

INTERIM RESULTS

The Directors of Denway Motors Limited (the “Company”) announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) and its share of the results of a jointly controlled entity, associated companies and non-consolidated subsidiaries for the six months ended 30th June 2003 together with comparative figures for the corresponding period in 2002 as follows:

Condensed Consolidated Profit and Loss Account

For the six months ended 30th June 2003

		Unaudited	
		Six months ended 30th June	
		2003	2002
	Note	HK\$'000	HK\$'000
Turnover	2	719,890	657,223
Cost of sales		(654,562)	(591,187)
Gross profit		65,328	66,036
Other revenues		10,178	10,269
Selling and distribution costs		(10,697)	(10,561)
General and administrative expenses		(61,093)	(68,913)
Other operating (expenses)/income, net		(3,230)	4,483
Operating profit	3	486	1,314
Finance costs		(1,767)	(3,653)
Share of profits less losses of:			
A jointly controlled entity	9	739,988	564,562
Associated companies		1,262	(4,385)
Non-consolidated subsidiaries		1,207	1,020
Profit before taxation		741,176	558,858
Taxation	4	(65,364)	(41,628)
Profit after taxation		675,812	517,230
Minority interests		(1,483)	1,248
Profit attributable to shareholders		674,329	518,478
Interim dividend	5	139,668	101,177
Interim dividend per share	5	4.00 cents	3.00 cents
Basic earnings per share	6	19.72 cents	15.43 cents

Condensed Consolidated Balance Sheet

As at 30th June 2003

		Unaudited	Audited
		As at	As at
		30th June	31st December
		2003	2002
	<i>Note</i>	HK\$'000	HK\$'000
Intangible asset	7	26,819	27,592
Fixed assets	8	252,540	143,613
Interest in a jointly controlled entity	9	2,345,893	2,161,095
Interests in associated companies		5,846	6,255
Interests in non-consolidated subsidiaries		29,919	20,495
Investment securities		3,980	2,643
Current assets			
Inventories		192,517	160,352
Trade and other receivables	10	244,599	182,087
Cash and bank balances			
- pledged		67,160	52,636
- others		1,512,794	1,183,491
		<u>2,017,070</u>	<u>1,578,566</u>
Current liabilities			
Trade and other payables	11	397,977	254,438
Trust receipt loans		5,374	11,769
Taxation		10,567	8,814
Current portion of long-term liabilities	12	15,293	42,564
		<u>429,211</u>	<u>317,585</u>
Net current assets		<u>1,587,859</u>	<u>1,260,981</u>
Total assets less current liabilities		<u>4,252,856</u>	<u>3,622,674</u>
Financed by:			
Share capital	13	341,879	341,810
Reserves			
Proposed final dividend		—	136,724
Others		3,715,203	3,017,528
Shareholders' funds		4,057,082	3,496,062
Minority interests		181,999	109,107
Long-term liabilities	12	12,884	16,614
Deferred taxation		891	891
		<u>4,252,856</u>	<u>3,622,674</u>

Condensed Consolidated Cash Flow Statement

For the six months ended 30th June 2003

	Unaudited	
	Six months ended 30th June	
	2003	2002
	HK\$'000	HK\$'000
Net cash inflow from operating activities	61,966	6,138
Net cash inflow from investing activities	369,291	173,599
Net cash outflow from financing activities	(101,954)	(150,531)
Increase in cash and cash equivalents	329,303	29,206
Cash and cash equivalents at the beginning of the period	1,183,491	859,865
Cash and cash equivalents at the end of the period	1,512,794	889,071
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	1,512,794	889,071

