駿威汽車有限公司
DENWAY MOTORS LIMITED
Stock Code: 203

Annual Report 2007

Contents

BOARD OF DIRECTORS

Executive Directors

ZHANG Fangyou *(Chairman)*
LU Zhifeng *(Vice Chairman)*
YANG Dadong
ZENG Qinghong
ZHANG Baoqing *(Managing Director)*
FU Shoujie

Independent Non-Executive Directors

CHEUNG Doi Shu
LEE Ka Lun
FUNG Ka Pun

REGISTERED OFFICE

Room 801, Citicorp Centre
18 Whitfield Road
Causeway Bay, Hong Kong

WEBSITE

http://www.denway-motors.com

COMPANY SECRETARY

LEUNG Chong Shun

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
China Minsheng Bank

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants, Hong Kong

LEGAL ADVISERS

Woo, Kwan, Lee & Lo

SHARE REGISTRAR

Tricor Abacus Limited
26/F Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

LISTING INFORMATION

The Stock Exchange of Hong Kong Limited
Stock Code : 0203

Mr. ZHANG Fangyou (Chairman)

To all Shareholders,

I hereby present the annual report of Denway Motors Limited (the "Company"), and the audited consolidated results of the Company and its subsidiaries (together the "Group"), jointly controlled entities and associates for the year ended 31 December 2007.

BUSINESS REVIEW

For the year ended 31 December 2007, turnover from the continuing operations of the Group was RMB862,573,000 (2006: RMB828,949,000), an increase of 4.1% over the last year. The profit attributable to the equity holders of the Company was RMB2,170,395,000 (2006: RMB2,273,629,000), a decrease of 4.5% over the last year. Basic earnings per share from the continuing operations attributable to the equity holders of the Company was RMB28.9 cents (2006: RMB30.3 cents), a decrease of 4.6% over the last year. In order to reflect the fact that the Group's major assets, income and expenses are denominated in Renminbi and to minimize the effect from exchange rate fluctuations, the consolidated financial statements of the Group for the year ended 31 December 2007 together with the comparative figures for 2006 are presented in Renminbi. If the reporting currency of the Group remained in Hong Kong dollar, profit attributable to the equity holders of the Company for the year ended 31 December

2007 would have been substantially similar to that of last year due to continued appreciation of Renminbi of approximately 5% in 2007. The decrease of such profit would have been lower than the decrease of that presented in Renmibi as mentioned above.

Along with the sustainable economic growth in the People's Republic of China (the "PRC") in 2007, the automobile industry of the PRC has continued to expand rapidly under various favorable circumstances, such as macroeconomic policy, industrial policy, consumption desire and household income. The PRC is the world's second largest consumer of automobile as well as the world's third largest producer of automobile. According to the statistics by classification in the PRC, the aggregate profit from those enterprises with sales over RMB5 million in the entire automobile industry exceeded RMB100 billion. In 2007, the production volume of motor vehicles amounted to 8,882,400 units, a net increase of 1,602,700 units or 22.0% over the last year; the sales volume of motor vehicles was 8,791,500 units, a net increase of 1,576,000 units or 21.8% over the last year. Of the total, 6,381,100 units produced and 6,297,500 units sold were passenger vehicles, representing a year-on-year growth of 21.9% and 21.7% respectively, and the sales of passenger vehicles accounted for 71.6% of total vehicles sales.

During 2007, an aggregate of 295,462 units and 295,299 units of vehicles were produced and sold respectively by the Company, through a jointly controlled entity (the "Sedan Company") which is directly owned by the Company's wholly-owned subsidiary, Guangzhou Auto Group Corporation, representing an increase of approximately 12.8% and 13.5% respectively over previous year. Fierce competition in the market and the time gap for new generation of motor vehicles posed a serious challenge to the Sedan Company, but four vehicle categories recorded strong performance in 2007, the sales of Odyssey, City and Fit ranked on top in its respective sub-category. Furthermore, the seventh generation Accord still ranked second in the mid to high end sedans market in the PRC before the launching of new generation of Accord.

Leveraging on the experience of the Sedan Company in vehicle production over years, there was a breakthrough in research and development ("R&D") program for vehicles. On 19 July 2007, a R&D company with limited liability, which is wholly-owned by the Sedan Company, was established. It is the only R&D Company established by a joint venture in the PRC, having individual legal personality with vehicle production and development capacity. Such company is engaged in the research and development on the whole series of sedans under the brand of the Sedan Company. Upon the completion of new facilities, synergy effect will be created with the existing facilities of the Sedan Company. Production cost then will be cut down so as to sharpen the competitiveness of the Sedan Company. In addition, the Sedan Company has obtained the governmental approval in respect of the production of engines. It is therefore well positioned to further develop its motor vehicle manufacturing business in the future.

