

Notes to Condensed Interim Accounts

For the six months ended 30 June 2001

1. Basis of Preparation and Accounting Policies

These condensed interim accounts should be read in conjunction with the 2000 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31 December 2000 except that the Group has adopted the following new or revised Statements of Standard Accounting Practice (SSAPs) issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 January 2001:

- SSAP 9 (revised): Events after the balance sheet date
- SSAP 14 (revised): Leases (effective for periods commencing on or after 1 July 2000)
- SSAP 17 (revised): Property, Plant and Equipment
- SSAP 26: Segment reporting
- SSAP 28: Provisions, contingent liabilities and contingent assets
- SSAP 29: Intangible assets
- SSAP 30: Business combinations
- SSAP 31: Impairment of assets
- SSAP 32: Consolidated financial statements and accounting for investments in subsidiaries

The effect resulting from the adoption of these new policies is set out below:

SSAP 14 (revised): Leases (effective for periods commencing on or after 1 July 2000)

In note 16(a) to these condensed interim accounts, the Group has disclosed its total future aggregate minimum lease payments under non-cancellable operating leases in accordance with the revised SSAP14. In the annual report for the year ended 31 December 2000, the Group had disclosed the commitments to make payments in the next twelve months under operating leases.

SSAP 26: Segment Reporting

In note 2 to these condensed interim accounts, the Group has disclosed segment revenue and results as defined under SSAP 26. 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. Comparative information has been given.

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2. Turnover

The Group is principally engaged in the manufacturing and trading of motor vehicles, motor vehicle related equipment and parts and audio equipment. An analysis of the Group's turnover and contribution to operating profit for the period by principal activity and market is as follows:

	Turnover		Operating profit/(loss)	
	Six months ended 30 June		Six months ended 30 June	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Principal activities :				
Trading of motor vehicles	401,915	146,406	12,611	1,149
Manufacturing and assembly of motor vehicles	91,403	52,805	1,186	(1,703)
Manufacturing and trading of automotive equipment, parts and other operations	23,634	42,457	(7,576)	(13,481)
Manufacturing and trading of audio equipment	72,382	85,877	9,536	9,980
	<u>589,334</u>	<u>327,545</u>	<u>15,757</u>	<u>(4,055)</u>
Interest income			10,652	2,954
Net other operating (expense)/income			(647)	3,000
Operating profit			<u>25,762</u>	<u>1,899</u>
Principal markets :				
Mainland China	511,917	232,665	12,512	183
Hong Kong	72,382	85,877	3,448	(1,824)
Australia	5,035	9,003	(203)	(2,414)
	<u>589,334</u>	<u>327,545</u>	<u>15,757</u>	<u>(4,055)</u>
Interest income			10,652	2,954
Net other operating (expense)/income			(647)	3,000
Operating profit			<u>25,762</u>	<u>1,899</u>

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3. Operating Profit

Operating profit is stated after charging the following:

	Six months ended 30 June	
	2001	2000
	HK\$'000	HK\$'000
Charging		
Amortisation of goodwill	826	–
Depreciation of fixed assets	5,427	4,354
Loss on disposal of a subsidiary	643	–
	<u>643</u>	<u>–</u>

4. Taxation

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents:

	Six months ended 30 June	
	2001	2000
	HK\$'000	HK\$'000
Hong Kong profits tax	20	–
Overseas taxation	5,074	121
	<u>5,094</u>	<u>121</u>

There was no material unprovided deferred taxation for the period.

5. Interim Dividend

The Board resolved to declare an interim cash dividend of HK2 cents per share totally HK\$65,943,000 for the six months ended 30 June, 2001 (2000:Nil). The interim dividend will be payable on 31 October 2001 to shareholders whose names appear on the register of members of the Company on 22 October 2001.

