

## 1 GENERAL INFORMATION

Denway Motors Limited (the “Company”) and its subsidiaries (together the “Group”) are principally engaged in the manufacturing, assembly and trading of motor vehicles, the manufacturing and trading of automotive equipment and parts in the People’s Republic of China (the “PRC”) and the manufacturing and trading of audio equipment in Hong Kong.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is Room 801, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong.

The Company’s shares are listed on The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in thousands of HK dollars (HK\$’000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 28 March 2007.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### (a) Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants. They have been prepared under the historical cost convention, as modified by the revaluation of investment properties, which are stated at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

In 2006, the Group adopted the revised standards of HKFRS below, which are relevant to its operations.

HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 and HKFRS 4 (Amendments)	Financial Guarantee Contracts

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (a) Basis of preparation (cont'd)

The adoption of the above revised standards did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 21 (Amendment) changes the net investment definition and permits inter-company loans denominated in any currency to be part of a net investment in a foreign operation. Exchange differences arising from these inter-company loans are taken to exchange reserve in the consolidated financial statements.
- HKAS 39 and HKFRS 4 (Amendments) requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, and (b) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

The following new/revised standards and interpretations of HKFRS are effective in 2006 but not relevant for the Group's operations:

HKAS 19 (Amendment)	Employee Benefits
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (a) Basis of preparation (cont'd)

The Group has not early adopted the following new/revised standards and interpretations of HKFRS that have been issued but are not yet effective:

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

The Group is in the process of making an assessment of the impact of these new/revised standards and interpretations of HKFRS upon initial application. So far, it is expected that while the adoption of HKAS 1 (Amendment) and HKFRS 7 may result in new or amended disclosures, they are unlikely to result in substantial changes to the Group's accounting policies.

### (b) Consolidation

#### (i) Subsidiaries

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (b) Consolidation (cont'd)

#### (i) Subsidiaries (cont'd)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

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.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

In the Company's balance sheet the interests in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

#### (ii) Jointly controlled entities

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. Interests in jointly controlled entities are accounted for using the equity method of accounting and are initially recognised at cost. The Group's interests in jointly controlled entities include goodwill (net of any accumulated impairment loss) identified on acquisition (see note 2(c)(i)).

The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (b) Consolidation (cont'd)

#### (ii) Jointly controlled entities (cont'd)

In the Company's balance sheet the interests in jointly controlled entities are stated at cost less provision for impairment losses. The results of jointly controlled entities are accounted for by the Company on the basis of dividend received and receivable.

#### (iii) Associates

Associates are all entities over which the Group has significant influence but not control. Interests in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's interests in associates include goodwill (net of any accumulated impairment loss) identified on acquisition (see note 2(c)(i)).

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

In the Company's balance sheet the interests in associates are stated at cost less provision for impairment losses. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

### (c) Intangible assets

#### (i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries/associates/jointly controlled entities at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates and jointly controlled entities is included in respective investments. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (c) Intangible assets (cont'd)

#### (ii) Technology

Technology is shown at historical cost. Technology has a definite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of technology over its estimated useful lives.

### (d) Property, plant and equipment

#### (i) Depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs, including related borrowing costs, of bringing the asset to its present working condition and location for its intended use.

Property, plant and equipment are depreciated at rates sufficient to write off their cost over their estimated useful lives to the Group on a straight-line basis. The principal annual rates used for this purpose are as follows:

Buildings	2%-5%
Plant and machinery	10%
Office equipment and leasehold improvements	20%
Motor vehicles	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

#### (ii) Gain or loss on disposal of property, plant and equipment

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

#### (iii) Cost of restoring and improving property, plant and equipment

The plant components are depreciated over the period to overhaul. Major costs incurred in restoring the plant components to their normal working condition to allow continued use of the overall asset are capitalised and depreciated over the period to the next overhaul.

Improvements are capitalised and depreciated over their expected useful lives to the Group.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (e) Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases is classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee. These valuations are reviewed annually by external valuers.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Changes in fair values are recognised in the income statement.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (f) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### (g) Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

### (h) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

### (i) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits with terms of less than three months and bank overdrafts.



## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (j) Non-current assets (or disposal groups) held for sale

Non-current assets (or disposals groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

### (k) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

### (l) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### (m) Deferred taxation

Deferred income tax 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 consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income 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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (m) Deferred taxation (cont'd)

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

### (n) Revenue recognition

Revenue in respect of the sales of motor vehicles and related equipment and parts, and other goods is recognised, net of sales tax, on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.

Dividend income is recognised when the right to receive payment is established.

Interest income is recognised on a time-proportion basis using the effective interest method.

Operating lease rental income is recognised on a straight-line basis over the lease period.

Handling service charges for motor vehicle registration is recognised when the service is rendered.

### (o) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the income statement on a straight-line basis over the lease periods.

### (p) Foreign currency translation

#### (i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollar which is the Company's presentation currency. The Company's functional currency is Renminbi.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (p) Foreign currency translation (cont'd)

#### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

#### (iii) Group companies

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates; and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (q) Employee benefits

#### (i) Employee leave entitlements

Employee entitlements to annual leave and overtime leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and overtime leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

#### (ii) Profit sharing and bonus plans

Provisions for profit sharing and bonus plans due wholly within twelve months after the balance sheet date are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

#### (iii) Pension obligations

The Group participates in a number of defined contribution plans, the assets of which are generally held in independently administered funds. The Group's contributions to the defined contribution retirement schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

#### (iv) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (r) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the income statement in the year in which they are incurred.

### (s) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, leasehold land and land use rights, property, plant and equipment, various types of investments, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to intangible asset, leasehold land and land use rights, and property, plant and equipment, including additions resulting from acquisition through the purchase of subsidiaries.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are based on where the assets are located.

## 3 FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit risk, liquidity risk and cash flow and fair value interest-rate risk. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effect on the Group's financial performance. The Group regularly monitors its exposure and currently considers not necessary to hedge any of these financial risks.

## 3 FINANCIAL RISK MANAGEMENT (cont'd)

### 3.1 Financial risk factors (cont'd)

#### (a) Market risk

##### (i) Foreign exchange risk

Majority of the subsidiaries of the Group operates in the PRC with most of the transactions denominated in Renminbi. The Group is exposed to foreign exchange risk arising from the exposure of Renminbi against Hong Kong dollars. It has not hedged its foreign exchange rate risk.

##### (ii) Price risk

The Group is exposed to price risk of the automotive industry in the PRC.

#### (b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales are made to customers with an appropriate credit history. The carrying amount of the trade receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to its financial assets.

#### (c) Liquidity risk

Due to the capital intensive nature of the Group's business, the Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements.

#### (d) Cash flow and fair value interest rate risk

As the Group has significant interest-bearing bank balances, the Group's income and operating cash flows are affected by changes in market interest rates.

The Group's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk.

### 3.2 Fair value estimation

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets or liabilities are discussed below.

### (a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2(c)(i). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

### (b) Taxation

The Group is subject to various taxes. Significant judgement is required in determining the provision for these taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred taxation assets and taxation in the periods in which such estimate is changed.

### (c) Estimate of fair value of investment properties

The fair value of investment properties have been determined with reference to independent valuations. The best evidence of fair value is current price in an active market for similar lease and other contracts. The Group employed an independent firm of professional surveyor to determine the open market values for the investment properties of the Group. These valuations require the use of judgement and estimates.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (cont'd)

### (d) Estimated useful lives of property, plant and equipment

The Group's management determines the estimated useful lives of its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, and will write-off or write-down technically obsolete assets that have been abandoned.

