

## **FINANCIAL INFORMATION**

### **INDEBTEDNESS AND BORROWINGS**

As at the close of business on 31st March, 2002, the Group had bank borrowings and banking facilities utilised of HK\$128 million. As at that day, the Group had contingent liabilities of HK\$34 million being guarantees provided to Beijing China National Automotive Anhua Spare Parts Ltd. in United States dollars. The guarantees will be released upon listing of the Shares as concurred by the banks.

#### **Disclaimer**

Save as aforesaid or otherwise disclosed herein, and apart from any intra-group liabilities and normal trade payables, as at the close of business on 31st March, 2002, neither the Company nor any of its subsidiaries had any outstanding mortgages or charges or debentures or other loan capital or bank overdrafts, loans or other similar indebtedness, finance lease commitments, hire purchase commitments, liabilities under acceptance or credits or any guarantees or material contingent liabilities.

#### **No material adverse change**

The Directors have confirmed that, save as disclosed in this “Financial information” section, there has not been any material change in the indebtedness of the Company and its subsidiaries since 31st March, 2002.

### **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

#### **Net current assets**

As at 31st March, 2002, the Group had net current assets of approximately HK\$2.3 million. Current assets comprised cash and bank balances and fixed deposits of approximately HK\$42 million, inventories of approximately HK\$31 million, accounts receivable, deposits and prepayment of approximately HK\$78 million. Current liabilities comprised bank overdraft of approximately HK\$7 million, accounts payable and accrued charges of approximately HK\$13 million, amount due to related companies of approximately HK\$1.4 million, amount due to directors of approximately 0.9 million, bank borrowings of approximately HK\$112 million, taxation of approximately HK\$14 million and dividends payable of approximately HK\$0.4 million.

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### **Financial resources**

The Group has historically relied on cashflow generated internally and banking facilities provided by its principal bankers in Singapore for its capital expenditures and other capital requirements. Following the Placing, the Group expects to fund its foreseeable expenditures with the net proceeds from the Placing and net operating cash inflow.

### **Borrowings and banking facilities**

The Group generally finances its operations with internally generated cashflows and banking facilities provided by its principal bankers in Singapore.

As at 31st March, 2002, the Group had banking facilities of HK\$191 million. Such banking facilities were utilised to the extent of approximately HK\$128 million as at 31st March, 2002 of which approximately HK\$118 million are repayable within one year and approximately HK\$10 million are repayable after one year.

### **Foreign exchange risk**

During the Track Record Period, approximately 17.3%, 27.5%, 22.9% and 16.4% of the Group's sales were settled in RMB, HK\$, euro and US\$ respectively. Approximately 0%, 13.6%, 52.6% and 25.3% of the Group's purchases were settled in RMB, Hong Kong dollars, euro and US\$ respectively.

### **RULES 17.15 TO 17.21 OF THE GEM LISTING RULES**

As at 31st December, 2001, the total advancement, guarantees and receivables provided to and due from North Anhua, its subsidiaries and related companies are in aggregate of approximately HK\$126 million, which exceed the 25% of the Group's net tangible assets. Pursuant to 17.15 of the GEM Listing Rules, the details of the transactions are illustrated and disclosed as follows:

The prepaid rental expenses advanced to CNA Anhua (Hertz) and Jin Tian Cheng as at 31st December, 2001, amounted to approximately HK\$34 million and HK\$6 million respectively, were unsecured, interest free and will be amortized over 50 years and 20 years from the date of completion of the developments respectively. The non-trade advance to Jin Tian Cheng amounted to approximately HK\$11 million was unsecured, interest free and repayable within one year, of which approximately HK\$3.3 million has been received in May 2002.

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Approximately HK\$34 million guarantees were provided to a bank in respect of banking facilities granted to Beijing China Automotive Anhua Spare Parts Ltd. The bank agreed to unconditionally release the above guarantees upon the listing of the Company. The group does not have any security or receive any considerations from Beijing China Automotive Anhua Spare Parts Ltd. or North Anhua by giving such guarantees.

