

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 1. GENERAL

The Company is a public listed limited company incorporated in the Cayman Islands as an exempted limited company and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its parent company is Proper Glory Holdings Inc. and its ultimate holding company is Geely Group Limited, both incorporated in the British Virgin Islands. The addresses of the registered office and principal place of business of the Company are disclosed in "Corporate Information" to the annual report.

The Company is an investment holding company. The principal activities of the Company's subsidiaries are set out in note 35.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

## 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates and discontinued operation 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 are prepared and presented.

### Share-based Payments

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 1st January, 2005. In accordance with the relevant transitional provisions, the Group has not applied HKFRS 2 to share options granted on or before 7th November, 2002 and share options that were granted after 7th November, 2002 (but prior to 1st January, 2005) and has vested before 1st January, 2005. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7th November, 2002 and which were not yet vested on 1st January, 2005. The effect of adoption of this new standard is set out in note 3.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 3. EFFECTS OF APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

The effects of the application of the new HKFRSs/changes in the accounting policies described above are as follows:

### (i) On results

	Year ended 31st December,	
	2005 HK\$'000	2004 HK\$'000
Non-amortisation of goodwill in associates' consolidated financial statements	1,122	–
Recognition of share-based payments	(5,538)	(3,089)
Decrease in profit for the year	(4,416)	(3,089)

### (ii) On income statement line items

	2005 HK\$'000	2004 HK\$'000
Increase in administrative expenses	(5,538)	(3,089)
Decrease in share of profits of associates	(27,474)	(6,696)
Decrease in taxation	28,596	6,696
Decrease in profit for the year	(4,416)	(3,089)

### (iii) On balance sheet items

	As at 31.12.2004 (originally stated) HK\$'000	Retrospective adjustments		As at 31.12.2004 and 1.1.2005 (restated) HK\$'000
		HKAS 1 HK\$'000	HKFRS 2 HK\$'000	
Accumulated profits	35,899	–	(3,089)	32,810
Share options reserve	–	–	3,089	3,089
Minority interests	–	4,466	–	4,466
Total effects on equity	35,899	4,466	–	40,365
Minority interests	4,466	(4,466)	–	–

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 3. EFFECTS OF APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (Continued)

As a result of the application of the new HKAS 1, minority interests of HK\$2,389,000 at 1st January, 2004 were included as part of the total equity.

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

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures <sup>2</sup>
HKAS 21 (Amendment)	Net investment in a foreign operation <sup>2</sup>
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions <sup>2</sup>
HKAS 39 (Amendment)	The fair value option <sup>2</sup>
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts <sup>2</sup>
HKFRS 6	Exploration for and evaluation of mineral resources <sup>2</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease <sup>2</sup>
HK(IFRS) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds <sup>2</sup>
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market - waste electrical and electronic equipment <sup>3</sup>
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1st January, 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1st December, 2005.

<sup>4</sup> Effective for annual periods beginning on or after 1st March, 2006.

## 4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

### **Interests in associates**

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of the changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

### **Property, plant and equipment**

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment loss.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual values, using the straight line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

### **Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

### **Financial instruments**

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

*Trade and other receivables, dividend receivable from an associate, amount due from an associate and amounts due from related companies*

Trade and other receivables, dividend receivable from an associate, amount due from an associate and amounts due from related companies are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

*Cash and cash equivalents*

Cash and cash equivalents comprises short-term bank balances and cash and are subject to an insignificant risk of changes in value.

*Financial liabilities and equity*

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

*Trade and other payables, amounts due to related companies, amount due to a minority shareholder and advance from immediate holding company*

Trade and other payables, amounts due to related companies, amount due to a minority shareholder and advance from immediate holding company are initially measured at their fair values, and are subsequently measured at amortised cost, using the effective interest method.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods sold in the normal course of businesses, net of discounts and related sales taxes.

Income from sales of automobile parts and components is recognised when the products are delivered and title has been passed.

Interest income from financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group as the parent is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Taxation** *(Continued)*

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### **Retirement benefit costs**

Payments to the Group's Mandatory Provident Fund Scheme ("MPF Scheme") and the state-managed retirement benefit scheme are charged as expenses as they fall due.

### **Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

### **The Group as lessee**

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, amount due from an associate, amounts due from related companies, trade and other payables, amounts due to related companies, amount due to a minority shareholder and advance from immediate holding company. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

### Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. The Group has concentration of credit risk with exposure limited to the associate and a related company of the associate. In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of trade debts due from the associate and a related company of the associate at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's exposure to bad debts is minimal.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by credit-rating agencies.