## 5 TURNOVER AND SEGMENT INFORMATION

Turnover recognised during the year are as follows:

	Group	
	2006	2005
	HK\$'000	HK\$'000
Trading of motor vehicles	527,108	563,891
Manufacturing and trading of automotive equipment and parts	10,115	11,369
Manufacturing and trading of audio equipment	270,334	275,223
	807,557	850,483

### Primary reporting format – business segments

The Group is organised into four main business segments:

- Trading of motor vehicles
- Manufacturing and assembly of motor vehicles
- Manufacturing and trading of automotive equipment and parts
- Manufacturing and trading of audio equipment

Other operations of the Group mainly comprise investment holding and the holding of investment properties.

### Secondary reporting format – geographical segments

The Group's business segments operate in three main geographical areas:

- The PRC – trading of motor vehicles, manufacturing and assembly of motor vehicles and manufacturing and trading of automotive equipment and parts
- Hong Kong – manufacturing and trading of audio equipment
- Australia – manufacturing and trading of automotive equipment and parts



# Notes to the Consolidated Financial Statements

31 DECEMBER 2006

## 5 TURNOVER AND SEGMENT INFORMATION (cont'd)

### Primary reporting format – business segments

	Trading of motor vehicles 2006 HK\$'000	Manufacturing and assembly of motor vehicles 2006 HK\$'000	Manufacturing and trading of automotive equipment and parts 2006 HK\$'000	Manufacturing and trading of audio equipment 2006 HK\$'000	Other operations 2006 HK\$'000	Total 2006 HK\$'000
Turnover	<u>527,108</u>	<u>-</u>	<u>10,115</u>	<u>270,334</u>	<u>-</u>	<u>807,557</u>
Segment operating profit/(loss)	<u>7,206</u>	<u>-</u>	<u>(7,369)</u>	<u>20,991</u>	<u>467</u>	<u>21,295</u>
Interest income	<u>667</u>	<u>-</u>	<u>28,698</u>	<u>398</u>	<u>7,099</u>	<u>36,862</u>
Operating profit	<u>7,873</u>	<u>-</u>	<u>21,329</u>	<u>21,389</u>	<u>7,566</u>	<u>58,157</u>
Finance costs						(1,305)
Share of profits less losses of:						
A jointly controlled entity		2,092,138				2,092,138
Other jointly controlled entities			129,903			129,903
Associates	1,711		5,703			7,414
Profit before taxation						2,286,307
Taxation						(11,707)
Profit/(loss) for the year from:						
Continuing operations						2,274,600
A discontinued operation		(8,093)				(8,093)
						<u>2,266,507</u>

# Notes to the Consolidated Financial Statements

31 DECEMBER 2006

## 5 TURNOVER AND SEGMENT INFORMATION (cont'd)

### Primary reporting format – business segments (cont'd)

	Trading of motor vehicles 2006 HK\$'000	Manufacturing and assembly of motor vehicles 2006 HK\$'000	Manufacturing and trading of automotive equipment and parts 2006 HK\$'000	Manufacturing and trading of audio equipment 2006 HK\$'000	Other operations 2006 HK\$'000	Total 2006 HK\$'000
Segment assets	191,197		2,545,092	163,996	1,031,216	3,931,501
Interests in						
A jointly controlled entity		5,551,343				5,551,343
Other jointly controlled entities			844,951			844,951
Associates	11,711		44,866			56,577
Unallocated assets						1,033
Total assets						<u>10,385,405</u>
Segment liabilities	(95,068)		(7,508)	(35,739)	(9,164)	(147,479)
Unallocated liabilities						(29,009)
Total liabilities						<u>(176,488)</u>
Capital expenditure	3,584	-	17	4,095	5,283	12,979
Depreciation	3,116	-	268	4,787	2,626	10,797
Amortisation	-	-	-	156	450	606

# Notes to the Consolidated Financial Statements

31 DECEMBER 2006

## 5 TURNOVER AND SEGMENT INFORMATION (cont'd)

### Primary reporting format – business segments (cont'd)

	Trading of motor vehicles 2005 HK\$'000	Manufacturing and assembly of motor vehicles 2005 HK\$'000	Manufacturing and trading of automotive equipment and parts 2005 HK\$'000	Manufacturing and trading of audio equipment 2005 HK\$'000	Other operations 2005 HK\$'000	Total 2005 HK\$'000
Turnover	<u>563,891</u>	<u>-</u>	<u>11,369</u>	<u>275,223</u>	<u>-</u>	<u>850,483</u>
Segment operating profit/(loss)	7,316	-	(8,244)	27,951	(7,391)	19,632
Interest income	<u>541</u>	<u>-</u>	<u>13,038</u>	<u>145</u>	<u>20,140</u>	<u>33,864</u>
Operating profit	<u>7,857</u>	<u>-</u>	<u>4,794</u>	<u>28,096</u>	<u>12,749</u>	53,496
Finance costs						(1,418)
Share of profits less losses of:						
A jointly controlled entity		1,900,443				1,900,443
Other jointly controlled entities			16,232			16,232
Associates	10,248		2,889			13,137
Non-consolidated subsidiaries	(966)					(966)
Profit before taxation						1,980,924
Taxation						<u>(7,650)</u>
Profit/(loss) for the year from:						
Continuing operations						1,973,274
A discontinued operation		(113,026)				<u>(113,026)</u>
						<u>1,860,248</u>

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## 5 TURNOVER AND SEGMENT INFORMATION (cont'd)

### Primary reporting format – business segments (cont'd)

	Trading of motor vehicles 2005 HK\$'000	Manufacturing and assembly of motor vehicles 2005 HK\$'000	Manufacturing and trading of automotive equipment and parts 2005 HK\$'000	Manufacturing and trading of audio equipment 2005 HK\$'000	Other operations 2005 HK\$'000	Total 2005 HK\$'000
Segment assets	202,442		1,449,508	165,162	1,038,780	2,855,892
Interests in						
A jointly controlled entity		5,339,947				5,339,947
Other jointly controlled entities			721,368			721,368
Associates	13,950		37,901			51,851
Non-consolidated subsidiaries	2,105					2,105
Non-current assets classified as held for sale		243,394				243,394
Unallocated assets						252
Total assets						<u>9,214,809</u>
Segment liabilities	(110,069)		(70,922)	(44,345)	(9,886)	(235,222)
Liabilities directly associated with non-current assets classified as held for sale		(194,571)				(194,571)
Unallocated liabilities						(30,358)
Total liabilities						<u>(460,151)</u>
Capital expenditure	825	–	1,650	2,072	198	4,745
Depreciation	2,272	5,826	787	5,695	1,864	16,444
Amortisation	–	1,237	–	229	359	1,825
Provision/(write-back of provision) for impairment loss of leasehold land and land use rights, property, plant and equipment	–	23,487	–	(4,846)	(7,369)	11,272

## 5 TURNOVER AND SEGMENT INFORMATION (cont'd)

### Secondary reporting format – geographical segments

	Turnover	Segment operating profit/(loss)	Interest income	Operating profit/(loss)	Total assets	Capital expenditure
	2006	2006	2006	2006	2006	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
PRC	527,108	722	29,337	30,059	2,730,553	3,584
Hong Kong	270,334	21,458	7,497	28,955	1,195,212	9,378
Australia	10,115	(885)	28	(857)	5,736	17
	<u>807,557</u>	<u>21,295</u>	<u>36,862</u>	<u>58,157</u>	3,931,501	<u>12,979</u>
Interests in						
A jointly controlled entity					5,551,343	
Other jointly controlled entities					844,951	
Associates					56,577	
Unallocated assets					<u>1,033</u>	
Total assets					<u>10,385,405</u>	