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June 2003

	Unaudited					Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Retained profit HK\$'000	Capital reserves HK\$'000	
Balance at 1st January 2002	335,979	1,751,039	(31,159)	169,468	255,108	2,480,435
Exchange difference on translation of accounts of foreign subsidiaries, associated companies and a jointly controlled entity	—	—	(93)	—	(8)	(101)
Profit for the period	—	—	—	518,478	—	518,478
Transfer to profit and loss account upon liquidation of subsidiaries	—	—	(1)	—	(12)	(13)
2001 final dividend paid	—	—	—	(100,794)	—	(100,794)
Transfer to capital reserve	—	—	—	(20,685)	20,685	—
Balance at 30th June 2002	<u>335,979</u>	<u>1,751,039</u>	<u>(31,253)</u>	<u>566,467</u>	<u>275,773</u>	<u>2,898,005</u>
Balance at 1st January 2003	341,810	1,870,802	(31,056)	902,581	411,925	3,496,062
Issue of shares	69	1,425	—	—	—	1,494
Exchange difference on translation of accounts of foreign subsidiaries, associated companies and a jointly controlled entity	—	—	21,882	—	66	21,948
Profit for the period	—	—	—	674,329	—	674,329
2002 final dividend paid	—	—	—	(136,751)	—	(136,751)
Balance at 30th June 2003	<u>341,879</u>	<u>1,872,227</u>	<u>(9,174)</u>	<u>1,440,159</u>	<u>411,991</u>	<u>4,057,082</u>

Notes to Condensed Interim Accounts

30th June 2003

1. Basis of Preparation and Accounting Policies

These unaudited consolidated condensed interim accounts (“condensed 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 interim accounts should be read in conjunction with the 2002 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31st December 2002 except that the Group has changed its accounting policy following its adoption of SSAP 12 (revised) “Income Taxes” issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2003.

Under SSAP 12 (revised), deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

In prior year, deferred taxation was 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 was expected to be payable or recoverable in the foreseeable future. The adoption of the SSAP 12 (revised) represents a change in accounting policy, but has no material effect on the Group’s result.

Notes to Condensed Interim Accounts

30th June 2003

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 2003					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	521,712	88,614	27,272	82,292	—	719,890
Segment operating profit/(loss)	6,385	(14,074)	948	9,896	(9,039)	(5,884)
Interest income	618	379	2,950	51	2,372	6,370
Operating profit/(loss)	7,003	(13,695)	3,898	9,947	(6,667)	486
Finance costs						(1,767)
Share of profits less losses of:						
A jointly controlled entity		739,988				739,988
Associated companies	1,262					1,262
Non-consolidated subsidiaries			1,207			1,207
Profit before taxation						741,176
Taxation						(65,364)
Profit after taxation						675,812
Minority interests						(1,483)
Profit attributable to shareholders						674,329

Notes to Condensed Interim Accounts

30th June 2003

2. Turnover, Revenue and Segment Information (Continued)

Principal business segments: (Continued)

	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

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. Apart from the aforesaid transactions, there were no sales or other transactions between the business segments.

Notes to Condensed Interim Accounts

30th June 2003

2. Turnover, Revenue and Segment Information (Continued)

Principal markets:

	Six months ended 30th June 2003		
	Turnover <i>HK\$'000</i>	Segment operating profit/(loss) <i>HK\$'000</i>	Operating profit/(loss) <i>HK\$'000</i>
People's Republic of China ("PRC")	631,895	(7,070)	(3,123)
Hong Kong	82,292	857	3,280
Australia	5,703	329	329
	<u>719,890</u>	<u>(5,884)</u>	<u>486</u>

	Six months ended 30th June 2002		
	Turnover <i>HK\$'000</i>	Segment operating profit/(loss) <i>HK\$'000</i>	Operating profit/(loss) <i>HK\$'000</i>
PRC	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>

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

Notes to Condensed Interim Accounts

30th June 2003

3. Operating Profit

Operating profit is stated after crediting and charging the following:

	Six months ended 30th June	
	2003	2002
	HK\$'000	HK\$'000
Crediting		
Gain on disposal of a partial interest in a subsidiary	—	6,020
Gain on liquidation of subsidiaries	—	2,796
Charging		
Amortisation of goodwill	773	766
Depreciation of fixed assets	6,413	6,115
Write-off of interest in a non-consolidated subsidiary	—	4,333
Factory relocation expenses	—	2,400
Provision for doubtful debts	403	5,521
Staff costs (including directors' emoluments)	39,207	40,550
	<u> </u>	<u> </u>

4. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the period. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. 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	
	2003	2002
	HK\$'000	HK\$'000
Hong Kong profits tax	689	770
Overseas taxation	4,051	1,496
Deferred taxation	—	(310)
	<u> </u>	<u> </u>
	4,740	1,956
Share of taxation attributable to		
A jointly controlled entity	60,435	39,561
Associated companies	189	111
	<u> </u>	<u> </u>
	65,364	41,628
	<u> </u>	<u> </u>

Notes to Condensed Interim Accounts

30th June 2003

4. Taxation (Continued)

There was no material unprovided deferred taxation for the period.

