

## 1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

### (a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, investment properties are stated at fair value.

In the current year, the Group adopted Statement of Standard Accounting Practice (“SSAP”) 12 (revised) “Income Taxes” issued by the Hong Kong Society of Accountants which is effective for accounting periods commencing on or after 1st January 2003.

The adoption of the above revised SSAP has no material effect on the Group’s prior year results.

### (b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries, with the exception of non-consolidated subsidiaries, which are accounted for as mentioned below, made up to 31st December.

A subsidiary is a company 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. A non-consolidated subsidiary is a subsidiary which operates under contractual restrictions which significantly impair control by the Company over that subsidiary but in which the Company exercises significant influence. The results of consolidated subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate. Non-consolidated subsidiaries are accounted for by the Group using the equity method of accounting.

The consolidated profit and loss account includes the Group’s share of the results of non-consolidated subsidiaries for the year and the consolidated balance sheet includes the Group’s share of net assets of the non-consolidated subsidiaries.

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

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group’s share of its net assets together with any unamortised goodwill or goodwill and cumulated exchange difference taken to reserves, and which were not previously charged or recognised in the consolidated profit and loss account.

## 1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

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

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the investments 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.

### (c) Joint ventures

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.

The consolidated profit and loss account includes the Group's share of the results of a jointly controlled entity for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entity and goodwill (net of accumulated amortisation) on acquisition.

### (d) Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for long-term purpose and significant influence is exercised in its management.

Associated companies are accounted for in the accounts of the Group using the equity method of accounting. Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

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

**1 PRINCIPAL ACCOUNTING POLICIES** (cont'd)**(e) Fixed assets***(i) Investment properties*

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods of greater than 20 years are valued annually by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuations are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised, if any, in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

*(ii) Leasehold land and buildings and leasehold improvements*

Leasehold land and buildings and leasehold improvements in Hong Kong and land use rights and buildings in the People's Republic of China (the "PRC") are stated at cost less subsequent accumulated depreciation/amortisation and accumulated impairment losses. Depreciation or amortisation is calculated to write off the cost of the assets less accumulated impairment losses on a straight-line basis over the unexpired periods of the leases or their expected useful lives to the Group, whichever is shorter. The principal annual rate used for this purpose is 2%.

*(iii) Other tangible fixed assets*

Other tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation of other tangible fixed assets is calculated to write off their costs less accumulated impairment losses on a straight-line basis over their expected useful lives to the Group. The principal annual rates are as follows:

Plant and machinery	10%
Office equipment	20%
Motor vehicles	20%

## 1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

### (e) Fixed assets (cont'd)

#### (iv) Cost of restoring and improving fixed assets

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

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

#### (v) Impairment of fixed assets

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in properties (other than investment properties which have been dealt with in note 1(e)(i) above) and fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

#### (vi) Gain or loss on disposal of fixed assets

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

### (f) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

Goodwill on acquisitions is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill on acquisition of a subsidiary is amortised over a period of 20 years. When an indication of impairment exists, the carrying amount of the related goodwill is assessed and written down immediately to its recoverable amount.

### (g) 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 profit and loss account on a straight-line basis over the lease periods.

## 1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

### (h) Investment securities

Investments other than subsidiaries, associated companies and joint ventures, are shown as investment securities. Investment securities are stated at cost less provision for impairment losses.

### (i) 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.

### (j) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

### (k) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

### (l) 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.

## 1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

### (m) 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.

### (n) Deferred taxation

Deferred taxation 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 accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred 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.

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy but has no material effect on the Group's results.

## 1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

### (o) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow becomes probable, it will then be recognised as a provision.

### (p) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries, jointly controlled entities and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at an average rate. Exchange differences are dealt with as a movement in reserves. Upon disposal of an overseas subsidiary, jointly controlled entity or associated company, the related cumulative exchange difference is recognised in the profit and loss account as part of the gain or loss on disposal.

### (q) Revenue recognition

Revenue in respect of the sale 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 from investment securities is recognised when the right to receive payment is established.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

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

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

## 1 PRINCIPAL 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 profit and loss account 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, fixed assets, investment securities, 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 and fixed assets, including additions resulting from acquisition through the purchase of subsidiary.

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.

## 2 TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the manufacturing and trading of motor vehicles, motor vehicle related equipment and parts and audio equipment. Revenues recognised during the year are as follows:

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Turnover		
Trading of motor vehicles	<b>999,994</b>	962,030
Manufacturing and assembly of motor vehicles	<b>256,171</b>	238,652
Manufacturing and trading of automotive equipment and parts	<b>56,818</b>	20,953
Manufacturing and trading of audio equipment	<b>221,796</b>	235,746
	<b>1,534,779</b>	1,457,381
Other revenues		
Dividend income	<b>1,129</b>	1,682
Interest income	<b>17,559</b>	11,908
Gross rental income from investment properties	<b>1,739</b>	1,156
Gross rental income from other properties	<b>699</b>	763
Handling service charges for motor vehicles registration	<b>3,845</b>	4,312
Compensation received from a jointly controlled entity for the relocation of office and production plant of a subsidiary (note 29(a))	—	18,692
Other income	<b>2,732</b>	2,083
	<b>27,703</b>	40,596
Total revenues	<b>1,562,482</b>	1,497,977

## 2 TURNOVER, REVENUE AND SEGMENT INFORMATION (cont'd)

### 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.

There were no sales between the business segments.

### Secondary reporting format - geographical segments

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

Hong Kong - manufacturing and trading of audio equipment

PRC - trading of motor vehicles, manufacturing and assembly of motor vehicles and manufacturing and trading of automotive equipment and parts

Australia - manufacturing and trading of automotive equipment and parts

There were no sales between the geographical segments.