## 6. REVENUE

Revenue represents the aggregate of the following amounts received and receivable during the year. An analysis of the Group's revenue for the year, for both continuing and discontinued operations, is as follows:

	2005 HK\$'000	2004 HK\$'000
<b>Continuing operations</b>		
Sales of automobile parts and components	101,411	31,903
<b>Discontinued operations</b>		
Sales revenue from information and technology related businesses	-	9,220
	<b>101,411</b>	<b>41,123</b>

## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS

### Business segments

No business segment information has been presented for the year ended 31st December, 2005 as the directors considered that the Group is principally engaged in manufacturing and trading of automobile and related automobile components which accounts for the total revenue and trading profits of the Group for the year.

For the year ended 31st December, 2004, for management purposes, the Group was organised into two operating divisions – (i) manufacturing and trading of automobile and related automobile components, (ii) information technology. These divisions were the basis on which the Group reported its primary segment information, for that year.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

### Business segments (Continued)

Principal activities are as follows:

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

Information technology – information technology and related business

Following the disposal of its interest in the 51% owned subsidiaries, the operations of information technology was discontinued on 30th March, 2004.

	Year ended 31st December, 2004		
	Continuing operations	Discontinued operations	Consolidated
	Automobile	Information technology	
	HK\$'000	HK\$'000	HK\$'000
			(restated)
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REVENUE			
External sales	31,903	9,220	41,123
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RESULT			
Segment result	(256)	(787)	(1,043)
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Unallocated corporate expenses	(14,776)	–	(14,776)
Finance costs	–	(53)	(53)
Share of results of associates	93,471	46	93,517
Gain on disposal of the discontinued subsidiaries	–	3,189	3,189
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Profit before taxation			80,834
Income tax expense	–	–	–
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Profit for the year			80,834
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# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

### Business segments (Continued)

#### BALANCE SHEET

	At 31st December, 2004		
	Continuing operations	Discontinued operations	Consolidated
	Automobile	Information technology	
	HK\$'000	HK\$'000	HK\$'000
<b>ASSETS</b>			
Segment assets	680,767	–	680,767
<b>LIABILITIES</b>			
Segment liabilities	18,674	–	18,674
Unallocated liabilities			4,180
			22,854

#### OTHER INFORMATION

	Year ended 31st December, 2004		
	Continuing operations	Discontinued operations	Consolidated
	Automobile	Information technology	
	HK\$'000	HK\$'000	HK\$'000
Capital additions	2,568	60	2,628
Depreciation	528	183	711
Loss on disposal of property, plant and equipment	7	–	7

#### 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 8. INCOME TAX EXPENSE

Hong Kong Profits Tax has not been provided for the year 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 is 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 tax charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000 (restated)
Profit before taxation		
– Continuing operations	<b>115,377</b>	78,439
– Discontinued operations	–	2,395
	<b>115,377</b>	80,834
Less: Share of results of associates	<b>(122,691)</b>	(93,471)
	<b>(7,314)</b>	(12,637)
Tax at the domestic income tax rate of 33%	<b>(2,414)</b>	(4,170)
Tax effect of expenses not deductible in determining taxable profit	–	–
Tax effect of tax losses not recognised	<b>5,480</b>	5,222
Tax effect of income not taxable in determining taxable profit	–	(1,052)
Effect of tax exemption granted to PRC subsidiaries	<b>(3,066)</b>	–
Tax expense for the year	–	–

At the balance sheet date, the Group has unused tax losses of approximately HK\$32,430,000 (2004: HK\$15,824,000) available to offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to unpredictability of future profit streams. The tax losses can be carried forward indefinitely.

## 9. DISCONTINUED OPERATIONS

Pursuant to an agreement entered into between the Company, South China Industries Limited ("SCI") and Proper Glory Holdings Inc. on 22nd April, 2002, the Company was granted a put option to dispose of its entire 51% equity interest in Deep Treasure Investment Limited ("Deep Treasure") and its subsidiaries to Fook Cheung Development Limited. The put option was exercised on 30th March, 2004.