Approximately HK\$8 million was deposited with various related companies of North Anhua in the PRC for setting up car rental offices. Since the Group is not allowed to operate car rental business directly in the PRC, such amount has been fully repaid subsequent to the financial year end.

The trade receivables due from North Anhua as at 31st December, 2001 amounted to approximately HK\$24 million. The trade receivables due from North Anhua were unsecured, interest free and repayable within one year. Such amount has been fully settled in May 2002.

The other receivables due from North Anhua as at 31st December, 2001 amounted to approximately HK\$9 million, represented the same amount of inventory refunded to North Anhua at cost. This amount was unsecured, interest free and has been settled in March 2002.

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## TRADING RECORD

### Summary of combined results of the Group

The table sets out a summary of the audited combined results of the Group for each of the two years ended 31st December, 2000 and 2001 prepared on the assumption that the current structure of the Group was in existence throughout the periods under review and is extracted from and has been prepared in accordance with the basis set out in Note 1 to the Section I of the accountants' report in appendix I to this prospectus.

	<b>FY2000</b>		<b>FY2001</b>	
	<i>S\$'000</i>	<i>HK\$'000</i>	<i>S\$'000</i>	<i>HK\$'000</i>
		<i>(Note 1)</i>		<i>(Note 1)</i>
Income from fixed price contracts <i>(Note 2)</i>				
– Sales of passenger vehicles	19,342	87,009	50,102	218,786
– Servicing of motor vehicles and sales of auto parts	2,283	10,270	3,340	14,585
Technical fee income <i>(Note 3)</i>	6,157	27,696	4,675	20,413
Total turnover	27,782	124,975	58,117	253,784
Cost of sales	(19,138)	(86,090)	(47,820)	(208,821)
Gross profit	8,644	38,885	10,297	44,963
Other revenues	190	855	90	393
Staff costs	(1,152)	(5,182)	(1,440)	(6,288)
Depreciation expenses	(171)	(768)	(170)	(743)
Minimum lease payments for operating lease	(252)	(1,134)	(453)	(1,978)
Exchange gain, net	912	4,103	494	2,157
Other operating expenses	(3,236)	(14,558)	(1,943)	(8,484)
Profit from operations	4,935	22,201	6,875	30,020
Share of profits of a joint venture <i>(Note 4)</i>	295	1,327	—	—
Finance costs, net	(2,107)	(9,478)	(2,053)	(8,965)
Profit before taxation	3,123	14,050	4,822	21,055
Taxation	(1,968)	(8,853)	(2,056)	(8,976)
Profit after taxation but before minority interests	1,155	5,197	2,766	12,079
Minority interests <i>(Note 5)</i>	(90)	(405)	11	48
Profit attributable to shareholders	<u>1,065</u>	<u>4,792</u>	<u>2,777</u>	<u>12,127</u>
Earnings per share <i>(Note 6)</i>				
– basic (cents)	<u>0.35</u>	<u>1.56</u>	<u>0.87</u>	<u>3.79</u>

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The profit attributable to shareholders would have been impacted by certain notional adjustments. These adjustments are made for information purposes to reflect the pro forma information detailed in Note 3a, 17b, 18 and 22 of Section I of the accountants' report in appendix I to this prospectus, as if the arrangements set out in these sections had been effected during the two years ended 31st December, 2000 and 2001.