## 5 TURNOVER AND SEGMENT INFORMATION (cont'd)

### Secondary reporting format – geographical segments (cont'd)

	Turnover	Segment operating (loss)/profit	Interest income	Operating profit/(loss)	Total assets	Capital expenditure
	2005	2005	2005	2005	2005	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
PRC	563,891	(441)	13,549	13,108	1,645,634	2,475
Hong Kong	275,223	20,560	20,285	40,845	1,203,942	2,232
Australia	11,369	(487)	30	(457)	6,316	38
	<u>850,483</u>	<u>19,632</u>	<u>33,864</u>	<u>53,496</u>	<u>2,855,892</u>	<u>4,745</u>
Interests in						
A jointly controlled entity					5,339,947	
Other jointly controlled entities					721,368	
Associates					51,851	
Non-consolidated subsidiaries					2,105	
Non-current assets classified						
as held for sale					243,394	
Unallocated assets					<u>252</u>	
Total assets					<u>9,214,809</u>	

## 6 OTHER GAINS

	Group	
	2006	2005
	HK\$'000	HK\$'000
Interest income	<b>36,862</b>	33,864
Gross rental income from investment properties	<b>1,903</b>	574
Gross rental income from other properties	<b>84</b>	829
Handling service charges for motor vehicles registration	<b>646</b>	2,484
Fair value gains on investment properties ( <i>note 19(a)</i> )	<b>3,900</b>	8,780
Others	<b>2,232</b>	2,878
	<u><b>45,627</b></u>	<u>49,409</u>

## 7 NON-CURRENT ASSETS HELD FOR SALE AND A DISCONTINUED OPERATION

The assets and liabilities related to Guangzhou Denway Bus Company Limited (“Guangzhou Denway Bus”) (the manufacturing and assembly of motor vehicles segment) have been presented as held for sale at 31 December 2005 following the approval of the Group’s shareholders on 23 March 2006 to sell the entire interests in Guangzhou Denway Bus operating in the PRC to China Lounge Investments Limited, the single largest shareholder of the Company, effective 16 February 2006.

An analysis of the result of a discontinued operation is as follows:

	<b>2006</b>	2005
	<b>HK\$’000</b>	HK\$’000
Income	<b>17,866</b>	179,526
Expense	<b>(25,959)</b>	(292,552)
Loss for the year	<b><u>(8,093)</u></b>	<u>(113,026)</u>
	<b>2006</b>	2005
	<b>HK\$’000</b>	HK\$’000
Operating cash flows	<b>(18,337)</b>	(31,006)
Investing cash flows	<b>5,750</b>	15,396
Financing cash flows	<b>5,437</b>	(3,500)
Total cash flows	<b><u>(7,150)</u></b>	<u>(19,110)</u>

## 7 NON-CURRENT ASSETS HELD FOR SALE AND A DISCONTINUED OPERATION (cont'd)

	2005 HK\$'000
Non-current assets classified as held for sale:	
Land use right	40,742
Property, plant and equipment	124,226
Inventories	18,950
Trade and other receivables	24,342
Cash and bank balances	
– pledged bank deposits	14,263
– others	20,871
	<u>243,394</u>
Liabilities directly associated with non-current assets classified as held for sale:	
Bank borrowings	
– non-current	4,804
– current	48,045
Trade and other payables	
– due to intermediate holding company	10,719
– others	131,003
	<u>194,571</u>



**8 OPERATING PROFIT**

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Expenses included in cost of sales, selling and distribution costs, general and administrative expenses and other operating income of continuing operations are analysed as follows:		
Auditor's remuneration	<b>2,540</b>	2,898
Staff costs (including directors' emoluments) ( <i>note 14</i> )	<b>46,229</b>	40,562
Operating lease rentals in respect of land and buildings	<b>10,326</b>	7,658
Outgoings in respect of investment properties	<b>1,437</b>	574
Outgoings in respect of other properties	<b>48</b>	46
Amortisation of prepaid leasehold land and land use rights ( <i>note 17</i> )	<b>606</b>	588
Depreciation of property, plant and equipment ( <i>note 18</i> )	<b>10,797</b>	10,618
Loss on disposal of property, plant and equipment	<b>61</b>	622
Write-back of provision for impairment loss ( <i>notes 17 and 18(a)</i> )	–	(12,215)
Provision/(write-back of provision) for inventory obsolescence	<b>735</b>	(480)
Write-back of provision for doubtful debts	<b>(328)</b>	(27)
Net exchange gain	<b>(28,383)</b>	(22,742)

Expenses included in a discontinued operation are analysed as follows:

Staff costs		
– Termination benefits	–	36,439
– Others	<b>7,345</b>	39,805
Operating lease rentals in respect of land and buildings	<b>238</b>	952
Amortisation of prepaid leasehold land and land use rights ( <i>note 17</i> )	–	1,237
Depreciation of property, plant and equipment ( <i>note 18</i> )	–	5,826
Provision for impairment loss	–	23,487
Provision for inventory obsolescence	–	14,896
Write-back of provision for doubtful debts	–	(2,908)

**9 FINANCE COSTS**

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Interest on bank borrowings	<b>654</b>	530
Interest on other loans – wholly repayable within five years	<b>651</b>	888
	<b>1,305</b>	1,418

**10 TAXATION**

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated income statement represents:

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Current taxation		
Hong Kong profits tax	<b>2,501</b>	2,061
PRC enterprise income tax	<b>8,536</b>	5,379
Overseas income tax	–	9
	<b>11,037</b>	7,449
Deferred taxation ( <i>note 30</i> )		
Hong Kong profits tax	<b>670</b>	201
	<b>11,707</b>	7,650

## 10 TAXATION (cont'd)

The taxation differs from the theoretical amount that would arise using the PRC enterprise income tax rate as follows:

	2006 HK\$'000	2005 HK\$'000
Profit before taxation, less share of profits less losses of jointly controlled entities, associates and non-consolidated subsidiaries	<u>56,852</u>	<u>52,078</u>
Calculated at a tax rate of 33% (2005: 33%)	18,761	17,186
Effect of different tax rates in different tax jurisdictions	(2,215)	(1,825)
Income not subject to tax	(6,459)	(7,896)
Underprovision in prior years	<u>1,620</u>	<u>185</u>
Taxation charge	<u><u>11,707</u></u>	<u><u>7,650</u></u>

## 11 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS

Included in the Group's profit attributable to the equity holders of HK\$2,261,218,000 (2005: HK\$1,905,529,000) is a profit of HK\$942,933,000 (2005: HK\$995,631,000), which is dealt with in the Company's own financial statements.

## 12 EARNINGS PER SHARE

### Basic

Basic earnings per share is calculated by dividing the profit attributable to the equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2006 HK\$'000	2005 HK\$'000
Profit/(loss) attributable to the equity holders of the Company		
– continuing operations	2,265,264	1,962,548
– a discontinued operation	(4,046)	(57,019)
	<u>2,261,218</u>	<u>1,905,529</u>
Weighted average number of ordinary shares in issue ('000)	<u>7,517,359</u>	<u>7,502,012</u>
Basic earnings/(losses) per share (HK cents)		
– continuing operations	30.2	26.2
– a discontinued operation	(0.1)	(0.8)
	<u>30.1</u>	<u>25.4</u>

### Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has share options outstanding during the year which are dilutive potential ordinary shares. Calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average daily market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

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## 12 EARNINGS PER SHARE (cont'd)

### Diluted (cont'd)

	2006 HK\$'000	2005 HK\$'000
Profit/(loss) attributable to the equity holders of the Company		
– continuing operations	2,265,264	1,962,548
– a discontinued operation	(4,046)	(57,019)
	<u>2,261,218</u>	<u>1,905,529</u>
Weighted average number of ordinary shares in issue ('000)	7,517,359	7,502,012
Adjustments for share options ('000)	12,111	10,543
	<u>7,529,470</u>	<u>7,512,555</u>
Weighted average number of ordinary shares for diluted earnings per share ('000)		
	<u>7,529,470</u>	<u>7,512,555</u>
Diluted earnings/(losses) per share (HK cents)		
– continuing operations	30.1	26.1
– a discontinued operation	(0.1)	(0.8)
	<u>30.0</u>	<u>25.3</u>

## 13 DIVIDENDS

	Company	
	2006 HK\$'000	2005 HK\$'000
Interim, paid, of HK5 cents (2005: HK4 cents) per ordinary share	375,868	300,694
Final, proposed, of HK6 cents (2005: HK4 cents) per ordinary share ( <i>note (a)</i> )	451,042	300,694
Special, proposed, of HKNil cents (2005: HK5 cents) per ordinary share ( <i>note (a)</i> )	–	375,868
	<u>826,910</u>	<u>977,256</u>

- (a) At a meeting held on 28 March 2007, the directors proposed a final dividend of HK6 cents (2005: a final dividend of HK4 cents and a special dividend of HK5 cents) per ordinary share. These proposed dividends are not reflected as dividend payable in these financial statements but will be reflected as an appropriation of retained earnings for the year ending 31 December 2007.