The taxation on the Group's profit before taxation is not materially different from the theoretical amount that would arise using the taxation rate of the PRC of a jointly controlled entity.

5. Interim Dividend

(a) The declared interim dividend was as follows:

	Six months ended 30th June	
	2003	2002
	HK\$'000	HK\$'000
2003 interim, declared of HK4 cents per ordinary share (2002: HK3 cents per ordinary share)	139,668	101,177

(b) At a meeting held on 17th September 2003, the Directors declared an interim dividend of HK4 cents per ordinary share for the year ending 31st December 2003. This interim dividend is not reflected as a dividend payable in these condensed interim accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2003 (2002: HK3 cents per share totalling HK\$101,177,000). The interim dividend will be payable on 15th October 2003 to shareholders whose name appear on the register of members of the Company on 6th October 2003.

6. Earnings Per Share

The calculation of basic earnings per share is based on the consolidated profit attributable to the shareholders of HK\$674,329,000 (2002: HK\$518,478,000) and the weighted average number of 3,418,733,289 (2002: 3,359,788,267) shares in issue during the six months ended 30th June 2003.

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 3,428,089,652 (2002: 3,360,583,346) ordinary shares which represents the weighted average number of ordinary shares in issue during the period plus the weighted average number of 9,356,363 (2002: 795,079) ordinary shares deemed to be issued at nil consideration if all outstanding options had been exercised.

Notes to Condensed Interim Accounts

30th June 2003

7. Intangible Asset*HK\$'000***Goodwill**

Net book value as at 31st December 2002	27,592
Movement during the period	
Amorisation	(773)
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Net book value as at 30th June 2003	<u>26,819</u>

8. Fixed Assets*HK\$'000*

Net book value as at 31st December 2002	143,613
Movements during the period	
Additions	118,344
Disposals	(3,620)
Depreciation	(6,413)
Exchange differences	616
	<hr/>
Net book value as at 30th June 2003	<u>252,540</u>

Notes to Condensed Interim Accounts

30th June 2003

9. Interest in a Jointly Controlled Entity

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

	Unaudited	Audited
	As at	As at
	30th June	31st December
	2003	2002
	HK\$'000	HK\$'000
Fixed assets	2,839,525	1,873,436
Intangible assets*	407,403	417,589
Current assets	5,274,552	3,645,343
Current liabilities	(3,576,162)	(1,402,506)
Minority interests	(5,645)	(5,283)
Long-term liabilities	(951)	—
Shareholders' funds	4,938,722	4,528,579
	Unaudited	
	Six months ended 30th June	
	2003	2002
	HK\$'000	HK\$'000
Turnover	8,818,106	5,875,461
Profit for the period	1,430,637	1,105,265

This is a sino-foreign equity joint-venture in which 50% of the equity capital, voting power and profit sharing is held by a 95% directly owned subsidiary of the Company (Refer to 2002 annual report for details). The Group's investment cost in this company is HK\$514,333,000 (2002: 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 of approximately HK\$313,775,000 (2002: HK\$321,324,000) arising from the acquisition of motor vehicle manufacturing business and production plant in Guangzhou by the jointly controlled entity.