### *Notes:*

1. Translation of amounts from Singapore Dollars ("S\$") into Hong Kong dollars ("HK\$") is for the convenience of readers and has been made at the rates of exchange in effect at 31st December, 2000 of S\$22.23 = HK\$100, and 31st December, 2001 of S\$22.90 = HK\$100. No representation is made that the S\$ amounts could have been, or could be, converted into HK\$ at such rates or at any other rate.
2. The Group's income from fixed price contracts is stated after deducting the PRC value-added tax ("VAT") at 17% of revenue from fixed price contracts, city and county maintenance tax at 3.5% of the amount of VAT levied and social welfare surcharge at 1.5% of the amount of VAT levied.
3. The technical fee income is earned based on a percentage of the selling prices of PRC locally assembled Honda cars sold by North Anhua.
4. This relates to share of results of a 55% joint venture company, Beijing China National Automotive Anhua Spare Parts Ltd, which was disposed of in the year ended 31st December, 2000.
5. Minority interests relate to minority shareholders' share of subsidiaries' results.
6. The calculation of basic earnings per share for each of the years ended 31st December, 2000 and 2001 is based on the profit attributable to shareholders during the year and on the weighted average number of approximately 306,302,000 Shares and 320,000,000 Shares in issue during the years ended 31st December, 2000 and 2001, respectively, by reference to 320,000,000 Shares in issue as at date of this prospectus. As there are no dilutive potential ordinary shares during the years and as at the end of each year under review, no diluted earnings per share is presented.

## **Management's discussion and analysis of financial condition and results of operation**

### ***Overview***

The majority of the Group's turnover during the track record period was derived by German Automobiles Pte Ltd., a subsidiary operating in Singapore.

German Automobiles Pte Ltd. was incorporated on 26th August, 1993. In the years ended 31st December, 2000 and 2001, substantially all activities of German Automobiles Pte Ltd. related to the wholesale of passenger vehicles, including parts and accessories and the provision of agency and technical services through its distribution networks in the PRC and Hong Kong.

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### **Year ended 31st December, 2001 compared with year ended 31st December, 2000**

#### ***Turnover***

For the year ended 31st December, 2001, the turnover of the Group amounted to HK\$254 million, an increase of approximately 103% as compared with that of the year ended 31st December, 2000. This is mainly contributed by the increase in the sale of passenger vehicle by 151% during the period, owing to the increase in demand for deluxe BMW passenger vehicles and other brand vehicles including Toyota and Mercedes-Benz arising from product diversification. For the year ended 31st December, 2000, revenues generated from distributing BMW and Mercedes-Benz was approximately HK\$35,565,000 and HK\$26,144,000 respectively and increased to approximately HK\$128,812,000 and HK\$64,522,000 respectively for the year ended 31st December, 2001. The Directors believe such increase was resulted from increasing customers' demand induced by the economic growth of the PRC.

The Group's ability to maintain strong relationships with BMW AG secured the continuous supply of the passenger vehicles to satisfy the continuous growth in the PRC luxury and mid-market passenger vehicles. The Group has strengthened its after-sales services and capabilities to enhance the Group's image and reliability.

#### ***Gross Profit***

Gross profit margin for income from distribution of passenger vehicles was approximately 8% and 10.5% for the years ended 31st December, 2000 and 2001 respectively. The gross profit margin of technical fee is 100% for each of the years ended 31st December, 2000 and 31st December, 2001. For the years ended 31st December, 2000 and 2001, the gross profit margin of the Group was approximately 31% and 18% respectively.

For the year ended 31st December, 2001, the gross profit of the Group was approximately HK\$45 million, representing an increase of approximately 16% over that of the year ended 31st December, 2000. The decrease in gross profit margin resulted from decrease in technical fee, which recorded a decrease of approximately HK\$7 million or 26% over that of the year ended 31st December, 2000. Technical fee income is earned based on 5% to 15% of the selling prices of PRC assembled Honda cars sold by North Anhua, a major customer. The high technical fee income for the year ended 31st December, 2000 was due to the launch of the locally assembled Honda cars in the PRC. The demand for the locally manufactured cars sold by North Anhua moderated in the year ended 31st December, 2001 and consequently the technical fee income decrease from HK\$28 million in 2000 to HK\$20 million in 2001.

