



駿威汽車有限公司
DENWAY MOTORS LIMITED

Stock Code: 203

Interim Report *2007*

INTERIM RESULTS

The directors of Denway Motors Limited (the “Company”) announce that the unaudited consolidated results of the Company and its subsidiaries (the “Group”) and its share of the results of jointly controlled entities, associates and non-consolidated subsidiaries for the six months ended 30 June 2007 together with comparative figures for the corresponding period in 2006 as follows:

Condensed Consolidated Income Statement

For the six months ended 30 June 2007

		Unaudited Six months ended 30 June	
		2007	2006
		HK\$'000	HK\$'000
	Note		
Continuing operations:			
Turnover	4	395,834	352,036
Cost of sales		<u>(354,515)</u>	<u>(312,062)</u>
Gross profit		41,319	39,974
Selling and distribution costs		(15,044)	(14,093)
General and administrative expenses		(29,906)	(27,489)
Other operating income, net		<u>75,553</u>	<u>17,636</u>
Operating profit	5	71,922	16,028
Finance costs		(464)	(560)
Share of profits less losses of:			
A jointly controlled entity	10	1,102,872	1,228,081
Other jointly controlled entities		122,268	52,108
Associates		4,846	4,413
Non-consolidated subsidiaries		<u>—</u>	<u>49</u>
Profit before taxation		1,301,444	1,300,119
Taxation	6	<u>(3,248)</u>	<u>(4,008)</u>
Profit for the period from continuing operations		1,298,196	1,296,111
A discontinued operation:			
Loss for the period from a discontinued operation		<u>—</u>	<u>(8,093)</u>
Profit for the period		<u>1,298,196</u>	<u>1,288,018</u>
Attributable to:			
Equity holders of the Company		1,293,147	1,288,560
Minority interests		<u>5,049</u>	<u>(542)</u>
		<u>1,298,196</u>	<u>1,288,018</u>

Condensed Consolidated Income Statement *(Continued)*

For the six months ended 30 June 2007

		Unaudited	
		Six months ended 30 June	
		2007	2006
		<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>Note</i>		
Basic earnings/(losses) per share attributable to equity holders of the Company			
— continuing operations	7	17.20 cents	17.19 cents
— a discontinued operation	7	—	(0.05) cents
		<u>17.20 cents</u>	<u>17.14 cents</u>
Diluted earnings/(losses) per share attributable to equity holders of the Company			
— continuing operations	7	17.17 cents	17.16 cents
— a discontinued operation	7	—	(0.05) cents
		<u>17.17 cents</u>	<u>17.11 cents</u>
Interim dividend	8	<u>375,868</u>	<u>375,868</u>

Condensed Consolidated Balance Sheet

As at 30 June 2007

	<i>Note</i>	Unaudited As at 30 June 2007 HK\$'000	Audited As at 31 December 2006 HK\$'000
ASSETS			
Non-current assets			
Intangible asset	9	865,278	864,466
Leasehold land and land use rights	9	28,808	29,032
Property, plant and equipment	9	76,550	76,109
Investment properties	9	45,060	45,060
Interest in a jointly controlled entity	10	6,237,067	5,551,343
Interests in other jointly controlled entities		958,054	844,951
Interests in associates		61,736	56,577
		<u>8,272,553</u>	<u>7,467,538</u>
Current assets			
Inventories		108,792	83,017
Trade and other receivables	11, 16(c)	729,086	80,001
Current tax recoverable		2,162	1,033
Cash and bank balances			
— pledged		27,299	26,393
— others		2,355,506	2,727,423
		<u>3,222,845</u>	<u>2,917,867</u>
Total assets		<u>11,495,398</u>	<u>10,385,405</u>
EQUITY			
Share capital and reserves attributable to equity holders of the Company			
Share capital	12	751,736	751,736
Reserves			
Proposed final dividend		—	451,042
Others		10,478,032	8,935,698
		<u>11,229,768</u>	<u>10,138,476</u>
Minority interests		75,024	70,441
Total equity		<u>11,304,792</u>	<u>10,208,917</u>

Condensed Consolidated Balance Sheet (Continued)

As at 30 June 2007

	<i>Note</i>	Unaudited As at 30 June 2007 HK\$'000	Audited As at 31 December 2006 HK\$'000
LIABILITIES			
Non-current liabilities			
Borrowings	13	2,668	3,138
Deferred tax liabilities		1,030	1,797
		<u>3,698</u>	<u>4,935</u>
Current liabilities			
Trade and other payables	14, 16(c)	172,051	147,479
Current tax liabilities		10,962	13,277
Borrowings	13	3,895	10,797
		<u>186,908</u>	<u>171,553</u>
Total liabilities		<u>190,606</u>	<u>176,488</u>
Total equity and liabilities		<u>11,495,398</u>	<u>10,385,405</u>
Net current assets		<u>3,035,937</u>	<u>2,746,314</u>
Total assets less current liabilities		<u>11,308,490</u>	<u>10,213,852</u>