**2 TURNOVER, REVENUE AND SEGMENT INFORMATION** (cont'd)**Primary reporting format - business segments**

	Manufacturing					
	Trading	Manufacturing and	Manufacturing and trading	Manufacturing and trading	Other	Total
	of motor vehicles	assembly of motor vehicles	of automotive equipment and parts	of audio equipment	operations	2003
	2003	2003	2003	2003	2003	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	999,994	256,171	56,818	221,796	—	1,534,779
Segment operating profit/(loss)	14,453	(43,992)	4,092	16,229	(22,247)	(31,465)
Interest income	1,280	810	7,601	76	7,792	17,559
Operating profit/(loss)	15,733	(43,182)	11,693	16,305	(14,455)	(13,906)
Finance costs						(2,443)
Share of profits less losses of:						
A jointly controlled entity		1,843,205				1,843,205
Associated companies			3,088			3,088
Non-consolidated subsidiaries			1,776			1,776
Profit before taxation						1,831,720
Taxation						(152,903)
Profit after taxation						1,678,817
Minority interests						7,892
Profit attributable to shareholders						1,686,709

**2 TURNOVER, REVENUE AND SEGMENT INFORMATION** (cont'd)**Primary reporting format - business segments** (cont'd)

	<b>Manufacturing</b>					
	<b>Trading</b>	<b>Manufacturing</b>	<b>and trading</b>	<b>Manufacturing</b>		
	<b>of motor</b>	<b>and</b>	<b>of automotive</b>	<b>and trading</b>	<b>Other</b>	<b>Total</b>
	<b>vehicles</b>	<b>motor</b>	<b>equipment</b>	<b>of audio</b>	<b>operations</b>	
	<b>2003</b>	<b>vehicles</b>	<b>and parts</b>	<b>equipment</b>	<b>2003</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>2003</b>	<b>2003</b>	<b>2003</b>	<b>2003</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Segment assets	334,138	373,660	768,325	136,167	1,077,946	2,690,236
Interests in						
A jointly controlled entity		3,096,613				3,096,613
Associated companies			7,390			7,390
Non-consolidated subsidiaries			32,912			32,912
Total assets						<u>5,827,151</u>
Segment liabilities	(207,287)	(173,325)	(5,173)	(42,716)	(7,687)	(436,188)
Unallocated liabilities						<u>(57,197)</u>
Total liabilities						<u>(493,385)</u>
Capital expenditure	13,230	139,976	460	9,441	167	163,274
Depreciation	3,268	3,897	1,340	4,145	1,979	14,629
Amortisation charge	1,533	—	—	—	—	1,533
Revaluation loss	—	—	—	790	—	790

**2 TURNOVER, REVENUE AND SEGMENT INFORMATION** (cont'd)**Primary reporting format - business segments** (cont'd)

	Manufacturing					
	Trading	Manufacturing and	Manufacturing and trading	Manufacturing and trading	Other	Total
	of motor vehicles	assembly of motor vehicles	of automotive equipment and parts	of audio equipment	operations	Total
	2002	2002	2002	2002	2002	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	962,030	238,652	20,953	235,746	—	1,457,381
Segment operating profit/(loss)	29,993	40	(5,697)	13,384	(24,812)	12,908
Interest income	938	735	3,741	44	6,450	11,908
Operating profit/(loss)	30,931	775	(1,956)	13,428	(18,362)	24,816
Finance costs						(5,643)
Share of profits less losses of:						
A jointly controlled entity		1,220,566				1,220,566
Associated companies			(48,904)			(48,904)
Non-consolidated subsidiaries			1,776			1,776
Profit before taxation						1,192,611
Taxation						(99,125)
Profit after taxation						1,093,486
Minority interests						(1,573)
Profit attributable to shareholders						1,091,913

**2 TURNOVER, REVENUE AND SEGMENT INFORMATION** (cont'd)**Primary reporting format - business segments** (cont'd)

	Manufacturing					
	Trading	Manufacturing and	Manufacturing and trading	Manufacturing and trading	Other	Total
	of motor vehicles	assembly of motor vehicles	of automotive equipment and parts	of audio equipment	operations	Total
	2002	2002	2002	2002	2002	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	231,581	228,190	455,287	128,155	709,201	1,752,414
Interests in						
A jointly controlled entity		2,161,095				2,161,095
Associated companies			6,255			6,255
Non-consolidated subsidiaries			20,495			20,495
Total assets						<u>3,940,259</u>
Segment liabilities	(126,317)	(91,302)	(5,895)	(41,179)	(1,514)	(266,207)
Unallocated liabilities						<u>(68,883)</u>
Total liabilities						<u>(335,090)</u>
Capital expenditure	1,505	9,525	1,111	5,650	24	17,815
Depreciation	3,551	1,962	1,710	4,387	1,976	13,586
Amortisation charge	1,533	—	—	—	—	1,533
Impairment charges #	—	—	1,336	5,535	5,008	11,879
Revaluation loss	—	—	—	4,214	3,760	7,974

# The balance comprises the write-off of interest in a non-consolidated subsidiary and the provision for impairment losses on fixed assets and investment securities.

**2 TURNOVER, REVENUE AND SEGMENT INFORMATION** (cont'd)**Secondary reporting format - geographical segments**

	Segment operating Turnover	(loss)/profit	Interest income	Operating (loss)/profit	Total assets	Capital expenditure
	2003	2003	2003	2003	2003	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
PRC	1,300,568	(26,028)	9,662	(16,366)	1,467,870	153,370
Hong Kong	221,796	(6,018)	7,868	1,850	1,214,113	9,608
Australia	12,415	581	29	610	8,253	296
	<u>1,534,779</u>	<u>(31,465)</u>	<u>17,559</u>	<u>(13,906)</u>	<u>2,690,236</u>	<u>163,274</u>

## Interests in

A jointly controlled entity

3,096,613

Associated companies

7,390

Non-consolidated subsidiaries

32,912

## Total assets

5,827,151

	Segment operating Turnover	(loss)/profit	Interest income	Operating (loss)/profit	Total assets	Capital expenditure
	2002	2002	2002	2002	2002	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
PRC	1,211,902	24,567	5,402	29,969	909,081	11,921
Hong Kong	235,746	(11,428)	6,494	(4,934)	837,356	5,674
Australia	9,733	(231)	12	(219)	5,977	220
	<u>1,457,381</u>	<u>12,908</u>	<u>11,908</u>	<u>24,816</u>	<u>1,752,414</u>	<u>17,815</u>

## Interests in

A jointly controlled entity

2,161,095

Associated companies

6,255

Non-consolidated subsidiaries

20,495

## Total assets

3,940,259

**3 OPERATING (LOSS)/PROFIT**

Operating (loss)/profit is stated after charging/(crediting) the following:

