was 2.11% (2004: 1.88%); these deposits have an average maturity of 75 days (2004: 43 days).

(c) Renminbi is not a freely convertible currency.

27. SHARE CAPITAL

	Ordinary shares of HK$0.1 each	
	No. of shares	**HK$'000**
Authorised:		
At 1 January 2004	4,000,000,000	400,000
Increase in authorised share capital *(note (a))*	6,000,000,000	600,000
At 31 December 2004 and 31 December 2005	10,000,000,000	1,000,000
Issued and fully paid:		
At 1 January 2004	3,508,534,767	350,853
Bonus issue *(note (b))*	3,534,317,767	353,432
Exercise of options *(note (c))*	369,828,000	36,983
At 31 December 2004	7,412,680,534	741,268
Purchase of partial interest in a subsidiary *(note (d))*	73,800,000	7,380
Exercise of options *(note (c))*	30,878,000	3,088
At 31 December 2005	7,517,358,534	751,736

(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 of HK$353,432,000 standing to the credit of the share premium account of the Company. These bonus shares rank pari passu in all respects with the existing ordinary shares.

(c) On 6 June 2002, a share option 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. Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2005		2004	
	Average exercise price in HK$ per share[1]	**Options ('000)**	Average exercise price in HK$ per share[1]	Options ('000)
At 1 January	**1.82**	**79,202**	1.45	237,406
Additional options due to bonus issue of shares *(note (b))*	**—**	**—**	1.46	211,624
Exercised	**1.34**	**(30,878)**	1.38	(369,828)
At 31 December	**2.12**	**48,324**	1.82	79,202

27. SHARE CAPITAL (continued)

All of the above outstanding options were exercisable. Options exercised in 2005 resulted in 30,878,000 shares (2004: 369,828,000 shares) being issued at HK$1.34 each (2004: HK$1.38 each). The related weighted average share price at the time of exercise was HK$2.87 (2004: HK$3.04) per share.

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

	Exercise price in	Options ('000)	
Expiry date	**HK$ per share**	**2005**	2004
8 May 2006	2.65 (1.325[1])	**1,628**	31,434
1 July 2006	3.65 (1.825[1])	**—**	1,072
5 June 2012	4.305 (2.1525[1])	**46,696**	46,696
		48,324	79,202

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

(d) The Group issued 73,800,000 shares on 7 February 2005 to the shareholders of City Achieve Investments Limited, a fellow subsidiary of the Company, as part of the purchase consideration of HK$996,215,000 for the remaining 5% equity interest in Guangzhou Denway Enterprises Development Company Limited. The ordinary shares issued have the same rights as the other shares in issue. The fair value of the shares issued at the date of acquisition amounted to HK$206,861,000 (HK$2.803 per share).

28. RESERVES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Share premium				
At 1 January	**2,263,638**	2,109,246	**2,263,638**	2,109,246
Issue of shares	**237,843**	507,824	**237,843**	507,824
Bonus issue	**—**	(353,432)	**—**	(353,432)
At 31 December	**2,501,481**	2,263,638	**2,501,481**	2,263,638
Exchange reserve				
At 1 January	**(33,456)**	(28,533)	**—**	—
Exchange difference on translation of financial statements of foreign subsidiaries, jointly controlled entities and associates	**111,147**	2,805	**—**	—
Transfer to income statement upon disposal and liquidation of subsidiaries	**—**	(45)	**—**	—
Transfer to income statement upon disposal of an associate	**—**	(7,683)	**—**	—
At 31 December	**77,691**	(33,456)	**—**	—
Retained earnings (note (a))				
At 1 January	**3,122,681**	2,021,159	**601,714**	588,525
Profit for the year	**1,905,529**	2,062,447	**995,631**	801,257
2004 final dividend/2003 final and special dividends paid	**(300,427)**	(494,804)	**(300,427)**	(494,804)
Interim dividend paid	**(300,694)**	(293,264)	**(300,694)**	(293,264)
Transfer to capital reserve	**(165,687)**	(190,673)	**—**	—
Transfer from capital reserve upon disposal and liquidation of subsidiaries	**—**	7,920	**—**	—
Transfer from capital reserve upon disposal of an associate	**—**	9,896	**—**	
At 31 December	**4,261,402**	3,122,681	**996,224**	601,714

28. RESERVES (continued)

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Capital reserve (note (b))				
At 1 January	**876,236**	703,379	**—**	—
Exchange difference on translation of financial statements of foreign subsidiaries	**1,670**	—	**—**	—
Transfer to retained earnings upon disposal and liquidation of subsidiaries	**—**	(7,920)	**—**	—
Transfer to retained earnings upon disposal of an associate	**—**	(9,896)	**—**	—
Transfer from income statement	**165,687**	190,673	**—**	—
Purchase of partial interest in a subsidiary	**34,293**	—	**—**	—
At 31 December	**1,077,886**	876,236	**—**	—
Total reserves	**7,918,460**	6,229,099	**3,497,705**	2,865,352