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2007

	Unaudited						Total HK\$'000
	Attributable to equity holders						
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Minority interests HK\$'000	
Balance at 1 January 2007	751,736	2,501,481	1,267,339	334,209	5,283,711	70,441	10,208,917
Currency translation differences and net income recognised directly in equity	—	—	2,580	246,607	—	(466)	248,721
Profit for the period	—	—	—	—	1,293,147	5,049	1,298,196
Total recognised income for the period	—	—	2,580	246,607	1,293,147	4,583	1,546,917
2006 final dividend paid	—	—	—	—	(451,042)	—	(451,042)
Balance at 30 June 2007	751,736	2,501,481	1,269,919	580,816	6,125,816	75,024	11,304,792
Balance at 1 January 2006	751,736	2,501,481	1,077,886	77,691	4,261,402	84,462	8,754,658
Currency translation differences and net income recognised directly in equity	—	—	858	65,459	—	(514)	65,803
Profit/(loss) for the period	—	—	—	—	1,288,560	(542)	1,288,018
Total recognised income/ (loss) for the period	—	—	858	65,459	1,288,560	(1,056)	1,353,821
Disposal of a subsidiary	—	—	16	5,894	—	(14,818)	(8,908)
2005 final dividend paid	—	—	—	—	(300,694)	—	(300,694)
2005 special dividend paid	—	—	—	—	(375,868)	—	(375,868)
Dividend paid to a minority shareholder	—	—	—	—	—	(2,674)	(2,674)
Transfer to capital reserve	—	—	14	—	(14)	—	—
Balance at 30 June 2006	751,736	2,501,481	1,078,774	149,044	4,873,386	65,914	9,420,335

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2007

	Unaudited	
	Six months ended 30 June	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash used in operating activities	(8,951)	(48,918)
Net cash generated from investing activities	49,827	1,038,357
Net cash used in financing activities	(412,793)	(729,792)
	<hr/>	<hr/>
(Decrease)/increase in cash and cash equivalents	(371,917)	259,647
Cash and cash equivalents at 1 January	2,727,423	1,632,513
	<hr/>	<hr/>
Cash and cash equivalents at 30 June	2,355,506	1,892,160
	<hr/> <hr/>	<hr/> <hr/>
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	2,355,506	1,892,160
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Selected Notes to Condensed Interim Financial Information

1 General information

The Group is principally engaged in the manufacturing, assembly and trading of motor vehicles, the manufacturing and trading of automotive equipment and parts in the People's Republic of China (the "PRC") and the manufacturing and trading of audio equipment in Hong Kong.

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

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

These condensed consolidated interim financial information was approved for issue on 6 September 2007.

2 Basis of preparation

These condensed interim financial information for the six months ended 30 June 2007 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and should be read in conjunction with the annual financial statements for the year ended 31 December 2006.

3 Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2006. As described in the annual financial statements for the year ended 31 December 2006, the following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The adoption of these new standards, amendments to standards and interpretations has no significant impact on the Group's interim results and financial position.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2007. Management is currently assessing the impact on the Group's operations.

HKAS 23 (Revised)	Borrowing Costs
HKFRS 8	Operating Segments
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

Selected Notes to Condensed Interim Financial Information

4 Turnover and segment information

An analysis of the Group's turnover and results for the period by principal business segments and geographical segments is as follows:

Principal business segments:

	Unaudited					Total HK\$'000
	Six months ended 30 June 2007					
	Trading of motor vehicles HK\$'000	Manufacturing and assembly of motor vehicles HK\$'000	Manufacturing and trading of automotive equipment and parts HK\$'000	Manufacturing and trading of audio equipment HK\$'000	Other operations HK\$'000	
Turnover	268,812	—	5,717	121,305	—	395,834
Segment operating profit	3,030	—	2,124	8,055	24,687	37,896
Interest income	372	—	30,872	360	2,422	34,026
Operating profit	3,402	—	32,996	8,415	27,109	71,922
Finance costs						(464)
Share of profits less losses of:						
A jointly controlled entity		1,102,872				1,102,872
Other jointly controlled entities			122,268			122,268
Associates	520		4,326			4,846
Profit before taxation						1,301,444
Taxation						(3,248)
Profit for the period from:						
Continuing operations						1,298,196
A discontinued operation						—
						1,298,196
Depreciation	1,513	—	499	2,215	1,421	5,648
Amortisation	—	—	—	—	224	224

Selected Notes to Condensed Interim Financial Information

4 Turnover and segment information (Continued)

Principal business segments: (Continued)