#### ***Operating expenses***

For the year ended 31st December, 2001, the staff costs of the Group amounted to approximately 2.48% of the turnover of the Group and an increase of approximately HK\$1,106,000 or approximately 21% as compared to that of the year ended 31st December, 2000.

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For the year ended 31st December, 2001, the exchange gain of the Group amounted to approximately HK\$2,157,000, a decrease of approximately HK\$1,946,000 or approximately 47.43% as compared to that of the year ended 31st December, 2000. The reduction in exchange gain is mainly due to the devaluation of SGD against major currencies at the last quarter of 2001 which gives rise to unrealized exchange loss for other currencies, such as USD and euro on revaluation at the business closing date.

Other operating expenses decrease by approximately HK\$6,074,000 or approximately 41.72% over the year ended 31st December, 2000, owing to the tight control of management on debts collection and inventory control. This resulted in lower bad debts written off, provision for doubtful debts and inventory obsolescence of approximately HK\$4,586,000 during the year ended 31st December, 2001. There were also losses incurred on disposal of a 80% subsidiary and a 55% joint venture, HK\$877,000 of Xiamen Xiangyu Jinbow International Trading Co., Ltd. and HK\$2,906,000 of Beijing China National Automotive Anhua Spare Parts Ltd. respectively, amounting to HK\$3,783,000 during the year ended 31st December, 2000. Since GAL has taken up the role of Xiamen Xiangyu Jinbow International Trading Co., Ltd. of trading auto parts and the management considered the manufacturing of auto parts by Beijing China National Automotive Anhua Spare Parts Ltd. did not align with the core business of the Group, the Group thus decided to dispose both of the entities in 2000.

### ***Profit attributable to shareholders***

Profit attributable to shareholders for the year ended 31st December, 2001 is HK\$12,127,000 as compared with that of the year ended 31st December, 2000 of HK\$4,792,000. The profits for 2001 increase by approximately 153% as compared with that of 2000, mainly due to the boost in sales and tightened control on debts collection, inventory management and operating expenses, as well as the absence of non-recurring losses on disposal of a subsidiary and a joint venture in 2000. The joint venture was disposed at approximately HK\$9,096,000, generating a loss on disposal at approximately HK\$2,906,000.

### ***Taxation***

German Automobiles Limited, a wholly owned subsidiary of the Company, is an enterprise operating in Hong Kong. Hong Kong profits tax has been provided for each of the two years ended 31st December, 2000 and 2001, at a rate of 16%.

German Automobiles Pte Ltd., a wholly owned subsidiary of the Company, is an enterprise operating in Singapore. Singapore income tax at a rate of 25.5% and 24.5% has been provided for the years ended 31st December, 2000 and 2001 respectively.

Xiamen BMW Automobiles Service Co., Ltd., a cooperative joint venture enterprise established and operating in the Xiamen Special Economic Zone of the PRC since 8th January, 1994 and was subject to the PRC enterprise income tax at a rate of 33%. Xiamen BMW Automobiles Service Co., Ltd. did not generate any assessable profits in the PRC since its incorporation.

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Xiamen BMW Automobiles Service Co., Ltd. is also subjected to value-added-tax ("VAT") at 17% of revenue from fixed price contracts, city and county maintenance tax at 3.5% of the amount of VAT levied and social welfare surcharge at 1.5% of the amount VAT levied.

In addition, the Group's employees in the PRC are subject to individual income tax. The Group is obliged to withhold individual income tax from employees' payrolls for payment to the PRC Tax Bureau.

The Group has been delaying its tax payment due to the Inland Revenue Authority of Singapore since 1997 as a result of lacking proper accounting control during the time when the Group's accounting staffs made some injudicious assessments on filing and journalising tax returns in the past. Provision for tax is made every year. The Directors were not informed by the Group's accountants during that time in relation to the actual settlement status of the tax bills and all the outstanding tax balances which had not been paid. Furthermore, the Group's accountants did not draw the Directors' attention to the issue even though the Inland Revenue Authority of Singapore had sent multiple payment reminders to the Group. As a result, the tax payments were past due and delayed.

