



G.A. HOLDINGS LIMITED

*(incorporated in the Cayman Islands with limited liability
and carrying on business in Hong Kong under the trading name of
German Automobiles International Limited)*



Annual Report 2002

Characteristics of The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the GEM website. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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CORPORATE INFORMATION

DIRECTORS

Mr. Loh Kim Her
Mr. Chan Hing Ka, Anthony
Mr. Loh Nee Peng
Mr. Goh Chee Wee (*Chairman*) #
Mr. Lee Kwok Yung *
Ms. Lam So Ying *

Non-executive Director

* *Independent non-executive Directors*

AUDIT COMMITTEE

Ms. Lam So Ying (*Chairman*)
Mr. Lee Kwok Yung
Mr. Chan Hing Ka, Anthony

COMPLIANCE OFFICER

Mr. Loh Kim Her

AUTHORISED REPRESENTATIVES

Mr. Loh Kim Her
Mr. Chan Hing Ka, Anthony

QUALIFIED ACCOUNTANT

Mr. Shum Kai Wing, *AHKSA FCCA*

COMPANY SECRETARY

Mr. Shum Kai Wing, *AHKSA FCCA*

AUDITORS

Moores Rowland,
Chartered Accountants,
Certified Public Accountants

SPONSOR

Celestial Capital Limited

PRINCIPAL BANKERS

Industrial and Commercial Bank of China,
Singapore Branch
The Development Bank of Singapore Ltd.

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International
(Cayman) Ltd.
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor
Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

Century Yard, Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
British West Indies

HEAD OFFICE

#02-01 Atland House
200 Bukit Timah Road
Singapore 229862

PRINCIPAL PLACE OF BUSINESS

Room 2205B, 22nd Floor
9 Queen's Road Central
Hong Kong

COMPANY WEBSITE

www.ga-holdings.com

STOCK CODE

8126

CHAIRMAN'S STATEMENT



The year 2002 was a notable year for the Group. The foremost and remarkable move during the year was the listing of the Group on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in June 2002. The listing practice was a milestone for the Group, corroborating the achievements of the management and staff over the years. Secondly, after long-term negotiation, the PRC became a member of the WTO in December 2001. With the PRC's commitment to open its domestic market, the auto industry participants share the view that there will be promising growth in the PRC auto market in the coming years. Finally, the Group introduced the Hertz car rental business in the PRC. Hertz is the largest vehicle renting organization worldwide. Being the business partner with Hertz to develop the PRC car rental market, the Group would enhance its profitability and diversify its business portfolio.

The Group got listed on the GEM of the Stock Exchange by way of placing on 17th June, 2002. An aggregate of 100,000,000 shares, comprising 80,000,000 new shares and 20,000,000 existing shares offered for sale by Loh & Loh Construction Group Ltd., were placed at S\$0.113 (HK\$0.5), and the net proceeds of approximately S\$5.8 million was raised. The proceeds improve the financial position which support the future development of the Group.

Since the PRC's accession into the WTO at the end of 2001, the PRC's auto market has undergone significant changes. The PRC government was committed to open the domestic market to foreign investors by deregulating the trade barriers. The Group, as a distributor of imported motor vehicles, has taken the advantage of such moves and has achieved a remarkable result for the year 2002. For the year ended 31st December, 2002, the Group's turnover increased from approximately S\$57.3 million to approximately S\$101.9 million, representing a growth of approximately 77.7%.

From the date of establishment, the Group has engaged in distribution of imported motor vehicles and provision of after-sales service in the PRC. To diversify the business, the Group sought for other potential business opportunities. In August 2001, the Group was appointed by Hertz International Ltd. as the principal licensee for 5 major cities in the PRC. The Group further appointed 3 sub-licensees in the PRC to operate the car rental business under the name of Hertz. The sub-licensees launched the car rental business in January 2002. The Group also commenced the provision of marketing consulting and technical expertise to the sub-licensees in return for an annual management income. The new source of income contributed to the Group's profitability and achieved diversification of business.

I would like to take this chance to record my sincere appreciation to the fellow directors for their dedications and thank the management and staff for their commitments to the growth of the Group.

Goh Chee Wee
Chairman

Hong Kong, 25th March, 2003

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Distribution of motor vehicles and auto parts

The Group mainly distributes imported motor vehicles to the PRC market. The PRC government has committed in its WTO protocol in the accession to open its market to the foreign countries by reducing the import tariffs and eliminating the quota system in several phases. These measures will definitely cut down the price of the imported vehicles that narrowing the price premium of the imported vehicles over the domestic ones. The demand for the imported vehicles is expected to rise consequently.

Commencing from 1st January, 2002, the PRC's import tariffs for motor vehicles and auto parts have been reduced from 70%-80% to 43.8%-50.7% and from 60.8% to 23.4% respectively. The decrease in tariffs directly cut the retail prices of the imported motor vehicles and auto parts, the price gap between the imported motor vehicles and the domestic ones was narrowed. Customers found it more affordable to purchase the imported motor vehicles. The Group's revenue from sales of motor vehicles, servicing of motor vehicles and sales of auto parts was mainly accelerated by the above factor and increased by approximately 80.2% as compared with last year.

Furthermore, the Group entered into agency agreements with 9 resellers. Those resellers acted as the Group's distribution agents whom assisted the Group in promoting its products. Such enhancement in distribution network was also another factor contributing to the increase in the Group's turnover.

Provision of after-sales service

The Group commenced the construction of a 3-in-1 service centre in Xiamen during the year which is expected to be completed in the second quarter of 2003. This service centre will be the re-location site of the existing service centre in Xiamen. The investment in the service centre in progress was increased after the PRC government's preliminary approval of manufacturing of BMW passenger vehicles domestically. The additional investment was obtained by abandoning the building of service centre in Guangzhou, which is intended to provide technical services to the car rental sub-licensees in that region. This move will enhance the Group's after-sales service and corporate image in the authorised region designated by BMW.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*



BUSINESS REVIEW *(Continued)*

Management of car rental business in the PRC

In August 2001, the Group was appointed as the principal licensee of the Hertz car rental business in 5 major cities of the PRC, including Beijing, Shanghai, Guangzhou, Tianjin and Xiamen. The Group further appointed 3 PRC car rental operators as the sub-licensees to run the car rental business in the PRC. The Group provided management consulting and technical services to each sub-licensee and in return for an annual management fee income. The sub-licensees in Beijing, Shanghai and Guangzhou launched their operations in their corresponding regions in January, 2002.

Sales and Marketing

The Group organised large scale exhibitions in Xiamen, the authorised region appointed by BMW, to promote the new models of BMW passenger vehicles, the New 7 Series. The Directors believed these marketing events played an essential role in promoting the products. The Group also held marketing activities including golf tournament and test drive to boost up the sales volume and enhance corporate image.

The Group recruited an experienced foreigner as the general manager to in charge the sales and marketing activities, as well as the after-sales service operation, in Xiamen.

BUSINESS PROSPECT

The PRC auto market will undergo reformation in numerous phases. The tariffs on motor vehicles will be gradually reduced year by year to an average of 25% by 2006, whereas the tariffs on auto parts will also be cut to an average of 10%. Quota will be eliminated entirely by 2005. In light of slackening of the trading restrictions, the Group will be more flexible in operating the business in the PRC. Moreover, the popularity of auto financing services in the PRC will offer the customers additional mode of payment. Auto financing will have a positive impact on the demand of motor vehicles.

The PRC auto market is considered to be the one with the greatest potential in the coming decade. The PRC's economic growth sustained at round 6-8% in the past few years even though the global economy is slowing down. The purchasing power of the PRC citizens is increasing. In light of the relative low automobiles penetration rate in the PRC when comparing with the developed countries or even the developing countries, the demand of motor vehicles in the PRC is expected huge.

In view of the open of the PRC market, more multinational corporations will set up their offices in the big cities in the Mainland China, like Beijing, Shanghai, Guangzhou, etc. Those corporations may require hiring cars for their executives. This may lead to enormous opportunities for the PRC car rental business.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS PROSPECT *(Continued)*

To accommodate the latent demand for purchasing and hiring motor vehicles, the Group has been prepared in the following ways: (1) commenced negotiation with BMW for authorised distributorship in a central region of the PRC; (2) initiated negotiation with a foreign motor vehicle manufacturer for the distributorship of the motor vehicles of its brands; (3) re-locating the service centre in Xiamen to an advanced and large scale one in the second quarter of 2003; (4) introduced the car rental business in the PRC through the operation of the sub-licensees.

The Group intends to expand the Hertz car rental business to Hong Kong, and is now trial running the Hertz system to assess the market demand to outline the future business plan.

FINANCIAL REVIEW

Overview

The majority of the Group's turnover during the year ended 31st December, 2002 was derived by German Automobiles Pte Ltd., a subsidiary operating in Singapore, principally engaged in the business of distributing motor vehicles, auto parts and accessories.

Turnover

For the year ended 31st December, 2002, the turnover of the Group amounted to S\$101,877,000, and increase of approximately 77.7% as compared with that of the year ended 31st December, 2001. This is mainly contributed by the increase in the sales of motor vehicles by 69.3% during the year, owing to the increase in demand for BMW passenger vehicles and other brand vehicles including Toyota arising from product diversification. For the year ended 31st December, 2001, revenues generated from distributing BMW and other cars was approximately S\$28,635,000 and S\$21,467,000 respectively and increased to approximately S\$43,235,000 and S\$41,583,000 respectively for the year ended 31st December, 2002. The Directors believed such increase was resulted from increasing customers' demand induced by the economic growth of the PRC.

For the year ended 31st December, 2002, the income generating from servicing of motor vehicles and sales of auto parts was approximately S\$11,474,000, representing an increase of approximately 243.5% as compared with that of the year ended 31st December, 2001. The Directors believed that the increase in servicing income and sales of auto parts was the result of growing number of motor vehicles on-road.

Technical fee income from provision of technical services to North Anhua Group Corporation was increased by approximately 10.4% to approximately S\$4,284,000 for the year ended 31st December, 2002 as compared with S\$3,880,000 for the year ended 31st December, 2001. The Group received management fee income as compared with S\$1,301,000 for the year ended 31st December, 2002 as it commenced the provision of management consulting and technical services to the 3 car rental sub-licensees in January 2002.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*



FINANCIAL REVIEW *(Continued)*

Gross Profit

Gross profit margin for income from distribution of motor vehicles was approximately 7.7% and 10.5% respectively for the years ended 31st December, 2002 and 2001. The gross profit margin of technical fee and car rental management fee income were 100% for the year ended 31st December, 2002. For the years ended 31st December, 2002 and 2001, the gross profit margin of the Group was approximately 13.9% and 16.6% respectively. The decrease in gross profit margin resulted from the strong demand of the Japanese passenger vehicles with lower profit margin when comparing with BMW ones.

For the year ended 31st December, 2002, the gross profit of the Group was approximately S\$14,179,000, representing an increase of approximately 49.2% over that of the year ended 31st December, 2001.

Other Operation Expenses

Other operating expenses for the year ended 31st December, 2002 amounted to approximately S\$5,144,000, an increase of 95.3% as compared with that of the year ended 31st December, 2001. The increase was the result of impairment loss of fixed assets of approximately S\$229,000 (2001: Nil) and the non-recurring exhibition, sales and promotion expenses for newly launched BMW 7 series passenger vehicles of approximately S\$1,237,000 (2001: Nil), and reclassification of bank charges as other operating expenses, instead of finance cost.

Profit Attributable to Shareholders

Profit attributable to shareholders for the year ended 31st December, 2002 was S\$2,849,000 as compared with S\$2,777,000 for the year ended 31st December, 2001. The profits for 2002 increased by approximately 2.6% as compared with that of 2001.

Financial Resources and Liquidity

As at 31st December, 2002, shareholders' fund of the Group amounted to approximately S\$20,207,000 (2001: S\$11,691,000). Current assets amounted to approximately S\$56,896,000 (2001: S\$35,648,000). Of which approximately S\$13,322,000 (2001: S\$8,539,000) were cash and bank deposits. Current liabilities amounted to approximately S\$49,518,000 (2001: S\$35,037,000), mainly its trade payables, bills payable, bank loans, accruals and other payables and current account with affiliated companies. The Group had non-current liabilities amounted to S\$817,000 (2001: S\$2,565,000). The net asset value per share was S\$0.051 (2001: S\$0.037, based on proforma issued shares of the Company) as at 31st December, 2002.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW *(Continued)*

Gearing Ratio

The Group expresses its gearing ratio as a percentage of bank borrowing and long-term debts over total assets. As at 31st December, 2002, the Group had a gearing ratio of 0.47 (2001: 0.60).

Foreign Exchange Exposure

During the year ended 31st December, 2002, the Group had an exchange loss of approximately S\$816,000 (2001: exchange gain S\$494,000), mainly due to the revaluation of euro against SGD, whereas the purchases for BMW passenger vehicles were mainly denominated in euro. The Group did not employ any hedging policy with respect to the fluctuations in exchange rates.