The results of Deep Treasure and its subsidiaries represented the Group's entire results of the information technology business. Following the disposal, the operations of information technology was discontinued on 30th March, 2004.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 9. DISCONTINUED OPERATIONS (Continued)

The profit for the year from the discontinued operations was analysed as follows:

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Loss of the information technology operations for the year	-	(794)
Gain on disposal of the information technology operations for the year	-	3,189
	<b>-</b>	<b>2,395</b>

The results of the information technology operations for the period from 1st January, 2004 to 30th March, 2004, which have been included in the consolidated income statement, were as follows:

	Period ended
	30.3.2004
	HK\$'000
Revenue	9,220
Cost of sales	(8,090)
	1,130
Distribution and selling expenses	(101)
Administrative expenses	(1,816)
Finance cost	(53)
Share of result of associates	46
Loss for the period	(794)

The carrying amounts of the assets and liabilities of Deep Treasure and its subsidiaries at date of disposal are disclosed in note 28.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 10. PROFIT FOR THE YEAR

	Continuing operations		Discontinued operations		Consolidated	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Profit for the year has been arrived at after charging (crediting):						
Staff costs, including directors' emoluments	10,284	7,706	–	748	10,284	8,454
Retirement benefit scheme contributions	297	299	–	228	297	527
Total staff costs	10,581	8,005	–	976	10,581	8,981
Auditors' remuneration	580	332	–	–	580	332
Depreciation	811	528	–	183	811	711
Recognition of share-based payments (included in administrative expenses)	5,538	3,089	–	–	5,538	3,089
Loss on disposal of property, plant and equipment	–	7	–	–	–	7
Interest income from bank deposits	(57)	(6)	–	–	(57)	(6)
Share of tax of associates (included in share of results of associates)	28,596	6,696	–	–	28,596	6,696
Cost of inventories recognised as expenses	90,649	30,378	–	8,090	90,649	38,468

## 11. DIVIDENDS

A final dividend for the year ended 31st December, 2004 of HK\$0.01 per share amounting to HK\$41,203,000 was paid to the shareholders during the year.

A final dividend of HK\$0.01 per share have been proposed by the Directors and are subject to approval by the shareholders in the forthcoming annual general meeting.

## 12. EARNINGS PER SHARE

### From continuing and discontinued operations

The calculation of the basic earnings per share is based on the profit for the year attributable to equity holders of the Company of HK\$110,827,000 (2004: HK\$81,305,000 as restated) and on 4,120,264,902 (2004: 4,120,264,902) ordinary shares in issue during the year.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 12. EARNINGS PER SHARE (Continued)

### From continuing operations

The calculation of the basic earnings per share from continuing operations attributable to the equity holders of the Company is based on the following information:

	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000 (restated)
Earnings for the year attributable to equity holders of the Company	<b>110,827</b>	81,305
Less: Earnings for the period from discontinued operations	-	(2,745)
Earnings for the purpose of basic earnings per share from continuing operations	<b>110,827</b>	78,560

The denominators used are the same as those detailed above for basic earnings per share from continuing and discontinued operations.

### From discontinued operations

Basic earnings per share from discontinued operations for the year ended 31st December, 2004 was HK0.06 cents which was calculated based on the profit for that year from discontinued operations of HK\$2,745,000. The denominators used are the same as those detailed above for basic earnings per share from continuing and discontinued operations.

No diluted earnings per share presented as the exercise price of the share options was higher than the average market price for the years ended 31st December, 2005 and 2004.

The following table summarises the impact of changes in accounting policies on basic earnings per share from continuing and discontinued operations as a result of:

	<b>Impact on basic earnings per share</b>	
	<b>2005</b> <b>Cents</b>	2004 Cents
Figures before adjustments	<b>2.80</b>	2.05
Adjustments arising from changes in accounting polices (see note 2)	<b>(0.11)</b>	(0.08)
	<b>2.69</b>	1.97

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 13. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS

### (a) Directors' remuneration

The emoluments paid or payable to each of the twenty (2004: eleven) directors are as follows:

#### 2005

Name of director	Fees HK\$'000	Salaries HK\$'000	Rental allowance HK\$'000	Contribution to retirement	Total HK\$'000
				benefit scheme HK\$'000	
Mr. Ang Siu Lun, Lawrence	–	1,300	–	12	1,312
Mr. Gui Sheng Yue	–	438	42	7	487
Mr. He Xue Chu	–	342	–	6	348
Mr. Ku Wai Kwan	–	285	–	6	291
Mr. Zhou Teng	–	285	–	6	291
Mr. Wong Hing Kwok	–	142	–	6	148
Mr. Lee Cheuk Yin, Dannis	120	–	–	–	120
Mr. Yeung Sau Hung, Alex	70	–	–	–	70
Mr. Xu Xing Yao	62	–	–	–	62
Mr. Liu Ming Hui	21	–	–	–	21
Mr. Song Lin	10	–	–	–	10
Mr. Nan Yang	8	–	–	–	8
Mr. Xu Gang	6	–	–	–	6
Mr. Yang Jian	6	–	–	–	6
Mr. Yin Da Qing, Richard	6	–	–	–	6
Mr. Liu Jin Liang	6	–	–	–	6
Mr. Zhang Zhe	5	–	–	–	5
Mr. Li Shu Fu	3	–	–	–	3
Mr. Zhao Jie	3	–	–	–	3
Mr. Shim Bong Sup	3	–	–	–	3
	329	2,792	42	43	3,206