Notes to Condensed Interim Accounts

30th June 2003

10. Trade and Other Receivables

Included in this balance are trade receivables of approximately HK\$83,502,000 (2002: HK\$95,444,000). At 30th June 2003, the ageing analysis of the trade receivables, net of provision, is as follows:

	Unaudited	Audited
	As at	As at
	30th June	31st December
	2003	2002
	HK\$'000	HK\$'000
Within 3 months	70,716	75,901
4-6 months	939	6,617
7-12 months	5,779	151
Over 12 months	6,068	12,775
	<u>83,502</u>	<u>95,444</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\$87,432,000 (2002: HK\$76,675,000). At 30th June 2003, the ageing analysis of the trade payables is as follows:

	Unaudited	Audited
	As at	As at
	30th June	31st December
	2003	2002
	HK\$'000	HK\$'000
Within 3 months	78,099	69,277
4-6 months	4,989	4,376
7-12 months	1,951	96
Over 12 months	2,393	2,926
	<u>87,432</u>	<u>76,675</u>

Notes to Condensed Interim Accounts

30th June 2003

12. Long-term Liabilities

	<i>Note</i>	Unaudited As at 30th June 2003 HK\$'000	Audited As at 31st December 2002 HK\$'000
Bank loans, secured	(a)	28,177	59,178
Current portion of long-term liabilities		(15,293)	(42,564)
		12,884	16,614

(a) At 30th June 2003, the bank loans were repayable as follows:

	Unaudited As at 30th June 2003 HK\$'000	Audited As at 31st December 2002 HK\$'000
Within one year	15,293	42,564
In the second year	4,005	4,709
In the third to fifth year inclusive	5,094	7,867
After the fifth year	3,785	4,038
	28,177	59,178
Less: portion due within one year included in current liabilities	(15,293)	(42,564)
	12,884	16,614

Included in the above balance are amounts totalling HK\$17,564,000 (2002: HK\$20,585,000) which are secured by certain land and buildings, investment properties and bank balances of the Group.

Notes to Condensed Interim Accounts

30th June 2003

13. Share Capital

	Ordinary shares of HK\$0.1 each	
	Number of shares	<i>HK\$'000</i>
Authorised:		
At 31st December 2002 and 30th June 2003	<u>4,000,000,000</u>	<u>400,000</u>
Issued and fully paid:		
At 31st December 2002	3,418,098,267	341,810
Exercise of options	<u>693,000</u>	<u>69</u>
At 30th June 2003	<u>3,418,791,267</u>	<u>341,879</u>

14. Contingent Liabilities

	Unaudited As at 30th June 2003 <i>HK\$'000</i>	Audited As at 31st December 2002 <i>HK\$'000</i>
Guarantees for bank loans borrowed by a non-consolidated subsidiary	<u>14,414</u>	<u>16,252</u>

Notes to Condensed Interim Accounts

30th June 2003

15. Commitments

(a) Commitments under operating leases

At 30th June 2003, 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
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	8,156	8,501
In the second to fifth year inclusive	29,451	32,406
After the fifth year	42,947	44,410
	<u>80,554</u>	<u>85,317</u>

(b) Capital commitments for property, plant and equipment

At 30th June 2003, the Group had capital commitments in respect of purchase of fixed assets as follows:

	Unaudited	Audited
	As at	As at
	30th June	31st December
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted but not provided for	31,757	2,201
	<u>31,757</u>	<u>2,201</u>

Notes to Condensed Interim Accounts

30th June 2003

16. Related Party Transactions

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	
	2003	2002
	HK\$'000	HK\$'000
Sales to a jointly controlled entity	737	1,466
Purchases from a jointly controlled entity	290,934	163,721
Disposal of fixed assets to a jointly controlled entity	—	5,445
Compensation received from a jointly controlled entity for the relocation of office and production plant of a subsidiary	—	18,692
Disposal of a partial interest in a subsidiary to an intermediate holding company	—	49,724
	<u> </u>	<u> </u>

These transactions were conducted in accordance with the terms as disclosed in the 2002 annual report.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 6th October 2003 to Wednesday, 8th October 2003, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrars, Abacus Share Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 3rd October 2003.

BUSINESS REVIEW

For the six months ended 30th June 2003, the Group's total turnover was HK\$719,890,000 (2002: HK\$657,223,000), the unaudited interim consolidated profit attributable to shareholders was HK\$674,329,000 (2002: HK\$518,478,000). Earnings per share was HK19.72 cents (2002: HK 15.43 cents).