	Unaudited Six months ended 30 June 2006					Total HK\$'000
	Trading of motor vehicles HK\$'000	Manufacturing and assembly of motor vehicles HK\$'000	Manufacturing and trading of automotive equipment and parts HK\$'000	Manufacturing and trading of audio equipment HK\$'000	Other operations HK\$'000	
Turnover	229,674	—	5,228	117,134	—	352,036
Segment operating profit/ (loss)	2,078	—	(3,304)	7,961	909	7,644
Interest income	275	—	3,944	83	4,082	8,384
Operating profit	2,353	—	640	8,044	4,991	16,028
Finance costs						(560)
Share of profits less losses of:						
A jointly controlled entity		1,228,081				1,228,081
Other jointly controlled entities			52,108			52,108
Associates	1,047		3,366			4,413
Non-consolidated subsidiaries	49					49
Profit before taxation						1,300,119
Taxation						(4,008)
Profit/(loss) for the period from:						
Continuing operations						1,296,111
A discontinued operation		(8,093)				(8,093)
						1,288,018
Depreciation	1,125	—	489	2,021	1,208	4,843
Amortisation	—	—	—	—	225	225

Selected Notes to Condensed Interim Financial Information

4 Turnover and segment information (Continued)

Geographical segments:

	Unaudited Six months ended 30 June 2007		
	Turnover <i>HK\$'000</i>	Segment operating profit <i>HK\$'000</i>	Operating profit <i>HK\$'000</i>
PRC	268,812	4,927	36,106
Hong Kong	121,305	32,742	35,524
Australia	5,717	227	292
	<u>395,834</u>	<u>37,896</u>	<u>71,922</u>

	Unaudited Six months ended 30 June 2006		
	Turnover <i>HK\$'000</i>	Segment operating (loss)/profit <i>HK\$'000</i>	Operating profit/(loss) <i>HK\$'000</i>
PRC	229,674	(1,072)	3,133
Hong Kong	117,134	8,870	13,035
Australia	5,228	(154)	(140)
	<u>352,036</u>	<u>7,644</u>	<u>16,028</u>

5 Operating profit

Expenses included in cost of sales, selling and distribution costs, and general and administrative expenses are analysed as follows:

	Unaudited Six months ended 30 June	
	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Depreciation of property, plant and equipment	5,648	4,843
Amortisation of leasehold land and land use rights	224	225
Staff costs (including directors' emoluments)	<u>23,688</u>	<u>21,828</u>

Selected Notes to Condensed Interim Financial Information

6 Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation (credited)/charged to the condensed consolidated income statement represents:

	Unaudited	
	Six months ended 30 June	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current taxation		
Hong Kong profits tax	(1,511)	334
PRC enterprise income tax	5,526	3,878
	4,015	4,212
Deferred taxation		
Hong Kong profits tax	(767)	(204)
	3,248	4,008

Selected Notes to Condensed Interim Financial Information

7 Earnings per share

Basic

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

	Unaudited	
	Six months ended 30 June	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit/(loss) attributable to equity holders of the Company		
— continuing operations	1,293,147	1,292,606
— a discontinued operation	—	(4,046)
	<u>1,293,147</u>	<u>1,288,560</u>
Weighted average number of ordinary shares in issue ('000)	<u>7,517,359</u>	<u>7,517,359</u>
Basic earnings/(losses) per share (HK cents) attributable to equity holders of the Company		
— continuing operations	17.20	17.19
— a discontinued operation	—	(0.05)
	<u>17.20</u>	<u>17.14</u>

Selected Notes to Condensed Interim Financial Information

7 Earnings per share (Continued)

Diluted

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

	Unaudited	
	Six months ended 30 June	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit/(loss) attributable to equity holders of the Company		
— continuing operations	1,293,147	1,292,606
— a discontinued operation	—	(4,046)
	1,293,147	1,288,560
Weighted average number of ordinary shares in issue ('000)	7,517,359	7,517,359
Adjustments for – share options ('000)	14,843	13,724
Weighted average number of ordinary shares for diluted earnings per share ('000)	7,532,202	7,531,083
Diluted earnings/(losses) per share (HK cents) attributable to equity holders of the Company		
— continuing operations	17.17	17.16
— a discontinued operation	—	(0.05)
	17.17	17.11

Selected Notes to Condensed Interim Financial Information

8 Interim dividend

	Unaudited Six months ended 30 June	
	2007 HK\$'000	2006 HK\$'000
Interim, declared, of HK5 cents (2006: HK5 cents) per ordinary share (note (a))	375,868	375,868

- (a) At a meeting held on 6 September 2007, the directors declared an interim dividend of HK5 cents (2006: HK5 cents) per ordinary share for the year ending 31 December 2007. This interim dividend is not reflected as dividend payable in these condensed interim financial information, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2007.