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 13. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS (Continued)

### (a) Directors' remuneration (Continued)

2004

Name of director	Fees HK\$'000	Salaries HK\$'000	Rental allowance HK\$'000	Contribution to retirement benefit scheme	Total HK\$'000
				HK\$'000	
Mr. Ang Siu Lun, Lawrence	–	1,110	–	11	1,121
Mr. He Xue Chu	–	780	–	12	792
Mr. Ku Wai Kwan	–	650	–	12	662
Mr. Zhou Teng	–	650	–	12	662
Mr. Wong Hing Kwok	–	325	–	12	337
Mr. Xu Xing Yao	240	–	–	–	240
Mr. Lee Cheuk Yin, Dannis	120	–	–	–	120
Mr. Liu Ming Hui	120	–	–	–	120
Mr. Zhang Zhe	10	–	–	–	10
Mr. Nan Yang	10	–	–	–	10
Mr. Song Lin	2	–	–	–	2
	502	3,515	–	59	4,076

No director waived any emoluments during the years ended 31st December, 2005 and 31st December, 2004.

### (b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, five (2004: four) were directors of the Company whose emoluments are included in the disclosures in note 13(a) above. The emoluments of the remaining individual for the year ended 31st December, 2004 is as follows:

	2004 HK\$'000
Basic salaries and allowances	390
Retirement benefits scheme contributions	12
	402

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 14. PROPERTY, PLANT AND EQUIPMENT

	<b>Buildings in the PRC under medium term lease</b>	<b>Plant and machinery</b>	<b>Leasehold improvements</b>	<b>Furniture and fixtures, office equipment and motor vehicles</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>COST</b>					
At 1st January, 2004	2,698	3,596	597	4,820	11,711
Additions	–	2,089	–	539	2,628
Disposals	–	–	–	(8)	(8)
Disposal of subsidiaries	(2,698)	–	(521)	(4,631)	(7,850)
At 31st December, 2004	–	5,685	76	720	6,481
Exchange adjustments	–	120	–	11	131
Additions	–	1,702	366	224	2,292
At 31st December, 2005	–	7,507	442	955	8,904
<b>DEPRECIATION</b>					
At 1st January, 2004	279	34	61	2,748	3,122
Charge for the year	14	410	27	260	711
Eliminated on disposals	–	–	–	(1)	(1)
Eliminated on disposal of subsidiaries	(293)	–	(32)	(2,857)	(3,182)
At 31st December, 2004	–	444	56	150	650
Exchange adjustments	–	10	–	–	10
Charge for the year	–	624	27	160	811
At 31st December, 2005	–	1,078	83	310	1,471
<b>NET BOOK VALUES</b>					
At 31st December, 2005	–	6,429	359	645	7,433
At 31st December, 2004	–	5,241	20	570	5,831

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Plant and machinery	10 to 33.3%
Leasehold improvements	20% to 33.3%
Furniture and fixtures, office equipment and motor vehicles	20% to 33.3%

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 15. INTERESTS IN ASSOCIATES

	2005 HK\$'000	2004 HK\$'000
Share of net assets (including goodwill of approximately HK\$22 million)	<b>786,996</b>	651,750

At 31st December, 2005, the Group had interests in the following associates:

Name of company	Place of establishments and operations	Paid-up capital	Attributable equity interest indirectly held by the Group	Principal activities
浙江吉利汽車有限公司 Zhejiang Geely Automobile Company Limited * ("Zhejiang Geely")	PRC	USD82,803,000	46.8%	Research, development, production, marketing and sales of sedans and related automobile components in the PRC
上海華普國潤汽車有限公司 Shanghai Maple Guorun Automobile Company Limited * ("Shanghai Maple")	PRC	USD51,697,000	46.8%	Research, development, production, marketing and sales of sedans and related automobile components in the PRC
浙江美人豹汽車銷售有限公司 Zhejiang Mybo Automobile Sales Company Limited	PRC	RMB10,000,000	42.1%	Marketing and sales of sedans in the PRC
浙江吉利汽車銷售有限公司 Zhejiang Geely Automobile Sales Company Limited	PRC	RMB15,000,000	42.1%	Marketing and sales of sedans in the PRC
浙江吉利控股集團汽車銷售有限公司 Zhejiang Geely Holding Group Automobile Sales Company Limited	PRC	RMB20,000,000	42.1%	Marketing and sales of sedans in the PRC
上海吉利美嘉峰國際貿易股份有限公司 Geely International Corporation	PRC	RMB20,000,000	39.3%	Export of sedans outside the PRC