Charges on Group Assets

As at 31st December, 2002, the Group pledged time deposits of approximately S\$7,836,000 (2001: S\$5,276,000) to several banks for banking facilities for the Group and a related company of North Anhua and to secure guarantees given by the bank to Hertz International Ltd., the principal of the "Hertz" system of car rental business (the "Car Rental Business").

As at 31st December, 2002, the Group charged legal mortgages on the property and land and building with net book value of approximately S\$839,000 (2001: S\$853,000) and S\$348,000 (2001: S\$354,000) respectively to banks to secure 2 mortgages.

Contingent Liabilities

As at 31st December, 2002, the Group provided a bank guarantee of approximately S\$7,446,000 (2001: S\$7,912,000) to a bank in respect of banking facilities to Beijing China National Automotive Auhua Spare Parts Ltd., which is a related company to North Anhua Group Corporation.

The Group as the principal licensee of the Car Rental Business, has given corporate guarantees to the principal of the Car Rental Business, guaranteeing the performance and timely payment by the three car rental sub-licensees of all amounts payable under the respective sub-licensees agreements to Hertz International Ltd. These car rental sub-licensees are subject to significant influence by a company's director and are subsidiaries of North Anhua.

Employees

As at 31st December, 2002, the total number of employee of the Group was 73. For the year ended 31st December, 2002, the staff costs including directors' remuneration of the Group amounted to approximately 1.9% of the turnover of the Group and an increase of approximately S\$589,000 or approximately 40.9% as compared to that of the year ended 31st December, 2001. It is the Group policy to review its employee's pay levels and performance bonus system regularly to ensure the remuneration policy is competitive within the industry.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*



FINANCIAL REVIEW *(Continued)*

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

During the year ended 31st December, 2002, the Group had no material acquisitions and disposals of subsidiaries and affiliated companies.

Significant Investment

As at 31st December, 2002, the Group had no significant investments held.

Material Investments or Capital Assets

As at 31st December, 2002, the Group had no future plans for material investment except that capital assets will be purchased in accordance with the details set out in the section headed "Statement of business objectives" in the prospectus of the Company dated 10th June, 2002.

Capital Structure of the Group in Debt Securities

During the year ended 31st December, 2002, the Group had no debt securities in issue.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Loh Kim Her, aged 49, is the managing director of the Company and he joined the Group in November 1993. Mr. Loh has over 9 years experience in distribution of motor vehicles business in the PRC. Mr. Loh is responsible for the overall strategic planning of the business of the Group. Mr. Loh is also responsible for the establishment and operation of the Group's authorised service centres in the PRC.

Mr. Chan Hing Ka, Anthony, aged 35, is an executive director of the Company and a co-founder of the Group, which was established in August 1993. Mr. Chan is responsible for the finance operation of the Group. Mr. Chan has established and maintained close relationship with BMW AG and enabled the Group to secure reliable supply of BMW passenger vehicles. Mr. Chan graduated from the University of San Francisco in 1988 with a bachelor's degree in business administration.

Mr. Loh Nee Peng, aged 34, is an executive director of the Company and a co-founder of the Group, which was established in August 1993. Mr. Loh is responsible for the business development in the PRC. Mr. Loh gained more than 9 years experience in the PRC's auto industry. Mr. Loh graduated from the University of San Francisco in 1988 with a bachelor's degree in business administration. Mr. Loh is the nephew of Mr. Loh Kim Her.

Non-executive Director

Mr. Goh Chee Wee, aged 56, is the chairman of the Group. He has been appointed as the director of German Automobiles Pte Ltd., a wholly-owned subsidiary of the Company, since September 2000. Mr. Goh is also the group managing director and chief executive officer of Comfort Group Limited ("Comfort Group"), a listed company in Singapore. Mr. Goh is also the deputy chairman and chief executive officer of VICOM Ltd, a listed subsidiary of Comfort Group. Mr. Goh is a director of Singapore Labour Foundation, the chairman of Board of Trustees of Singapore National Co-operative Federation Ltd., the chairman of the NTUC Media Co-operative Ltd. and the deputy chairman of NTUC Fairprice Co-operative Ltd. Mr. Goh is also a director of a number of listed companies in Singapore. Prior to joining Comfort Group, Mr. Goh was the Minister of State in the Ministry of Trade and Industry and Ministry of Communications in Singapore. Mr. Goh holds a bachelor degree of science with first class honours in physics and a diploma in business administration from the University of Singapore, and a master degree of science engineering from the University of Wisconsin.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT *(Continued)*



DIRECTORS *(Continued)*

Independent non-executive Directors

Mr. Lee Kwok Yung, aged 47, has been appointed as an independent non-executive director of the Company since June 2002. Mr. Lee is a solicitor admitted to practice law in Hong Kong and a member of the Law Society of Hong Kong. He is currently a partner at Messrs Hau, Lau, Li & Yeung, Solicitors & Notaries in Hong Kong. Mr. Lee has over 12 years experience in law practicing. Mr. Lee holds a diploma from the College of Radiographers and a honours degree in law from the University of London and a postgraduate certificate in laws from the University of Hong Kong. Mr. Lee is experienced in commercial law, litigation and conveyancing.

Ms. Lam So Ying, aged 29, has been appointed as an independent non-executive director of the Company since June 2002. She is the vice general manager of Palun Development Limited and has over 10 years experience in the trading and logistic business in the PRC. Ms. Lam graduated from Hong Kong Baptist University with a diploma in business management in 1996 and is a member of the Association of Business Executives (ABE) in United Kingdom.

SENIOR MANAGEMENT

Mr. Shum Kai Wing, aged 38, is the Financial Controller and the Company Secretary of the Group and is responsible for the overall financial management and accounting function of the Group. He joined the Group in August 2001 and has more than 13 years experience in financial sector, including working for an international audit firm for 4 years. Mr. Shum holds a bachelor degree in accounting from the City University of Hong Kong. He is a fellow member of Chartered Association of Certified Accountants and an associate member of Hong Kong Society of Accountants.

Mr. Lim Tee Peng, aged 39, is the general manager of the auto parts and accessories division of the Group. Prior to joining the group in August 1993, Mr. Lim was a sales manager of an authorised dealer of European luxury motor vehicles. Mr. Lim has extensive experience in trading of auto parts and accessories.

Mr. Tan Cheng Kim, aged 36, is the general manager of the motor vehicle distribution division of the Group. Mr. Tan has extensive experience in trading of motor vehicles in the PRC. Prior to joining of the Group in August 1993, Mr. Tan was an engineer of an authorised dealer of European luxury motor vehicles. Mr. Tan graduated from the Ngee Ann Polytechnic Singapore in 1987 with a diploma in mechanical engineering.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT *(Continued)*

SENIOR MANAGEMENT *(Continued)*

Mr. Thomas Michael Werner, aged 35, is the general manager of the after-sales division of the Group and is responsible for operation and development of after-sales service in Xiamen. Mr. Werner is also in charge of sales and marketing of the Group. Mr. Werner graduated from University BAS in Munich in 1989. Mr. Werner was a qualified master specialist/expert for prototype department and parts manufacturing. Mr. Werner joined the Group in February 2003 and has over 13 years experience in sales, marketing and after-sales service in the Asia Pacific Region.

BUSINESS OBJECTIVES REVIEW



COMPARISON BETWEEN BUSINESS OBJECTIVES AND ACTUAL RESULTS

The actual progress of the Group's business objectives for the year ended 31st December, 2002, as set out in the prospectus of the Company dated 10th June, 2002, (the "Prospectus"), is as follows:

| Business objectives for the period ended 31st December, 2002 disclosed in the Prospectus | Actual business progress for the period ended 31st December, 2002 |
|--|---|
|--|---|

1. Expansion of Distribution Network

- | | |
|--|--|
| <ul style="list-style-type: none">— To negotiate with BMW China for the authorised distributorship in a central region of the PRC | <ul style="list-style-type: none">— The Group is pending for BMW's decision on granting the authorised distributorship in the central region of the PRC. |
| <ul style="list-style-type: none">— To appoint its licensed PRC resellers as distribution agents in Fuzhou Municipality, Xiamen Special Economic Zone and other cities of the PRC to increase the coverage of the distribution network and improve distribution efficiency | <ul style="list-style-type: none">— A total of 9 licensed PRC resellers were appointed as the Group's distribution agents. There were 1 in Fuzhou Municipality, 3 in Xiamen Special Economic Zone, 5 in Hangzhou, Quanzhou, Zhangzhou and Hong Kong. The appointment of distribution agents will increase the accessibility of the Group to its customers. |
| <ul style="list-style-type: none">— To initiate negotiations with foreign motor vehicle manufacturer(s) for authorised distributorship in the PRC | <ul style="list-style-type: none">— The Group has commenced negotiation with a foreign motor vehicle manufacturer in respect of the authorised distributorship in the PRC of its well-known brands. |
| <ul style="list-style-type: none">— To finalize negotiations with BMW China for the authorised distributorship in a central region of the PRC | <ul style="list-style-type: none">— The Group is pending for BMW's decision on granting the authorised distributorship in the central region of the PRC. |
| <ul style="list-style-type: none">— To enter into a development co-operation agreement for establishing service centre in the central region of the PRC | <ul style="list-style-type: none">— Since the Group is pending for BMW's decision on granting the authorised distributorship in the central region of the PRC. As at 31st December, 2002, the Group has not entered into any development co-operation agreement for establishing service centre in the central region of the PRC. The Group intends to postpone the establishment of service centre upon BMW's notification. |

BUSINESS OBJECTIVES REVIEW *(Continued)*

COMPARISON BETWEEN BUSINESS OBJECTIVES AND ACTUAL RESULTS *(Continued)*

2. Enhancement of after-sales service

- To upgrade continually the computer systems and engineering equipment of the Group's workshops and service centres
- The Group has acquired and installed an advanced computer system and 3 sets of diagnostic tools with multiplexers and cables in the workshops and service centres to enhance the quality and efficiency of the after-sales service.

3. Management of Car Rental Business in the PRC

- To install the Hertz worldwide reservation system and test run of the program for the sub-licensees in Beijing Municipality, Shanghai Municipality and Guangzhou Municipality
- Installation and testing of the Hertz worldwide reservation system for the sub-licensees was completed. The sub-licensees officially launched the Hertz car rental operation of the sub-licensees in late January 2002.
- To provide management consulting to sub-licensees to operate a fleet of about 300 motor vehicles
- The Group has been providing management consulting and technical expertise to sub-licensees to operate their fleet of about 300 motor vehicles. In return, the Group received an annual management fee from each of the sub-licensees.
- To establish service centre in Beijing Municipality to provide technical expertise to the sub-licensees
- The service centre in Beijing Municipality has been completed and technical service has been providing to sub-licensees commencing in January 2002.
- To provide financial assistance to the sub-licensees of car rental business in the form of bank guarantee
- The management of the three sub-licensees alleged no short-term cash requirement and the Group postponed the provision of financial assistance to the 2 new car rental sub-licensees which are scheduled to be appointed in the second half of 2003.

BUSINESS OBJECTIVES REVIEW *(Continued)*



COMPARISON BETWEEN BUSINESS OBJECTIVES AND ACTUAL RESULTS *(Continued)*

3. Management of Car Rental Business in the PRC

- To commence research on applications of service packages of the Hertz System and make necessary adjustments for the PRC market
- To finance the sub-licensees of car rental business
- The Group has commenced feasibility study on the customers' recognition of the service packages of the Hertz car rental business.
- The management of the three sub-licensees alleged no short-term cash requirement and the Group postponed the provision of financial assistance to the 2 new car rental sub-licensees which are scheduled to be appointed in the second half of 2003.

4. Sales and Marketing

- To recruit 2 sales and marketing professionals in the PRC
- To recruit 4 sales and marketing professionals in the PRC
- To hold marketing activities including golf, tournament, exhibition, test drive in the PRC
- To form alliance with hotels for provision of pick-up fleet and obtain referral businesses in the PRC
- The Group appointed a general manager to in charge of the sales and marketing in Xiamen Special Economic Zone. Recruitment interviews are still in progress to screen for another suitable candidate.
- As the granting of authorised distributorship by BMW in the central region of the PRC has not been finalized, the Group intends to postpone the recruitment until notification from BMW on the distributorship.
- The marketing activities have been held in the second half of 2002, on one hand, to promote the launch of the New 7 Series of BMW and, on another hand, to establish closer relationship with the customers.
- The Group has been liaised with hotels in Beijing and Shanghai for the provision of pick-up fleet and obtaining referral businesses in the PRC.