9 Capital expenditures

	Unaudited				
	Intangible asset — goodwill HK\$'000	Leasehold land and land use rights HK\$'000	Property, plant and equipment HK\$'000	Investment properties HK\$'000	Total HK\$'000
As at 1 January 2007	864,466	29,032	76,109	45,060	1,014,667
Exchange differences	812	—	1,033	—	1,845
Additions	—	—	5,056	—	5,056
Amortisation/depreciation	—	(224)	(5,648)	—	(5,872)
As at 30 June 2007	865,278	28,808	76,550	45,060	1,015,696
As at 1 January 2006	863,563	29,638	72,990	41,160	1,007,351
Exchange differences	277	—	307	—	584
Additions	—	—	10,496	—	10,496
Disposals	—	—	(118)	—	(118)
Amortisation/depreciation	—	(225)	(4,843)	—	(5,068)
As at 30 June 2006	863,840	29,413	78,832	41,160	1,013,245

Selected Notes to Condensed Interim Financial Information

10 Interest in a jointly controlled entity

This is a Sino-foreign equity joint-venture in which 50% of the equity capital, voting power and profit sharing is held by a 100% owned subsidiary of the Company. The Group's investment cost in this company is HK\$514,333,000 (2006: 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.

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

	Unaudited As at 30 June 2007 <i>HK\$'000</i>	Audited As at 31 December 2006 <i>HK\$'000</i>
Assets:		
Intangible assets ¹	247,823	217,500
Land use rights	119,581	129,676
Property, plant and equipment	2,529,786	2,391,242
Current assets	7,189,719	6,497,050
	10,086,909	9,235,468
Liabilities:		
Non-current liabilities	(2,668)	(2,588)
Current liabilities	(3,843,528)	(3,678,164)
	(3,846,196)	(3,680,752)
Minority interests	(3,646)	(3,373)
	6,237,067	5,551,343

Selected Notes to Condensed Interim Financial Information

10 Interest in a jointly controlled entity (Continued)

	Unaudited	
	Six months ended 30 June	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Income	9,658,663	9,052,678
Expenses	(8,555,791)	(7,824,597)
Profit for the period	<u>1,102,872</u>	<u>1,228,081</u>

- 1 Included in this balance is a goodwill of approximately HK\$154,372,000 (2006: HK\$149,716,000) arising from the acquisition of motor vehicle manufacturing business and a production plant in Guangzhou by the jointly controlled entity.

Capital commitments

At 30 June 2007, the Group's share of capital commitments of the jointly controlled entity itself was as follows:

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Authorised but not contracted for	<u>1,014,470</u>	<u>—</u>
Contracted but not provided for	<u>—</u>	<u>—</u>

Selected Notes to Condensed Interim Financial Information

11 Trade and other receivables

Included in this balance are trade receivables of approximately HK\$42,429,000 (2006: HK\$45,711,000). At 30 June 2007, the ageing analysis of the trade receivables, net of provision, was as follows:

	Unaudited As at 30 June 2007 <i>HK\$'000</i>	Audited As at 31 December 2006 <i>HK\$'000</i>
Within 3 months	40,299	42,721
4 – 6 months	738	1,533
7 – 12 months	333	464
Over 12 months	1,059	993
	<u>42,429</u>	<u>45,711</u>

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

12 Share capital

	Ordinary shares of HK\$0.1 each	
	<i>Number of</i> <i>shares</i>	<i>HK\$'000</i>
Authorised:		
At 1 January 2006, 31 December 2006 and 30 June 2007	<u>10,000,000,000</u>	<u>1,000,000</u>
Issued and fully paid:		
At 1 January 2006, 31 December 2006 and 30 June 2007	<u>7,517,358,534</u>	<u>751,736</u>

Selected Notes to Condensed Interim Financial Information

12 Share capital (Continued)

Share options

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	Unaudited Six months ended 30 June 2007		Audited Year ended 31 December 2006	
	Average exercise price in HK\$ per share	Options (‘000)	Average exercise price in HK\$ per share	Options (‘000)
At the beginning of the period/ year	2.15	41,032	2.12	48,324
Forfeited	—	—	2.15	(5,664)
Expired	—	—	1.33	(1,628)
At the end of the period/year	2.15	41,032	2.15	41,032

All of the above outstanding options were exercisable. No option was exercised during the six months ended 30 June 2007 and the year ended 31 December 2006.

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

Expiry date	Exercise price in HK\$ per share	Options (‘000)	
		2007	2006
5 June 2012	2.1525	41,032	41,032

Selected Notes to Condensed Interim Financial Information

13 Borrowings

	Unaudited As at 30 June 2007 <i>HK\$'000</i>	Audited As at 31 December 2006 <i>HK\$'000</i>
Non-current		
Long-term bank loans	2,668	3,138
Current		
Trust receipt loans	256	4,959
Current portion of long-term bank loans	3,639	5,838
	3,895	10,797
Total borrowings	6,563	13,935

The maturity of borrowings is as follows:

	Unaudited As at 30 June 2007 <i>HK\$'000</i>	Audited As at 31 December 2006 <i>HK\$'000</i>
Within one year	3,895	10,797
In the second year	1,786	2,592
In the third to fifth year inclusive	882	546
	6,563	13,935

- (a) Borrowings of the Group totalling HK\$6,563,000 (2006: HK\$13,935,000) are secured by certain leasehold land, property, plant and equipment, investment properties and pledged bank balances of the Group.
- (b) The weighted average effective interest rates of bank loans and trust receipt loans were 6.744% (2006: 7.386%) and 6.708% (2006: 7.750%) respectively.
- (c) The carrying amounts of the borrowings approximate their fair value and are denominated in Hong Kong dollar.