In the first half of this year, despite the impact of "SARS", the auto industry of the PRC recorded a sustained growth at high speed with a total output of approximately two million and eighty thousand vehicles, an increase of approximately 34% over the same period of last year, and the production of sedans had even hit historical high monthly production record for four consecutive months. On the basis of a "blow out" in the sales of sedans last year as revealed in statistical data, the accumulated output of sedans nationwide in the first half of this year amounted to approximately 900,000 vehicles, an increase of approximately 95% over the same period of last year. The sedans production growth has surpassed the non-sedan categories and continues to contribute to the growth of the entire auto industry, thus becoming the engine driving the growth of the auto industry.

For the six months ended 30th June 2003, the Company through its jointly controlled entity (hereinafter called the Sedan Company) and its subsidiary (hereinafter called the Bus Company) together produced and sold 48,913 vehicles and 48,848 vehicles, representing an increase of approximately 71% and 73% respectively over the same period of last year; of which 48,424 and 48,436 sedans were produced and sold respectively, representing an increase of approximately 72% and 74% respectively over the same period of last year. Production and sales of buses amounted to 489 vehicles and 412 vehicles respectively, representing an increase of approximately 33% in production over the same period of last year and a decrease of approximately 19% in sales over the same period of last year. As for other business operations of the Group including the trading of motor vehicles, manufacturing and trading of automotive equipment and parts and manufacture and trading of audio equipment, all the targets set out in the medium-term plan have been achieved.

FUTURE PROSPECTS

From the sales trend of motor vehicles made in China for the first six months of this year, it is estimated that for the whole year of 2003, sales of motor vehicles in China nationwide will surpass 4 million vehicles to rank fourth in the world auto market, of which sedans will top between 1.6 million and 1.8 million vehicles, representing a great leap forward in growth over the previous year. In a significant period of time ahead, sedans industry will be a driving force for the fast growth of the auto industry of the PRC, and the auto industry will continue to be key industry which provides momentum for the growth of the economy of the PRC.

The Sedan Company will endeavour in preparing for the production of new models in accordance with decision made by the Board of the Sedan Company and the market demand. It will be in full swing to proceed with the expansion in production capacity, and implement stringent cost control for its products, whereas on the other hand it will also be well-prepared in logistics, training of human resources and sales in support of the expanded production capacity. The Bus Company will endeavour to ensure that the company's relocation and trial production will be effected during the year, thereby laying a solid foundation in preparation for the year to come.

The Group will continue to seek investment opportunities of better returns with focus on the vehicle business, and the Board believes that the Group will be able to grasp any opportunity arising and speed up the development process, thereby creating admirable return for the shareholders.

FINANCIAL SUMMARY

The Group's turnover for the six months ended 30th June 2003 was about HK\$719,890,000, representing 9.5% higher than that in the same period of 2002. The major turnover of the trading of motor vehicles increased of about 24.5% compared to that of 2002 and reached around HK\$521,712,000. The second major revenue source of the Group was the manufacturing and assembly of motor vehicles maintained at around HK\$88,614,000 was decreased by about 26.8% compared to that of 2002. It was due to the reason of the relocation of the factory and its turnover was accordingly reduced. The orders on hand of the Group for the business of the trading of motor vehicles, the manufacturing and assembly of motor vehicles, and the manufacturing and trading of audio equipment were about RMB10,656,000 (or equivalent to HK\$10,039,000), RMB33,650,000 (or equivalent to HK\$31,700,000) and HK\$22,850,000 respectively as at 30th June 2003.

The total bank loans and other loans of the Group further decreased by around HK\$31,001,000 during the six months period and reached HK\$28,177,000 from the balance of HK\$59,178,000 as at 31st December 2002. The ratio of bank borrowings and other loans relative to total equity was continuously decreased to only 0.7% as at 30th June 2003 from 1.7% as at 31st December 2002. The ratio of total liabilities (including minority interests) relative to total equity was slightly increased to 15.4% from the ratio of 12.7% as at 31st December 2002.