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Net exchange gain/(loss)	1,344	(1,725)
Auditors' remuneration	2,351	2,331
Staff costs (including directors' emoluments)	84,732	83,236
Depreciation of fixed assets	14,629	13,586
Operating lease rentals in respect of land and buildings	8,550	10,842
Outgoings in respect of investment properties	585	575
Outgoings in respect of other properties	164	179
Research and development costs	2,556	5,975
Loss on disposal of fixed assets	1,913	3,446
Provision for impairment loss on fixed assets	—	6,721
Revaluation loss on investment properties	790	7,974
Amortisation of goodwill	1,533	1,533
Gain on liquidation of subsidiary	—	(2,796)
Gain on disposal of a partial interest in a subsidiary	—	(6,020)
Write-off of interest in a non-consolidated subsidiary	—	4,333
Provision for impairment loss on investment securities	—	825
Write-back of provision for doubtful debts	(61)	(719)
Provision for doubtful debts	485	8,677
Provision for stock obsolescence	19,396	3,593

**4 FINANCE COSTS**

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Interest on bank loans and overdrafts	1,836	5,400
Interest on other loans - wholly repayable within five years	607	243
Total borrowing costs incurred	2,443	5,643

**5 TAXATION**

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit 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/(credited) to the consolidated profit and loss account represents:

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Hong Kong profits tax		
Current year provision	<b>1,214</b>	2,229
Over provision in prior years	<b>(140)</b>	(5,892)
Overseas taxation		
Current year provision	<b>9,113</b>	5,060
Over provision in prior years	<b>(1,371)</b>	(969)
Deferred taxation relating to the reversal of temporary differences (note 25)	—	(290)
Deferred taxation resulting from an increase in tax rate (note 25)	<b>84</b>	—
	<b>8,900</b>	138
Share of taxation attributable to:		
A jointly controlled entity	<b>143,489</b>	98,660
Associated companies	<b>514</b>	327
	<b>152,903</b>	99,125

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the principal applicable tax rate as follows:

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Profit before taxation	<b>1,831,720</b>	1,192,611
Calculated at a tax rate of 7.5% (2002: 7.5%)	<b>137,379</b>	89,446
Effect of different tax rates in different tax jurisdictions	<b>15,440</b>	9,679
Increase in opening net deferred tax liabilities resulting from an increase in tax rate	<b>84</b>	—
Taxation charge	<b>152,903</b>	99,125

## 6 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Included in the profit attributable to shareholders of HK\$1,686,709,000 (2002:HK\$1,091,913,000) is a profit of HK\$602,659,000 (2002: HK\$226,279,000), which is dealt with in the Company's own accounts.

## 7 DIVIDENDS

	Company	
	2003	2002
	HK\$'000	HK\$'000
Interim, paid, of HK4 cents (2002: HK3 cents) per ordinary share	139,925	101,177
Final, proposed, of HK6 cents (2002: HK4 cents) per ordinary share (note (a))	210,512	136,752
Special, proposed, of HK8 cents (2002: Nil) per ordinary share (note (a))	280,683	—
	<u>631,120</u>	<u>237,929</u>

- (a) At a meeting held on 29th March 2004, the directors proposed a final dividend of HK6 cents per ordinary share (2002: HK4 cents per ordinary share) and a special dividend of HK8 cents per ordinary share (2002: nil). These proposed dividends are not reflected as dividend payables in these accounts but will be reflected as an appropriation of retained earnings for the year ending 31st December 2004.

## 8 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the consolidated profit attributable to the shareholders of HK\$1,686,709,000 (2002: HK\$1,091,913,000) and the weighted average number of 3,451,771,534 (2002: 3,370,094,914) shares in issue during the year ended 31st December 2003.

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 3,501,377,192 (2002: 3,370,133,172) ordinary shares which represent the weighted average number of ordinary shares in issue during the year plus the weighted average number of 49,605,658 (2002: 38,258) ordinary shares deemed to be issued at nil consideration if all outstanding options had been exercised.

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

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Wages and salaries	77,339	75,987
Unutilised annual leave	—	216
Pension costs - retirement benefit costs	7,393	7,033
	<b>84,732</b>	83,236

**10 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS****(a) Directors' emoluments**

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Fees	3,976	3,976
Other emoluments		
Basic salary and bonus	1,194	493
Share options exercised	510	1,789
	<b>5,680</b>	6,258

- (i) Directors' fees disclosed above include HK\$176,000 (2002: HK\$176,000) paid to the independent non-executive directors.

**10 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS** (cont'd)**(a) Directors' emoluments** (cont'd)

- (ii) The share option scheme which was adopted by the Company on 1st February 1993 ("Old Scheme") expired on 31st January 2003. As a result of certain changes to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), the directors proposed and the shareholders approved at a general meeting on 6th June 2002 the early termination of the Old Scheme and the adoption of a new share option scheme ("New Scheme"). After termination of the Old Scheme, no more option can be granted pursuant to the Old Scheme, and in respect of all the outstanding options granted under the Old Scheme, the provisions of the Old Scheme shall remain in force (see note 22).

Under the New Scheme, certain directors were granted options to acquire shares in the Company. There were in total 24,348,000 share options outstanding as at 31st December 2003. The market value of the share of the Company as at 31st December 2003 was HK\$8.25 (2002: HK\$2.625).

During the year, certain directors exercised their options, granted pursuant to the New Scheme, to subscribe for 330,000 ordinary shares in the Company. The gain related to exercise of the said options amounted in total to HK\$509,850. Details of the options exercised are as follows:

<b>Date of grant</b>	<b>Exercise price</b>	<b>Market price at exercise dates</b>	<b>Number of share options exercised</b>
	HK\$	HK\$	
7th August 2003	4.305	5.85	330,000

- (iii) The emoluments of the directors fell within the following bands:

<b>Emolument bands</b>	<b>Number of directors</b>	
	<b>2003</b>	<b>2002</b>
HK\$Nil - HK\$1,000,000	8	5
HK\$1,000,001 - HK\$1,500,000	1	4

No director waived any emoluments during the years ended 31st December 2002 and 2003.