BUSINESS OBJECTIVES REVIEW *(Continued)*

USE OF PROCEEDS

As at 31st December, 2002, the net proceeds from the public listing have been applied as follows:

| | Budgeted amount disclosed in the Prospectus | | Actual amount used up to 31st December, 2002 | |
|--|---|---------------------|--|---------------------|
| | <i>S\$ million</i> | <i>HK\$ million</i> | <i>S\$ million</i> | <i>HK\$ million</i> |
| Expansion of distribution network | 2.36 | 11.00 | — | — |
| Enhancement of after-sales service | 1.08 | 5.00 | 0.20 | 0.90 |
| Provision of financial assistance to car rental business in the PRC | 1.29 | 6.00 | — | — |
| Sales and marketing | 0.43 | 2.00 | 0.28 | 1.25 |
| Establishing joint venture(s) | 0.43 | 2.00 | — | — |
| Working Capital | 0.22 | 1.00 | 0.22 | 1.00 |
| | <u>5.81</u> | <u>27.00</u> | <u>0.70</u> | <u>3.15</u> |
| Total | <u>5.81</u> | <u>27.00</u> | <u>0.70</u> | <u>3.15</u> |

Note: The unused proceeds will be placed on interest-bearing deposits with licensed banks and other financial institutions in Hong Kong and Singapore.

DIRECTORS' REPORT



The Board of Directors is pleased to present the annual report and the audited financial statements of the Group for the year ended 31st December, 2002.

GROUP REORGANISATION AND BASIS OF PRESENTATION

The Company was incorporated in the Cayman Islands on 5th July, 2001 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. On 5th June, 2002, pursuant to group reorganization, the Company was restructured as the holding company of the Group. The shares of the Company have been listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited since 17th June, 2002.

Details of the group reorganisation and the basis of presentation of the financial statements are set out in note 1 to the financial statements.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in distribution of motor vehicles, servicing of motor vehicles and sales of auto parts, provision of technical services to North Anhua Group Corporation ("NAGC") and provision of management services to the car rental sub-licensees. The business of each subsidiary is set out in note 13 to the financial statements.

An analysis of the Group's turnover and profit from operations is set out in note 3 and note 4 to the financial statements.

ARTICLES OF ASSOCIATION

The Company passed a written special resolution on 5th June, 2002 to adopt and approve a new set of Articles of Association.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2002, the percentage of sales and purchases attributable to the Group's major customers and suppliers are set out as below:

Sales

| | |
|---------------------------------------|-------|
| — The largest customer | 12.7% |
| — The total of five largest customers | 41.2% |

Purchases

| | |
|---------------------------------------|-------|
| — The largest supplier | 43.4% |
| — The total of five largest suppliers | 99.4% |

As far as the Directors aware, neither the Directors or their associates nor any shareholders (which to the knowledge of Directors own more than 5% of the Company's issued share capital) had any interest in the five largest customers and suppliers of the Group.

DIRECTORS' REPORT *(Continued)*

RESULTS

The Group's results for the year ended 31st December, 2002 are set out in the consolidated income statement on page 27 of this annual report.

FINANCIAL SUMMARY

A summary of the Group's annual results for the period from 2000 to 2002 and for each of the 3 years ended 31st December and the Group's assets and liabilities as at 31st December, 2000, 2001 and 2002 are set out in the financial summary on page 64 of this annual report.

DIVIDEND

The Directors do not recommend the payment of any final dividend for the year ended 31st December, 2002 (2001: Nil).

SHARE CAPITAL

Details of the share capital of the Company are set out in note 23 to the financial statements.

RESERVES

As at 31st December, 2002, the Company had reserves available for distribution to shareholders amounted to approximately S\$3,644,000. It comprised share premium of approximately S\$4,006,000 less accumulated loss of approximately S\$362,000. The Directors have no intention to distribute dividends.

Details of the reserves of the Group during the year ended 31st December, 2002 are set out in the statement of changes in equity on page 31 of this annual report and note 24 to the financial statement.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the Companies Law (Revised) of the Cayman Islands.

PROPERTY, PLANT AND EQUIPMENT

Details of the changes of property, plant and equipment of the Group during the year ended 31st December, 2002 are set out in note 11 to the financial statements.

RETIREMENT BENEFITS

Details of the retirement benefit schemes of the Group are set out in note 26 to the financial statements.

DIRECTORS' REPORT *(Continued)*



CONNECTED TRANSACTIONS

The connected transaction as specified in the GEM Listing Rules undertaken by the Group are set out as below:

1. on 11th June, 1999, a tenancy agreement was entered into between Atland Properties Pte Ltd, a company all shares of which are beneficially held by Ms. Chan Xiao Li, sister of Mr. Anthony Chan, as the lessor and GAPL as the lessee in respect of a premises in Singapore, for a term of 36 months commencing on 25th September, 1998. Such tenancy agreement was renewed on 6th September, 2001 for a term of 12 months from 25th September, 2001 to 24th September, 2002. The agreement was further renewed on 27th January, 2003 for a term of 24 months commencing on 25th September, 2002. The monthly rent under such tenancy agreement is S\$3,890.
2. on 11th June, 1999, a tenancy agreement was entered into between GAPL as the lessor and Octavus Properties Pte Ltd, a company all shares of which are beneficially held by Mr. Anthony Chan, as the lessee in respect of a premises of approximately 353 sq.ft. in Singapore, for a term of 36 months commencing on 25th September, 1998. Such tenancy agreement was renewed on 10th September, 2001 for a term of 12 months upon its expiration. The agreement was further renewed on 28th January, 2003 for a term of 24 months commencing on 25th September, 2002. The monthly rent under such tenancy agreement is S\$800.
3. on 11th June, 1999, a tenancy agreement was entered into between GAPL as the lessor and Eng Kheng (S) Pte Ltd, a company which is held as to 61% by Mr. Anthony Chan, as the lessee in respect of a premises of approximately 353 sq.ft. in Singapore, for a term of 36 months commencing on 25th September, 1998. Such tenancy agreement was renewed on 10th September, 2001 for a term of 12 months upon its expiration. The agreement was further renewed on 28th January, 2003 for a term of 24 months commencing on 25th September, 2002. The monthly rent under such tenancy agreement is S\$800.
4. on 4th October, 1999, a tenancy agreement was entered into between Xiamen L & B Property Co., Ltd, a company which is beneficially held as to 5% by Mr. Loh Kim Her and 95% by his family members, as the lessor and GAPL as the lessee in respect of a premises of 710 sq. metres in Xiamen, for a term of 21 years commencing on 1st November, 1999. Such premises is used as the office of Xiamen BMW and its monthly rent is S\$7,080 (RMB31,388).

In accordance with the conditions agreed with the Stock Exchange with respect to certain connected transactions, the independent non-executive directors have reviewed the connected transactions aforementioned. In their opinion, these transactions entered into by the Group were:

- (1) in the ordinary and usual course of business of the Group; and
- (2) on normal commercial terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

DIRECTORS' REPORT *(Continued)*

DISCHARGES OF GUARANTEES

The Directors are aware that certain corporate and personal guarantees provided by the directors had not been released even though the Group had requested banks to release their guarantees and replaced by corporate guarantees provided by G.A. Holdings Limited. Directors are monitoring closely with the concerned bankers and expect that these guarantees will be released by June 2003.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors who held office during the year and up to the date of this report were:

Executive Directors

| | |
|---------------------------|--------------------------------|
| Mr. Loh Kim Her | (Appointed on 5th June, 2002) |
| Mr. Chan Hing Ka, Anthony | (Appointed on 16th July, 2001) |
| Mr. Loh Nee Peng | (Appointed on 5th June, 2002) |

Non-executive Director

| | |
|------------------|-------------------------------|
| Mr. Goh Chee Wee | (Appointed on 5th June, 2002) |
|------------------|-------------------------------|

Independent non-executive Directors

| | |
|-------------------|-------------------------------|
| Ms. Lam So Ying | (Appointed on 5th June, 2002) |
| Mr. Lee Kwok Yung | (Appointed on 5th June, 2002) |

In accordance with Article 87 of the Company's articles of association, Mr. Chan Hing Ka, Anthony will retire from office by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer himself for re-election.

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years, commencing from 1st January, 2002, subject to early termination by the Company giving not less than three months notice of termination or payment in lieu.

The non-executive Director and the independent non-executive Directors have entered into appointment letters with the Company for a term of three years commencing from 1st June, 2002.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors are set out on pages 10 to 12 of this annual report.

REMUNERATION OF DIRECTORS AND THE HIGHEST PAID EMPLOYEES

Details of the remuneration of Directors and the highest paid employees of the Group are set out in note 6 and note 7 to the financial statements.

DIRECTORS' REPORT *(Continued)*



DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN EQUITY SECURITIES

As at 31st December, 2002, the following Directors had or were deemed to have interests in the equity securities of the Company or any associated corporations within the meaning of the Securities (Disclosure of Interests) Ordinance ("the SDI Ordinance"), as recorded in the register kept by the Company pursuant to Section 29 of the SDI Ordinance:

| Name | Personal interest | Number of ordinary shares held | | | Percentage of interests |
|-----------------------|-------------------|--------------------------------|--------------------|-------------|-------------------------|
| | | Family interest | Corporate interest | Total | |
| Loh Kim Her | — | — | 106,432,000 | 106,432,000 | 26.61% |
| Chan Hing Ka, Anthony | — | — | 106,432,000 | 106,432,000 | 26.61% |
| Loh Nee Peng | — | — | 106,432,000 | 106,432,000 | 26.61% |

Save as disclosed above, the Company had no notice of any interests required to be recorded under Section 29 of the SDI Ordinance as at 31st December, 2002.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2002, the interests of every person being 10% or more in the equity securities of the Company as recorded in the register required to be kept under Section 16(1) of the SDI Ordinance, were set out as below:

| | Number of shares held | Percentage of interests |
|--|-----------------------|-------------------------|
| Loh Kim Her <i>(Note 1)</i> | 106,432,000 | 26.61% |
| Chan Hing Ka, Anthony <i>(Note 2)</i> | 106,432,000 | 26.61% |
| Loh Nee Peng <i>(Note 3)</i> | 106,432,000 | 26.61% |
| Loh & Loh Construction Group Ltd. | 74,432,000 | 18.61% |
| Comfort Group Limited <i>(Note 4)</i> | 61,667,570 | 15.42% |
| Comfort (China) Pte Ltd. <i>(Note 4)</i> | 61,667,570 | 15.42% |
| PHEIM Asset Management (Asia) Pte Ltd. | 40,150,000 | 10.04% |

Notes:

1. Mr. Loh Kim Her is beneficially interested in 100%, 18.94% and 15% in the respective entire issued share capitals of Affluence Investment International Limited, L & B Holdings Pte Ltd. and Loh & Loh Construction Group Ltd. The Company is owned as to 4%, 4% and 18.61% by Affluence Investment International Limited, L & B Holdings Pte Ltd. and Loh & Loh Construction Group Ltd. respectively.

Accordingly, Mr. Loh Kim Her has an effective interest of approximately 7.55% and a deemed interest of approximately 26.61% in the Company.

DIRECTORS' REPORT *(Continued)*

SUBSTANTIAL SHAREHOLDERS *(Continued)*

2. Mr. Chan Hing Ka, Anthony is beneficially interested in 100% and 49% in the respective entire issued share capitals of Tycoons Investment International Limited and Loh & Loh Construction Group Ltd. The Company is owned as to 8% and 18.61% by Tycoons Investment International Limited and Loh & Loh Construction Group Ltd. respectively.

Accordingly, Mr. Anthony Chan has an effective interest of approximately 17.12% and a deemed interest of approximately 26.61% in the Company.

3. Mr. Loh Nee Peng is beneficially interested in 100% and 15% in the respective issued share capitals of Big Reap Investment Limited and Loh & Loh Construction Group Ltd.. The Company is owned as to 8% and 18.61% by Big Reap Investment Limited and Loh & Loh Construction Group Ltd. respectively.

Accordingly, Mr. Loh Nee Peng has an effective interest of approximately 10.79% and a deemed interest of approximately 26.61% in the Company.

4. Comfort (China) Pte Ltd. has an effective interest of approximately 15.42% in the Company. Comfort (China) Pte Ltd. is a wholly-owned subsidiary of Comfort Group Limited. Accordingly, Comfort Group Limited has an effective and a deemed interests of approximately 15.42% in the Company.

DIRECTORS' AND CHIEF EXECUTIVES' RIGHT TO SUBSCRIBE FOR EQUITY OR DEBT SECURITIES

None of the Directors and chief executive or their spouse or children under the age of 18 was granted by the Company or any of its subsidiaries any right to subscribe for equity or debt securities of the Company or any body corporate.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or any of its subsidiaries was a party in which a director or a controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

COMPETING INTERESTS

None of the Directors or the initial management shareholders of the Company (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

SHARE OPTION SCHEME

For the year ended 31st December, 2002, the Company has not adopted any share option scheme, nor does it have any options or securities in issue which are convertible or exchangeable into shares of the Company.

DIRECTORS' REPORT *(Continued)*



ADVANCES TO ENTITIES

Pursuant to the Rules 17.15, 17.17 and 17.22, a disclosure obligation arises where the relevant advance to an entity from the Group exceeds 25% of the Group's net tangible assets. As at 31st December, 2002, the Group's advance to 5 entities exceeded 25% of its net tangible assets of approximately S\$20,207,000 as at 31st December, 2002.