**14 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)**

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Wages and salaries	<b>41,789</b>	37,665
Pension costs – retirement benefit costs	<b>4,440</b>	2,897
	<b><u>46,229</u></b>	<u>40,562</u>

The Company and certain of its Hong Kong subsidiaries (the “Employers”) participate in two defined contribution schemes as defined in the Occupational Retirement Schemes Ordinance (the “ORSO Schemes”) and a mandatory provident fund scheme (“MPF Scheme”). Contributions to the schemes by the Employers and employees are calculated as a percentage of employees’ basic salaries.

The Group’s contributions are reduced by contributions forfeited by those employees who leave the ORSO Schemes prior to vesting fully in the contributions. There was no forfeited contribution utilised during the years ended 31 December 2005 and 2006. There was no outstanding balance available at the balance sheet dates of 2005 and 2006 to reduce future contributions. As at 31 December 2006, contributions totalling HK\$85,000 (2005: HK\$79,000) were payable to the ORSO and MPF Schemes and are included in other payables. The assets of the schemes are held separately from those of the Group in independently administered funds.

The subsidiaries of the Group in the PRC have participated in an employees’ retirement scheme of Guangzhou city. The implementation of such scheme by the Guangzhou Municipal Government is an administrative measure to provide pensions for retired employees. Pursuant to the relevant provisions, the subsidiaries in the PRC make a monthly defined contribution of 23% of the entire payroll of its staff while the employees need to contribute 3% of their payroll. The pension plan has been paying monthly pensions to the retired employees of these subsidiaries. In 2005 and 2006, there was no material contribution forfeited by employees who left the scheme prior to vesting fully in such contributions. The Group has no further obligations for the actual payment of the pensions or post-retirement benefits beyond the annual contributions made.

The Group’s retirement benefit costs were expensed as incurred and the total amount charged to the income statement for the year was approximately HK\$4,440,000 (2005: HK\$2,897,000).

## 15 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

- (a) The remuneration of every Director for the year ended 31 December 2006 is set out below:

Name of Director	Fees HK\$'000	Salaries, allowances, and benefits in kind HK\$'000	Retirement benefit costs HK\$'000	Total HK\$'000
<i>Executive director:</i>				
Zhang Fangyou	1,000	–	–	1,000
Lu Zhifeng	800	–	–	800
Yang Dadong	800	–	–	800
Zeng Qinghong	300	–	–	300
Zhang Baoqing	300	1,386	48	1,734
Ding Baoshan	300	–	–	300
	<u>3,500</u>	<u>1,386</u>	<u>48</u>	<u>4,934</u>
<i>Independent non-executive director:</i>				
Cheung Doi Shu	180	–	–	180
Lee Ka Lun	180	–	–	180
Fung Ka Pun	180	–	–	180
	<u>540</u>	<u>–</u>	<u>–</u>	<u>540</u>
	<u>4,040</u>	<u>1,386</u>	<u>48</u>	<u>5,474</u>

## 15 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (cont'd)

(a) The remuneration of every Director for the year ended 31 December 2005 is set out below:

Name of Director	Fees HK\$'000	Salaries, allowances, and benefits in kind HK\$'000	Retirement benefit costs HK\$'000	Total HK\$'000
<i>Executive director:</i>				
Zhang Fangyou	1,000	–	–	1,000
Lu Zhifeng	800	–	–	800
Yang Dadong	800	–	–	800
Zeng Qinghong	300	–	–	300
Zhang Baoqing	300	1,384	48	1,732
Ding Baoshan	300	–	–	300
	<u>3,500</u>	<u>1,384</u>	<u>48</u>	<u>4,932</u>
<i>Independent non-executive director:</i>				
Cheung Doi Shu	180	–	–	180
Lee Ka Lun	180	–	–	180
Fung Ka Pun	180	–	–	180
	<u>540</u>	<u>–</u>	<u>–</u>	<u>540</u>
	<u>4,040</u>	<u>1,384</u>	<u>48</u>	<u>5,472</u>

No director waived any emoluments and no emoluments were paid to the directors as an inducement fee to join or as compensation for loss of office during the years ended 31 December 2005 and 2006.



## 15 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (cont'd)

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest for the year include three (2005: two) of the directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2005: three) individuals during the year are as follows:

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Basic salaries, allowances and bonus	<b>1,960</b>	2,651
Share options exercised	–	300
	<b><u>1,960</u></b>	<u>2,951</u>

The emoluments fell within the following bands:

<b>Emolument bands</b>	<b>Number of individuals</b>	
	<b>2006</b>	2005
Below HK\$1,000,000	<b>1</b>	3
HK\$1,000,001 – HK\$1,500,000	<b><u>1</u></b>	<u>–</u>

During the year, no emoluments were paid to the five highest paid individuals as an inducement fee to join or as compensation for loss of office.

## 16 INTANGIBLE ASSET

	<b>Group</b>
	<b>Goodwill</b>
	HK\$'000
Year ended 31 December 2005	
Opening net book amount	24,526
Additions	838,348
Exchange differences	689
	<hr/>
Closing net book amount	863,563
	<hr/> <hr/>
At 31 December 2005	
Cost	863,563
	<hr/> <hr/>
Year ended 31 December 2006	
Opening net book amount	863,563
Exchange differences	903
	<hr/>
Closing net book amount	864,466
	<hr/> <hr/>
At 31 December 2006	
Cost	864,466
	<hr/> <hr/>

Goodwill is allocated to the Group's cash-generating units identified according to business segment.

A segment-level summary of the goodwill is presented below.

	2006			2005		
	Trading of motor vehicles HK\$'000	Manufacturing and assembly of motor vehicles HK\$'000	Manufacturing of automotive equipment and parts (note 21(b)) HK\$'000	Trading of motor vehicles HK\$'000	Manufacturing and assembly of motor vehicles HK\$'000	Manufacturing of automotive equipment and parts (note 21(b)) HK\$'000
PRC	<u>26,118</u>	<u>838,348</u>	<u>208,467</u>	<u>25,215</u>	<u>838,348</u>	<u>208,467</u>

## 17 LEASEHOLD LAND AND LAND USE RIGHTS

	Group	
	2006	2005
	HK\$'000	HK\$'000
At 1 January	29,638	81,378
Exchange differences	–	1,129
Transfer to investment properties (note 19)	–	(3,224)
Transfer from investment properties (note 19)	–	6,332
Amortisation of leasehold land and land use rights (note 8)	(606)	(1,825)
Provision for impairment loss	–	(18,096)
Write-back of provision for impairment loss	–	4,686
Transfer to non-current assets classified as held for sale (note 7)	–	(40,742)
	<u>29,032</u>	<u>29,638</u>
At 31 December	<u>29,032</u>	<u>29,638</u>

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	2006	2005
	HK\$'000	HK\$'000
In Hong Kong, held on:		
Leases of over 50 years	3,543	3,577
Leases of between 10 to 50 years	23,721	24,238
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	1,768	1,823
	<u>29,032</u>	<u>29,638</u>

The net book value of land use rights included in non-current assets classified as held for sale is analysed as follows:

	2005
	HK\$'000
Outside Hong Kong, held on:	
Leases of between 10 to 50 years (note 7)	<u>40,742</u>

At 31 December 2006, certain leasehold land with a total net book value of approximately HK\$4,572,000 (2005: HK\$4,683,000) were pledged as security for the Group's bank borrowings (see note 29).

