

Notes to Condensed Interim Accounts

30th June 2002

1. Basis of Preparation and Accounting Policies

These unaudited consolidated condensed accounts (“interim accounts”) are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25: Interim Financial Reporting, issued by the Hong Kong Society of Accountants (“HKSA”).

These condensed accounts should be read in conjunction with the 2001 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st December 2001. The Group has presented its cash flow statement with effect from 1st January 2002 based on SSAP 15 (revised): “Cash flow statements” issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2002. The comparative figures have been reclassified accordingly. In addition, the following SSAPs issued by the HKSA became effective for accounting periods commencing on or after 1st January 2002 are applicable to the Group:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 25 (revised)	:	Interim financial reporting
SSAP 34	:	Employee benefits

The adoption of the above SSAPs has no material effect on the Group’s prior year interim accounts.

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2. Turnover, Revenue and Segment Information

The Group is principally engaged in the manufacturing and trading of motor vehicles, motor vehicle related equipment and parts and audio equipment. An analysis of the Group's turnover and contribution to operating profit for the period by principal activity and market is as follows:

Principal business segments:

	Six months ended 30th June 2002					Group HK\$'000
	Trading of motor vehicles HK\$'000	Manufacturing and assembly of motor vehicles HK\$'000	Manufacturing and trading of automotive equipment and parts HK\$'000	Manufacturing and trading of audio equipment HK\$'000	Other operations HK\$'000	
Turnover	419,177	121,119	27,229	89,698	—	657,223
Segment operating profit/(loss)	5,340	(16,771)	1,924	11,633	(5,962)	(3,836)
Interest income	426	575	205	21	3,923	5,150
Operating profit/(loss)	5,766	(16,196)	2,129	11,654	(2,039)	1,314
Finance costs						(3,653)
Share of profits less losses of						
A jointly controlled entity		564,562				564,562
Associated companies			(4,385)			(4,385)
Non-consolidated subsidiaries			1,020			1,020
Profit before taxation						558,858
Taxation						(41,628)
Profit after taxation						517,230
Minority interests						1,248
Profit attributable to shareholders						518,478

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2. Turnover, Revenue and Segment Information (Continued)

	Six months ended 30th June 2001					Group HK\$'000
	Trading of motor vehicles HK\$'000	Manufacturing and assembly of motor vehicles HK\$'000	Manufacturing and trading of automotive equipment and parts HK\$'000	Manufacturing and trading of audio equipment HK\$'000	Other operations HK\$'000	
Turnover	401,915	91,403	23,634	72,382	—	589,334
Segment operating profit/(loss)	12,611	1,186	(2,129)	9,536	(6,094)	15,110
Interest income	503	426	41	90	9,592	10,652
Operating profit/(loss)	13,114	1,612	(2,088)	9,626	3,498	25,762
Finance costs						(4,182)
Share of profits less losses of						
A jointly controlled entity		366,124				366,124
Associated companies			(3,753)			(3,753)
Non-consolidated subsidiaries			696			696
Profit before taxation						384,647
Taxation						(5,094)
Profit after taxation						379,553
Minority interests						(5,403)
Profit attributable to shareholders						374,150

A jointly controlled entity made sales to a subsidiary of the Company during the period. Unrealised profits resulting from these transactions are immaterial to the interim accounts and eliminated on consolidation. Apart from the aforesaid transactions, there are no sales or other transactions between the business segments.

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2. Turnover, Revenue and Segment Information (Continued)

Principal markets:

	Six months ended 30th June 2002		
	Turnover	Segment operating profit/(loss)	Operating profit/(loss)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Mainland China	563,264	(8,961)	(6,844)
Hong Kong	89,699	4,715	7,748
Australia	4,260	410	410
	<u>657,223</u>	<u>(3,836)</u>	<u>1,314</u>
	Six months ended 30th June 2001		
	Turnover	Segment operating profit/(loss)	Operating profit/(loss)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Mainland China	511,917	12,512	13,802
Hong Kong	72,382	2,801	12,158
Australia	5,035	(203)	(198)
	<u>589,334</u>	<u>15,110</u>	<u>25,762</u>

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

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3. Operating Profit

Operating profit is stated after crediting and charging the following:

	Six months ended 30th June	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Crediting		
Gain on disposal of part of the interest in a subsidiary to a shareholder	6,020	—
Gain on reversal of losses previously consolidated on liquidation of subsidiaries	2,796	—
Charging		
Amortisation of goodwill	766	826
Depreciation of fixed assets	6,115	5,427
Loss on liquidation of subsidiaries	—	643
Write-off of interest in a non-consolidated subsidiary	4,333	—
Factory relocation expenses	2,400	—
Provision for doubtful debts	5,521	—
	<u><u> </u></u>	<u><u> </u></u>

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4. Taxation

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

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

	Six months ended 30th June	
	2002	2001
	HK\$'000	HK\$'000
Hong Kong profits tax	770	20
Overseas taxation	1,496	5,074
Deferred taxation	(310)	—
	<hr/>	<hr/>
Share of taxation attributable to	1,956	5,094
A jointly controlled entity	39,561	—
Associated companies	111	—
	<hr/>	<hr/>
	41,628	5,094
	<hr/> <hr/>	<hr/> <hr/>

There was no material unprovided deferred taxation for the period.

5. Dividends

(a) The dividends on the condensed consolidated balance sheet represent:

	As at	As at
	30th June	31st December
	2002	2001
	HK\$'000	HK\$'000
2001 proposed final dividend	—	100,794
Declared interim dividend (note (b) below)	100,794	—
	<hr/>	<hr/>
	100,794	100,794
	<hr/> <hr/>	<hr/> <hr/>

(b) At a meeting held on 18th September 2002, the directors declared an interim dividend of HK3 cents per ordinary share for the year ending 31st December 2002. This interim dividend is not reflected as a dividend payable in these condensed accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2002 (2001: HK2 cents per share totalling HK\$66,901,000). The interim dividend will be payable on 18th October 2002 to shareholders whose name appear on the register of members of the Company on 7th October 2002.

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6. Earnings Per Share

The calculation of basic earnings per share is based on the consolidated profit attributable to the shareholders of HK\$518,478,000 (2001: HK\$374,150,000) and the weighted average number of 3,359,788,267 (2001: 3,270,341,455) shares in issue during the six months ended 30th June 2002.

The fully diluted earnings per share is not disclosed as it would not be materially different from the basic earnings per share had it been calculated based on 3,360,583,346 (2001: 3,330,069,773) ordinary shares which represents the weighted average number of ordinary shares in issue during the period plus the weighted average number of 795,079 (2001: 59,728,318) ordinary shares deemed to be issued at nil consideration if all outstanding options had been exercised.

7. Intangible Asset

	<i>HK\$'000</i>
Goodwill	
Net book value as at 31st December 2001	29,125
Movement during the period	
Amorisation	(766)
	<u> </u>
Net book value as at 30th June 2002	<u><u>28,359</u></u>

8. Capital Expenditure

	<i>HK\$'000</i>
Property, plant and equipment	
Net book value as at 31st December 2001	161,105
Movements during the period	
Additions	18,220
Disposals	(19,653)
Depreciation	(6,115)
	<u> </u>
Net book value as at 30th June 2002	<u><u>153,557</u></u>

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9. Interest in a Jointly Controlled Entity

Financial information of Guangzhou Honda, a jointly controlled entity incorporated in the PRC prepared in accordance with accounting principles generally accepted in Hong Kong, is as follows:

	Unaudited As at 30th June 2002 <i>HK\$'000</i>	Audited As at 31st December 2001 <i>HK\$'000</i>
Intangible assets*	405,938	422,693
Fixed assets	1,505,334	1,332,460
Net current assets	1,769,109	1,171,915
Minority interests	(6,213)	(3,414)
Long-term liabilities	—	(2,930)
Shareholders' funds	<u>3,674,168</u>	<u>2,920,724</u>
	Unaudited Six months ended 30th June 2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Turnover	<u>5,875,461</u>	<u>5,251,775</u>
Profit for the period before minority interests	1,105,273	771,140
Minority interests	(8)	(352)
Profit for the period	<u>1,105,265</u>	<u>770,788</u>

The jointly controlled entity represents a 50% equity interest in the equity capital, voting power and profit sharing of Guangzhou Honda which is in turn owned by a 95% interest subsidiary, Guangzhou Auto Group Corporation. It is principally engaged in the manufacturing and assembly of motor vehicles. The Group's investment cost in this company is HK\$514,333,000 (31st December 2001: HK\$514,333,000). The Group has no unilateral control over the joint venture company. The joint venture period is 30 years from May 1998.

- * Included in this balance is goodwill approximately HK\$331,365,000 (2001: HK\$341,396,000) arising from the acquisition of motor vehicles manufacturing business and production plant in Guangzhou by the jointly controlled entity.

