

1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared under the historical cost convention as modified by the revaluation of investment properties, in accordance with accounting policies generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries, with the exception of non-consolidated subsidiaries, made up to 31st December.

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of the voting power or registered/issued share capital or controls the composition of the board of directors. A non-consolidated subsidiary is a subsidiary which operates under contractual restrictions which significantly impair control by the Company over that subsidiary but in which the Company exercises significant influence. The results of consolidated subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Non-consolidated subsidiaries are accounted for by the Group using the equity method of accounting.

The consolidated profit and loss account includes the Group's share of the results of non-consolidated subsidiaries for the year and the consolidated balance sheet includes the Group's share of net assets of the non-consolidated subsidiaries.

In the Company's balance sheet, the investments in non-consolidated subsidiaries are stated at cost less provision, if necessary, for any permanent diminution in value. The results of non-consolidated subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated profit and loss account.

1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

(b) Consolidation (cont'd)

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision, if necessary, for any permanent diminution in value other than temporary in nature. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated profit and loss account includes the Group's share of the results of a jointly controlled entity for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entity.

(d) Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies.

In the Company's balance sheet the investments in associated companies are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

(e) Fixed assets

(i) *Investment properties*

Investment properties are interests in land and buildings in respect of which construction work and development have been completed, and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods of greater than 20 years are stated at valuations at the balance sheet date. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited. Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised, if any, in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

(ii) *Leasehold land and buildings/improvements*

Leasehold land and buildings/improvements in Hong Kong and land use rights and buildings in the Mainland China are stated at cost less subsequent accumulated depreciation or amortisation. Depreciation or amortisation is calculated to write off the cost of the assets on a straight-line basis over the unexpired periods of the leases or their expected useful lives to the Group, whichever is shorter. An asset's carrying amount is the amount at which it is included in the balance sheet, whether at cost, after deducting any accumulated depreciation or amortisation. The principal annual rate used for this purpose is 2%.

1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

(e) Fixed assets (cont'd)

(iii) Other tangible fixed assets

Other tangible fixed assets are stated at cost less accumulated depreciation. Depreciation of other tangible fixed assets is calculated to write off their costs on a straight-line basis over their expected useful lives to the Group. The principal annual rates are as follows:

Plant and machinery	10%
Office equipment	20%
Motor vehicles	20%

(iv) Cost of restoring and improving fixed assets

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

(v) Impairment of fixed assets

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

(vi) Gain or loss on disposal of fixed assets

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(f) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on a straight-line basis over the lease periods.

1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

(g) Long-term investments

The Group's investments other than subsidiaries, associated companies and joint ventures, are shown as long-term investments. Long-term investments are stated at cost less any provision for diminution in value, if necessary. Dividend income is recognised in the profit and loss account as it is received and receivable.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investment is reduced to its fair value. The amount of the reduction is recognised as an expenses in the profit and loss account.

(h) Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost or net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(i) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(j) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(k) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

(k) Translation of foreign currencies (cont'd)

The accounts of subsidiaries, jointly controlled entities and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves. Upon disposal of an overseas subsidiary, jointly controlled entity or associated company, the related cumulative exchange difference is recognised in the profit and loss account as part of the gain or loss on disposal.

(l) Revenue recognition

Revenue in respect of the sale of motor vehicles and related equipment and parts, and other goods is recognised, net of value-added tax, on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.

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

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

Revenue in respect of sales of marketable securities is recognised when the title was passed.

(m) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

2 REVENUE AND TURNOVER

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

	Group	
	2000 HK\$'000	1999 HK\$'000
Turnover		
Trading of motor vehicles	350,297	244,193
Manufacturing and assembly of motor vehicles	192,240	157,535
Manufacturing and trading of automotive equipment, parts and other operations	63,482	62,310
Manufacturing and trading of audio equipment	180,371	160,485
	<u>786,390</u>	<u>624,523</u>
Other revenues		
Interest income	18,396	9,101
Gross rental income from investment properties	1,951	2,825
Sales of marketable securities	451	1,162
Other income	4,402	5,750
	<u>25,200</u>	<u>18,838</u>
Total revenues	<u>811,590</u>	<u>643,361</u>

2 REVENUE AND TURNOVER (cont'd)

An analysis of the Group's turnover and contribution to operating profit for the year by principal activity and market is as follows:

	Turnover		Operating profit/(loss)	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Principal activities:				
Trading of motor vehicles	350,297	244,193	7,313	(1,402)
Manufacturing and assembly of motor vehicles	192,240	157,535	4,511	2,207
Manufacturing and trading of automotive equipment, parts and other operations	63,482	62,310	(22,831)	(19,291)
Manufacturing and trading of audio equipment	180,371	160,485	17,120	13,730
	<u>786,390</u>	<u>624,523</u>	<u>6,113</u>	<u>(4,756)</u>
Interest income			18,396	9,101
Net other operating (expense)/income			(2,196)	59,145
Operating profit			<u>22,313</u>	<u>63,490</u>
Principal markets:				
Mainland China	590,023	445,123	9,484	(1,443)
Hong Kong	182,642	160,523	(2,904)	(1,709)
Australia	13,725	18,877	(467)	(1,604)
	<u>786,390</u>	<u>624,523</u>	<u>6,113</u>	<u>(4,756)</u>
Interest income			18,396	9,101
Net other operating (expense)/income			(2,196)	59,145
Operating profit			<u>22,313</u>	<u>63,490</u>

3 NET OTHER OPERATING (EXPENSE)/INCOME

	Group	
	2000	1999
	HK\$'000	HK\$'000
Gain on disposal of subsidiaries*	–	53,900
Revaluation deficit of investment properties	(5,819)	(2,478)
(Additional provision)/write-back of provision for doubtful debts	(1,377)	5,708
Write-back of loss on inventories	–	1,183
Others	5,000	832
	<u>(2,196)</u>	<u>59,145</u>

* This represents the gain on disposal of certain loss-making subsidiaries by the Group to a wholly-owned subsidiary of Guangzhou Automobile Group Co., Ltd (“Guangzhou Automobile”), the ultimate holding company, during 1999.

4 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	Group	
	2000	1999
	HK\$'000	HK\$'000
<u>Crediting</u>		
Gain on disposal of fixed assets	–	826
Net exchange gains	–	281
	<u>–</u>	<u>1,107</u>
<u>Charging</u>		
Net exchange losses	891	–
Amortisation of intangible assets	–	2,858
Auditors' remuneration	1,816	1,363
Depreciation of fixed assets	10,963	13,787
Loss on disposal of fixed assets	57	–
Operating lease rentals in respect of land and buildings	5,664	3,137
Outgoings in respect of investment properties	67	203
Staff costs	55,717	55,070
	<u>83,118</u>	<u>75,458</u>

5 FINANCE COSTS

	Group	
	2000	1999
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	14,911	12,349
Interest on other loans: wholly repayable within 5 years	564	3,461
Total borrowing costs incurred	<u>15,475</u>	<u>15,810</u>

6 TAXATION

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Hong Kong profits tax	746	80
Overseas taxation	503	695
Over provision in prior years – Hong Kong	(48)	(9)
Deferred taxation (note 23)	(14)	98
	<u>1,187</u>	<u>864</u>
Share of taxation attributable to an associated company	8	93
	<u>1,195</u>	<u>957</u>

There was no material unprovided deferred taxation for the year.

7 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Included in the profit attributable to shareholders of HK\$453,203,000 (1999: HK\$37,867,000) is a loss of HK\$20,771,000 (1999: a loss of HK\$92,024,000), which is dealt with in the Company's own accounts.