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6. Earnings Per Share

The calculation of basic earnings per share is based on the consolidated profit attributable to shareholders of HK\$374,150,000 (2000: HK\$160,875,000) and the weighted average number of 3,270,341,455 (2000: 2,872,477,134) shares in issue during the six months ended 30 June 2001 after adjustment of the number of shares in issue prior to the bonus issue on 1 June 2001. The earnings per share for the six months ended 30 June 2000 has been adjusted accordingly.

The fully diluted earnings per share is not disclosed as it would not be materially different from the basic earnings per share had it been calculated based on 3,330,069,773 (2000: 2,929,970,570) ordinary shares which represents the weighted average number of ordinary shares in issue during the period plus the weighted average number of 59,728,318 (2000: 57,493,436) ordinary shares deemed to be issued at nil consideration if all outstanding options had been exercised.

7. Goodwill

	Unaudited <i>HK\$'000</i>
Acquisition of a subsidiary (note 14)	33,027
Amortisation charge (note 3)	(826)
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Net book value at 30 June 2001	32,201
	<hr/> <hr/>
Net book value at 31 December 2000	–
	<hr/> <hr/>

8. Capital Expenditure

	Unaudited Property, plant and equipment <i>HK\$'000</i>
Six months ended 30 June 2001	
Opening net book amount	197,203
Acquisition of a subsidiary (note 14)	8,849
Additions	7,127
Disposals	(26)
Depreciation	(5,427)
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Closing net book amount	207,726
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9. Investment in a Jointly Controlled Entity

Financial information of Guangzhou Honda Automobile Co., Ltd. ("Guangzhou Honda"), a jointly controlled entity incorporated in the People's Republic of China ("PRC"), is as follows:

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2001	2000
	HK\$'000	HK\$'000
Intangible assets – Goodwill	351,437	361,479
– Others	14,735	17,136
Fixed assets	1,041,766	979,569
Net current assets	999,283	304,631
Minority interests	(4,581)	(4,257)
Long-term liabilities	(2,930)	(2,930)
Shareholders' funds	2,399,710	1,655,628
	Six months ended 30 June	2001
	2001	2000
	HK\$'000	HK\$'000
Turnover	5,251,775	2,391,632
Profit for the period before minority interests	771,140	356,619
Minority interests	(352)	(192)
Profit for the period	770,788	356,427

Guangzhou Honda is principally engaged in the manufacturing and assembly of motor vehicles. A 95% owned subsidiary of the Company has a 50% equity interest in the equity capital, voting power and profit sharing of Guangzhou Honda.

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10. Trade and Other Receivables

Included in this balance is trade receivables of approximately HK\$135,467,000 (2000: HK\$ 139,910,000). At 30 June 2001, the ageing analysis of the trade receivables is as follows:

	Unaudited	Audited
	30 June	31 December
	2001	2000
	HK\$'000	HK\$'000
1-3 months	125,326	131,891
4-6 months	5,176	904
7-12 months	2,311	4,304
Over 12 months	2,654	2,811
	<hr/> 135,467 <hr/>	<hr/> 139,910 <hr/>

The Group normally allows an average credit period of 90 days to its trade customers.

11. Trade and Other Payables

Included in this balance is trade payables of approximately HK\$200,170,000 (2000: HK\$ 167,320,000). At 30 June 2001, the ageing analysis of the trade payables is as follows:

	Unaudited	Audited
	30 June	31 December
	2001	2000
	HK\$'000	HK\$'000
1-3 months	174,596	152,815
4-6 months	20,288	11,941
7-12 months	850	80
Over 12 months	4,436	2,484
	<hr/> 200,170 <hr/>	<hr/> 167,320 <hr/>

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12. Long-term Liabilities

		Unaudited 30 June 2001 <i>HK\$'000</i>	Audited 31 December 2000 <i>HK\$'000</i>
	<i>Note</i>		
Bank loans and overdrafts, secured	(a)	105,309	125,563
Other loans	(b)	2,710	2,710
		<hr/> 108,019	<hr/> 128,273
Current portion of long-term liabilities		(86,126)	(103,872)
		<hr/> 21,893 <hr/>	<hr/> 24,401 <hr/>