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10. Trade and Other Receivables

Included in this balance are trade receivables of approximately HK\$129,444,000 (2001: HK\$ 135,644,000). At 30th June 2002, the ageing analysis of the trade receivables, net of provision, is as follows:

	As at 30th June 2002 <i>HK\$'000</i>	As at 31st December 2001 <i>HK\$'000</i>
1-3 months	76,505	104,865
4-6 months	2,085	9,934
7-12 months	41,608	11,687
Over 12 months	9,246	9,158
	<u>129,444</u>	<u>135,644</u>

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

11. Trade and Other Payables

Included in this balance are trade payables of approximately HK\$216,060,000 (2001: HK\$ 235,517,000). At 30th June 2002, the ageing analysis of the trade payables is as follows:

	As at 30th June 2002 <i>HK\$'000</i>	As at 31st December 2001 <i>HK\$'000</i>
1-3 months	210,171	233,292
4-6 months	3,215	415
7-12 months	897	6
Over 12 months	1,777	1,804
	<u>216,060</u>	<u>235,517</u>

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12. Long-term Liabilities

	<i>Note</i>	As at 30th June 2002 HK\$'000	As at 31st December 2001 HK\$'000
Bank loans and overdrafts, secured	(a)	80,267	130,400
Other loans	(b)	2,410	2,410
		82,677	132,810
Current portion of long-term liabilities		(63,434)	(113,060)
		19,243	19,750

(a) At 30th June 2002, the bank loans and overdrafts were repayable as follows:

	As at 30th June 2002 HK\$'000	As at 31st December 2001 HK\$'000
Within one year	61,024	110,650
In the second year	4,805	3,764
In the third to fifth year inclusive	9,277	10,282
After the fifth year	5,161	5,704
	80,267	130,400
Less: portion due within one year included in current liabilities	(61,024)	(110,650)
	19,243	19,750

Included in the above balance, amounts totalling HK\$22,635,000 (2001: HK\$64,591,000) were secured by certain land and buildings, investment properties and bank balances of the Group.

(b) At 30th June 2002, other loans mainly represent unsecured loans granted by third parties. Such loans bear interest at prevailing market rates and are wholly repayable within one year.

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13. Share Capital

	Ordinary shares of HK\$0.1 each	
	Number of shares	<i>HK\$'000</i>
Authorised:		
At 1st January 2002 and 30th June 2002	<u>4,000,000,000</u>	<u>400,000</u>
Issued and fully paid:		
At 1st January 2002 and 30th June 2002	<u>3,359,788,267</u>	<u>335,979</u>

14. Contingent Liabilities

	Unaudited As at 30th June 2002 <i>HK\$'000</i>	Audited As at 31st December 2001 <i>HK\$'000</i>
Guarantees for bank loans borrowed by a non-consolidated subsidiary	<u>15,967</u>	<u>1,907</u>

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15. Commitments

(a) Commitments under operating leases

At 30th June 2002, the Group had total future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Unaudited	Audited
	As at	As at
	30th June	31st December
	2002	2001
	HK\$'000	HK\$'000
Within one year	10,129	7,525
In the second to fifth year inclusive	27,690	17,944
After the fifth year	18,443	15,918
	<u>56,262</u>	<u>41,387</u>

(b) Capital commitments for property, plant and equipment

At 30th June 2002, the Group had capital commitments in respect of purchase of fixed assets as follows:

	Unaudited	Audited
	As at	As at
	30th June	31st December
	2002	2001
	HK\$'000	HK\$'000
Contracted but not provided for	<u>—</u>	<u>3,393</u>

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16. Related Party Transactions

Save as disclosed elsewhere in these condensed accounts, the following is a summary of significant related party transactions which were carried out in the normal course of the Group's business during the period:

	Unaudited	
	Six months ended 30th June	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales to a jointly controlled entity	1,466	1,559
Purchase from a jointly controlled entity	163,721	185,771
Disposal of fixed assets to a jointly controlled entity	5,445	—
Compensation received from a jointly controlled entity for the relocaton of office and production plant of a subsidiary	18,692	—
Sales of part of the interest in a subsidiary to a shareholder	49,724	—
	<u>49,724</u>	<u>—</u>

The directors are of the opinion that the above transactions were conducted in the normal course of business at prices and terms no less favourable than those charged to and contracted with other third party customers of the Group.