(a) Retained earnings/(accumulated losses)

	Group	
	2005	2004
	HK$'000	HK$'000
Company and subsidiaries	**903,358**	373,306
A jointly controlled entity	**3,397,447**	2,772,999
Other jointly controlled entities	**(22,625)**	—
Non-consolidated subsidiaries and associates	**(16,778)**	(23,624)
	4,261,402	3,122,681

(b) The reserve represents transfers made to reserve funds and enterprise development funds set up by certain subsidiaries, jointly controlled entities and associates, 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.

29. BORROWINGS

	Group 2005 HK$'000	Group 2004 HK$'000
Non-current		
Long-term bank loans	**5,563**	8,671
Current		
Trust receipt loans	**10,095**	23,654
Current portion of long-term bank loans	**3,591**	61,954
	13,686	85,608
Total borrowings	**19,249**	94,279

The maturity of bank borrowings is as follows:

	Group 2005 HK$'000	Group 2004 HK$'000
Within one year	**13,686**	85,608
In the second year	**2,222**	6,751
In the third to fifth year inclusive	**3,085**	1,403
After the fifth year	**256**	517
	19,249	94,279

(a) Certain bank borrowings of the Group totalling HK$12,460,000 (2004: HK$10,640,000) are secured by certain leasehold land, property, plant and equipment and investment properties *(notes 16, 17 and 18)* of the Group.

(b) The weighted average effective interest rates at the balance sheet date were as follows:

	2005 HK$	2004 HK$	2004 RMB
Bank loans	**5.563%**	4.539%	5.356%
Trust receipt loans	**7.750%**	5.000%	—

(c) The carrying amounts of all borrowings approximate their fair values.

29. BORROWINGS (continued)

(d) The carrying amounts of the borrowings are denominated in the following currencies:

	Group	
	2005	2004
	HK$'000	HK$'000
Hong Kong dollar	**19,249**	37,930
Renminbi	**—**	56,349
	19,249	94,279

(e) At 31 December 2005, the Group had total banking facilities amounted to HK$163,472,000 (2004: HK$396,993,000), of which HK$74,235,000 (2004: HK$266,175,000) was utilised at that date.

30. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using the applicable income tax rate.

Deferred taxation at 31 December 2004 and 2005 represents deferred tax liabilities arising from Hong Kong profits tax provided in respect of accelerated depreciation allowances.

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

	Group	
	2005	2004
	HK$'000	HK$'000
At 1 January	**926**	975
Charged/(credited) to income statement *(note 9)*	**201**	(49)
At 31 December	**1,127**	926

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 financial statements is as follows:

	2005	2004
	HK$'000	HK$'000
Tax losses	**57,752**	25,755

31. TRADE AND OTHER PAYABLES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Due to ultimate holding company *(note (a))*	**—**	10,119	**—**	—
Due to immediate holding company *(note (b))*	**8,123**	2,194	**548**	—
Due to fellow subsidiaries *(note (b))*	**—**	38	**—**	—
Due to an associate *(note (b))*	**1,448**	—	**—**	—
Due to a minority shareholder of a subsidiary *(note (a))*	**443**	443	**—**	—
Trade payables	**45,301**	102,337	**—**	—
Bills payables *(note (c))*	**81,705**	171,896	**—**	—
Other payables, deposits received and accrued charges	**38,704**	66,163	**9,303**	3,617
	175,724	353,190	**9,851**	3,617

(a) The balance is unsecured, bears interest at commercial rate and repayable on demand

(b) The balances are unsecured, interest-free and repayable on demand.

(c) Bills payables are due for payments within 6 months.

At 31 December 2005, the ageing analysis of the trade payables was as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Within 3 months	**44,760**	84,722
4–6 months	**402**	6,669
7–12 months	**66**	1,958
Over 12 months	**73**	8,988
	45,301	102,337

The ageing analysis of the trade payables included in liabilities directly associated with non-current assets classified as held for sale was as follows:

	2005
	HK$'000
Within 3 months	**27,506**
4–6 months	**1,618**
7–12 months	**1,130**
Over 12 months	**1,486**
	31,740

31. TRADE AND OTHER PAYABLES (continued)

Trade and other payables are denominated in the following currencies:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong dollar	**53,683**	43,663	**9,303**	3,617
Renminbi	**120,553**	307,510	**548**	—
Others	**1,488**	2,017	**—**	—
	175,724	353,190	**9,851**	3,617