## 18 PROPERTY, PLANT AND EQUIPMENT

(a)

	Group				Total HK\$'000
	Buildings HK\$'000	Plant and machinery HK\$'000	Office equipment and leasehold improvements HK\$'000	Motor vehicles HK\$'000	
At 1 January 2006					
Cost	70,309	42,834	18,826	11,280	143,249
Accumulated depreciation and accumulated impairment	(25,059)	(27,099)	(11,706)	(6,395)	(70,259)
Net book amount	<u>45,250</u>	<u>15,735</u>	<u>7,120</u>	<u>4,885</u>	<u>72,990</u>
Year ended 31 December 2006					
Opening net book amount	45,250	15,735	7,120	4,885	72,990
Exchange differences	696	152	68	157	1,073
Additions	370	4,165	6,663	1,781	12,979
Disposals	-	(126)	(10)	-	(136)
Depreciation (note 8)	(2,754)	(3,547)	(3,079)	(1,417)	(10,797)
Closing net book amount	<u>43,562</u>	<u>16,379</u>	<u>10,762</u>	<u>5,406</u>	<u>76,109</u>
At 31 December 2006					
Cost	71,459	47,072	25,124	13,342	156,997
Accumulated depreciation and accumulated impairment	(27,897)	(30,693)	(14,362)	(7,936)	(80,888)
Net book amount	<u>43,562</u>	<u>16,379</u>	<u>10,762</u>	<u>5,406</u>	<u>76,109</u>

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## 18 PROPERTY, PLANT AND EQUIPMENT (cont'd)

(a) (cont'd)

	Group				Total HK\$'000
	Buildings HK\$'000	Plant and machinery HK\$'000	Office equipment and leasehold improvements HK\$'000	Motor vehicles HK\$'000	
At 1 January 2005					
Cost	149,992	88,253	32,097	33,758	304,100
Accumulated depreciation and accumulated impairment	(34,054)	(36,329)	(22,734)	(9,213)	(102,330)
Net book amount	<u>115,938</u>	<u>51,924</u>	<u>9,363</u>	<u>24,545</u>	<u>201,770</u>
Year ended 31 December 2005					
Opening net book amount	115,938	51,924	9,363	24,545	201,770
Exchange differences	2,354	496	71	456	3,377
Additions	–	1,911	821	2,013	4,745
Disposals	–	(12)	(535)	(75)	(622)
Transfer to investment properties (note 19)	(2,566)	–	–	–	(2,566)
Transfer from investment properties (note 19)	4,818	–	–	–	4,818
Depreciation	(3,568)	(7,795)	(2,600)	(2,481)	(16,444)
Provision for impairment losses	(2,678)	(815)	–	(1,898)	(5,391)
Write-back of provision for impairment loss	7,529	–	–	–	7,529
Transfer to non-current assets classified as held for sale (note 7)	(76,577)	(29,974)	–	(17,675)	(124,226)
Closing net book amount	<u>45,250</u>	<u>15,735</u>	<u>7,120</u>	<u>4,885</u>	<u>72,990</u>
At 31 December 2005					
Cost	70,309	42,834	18,826	11,280	143,249
Accumulated depreciation and accumulated impairment	(25,059)	(27,099)	(11,706)	(6,395)	(70,259)
Net book amount	<u>45,250</u>	<u>15,735</u>	<u>7,120</u>	<u>4,885</u>	<u>72,990</u>

The above assets are carried at cost at 31 December 2006 and 2005.

At 31 December 2006, certain property, plant and equipment with a total net book value of approximately HK\$6,645,000 (2005: HK\$5,474,000) were pledged as security for the Group's bank borrowings (see note 29).

**18 PROPERTY, PLANT AND EQUIPMENT** (cont'd)

(b)

	<b>Company</b>		
	<b>Office equipment and leasehold improvements HK\$'000</b>	<b>Motor vehicles HK\$'000</b>	<b>Total HK\$'000</b>
<b>At 1 January 2005</b>			
Cost	3,673	2,683	6,356
Accumulated depreciation	(3,062)	(2,289)	(5,351)
Net book amount	<u>611</u>	<u>394</u>	<u>1,005</u>
<b>Year ended 31 December 2005</b>			
Opening net book amount	611	394	1,005
Additions	197	–	197
Disposals	(12)	–	(12)
Depreciation	(443)	(322)	(765)
Closing net book amount	<u>353</u>	<u>72</u>	<u>425</u>
<b>At 31 December 2005</b>			
Cost	3,449	2,683	6,132
Accumulated depreciation	(3,096)	(2,611)	(5,707)
Net book amount	<u>353</u>	<u>72</u>	<u>425</u>
<b>Year ended 31 December 2006</b>			
Opening net book amount	353	72	425
Additions	1,055	–	1,055
Depreciation	(414)	(45)	(459)
Closing net book amount	<u>994</u>	<u>27</u>	<u>1,021</u>
<b>At 31 December 2006</b>			
Cost	4,260	2,683	6,943
Accumulated depreciation	(3,266)	(2,656)	(5,922)
Net book amount	<u>994</u>	<u>27</u>	<u>1,021</u>

**19 INVESTMENT PROPERTIES**

(a)

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
At 1 January	<b>41,160</b>	37,740
Transfer from leasehold land and buildings (notes 17 and 18(a))	–	5,790
Transfer to leasehold land and buildings (notes 17 and 18(a))	–	(11,150)
Fair value gains (note 6)	<b>3,900</b>	8,780
	<b>45,060</b>	41,160

Investment properties were revalued at 31 December 2006 on the basis of their open market values by Colliers International (Hong Kong) Limited, a member of the Hong Kong Institute of Surveyors.

The Group's interests in investment properties at their net book values are analysed as follows:

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
In Hong Kong, held on:		
Leases of over 50 years	<b>10,660</b>	8,230
Leases of between 10 to 50 years	<b>21,290</b>	19,820
Outside Hong Kong, held on:		
Leases of over 50 years	<b>590</b>	590
Leases of between 10 to 50 years	<b>12,520</b>	12,520
	<b>45,060</b>	41,160

At 31 December 2006, certain investment properties with a total net book value of approximately HK\$25,410,000 (2005: HK\$21,430,000) were pledged as security for the Group's bank borrowings (see note 29).

## 19 INVESTMENT PROPERTIES (cont'd)

(b)

	Company	
	2006	2005
	HK\$'000	HK\$'000
At 1 January	10,360	9,950
Fair value gains	–	410
At 31 December	<u>10,360</u>	<u>10,360</u>

The Company's interest in investment properties at their net book values are analysed as follows:

	2006	2005
	HK\$'000	HK\$'000
Outside Hong Kong, held on:		
Leases of over 50 years	590	590
Leases of between 10 to 50 years	9,770	9,770
	<u>10,360</u>	<u>10,360</u>

## 20 INVESTMENTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK\$'000	HK\$'000
Investments at cost		
– unlisted shares	1,857,631	1,974,251
– provision for impairment losses	(62,250)	(159,993)
	<u>1,795,381</u>	<u>1,814,258</u>

Particulars of principal consolidated subsidiaries are set out in note 35 to the financial statements.