The Group's bank borrowings were secured by land and buildings and investment properties with a total net book value of HK\$17,564,000 and bank balance of HK\$67,160,000. At 30th June 2003, the Group had contingent liabilities of about HK\$14,414,000 which mainly represented guarantees for bank loans borrowed by a non-consolidated subsidiary.

As at 30th June 2003, the Group had cash and cash equivalents of about HK\$1,579,954,000, included the pledged bank balance of HK\$67,160,000. This had included the cash inflow from operating activities of around HK\$61,966,000.

During the first six months in 2003, general and administrative expenses for the Group decreased by about HK\$7,820,000 and reached HK\$61,093,000. These expenses were always tightly controlled by the Group. The finance cost further reduced to around HK\$1,767,000, since the bank borrowings were reduced by about 52.4% compared to that of 2002. The interest cover also increased to a recorded high level of 420 multiples from the high level of 154 multiples of the same period of 2002. The Group did not experience significant exchange rate fluctuation in terms of Renminbi, the major operating currency of the Group during the first six months in 2003.

Share of profits of non-consolidated subsidiaries was around HK\$1,207,000 for the six months ended 30th June 2003, representing an increase of about 18.3% compared to that of the same period of 2002. Share of results of associated companies turned from losses to profits compared to that of 2002 and registered around HK\$1,262,000.

EMPLOYEES AND REMUNERATION POLICY

As at 30th June 2003, the Group employed approximately 2,900 (2002: 2,900) staff in the PRC and Hong Kong.

The remuneration package adopted by the Group includes discretionary bonus and share options being granted to eligible staff based on the Group's performance and individual performance. Staff training and development programs are conducted on a regular basis. The Group's staff costs (including directors' emoluments) for the six months ended 30th June 2003 amounted to approximately HK\$39,207,000 (2002:HK\$40,550,000).

SHARE OPTION SCHEMES

The share option scheme which was adopted by the Company on 1st February 1993 ("Old Scheme") was originally due to expire on 31st January 2003. As a result of certain changes to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), the Directors proposed and the shareholders in general meeting approved on 6th June 2002 early termination of the Old Scheme and adoption of a new share option scheme ("New Scheme"). After termination of the Old Scheme, no more option can be granted pursuant to the Old Scheme, and in respect of all the outstanding options granted under the Old Scheme, the provisions of the Old Scheme shall remain in force.

Information disclosed in accordance with the Listing Rules in relation to share option schemes is as follows :

1. Options granted under the Old Scheme :

Name	Number of options			
	As at 1st January 2003	Exercised during the period	Lapsed during the period	As at 30th June 2003
Aggregate total of employees	784,000	693,000	91,000	—

Notes :

- (1) The above options were granted on 18th July 2001 at an exercise price of HK\$2.156 per share for an exercise period commencing on the expiry of six months after the date of grant of the options, and would expire on 31st January 2003. The consideration paid by each grantee for the option granted was HK\$1.
- (2) No option was granted or cancelled during the period.
- (3) The weighted average closing price per share immediately before the date on which the options were exercised was HK\$2.661.

2. Options granted under the New Scheme :

Name	Number of options		
	As at 1st January 2003	Granted during the period	As at 30th June 2003
Aggregate total of employees	—	275,342,000	275,342,000

Notes :

- (1) The above options were granted on 9th May 2003 at an exercise price of HK\$2.65 per share for an exercise period of three years from the date of grant of the options and shall expire at the end of three years' period. The consideration paid by each grantee for the option granted was HK\$1. The closing price of the share immediately before the date on which the options were granted was HK\$2.70.
- (2) No option was exercised, lapsed or cancelled during the period.
- (3) The Directors consider it inappropriate to value the options granted during the period as a number of factors critical for the valuation cannot be determined accurately. Any valuation of the options based on various speculative assumptions would be meaningless and could be misleading to the shareholders. The Directors therefore consider the disclosure of only the relevant market price and exercise price, which are readily ascertainable, will be appropriate.