**10 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS** (cont'd)**(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include one (2002: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2002: one) individuals during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Basic salaries and bonus	2,854	963
Share options exercised	8,269	81
	<u>11,123</u>	<u>1,044</u>

The emoluments fell within the following bands:

<u>Emolument bands</u>	<u>Number of individuals</u>	
	2003	2002
HK\$1,000,001 - HK\$2,000,000	2	1
HK\$2,000,001 - HK\$3,000,000	1	—
HK\$3,000,001 - HK\$4,000,000	—	—
HK\$4,000,001 - HK\$5,000,000	—	—
HK\$5,000,001 - HK\$6,000,000	1	—
	<u>1</u>	<u>—</u>

**11 INTANGIBLE ASSET**

	<u>Group</u>	
	2003 HK\$'000	2002 HK\$'000
<b>Goodwill, at cost</b>		
At 1st January and 31st December	<u>30,658</u>	<u>30,658</u>
<b>Accumulated amortisation</b>		
At 1st January	3,066	1,533
Amortisation for the year	1,533	1,533
At 31st December	<u>4,599</u>	<u>3,066</u>
<b>Net book value</b>		
At 31st December	<u>26,059</u>	<u>27,592</u>

## 12 FIXED ASSETS

	Group					Total HK\$'000
	Land, land use rights and buildings HK\$'000	Investment properties HK\$'000	Plant and machinery HK\$'000	Office and leasehold improvements HK\$'000	Motor vehicles HK\$'000	
Cost or valuation:						
At 1st January 2003	105,458	35,797	85,042	31,106	17,687	275,090
Exchange adjustment	1	—	910	159	336	1,406
Additions	132,027	—	19,488	4,988	6,771	163,274
Revaluation	—	(790)	—	—	—	(790)
Disposals	—	—	(4,689)	(136)	(925)	(5,750)
At 31st December 2003	<u>237,486</u>	<u>35,007</u>	<u>100,751</u>	<u>36,117</u>	<u>23,869</u>	<u>433,230</u>
Accumulated depreciation and amortisation:						
At 1st January 2003	64,532	—	39,451	19,935	7,559	131,477
Exchange adjustment	—	—	533	102	194	829
Charge for the year	2,537	—	5,871	4,249	1,972	14,629
Disposals	—	—	(1,157)	(98)	(817)	(2,072)
At 31st December 2003	<u>67,069</u>	<u>—</u>	<u>44,698</u>	<u>24,188</u>	<u>8,908</u>	<u>144,863</u>
<b>Net book value:</b>						
At 31st December 2003	<u><u>170,417</u></u>	<u><u>35,007</u></u>	<u><u>56,053</u></u>	<u><u>11,929</u></u>	<u><u>14,961</u></u>	<u><u>288,367</u></u>
At 31st December 2002	<u><u>40,926</u></u>	<u><u>35,797</u></u>	<u><u>45,591</u></u>	<u><u>11,171</u></u>	<u><u>10,128</u></u>	<u><u>143,613</u></u>

**12 FIXED ASSETS** (cont'd)

The analysis of the cost or valuation at 31st December 2003 of the above assets is as follows:

	<b>Land, land use rights and buildings HK\$'000</b>	<b>Investment properties HK\$'000</b>	<b>Plant and machinery HK\$'000</b>	<b>Office equipment and leasehold improvements HK\$'000</b>	<b>Motor vehicles HK\$'000</b>	<b>Total HK\$'000</b>
At cost	237,486	—	100,751	36,117	23,869	398,223
At 2003 professional valuation	—	35,007	—	—	—	35,007
	<u>237,486</u>	<u>35,007</u>	<u>100,751</u>	<u>36,117</u>	<u>23,869</u>	<u>433,230</u>

The net book values of investment properties, land, land use rights and buildings are analysed as follows:

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
In Hong Kong, held on:		
Leases of over 50 years	<b>35,736</b>	38,861
Leases of between 10 to 50 years	<b>20,489</b>	19,006
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	<b>149,199</b>	18,856
	<u><b>205,424</b></u>	<u>76,723</u>

Investment properties were revalued at 31st December 2003 on the basis of their open market values by Insignia Brooke (Hong Kong) Limited, a member of the Hong Kong Institute of Surveyors.

**12 FIXED ASSETS** (cont'd)

At 31st December 2003, certain land and buildings and investment properties with a total net book value of approximately HK\$22,906,000 (2002: HK\$24,146,000) were pledged as securities for the Group's bank borrowings (see note 24(a)).

	Company			Total HK\$'000
	Investment properties in the PRC* HK\$'000	Office equipment and leasehold improvements HK\$'000	Motor vehicles HK\$'000	
Cost or valuation:				
At 1st January 2003	10,010	3,492	2,683	16,185
Additions	—	115	—	115
At 31st December 2003	<u>10,010</u>	<u>3,607</u>	<u>2,683</u>	<u>16,300</u>
Accumulated depreciation:				
At 1st January 2003	—	2,297	1,398	3,695
Charge for the year	—	380	453	833
At 31st December 2003	<u>—</u>	<u>2,677</u>	<u>1,851</u>	<u>4,528</u>
<b>Net book value:</b>				
<b>At 31st December 2003</b>	<b><u>10,010</u></b>	<b><u>930</u></b>	<b><u>832</u></b>	<b><u>11,772</u></b>
At 31st December 2002	<u>10,010</u>	<u>1,195</u>	<u>1,285</u>	<u>12,490</u>

\* The investment properties are held under leases of between 10 to 50 years.

The analysis of the cost or valuation at 31st December 2003 of the above assets is as follows:

At cost	—	3,607	2,683	6,290
At 2003 professional valuation	10,010	—	—	10,010
	<u>10,010</u>	<u>3,607</u>	<u>2,683</u>	<u>16,300</u>

**13 INVESTMENTS IN SUBSIDIARIES**

	<b>Company</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Investments at cost		
- unlisted shares	<b>836,578</b>	777,906
- provision for impairment loss	<b>(75,264)</b>	(49,251)
	<b>761,314</b>	728,655
Amount due from a subsidiary (note (a))	<b>514,953</b>	514,953
	<b>1,276,267</b>	1,243,608

(a) The balance is unsecured, interest-free and will not repayable within the next twelve months.

(b) Particulars of principal consolidated subsidiaries are set out in note 34 to the accounts.