As at 31st December, 2002, the total advancement, guarantees and receivables provided to and due from NAGC, its subsidiaries and related companies in the PRC (collectively the "NAGC Group") are in aggregate of approximately S\$19,692,000 (2001: S\$29,045,000). NAGC Group engages in a wide range of business operations including state-grant import and export business of motor vehicles. NAGC Group is the business partner of the Group with a nationwide distribution network in the PRC. It assists the Group in distribution of motor vehicles and setting up car rental business in the PRC. Besides, the Group provides technical services to the Honda passenger vehicles distributed by NAGC in return for the technical fee. The details of transactions are illustrated as follow:

The trade receivables due from NAGC Group as at 31st December, 2002 amounted to approximately S\$2,755,000 (2001: S\$5,532,000). Out of which, approximately S\$1,454,000 (2001: S\$5,532,000) was technical fee arisen from provision of technical fee to NAGC. The remaining of approximately S\$1,301,000 (2001: S\$Nil) was management fee charged on provision of management consulting and technical expertise to three car rental sub-licensees. Approximately S\$434,000 (2001: S\$Nil) was due from each of the sub-licensees. The three sub-licensees include Beijing China National Automotive Anhua Automobiles Leasing Co., Ltd., (a wholly subsidiary of NAGC), Shanghai China National Automotive Anhua Automobiles Services Co., Ltd. (a company of which 90% of its interest is owned by NAGC) and Guangzhou China National Automotive Anhua Automobiles Services Co., Ltd. (a company of which 90% of its interest is owned by NAGC) The trade receivables due from NAGC were unsecured, interest free and repayable within 5 months.

The prepaid rental expenses advanced to China National Automotive Anhua Hertz Services Centre Co., Ltd. ("CNA Anhua (Hertz)"), a wholly owned subsidiary of NAGC, and Jin Tian Cheng Development Co., Ltd. ("Jin Tian Cheng"), a company of which NAGC holds 10% of its shareholding, as at 31st December, 2002, amounted to approximately S\$7,557,000 (2001: S\$7,789,000) and S\$1,429,000 (2001: S\$1,429,000) respectively, are unsecured, interest free and are amortized over 50 years and 20 years from the date of completion of the developments respectively.

The other receivables due from CNA Anhua (Hertz) as at 31st December, 2002, amounted to approximately S\$505,000 (2001: S\$Nil). The receivables were incurred as the Group paid the land cost to obtain the land title of the service centre in Xiamen, which was included in the prepaid rental expenses already paid to CNA Anhua (Hertz). The receivables were unsecured, interest free and repayable in or before June 2003.

DIRECTORS' REPORT *(Continued)*

ADVANCES TO ENTITIES *(Continued)*

Approximately S\$7,446,000 guarantees (2001: S\$7,912,000) were provided to a bank in respect of banking facilities granted to Beijing China Automotive Anhua Spare Parts Ltd. The bank agreed to unconditionally release the above guarantees and the legal procedures are in progress. The Group does not have any security or receive any considerations from Beijing China Automotive Anhua Spare Parts Ltd. or NAGC by giving such guarantees.

The trade receivables due from Xiamen Bunlung Automobiles Co., Ltd., an independent third party to the Group, as at 31st December, 2002 amounted to approximately S\$7,111,000 (2001: S\$14,461,000). The receivables represented the outstanding balances of distributing of motor vehicles in ordinary course of business and on normal commercial terms. The amounts were unsecured, interest free and repayable in June 2003. The advances to Xiamen Bunlung Automobiles Co., Ltd. has exceeded 25% of the Group's net tangible assets since November 2002.

The trade receivables due from Beijing Fu Chuan Yuan Ke Mow Centre, an independent third party to the Group, as at 31st December, 2002 amounted to approximately S\$5,733,000 (2001: S\$Nil). The receivables represented the outstanding balances of distributing of motor vehicles in ordinary course of business and on normal commercial terms. The amounts were unsecured, interest free and repayable in June 2003. The advances to Beijing Fu Chuan Yuan Ke Mow Centre has exceeded 25% of the Group's net tangible assets since November 2002.

The trade receivables due from Beijing Hui Long Xin Trading Co., Ltd., an independent third party to the Group, as at 31st December, 2002 amounted to approximately S\$5,422,000 (2001: S\$Nil). The receivables represented the outstanding balances of distributing of motor vehicles in ordinary course of business and on normal commercial terms. The amounts were unsecured, interest free and repayable in June 2003. The advances to Beijing Hui Long Xin Trading Co., Ltd. has exceeded 25% of the Group's net tangible assets since December 2002.

The trade receivables due from Zhong Bao Automobiles Trading Co., Ltd., an independent third party to the Group, as at 31st December, 2002 amounted to approximately S\$5,137,000 (2001: S\$Nil). The receivables represented the outstanding balances of distributing of motor vehicles in ordinary course of business and on normal commercial terms. The amounts were unsecured, interest free and repayable in June 2003. The advances to Zhong Bao Automobiles Trading Co., Ltd. has exceeded 25% of the Group's net tangible assets since November 2002.

SPONSORS' INTERESTS

Pursuant to the sponsor agreement dated 10th June, 2002, between the Company and Celestial Capital Limited ("CASH"), CASH will be retained as sponsor of the Company for the purpose of Chapter 6 of the GEM Listing Rule for the period from 17th June, 2002 (being the listing date) to 31st December, 2004.

Neither of CASH, its directors, employees nor associates had any shareholding interest in the securities of the Company or any member of the Group nor have any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for the securities of the Company or any member of the Group as at 31st December, 2002.

DIRECTORS' REPORT *(Continued)*



TITLE CERTIFICATES OF PRC PROPERTIES

As at 31st December, 2002, the Group had not obtained the long term title certificate of a leasehold property in the PRC. The contract entered for acquiring the property has been registered in the relevant government authority in the PRC. The Directors had sought the PRC legal adviser's opinion that there will be no legal impediment for the Group to obtain the relevant title certificates. The Group had neither conducted any revaluation nor included any revaluation surplus in respect of the said property in the annual accounts.

COMPLIANCE WITH RULE 5.28 TO 5.39 OF THE GEM LISTING RULES

Since the Company's shares were listed on GEM of the Stock Exchange on 17th June, 2002, the Company has complied with the standards of good practice concerning the general management responsibilities of the Board as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the guidelines recommended by the Hong Kong Society of Accountants on 5th June, 2002. The audit committee comprises two independent non-executive Directors, namely Ms. Lam So Ying and Mr. Lee Kwok Yung and one executive Director, Mr. Chan Hing Ka, Anthony. The duties of the audit committee include reviewing the Company's annual reports and accounts, half-year reports and quarterly reports and providing advice and comments thereon to the board of Directors. The audit committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures. The audit committee had held two meetings to review the interim and third quarterly reports since its establishment.

PURCHASE, SALE OF REDEMPTION OF THE COMPANY'S LISTED SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the period since the Company's shares listed on 17th June, 2002 to 31st December, 2002.

AUDITORS

Messrs Arthur Andersen ("AA") was appointed as the auditors of the Group in the preceding 3 years. AA also acted as the auditors and reporting accountants of the Company in preparation of listing on the GEM of the Stock Exchange in June 2002.

AA did not seek re-appointment as the auditors of the Company upon the combining of its practice with Messrs PricewaterhouseCoopers. Messrs Moores Rowland, Chartered Accountants, Certified Public Accountants ("Moores Rowland") was appointed as the auditors of the Company in the annual general meeting of 2002. A resolution to re-appoint Moores Rowland as auditors of the Company will be proposed in the forthcoming annual general meeting to be held on 30th April, 2003.

On behalf of the Board
Loh Kim Her
Managing Director

Hong Kong, 25th March, 2003

AUDITORS' REPORT



To the members

G.A. Holdings Limited

(incorporated in Cayman Islands with limited liability)

We have audited the financial statements on pages 27 to 63 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2002 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Moores Rowland

Chartered Accountants

Certified Public Accountants

Hong Kong

25th March, 2003

CONSOLIDATED INCOME STATEMENT

| | <i>Notes</i> | 2002 S\$'000 | 2001 S\$'000 |
|--|--------------|-----------------|-----------------|
| Turnover | 3 | 101,877 | 57,322 |
| Other revenue | 3 | 210 | 82 |
| Other income | | 446 | 8 |
| Cost of inventories | | (87,698) | (47,820) |
| Staff costs | 5 | (2,029) | (1,440) |
| Depreciation and amortisation | | (435) | (170) |
| Minimum lease payments for operating leases | | (498) | (453) |
| Exchange differences, net | | (816) | 494 |
| Other operating expenses | | (5,144) | (2,634) |
| Profit from operations | | 5,913 | 5,389 |
| Finance costs, net | 5 | (1,759) | (1,362) |
| Profit before taxation | 5 | 4,154 | 4,027 |
| Taxation | 8 | (1,330) | (1,261) |
| Profit after taxation but before minority interests | | 2,824 | 2,766 |
| Minority interests | | 25 | 11 |
| Profit attributable to shareholders | 9 | 2,849 | 2,777 |
| Dividend | | — | — |
| Basic earnings per share (Singapore cents) | 10 | 0.78 | 0.87 |

CONSOLIDATED BALANCE SHEET

| | <i>Notes</i> | 2002 S\$'000 | 2001 S\$'000 |
|---|--------------|-----------------|-----------------|
| ASSETS AND LIABILITIES | | | |
| Non-current assets | | | |
| Property, plant and equipment | 11 | 5,239 | 5,087 |
| Prepaid rental expenses | 12 | 8,904 | 9,099 |
| Total non-current assets | | 14,143 | 14,186 |
| Current assets | | | |
| Inventories | 14 | 846 | 4,424 |
| Trade receivables, net | 15 | 39,275 | 15,269 |
| Prepayments, deposits and other current assets | 16 | 2,888 | 7,381 |
| Due from related companies | 17 | 565 | 35 |
| Pledged bank deposits | 18 | 7,836 | 5,276 |
| Bank balances and cash | | 5,486 | 3,263 |
| Total current assets | | 56,896 | 35,648 |
| Current liabilities | | | |
| Trade payables | 19 | (8,047) | (1,778) |
| Accruals and other payables | | (3,332) | (1,865) |
| Bank overdrafts | 20 | (296) | (1,804) |
| Bills payable to banks | 20 | (28,413) | (19,693) |
| Secured bank loans – current portion | 20 | (4,145) | (6,053) |
| Obligations under finance leases – current portion | 21 | (210) | — |
| Due to related companies | 22 | (551) | (421) |
| Due to directors | 22 | (251) | (203) |
| Taxation | | (4,273) | (3,134) |
| Dividends payable | | — | (86) |
| Total current liabilities | | (49,518) | (35,037) |
| Net current assets | | 7,378 | 611 |
| Total assets less current liabilities | | 21,521 | 14,797 |
| Non-current liabilities | | | |
| Secured bank loans – non-current portion | 20 | (453) | (2,355) |
| Obligations under finance leases – non-current portion | 21 | (364) | — |
| Deferred taxation | | — | (210) |
| Total non-current liabilities | | (817) | (2,565) |
| Minority interests | | (497) | (541) |
| NET ASSETS | | 20,207 | 11,691 |

CONSOLIDATED BALANCE SHEET *(Continued)*

| | <i>Notes</i> | 2002 S\$'000 | 2001 S\$'000 |
|-----------------------------|--------------|-------------------------------|----------------------|
| CAPITAL AND RESERVES | | | |
| Issued capital | 23 | 9,040 | 7,232 |
| Reserves | 24 | 11,167 | 4,459 |
| | | <u>20,207</u> | <u>11,691</u> |

Approved and authorised for issue by the Board of Directors on 25th March, 2003.

Loh Kim Her
Director

Chan Hing Ka, Anthony
Director

BALANCE SHEET

| | <i>Notes</i> | 2002 S\$'000 |
|--------------------------------|--------------|-------------------------------|
| ASSETS AND LIABILITIES | | |
| Non-current assets | | |
| Interest in subsidiaries | 13 | <u>13,392</u> |
| Current assets | | |
| Other debtors | 16 | 27 |
| Current liabilities | | |
| Other payables | | <u>(90)</u> |
| Net current liabilities | | <u>(63)</u> |
| NET ASSETS | | <u><u>13,329</u></u> |
| CAPITAL AND RESERVES | | |
| Issued capital | 23 | 9,040 |
| Reserves | 24 | <u>4,289</u> |
| | | <u><u>13,329</u></u> |

As the Company did not have any significant balances as at 31st December, 2001 other than the one nil-paid issued ordinary share of HK\$0.01 each, no comparatives are presented.

Approved and authorised for issue by the Board of Directors on 25th March, 2003.