## 21 INTERESTS IN JOINTLY CONTROLLED ENTITIES

### (a) Interest in a jointly controlled entity

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Share of net assets	<b><u>5,551,343</u></b>	<u>5,339,947</u>

Particulars of a jointly controlled entity are as follows:

<b>Name</b>	<b>Place of incorporation/ establishment</b>	<b>Principal activities</b>	<b>Effective interest held</b>
Guangzhou Honda Automobile Co. Ltd.	PRC	Manufacture and assembly of motor vehicles in the PRC	50%

This is a Sino-foreign equity joint-venture in which 50% of the equity capital, voting power and profit sharing is held by a 100% owned subsidiary of the Company. The Group's investment cost in this company is HK\$514,333,000 (2005: 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.

## 21 INTERESTS IN JOINTLY CONTROLLED ENTITIES (cont'd)

### (a) Interest in a jointly controlled entity (cont'd)

The following amounts represent the Group's 50% share of assets and liabilities, income and expenses of the jointly controlled entity:

	2006 HK\$'000	2005 HK\$'000
Assets:		
Intangible assets <sup>1</sup>	217,500	230,429
Land use rights	129,676	126,962
Property, plant and equipment	2,391,242	2,029,928
Current assets	<u>6,497,050</u>	<u>5,605,088</u>
	<u>9,235,468</u>	<u>7,992,407</u>
Liabilities:		
Non-current liabilities	(2,588)	(961)
Current liabilities	<u>(3,678,164)</u>	<u>(2,648,532)</u>
	<u>(3,680,752)</u>	<u>(2,649,493)</u>
Minority interests	<u>(3,373)</u>	<u>(2,967)</u>
	<u>5,551,343</u>	<u>5,339,947</u>
Income	18,271,507	16,059,400
Expenses	<u>(16,179,369)</u>	<u>(14,158,957)</u>
Profit for the year	<u>2,092,138</u>	<u>1,900,443</u>

<sup>1</sup> Included in this balance is goodwill of approximately HK\$149,716,000 (2005: HK\$144,538,000) arising from the acquisition of motor vehicle manufacturing business and a production plant in Guangzhou by the jointly controlled entity.

## 21 INTERESTS IN JOINTLY CONTROLLED ENTITIES (cont'd)

### (a) Interest in a jointly controlled entity (cont'd)

#### Capital commitments

At 31 December 2006, the Group's share of capital commitments in respect of construction and purchase of property, plant and equipment of the jointly controlled entity itself was as follows:

	2006 HK\$'000	2005 HK\$'000
Authorised but not contracted for	—	247,896
Contracted but not provided for	—	1,192,919

### (b) Interests in other jointly controlled entities

	Group	
	2006 HK\$'000	2005 HK\$'000
Share of net assets	468,034	319,542
Intangible assets		
– Technology	168,450	193,359
– Goodwill ( <i>note 16</i> )	208,467	208,467
	376,917	401,826
	844,951	721,368

## 21 INTERESTS IN JOINTLY CONTROLLED ENTITIES (cont'd)

### (b) Interests in other jointly controlled entities (cont'd)

Particulars of the principal jointly controlled entity are as follows:

<u>Name</u>	<u>Place of incorporation/ establishment</u>	<u>Principal activities</u>	<u>Effective interest held</u>
Guangzhou Automobile Group Component Co., Limited	PRC	Investment holding in entities engaged in manufacture and assembly of parts and components for motor vehicles in the PRC	49%

This is a Sino-foreign equity joint-venture in which 49% of the equity capital is held by a 100% owned subsidiary of the Company. The Group's investment cost in this company is HK\$710,000,000 (2005: HK\$710,000,000). The Group has no unilateral control over the joint venture company. The joint venture period is 40 years from September 2005.

## 22 INTERESTS IN ASSOCIATES

	<u>Group</u>	
	<u>2006</u>	2005
	<u>HK\$'000</u>	HK\$'000
At 1 January	<b>51,851</b>	43,762
Share of results	<b>7,414</b>	13,137
Dividend paid	<b>(4,852)</b>	(5,324)
Additions	<b>2,105</b>	–
Liquidation of an associate	<b>(333)</b>	–
Exchange differences	<b>392</b>	276
	<u>          </u>	<u>          </u>
At 31 December	<b><u>56,577</u></b>	<b><u>51,851</u></b>

## 23 INTERESTS IN NON-CONSOLIDATED SUBSIDIARIES

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
At 1 January	<b>2,105</b>	2,991
Share of results	–	(966)
Disposals	<b>(2,105)</b>	–
Exchange differences	–	80
	<hr/>	<hr/>
At 31 December	<b>–</b>	<b>2,105</b>
	<hr/> <hr/>	<hr/> <hr/>

## 24 INVENTORIES

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Raw materials	<b>21,858</b>	22,660
Work in progress	<b>7,489</b>	8,602
Finished goods	<b>57,347</b>	60,390
Less: provision	<b>(3,677)</b>	(2,942)
	<hr/>	<hr/>
	<b>83,017</b>	<b>88,710</b>
	<hr/> <hr/>	<hr/> <hr/>

The cost of inventories recognised as expense and included in cost of sales amounted to HK\$688,751,000 (2005: HK\$722,493,000).

## 25 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Due from subsidiaries ( <i>note (a)</i> )	–	–	2,217,872	2,243,046
Due from a jointly controlled entity ( <i>note (a)</i> )	5,769	7,071	–	–
Trade receivables ( <i>note (b)</i> )	45,711	58,336	–	–
Other receivables, prepayments and deposits	28,521	31,227	4,973	4,510
	<u>80,001</u>	<u>96,634</u>	<u>2,222,845</u>	<u>2,247,556</u>

(a) The balances are unsecured, interest-free and repayable on demand.

(b) The Group allows its trade customers an average credit period of 90 days.

The carrying amounts of trade and other receivables approximate their fair values.

At 31 December 2006, the ageing analysis of the trade receivables was as follows:

	Group	
	2006 HK\$'000	2005 HK\$'000
Within 3 months	42,721	45,893
4-6 months	1,533	6,593
7-12 months	464	177
Over 12 months	993	5,673
	<u>45,711</u>	<u>58,336</u>

## 25 TRADE AND OTHER RECEIVABLES (cont'd)

The ageing analysis of the trade receivables included in non-current assets classified as held for sale was as follows:

	2005 HK\$'000
Within 3 months	5,864
4-6 months	8,217
7-12 months	2,258
	<u>16,339</u>

Trade and other receivables are denominated in the following currencies:

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Hong Kong dollar	8,294	57,259	644,363	690,622
US dollar	39,095	–	–	–
Renminbi	31,187	37,869	1,578,482	1,556,934
Others	1,425	1,506	–	–
	<u>80,001</u>	<u>96,634</u>	<u>2,222,845</u>	<u>2,247,556</u>

## 26 CASH AND BANK BALANCES

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Cash at bank and in hand	192,020	225,970	6,909	9,706
Short-term bank deposits	2,561,796	1,437,227	119,103	183,528
	<u>2,753,816</u>	<u>1,663,197</u>	<u>126,012</u>	<u>193,234</u>

## 26 CASH AND BANK BALANCES (cont'd)

Cash and bank balances are denominated in the following currencies:

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Hong Kong dollar	36,581	29,682	119,704	8,181
US dollar	121,570	185,079	5,520	184,342
Renminbi ( <i>note (a)</i> )	2,593,925	1,446,884	–	–
Others	1,740	1,552	788	711
	<u>2,753,816</u>	<u>1,663,197</u>	<u>126,012</u>	<u>193,234</u>

(a) Renminbi is not a freely convertible currency. The conversion of Renminbi into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by the PRC government.

At 31 December 2006, bank balances of the Group totalling HK\$26,393,000 (2005: HK\$30,684,000) were pledged as collateral for the Group's bank borrowing facilities (*note 29*).

The weighted average effective interest rate on short-term bank deposits was 2.19% (2005: 2.11%); these deposits have an average maturity of 120 days (2005: 75 days).