**14 INTEREST IN A JOINTLY CONTROLLED ENTITY**

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Share of net assets	<b>3,086,596</b>	2,151,078
Capitalisation of interest	<b>10,017</b>	10,017
	<b>3,096,613</b>	2,161,095

(a) Particulars of the 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. ("Guangzhou Honda")	PRC	Manufacturing and assembly of motor vehicles in the PRC	47.5%

This is a Sino-foreign equity joint-venture in which 50% of the equity capital, voting power and profit sharing is held by a 95% directly owned subsidiary of the Company. The Group's investment cost in this company is HK\$514,333,000 (2002: 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.

**14 INTEREST IN A JOINTLY CONTROLLED ENTITY** (cont'd)

(b) Financial information of the jointly controlled entity is as follows:

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Fixed assets	<b>3,212,156</b>	1,873,436
Intangible assets*	<b>477,461</b>	417,589
Current assets	<b>6,849,054</b>	3,645,343
Current liabilities	<b>(4,034,894)</b>	(1,402,506)
Minority interests	<b>(5,681)</b>	(5,283)
Shareholders' funds	<b>6,498,096</b>	4,528,579
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Turnover	<b>20,958,527</b>	12,313,038
Profit for the year	<b>3,578,349</b>	2,361,906

\* Included in this balance is a goodwill of approximately HK\$302,343,000 (2002: HK\$321,324,000) arising from the acquisition of motor vehicle manufacturing business and a production plant in Guangzhou by the jointly controlled entity.

**15 INTERESTS IN ASSOCIATED COMPANIES**

	<b>Group</b>		<b>Company</b>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Unlisted investments, at cost	—	—	<b>64,173</b>	64,173
Provision for impairment loss	—	—	<b>(64,173)</b>	(64,173)
Share of net assets	<b>7,390</b>	6,255	—	—
	<b>7,390</b>	6,255	—	—

**15 INTERESTS IN ASSOCIATED COMPANIES** (cont'd)

The following are particulars of the principal associated companies of the Group at 31st December 2003:

Name	Place of incorporation/ establishment	Principal activities	Registered capital	Effective interest held
Guangzhou Storage Battery Enterprise Company Limited (note (a))	PRC	Manufacturing of automobile batteries in the PRC	RMB60,000,000	36%
Shanghai Guangchee Automotive Trading and Services Company Limited (note (b))	PRC	Wholesale and retail of various types of motor vehicles in the PRC	RMB10,000,000	30%

- (a) This is a Sino-foreign equity joint venture in which the Company has a 36 % interest in its equity capital and profit sharing. The investment cost is approximately HK\$64,173,000 (2002: HK\$64,173,000). The joint-venture period is 50 years from December 1993.

This associated company has been making losses and the Group's share of the net assets in this company has been reduced to zero under the equity method of accounting.

- (b) This is a Sino-foreign equity joint venture in which 30% interest in its equity capital and profit sharing is held by a subsidiary of the Company. The Group's investment cost in this company is approximately HK\$2,804,000 (2002: HK\$2,804,000). The joint-venture period is 30 years from March 1999.

**16 INTERESTS IN NON-CONSOLIDATED SUBSIDIARIES**

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Share of net assets	<b>32,912</b>	20,495

The following are particulars of a principal non-consolidated subsidiary of the Group at 31st December 2003:

<b>Name</b>	<b>Place of incorporation/ establishment</b>	<b>Principal activities</b>	<b>Registered capital</b>	<b>Effective interest held</b>
Guangzhou Hua De Automobile Spring Company Limited (note (a))	PRC	Manufacturing of automobile springs in the PRC	US\$7,061,224	51%

- (a) This is a Sino-foreign equity joint venture in which 51% interest in its equity capital and profit sharing is held by a wholly owned subsidiary of the Company. The Group's investment cost in this company is HK\$27,974,000 (2002: HK\$19,775,000). This joint venture is operated under contractual restrictions which significantly impair the Company's control over it but in which the Company exercises significant influence. The joint venture period is 50 years from December 1993.

**17 INVESTMENT SECURITIES**

	<b>Group</b>		<b>Company</b>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Club debentures, at cost	<b>1,075</b>	1,075	<b>1,075</b>	1,075
Unlisted shares	<b>3,714</b>	2,393	—	—
Provision for impairment loss				
- club debentures	<b>(675)</b>	(675)	<b>(675)</b>	(675)
- unlisted shares	<b>(150)</b>	(150)	—	—
	<b>3,964</b>	2,643	<b>400</b>	400

**18 INVENTORIES**

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Raw materials	<b>44,381</b>	44,475
Work in progress	<b>20,253</b>	24,570
Finished goods	<b>112,493</b>	94,900
Less: provision	<b>(24,130)</b>	(3,593)
	<b>152,997</b>	160,352

At 31st December 2003, the carrying amount of inventories that are carried at net realisable value amounted to HK\$15,196,000 (2002: nil).

**19 TRADE AND OTHER RECEIVABLES**

	<b>Group</b>		<b>Company</b>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Due from subsidiaries (note (a))	—	—	<b>744,800</b>	569,240
Due from immediate holding company (note (a))	<b>74</b>	53	<b>71</b>	53
Due from a jointly controlled entity (note (a))	<b>4,795</b>	4,840	—	—
Due from fellow subsidiaries (notes (a) and (c))	<b>5,938</b>	6,309	—	—
Due from a minority shareholder of a subsidiary (note (b))	—	940	—	—
Trade receivables (note (d))	<b>135,525</b>	95,444	—	—
Bills receivables (note (e))	<b>21,108</b>	17,526	—	—
Other receivables, prepayments and deposits	<b>83,776</b>	56,975	<b>6,162</b>	2,364
	<b>251,216</b>	182,087	<b>751,033</b>	571,657

(a) The balances are unsecured, interest-free and have no fixed terms of repayment.

(b) The balance is unsecured, bears interest at commercial rate and has no fixed terms of repayment.

**19 TRADE AND OTHER RECEIVABLES** (cont'd)

- (c) Included in the balance is a rental prepayment to a fellow subsidiary of HK\$5,938,000 (2002: HK\$6,309,000). The rental is for a period of 20 years with a yearly rental charge of approximately HK\$393,000.
- (d) The Group allows its trade customers an average credit period of 90 days.
- (e) The bills receivables have maturity dates between 3 to 6 months.