Selected Notes to Condensed Interim Financial Information

14 Trade and other payables

Included in this balance are trade payables of approximately HK\$64,637,000 (2006: HK\$33,639,000). At 30 June 2007, the ageing analysis of the trade payables was as follows:

	Unaudited As at 30 June 2007 <i>HK\$'000</i>	Audited As at 31 December 2006 <i>HK\$'000</i>
Within 3 months	63,794	33,108
4 – 6 months	16	119
7 – 12 months	52	85
Over 12 months	775	327
	<u>64,637</u>	<u>33,639</u>

15 Commitments

(a) Commitments under operating leases

At 30 June 2007, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Unaudited As at 30 June 2007 <i>HK\$'000</i>	Audited As at 31 December 2006 <i>HK\$'000</i>
Not later than one year	7,094	9,442
Later than one year and not later than five years	20,903	19,693
Later than five years	28,160	34,628
	<u>56,157</u>	<u>63,763</u>

Selected Notes to Condensed Interim Financial Information

15 Commitments (Continued)

(b) Capital commitments

At 30 June 2007, the Group had capital commitments in respect of purchase of property, plant and equipment as follows:

	Unaudited As at 30 June 2007 HK\$'000	Audited As at 31 December 2006 HK\$'000
Authorised but not contracted for	—	—
Contracted but not provided for	—	433

16 Related party transactions

(a) Related parties

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

Related parties are those parties which have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. There is no change in the names of significant parties and nature of relationship with the Company since 31 December 2006 (Refer to 2006 annual report for details).

(b) Transactions with related parties

The following is a summary of significant transactions with related parties during the period:

	Unaudited Six months ended 30 June	
	2007 HK\$'000	2006 HK\$'000
Purchases from a jointly controlled entity	139,253	107,326
Sales to an associate	5,481	—

Selected Notes to Condensed Interim Financial Information

16 Related party transactions (Continued)

(c) Balances with related parties

	Unaudited As at 30 June 2007 <i>HK\$'000</i>	Audited As at 31 December 2006 <i>HK\$'000</i>
Included in trade and other receivables:		
— a jointly controlled entity	616,239	5,769
— other jointly controlled entities	<u>22,482</u>	<u>—</u>
Included in trade and other payables:		
— the single largest shareholder of the Company	917	2,765
— an associate	2	769
— a minority shareholder of a subsidiary	443	443
— a fellow subsidiary	<u>6,199</u>	<u>40</u>

INTERIM DIVIDEND

The directors have resolved to pay an interim dividend for the year ending 31 December 2007 of HK5 cents per share which will be payable on Wednesday, 24 October 2007 to shareholders whose names appear on the register of members of the Company on Friday, 12 October 2007.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 8 October 2007 to Friday, 12 October 2007, both days inclusive, during which no transfer of shares will be registered. In order to qualify for the interim dividend, all completed transfer documents accompanied by relevant share certificates must be lodged with the Company's share registrars, Tricor Abacus Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 5 October 2007.

BUSINESS REVIEW

For the six months ended 30 June 2007, unaudited turnover from the continuing operations of the Group was approximately HK\$395,834,000 (2006: HK\$352,036,000); unaudited interim consolidated profit attributable to equity holders of the Company was approximately HK\$1,293,147,000 (2006: HK\$1,288,560,000), an increase of 0.4% over the same period of last year. Basic earnings per share from the continuing operations was HK17.20 cents (2006: HK17.19 cents), an increase of 0.1% over the same period of last year.

China's national economy continued to sustain stable growth in the first half of 2007. According to the statistics of China Association of Automobile Manufacturers, the number of vehicles produced and sold nationwide in the first half of 2007 amounted to approximately 4,456,700 units and 4,373,800 units respectively, representing an increase of approximately 22.8% and 23.7% respectively, of which the number of sedans produced and sold amounted to approximately 3,151,400 units and 3,084,100 units respectively, representing an increase of approximately 21.4% and 22.8% respectively.

For the six months ended 30 June 2007, an aggregate of 137,832 units and 133,167 units of vehicles were produced and sold respectively by the Group through a jointly controlled entity (hereinafter the "Sedan Company") which is directly owned by the Company's wholly-owned subsidiary, Guangzhou Auto Group Corporation, representing an increase of approximately 9.1% and 7.8% respectively over the same period of last year.

Despite moderate growth in production and sales under intense market competition, the Sedan Company continued to be a market leader in the respective vehicle categories. Odyssey ranked first in nationwide premium multi-purpose vehicles market, while Accord ranked second in the category of single brand name premium sedans.