## 27 SHARE CAPITAL

	Ordinary shares of HK\$0.1 each	
	No. of shares	HK\$'000
Authorised:		
At 1 January 2005, 31 December 2005 and 2006	<u>10,000,000,000</u>	<u>1,000,000</u>
Issued and fully paid:		
At 1 January 2005	7,412,680,534	741,268
Purchase of partial interest in a subsidiary ( <i>note (a)</i> )	73,800,000	7,380
Exercise of options ( <i>note (b)</i> )	30,878,000	3,088
At 31 December 2005 and 2006	<u>7,517,358,534</u>	<u>751,736</u>



## 27 SHARE CAPITAL (cont'd)

- (a) The Group issued 73,800,000 shares on 7 February 2005 to the shareholders of City Achieve Investments Limited, a fellow subsidiary of the Company, as part of the purchase consideration of HK\$996,215,000 for the remaining 5% equity interest in Guangzhou Denway Enterprises Development Company Limited. The ordinary shares issued have the same rights as the other shares in issue. The fair value of the shares issued at the date of acquisition amounted to HK\$206,861,000 (HK\$2.803 per share).
- (b) A share option scheme was approved at an Extraordinary General Meeting of the Company held on 6 June 2002 under which the directors may, at their discretion, invite any participant who has rendered services or will render services to the Group to take up options. Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2006		2005	
	Average exercise price in HK\$ per share	Options ( '000)	Average exercise price in HK\$ per share	Options ( '000)
At 1 January	2.12	48,324	1.82	79,202
Exercised	–	–	1.34	(30,878)
Forfeited	2.15	(5,664)	–	–
Expired	1.33	(1,628)	–	–
At 31 December	2.15	41,032	2.12	48,324

All of the above outstanding options were exercisable. No option was exercised in 2006. Options exercised in 2005 resulted in 30,878,000 shares being issued at an average exercise price of HK\$1.34 each. The related weighted average share price at the time of exercise was HK\$2.87 per share.

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Expiry date	Exercise price in HK\$ per share	Options ( '000)	
		2006	2005
8 May 2006	1.325	–	1,628
5 June 2012	2.1525	41,032	46,696
		41,032	48,324

# Notes to the Consolidated Financial Statements

31 DECEMBER 2006

## 28 RESERVES

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
<b>Share premium</b>				
At 1 January	2,501,481	2,263,638	2,501,481	2,263,638
Issue of shares	–	237,843	–	237,843
At 31 December	2,501,481	2,501,481	2,501,481	2,501,481
<b>Exchange reserve</b>				
At 1 January	77,691	(33,456)	–	–
Exchange differences on translation of financial statements of foreign subsidiaries, jointly controlled entities and associates	250,608	111,147	–	–
Transfer to income statement upon disposal of a subsidiary	5,910	–	–	–
At 31 December	334,209	77,691	–	–
<b>Retained earnings (note (a))</b>				
At 1 January	4,261,402	3,122,681	996,224	601,714
Profit for the year	2,261,218	1,905,529	942,933	995,631
2005 final and special dividends/ 2004 final dividend paid	(676,562)	(300,427)	(676,562)	(300,427)
Interim dividend paid	(375,868)	(300,694)	(375,868)	(300,694)
Transfer to capital reserve	(186,479)	(165,687)	–	–
At 31 December	5,283,711	4,261,402	886,727	996,224

# Notes to the Consolidated Financial Statements

31 DECEMBER 2006

## 28 RESERVES (cont'd)

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
<b>Capital reserve (note (b))</b>				
At 1 January	<b>1,077,886</b>	876,236	–	–
Exchange differences on translation of financial statements of foreign subsidiaries	<b>2,974</b>	1,670	–	–
Transfer from income statement	<b>186,479</b>	165,687	–	–
Purchase of partial interest in a subsidiary	–	34,293	–	–
At 31 December	<b>1,267,339</b>	1,077,886	–	–
Total reserves	<b>9,386,740</b>	7,918,460	<b>3,388,208</b>	3,497,705

(a) Retained earnings/(accumulated losses)

	Group	
	2006 HK\$'000	2005 HK\$'000
Company and subsidiaries	<b>1,973,317</b>	903,358
A jointly controlled entity	<b>3,258,610</b>	3,397,447
Other jointly controlled entities	<b>66,000</b>	(22,625)
Non-consolidated subsidiaries and associates	<b>(14,216)</b>	(16,778)
	<b>5,283,711</b>	4,261,402

(b) The reserve represents transfers made to reserve funds and enterprise development funds set up by certain subsidiaries, jointly controlled entities and associates, which are foreign investment enterprises in the PRC, pursuant to regulations in the PRC. According to the regulations, reserve funds may be used for making up losses, if any, and increasing capital while enterprise development funds may be used for increasing capital.

## 29 BORROWINGS

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Non-current		
Long-term bank loans	<b>3,138</b>	5,563
Current		
Trust receipt loans	<b>4,959</b>	10,095
Current portion of long-term bank loans	<b>5,838</b>	3,591
	<b>10,797</b>	13,686
Total borrowings	<b>13,935</b>	19,249

The maturity of bank borrowings is as follows:

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>10,403</b>	13,686
In the second year	<b>2,986</b>	2,222
In the third to fifth year inclusive	<b>546</b>	3,085
After the fifth year	–	256
	<b>13,935</b>	19,249

(a) Borrowings of the Group totalling HK\$13,935,000 (2005: HK\$12,460,000) are secured by certain leasehold land, property, plant and equipment, investment properties and pledged bank balances (notes 17, 18, 19 and 26) of the Group.

(b) The weighted average effective interest rates at the balance sheet date were as follows:

	<b>2006</b>	2005
	<b>HK\$</b>	HK\$
Bank loans	<b>7.386%</b>	5.563%
Trust receipt loans	<b>7.750%</b>	7.750%

## 29 BORROWINGS (cont'd)

- (c) The carrying amounts of all borrowings approximate their fair values and denominated in Hong Kong dollar.

## 30 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using the applicable income tax rate.

Deferred taxation at 31 December 2005 and 2006 represents deferred tax liabilities arising from Hong Kong profits tax provided in respect of accelerated depreciation allowances.

The movement on the deferred tax liabilities account is as follows:

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
At 1 January	<b>1,127</b>	926
Charged to income statement ( <i>note 10</i> )	<b>670</b>	201
At 31 December	<b><u>1,797</u></b>	<u>1,127</u>

Deferred income tax assets are only recognised for tax losses carried forward to the extent that realisation of the related tax benefits through the future taxable profits is probable. Total potential deferred taxation asset not provided for in the financial statements is as follows:

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Tax losses	<b><u>58,194</u></b>	<u>57,752</u>

## 31 TRADE AND OTHER PAYABLES

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Due to the single largest shareholder of the Company (note (a))	2,765	8,123	101	548
Due to a fellow subsidiary (note (a))	40	–	–	–
Due to an associate (note (a))	769	1,448	–	–
Due to a minority shareholder of a subsidiary (note (a))	443	443	–	–
Trade payables	33,639	45,301	–	–
Bills payables (note (b))	78,232	81,705	–	–
Other payables, deposits received and accrued charges	31,591	98,202	9,033	9,303
	<b>147,479</b>	<b>235,222</b>	<b>9,134</b>	<b>9,851</b>

(a) The balances are unsecured, interest-free and repayable on demand.

(b) Bills payables are due for payments within 6 months.