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash generated from/(used in) operations:

	2005	2004
	HK$'000	HK$'000
Profit before taxation	**1,980,924**	2,081,707
Interest income	**(33,864)**	(25,580)
Interest expense	**1,418**	1,427
Share of profits less losses of:		
A jointly controlled entity	**(1,900,443)**	(2,077,320)
Other jointly controlled entities	**(16,232)**	—
Associates	**(13,137)**	(6,123)
Non-consolidated subsidiaries	**966**	(93)
Fair value gains on investment properties	**(8,780)**	(4,053)
Amortisation of goodwill	**—**	1,533
Amortisation of prepaid leasehold land and land use right	**588**	599
Depreciation of property, plant and equipment	**10,618**	10,882
Loss on disposal of property, plant and equipment	**622**	1,816
Write-back of provision for impairment loss	**(12,215)**	(1,750)
Loss on disposal of subsidiaries	**—**	762
Gain on liquidation of subsidiaries	**—**	(13,400)
Gain on disposal of an associate	**—**	(9,549)
(Write-back of provision)/provision for inventory obsolescence	**(480)**	2,194
(Write-back of provision)/provision for doubtful debts	**(27)**	807
Operating profit/(loss) before working capital changes	**9,958**	(36,141)
Decrease in inventories	**34,010**	9,613
Decrease in trade and other receivables	**84,946**	40,232
Decrease in trade and other payables	**(35,744)**	(43,890)
Net cash generated from/(used in) operations	**93,170**	(30,186)

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

(b) Analysis of changes in financing during the year

	Share capital (including share premium) HK$'000	Borrowings HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2004	2,460,099	71,552	171,228	2,702,879
Issue of shares upon exercise of share options	544,807	—	—	544,807
Share of losses by minority interests	—	—	(3,037)	(3,037)
Minority interests in share of exchange reserve	—	—	144	144
Cash inflow from financing				
— continuing operations	—	3,898	—	3,898
— discontinued operations	—	18,829	—	18,829
Dividends paid to minority shareholders	—	—	(8,464)	(8,464)
Disposal of subsidiaries	—	—	(1,811)	(1,811)
Liquidation of subsidiaries	—	—	(496)	(496)
At 31 December 2004	3,004,906	94,279	157,564	3,256,749
Purchase of partial interest in a subsidiary	206,861	—	(56,456)	150,405
Issue of shares upon exercise of share options	41,450	—	—	41,450
Share of losses by minority interests	—	—	(45,281)	(45,281)
Minority interests in share of exchange reserve	—	—	(1,141)	(1,141)
Cash used in financing				
— continuing operations	—	(18,681)	—	(18,681)
— discontinued operations	—	(3,500)	—	(3,500)
Dividends paid to minority shareholders	—	—	(26,231)	(26,231)
Dividends payable to minority shareholders	—	—	56,007	56,007
Transfer to liabilities directly associated with non-current assets classified as held for sale	—	(52,849)	—	(52,849)
At 31 December 2005	3,253,217	19,249	84,462	3,356,928

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

(c) Disposal of subsidiaries

	2005 HK$'000	2004 HK$'000
Net assets disposed of:		
Property, plant and equipment	—	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)
	—	11,189
Loss on disposal of subsidiaries	—	(762)
Cash consideration received	—	10,427

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

	2005 HK$'000	2004 HK$'000
Cash consideration received	—	10,427
Cash and bank balances disposed of	—	(9,155)
Net cash generated	—	1,272

(d) Liquidation of subsidiaries

	2005 HK$'000	2004 HK$'000
Net liabilities disposed of:		
Property, plant and equipment	—	1,551
Trade and other receivables	—	2,108
Cash and bank balances	—	7,932
Trade and other payables	—	(22,088)
Minority interests	—	(496)
	—	(10,993)
Gain on liquidation of subsidiaries	—	13,400
Proceeds receivable on liquidation	—	2,407

Analysis of net cash and cash equivalents used in respect of the liquidation of subsidiaries.

	2005 HK$'000	2004 HK$'000
Cash and bank balances disposed of	—	(7,932)

33. COMMITMENTS

(a) Commitments under operating leases

At 31 December 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Not later than one year	**9,197**	9,632
Later than one year and not later than five years	**27,699**	29,858
Later than five years	**35,656**	16,811
	72,552	56,301

The Company had no operating lease commitments as at 31 December 2004 and 2005.

(b) Capital commitments

At 31 December 2005, the Group had capital commitments in respect of purchase of property, plant and equipment as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Authorised but not provided for	**1,546**	8,756
Contracted but not provided for	**938**	—

The Company had no capital commitments as at 31 December 2004 and 2005.