Guangzhou Automobile Group Component Co., Ltd. and its investments in other jointly controlled entities (“Guangzhou Component”), in which the Group holds a 49% equity interest, contributed a 134.6% growth in the Group’s share of its consolidated profits for the six months ended 30 June 2007 over the same period of last year, exceeding the target set by its board of directors earlier this year. Their sound operation, fast development of productivity and economic growth were based on enhanced planning and control, systematic management and efficient operation so that they could facilitate a sustainable advantageous development, foster new growth edges and implement key strategic projects in conducting the business.

Other business operations of the Group comprise the trading of vehicles, manufacturing of automotive equipment and parts and manufacturing and trading of audio equipment. All the targets set out in the medium-term plan as formulated by the Group have been achieved.

FUTURE PROSPECTS

According to the forecasts of the People’s Bank of China, the Chinese economy will continue to enjoy steady and fast growth in the second half of 2007 with an estimated annual GDP growth of 10.8%, the highest in the past 12 years. We are expecting a full-year growth for nationwide car sales at around 15% which is over 8.23 million units. With the increasing economic scale and the reducing cost of importing parts and components benefited from a strong Renminbi, the overall profitability of the automobile industry will also increase. On the other hand, there will be a mass launching of new models in the second half of 2007. As a result, it is expected that the price index for passenger cars in China will keep a declining path and the intense competition in the car market will continue.

The Sedan Company plans to expand its sales and service network and enhance its after-sales services in the second half of the year in accordance with the decision of its board of directors. Efforts will be made to strengthen management, maximize cost reductions and improve product quality. Meanwhile it will seek to raise its competitive strengths by increasing the degree of domestic production and dedicating its full effort to complete the full-year target for production and sales set by its board of directors.

On 19 July 2007, Guangzhou Honda Automobile Research and Development Company Limited was formally established. It is the first automobile research and development institution in China that is independently funded by a joint venture enterprise and operated by an independent legal person. Solely funded by the Sedan Company, it is capable of independently carrying out car development projects including conceptual design, modeling, trial of assembled vehicles and testing. With the launch of this research and development branch, the Sedan Company becomes the first joint venture automobile manufacturer in China announcing its strategy on independent proprietary brands development. It is also the first to make significant investments in establishing a research and development institution dedicated to the development of proprietary brands. In addition, the Sedan Company has obtained the government approval on its in-house production of engines which can well-equip the Sedan Company for further expansion in its production capacity in the future.

In the next six months, while continuing the development of the sedan plants, Guangzhou Component will seek to maintain rapid growth through expansion in production scale, cost reductions, quality enhancements, increase in the degree of domestic production and management improvements. Yet it will also keep an eye on any opportunities for new projects.

The Group will continue to identify opportunities for development in the automobile industry and the Board is confident that the Group is well-positioned to grasp such opportunities for further development, thereby increasing returns for its shareholders.

FINANCIAL SUMMARY

The turnover from the continuing operations of the Group for the period ended 30 June 2007 was about HK\$395,834,000, representing an increase of about 12.4% compared with that of 2006.

On 17 February 2006, the Group announced a connected transaction to dispose the equity interest in a subsidiary (“the disposed subsidiary”) solely conducting business in the manufacturing and assembly of motor vehicles. In accordance with Hong Kong Financial Reporting Standards (“HKFRS”), the relevant items relating to the disposed subsidiary in the income statement in 2006 were classified separately as discontinued operations. The transaction was approved by independent shareholders on 23 March 2006.

The turnover of the trading of motor vehicles increased by HK\$39,138,000 which represented an increase of about 17.0% in 2007 compared with that of 2006. The operating profit of this segment increased by HK\$1,049,000 or an increase of about 44.6%. The turnover of the manufacturing and trading of automotive equipment and parts increased by HK\$489,000 which represented an increase of about 9.4% in 2007 compared with that of 2006. The operating profit of this segment increased by HK\$32,356,000 in 2007, mainly due to an increase of an interest income. The turnover of the manufacturing and trading of audio equipment increased by HK\$4,171,000 which represented an increase of about 3.6% in 2007, mainly due to an increase of sales orders. The operating profit of this segment increased by HK\$371,000 in 2007, mainly due to effective cost control. The order on hand of the Group for the business of the manufacturing and trading of audio equipment was about HK\$61,124,000 as at 30 June 2007.

The total borrowings of the Group decreased from about HK\$13,935,000 at the end of 2006 to about HK\$6,563,000 at 30 June 2007, mainly due to repayment of the borrowings. The Group maintained a low ratio of borrowings relative to total equity at about 0.1% as at 30 June 2007 and 31 December 2006. The ratio of total liabilities relative to total equity remained at about 1.7% as at 30 June 2007 and 31 December 2006. The Group’s borrowings were secured by leasehold land, buildings and investment properties with a total net book value of about HK\$40,625,000 and bank balances of about HK\$27,299,000.

The Group had cash and bank balances of about HK\$2,382,805,000 as at 30 June 2007. This included the net cash used in operating activities of about HK\$8,951,000. During the period, the payment of dividend by the Company was financed by the receipt of cash dividends from the investment vehicles.