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 15. INTERESTS IN ASSOCIATES (Continued)

Name of company	Place of establishments and operations	Paid-up capital	Attributable equity interest indirectly held by the Group	Principal activities
浙江吉利汽車研究院有限公司 Zhejiang Geely Automobile Research Institute Limited	PRC	RMB30,000,000	42.1%	Research and development of sedans and related automobile components in the PRC
寧波吉利發動機研究所有限公司 Ningbo Geely Engine Research Institute Limited	PRC	RMB10,000,000	42.1%	Research and development of automobile engines in the PRC
上海華普汽車銷售有限公司 Shanghai Maple Automobile Sales Company Limited	PRC	RMB6,000,000	42.1%	Marketing and sales of sedans in the PRC

\* These associates are sino-foreign equity joint ventures established in the PRC for a period of 30 years.

The summarised financial information in respect of the Group's associates is set out below:

	2005 HK\$'000	2004 HK\$'000
Total assets	<b>6,064,557</b>	4,618,750
Total liabilities	<b>(4,382,943)</b>	(3,226,122)
Net assets	<b>1,681,614</b>	1,392,628
Group's share of net assets of associates	<b>786,996</b>	651,750
Revenue	<b>4,970,570</b>	2,311,016
Profit for the year	<b>262,161</b>	199,724
Group's share of result of associates for the year	<b>122,691</b>	93,471

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 16. INVENTORIES

	2005 HK\$'000	2004 HK\$'000
At cost:		
Raw materials	2,366	3,466
Work in progress	1,288	468
Finished goods	2,049	4,881
	<b>5,703</b>	8,815

## 17. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables of HK\$43,966,000 (2004: HK\$11,420,000).

The Group allows a credit period of 30 days to 90 days to its trade customers. The following is an aged analysis of the trade receivables at the balance sheet dates:

	2005 HK\$'000	2004 HK\$'000
0 – 60 days	43,489	7,874
61 – 90 days	67	2,948
Over 90 days	410	598
	<b>43,966</b>	11,420

The trade receivables comprise:

	2005 HK\$'000	2004 HK\$'000
Trade receivables from associates	24,925	11,219
Trade receivables from a related company of an associate	19,041	201
	<b>43,966</b>	11,420

In the opinion of the directors, the fair value of the Group's trade and other receivables at 31st December, 2005 approximates their corresponding carrying amounts.

## 18. DIVIDEND RECEIVABLE FROM AN ASSOCIATE

In the opinion of the directors, the fair value of the Group's dividend receivable from an associate at 31st December, 2005 approximates its corresponding carrying amount.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 19. AMOUNT DUE FROM AN ASSOCIATE

The amount due from an associate was unsecured, interest free and was fully settled during the year.

## 20. AMOUNTS DUE FROM RELATED COMPANIES

The amounts due from related companies, representing an amount of HK\$427,000 due from a group company of a shareholder of the former ultimate holding company and an amount of HK\$186,000 due from a shareholder of the former ultimate holding company, were unsecured, interest free and were fully settled during the year.

## 21. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short term bank deposits with an original maturity of three months or less. The deposits carry prevailing market interest rate of an average of 2.7% (2004: 0.5%) per annum. In the opinion of the directors, the fair value of bank deposits at 31st December, 2005 approximates their corresponding carrying amounts.

## 22. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$27,047,000 (2004: HK\$11,143,000).

The following is an aged analysis of trade payables at the balance sheet dates:

	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
0 – 60 days	<b>24,576</b>	7,763
61 – 90 days	<b>1,989</b>	832
Over 90 days	<b>482</b>	2,548
	<b>27,047</b>	11,143

In the opinion of the directors, the fair value of the Group's trade and other payables at 31st December, 2005 approximates their corresponding carrying amounts.

## 23. AMOUNTS DUE TO RELATED COMPANIES

The amounts due to related companies which have the same common substantial shareholder of the Company are unsecured, interest-free and repayable on demand.