Loh Kim Her
Director

Chan Hing Ka, Anthony
Director

STATEMENT OF CHANGES IN EQUITY

THE GROUP

| | Issued capital (Note 23) S\$'000 | Share premium (Note 24) S\$'000 | Capital reserve (Note 24) S\$'000 | Translation reserve (Note 24) S\$'000 | Accumulated profits S\$'000 | Total S\$'000 |
|--|---|--|--|--|-----------------------------------|------------------|
| At 1st January, 2001 | 7,232 | — | 1,689 | (85) | (87) | 8,749 |
| Net gains not recognised in income statement | | | | | | |
| Translation difference | — | — | — | 210 | — | 210 |
| Shared by minority shareholder | — | — | — | (45) | — | (45) |
| Profit for the year | — | — | — | — | 2,777 | 2,777 |
| At 31st December, 2001 | 7,232 | — | 1,689 | 80 | 2,690 | 11,691 |
| Net losses not recognised in income statement | | | | | | |
| Translation difference | — | — | — | (128) | — | (128) |
| Issue of share capital | 1,808 | 7,232 | — | — | — | 9,040 |
| Placing expenses | — | (3,226) | — | — | — | (3,226) |
| Shared by minority shareholder | — | — | — | (19) | — | (19) |
| Profit for the year | — | — | — | — | 2,849 | 2,849 |
| At 31st December, 2002 | 9,040 | 4,006 | 1,689 | (67) | 5,539 | 20,207 |

THE COMPANY

| | Issued capital (Note 23) S\$'000 | Share premium (Note 24) S\$'000 | Capital reserve (Note 24) S\$'000 | Accumulated loss S\$'000 | Total S\$'000 |
|--|---|--|--|--------------------------------|------------------|
| Issue of share capital (1 share of HK\$0.01 each) | — | — | — | — | — |
| At 31st December, 2001 | — | — | — | — | — |
| Swap of shares | 7,232 | — | 645 | — | 7,877 |
| Issue of share capital | 1,808 | 7,232 | — | — | 9,040 |
| Placing expenses | — | (3,226) | — | — | (3,226) |
| Loss for the year | — | — | — | (362) | (362) |
| At 31st December, 2002 | 9,040 | 4,006 | 645 | (362) | 13,329 |

CONSOLIDATED CASH FLOW STATEMENT

| | <i>Notes</i> | 2002 S\$'000 | 2001 S\$'000 |
|---|--------------|---------------------|---------------------|
| Operating activities | | | |
| Cash generated from operations | 25(a) | 6,830 | 8,226 |
| Interest received | | 74 | 203 |
| Interest paid | | (1,833) | (2,256) |
| Overseas tax paid | | (381) | (51) |
| Dividend paid | | (86) | — |
| | | <u>4,604</u> | <u>6,122</u> |
| Investing activities | | | |
| Purchase of property, plant and equipment | | (246) | (82) |
| Increase in pledged bank deposits | | (2,560) | (1,600) |
| | | <u>(2,806)</u> | <u>(1,682)</u> |
| Financing activities | | | |
| Issue of share capital | | 9,040 | — |
| Placing expenses | | (3,226) | — |
| (Decrease) Increase in bank loans, net | | (3,810) | 7,671 |
| Repayment of obligations under finance leases | | (71) | — |
| | | <u>1,933</u> | <u>7,671</u> |
| Net cash from financing activities | | <u>1,933</u> | <u>7,671</u> |
| Net increase in cash and cash equivalents | | <u>3,731</u> | <u>12,111</u> |
| Cash and cash equivalents at beginning of year | | <u>1,459</u> | <u>(10,652)</u> |
| Cash and cash equivalents at end of year | | <u><u>5,190</u></u> | <u><u>1,459</u></u> |
| Analysis of cash and cash equivalents | | | |
| | 25(b) | | |
| Bank balances and cash | | 5,486 | 3,263 |
| Bank overdrafts | | (296) | (1,804) |
| | | <u>5,190</u> | <u>1,459</u> |
| Major non-cash transaction | | | |
| Inception of finance leases | | <u>645</u> | <u>—</u> |

NOTES TO THE FINANCIAL STATEMENTS

1. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company was incorporated in the Cayman Islands under the Companies Law of Cayman Islands as an exempted company with limited liability on 5th July, 2001. Pursuant to a group reorganisation (the "Reorganisation") to rationalise the Group structure in connection with the listing of the Company's shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the ultimate holding company of the companies now comprising the Group. This was accomplished by acquiring the entire issued share capital of German Automobiles Limited ("GAL") and German Automobiles Pte Limited ("GAPL"), the then holding company of the principal subsidiaries listed in note 13 to the financial statements, in consideration for the allotment and issue of shares of the Company to the then shareholder of GAPL on 5th June, 2002 and the Company became the ultimate holding company of the Group. Further details of the Reorganisation are set out in note 23 and in the Company's prospectus dated 10th June, 2002 (the "Prospectus"). Pursuant to the placing arrangement (the "Placing"), details of which are set out in the Prospectus, 80,000,000 ordinary shares were issued. The shares of the Company were listed on the GEM of the Stock Exchange on 17th June, 2002.

The Group after the Reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared as if the Company has always been the holding company of the Group.

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice (the "SSAPs") and Interpretations issued by the Hong Kong Society of Accountants (the "HKSA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules governing the Listing of Securities on the GEM of the Stock Exchange. A summary of the principal accounting policies adopted by the Group is set out below.

Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiaries made up to 31st December. All significant inter-company balances and transactions have been eliminated on consolidation.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably and on the following basis.

Income from sale of goods is recognised upon delivery of goods and acceptance by customers, and income from services is recognised upon the rendering of services.

Interest income from bank deposits is recognised on a time proportion basis on the principal outstanding and at the interest rate applicable.

Rental income from operating leases is recognised as income on a straight-line basis over the lease term. The aggregate cost of incentives on operating leases is recognised as a reduction of rental income over the lease term on a straight-line basis.

Subsidiaries

A subsidiary is an enterprise, in which the Company, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities. Investments in subsidiaries are stated at cost less accumulated impairment losses. The carrying amount of the investment is reduced to its recoverable amount on an individual basis.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Employee benefits

The obligations for contributions to defined contribution retirement scheme are recognised as an expense in the income statement as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Major costs incurred in restoring assets to their normal working conditions are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives.

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between the estimated net sales proceeds and the carrying amount of the assets and is recognised as income or expense in the income statement.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment over their estimated useful lives from the date on which they become fully operational and after taking into account of their estimated residual values, using the straight-line method, at the following rates per annum:

| | |
|------------------------------|--|
| Leasehold land and buildings | 1.5% (over the remaining period of lease term) |
| Plant and machinery | 10% to 33.3% |
| Motor vehicles | 20% to 33.3% |
| Furniture and equipment | 10% to 33.3% |

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the leases.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Impairment loss

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

Property, plant and equipment;
Investments in subsidiaries; and
Prepaid rental expenses

If any such indication exists, the recoverable amount of the asset is estimated. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value.

Inventories comprise fully-assembled motor vehicles and auto parts. Cost of fully-assembled motor vehicles is determined on a specific identification basis while the cost of auto parts is determined on the first-in, first-out cost formula. It comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. Provision is made for obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is credited to the income statement in the period in which the reversal occurs.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

As lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

As lessee

Assets held under finance leases are recognised as assets of the Group at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are charged to income statement on a straight-line basis over the term of the relevant lease.

Foreign currencies

The books and records of the companies in the Group are maintained in their respective measurement currencies. Transactions in foreign currencies during the year are translated into the respective measurement currencies at exchange rates in effect at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into the respective measurement currencies at rates of exchange in effect at the balance sheet date. Exchange differences are dealt with in the income statement.

On consolidation, all monetary assets and liabilities of subsidiaries with measurement currencies other than Singapore dollars are translated into Singapore dollars at the applicable rates of exchange in effect at the balance sheet date. Share capital and reserves are translated at historical exchange rates. All of the income and expense items of subsidiaries with measurement currencies other than Singapore dollars are translated into Singapore dollars at the average applicable exchange rates during the year. Exchange differences arising from such translations are dealt with as movements of translation reserve.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Segment reporting

In accordance with the Group's internal financial reporting the Group has chosen business segments be presented as the primary reporting format and geographical segments as the secondary reporting format. Business segments are organised into four major operating businesses.

Segment assets consist primarily property, plant and equipment, prepaid rental expenses, inventories and receivables. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain bank borrowings. Capital expenditure comprises additions to property, plant and equipment. Unallocated items represent mainly corporate expenses, assets and liabilities and other unallocated items.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of cash flow statement.

Related parties

Parties are considered to be related if one party has 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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

3. TURNOVER AND REVENUE

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 13 to the financial statements.

Turnover and revenue recognised by category are as follows:

| | 2002 S\$'000 | 2001 S\$'000 |
|---|-----------------------|----------------------|
| Turnover | | |
| Sales of motor vehicles | 84,818 | 50,102 |
| Servicing of motor vehicles and sales of auto parts | 11,474 | 3,340 |
| Technical fee income | 4,284 | 3,880 |
| Management fee income | 1,301 | — |
| | <u>101,877</u> | <u>57,322</u> |
| Other revenue | | |
| Rental income | 210 | 82 |
| | <u>210</u> | <u>82</u> |
| Total revenue | <u><u>102,087</u></u> | <u><u>57,404</u></u> |

4. SEGMENT INFORMATION

Business segment

The Group is organised with four business segments, namely:

- Activity 1: Sales of motor vehicles and provision of car-related technical services;
- Activity 2: Servicing of motor vehicles and sales of auto parts;
- Activity 3: Provision of management services in respect of car rental business; and
- Activity 4: Commission income from sales of cars from GAPL to GAL (i.e. intra-group)

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

4. SEGMENT INFORMATION *(Continued)*

Business segment *(Continued)*

Business segment analysis as at and for the year ended 31st December, 2002 is as follows:

| | Activity 1 | Activity 2 | Activity 3 | Activity 4 | Inter- segment elimination | Group |
|--|---------------|---------------|--------------|--------------|----------------------------------|----------------|
| | S\$'000 | S\$'000 | S\$'000 | S\$'000 | S\$'000 | S\$'000 |
| Turnover | | | | | | |
| Revenue from external customers | 89,102 | 11,474 | 1,301 | — | — | 101,877 |
| Inter-segment revenue | — | — | — | 3,080 | (3,080) | — |
| Segment turnover | <u>89,102</u> | <u>11,474</u> | <u>1,301</u> | <u>3,080</u> | <u>(3,080)</u> | <u>101,877</u> |
| Segment results | <u>3,596</u> | <u>(393)</u> | <u>806</u> | <u>3,080</u> | <u>—</u> | <u>7,089</u> |
| Unallocated expenses | | | | | | (1,176) |
| Profit from operations | | | | | | 5,913 |
| Finance costs, net | | | | | | (1,759) |
| Taxation | | | | | | (1,330) |
| Minority interests | | | | | | 25 |
| Profit attributable to shareholders | | | | | | <u>2,849</u> |
| Assets | | | | | | |
| Segment assets | 39,522 | 7,885 | 8,562 | — | | 55,969 |
| Unallocated assets | | | | | | 15,070 |
| Total assets | | | | | | <u>71,039</u> |
| Liabilities | | | | | | |
| Segment liabilities | 36,570 | 1,282 | 184 | — | | 38,036 |
| Unallocated liabilities | | | | | | 12,299 |
| Total liabilities | | | | | | <u>50,335</u> |
| Other information | | | | | | |
| Capital expenditure incurred during the year | 198 | 5 | — | — | | |
| Depreciation | 29 | 258 | — | — | | |
| Impairment loss on property, plant and equipment | — | 229 | — | — | | |
| Amortisation of prepaid rental expenses | — | — | 82 | — | | |

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

4. SEGMENT INFORMATION *(Continued)*

Business segment *(Continued)*

Business segment analysis as at and for the year ended 31st December, 2001 is as follows:

| | Activity 1 | Activity 2 | Activity 4 | Inter- segment elimination | Group |
|---|---------------|--------------|--------------|----------------------------------|---------------|
| | S\$'000 | S\$'000 | S\$'000 | S\$'000 | S\$'000 |
| Turnover | | | | | |
| Revenue from external customers | 53,982 | 3,340 | — | — | 57,322 |
| Inter-segment revenue | — | 165 | 1,557 | (1,722) | — |
| Segment turnover | <u>53,982</u> | <u>3,505</u> | <u>1,557</u> | <u>(1,722)</u> | <u>57,322</u> |
| Segment results and profit from operations | | | | | |
| | <u>5,148</u> | <u>241</u> | <u>—</u> | <u>—</u> | 5,389 |
| Finance costs, net | | | | | (1,362) |
| Taxation | | | | | (1,261) |
| Minority interests | | | | | 11 |
| Profit attributable to shareholders | | | | | <u>2,777</u> |
| Assets | | | | | |
| Segment assets | 28,293 | 10,306 | — | | 38,599 |
| Unallocated assets | | | | | 11,235 |
| Total assets | | | | | <u>49,834</u> |
| Liabilities | | | | | |
| Segment liabilities | 21,288 | 2,434 | — | | 23,722 |
| Unallocated liabilities | | | | | 13,880 |
| Total liabilities | | | | | <u>37,602</u> |
| Other information | | | | | |
| Capital expenditure incurred during the year | | | | | 82 |
| Depreciation | | | | | <u>170</u> |

