

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2005

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2004 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRS(s)”), HKASs and Interpretations (hereinafter collectively referred to as “new HKFRS(s)”) issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests and share of taxation of associates have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group’s accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are presented:

Share-based payment

HKFRS 2 “Share-based Payment” requires an expense to be recognised where an entity buys goods or obtains services in exchange for shares or rights over shares (“equity-settled transactions”), or in exchange for other assets equivalent in value to a given number of shares or rights over shares (“cash-settled transactions”). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors’ and employees’ share options of the Group determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 January 2005. In accordance with the relevant transitional provisions, the Group has not applied HKFRS 2 to share options granted on or before 7 November 2002 and share options that were granted after 7 November 2002 (but prior to 1 January 2005) and had vested before 1 January 2005. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and which were not yet vested on 1 January 2005. The effect of adoption of this new standard is set out in note 3.

The Group has not early applied the following new standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the financial statements of the Group.

HKAS 19 (Amendment) HKAS 39 (Amendment) HKAS 39 (Amendment) HKFRS 6 HKFRS-Int 4 HKFRS-Int 5	Actuarial Gains and Losses, Group Plans and Disclosures Cash Flow Hedge Accounting of Forecast Intragroup Transactions The Fair Value Option Exploration for and Evaluation of Mineral Resources Determining whether an Arrangement Contains a Lease Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
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3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described in note 2 above are as follows:

(i) On results

	Six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'000
Adjustments in associates' consolidated financial statements		
– Goodwill no longer amortised	2,506	–
– Excess of acquired interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost recognised directly in income statement	217	–
Increase in share of profits of associates	2,723	–
Recognition of share-based payments	(523)	(1,273)
Increase in profit for the period	2,200	(1,273)

(ii) On income statement line items

	Six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'000
Increase in administrative expenses	(523)	(1,273)
Increase (decrease) in share of profits of associates	2,723	(524)
Decrease in taxation	–	524
	2,200	(1,273)

(iii) On balance sheet items

	As at	Retrospective adjustments		As at
	31.12.2004	HKAS 27	HKFRS 2	31.12.2004
	(originally stated)	HK\$'000	HK\$'000	and 1.1.2005 (restated)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		<i>(Note 2)</i>	<i>(Note 2)</i>	
Accumulated profits	35,899	–	(3,089)	32,810
Share options reserve	–	–	3,089	3,089
Equity holders of the parent	35,899	–	–	35,899
Minority interests	–	(4,466)	–	(4,466)
Total effects on equity	35,899	(4,466)	–	31,433

The application of the new HKFRSs had no effect to the Group's equity at 1 January 2004.

4. SEGMENT INFORMATION

Business Segments

The Group is principally engaged in the manufacturing and trading of automobile parts and related automobile components. Accordingly, no business segment analysis of financial information is provided.

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.

5. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'000 (restated)
Profit for the period has been arrived at after charging (crediting):		
Staff costs, including directors' emoluments	4,859	3,293
Retirement benefits scheme contributions	151	101
Total staff costs		
	5,010	3,394
Depreciation	377	256
Recognition of share based payments (included in administrative expenses)	523	1,273
Share of tax of associates (included in share of profits of associates)	-	524
Interest income from bank deposits	(17)	(2)
	(17)	(2)

6. TAXATION

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 subsidiary 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.

7. DIVIDEND

A final dividend of HK\$0.01 per share for the year ended 31 December 2004 was declared and approved by the Company's shareholders in the Annual General Meeting held on 25 May 2005. The final dividend, amounting to HK\$41,203,000, was paid on 8 July 2005.

8. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the ordinary equity holders of the parent for the six months ended 30 June 2005 is based on the following data:

	Six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'000 (restated)
Profit for the period attributable to equity holders of the parent and earnings for the purposes of basic earnings per share	40,779	53,158

	Six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'000
	Number of shares	Number of shares
Number of ordinary shares for the purpose of basic earnings per share	4,120,264,902	4,120,264,902

No diluted earnings per share has been presented for the six months ended 30 June 2005 and 2004 because the exercise price of share options was higher than the average market price per share for 2005 and 2004.

The adjustment to comparative basic earnings per share, arising from the changes in accounting policies shown in note 2 above, is as follows:

	Basic HK cents
Reconciliation of 2004 earnings per share:	
Reported figure before adjustments	1.32
Adjustments arising from the adoption of HKFRS 2	(0.03)
Restated	1.29

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2005, the Group acquired property, plant and equipment at a cost of approximately HK\$866,000.