The Group’s general and administrative expenses for the period ended 30 June 2007 were about HK\$29,906,000, representing an increase of about 8.8% compared with that of 2006, mainly due to larger operating scale of the Group. The finance costs decreased by HK\$96,000, mainly due to reduction of the total borrowings of the Group. The interest cover remained at a high level of 2,806 multiples in 2007 compared to that of 2,323 multiples in 2006. The Group enjoyed the benefit of currency appreciation of Renminbi, the major operating currency of the Group and resulted in a significant exchange gains upon realization.

Share of profits from associates were about HK\$4,846,000 for the period ended 30 June 2007, which represented an increase of about 9.8% compared with that of 2006.

The Group shared profits of about HK\$122,268,000 from other jointly controlled entities for the period ended 30 June 2007, which represented an increase of about 134.6% compared with that of 2006, mainly due to the continuous growth of sales orders from major sedan manufacturers in the PRC.

Share of profit from a jointly controlled entity for the period ended 30 June 2007 remained the major source of profit for the Group, which contributed about HK\$1,102,872,000, and represented a decrease of about 10.2% compared with that of 2006, mainly due to competitive environment of the sedan market in the PRC.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2007, the Group employed approximately 1,500 (2006: 1,500) staff in the PRC, Hong Kong and Australia.

The remuneration package adopted by the Group includes discretionary bonus and share options being granted to eligible staff based on the Group's performance and individual performance. Staff training and development programs are conducted on a regular basis.

SHARE OPTION SCHEME

The Company has a share option scheme which was adopted on 6 June 2002 ("Share Option Scheme") and remains in force for a period of 10 years from the date of adoption. Each option granted under the Share Option Scheme gives the holder the right to subscribe for one share of the Company. Movement of the share options during the period was as follows:

Name	Number of options		
	As at 1 January 2007	Exercised, lapsed or cancelled during the period	As at 30 June 2007
Zhang Fangyou	8,528,000	—	8,528,000
Lu Zhifeng	7,684,000	—	7,684,000
Yang Dadong	5,664,000	—	5,664,000
Zeng Qinghong	5,664,000	—	5,664,000
Zhang Baoqing	6,488,000	—	6,488,000
Ding Baoshan	5,664,000	—	5,664,000
Lee Ka Lun	1,340,000	—	1,340,000

Notes:

- (1) The above options were granted on 7 August 2003 at an adjusted exercise price of HK\$2.1525* per share. The exercisable period is from 7 August 2003 to 5 June 2012. The consideration paid by each grantee for the options granted was HK\$1. The adjusted closing price of the share immediately before the date on which the options were granted was HK\$2.075*.
- (2) No option was granted, exercised, lapsed or cancelled during the year.

* adjusted for one for one bonus issue shares in May 2004.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2007, the interests and short positions of the directors (who held office on 30 June 2007) in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

(a) Long positions in shares of the Company

Name of Director	Number of shares Personal interest (as Beneficial Owner)	Percentage of shareholding as at 30 June 2007
Cheung Doi Shu	3,000,000	0.04%
Lee Ka Lun	100,000	0.0013%

(b) Long positions in underlying shares in respect of share options granted by the Company

Name of Director	Number of underlying shares in respect of options granted Personal Interest (as Beneficial Owner)	Percentage of shareholding as at 30 June 2007
Zhang Fangyou	8,528,000	0.11%
Lu Zhifeng	7,684,000	0.10%
Yang Dadong	5,664,000	0.08%
Zeng Qinghong	5,664,000	0.08%
Zhang Baoqing	6,488,000	0.09%
Ding Baoshan	5,664,000	0.08%
Lee Ka Lun	1,340,000	0.02%

Note: Details of the options held by the directors are disclosed in the section "SHARE OPTION SCHEME" in this report.

Save as disclosed above, as at 30 June 2007, none of the directors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Apart from the share option schemes, at no time during the six months ended 30 June 2007 was the Company or its holding companies or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Save as disclosed above and in the section “**SHARE OPTION SCHEME**”, during the six months ended 30 June 2007, no rights to subscribe for equity or debt securities of the Company has been granted by the Company to, nor have any such rights been exercised by, any directors and chief executives of the Company.

DIRECTORS’ INTEREST IN COMPETING BUSINESS

The interests of the directors in the businesses which compete or may compete, either directly or indirectly, with the business of the Group, jointly controlled entities, associates and its non-consolidated subsidiaries (“Competing Business”) were as follows:

1. Core Business Activities of the Group, jointly controlled entities, associates and its non-consolidated subsidiaries

- (1) Manufacturing and trading of motor vehicles in the PRC.
- (2) Manufacturing and trading of automotive equipment and parts in the PRC.
- (3) Manufacturing and trading of audio equipment in Hong Kong.

