

## NOTES TO CONDENSED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

The unaudited condensed financial statements have been prepared under the historical cost convention.

The unaudited condensed financial statements have been prepared in accordance with the accounting policies consistent with those adopted by the Group in its financial statements for the year ended 31st December, 2003.

### 2. BUSINESS AND GEOGRAPHICAL SEGMENTS

#### Business segments

For management purposes, the Group is organised into three operating divisions which are the basis for the Group reporting its primary segment information as follows:

Automobile – manufacturing and trading of automobile parts and related automobile components

Information technology – information technology and related business

Investment holding – investment holding and others

On 30th March 2004, the Group disposes its entire 51% interest in Deep Treasure Investments Limited and its subsidiaries ("Deep Treasure Group").

## 2. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Thus, the operations of information technology was discontinued accordingly.

For the period ended 30th June, 2004

	Continuing operations		Discontinuing operations	Consolidated HK\$'000
	Automobile HK\$'000	Investment holding HK\$'000	Information technology HK\$'000	
<b>REVENUE</b>				
External sales	14,663	–	9,220	23,883
<b>RESULT</b>				
Segment result	189	(1)	(787)	(599)
Unallocated corporate expenses				(5,763)
Loss from operations				(6,362)
Finance costs	–	–	(53)	(53)
Share of profits of associates	57,877	–	47	57,924
Gain on disposal of subsidiaries	–	–	3,189	3,189
Profit before taxation				54,698
Income tax expenses	(524)	–	–	(524)
Profit before minority interests				54,174

## 2. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

For the period ended 30th June, 2003

	Continuing operations		Discontinuing operations	Consolidated HK\$'000
	Automobile HK\$'000	Investment holding HK\$'000	Information technology HK\$'000	
REVENUE				
External sales	—	—	15,619	15,619
RESULT				
Segment result	—	(8)	(1,644)	(1,652)
Unallocated corporate expenses				(4,489)
Loss from operations				(6,141)
Finance costs	—	—	(56)	(56)
Share of profits of associates	5,400	—	—	5,400
Profit before taxation				(797)
Income tax expenses				—
Profit before minority interests				(797)

### Geographical segments

The Group's activities and operations are based in the People's Republic of China (the "PRC"), including Hong Kong. Accordingly, a geographical analysis is not presented.

## 3. LOSS FROM OPERATING ACTIVITIES

Loss from operating activities for the period has been arrived at after charging the depreciation of approximately HK\$220,000 (2003: HK\$295,000).

**4. INCOME TAX EXPENSE**

	<b>2004</b> <i>HK'000</i>	2003 <i>HK'000</i>
Share of taxation attributable to an associate	<u>524</u>	<u>–</u>

Hong Kong Profits Tax has not been provided for the period as the companies within the Group had no estimated assessable profits in Hong Kong.

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries and associates are entitled to an exemption from PRC income tax for the two years starting from their first profit-making year, followed by a 50% reduction for the next three years.

The charge for the period ended 30th June 2004 represents the underprovided tax by an associate in PRC for last year.

**5. EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the period of approximately HK\$54,431,000 (2003: HK\$903,000) and on the weighted average number of 4,120,264,902 ordinary shares (2003: 3,392,751,091) in issue during the period.

Diluted earnings per share has not been shown as there is no dilution effect for both periods.

**6. INTERESTS IN ASSOCIATES**

	<b>Unaudited</b> <b>30th June,</b> <b>2004</b> <i>HK\$'000</i>	Audited 31st December, 2003 <i>HK\$'000</i>
Share of net assets	<b>615,751</b>	559,213
Less: Negative goodwill	<u>–</u>	<u>(377)</u>
	<u><b>615,751</b></u>	<u>558,836</u>

The following details have been extracted from the unaudited financial statements of the Group's significant associates, Zhejiang Geely Automobile Limited ("Zhejiang Geely"), formerly called Zhejiang Geely Guorun Automobile Limited and Shanghai Maple Guorun Automobile Limited ("Maple Guorun").

## 6. INTERESTS IN ASSOCIATES (Continued)

### Results for the period ended 30th June, 2004

	Zhejiang Geely HK\$'000	Maple Guorun HK\$'000
Turnover	732,942	210,758
Profit after taxation	115,055	7,297
Profit after taxation attributable to the Group	53,857	3,496

### Financial position as at 30th June, 2004

Non-current assets	922,252	356,487
Current assets	701,332	204,019
Current liabilities	(302,179)	(56,908)
Non-current liabilities	(417,457)	(92,121)
Net assets	903,948	411,477
Net assets attributable to the Group	423,138	192,613

## 7. INVENTORIES

	Unaudited 30th June, 2004 HK\$'000	Audited 31st December, 2003 HK\$'000
At costs		
Raw materials	2,126	2,770
Work in progress	882	4,588
Finished Goods	3,731	—
	6,739	7,358

## 8. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables of HK\$9,450,000 (31st December, 2003: HK\$5,612,000)

The following is an aging analysis of trade receivables at 30th June, 2004.