At 31 December 2006, the ageing analysis of the trade payables was as follows:

	Group	
	2006 HK\$'000	2005 HK\$'000
Within 3 months	33,108	44,760
4-6 months	119	402
7-12 months	85	66
Over 12 months	327	73
	<b>33,639</b>	<b>45,301</b>

## 31 TRADE AND OTHER PAYABLES (cont'd)

The ageing analysis of the trade payables included in liabilities directly associated with non-current assets classified as held for sale was as follows:

	2005 HK\$'000
Within 3 months	27,506
4-6 months	1,618
7-12 months	1,130
Over 12 months	1,486
	<u>31,740</u>

Trade and other payables are denominated in the following currencies:

	<b>Group</b>		<b>Company</b>	
	<b>2006</b> HK\$'000	2005 HK\$'000	<b>2006</b> HK\$'000	2005 HK\$'000
Hong Kong dollar	<b>38,733</b>	53,683	<b>9,033</b>	9,303
Renminbi	<b>104,934</b>	180,051	<b>101</b>	548
Others	<b>3,812</b>	1,488	-	-
	<u><b>147,479</b></u>	<u>235,222</u>	<u><b>9,134</b></u>	<u>9,851</u>

**32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT****(a) Reconciliation of profit before taxation to net cash (used in)/generated from operations:**

	2006 HK\$'000	2005 HK\$'000
Profit before taxation	2,286,307	1,980,924
Interest income	(36,862)	(33,864)
Interest expense	1,305	1,418
Share of profits less losses of:		
A jointly controlled entity	(2,092,138)	(1,900,443)
Other jointly controlled entities	(129,903)	(16,232)
Associates	(7,414)	(13,137)
Non-consolidated subsidiaries	–	966
Fair value gains on investment properties	(3,900)	(8,780)
Amortisation of prepaid leasehold land and land use rights	606	588
Depreciation of property, plant and equipment	10,797	10,618
Loss on disposal of property, plant and equipment	61	622
Write-back of provision for impairment loss	–	(12,215)
Loss on disposal of a subsidiary ( <i>note (b)</i> )	2,217	–
Loss on liquidation of an associate	333	–
Provision/(write-back of provision) for inventory obsolescence	735	(480)
Write-back of provision for doubtful debts	(328)	(27)
	<hr/>	<hr/>
Operating profit before working capital changes	31,816	9,958
Decrease in inventories	4,958	34,010
Decrease in trade and other receivables	16,961	84,946
(Decrease)/increase in trade and other payables	(87,743)	23,754
	<hr/>	<hr/>
Net cash (used in)/generated from operations	<u>(34,008)</u>	<u>152,668</u>



## 32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)

### (b) Disposal of a subsidiary

	2006 HK\$'000
Net assets disposed of:	
Land use rights	39,516
Property, plant and equipment	125,504
Inventories	30,702
Trade and other receivables	25,011
Cash and bank balances	
– pledged bank deposits	5,773
– others	2,993
Trade and other payables	(141,211)
Bank borrowings	(58,286)
Minority interests	(14,818)
Reserve	5,910
	<hr/>
	21,094
Loss on disposal (due to the release of exchange reserve)	(2,217)
	<hr/>
Cash consideration received	<u>18,877</u>

Analysis of net cash and cash equivalents generated in respect of the disposal of a subsidiary

	2006 HK\$'000
Cash consideration received	18,877
Cash and bank balances disposed of	(2,993)
	<hr/>
Net cash generated	<u>15,884</u>

## 33 COMMITMENTS

### (a) Commitments under operating leases

At 31 December 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Not later than one year	<b>9,442</b>	9,197
Later than one year and not later than five years	<b>19,693</b>	27,699
Later than five years	<b>34,628</b>	35,656
	<b>63,763</b>	72,552

The Company had no operating lease commitments as at 31 December 2005 and 2006.

### (b) Capital commitments

At 31 December 2006, the Group had capital commitments in respect of purchase of property, plant and equipment as follows:

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Authorised but not provided for	–	1,546
Contracted but not provided for	<b>433</b>	938

The Company had no capital commitments as at 31 December 2005 and 2006.

## 34 RELATED PARTY TRANSACTIONS

### (a) Related parties

The Company's single largest shareholder is China Lounge Investments Limited (incorporated in Hong Kong), which owns 37.91% of the Company's shares. The remaining 62.09% of its shares are widely held. China Lounge Investments Limited is a subsidiary of Guangzhou Automobile Industry Group Company Limited (incorporated in the PRC).

Related parties are those parties which have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

### (b) Transactions with related parties

Save as disclosed in notes 7 and 27(a) in these financial statements, the following is a summary of significant transactions with related parties during the year:

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Purchases from a jointly controlled entity	<b>232,336</b>	324,092
Purchase of interests in other jointly controlled entities from a fellow subsidiary	–	710,000
	<u>          </u>	<u>          </u>

### (c) Balances with related parties

Save as disclosed in notes 25 and 31 in these financial statements, there are no other significant balances with related parties.

### (d) Key management compensation

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Salaries and other short-term employee benefits	<b>4,886</b>	4,884
Retirement benefits	<b>48</b>	48
	<u>          </u>	<u>          </u>
	<b>4,934</b>	4,932
	<u>          </u>	<u>          </u>

**35 SUBSIDIARIES**

The following includes the principal consolidated subsidiaries of the Company which, in the opinion of the directors, were significant to the results for the year ended 31 December 2006 or formed a substantial portion of the net assets of the Group at 31 December 2006:

<u>Name</u>	<u>Place of incorporation/ establishment and kind of legal entity</u>	<u>Principal activities</u>	<u>Registered capital/issued share capital</u>	<u>Effective interest held</u>
<b>Interest held directly:</b>				
Guangzhou Denway Enterprises Development Company Limited <i>(note (a))</i>	PRC, limited liability company	Investment holding and management	US\$87,272,700	100%
Easeco Enterprises Limited	Hong Kong, limited liability company	Property holding	HK\$2	100%
Gardex Development Limited	Hong Kong, limited liability company	Property holding	HK\$2	100%
National Grade Limited	Hong Kong, limited liability company	Property holding	HK\$2	100%
<b>Interest held indirectly:</b>				
Guangzhou Auto Group Corporation <i>(note (a))</i>	PRC, limited liability company	Investment holding and management	RMB468,200,000	100%
Guangzhou Automotive Industry Trading Company Limited <i>(note (a))</i>	PRC, limited liability company	Wholesale and retail of various types of motor vehicles	RMB20,000,000	95%
Guangzhou Honda Automobile No.1 Sales Company Limited <i>(note (a))</i>	PRC, limited liability company	Trading of motor vehicle	RMB18,000,000	51%

# Notes to the Consolidated Financial Statements

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## 35 SUBSIDIARIES (cont'd)

Name	Place of incorporation/ establishment and kind of legal entity	Principal activities	Registered capital/issued share capital	Effective interest held
<b>Interest held indirectly:</b> (Continued)				
Promowide Technology Limited	Hong Kong, limited liability company	Investment holding and management	HK\$42,394,938	63%
Arkon Industrial Limited	Hong Kong, limited liability company	Investment holding and management	HK\$10,000,000	61%
Art Sea Metal Works Limited ( <i>note (b)</i> )	Hong Kong, limited liability company	Manufacture of metal parts	HK\$400,000	63%
Uni-Art Precise Products Limited ( <i>note (b)</i> )	Hong Kong, limited liability company	Manufacture of audio equipment	HK\$400,000	63%
Classic Tech Development Limited	Hong Kong, limited liability company	Property holding	HK\$35,010,000	63%
Baker and Priem Bull Bars Pty Limited ( <i>note (a)</i> )	Australia, limited liability company	Design and manufacture of motor vehicle accessories	AUD215,710	51%
Baker and Priem Sales Pty Limited ( <i>note (a)</i> )	Australia, limited liability company	Sales of motor vehicle accessories	AUD2	51%

*Notes:*

- (a) Statutory financial statements of these subsidiaries were not audited by PricewaterhouseCoopers.
- (b) Apart from these subsidiaries which mainly operate in the PRC, all the other subsidiaries above mainly operate in their respective places of incorporation/establishment.