At 31st December 2003, the ageing analysis of the trade receivables was as follows :

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Within 3 months	<b>126,663</b>	75,901
4-6 months	<b>6,344</b>	6,617
7-12 months	<b>775</b>	151
Over 12 months	<b>1,743</b>	12,775
	<b>135,525</b>	95,444

**20 CASH AND BANK BALANCES**

- (a) At 31st December 2003, bank balances totalling HK\$72,406,000 (2002: HK\$52,636,000) were pledged as securities for the Group's bank borrowings (see note 24(a)).
- (b) Included in the cash and bank balances of the Group and of the Company are cash and deposits with banks in the PRC denominated in Renminbi, totalling RMB911,413,000 (equivalent to HK\$854,904,000 (2002: HK\$549,047,000)) and RMB3,827,000 (equivalent to HK\$3,590,000 (2002: HK\$893,000)) respectively. Renminbi is not a freely convertible currency.

**21 TRADE AND OTHER PAYABLES**

	<b>Group</b>		<b>Company</b>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Due to subsidiaries (note (a))	—	—	<b>508</b>	3
Due to immediate holding company (note (a))	—	1,240	—	—
Due to fellow subsidiaries (note (a))	<b>43</b>	503	—	—
Due to a minority shareholder of a subsidiary (note (b))	<b>443</b>	—	—	—
Trade payables	<b>83,092</b>	76,675	—	—
Bills payable (note (c))	<b>221,034</b>	125,511	—	—
Other payables, deposits received and accrued charges	<b>117,221</b>	50,509	<b>8,699</b>	2,610
	<b>421,833</b>	254,438	<b>9,207</b>	2,613

- (a) The balances are unsecured, interest-free and have no fixed terms of repayment.
- (b) The balance is unsecured, bears interest at commercial rate and has no fixed terms of repayment.
- (c) The bills are due for payments within 6 months.

At 31st December 2003, the ageing analysis of the trade payables was as follows:

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Within 3 months	<b>72,226</b>	69,277
4-6 months	<b>7,814</b>	4,376
7-12 months	<b>481</b>	96
Over 12 months	<b>2,571</b>	2,926
	<b>83,092</b>	76,675

**22 SHARE CAPITAL**

	Ordinary shares of HK\$0.1 each	
	No. of shares	HK\$'000
Authorised:		
At 31st December 2002 and 2003	4,000,000,000	400,000
Issued and fully paid:		
At 31st December 2001	3,359,788,267	335,979
Exercise of options (note (a))	58,310,000	5,831
At 31st December 2002	3,418,098,267	341,810
Exercise of options (note (a))	90,436,500	9,043
At 31st December 2003	3,508,534,767	350,853

- (a) On 1st February 1993, a share option scheme ("Old Scheme") was approved at an Extraordinary General Meeting of the Company under which the directors may, at their discretion, invite full time employees including executive directors of any member of the Group to take up options to subscribe for shares in the Company subject to the terms and conditions stipulated therein. Details of share options granted to the employees and directors of the Group under the Old Scheme are as follows:

Date of grant/number of share options granted	Number of share options outstanding as at 31st December		Number of share options exercised		Exercise price HK\$
	2003	2002	2003	2002	
	18th July 2001/59,094,000	—	784,000	693,000	

- (i) 91,000 options lapsed during the year.

Share options may be exercised during the three-year period commencing on the expiry of six months after the date on which the option is granted, and shall expire at the end of the three-year period or 31st January 2003, whichever is earlier.

The Old Scheme was terminated on 6th June 2002. After termination of the Old Scheme, no more option can be granted pursuant to the Old Scheme and in respect of all the outstanding options granted under the Old Scheme, the provisions of the Old Scheme shall remain in force.

**22 SHARE CAPITAL** (cont'd)

On 6th June 2002, a new share options scheme ("New Scheme") was approved at an Extraordinary General Meeting of the Company under which the directors may, at their discretion, invite any participant who has rendered services or will render service to the Group to take up options. Details of share options granted under the New Scheme are as follows:

Date of grant/ number of share options granted	Number of share options outstanding as at 31st December		Number of share options exercised		Exercise price HK\$
	2003	2002	2003	2002	
	9th May 2003/ 275,342,000	<b>193,555,000</b>	—	<b>81,787,000</b>	
2nd July 2003/ 27,130,000	<b>19,503,500</b>	—	<b>7,626,500</b>	—	3.65 (ii)
7th August 2003/ 24,678,000	<b>24,348,000</b>	—	<b>330,000</b>	—	4.305 (iii)
	<b>237,406,500</b>	—	<b>89,743,500</b>	—	

- (ii) Share options may be exercised during the three-year period commencing on the date of grant, and shall expire at the end of the three-year period.
- (iii) Share options may be exercised during the ten-year period commencing on the date of grant, and shall expire at the end of the ten-year period or 5th June 2012, whichever is earlier.

**23 RESERVES**

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
<b>Share premium</b>				
At 1st January	1,870,802	1,751,039	1,870,802	1,751,039
Issue of shares	238,444	119,884	238,444	119,884
Share issue expenses	—	(121)	—	(121)
At 31st December	2,109,246	1,870,802	2,109,246	1,870,802
<b>Exchange reserve</b>				
At 1st January	(31,056)	(31,159)	—	—
Exchange difference on translation of accounts of foreign subsidiaries, associated companies and a jointly controlled entity	2,523	104	—	—
Transfer to profit and loss account upon liquidation of subsidiaries	—	(1)	—	—
At 31st December	(28,533)	(31,056)	—	—
<b>Retained profits (note (a))</b>				
At 1st January	902,581	169,468	262,543	238,235
Profit for the year	1,686,709	1,091,913	602,659	226,279
2002/2001 final dividend paid	(136,752)	(100,794)	(136,752)	(100,794)
Interim dividend paid	(139,925)	(101,177)	(139,925)	(101,177)
Transfer to capital reserve	(291,454)	(156,829)	—	—
At 31st December	2,021,159	902,581	588,525	262,543
<b>Capital reserve (note (b))</b>				
At 1st January	411,925	255,108	—	—
Transfer to profit and loss accounts upon liquidation of subsidiaries	—	(12)	—	—
Transfer from the profit and loss account	291,454	156,829	—	—
At 31st December	703,379	411,925	—	—
Total reserves	4,805,251	3,154,252	2,697,771	2,133,345