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

4. SEGMENT INFORMATION *(Continued)*

Geographical segment

The Group has business operations in the People's Republic of China (the "PRC"), Hong Kong and Singapore. An analysis of the Group's revenue from external customers by location of customers is as follows:

| | 2002 <i>S\$'000</i> | 2001 <i>S\$'000</i> |
|----------------------------|------------------------|------------------------|
| The PRC | 51,800 | 25,695 |
| Hong Kong | 50,077 | 31,515 |
| Philippines and Madagascar | — | 112 |
| | <u>101,877</u> | <u>57,322</u> |

An analysis of the Group's carrying amount of segment assets as at 31st December, 2002 and total cost incurred during the year to acquire property, plant and equipment by location of assets is as follows:

| | Segment assets | | Cost to acquire property, plant and equipment | |
|-----------|------------------------|------------------------|--|------------------------|
| | 2002 <i>S\$'000</i> | 2001 <i>S\$'000</i> | 2002 <i>S\$'000</i> | 2001 <i>S\$'000</i> |
| The PRC | 50,938 | 38,156 | 202 | 80 |
| Hong Kong | 16,075 | 6,948 | 689 | 2 |
| Singapore | 4,026 | 4,730 | — | — |
| | <u>71,039</u> | <u>49,834</u> | <u>891</u> | <u>82</u> |

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

5. PROFIT BEFORE TAXATION

This is stated after charging (crediting):

| | 2002 S\$'000 | 2001 S\$'000 |
|--|-------------------|-------------------|
| (a) Finance costs, net | | |
| Interest on bank loans, overdrafts and other borrowings wholly repayable within five years | 1,811 | 1,541 |
| Interest on other loans | 14 | 24 |
| Finance charges on obligations under finance leases | 8 | — |
| | <u>1,833</u> | <u>1,565</u> |
| Interest income | (74) | (203) |
| | <u>1,759</u> | <u>1,362</u> |
| (b) Staff costs | | |
| Contributions to defined contribution plans | 77 | 103 |
| Salaries, wages and other benefits | 1,952 | 1,337 |
| | <u>2,029</u> | <u>1,440</u> |
| (c) Other items | | |
| Auditors' remuneration | 71 | 103 |
| Depreciation of property, plant and equipment: | | |
| Assets held for use under operating leases | 289 | — |
| Other assets | 64 | 170 |
| Amortisation of prepaid rental expenses | 82 | — |
| Impairment loss on property, plant and equipment included in other operating expenses | 229 | — |
| Write-back of provision for inventory obsolescence* | (410) | (162) |
| | <u> </u> | <u> </u> |

* Provision for inventory obsolescence made for certain inventories in previous years was reversed as the related inventories have been disposed of during the year.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

Directors' emoluments paid and payable to the directors of the Company are as follows:

| | 2002 S\$'000 | 2001 S\$'000 |
|---|-----------------|-----------------|
| Fees | 32 | — |
| Other emoluments: | | |
| Salaries, allowances and other benefits in kind | 648 | 174 |
| Bonus | 120 | — |
| Retirement scheme contributions | 36 | 28 |
| | <u>836</u> | <u>202</u> |

Analysed into:

| | Other emoluments | | | | 2002 S\$'000 |
|----------------------------|------------------|--|------------------|--|-----------------|
| | Fees S\$'000 | Salaries, allowances and other benefits in kind S\$'000 | Bonus S\$'000 | Retirement scheme contributions S\$'000 | |
| Director A | — | 216 | 30 | 12 | 258 |
| Director B | — | 216 | 30 | 12 | 258 |
| Director C | — | 216 | 30 | 12 | 258 |
| Director D (non-executive) | 16 | — | — | — | 16 |
| Director E (non-executive) | 16 | — | — | — | 16 |
| Director F (non-executive) | — | — | 30 | — | 30 |
| | <u>32</u> | <u>648</u> | <u>120</u> | <u>36</u> | <u>836</u> |

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(Continued)*

| | Other emoluments | | | | 2001 S\$'000 |
|----------------------------|------------------|--|------------------|--|-----------------|
| | Fees S\$'000 | Salaries, allowances and other benefits in kind S\$'000 | Bonus S\$'000 | Retirement scheme contributions S\$'000 | |
| Director A | — | 87 | — | 14 | 101 |
| Director B | — | 87 | — | 14 | 101 |
| Director C | — | — | — | — | — |
| Director D (non-executive) | — | — | — | — | — |
| Director E (non-executive) | — | — | — | — | — |
| Director F (non-executive) | — | — | — | — | — |
| | <u>—</u> | <u>174</u> | <u>—</u> | <u>28</u> | <u>202</u> |

No directors waived any emoluments for each of the two years ended 31st December, 2002. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director for each of the two years ended 31st December, 2002.

7. FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments, three (2001: *two*) are directors whose emoluments are disclosed in note 6. The aggregate of the emoluments in respect of the other two (2001: *three*) individuals are as follows:

| | 2002 S\$'000 | 2001 S\$'000 |
|---|-----------------|-----------------|
| Salaries, allowances and other benefits in kind | 197 | 238 |
| Retirement scheme contributions | 15 | 36 |
| | <u>212</u> | <u>274</u> |

No emoluments were paid to the five highest paid individuals (including directors and other employees) as inducement to join or upon joining the Group or as compensation for loss of office for each of the two years ended 31st December, 2002.

The number of the two (2001: *three*) highest paid individuals whose remuneration falls within the bands is as follows:

| | 2002 <i>No. of individuals</i> | 2001 <i>No. of individuals</i> |
|--|---------------------------------------|---------------------------------------|
| Nil – S\$222,000 (Nil – HK\$1,000,000) | <u>2</u> | <u>3</u> |

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

8. TAXATION

The charge comprises:

| | 2002 S\$'000 | 2001 S\$'000 |
|------------------------------------|-----------------|-----------------|
| Hong Kong profits tax: | | |
| Current year | 346 | 156 |
| Overseas taxation | 1,194 | 895 |
| Deferred taxation: | | |
| Provision made during the year | — | 210 |
| Provision utilised during the year | (210) | — |
| | <u>1,330</u> | <u>1,261</u> |

(a) Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profit of Hong Kong subsidiaries for the year.

(b) Singapore income tax

Overseas taxation relates to tax calculated based on the estimated assessable profit of Singapore subsidiaries at the rate prevailing of 22% (2001: 24.5%) for the year.

As at the balance sheet date, the tax payable to the Inland Revenue Authority of Singapore amounted to approximately S\$3,796,000 (2001: S\$2,982,000).

In addition, as at the balance sheet date the Group had provision for tax penalty of approximately S\$350,000 (2001: S\$350,000) arising from late tax payment in relation to the years of assessment from 1997 to 2001 and these amounts are included in "Accruals and other payables".

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

8. TAXATION *(Continued)*

(c) PRC enterprise income tax

No profits tax has been provided for PRC subsidiaries as they incurred losses for taxation purposes during the year.

(d) Deferred taxation

Deferred taxation represents the utilisation of the taxation effect on the timing differences arising from general provisions and movements in unrealised exchange differences made in previous years.

Deferred taxation has not been provided as the tax effect of timing differences is insignificant at the balance sheet date.

9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders include a loss of approximately S\$362,000 (2001: Nil) which has been dealt with in the financial statements of the Company for the year.

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to the shareholders for the year of S\$2,849,000 (2001: S\$2,777,000) and weighted average number of 363,178,082 (2001: 320,000,000) shares in issue during the year.

The weighted average number of shares used to calculate both the current and prior year's earnings per share includes the pro-forma issued share capital of the Company as set out in note 23. The weighted average number of shares used in the current year's earnings for share calculation also includes the 80,000,000 shares issued under the Placing.

Diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence during each of the two years ended 31st December, 2002.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

11. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold land and buildings S\$'000 | Plant and machinery S\$'000 | Motor vehicles S\$'000 | Furniture and equipment S\$'000 | Total S\$'000 |
|---|---|-----------------------------------|------------------------------|--|------------------|
| Cost | | | | | |
| At 1st January, 2002 | 1,292 | 3,774 | 789 | 684 | 6,539 |
| Additions | — | 11 | 685 | 195 | 891 |
| Translation adjustment | — | (125) | (49) | (22) | (196) |
| At 31st December, 2002 | 1,292 | 3,660 | 1,425 | 857 | 7,234 |
| Accumulated depreciation and impairment loss | | | | | |
| At 1st January, 2002 | 84 | 786 | 199 | 383 | 1,452 |
| Charge for the year | 19 | 92 | 204 | 38 | 353 |
| Impairment loss | — | 229 | — | — | 229 |
| Translation adjustment | — | (18) | (9) | (12) | (39) |
| At 31st December, 2002 | 103 | 1,089 | 394 | 409 | 1,995 |
| Net book value | | | | | |
| At 31st December, 2002 | 1,189 | 2,571 | 1,031 | 448 | 5,239 |
| At 31st December, 2001 | 1,208 | 2,988 | 590 | 301 | 5,087 |

Leasehold land and buildings, located in the PRC, were held under land use rights for 70 years expiring in 2063.

Leasehold land and buildings are pledged to the banks for credit facilities granted to the Group as disclosed in note 20 to the financial statements.

The net book value of the Group's property, plant and equipment includes an amount of S\$602,000 (2001: Nil) in respect of assets held under finance leases and for use under operating leases.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

12. PREPAID RENTAL EXPENSES

| | 2002 S\$'000 |
|--------------------------------------|-----------------|
| Current portion | 119 |
| Non-current portion | 9,099 |
| Opening carrying amount | 9,218 |
| Exchange difference | (150) |
| Amortisation | (82) |
| Closing carrying amount | <u>8,986</u> |
| At 31st December, 2002 | |
| Costs | 9,068 |
| Accumulated amortisation | (82) |
| Closing carrying amount | 8,986 |
| Portion classified as current assets | <u>(82)</u> |
| Non-current portion | <u>8,904</u> |

In March 2000, the Group signed a project development co-operation agreement with China National Automotive Anhua Hertz Services Centre Co., Ltd. ("CNA Anhua (Hertz)"). CNA Anhua (Hertz) is a subsidiary of North Anhua Group Corporation ("NAGC"), and of which a director of the Company has significant influence. The principal activity of CNA Anhua (Hertz) is the development of land and buildings for use as motor vehicle showrooms, service centres, auto parts factories and other related facilities in Guangdong Province, Fujian Province and Beijing Municipality. Under the agreement, all land title certificates and ownership of facilities will belong to CNA Anhua (Hertz), while the Group will have free use of such facilities for 50 years from the date of completion of the developments. The development in Beijing in respect of prepaid rental expense of approximately S\$4,113,000 (2001: S\$4,113,000) was completed in 2001 and its amortisation charge for the year amounted to S\$82,000 (2001: S\$Nil).

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

12. PREPAID RENTAL EXPENSES *(Continued)*

The Group has also signed another project development co-operation agreement with Jin Tian Cheng Development Co., Ltd. ("Jin Tian Cheng"), another related company of NAGC in August 2001 for the development of a motor vehicle maintenance and service centre in Fuzhou Municipality of Fujian Province. Under the agreement, all land title certificates and ownership of facilities will belong to Jin Tian Cheng while the Group will have use of such facilities for a nominal consideration of S\$2,150 (RMB10,000) per month for 20 years from the date of completion of the development.

Accordingly, the advances made in respect of such development projects in 2001 amounting to approximately S\$9,218,000 (2001: S\$9,218,000) have been classified as prepaid rental expenses and to be charged to the consolidated income statement over 20 to 50 years, commencing from the date of completion of the respective development projects.

In October 2002, the Group has decided to abandon the Guangdong Province development project. The sum prepaid was transferred for the construction of the enlarged Fujian Province development project. The Fujian Province development project had started its construction since October 2002 and is estimated to be completed by June 2003.

The Fuzhou Municipality development project is still under the preliminary design stage. The construction is scheduled to start by end of 2003 which will take about 8 months and is expected to be completed by June 2004.