	<b>Unaudited 30th June, 2004 HK\$'000</b>	Audited 31st December, 2003 HK\$'000
0 – 60 days	8,559	4,480
61 – 90 days	891	170
Over 90 days	–	962
	<u>9,450</u>	<u>5,612</u>

## 9. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$10,312,000 (31st December, 2003: HK\$5,273,000).

The following is an aging analysis of trade payables at 30th June, 2004.

	<b>Unaudited 30th June, 2004 HK\$'000</b>	Audited 31st December, 2003 HK\$'000
0 – 60 days	7,738	3,826
61 – 90 days	1,751	254
Over 90 days	823	1,193
	<u>10,312</u>	<u>5,273</u>

## 10. SHARE CAPITAL

	Number of shares	Nominal value HK\$'000
<i>Authorised:</i>		
Ordinary shares of HK\$0.02 each		
– Balance at 1st January, 2004	5,000,000,000	100,000
– Capital addition passed at 18th May, 2004, Annual General Meeting	<u>3,000,000,000</u>	<u>60,000</u>
– Balance at 30th June, 2004	<u>8,000,000,000</u>	<u>160,000</u>
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$0.02 each		
– Balance at 31st December, 2003 and 30th June, 2004	<u>4,120,264,902</u>	<u>82,405</u>

## 11. CONNECTED AND RELATED PARTY TRANSACTIONS

- (a) Pursuant to the announcement dated 2nd May, 2002 and the circular dated 7th June, 2002, the Group entered into the Subscription Agreement between the company, South China Industries Limited and Proper Glory Holding Inc. ("Proper Glory") on 22nd April, 2002 in respect of the Financial Restructuring. On 30th March, 2004, the Company exercised the put option under the Subscription Agreement by entering into an agreement to dispose of its entire 51% equity interest in Deep Treasure Group to Fook Cheung Developments Limited ("Disposal Agreement") at a total consideration of HK\$5,500,000. Deep Treasure Group is engaged in the system integration and software development businesses ("SI-IT Business"). The completion of the Disposal Agreement took place simultaneously upon the signing of the Disposal Agreement. The Company ceased to hold any equity interests in the SI-IT Business upon completion.

## 11. CONNECTED AND RELATED PARTY TRANSACTIONS (Continued)

(b) The Group had the following material transactions with related parties during the period.

Name of related parties	Nature of transactions	Note	Unaudited	Audited
			30th June 2004 HK'000	31st December 2003 HK'000
South China Industries Limited	Management fee charged by a minority shareholder of a subsidiary	(i)	335	1330
Zhejiang Geely Automobile Company Limited	Sales of automotive parts and components	(ii)	628	—
	Amounts due from related parties	(iii)	735	—
Zhejiang Haoqing Automobile Manufacturing Company Limited	Sales of automotive parts and components	(ii)	6,754	—
	Amounts due from related parties	(iii)	5,194	—
Zhejiang Geely Automobile Purchasing Company Limited	Sales of automotive parts and components	(ii)	7,281	—
	Amounts due from related parties	(iii)	3,521	—
Geely Group Zhejiang Motorola Company Limited	Advances to related company	(iv)	522	—
Zhejiang Fulin Automobile Parts & Components Company Limited	Advances from a minority shareholder of a subsidiary	(v)	312	—



## 11. CONNECTED AND RELATED PARTY TRANSACTIONS *(Continued)*

*Notes:*

- (i) These transactions were carried out on terms determined and agreed by both parties. The subsidiary, Deep Treasure Group, has been disposed on 30th March, 2004. Please see part (a) above.
- (ii) The prices were determined with reference to the prevailing market prices/rates and the price charged to third parties.
- (iii) Amounts due from related companies are of trading nature, unsecured, non-interest bearing and 90 days credit terms.
- (iv) Advances to a related company are unsecured, non-interest bearing and have no fixed repayment terms.
- (v) Advances from a related company are unsecured, non-interest bearing and have no fixed repayment terms.

## 12. POST BALANCE SHEET EVENTS

On 27th May, 2004, (1) Zhejiang Geely has entered into an agreement with Zhejiang Geely Holding Group Limited ("Geely Holding") pursuant to which Zhejiang Geely will acquire the interests held by Geely Holding in Zhejiang Haoqing Automobile Manufacturing Company Limited ("Zhejiang Haoqing"); (2) Maple Guorun has entered into two agreements with Geely Holding pursuant to which Maple Guorun will acquire the interests held by Geely Holding in (a) Zhejiang Geely Automobile Research Institute Limited ("Automobile Research") and (b) Ningbo Geely Engine Research Institute Limited ("Ningbo Engine"); and (3) Zhejiang Geely has entered an agreement with Zhejiang Geely Merrie Automobile Company Limited ("Merrie") pursuant to which Zhejiang Geely will acquire from Merrie the rights in the design for the CK-1 model of sedan. On 6th July, 2004, all the necessary procedures for these acquisitions of automobile related assets with the relevant PRC government authorities have been completed. At completion of the acquisitions, Zhejiang Geely will be interested in 90% of the registered capital of Zhejiang Haoqing and the production and marketing rights of the CK-1 model of sedan, and Maple Guorun will be interested in 90% of the registered capital of Automobile Research and Ningbo Engine respectively. All the share transfer procedures were completed on 6th July, 2004.