(a) At 30 June 2001, the bank loans and overdrafts were repayable as follows:

	Unaudited 30 June 2001 <i>HK\$'000</i>	Audited 31 December 2000 <i>HK\$'000</i>
Within one year	83,416	101,162
In the second year	3,990	4,268
In the third to fifth years inclusive	11,272	11,402
After the fifth year	6,631	8,731
	<hr/> 105,309	<hr/> 125,563
Less: portion due within one year included in current liabilities	(83,416)	(101,162)
	<hr/> 21,893 <hr/>	<hr/> 24,401 <hr/>

Included in the above balance, amounts totalling HK\$25,734,000 (2000: HK\$47,755,000) were secured by certain land and buildings, investment properties and bank balances of the Group.

(b) At 30 June 2001, other loans mainly represent unsecured loans granted by third parties. Such loans bear interest at prevailing market rates and are wholly repayable within one year.

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13. Share Capital

	Ordinary shares of HK\$0.1 each	
	<i>Number of shares</i>	<i>HK\$'000</i>
Authorised:		
At 30 June 2001	<u>4,000,000,000</u>	<u>400,000</u>
Issued and fully paid:		
At 1 January 2001	2,963,956,970	296,396
Issuance of bonus shares on 1 June 2001	298,380,297	29,838
Exercise of options	<u>19,846,000</u>	<u>1,984</u>
At 30 June 2001	<u>3,282,183,267</u>	<u>328,218</u>

14. Acquisition

In February 2001, the Group acquired 51% equity interest in Guangzhou Honda Automobile No. 1 Sales Co., Limited ("GZ Honda Sales") at a consideration of approximately HK\$ 42,991,000. GZ Honda Sales was incorporated in the PRC and is engaged in the trading of motor vehicles and spare parts. The fair value of the net identifiable assets of No.1 Sales at the date of acquisition was approximately HK\$ 19,536,000. The resulting business goodwill arising thereon of HK\$ 33,027,000 will be amortised on a straight-line basis over 20 years. The acquired business contributed revenues of HK\$ 171,570,000 and profit after tax of HK\$ 6,779,000 to the Group for the period from 1 February 2001 to 30 June 2001.

The assets and liabilities arising from the acquisition are as follows:

	<i>HK\$'000</i>
Property, plant and equipment (note 8)	8,849
Borrowings	(4,672)
Other assets less liabilities	<u>15,359</u>
Fair value of net assets	<u>19,536</u>
Fair value of net assets shared by the Group (51%)	9,964
Goodwill	<u>33,027</u>
Total purchase consideration	<u>42,991</u>

There were no other significant changes in the composition for the Group during the first half year of 2001.

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15. Contingent Liabilities

	Unaudited 30 June 2001 HK\$'000	Audited 31 December 2000 <i>HK\$'000</i>
Guarantees for bank loans borrowed by a non-consolidated subsidiary	<u>2,804</u>	<u>2,804</u>
	<u>2,804</u>	<u>2,804</u>

16. Commitments

(a) Commitments under operating leases

At 30 June 2001, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Unaudited 30 June 2001 HK\$'000	Restated 31 December 2000 <i>HK\$'000</i>
Within one year	182	456
In the second to fifth years inclusive	5,822	5,817
After the fifth year	<u>49,633</u>	<u>28,999</u>
	<u>55,637</u>	<u>35,272</u>

(b) Capital commitments for property, plant and equipment

At 30 June 2001, the Group had capital commitments in respect of purchase of fixed assets as follows:

	Unaudited 30 June 2001 HK\$'000	Audited 31 December 2000 <i>HK\$'000</i>
Contracted but not provided for	-	4,372
Authorised but not contracted for	<u>-</u>	<u>-</u>