13. INTEREST IN SUBSIDIARIES

The Company

| | 2002 S\$'000 |
|--------------------------|-----------------|
| Unlisted shares, at cost | 7,882 |
| Due from a subsidiary | 5,715 |
| | <u>13,597</u> |
| Due to a subsidiary | (205) |
| | <u>13,392</u> |

The amount due from/to a subsidiary is unsecured, interest-free and has no fixed repayment term.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

13. INTEREST IN SUBSIDIARIES *(Continued)*

Details of subsidiaries of the Company are as follows:

| Name of subsidiary | Place of incorporation and operation | Issued and paid up capital/ registered capital | Percentage of equity interest held by the Company | | Principal activity |
|---|--------------------------------------|---|---|------------|--|
| | | | Directly | Indirectly | |
| German Automobiles Pte Ltd. | Singapore | 7,876,996 shares of S\$1 each | 100% | — | Wholesale of motor vehicles and provision of technical services |
| German Automobiles Limited | Hong Kong | 20,000 shares of HK\$1 each | 100% | — | Sales liaison and trading of spare parts for motor vehicles |
| Xiamen BMW Automobiles Service Co., Ltd. | The PRC | Registered and paid-in capital of US\$3,000,000 | — | 100% | Provision of repair and maintenance services of high-end automobiles |
| China Automobile Asia Pte Ltd. | Singapore | 2 shares of S\$1 each | — | 100% | Investment holding and provision of management services |
| China National Auto Anhua (Tianjin) International Trade Co., Ltd. | The PRC | Registered and paid-in capital of US\$1,000,000 | — | 70% | Car related business |

14. INVENTORIES

| | 2002 S\$'000 | 2001 S\$'000 |
|----------------------------|-----------------|-----------------|
| Motor vehicles | 117 | 63 |
| Motor vehicles in transit | — | 2,590 |
| Auto parts and accessories | 729 | 1,771 |
| | <u>846</u> | <u>4,424</u> |

Auto parts and accessories are stated net of a provision of S\$380,000 (2001: S\$804,000) made, in order to state these inventories at the lower of their cost and net realisable value.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

15. TRADE RECEIVABLES

| | <i>Note</i> | 2002 S\$'000 | 2001 S\$'000 |
|------------------------|-------------|-----------------|-----------------|
| From related companies | (a) | 1,301 | — |
| From third parties | | 37,974 | 15,269 |
| | | <u>39,275</u> | <u>15,269</u> |

The credit periods of the Group range from 2 to 5 months. The aging analysis of trade receivables is as follows:

| | 2002 S\$'000 | 2001 S\$'000 |
|---|-----------------|-----------------|
| 0 to 3 months | 20,525 | 7,355 |
| 3 to 6 months | 11,333 | 3,480 |
| 6 to 9 months | 7,756 | 1,898 |
| 9 to 12 months | — | 1,454 |
| Over 12 months | — | 1,425 |
| | <u>39,614</u> | <u>15,612</u> |
| <i>Less: Provision for doubtful debts</i> | <u>(339)</u> | <u>(343)</u> |
| | <u>39,275</u> | <u>15,269</u> |

Note:

- (a) It represents management fees due from three car rental sub-licensees. The three sub-licensees are subsidiaries of CNA Anhua (Hertz) in which a director of the Company has significant influence.

16. PREPAYMENTS, DEPOSITS AND OTHER CURRENT ASSETS

| | The Group | | The Company | |
|--|-----------------|-----------------|-----------------|-----------------|
| | 2002 S\$'000 | 2001 S\$'000 | 2002 S\$'000 | 2001 S\$'000 |
| Deposits placed with related companies of NAGC in the PRC for the setting up of car rental offices | — | 1,814 | — | — |
| Non-trade advance to a related company of NAGC | — | 2,579 | — | — |
| Prepayments and other debtors | 2,888 | 2,988 | 27 | — |
| | <u>2,888</u> | <u>7,381</u> | <u>27</u> | <u>—</u> |

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

17. DUE FROM RELATED COMPANIES

The amounts due from related companies are unsecured, interest-free and repayable on demand. Details of amounts due from related companies are as follows:

| Name of related company | Connected directors | Maximum amount outstanding during the year S\$'000 | Balance at 31st December, 2002 S\$'000 | Balance at 1st January, 2002 S\$'000 |
|------------------------------|--------------------------|---|---|---|
| Octavus Properties Pte. Ltd. | Chan Hing Ka, Anthony | 46 | 46 | 35 |
| CNA Anhua (Hertz) | Loh Nee Peng | 505 | 505 | — |
| Eng Kheng (S) Pte. Ltd. | Chan Hing Ka, Anthony | 14 | 14 | — |
| | | | 565 | 35 |

The companies above are related as they are subject to common control by the directors of the Company.

18. PLEDGED BANK DEPOSITS

The bank deposits were pledged to banks for the following purposes:

| | Note | 2002 S\$'000 | 2001 S\$'000 |
|---|------|-----------------|-----------------|
| Banking facilities granted to the Group | | 5,954 | 3,344 |
| Banking facilities granted to a related company of NAGC | (a) | 1,788 | 1,840 |
| Others | (b) | 94 | 92 |
| | | 7,836 | 5,276 |

Note:

- (a) The banking facilities were granted up to approximately S\$7,446,000 (2001: S\$7,912,000) for use in car rental business by the three car rental sub-licensees as disclosed in note 15(a) to the financial statements.
- (b) A fixed deposit of approximately S\$94,000 (2001: S\$92,000) is pledged to a bank to secure the guarantees given by the bank to the principal of the "Hertz" system, Hertz International Ltd. (see note 29(b)), in respect of the Group's obligations under the license agreement with Hertz International Ltd.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

19. TRADE PAYABLES

The aging analysis of trade payables is as follows:

| | 2002 S\$'000 | 2001 S\$'000 |
|----------------|-----------------|-----------------|
| 0 to 1 month | 1,881 | 48 |
| 1 to 6 months | 5,556 | 346 |
| 6 to 12 months | 139 | 105 |
| 1 to 2 years | — | 568 |
| Over 2 years | 471 | 711 |
| | <u>8,047</u> | <u>1,778</u> |

20. BANK BORROWINGS

| | Bank overdrafts (Note a) | | Bills payable to banks (Note a) | | Secured bank loans (Note b) | | Total | |
|--|-----------------------------|-----------------|------------------------------------|-----------------|--------------------------------|-----------------|-----------------|-----------------|
| | 2002 S\$'000 | 2001 S\$'000 | 2002 S\$'000 | 2001 S\$'000 | 2002 S\$'000 | 2001 S\$'000 | 2002 S\$'000 | 2001 S\$'000 |
| Current portion: | | | | | | | | |
| Due within one year | 296 | 1,804 | 28,413 | 19,693 | 4,145 | 6,053 | 32,854 | 27,550 |
| Non-current portion: | | | | | | | | |
| Due after one year but within two years | — | — | — | — | 96 | 1,871 | 96 | 1,871 |
| Due after two years but within five years | — | — | — | — | 286 | 315 | 286 | 315 |
| Due after five years | — | — | — | — | 71 | 169 | 71 | 169 |
| | — | — | — | — | 453 | 2,355 | 453 | 2,355 |
| | <u>296</u> | <u>1,804</u> | <u>28,413</u> | <u>19,693</u> | <u>4,598</u> | <u>8,408</u> | <u>33,307</u> | <u>29,905</u> |

(a) Bank overdrafts and bills payable to banks

At the balance sheet date, the bank overdrafts and bills payable to banks are secured by the Group's fixed deposits amounting to approximately S\$5,954,000 (2001: S\$2,976,000), fixed deposits amounting to approximately S\$375,000 (2001: S\$375,000) of a director of the Company, joint and several guarantees from three directors of the Company and their family members, legal mortgage over certain properties of two related companies beneficially owned by a director, as well as corporate guarantees from two related companies beneficially owned by two directors, their family members or relatives. In addition, the Group charged and assigned all its interests and rights in all of its accounts receivable in favour of a bank.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

20. BANK BORROWINGS *(Continued)*

(b) Secured bank loans

Secured bank loans comprise:

| | Notes | 2002 S\$'000 | 2001 S\$'000 |
|-----------------|-------|-----------------|-----------------|
| Mortgage loan 1 | (i) | 346 | 447 |
| Mortgage loan 2 | (ii) | 203 | 240 |
| Term loan 1 | (iii) | 4,049 | 7,077 |
| Term loan 2 | (iv) | — | 644 |
| | | <u>4,598</u> | <u>8,408</u> |

- (i) This was secured by a legal mortgage on the Group's leasehold land and building with net book value of approximately S\$840,000 (2001: S\$853,000) at the balance sheet date, and joint and several guarantees by two directors of the Company. The loan is repayable in 120 installments commencing October 1997 and bearing interest at 1.75% per annum above the bank's Singapore Inter-Bank Offered Rate ("SIBOR").
- (ii) This was secured by a legal mortgage on the Group's leasehold land and building with net book value of approximately S\$349,000 (2001: S\$354,000) at the balance sheet date, and joint and several guarantees by three directors of the Company. The loan is repayable in 120 installments commencing from February 2000 and bearing interest at 1.25% per annum above the bank's prime lending rate.
- (iii) The term loan is bearing interest at 2% per annum above SIBOR or 5% on default and is secured by the following:
- (1) Joint and several personal guarantees from three directors of the Company and a family member of a director of the Company;
 - (2) Personal guarantee of a family member of a director of the Company;
 - (3) Corporate guarantee by a corporate shareholder of the Company in which a director and shareholder of the Company and his family members have beneficial interest;
 - (4) Corporate guarantee by a related company, in which a director and shareholder of the Company and his relative have beneficial interest.
- (iv) Two term loans drawn in 2001 are bearing interest at 4.9% and 6.0% per annum respectively, are secured by a fixed deposit amounting to approximately S\$368,000. The term loans are repayable one year from their respective draw down dates.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

21. OBLIGATIONS UNDER FINANCE LEASES

| | Minimum lease payments | | Present value of minimum lease payments | |
|---------------------------------------|------------------------|----------|---|----------|
| | 2002 | 2001 | 2002 | 2001 |
| | S\$'000 | S\$'000 | S\$'000 | S\$'000 |
| Amount payable: | | | | |
| Within one year | 229 | — | 210 | — |
| After one year but within two years | 225 | — | 208 | — |
| After two years but within five years | 169 | — | 156 | — |
| | 394 | — | 364 | — |
| Future finance charges | 623 (49) | — | 574 | — |
| Present value of lease obligations | <u>574</u> | <u>—</u> | <u>574</u> | <u>—</u> |

22. DUE TO RELATED COMPANIES/ DIRECTORS

The amounts due are unsecured, interest-free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

23. ISSUED CAPITAL

| | 2002 | |
|----------------------------------|----------------------|----------------|
| | <i>No. of share</i> | <i>S\$'000</i> |
| <i>Authorised:</i> | | |
| Ordinary shares of HK\$0.10 each | <u>2,000,000,000</u> | <u>45,200</u> |
| <i>Issued and fully paid:</i> | | |
| Ordinary shares of HK\$0.10 each | <u>400,000,000</u> | <u>9,040</u> |

The movements in the authorised and issued share capital of the Company during the period from 5th July, 2001 (date of incorporation) to 31st December, 2002 are as follows:

- (a) On incorporation, the authorised share capital of the Company was HK\$100,000 divided into 10,000,000 shares of HK\$0.01 each, of which 1 share was issued nil paid on 16th July, 2001 to Codan Trust Company (Cayman) Limited and subsequently transferred to Mr. Chan Hing Ka, Anthony, a director of the Company, on the same date.
- (b) On 5th June, 2002, 9 additional shares of HK\$0.01 each were issued nil paid by the Company to Mr. Chan Hing Ka, Anthony. On the same date, the authorised share capital (including the issued and unissued share capital) of the Company was consolidated into 1,000,000 shares of HK\$0.10 each. The authorised share capital of the Company was then increased from HK\$100,000 to HK\$200,000,000 by the creation of an additional 1,999,000,000 shares.
- (c) On 5th June, 2002, an aggregate of 319,999,999 shares were issued and allotted credited as fully paid at HK\$0.10 per share as consideration and in exchange for the acquisition of the entire issued share capital of GAPL. The excess of the fair value of the shares of GAPL, determined on the basis of the consolidated net assets of GAPL at that date, over the nominal value of the Company's shares issued in exchange therefor, amounting to HK\$645,000 was credited to the Company's capital reserve.
- (d) On 17th June, 2002, 80,000,000 new shares of HK\$0.10 each were issued at HK\$0.50 per share pursuant to the Placing.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

23. ISSUED CAPITAL *(Continued)*

A summary of the above movements in the issued share capital of the Company is as follows:

| | | Number of shares | Issued share capital | |
|--|-----|---------------------|----------------------|--------------|
| | | | HK\$'000 | S\$'000 |
| Share allotted and issued nil paid at par on incorporation | (a) | 1 | — | — |
| 9 shares issued to Mr. Chan Hing Ka, Anthony | (b) | 9 | — | — |
| Shares consolidation | (b) | (9) | — | — |
| | | 1 | — | — |
| Share issued as consideration for the acquisition of the entire issued share capital of GAPL | (c) | 319,999,999 | 32,000 | 7,232 |
| Proforma issued capital as at 1st January, 2001 and 31st December, 2001 | | 320,000,000 | 32,000 | 7,232 |
| Issue of new shares pursuant to the Placing | (d) | 80,000,000 | 8,000 | 1,808 |
| Issued share capital as at 31st December, 2002 | | 400,000,000 | 40,000 | 9,040 |

The comparative of the issued capital shown in the consolidated balance sheet represents the proforma issued shares of 320,000,000 shares of HK\$0.10 each in the share capital of the Company before the Placing.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

24. RESERVES

Share premium

The share premium account of the Group and the Company represents the premium arising from the issue of shares during the year ended 31st December, 2002, net of Placing expenses.