In the opinion of the directors, the fair value of the amounts due to related companies at 31st December, 2005 approximates their corresponding carrying amounts.

## 24. AMOUNT DUE TO A MINORITY SHAREHOLDER

The amount due to a minority shareholder is unsecured, interest-free and repayable on demand.

In the opinion of the directors, the fair value of the amount due to a minority shareholder at 31st December, 2005 approximates its corresponding carrying amount.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 25. ADVANCE FROM IMMEDIATE HOLDING COMPANY

The advance from immediate holding company is unsecured, interest-free and repayable on demand.

In the opinion of the directors, the fair value of the advance from immediate holding company at 31st December, 2005 approximates its carrying amount.

## 26. SHARE CAPITAL

	<b>Number of shares</b>	<b>Nominal value</b> HK\$'000
Authorised:		
Ordinary shares of HK\$0.02 each		
– Balance at 1st January, 2004	5,000,000,000	100,000
– Increase in authorised share capital	3,000,000,000	60,000
– Balance at 31st December, 2004 and 31st December, 2005	8,000,000,000	160,000
Issued and fully paid:		
Ordinary shares of HK\$0.02 each		
– Balance at 1st January, 2004, 31st December, 2004 and 31st December, 2005	4,120,264,902	82,405

## 27. ADVANCE FROM FORMER ULTIMATE HOLDING COMPANY

The advance from former ultimate holding company was unsecured, interest-free and was fully settled during the year.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 28. DISPOSAL OF SUBSIDIARIES

As referred to in note 9, the Group discontinued its information technology operations at 30th March, 2004, the time of the disposal of its subsidiaries. The net assets of subsidiaries at date of disposal were as follows:

	2004 HK\$'000
NET ASSETS DISPOSED OF:	
Property, plant and equipment	4,668
Interests in associates	1,168
Inventories	8,606
Trade and other receivables	12,768
Amount due from a related company	239
Bank balances and cash	2,339
Bank borrowings	(6,165)
Trade and other payables	(12,250)
Amounts due to minority shareholders	(11,607)
Amounts due to related companies	(10)
Minority interests	2,548
Net assets disposed of	2,304
Realisation of translation reserve	7
Gain on disposal of subsidiaries	3,189
Consideration	5,500
Total satisfied by:	
Cash	500
Amount due to a minority shareholder	5,000
	5,500
Net cash outflow from disposal of subsidiaries is as follows:	
Cash consideration received	500
Bank balances and cash disposed of	(2,339)
Net cash outflow from disposal of subsidiaries	(1,839)

The discontinued operations contributed approximately HK\$9,220,000 to the Group's turnover and had loss from operations of HK\$794,000 for the year ended 31st December, 2004.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 29. OPERATING LEASE COMMITMENTS

For the year ended 31st December, 2005, the Group paid minimum lease payments under operating lease in respect of office premises of HK\$1,478,000 (2004: HK\$1,490,000).

At the balance sheet date, the Group had commitments for future minimum lease payments in respect of office premises under non-cancellable operating leases which fall due as follows:

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>1,706</b>	1,171
In the second to fifth year inclusive	<b>1,212</b>	904
	<b>2,918</b>	2,075

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for an average term of two years and rentals are fixed for an average term of two years.

## 30. RETIREMENT BENEFITS SCHEME

The Group participates in MPF Scheme established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the scheme are held separately from those of the Group in funds under the control of trustees.

For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the scheme which is matched by the employee. Both the employer's and the employees' contributions are subject to a maximum of monthly earnings of HK\$20,000 per employee.

The employees of the Company's subsidiary in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiary is required to contribute 9% to 30% of the employee's basic salary to the retirement benefit scheme to fund the benefit. The only obligation of the Group with respect of the retirement benefit scheme is to make the specified contributions.

For the year ended 31st December, 2005, the aggregate employer's contributions made by the Group and charged to the income statement are HK\$297,000 (2004: HK\$527,000).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 31. SHARE-BASED PAYMENT TRANSACTIONS

### Equity-settled share option scheme:

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 31st May, 2002, a share option scheme (the "Scheme") was adopted by the Company.

The Scheme was adopted for the purpose of providing eligible participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. All directors, full-time employees and any other persons who, in the sole discretion of the board of directors, have contributed or will contribute to the Group are eligible to participate in the Scheme.

The maximum number of shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the issued share capital of the Company from time to time.

Shares which may be issued upon exercise of all options to be granted under the Scheme or any other share option schemes adopted by the Company must not in aggregate exceed 10% of the shares of the Company in issue on the date of adoption.