34. CONTINGENT LIABILITIES

	Group	
	2005	2004
	HK$'000	HK$'000
Continuing operations:		
Guarantees for bank loans borrowed by an associate	**14,125**	13,805
Discontinued operations:		
Guarantees for bank loans borrowed by independent third parties	**134,099**	62,173

The Company had no contingent liabilities as at 31 December 2004 and 2005.

35. RELATED PARTY TRANSACTIONS

(a) Related parties

The Company's single largest shareholder is China Lounge Investments Limited, which owns 37.91% of the Company's shares. The Company's directors regard Guangzhou Automobile Industry Group Company Limited (incorporated in the PRC) to be the ultimate holding company.

Related parties are those parties which have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Save as disclosed elsewhere in the financial statements, the table set forth below summarised the names of significant parties and nature of relationship with the Company as at 31 December 2005:

Significant related party	**Relationship with the Company**
Guangzhou Automobile Group Commercial Trading Co. Ltd.	Fellow subsidiary
Guangzhou Guangyue Asset Management Ltd.	Fellow subsidiary
Shaoguan Denway Motors Trading Co. Ltd.	Associate

(b) Transactions with related parties

Save as disclosed elsewhere in these financial statements, the following is a summary of significant transactions with related parties during the year:

	Group	
	2005	2004
	HK$'000	HK$'000
Sales to a jointly controlled entity	**1,386**	1,932
Sales to associates	**8,100**	—
Purchases from a jointly controlled entity	**324,092**	358,498
Purchases from fellow subsidiaries	**—**	2,348
Purchase of interests in jointly controlled entities from a fellow subsidiary	**710,000**	—
Disposal of a partial interest in a non-consolidated subsidiary to a fellow subsidiary	**—**	822
Rental expenses paid to a fellow subsidiary	**—**	263
Administration and management fees for retired employees paid to a fellow subsidiary	**408**	486

35. RELATED PARTY TRANSACTIONS (continued)

(c) Balances with related parties

Save as disclosed elsewhere in the financial statements, there are no other significant balances with related parties.

(d) Key management compensation

	Group	
	2005	2004
	HK$'000	HK$'000
Salaries and other short-term employee benefits	**4,884**	4,714
Retirement benefits	**48**	44
	4,932	4,758

36. EVENTS AFTER THE BALANCE SHEET DATE

On 16 February 2006, the Company entered into an agreement with China Lounge Investments Limited, the Company's immediate controlling shareholder, pursuant to which the Company has agreed to transfer the remaining 50% equity interest in Guangzhou Denway Bus to China Lounge Investments Limited for cash consideration of HK$18,877,000. The transaction was approved by independent shareholders in the extraordinary general meeting held on 23 March 2006. Guangzhou Denway Bus ceased to be a consolidated subsidiary of the Company after the above transaction.

37. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 19 April 2006.

38. 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 2005 or formed a substantial portion of the net assets of the Group at 31 December 2005:

Name	Place of incorporation/ establishment	Principal activities	Registered capital/issued share capital	Effective interest held
Interest held directly:				
Guangzhou Denway Enterprises Development Company Limited *(notes (a) and (c))*	PRC	Investment and management	US$87,272,700	100%
Guangzhou Denway Bus Company Limited *(notes (a), (b), (c) and (e))*	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	100%
Guangzhou Automotive Industry Trading Company Limited *(notes (a) and (c))*	PRC	Wholesale and retail of various types of motor vehicles	RMB20,000,000	95%
Guangzhou Honda Automobile No. 1 Sales Company Limited *(notes (a) and (c))*	PRC	Trading of motor sedan	RMB18,000,000	51%

38. SUBSIDIARIES (continued)

Name	Place of incorporation/ establishment	Principal activities	Registered capital/issued share capital	Effective interest held
Interest held indirectly: (continued)				
Promowide Technology Limited	Hong Kong	Investment holding and management	HK$42,394,938	63%
Arkon Industrial Limited	Hong Kong	Investment holding and management	HK$10,000,000	61%
Art Sea Metal Works Limited *(note (d))*	Hong Kong	Manufacture of metal parts	HK$400,000	63%
Uni-Art Precise Products Limited *(note (d))*	Hong Kong	Manufacture of audio equipment	HK$400,000	63%
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 this entity is controlled by the Company.

(c) Statutory financial statements of these subsidiaries were not audited by PricewaterhouseCoopers.

(d) Apart from these subsidiaries which mainly operate in the PRC, all the other subsidiaries above mainly operate in their respective places of incorporation/establishment.

(e) Refer to notes 6 and 36.