DIRECTORS' INTERESTS IN SHARES

As at 30th June 2003, the interest of Directors in the shares of the Company as recorded in the register maintained under section 352 of The Securities and Futures Ordinance ("SFO") were as follows :

Name of Director	Number of shares of the Company Personal interest (as Beneficial Owner)	Percentage of shareholding as at 30th June, 2003
ZHANG Fangyou	1,920,000	0.06%
LU Zhifeng	1,730,000	0.05%

Save as disclosed herein, as at 30th June 2003, none of the Directors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Apart from the share option schemes, at no time during the six months ended 30th June 2003 was the Company or its holding companies or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

During the six months ended 30th June 2003, no rights to subscribe for equity or debt securities of the Company has been granted by the Company to, nor have any such rights been exercised by, any Directors and chief executives of the Company. As at 30th June 2003, none of the Directors had any outstanding option granted under the Old or the New Scheme.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 30th June 2003, the corporations having an interest in 5% or more of the issued share capital of the Company as recorded in the register of interests in shares and short positions required to be kept under Section 336 of the Part XV of SFO were as follows :

Name	Number of shares of the Company		Percentage of total shareholding as at 30th June 2003		Notes
	Long position	Lending pool	Long position	Lending pool	
Guangzhou Automobile Industry Group Co. Ltd. ("Guangzhou Automobile Industry")	1,387,872,452	—	40.60%	—	(a)
Guangzhou Automobile Group Co. Ltd. ("Guangzhou Automobile")	1,387,872,452	—	40.60%	—	(b)
China Lounge Investments Limited ("China Lounge Investments")	1,387,872,452	—	40.60%	—	(c)
J.P. Morgan Chase & Co. ("J.P. Morgan")	308,973,000	97,650,000	9.04%	2.86%	(d)

Notes :

- (a) The interest of Guangzhou Automobile Industry represents the total number of shares of the Company held by certain subsidiaries of Guangzhou Automobile Industry where Guangzhou Automobile Industry is taken to be interested in such shares under Part XV of SFO.
- (b) Guangzhou Automobile is a wholly-owned subsidiary of Guangzhou Automobile Industry and its interests in the shares of the Company is duplicated in the interest of Guangzhou Automobile Industry.
- (c) China Lounge Investments is a wholly-owned subsidiary of Guangzhou Automobile and its interest in the shares of the Company is duplicated in the interests of Guangzhou Automobile.
- (d) The interest of J.P. Morgan (which was held in the capacity of beneficial owner, investment manager and other) was attributable on account through a number of wholly-owned subsidiaries and non-wholly owned subsidiaries, including JF Asset Management Limited (99.99% control) and J.P. Morgan Securities Ltd. (90% control).

Save as disclosed herein, no other person was recorded in the register of interests in shares and short positions maintained under Section 336 of Part XV of the SFO as having an interest in 5% or more of the issued share capital of the Company as at 30th June 2003.

PURCHASE, SALE OR REDEMPTION OF THE SHARES OF THE COMPANY

During the six months ended 30th June 2003, the Company has not redeemed any of its shares. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

PRACTICE NOTE 19 OF THE LISTING RULES

As at 30th June 2003, the Group had provided given guarantees for bank loans in the aggregate sum of RMB15,300,000 (or equivalent to HK\$14,414,000). The financial assistance given to the above company during the period or as at 30th June 2003, in aggregate, represented less than 25% of the consolidated net tangible assets of the Group at the balance sheet date. Accordingly, no separate disclosure in accordance with the requirements under Practice Note 19 of the Listing Rules is provided.

CODE OF BEST PRACTICE

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th June 2003, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules except that the Independent Non-Executive Directors of the Company are not appointed for a specific term as they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association. The audit committee was established with written terms of reference which deal clearly with its authority and duties in pursuance of paragraph 14 of Appendix 14 of the Listing Rules. Amongst the audit committee's principal duties are the review and supervision of the Company's financial reporting process and internal control systems, including the review of the Company's condensed interim accounts for the six months ended 30th June 2003.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

The 2003 Interim Report of the Company containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange in due course.

By the Order of the Board
Zhang Baoqing
Deputy Managing Director

17th September 2003, Hong Kong