## 23 RESERVES (cont'd)

(a) Retained profits/(accumulated losses)

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Company and subsidiaries	201,555	(312,586)	588,525	262,543
A jointly controlled entity	1,857,266	1,256,050	—	—
Non-consolidated subsidiaries and associated companies	(37,662)	(40,883)	—	—
	<u>2,021,159</u>	<u>902,581</u>	<u>588,525</u>	<u>262,543</u>

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

## 24 LONG-TERM LIABILITIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Bank loans, secured (note (a))	57,197	59,178
Current portion of long-term liabilities	(45,415)	(42,564)
	<u>11,782</u>	<u>16,614</u>

**24 LONG-TERM LIABILITIES** (cont'd)

(a) At 31st December 2003, the bank loans were repayable as follows:

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>45,415</b>	42,564
In the second year	<b>7,089</b>	4,709
In the third to fifth year inclusive	<b>4,147</b>	7,867
After the fifth year	<b>546</b>	4,038
	<b>57,197</b>	59,178
Less: portion due within one year included under current liabilities	<b>(45,415)</b>	(42,564)
	<b>11,782</b>	16,614

Included in the above balance are amounts totalling HK\$15,003,000 (2002: HK\$20,585,000) which are secured by certain land and buildings, investment properties (note 12) and bank balances (note 20(a)) of the Group.

**25 DEFERRED TAXATION**

Deferred taxation are calculated in full on temporary differences under the liability method using a principal tax rate of 17.5% (2002: 16%).

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

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
At 1st January	<b>891</b>	1,181
Deferred taxation charged/(credited) to profit and loss account (note 5)	<b>84</b>	(290)
At 31st December	<b>975</b>	891
Provided in respect of:		
Accelerated depreciation allowances	<b>975</b>	891

**25 DEFERRED TAXATION** (cont'd)

Deferred income tax assets are only recognised for tax loss carry forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. Total potential deferred taxation asset not provided for in the accounts is as follows:

	2003 HK\$'000	2002 HK\$'000
Tax losses	<u>20,983</u>	<u>13,361</u>

**26 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**

(a) Reconciliation of profit before taxation to cash generated from operations:

	2003 HK\$'000	2002 HK\$'000
Profit before taxation	1,831,720	1,192,611
Interest income	(17,559)	(11,908)
Interest expense	2,443	5,643
Share of profits less losses of		
A jointly controlled entity	(1,843,205)	(1,220,566)
Associated companies	(3,088)	48,904
Non-consolidated subsidiaries	(1,776)	(1,776)
Amortisation of goodwill	1,533	1,533
Revaluation loss on investment properties	790	7,974
Depreciation of fixed assets	14,629	13,586
Loss on disposal of fixed assets	1,913	3,446
Provision for impairment loss on fixed assets	—	6,721
Gain on disposal of a partial interest in a subsidiary	—	(6,020)
Gain on liquidation of subsidiaries	—	(2,796)
Write-off of interest in a non-consolidated subsidiary	—	4,333
Provision for impairment loss on investment securities	—	825
Write-back of provision for doubtful debts	(61)	—
Provision for doubtful debts	485	—
Provision for stock obsolescence	19,396	—
	<hr/>	<hr/>
Operating profit before working capital changes	7,220	42,510
(Increase)/decrease in inventories	(12,041)	10,172
(Increase)/decrease in trade and other receivables	(69,553)	26,531
Increase/(decrease) in trade and other payables	207,897	(15,914)
	<hr/>	<hr/>
Cash generated from operations	<u>133,523</u>	<u>63,299</u>

**26 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)**

## (b) Analysis of changes in financing during the year

	<b>Share capital (including share premium) HK\$'000</b>	<b>Trust receipt, bank and other loans HK\$'000</b>	<b>Minority interests HK\$'000</b>	<b>Total HK\$'000</b>
At 1st January 2002	2,087,018	141,427	66,838	2,295,283
Issue of shares upon exercise of share options	125,715	—	—	125,715
Share issue expenses	(121)	—	—	(121)
Minority interests in share of profit	—	—	1,573	1,573
Minority interests in share of exchange reserves	—	—	(439)	(439)
Cash inflow from financing	—	(70,480)	—	(70,480)
Dividends paid to minority shareholders	—	—	(2,318)	(2,318)
Disposal of a partial interest in a subsidiary	—	—	43,704	43,704
Liquidation of a subsidiary	—	—	(251)	(251)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December 2002	2,212,612	70,947	109,107	2,392,666
Issue of shares upon exercise of share options	247,487	—	—	247,487
Minority interests in share of profit	—	—	(7,892)	(7,892)
Minority interests in share of exchange reserves	—	—	794	794
Cash inflow from financing	—	605	—	605
Dividends paid to minority shareholders	—	—	(31,744)	(31,744)
Dividends payable to minority shareholders	—	—	40,502	40,502
Capital injection from a minority shareholder	—	—	60,461	60,461
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December 2003	<u>2,460,099</u>	<u>71,552</u>	<u>171,228</u>	<u>2,702,879</u>

**26 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)**

(c) Liquidation of subsidiaries

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Net assets disposed of:		
Interest in a non-consolidated subsidiary	—	4,333
Trade and other receivables	—	22
Cash and bank balances	—	28
Trade and other payables	—	(2,582)
Minority interests	—	(251)
Exchange reserve	—	(1)
Capital reserve	—	(12)
	<u>—</u>	<u>1,537</u>
Gain on liquidation of subsidiaries	—	2,796
Write-off of interest in a non-consolidated subsidiary	—	(4,333)
	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>

Analysis of net outflow of cash and cash equivalents in respect of the liquidation of subsidiaries:

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Cash and bank balances disposed of	—	(28)
	<u>—</u>	<u>(28)</u>

**27 COMMITMENTS**

## (a) Commitments under operating leases

At 31st December 2003, 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>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Not later than one year	<b>6,788</b>	8,501
Later than one year and not later than five years	<b>27,990</b>	32,406
Later than five years	<b>35,042</b>	44,410
	<b>69,820</b>	85,317

The Company had no operating lease commitments as at 31st December 2002 and 2003.

## (b) Capital commitments

At 31st December 2003, the Group had capital commitments in respect of purchase of fixed assets as follows:

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Contracted but not provided for	—	2,201
Authorised but not provided for	<b>34,090</b>	—

The Company had no capital commitments as at 31st December 2002 and 2003.