10. INTERESTS IN ASSOCIATES

	30 June 2005 HK\$'000	31 December 2004 HK\$'000
Share of net assets	650,515	651,750

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

Results for the period ended 30 June 2005

	Zhejiang Geely HK\$'000 (Unaudited)	Maple Guorun HK\$'000 (Unaudited)
Turnover	1,356,196	595,021
Profit after taxation	59,409	41,971
Profit after taxation attributable to the Group	27,803	19,643

Financial position at 30 June 2005

Non-current assets	1,707,856	485,038
Current assets	2,667,341	556,599
Current liabilities	(2,893,191)	(544,268)
Non-current liabilities	(552,567)	(36,818)
Net assets	929,439	460,551
Net assets attributable to the Group	434,977	215,538

11. INVENTORIES

	30 June 2005 HK\$'000	31 December 2004 HK\$'000
At costs:		
Raw materials	3,707	3,466
Work in progress	964	468
Finished goods	1,367	4,881
	6,038	8,815

12. TRADE AND OTHER RECEIVABLES

The Group allows credit period ranging from 30 days to 90 days to its trade customers.

Included in trade and other receivables are trade receivables of approximately HK\$23,179,000 (31 December 2004: HK\$11,420,000).

The following is an aged analysis of trade receivables at the balance sheet date:

	30 June 2005 HK\$'000	31 December 2004 HK\$'000
0 – 60 days	21,720	7,874
61 – 90 days	1,318	2,948
Over 90 days	141	598
	23,179	11,420
The trade receivables comprise:		
Trade receivables from associates	1,445	11,219
Trade receivables from group companies of an associate	21,734	201
	23,179	11,420

13. AMOUNTS DUE FROM AN ASSOCIATE/RELATED COMPANIES

The amounts were unsecured, interest free and fully settled during the period.

14. AMOUNT DUE FROM ULTIMATE HOLDING COMPANY

The amount is unsecured, interest free and repayable on demand.

15. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK\$17,315,000 (31 December 2004: HK\$11,143,000).

The following is an aged analysis of trade payables at the balance sheet date.

	30 June 2005 HK\$'000	31 December 2004 HK\$'000
0 – 60 days	14,244	7,763
61 – 90 days	1,559	832
Over 90 days	1,512	2,548
	17,315	11,143

16. AMOUNTS DUE TO RELATED COMPANIES/A MINORITY SHAREHOLDER/IMMEDIATE HOLDING COMPANY

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

17. SHARE CAPITAL

	Number of shares	Nominal value HK\$'000
Ordinary shares of HK\$0.02 each		
Authorised:		
At 31 December 2004 and 30 June 2005	8,000,000,000	160,000
Issued and fully paid:		
At 31 December 2004 and 30 June 2005	4,120,264,902	82,405

18. RELATED PARTY TRANSACTIONS

The Group had the following material transactions and balances with related parties during the period.

(A) Transactions

Related parties	Nature of transactions	Notes	Six months ended 30 June	
			2005 HK\$'000	2004 HK\$'000
Associates	Sales of automobile parts and components to associates	<i>(i)</i>	1,355	628
	Dividend received from associates		48,502	–
Subsidiary of an associate	Sales of automotive parts and components	<i>(i)</i>	34,467	6,754
Related company	Rental expense to a related company	<i>(i), (iii)</i>	226	226

(B) Balances

Related parties	Nature of transactions	Notes	30 June 2005 HK\$'000		31 December 2004 HK\$'000
			2005 HK\$'000	2004 HK\$'000	
Ultimate holding company	Advance to ultimate holding company	<i>(ii)</i>	75	–	–
Minority shareholder of a subsidiary	Advance from a minority shareholder of a subsidiary	<i>(ii)</i>	4,775	5,027	5,027
Immediate holding company	Advance from an immediate holding company	<i>(ii)</i>	2,220	3,000	3,000
Related companies	Amounts payable to related companies	<i>(ii), (iii)</i>	61	452	452
Related companies	Advances to related companies	<i>(ii), (iv)</i>	–	613	613
Associate	Advance to an associate	<i>(iv)</i>	–	–	338

Notes:

- (i) The prices were determined with reference to the prevailing market prices and prices charged to third parties.
- (ii) The advances are unsecured, interest free and repayable on demand.
- (iii) Certain directors of the Company are also directors of the related companies.
- (iv) These advances were unsecured, interest free and fully settled during the period.

19. EVENT AFTER THE BALANCE SHEET DATE

On 5 August 2005, the Company granted share options to subscribe for a total of 239,500,000 shares of the Company to the directors and employees under the share option scheme approved and adopted on 31 May 2002.