Unless approved by shareholders of the Company, the total number of shares of the Company issued and to be issued upon the exercise of the options granted to each participant (including both exercised and unexercised options) under the Scheme or any other share option schemes adopted by the Company in any twelve month period must not exceed 1% of the issued share capital of the Company.

The period within which the options must be exercised will be specified by the Company at the time of grant. This period must expire no later than 10 years from the date of grant of the options. At the time of grant of the options, the Company may specify a minimum period for which an option must be held before it can be exercised. The offer of a grant of share options may be accepted within 5 business days from the date of offer, the offer is delivered to that participant and the amount payable on acceptance of options is HK\$1.00.

Approximately 33% of the options will be automatically vested at the date of grant and the remaining 67% will be vested one year from the date of grant.

The subscription price for the shares under the Scheme shall be a price determined by the directors, but not less than the highest of (i) the closing price of shares as stated on the Stock Exchange on the date of the offer grant; (ii) the average closing price of the shares as stated on the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares.

No options may be granted under the Scheme after the date of the tenth anniversary of its adoption.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 31. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The following table discloses details of the Company's share options under the Scheme held by directors and senior employees and movements in such holdings:

### 2005

Date of grant	Exercisable period	Exercise price per share HK\$	Outstanding at 1st January	Granted during the year	Cancelled during the year	Outstanding at 31st December
<b>Directors</b>						
Mr. Ang Siu Lun,	23.2.2004 – 22.2.2009	0.95	35,000,000	–	–	35,000,000
Lawrence	5.8.2005 – 4.8.2010	0.70	–	10,000,000	–	10,000,000
Mr. Gui Sheng Yue	5.8.2005 – 4.8.2010	0.70	–	23,000,000	–	23,000,000
Mr. Xu Gang	5.8.2005 – 4.8.2010	0.70	–	23,000,000	–	23,000,000
Mr. Yang Jian	5.8.2005 – 4.8.2010	0.70	–	23,000,000	–	23,000,000
Mr. Liu Jin Liang	5.8.2005 – 4.8.2010	0.70	–	18,000,000	–	18,000,000
Mr. Yin Da Qing, Richard	5.8.2005 – 4.8.2010	0.70	–	16,000,000	–	16,000,000
Mr. Nan Yang (resigned as director on 18th October, 2005)	5.8.2005 – 4.8.2010	0.70	–	15,000,000	(15,000,000)	–
Mr. Zhao Jie	5.8.2005 – 4.8.2010	0.70	–	18,000,000	–	18,000,000
			35,000,000	146,000,000	(15,000,000)	166,000,000
<b>Employees</b>	5.8.2005 – 4.8.2010	0.70	–	93,500,000	(5,000,000)	88,500,000
			35,000,000	239,500,000	(20,000,000)	254,500,000

### 2004

#### Director

Mr. Ang Siu Lun, Lawrence	23.2.2004 – 22.2.2009	0.95	–	35,000,000	–	35,000,000
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One-third of options vested immediately upon grant and the remaining options granted will vest after one year.

No options were exercised to subscribe for shares in the Company during the year.

During the year ended 31st December, 2005, options were granted on 5th August, 2005. During the year ended 31st December, 2004, options were granted on 23rd February, 2004. The estimated fair values of the options granted on 5th August, 2005 and 23rd February, 2004 are approximately HK\$8,186,000 and HK\$5,060,000, respectively.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 31. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

These fair values were calculated using The Black-Scholes pricing model. The inputs into the model were as follows:

	2005	2004
Weighted average share price	<b>HK\$0.5099</b>	HK\$0.8128
Exercise price	<b>HK\$0.7</b>	HK\$0.95
Expected volatility	<b>40.2%</b>	48.8%
Expected life	<b>5 years</b>	5 years
Risk-free rate	<b>3.589%</b>	3.978%
Expected dividend yield	<b>0.98%</b>	Nil

Expected volatility was determined by using the historical volatility of the Company's share price over the previous one year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

The Group recognised total expense of HK\$5,538,000 for the year ended 31st December, 2005 (2004: HK\$3,089,000) in relation to share options granted by the Company.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 32. CONNECTED AND RELATED PARTY TRANSACTIONS

The Group had the following material transactions and balances with connected and related parties during the year:

### (A) Transactions

Name of related parties	Nature of transactions	2005 HK\$'000	2004 HK\$'000
<b>Minority shareholder of a former subsidiary</b>			
South China Industries Limited 南華工業有限公司	Management fee charged	–	335
<b>Associates</b>			
Zhejiang Geely Automobile Company Limited 浙江吉利汽車有限公司	Sales of automobile parts and components	<b>27,478</b>	3,001
	Dividend income	<b>56,262</b>	–
Shanghai Maple Guorun Automobile Company Limited 上海華普國潤汽車有限公司	Dividend income	<b>457</b>	–
<b>Related companies (Note)</b>			
Zhejiang Haoqing Automobile Manufacturing Company Limited 浙江豪情汽車製造有限公司	Sales of automobile parts and components	<b>73,774</b>	19,993
Zhejiang Geely Automobile Parts & Components Purchasing Company Limited 浙江吉利汽車零部件採購有限公司	Sales of automobile parts and components	–	7,383
Zhejiang Guo Mei Decoration Materials Company Limited 浙江國美裝潢材料有限公司	Rental expense	<b>462</b>	452

Note: The Company and the related companies are under the same common substantial shareholder.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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

### (B) Balances

Details of balances with related parties are set out at on the balance sheet and in notes 17, 18, 19, 20, 23, 24, 25 and 27.

### (c) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follow:

	2005 HK\$'000	2004 HK\$'000
Short-term benefit	4,375	5,186
Retirement benefit scheme contribution	75	95
Share-based payments	5,538	3,089
	<b>9,988</b>	8,370

The remuneration of directors and key executives are determined by the remuneration committee having regard to the performance of individuals and market trends.

## 33. POST BALANCE SHEET EVENT

On 9th March, 2006, the Company entered into a Subscription Agreement with the Co-Lead Managers (as defined in the Company's announcement dated 9th March, 2006), whereby the Co-Lead Managers have agreed to subscribe or procure subscribers for the Bond to be issued at par by the Company in an aggregate principal amount of HK\$741,600,000.

The estimated net proceeds of the Bonds Issue, after deduction of commission and administrative expenses (amounting to approximately HK\$15,000,000), are approximately HK\$726.6 million. The proceeds are currently intended to be used by the Company for increasing its investments in its two 46.8%-owned associates, namely Zhejiang Geely Automobile Company Limited and Shanghai Maple Guorun Automobile Company Limited and its 51%-owned subsidiary, namely Zhejiang Fulin Guorun Automobile Parts & Components Company Limited.

On 10th April, 2006, the Subscription Agreement was completed and the Bonds of an aggregate principal amount of HK\$741,600,000 were issued.

Details of the Bonds are set out in the offering circular in respect of the proposed issue of HK\$741,600,000 zero coupon convertible bonds due 2011 of the Company dated 6th April, 2006.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 34. BALANCE SHEET OF THE COMPANY

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Non-current assets		
Property, plant and equipment	<b>452</b>	110
Investments in subsidiaries	<b>1</b>	1
	<b>453</b>	111
Current assets		
Other receivables	<b>676</b>	183
Amount due from a subsidiary	<b>445,464</b>	493,910
Amount due from an associate	–	338
Amount due from a related company	–	186
Bank balances and cash	<b>6,991</b>	396
	<b>453,131</b>	495,013
Current liabilities		
Other payables	<b>672</b>	1,172
Advance from immediate holding company	<b>14,220</b>	3,000
	<b>14,892</b>	4,172
Net current assets	<b>438,239</b>	490,841
	<b>438,692</b>	490,952
Capital and reserves		
Share capital	<b>82,405</b>	82,405
Reserves	<b>356,287</b>	408,547
	<b>438,692</b>	490,952

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 35. SUBSIDIARIES

Details of the Company's subsidiaries at 31st December, 2005 are as follows:

Name of company	Place of incorporation/ registration and operations	Issued and fully paid share/ registered capital	Percentage of equity interest held		Principal activities
			Directly	Indirectly	
Certurion Industries Limited	British Virgin Islands	US\$1	100%	–	Investment holding
Value Century Group Limited	British Virgin Islands	US\$1	100%	–	Investment holding
Geely International Limited 吉利國際貿易有限公司	Hong Kong	HK\$2	100%	–	Inactive
浙江省福林國潤汽車 零部件有限公司 Zhejiang Fulin Guorun Automobile Parts & Components Co., Ltd.*	PRC	USD1,209,200	–	51%	Research, production, marketing and sales of automobile parts and related components

\* The Company's subsidiary in the PRC is sino-foreign equity joint venture established for a period of 30 years expiring in 2033.

None of the subsidiaries had issued any debt securities during the year or at the end of the year.