In accordance with the Companies Law (Revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

Capital reserve

The capital reserve of the Group represents the difference between the then combined net assets value of the subsidiaries acquired pursuant to the Reorganisation, as set out in note 1 to the financial statements, over the nominal value of the shares of the Company issued in exchange therefor.

The capital reserve of the Company represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Reorganisation, as set out in note 1 to the financial statements, over the nominal value of the shares of the Company issued in exchange therefor.

Translation reserve

The translation reserve has been set up and is dealt with in accordance with the accounting policy for foreign currencies.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

25. CASH GENERATED FROM OPERATIONS

(a) Cash generated from operations

| | 2002 S\$'000 | 2001 S\$'000 |
|--|-----------------|-----------------|
| Profit before taxation | 4,154 | 4,822 |
| Interest expenses | 1,833 | 2,256 |
| Interest income | (74) | (203) |
| Provision for doubtful trade debts | — | 84 |
| Provision for doubtful non-trade debts | — | 15 |
| Write-back of inventories previously written down to net realisable value | — | (35) |
| Write-back of provision for inventory obsolescence | (410) | (162) |
| Write-back of provision for doubtful trade debts | — | (200) |
| Depreciation of property, plant and equipment | 353 | 170 |
| Amortisation of prepaid rental expenses | 82 | — |
| Write-off of property, plant and equipment | — | 66 |
| Impairment loss on property, plant and equipment | 229 | — |
| Changes in working capital: | | |
| Prepaid rental expenses | (37) | (1,459) |
| Inventories | 3,988 | (1,546) |
| Trade receivables, net | (24,006) | (4,441) |
| Prepayments, deposits and other current assets | 4,493 | (1,520) |
| Due from related companies | (530) | 231 |
| Trade payables | 6,269 | (909) |
| Accruals and other payables | 1,467 | (214) |
| Bills payable to banks | 8,720 | 11,384 |
| Due to related companies | 130 | (92) |
| Due to directors | 48 | 18 |
| Translation adjustment | 121 | (39) |
| Cash generated from operations | 6,830 | 8,226 |

(b) Analysis of cash and cash equivalents

Pledged bank deposits of approximately S\$7,836,000 (2001: S\$5,276,000) are excluded from cash and cash equivalents because they may not be realisable as they are fully pledged to banks for banking facilities granted to the Group and a related company of NAGC as disclosed in note 18.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

26. RETIREMENT BENEFITS

Following the introduction of the Mandatory Provident Fund legislation in Hong Kong, the subsidiary in Hong Kong participates in the defined contribution mandatory provident fund since 1st December, 2000. Both the Group and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The contribution of the Group and the employees are subject to a cap of S\$222 (HK\$1,000) per month and thereafter contributions are voluntary.

Employees in Singapore participate in a defined contribution provident fund, which is managed by an independent trustees. The employees make monthly contributions of 20% of the employees' basic salaries. The Group makes monthly contributions at 16% of the employees' basic salaries. As defined under the Central Provident Fund legislation, the Group's contribution is subject to a cap computed based on S\$1,200 per month.

As stipulated by the rules and regulations in the PRC, the PRC subsidiaries are required to contribute to a state-sponsored social insurance scheme for all of its employees at rates ranging from 6% to 30% of the basic salary of its employees. The state-sponsored retirement plan was responsible for the entire pension obligations payable to all retired employees and the subsidiaries had no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions.

During the year, the aggregate amount of the Group's employer contributions amounted to approximately S\$101,000 (2001: S\$166,000). As at the balance sheet date, there was no forfeited contribution available to reduce the Group's employer contribution payable in future periods.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

27. RELATED PARTY TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in these financial statements, during the year, the Group had the following transactions with related parties.

- (a) the Group had received management fee income of S\$1,301,000 (2001: S\$Nil) from three related companies engaging in the car rental business for provision of management services. The three companies are related as they are subject to significant influence by a director of the Company through his directorship in their holding company, CNA Anhua (Hertz). CNA Anhua (Hertz) is a wholly owned subsidiary of NAGC, a major customer and business partner of the Group.

At the balance sheet date, the Group had the following exposure to NAGC, its subsidiaries and related companies.

- (i) Prepaid rental expenses as disclosed in note 12 to the financial statements. Two directors of the Company have undertaken to indemnify the Group against all losses in the event that NAGC fails to obtain the appropriate title certificate or to repay or refund the Group.
 - (ii) Amount due from CNA Anhua (Hertz) as disclosed in note 17 to the financial statements.
 - (iii) Certain fixed deposits of the Group were pledged to a bank to secure banking facilities of up to approximately S\$7,446,000 (2001: S\$7,912,000) granted to a related company of NAGC as disclosed in note 18 to the financial statements.
 - (iv) Contingent liabilities arising from the transactions as disclosed in note 29 (a) and (b) to the financial statements.
 - (v) Included in "Prepayments, deposits and other current assets" is an amount of S\$1,806,000 (2001: S\$Nil) relating to advance ultimately to be used by the three car rental sub-licensees.
- (b) A director of the Company has pledged a personal fixed deposit of S\$375,000 in respect of account payable by the Group to a supplier of auto parts.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

28. COMMITMENTS

Commitments under operating leases

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases, which are payable as follows:

| | 2002 S\$'000 | 2001 S\$'000 |
|---------------------------------|-----------------|-----------------|
| Within 1 year | 340 | 572 |
| After 1 year but within 5 years | 645 | 788 |
| After 5 years | 490 | 541 |
| | <u>1,475</u> | <u>1,901</u> |

29. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for are analysed as follows:

| | 2002 S\$'000 | 2001 S\$'000 |
|---|-----------------|-----------------|
| (a) Guarantees provided to a bank in respect of banking facilities granted to a related company of NAGC | <u>7,446</u> | <u>7,912</u> |

Fixed deposits of approximately S\$1,788,000 (2001: S\$1,840,000) are pledged to secure these banking facilities at the balance sheet date (*see note 18(a)*). The bank agreed unconditionally to release the Company as corporate guarantor from the above guarantees, and the legal procedures are in progress.

- (b) The Group as the principal licensee of the "Hertz" system of the car rental business (the "Car Rental Business"), has given corporate guarantees to Hertz International Ltd., the principal of the Car Rental Business, guaranteeing the performance and timely payment by the three car rental sub-licensees of all amounts payable under the respective sub-licensor agreements to Hertz International Ltd. These car rental sub-licensees are subject to significant influence by a director of the Company and are subsidiaries of NAGC.

FINANCIAL SUMMARY

RESULTS

| | Year ended 31st December, | | |
|--|---------------------------|-----------------|-----------------|
| | 2002 S\$'000 | 2001 S\$'000 | 2000 S\$'000 |
| Turnover | 101,877 | 57,322 | 26,887 |
| Other revenue | 210 | 82 | 21 |
| Other income | 446 | 8 | 169 |
| Cost of inventories | (87,698) | (47,820) | (19,138) |
| Staff costs | (2,029) | (1,440) | (1,152) |
| Depreciation and amortisation | (435) | (170) | (171) |
| Minimum lease payments for operating leases | (498) | (453) | (252) |
| Exchange differences, net | (816) | 494 | 912 |
| Other operating expenses | (5,144) | (2,634) | (3,680) |
| Profit from operations | 5,913 | 5,389 | 3,596 |
| Share of profits of a joint venture | — | — | 295 |
| Finance costs, net | (1,759) | (1,362) | (1,663) |
| Profit before taxation | 4,154 | 4,027 | 2,228 |
| Taxation | (1,330) | (1,261) | (1,073) |
| Profit after taxation but before minority interests | 2,824 | 2,766 | 1,155 |
| Minority interests | 25 | 11 | (90) |
| Profit attributable to shareholders | <u>2,849</u> | <u>2,777</u> | <u>1,065</u> |
| Dividends | <u>—</u> | <u>—</u> | <u>—</u> |
| Earnings per share (cents) | <u>0.78</u> | <u>0.87</u> | <u>0.35</u> |

ASSETS AND LIABILITIES

| | As at 31st December, | | |
|-------------------------------|----------------------|-----------------|-----------------|
| | 2002 S\$'000 | 2001 S\$'000 | 2000 S\$'000 |
| Total assets | 71,039 | 49,834 | 36,354 |
| Total current liabilities | (49,518) | (35,037) | (26,445) |
| Total non-current liabilities | (817) | (2,565) | (646) |
| Minority interests | (497) | (541) | (514) |
| Net assets | <u>20,207</u> | <u>11,691</u> | <u>8,749</u> |

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting (the "Meeting") of G.A. Holdings Limited (the "Company") will be held at Room 2205B, 22nd Floor, 9 Queen's Road Central, Hong Kong on 30th April, 2003 at 11:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and auditors for the year ended 31st December, 2002;
2. To re-elect the retiring Director and to authorise the Board of Directors (the "Board") to fix the remuneration of the Director;
3. To re-appoint Messrs Moores Rowland, Chartered Accountants, Certified Public Accountants as Auditors and to authorise the Board to fix their remuneration;

as special business, to consider and, if thought fit, pass with or without amendments the following resolutions as ordinary resolutions:

4A. "THAT:

- (a) subject to paragraph (c) below, the exercise by the Directors during the Relevant Period of all the powers of the Company to purchase shares (each a "Share") of HK\$0.10 each in the capital of the Company on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or on any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (as amended from time to time) or of any other stock exchange be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) shall be in addition to any other authorisation given to the Directors and shall authorise the Directors on behalf of the Company during the Relevant Period to procure the Company to purchase Shares at a price determined by the Directors;
- (c) the aggregate nominal amount of the Shares which are authorised to be purchased by the Directors pursuant to the approval in paragraph (a) above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution, and the said authority shall be limited accordingly;

NOTICE OF ANNUAL GENERAL MEETING *(Continued)*

(d) for the purposes of this resolution:

“Relevant Period” means the period from the date of passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Company’s articles of association, the Companies Law (Revised) of the Cayman Islands or any other applicable law of the Cayman Islands to be held; and
- (iii) the date upon which the authority set out in this resolution is revoked or varied by way of ordinary resolution of the Company in general meeting.”

4B. “THAT:

- (a) subject to paragraph (c) below, the exercise by the Directors during the Relevant Period of all the powers of the Company to allot, issue and deal with additional shares (each a “Share”) in the capital of the Company and to make or grant offers, agreements, options and rights of exchange or conversion which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) shall be in addition to any other authorisation given to the Directors and shall authorise the Directors during the Relevant Period to make or grant offers, agreements, options and rights of exchange or conversion which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval granted in paragraph (a), otherwise than pursuant to (i) a Rights Issue, or (ii) the share option scheme of the Company approved by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange, or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on Shares in accordance with the Company’s articles of association, shall not exceed 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of this resolution, and the said approval shall be limited accordingly; and

NOTICE OF ANNUAL GENERAL MEETING *(Continued)*

(d) for the purposes of this resolution:

“Relevant Period” shall have the same meaning as ascribed to it under resolution set out in paragraph 4A(d) of the notice convening this Meeting; and

“Rights Issue” means an offer of Shares open for a period fixed by the Directors to holders of Shares on the register on a fixed record date in proportion to their then holdings of the Shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws or any relevant jurisdiction, or the requirements of any recognised regulatory body or any stock exchange, in any territory outside Hong Kong).”

4C. “THAT:

conditional upon the passing of the resolutions set out in paragraphs 4A and 4B of the notice convening the Meeting, the general mandate granted to the Directors pursuant to the resolution set out in paragraph 4B of the notice convening the Meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of share capital of the Company purchased by the Company under the authority granted pursuant to the resolution set out in paragraph 4A of the notice convening the Meeting, provided that such amount shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of this resolution.”

5. To transact any other business.

By order of the Board
G.A. Holdings Limited
Loh Kim Her
Managing Director

Hong Kong, 27th March, 2003

Notes:

1. Any shareholder of the Company entitled to attend and vote at the Meeting is entitled to appoint one or more separate proxies to attend and vote instead of him. A proxy need not be a shareholder of the Company.
2. To be valid, a form of proxy in the prescribed form together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof) must be deposited at the Company’s Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong not less than 48 hours before the time fixed for holding the Meeting or any adjourned Meeting.

NOTICE OF ANNUAL GENERAL MEETING *(Continued)*

3. Delivery of an instrument appointing a proxy shall not preclude a shareholder from attending and voting in person at the meeting and in such event, the instrument appointing a proxy shall be deemed to be revoked.
4. With respect to the resolution set out in paragraph 4A of the notice, approval is being sought from shareholders of the Company for a general mandate to be given to the Directors to purchase shares of the Company.
5. With respect to the resolutions set out in paragraphs 4B and 4C of the notice, approval is being sought from shareholders of the Company for general mandates to be given to the Directors to allot, issue and deal with shares of the Company in accordance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.
6. An explanatory statement containing the information with respect to the resolutions set out in paragraphs 4A to 4C of the notice being enclosed in the circular and sent to the shareholders of the Company.