The Group intends to settle the outstanding tax balance by the end of 2002 by monthly installments, but there is no written confirmation from the Inland Revenue Authority of Singapore for their agreement to the tax repayment schedule. The Directors confirm that since the event, the Group has improved its internal control by hiring an experienced financial controller and professional accountants to oversee its internal operation. The Directors believe that this will improve the internal control of the Group significantly in the future. Please refer to "Risk Factors" section for further details.

As at 31st December, 2001, the tax payable to the Inland Revenue Authority of Singapore amounted to HK\$13,022,000. Such provisions for outstanding tax payment balance have been fully made in the accountants' report, and on the ground of prudence, a maximum of 17% penalty for such late tax payments of approximately HK\$1,528,000 has been provided in the accountants' report.

### **FOREIGN EXCHANGE**

The reduction in exchange gain for the year ended 31st December, 2001 as compared with that of 31st December, 2000 is mainly due to the devaluation of SGD against major currencies at the last quarter of the year 2001 which give rise to unrealized exchange loss for other currencies, e.g. USD and Euro.

### **PROPERTY INTERESTS**

A letter and the summary of valuation issued by DTZ Debenham Tie Leung Limited in respect of the property interests owned and rented/occupied by the Group in Singapore, Hong Kong and the PRC are set out in appendix II to this prospectus.



# FINANCIAL INFORMATION

## DIVIDENDS

No dividend has been paid or declared by the Company nor any of its subsidiaries during the Track Record Period. The Directors do not expect to pay or declare any dividend for the year ending 31st December, 2002. The amount of any future dividends will be subject to the discretion of the Directors and will be dependent upon the Group's earnings, financial condition, cash requirements and availability and other relevant factors.

## WORKING CAPITAL

The Directors are of the opinion that, taking into account the present available banking facilities and internal financial resources of the Group and the estimated net proceeds of the Placing, the Group has sufficient working capital for its present requirements.

## DISTRIBUTABLE RESERVES

As at 31st March, 2002, the Company had no reserves available for distribution to its shareholders.

## ADJUSTED NET TANGIBLE ASSETS

The following pro forma statement of adjusted net tangible assets of the Group is based on the combined net assets of the Group as at 31st December, 2001 as shown in the accountants' report, the text of which is set out in appendix I to this prospectus, and adjusted as described below:

	<i>HK\$'000</i>
Audited combined net tangible assets of the Group as at 31st December, 2001	51,052
Unaudited net profit for the 3 months ended 31st March, 2002	1,613
Surplus arising on the revaluation of the Group's property interests as at 31st December, 2001 ( <i>Note 1</i> )	575
Estimated net proceeds of the Placing ( <i>Note 2</i> )	27,000
Adjusted net tangible assets	<u>80,240</u>
Adjusted net tangible assets value per share ( <i>Note 3</i> )	<u>20.06 cents</u>

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*Notes:*

1. The surplus on the revaluation of the Group's property interests as at 31st December, 2001 will be incorporated into the Company's financial statements for the year ending 31st December, 2002. If such surplus is incorporated into the Group's financial statements for the year ended 31st December, 2001, annual depreciation expenses for the year ended 31st December, 2001 will be increased by approximately HK\$9,000.
2. The estimated net proceeds of the Placing is based on the Placing Price of \$0.50 per Placing Share or total amount of HK\$27 million which will be raised under the Placing by the Company after expenses.
3. The adjusted net tangible assets value per Share is calculated based on 400,000,000 Shares in issue immediate after the Placing.

### **NO MATERIAL CHANGE**

The Directors are not aware of any material change in the financial or trading position or prospects of the Group since 31st December, 2001 (being the date to which the latest audited combined statements of the Group were made up).