**28 CONTINGENT LIABILITIES**

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Guarantees for bank loans borrowed by a non-consolidated subsidiary	<b>13,873</b>	16,252

The Company had no contingent liabilities as at 31st December 2002 and 2003.

## 29 RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these accounts, the following is a summary of significant related party transactions which were carried out in the normal course of the Group's business during the year:

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Compensation received from a jointly controlled entity for the relocation of office and production plant of a subsidiary (note (a))	—	18,692
Disposal of fixed assets to a jointly controlled entity (note (a))	—	5,445
Sales to a jointly controlled entity (note (b))	—	2,688
Purchases from a jointly controlled entity (note (b))	<b>428,772</b>	366,812
Disposal of a partial interest in a subsidiary to the intermediate holding company (note (b))	—	49,724
Rental expense paid to a fellow subsidiary (note (b))	<b>696</b>	5,234
Administration and management fees for retired employees paid to a fellow subsidiary (note (b))	<b>3,114</b>	—
Purchases of land use rights and buildings from a subsidiary of an intermediate holding company (note (b))	<b>67,234</b>	—

(a) The terms of the compensation and the consideration for the disposal of fixed assets were agreed between the Group and the jointly controlled entity.

(b) The directors are of the opinion that these transactions were conducted in the normal course of business at prices and terms no less than those charged to and contracted with other third parties of the Group.

## 30 BANKING FACILITIES

At 31st December 2003, the Group had total banking facilities amounted to HK\$367,518,000 (2002: HK\$235,291,000), of which HK\$292,586,000 (2002: HK\$196,458,000) was utilised as at that date.

## 31 RETIREMENT BENEFIT COSTS

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. Forfeited contributions totalling HK\$463,000 (2002: HK\$117,000) were utilised during the year. There was no outstanding balance available at the balance sheet dates of 2002 and 2003 to reduce future contributions. Contributions totalling HK\$482,000 (2002: HK\$99,000) were payable to the ORSO and MPF Schemes at the year end 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 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% (2002: 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 pension to the retired employees of these subsidiaries. In 2003, there was no material contribution forfeited for employees who left the scheme prior to vesting fully in such contributions.

The Group’s retirement benefit costs were expensed as incurred and the total amount charged to the profit and loss account for the year was HK\$7,393,000 (2002: HK\$7,033,000).

## 32 ULTIMATE HOLDING COMPANY

The directors regard Guangzhou Automobile Industry Group Company Limited, a company incorporated in the PRC, as being the ultimate holding company.

## 33 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 29th March 2004.

**34 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 31st December 2003 or formed a substantial portion of the net assets of the Group at 31st December 2003:

<b>Name</b>	<b>Place of incorporation/ establishment</b>	<b>Principal activities</b>	<b>Registered capital/issued share capital</b>	<b>Effective interest held</b>
<b>Interest held directly:</b>				
Guangzhou Denway Enterprises Development Company Limited (note (a))	PRC	Investment and management	US\$87,272,700	95%
Guangzhou Weida Machinery Enterprises Limited - Automative Industry Trading Company (note (a))	PRC	Wholesale of various types of motor vehicles	US\$1,340,600/ 1,889,235	95%
Guangzhou Denway Bus Limited (notes (a) and (c))	PRC	Assembly and sales of coaches and sales of other vehicles	US\$29,900,000	50%
Guangzhou Weida Machinery Enterprises Limited - Light Automotive Supply & Marketing United Service Company (note (a))	PRC	Trading of pick-up trucks, sedans and other motor vehicles	US\$5,186,700/ 4,963,877	95%
Easeco Enterprises Limited	Hong Kong	Property holding	HK\$2	100%
Gardex Development Limited	Hong Kong	Property holding	HK\$2	100%
National Grade Limited	Hong Kong	Property holding	HK\$2	100%

**34 SUBSIDIARIES** (cont'd)

<b>Name</b>	<b>Place of incorporation/ establishment</b>	<b>Principal activities</b>	<b>Registered capital/issued share capital</b>	<b>Effective interest held</b>
<b>Interest held indirectly:</b>				
Guangzhou Auto Group Corporation (note (a))	PRC	Investment and management	RMB468,200,000	95%
Guangzhou Automotive Industry Trading Company Limited	PRC	Wholesale and retail of various types of motor vehicles	RMB20,000,000	90%
Guangzhou Junyang Vehicle Lamps Company (note (b))	PRC	Manufacture and sales of motor vehicle lamps	US\$2,095,600	90%
Guangzhou Honda Automobile No.1 Sales Company Limited (note (c))	PRC	Trading of motor sedan	RMB18,000,000	48%
Promowide Technology Limited (formerly known as "Promowide Limited")	Hong Kong	Investment holding and management	HK\$42,394,938	63%
Arkon Industrial Limited	Hong Kong	Investment holding and management	HK\$10,000,000	61%
Art Sea Metal Works Limited	Hong Kong	Manufacture of metal parts	HK\$400,000	61%
Uni-Art Precise Products Limited	Hong Kong	Manufacture of audio equipment	HK\$400,000	61%
Classic Tech Development Limited	Hong Kong	Property holding	HK\$35,010,000	63%

## 34 SUBSIDIARIES (cont'd)

Name	Place of incorporation/ establishment	Principal activities	Registered capital/issued share capital	Effective interest held
<b>Interest held indirectly: (cont'd)</b>				
Baker and Priem Bull Bars Pty Limited (note (d))	Australia	Design and manufacture of motor vehicles accessories	AUD215,710	51%
Baker and Priem Sales Pty Limited (note (d))	Australia	Sales of motor vehicle accessories	AUD2	51%

*Notes:*

- (a) These are Sino-foreign equity joint ventures with a joint-venture period of 30 years from January 1993.
- (b) This is a Sino-foreign equity joint venture with a joint-venture period of 20 years from August 1994.
- (c) The composition of the board of directors of each of these entities is controlled by the Company.
- (d) These subsidiaries were not audited by PricewaterhouseCoopers. The aggregate turnover of these subsidiaries was less than 1% of the Group's total turnover.
- (e) All the above subsidiaries mainly operate in their respective places of incorporation/ establishment.