2. Interests in Competing Business

Name of Director	Name of Company	Nature of Interest	Competing Business
Zhang Fangyou	Guangzhou Toyota Motor Co. Ltd. (Note 1)	Chairman	(1)
Zeng Qinghong	Guangzhou Automobile Group Business Co. Ltd. (Note 2)	Chairman	(2)
Zhang Baoqing	Guangzhou Automobile Group Business Co. Ltd. (Note 2)	Director	(2)

Note 1: Guangzhou Toyota Motor Co. Ltd. (“Guangzhou Toyota”) is owned as to 50% by Guangzhou Automobile Group Co. Ltd. and as to 50% by Toyota Motor Corporation. Guangzhou Automobile Group Co. Ltd. is a subsidiary of Guangzhou Automobile Industry Group Co. Ltd., the ultimate holding company of the Company.

There are 10 directors on the board of Guangzhou Toyota, and Mr. Zhang Fangyou is the only common director in both the Company and Guangzhou Toyota. The Group is therefore capable of carrying on its business independently, and at arm’s length from the business of Guangzhou Toyota.

Note 2: Guangzhou Automobile Group Business Co. Ltd. (“GZ Business Co.”) is a wholly owned subsidiary of Guangzhou Automobile Group Co. Ltd. There are 5 directors on the board of GZ Business Co. Mr. Zeng Qinghong and Mr. Zhang Baoqing are the only common directors in both the Company and GZ Business Co. The Group is therefore capable of carrying on its business independently of, and at arm’s length from the business of GZ Business Co.

Save as disclosed above and within the knowledge of the directors, as at 30 June 2007, none of directors and their respective associates had any interest in a business which competes or may compete, either directly or indirectly, with the business of the Group as required to be disclosed pursuant to the Listing Rules.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 30 June 2007, the corporations having an interest in 5% or more of the issued share capital of the Company as recorded in the register of interests in shares and short positions required to be kept under Section 336 of the Part XV of SFO were as follows:

Name	Long Position in shares	Percentage of total shareholding as at 30 June 2007	Note
China Lounge Investments Limited	2,849,544,904	37.91%	(a)
Guangzhou Automobile Group Co. Ltd.	2,849,544,904	37.91%	(b)
Guangzhou Automobile Industry Group Co. Ltd.	2,849,544,904	37.91%	(c)
Templeton Asset Management Limited	907,573,261	12.07%	(d)

Notes :

- (a) As at 30 June 2007, China Lounge Investments Limited held 2,849,544,904 shares of Company.
- (b) As at 30 June 2007, China Lounge Investments Limited was wholly-owned by Guangzhou Automobile Group Co. Ltd. which was accordingly deemed to be interested under the SFO in 2,849,544,904 shares.
- (c) As at 30 June 2007, Guangzhou Automobile Group Co. Ltd. was 91.93% owned by Guangzhou Automobile Industry Group Co. Ltd. which was accordingly deemed to be interested under the SFO in 2,849,544,904 shares of the Company.
- (d) Templeton Asset Management Limited was interested in 907,573,261 shares in the Company as investment manager.

Save as disclosed herein, no other person was recorded in the register of substantial shareholders maintained under Section 336 of Part XV of the SFO as having an interest in 5% or more of the issued share capital of the Company as at 30 June 2007.

CORPORATE GOVERNANCE

In 2005, the Board formulated the Denway Code on Corporate Governance (“Denway Code”) to provide guidance on the Company’s application of corporate governance principles. Denway Code incorporates all mandatory code provisions and part of the recommended best practices that the Board considers as reasonable and appropriate to the Company, as set out in the Code on Corporate Governance (“CG Code”) in Appendix 14 in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. It also incorporates standards for securities transactions by Directors that are not less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 of the Listing Rules.

During the six months ended 30 June 2007, the Company complied with all code provisions as set out in the CG Code.

All directors have confirmed, having made specific enquiries, that the required standard set out in the Model Code had been complied with throughout the six months period ended 30 June 2007.

The Audit Committee comprises three independent non-executive directors, namely Mr. Lee Ka Lun, Mr. Cheung Doi Shu and Mr. Fung Ka Pun. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited consolidated interim financial results for the six months ended 30 June 2007.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company has not redeemed any of its shares during the six months ended 30 June 2007. Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2007.

LIST OF DIRECTORS

As at the date of this report, the board of directors of the Company comprises the following directors:

Executive Directors:

Mr. Zhang Fangyou, Mr. Lu Zhifeng, Mr. Yang Dadong, Mr. Zeng Qinghong, Mr. Zhang Baoqing and Mr. Fu Shoujie*

Independent Non-Executive Directors:

Mr. Cheung Doi Shu, Mr. Lee Ka Lun and Mr. Fung Ka Pun

* Mr. Ding Baoshan resigned as Executive Director on 16 August 2007 and Mr. Fu Shoujie was appointed as Executive Director on the same date.

By the Order of the Board
Zhang Fangyou
Chairman

Hong Kong, 6 September 2007