The Group has a 49% equity interest of Guangzhou Automobile Group Component Co., Ltd. ("Guangzhou Component"). As the economy remained strong in 2007, the vehicle market enjoyed steady growth. Meanwhile, drop of the costs of import materials by the change of RMB exchange rate, the expansion of production capacity of all vehicle manufacturers in Guangzhou and the increase in the degree of domestic production and internal control of Guangzhou Component continued to push up the turnover, production capacity and sales income, while enjoying the benefits from the economy of scale. As a result, the Group has achieved beyond the targets set by the board of directors (the "Board").

For vehicles trading of the Group, although its performance is slightly below the expectation due to keen competition in the market, it was still in line with the annual increase of the entire vehicles trading market in the PRC. Furthermore, the performance of manufacturing and trading of audio equipment were consistent with our expectations.

FUTURE PROSPECTS

Currently, the economic development of the PRC as a whole shows a positive trend with a rapid growth in national economy, steady operation of financial system, gradual development of foreign trade and improvement of living standard in the PRC. In 2008, the PRC will continue to focus on economic development, further promotion of domestic demand, in particular consumption demand, technology innovation, energy saving and reduction in emissions in order to sustain the development of the PRC.

The motor vehicle market in the PRC is poised to boom on the back of tremendous opportunities brought by an estimated upsurge in GDP of the PRC in 2008 by 8%, Beijing 2008 Olympic Games, expected 4.8% increase in the consumer price index, increasing purchasing power as well as market potential in the PRC. The economic growth in the PRC leads to an increase in per-capita car ownership. According to the forecast by China Association of Automobile Manufacturers, production and sales volume for motor vehicles in 2008 is expected to exceed 10 million units, of which 73% is passenger vehicles. The Group believes that demand for sedans in the PRC has enormous potential for long-term growth.

The Sedan Company plans to produce and sell 340,000 units of sedans in 2008, in which annual production volume for the eighth generation Accord will amount to 178,000 units, Odyssey will amount to 42,000 units and both Fit and City will amount to 60,000 units. For achieving such goals, the Sedan Company will launch a new generation of Fit in addition to the commencement of production of the eighth generation Accord. In 2008, the Sedan Company will create its own brand name and implement its brand name strategy; the first concept car under its own brand name will be introduced at the Beijing Automobile Exhibition this year. Year 2008 is the 10th anniversary of the establishment of the Sedan Company. Looking forward to the next decade, the Sedan Company has formulated long-term development plan to pursue better results in sales volume, system establishment, talent retention, brand name creation and expansion of sales and service channels, so as to be well-accepted by the community.

In 2008, Guangzhou Component will closely follow the development of the sedan plants so as to grasp any opportunity for new project developments, seeking to maintain vigorous growth through ongoing improvements in its management system, higher levels of domestic production, production of auxiliary items in more significant scale, maximization of continuing increase in sales income of this year and a reduction in production costs.

The automobile industry of Guangzhou is expected to continue its growth in full swing in 2008. The Group will continue to identify potential business opportunities related to the automobile industry. 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 Group's turnover from its continuing operations for the year ended 31 December 2007 was approximately RMB862,573,000, representing an increase of approximately 4.1% compared with that in 2006. Profit attributable to the equity holders of the Company was approximately RMB2,170,395,000, representing a decrease of 4.5% compared with that in 2006.

In order to reflect the fact that the Group's major assets, income and expenses are denominated in Renminbi and to minimize the effect from exchange rate fluctuations, the consolidated financial statements of the Group for the year ended 31 December 2007 together with the comparative figures for 2006 are presented in Renminbi. If the reporting currency of the Group remained in Hong Kong dollar, profit attributable to the equity holders of the Company for the year ended 31 December 2007 would have been substantially similar to that of last year due to continued appreciation of Renminbi of approximately 5% in 2007. The decrease of such profit would have been lower than the decrease of that presented in Renmibi as mentioned above.

On 17 February 2006, the Group announced a connected transaction in relation to a disposal of the equity interest in a subsidiary ("the disposed subsidiary") which principal activities are the manufacturing and assembly of motor vehicles. In accordance to HKFRS, the items relating to the disposed subsidiary in the consolidated income statement in 2006 were presented separately as a discontinued operation. The transaction was approved by independent shareholders on 23 March 2006.

The turnover of the trading of motor vehicles increased by RMB15,122,000 which represented an increase of approximately 2.8% compared with that in 2006. The operating profit of this segment decreased by RMB7,943,000, mainly because a vehicle trading company recorded a loss in 2007. The turnover of the manufacturing and trading of automotive equipment and parts increased by RMB1,793,000 which represented an increase of approximately 17.3% compared with that in 2006. The operating profit of this segment increased by RMB45,233,000 over 2006, mainly due to a significant increase in interest income. The turnover of the manufacturing and trading of audio equipment increased by RMB16,709,000 which represented an increase of approximately 6.0% over 2006, mainly due to an increase in sales orders. The operating profit of this segment increased by RMB4,389,000 in 2007, mainly due to an effective cost control. The operating loss of other segment decreased by RMB29,425,000, mainly due to increases in fair value gains on investment properties and write-back of provision for impairment loss. The order on hand of the Group for the business of the manufacturing and trading of audio equipment was approximately RMB30,310,000 as at 31 December 2007.

The total borrowings of the Group decreased from approximately RMB14,000,000 at the end of 2006 to approximately RMB4,863,000 as at 31 December 2007, mainly due to repayment of the borrowings. The Group maintained a low ratio of borrowings relative to total equity at approximately 0.04% as at 31 December 2007 and 0.14% as at 31 December 2006. The ratio of total liabilities relative to total equity slightly decreased to approximately 1.6% as at 31 December 2007 from approximately 1.7% as at 31 December 2006. The Group's borrowings were secured by leasehold land, buildings and investment properties with a total net book value of approximately RMB41,361,000 and pledged bank deposits of approximately RMB27,052,000. As at 31 December 2007, the Group had no contingent liabilities.

The Group had cash and bank balances of approximately RMB3,896,283,000 as at 31 December 2007. This included the net cash used in operating activities of approximately RMB47,541,000. During the year, the payment of dividend by the Company was financed by the receipt of cash dividend from investment vehicles.

The Group's general and administrative expenses for the year ended 31 December 2007 were approximately RMB61,424,000, representing a decrease of approximately 6.2% compared with that in 2006, mainly due to the implementation of effective control over expenses within the Group. Finance cost decreased by RMB764,000, mainly due to the reduction of the borrowings of the Group. The interest cover remained at a high level of 3,814 multiples in 2007 compared with that of 1,717 multiples in 2006.

Share of profits of associates was approximately RMB7,717,000 in 2007, representing an increase of approximately 1.4% compared with that in 2006.

On 6 October 2005, the Group announced a connected transaction in relation to an acquisition of 49% equity interest in a jointly controlled entity. The jointly controlled entity holds several jointly controlled entities and the Group classified all of them as other jointly controlled entities for presentation purpose. Share of profits of other jointly controlled entities was approximately RMB246,472,000 in 2007, representing an increase of approximately 84.8% compared with that in 2006, mainly due to increases in sales orders as well as production capacities. The percentage ratio of such profit to profit of the Group increased from approximately 5.9% in 2006 to approximately 11.3% in 2007, resulting in the expansion of profit sources of the Group and such profit became one of the major sources of profit of the Group.

Share of profit of a jointly controlled entity was another major source of profit of the Group, which contributed approximately RMB1,859,673,000, representing a decrease of approximately 13.4% compared with that in 2006, mainly due to the adjustment to sales and production mix as well as the time gap for new generation of core products.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2007, the continuing operations of the Group employed approximately 1,500 (2006: 1,500) staff in the PRC, Hong Kong and Australia.

Remuneration policies and packages for the Group's employees are based on individual qualifications, performance and experience. In addition, various training sessions are offered to employees to enhance their knowledge. The remuneration of directors is determined according to their expertise, knowledge and contributions to the Group with reference to the Group's profitability and the prevailing market conditions. The Company has also adopted a share option scheme under which directors and employees of the Group may be granted share options to subscribe for shares in the Company for the purposes of recognizing their contributions.

ACKNOWLEDGEMENTS

I would like to extend my appreciation to all shareholders for their support and to thank the directors for their guidance and the staff members for their dedication and hard work.

ZHANG Fangyou
Chairman

Hong Kong, 2 April 2008

The board of directors (the "Board") submits its report together with the audited financial statements for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES AND SEGMENT INFORMATION

Denway Motors Limited (the "Company") is an investment holding company. The Company and its subsidiaries (together the "Group"), jointly controlled entities and associates are principally engaged in an integrated range of activities relating to the manufacturing, assembly and trading of motor vehicles, the manufacturing and trading of automotive equipments and parts in the People's Republic of China (the "PRC") and the manufacturing and trading of audio equipment in Hong Kong. Details of segment information of the Group are set out in note 5 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 42. The Board recommends a final dividend of RMB6 cents (2006: a final dividend of HK6 cents) per ordinary share for the year ended 31 December 2007. Year 2008 marks the 15th anniversary of listing of the Company and the 10th anniversary of establishment of the Sedan Company. In celebration of our anniversary, the Board also recommends a special dividend of RMB2.5 cents per ordinary share. Together with the interim dividend of HK5 cents per ordinary share paid, total dividends for year 2007 will be RMB8.5 cents and HK5 cents (2006: HK11 cents) per ordinary share. Subject to the approval of shareholders at the forthcoming annual general meeting, the final dividend and the special dividend will be paid on 19 June 2008 to shareholders whose names appeared on the register of members of the Company on 29 May 2008.

The proposed final dividend and special dividend for the year 2007 will be declared and calculated in Renminbi, and paid in Hong Kong dollars. The relevant exchange rate will be the average middle rate of Renminbi to Hong Kong dollars as announced by the People's Bank of China for the period of the closure of register of members from 23 May 2008 to 29 May 2008.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 23 May, 2008 to Thursday, 29 May, 2008, both days inclusive, during which no transfer of shares will be registered. In order to qualify for the proposed final dividend and special dividend, all completed transfer forms with the relevant share certificates must be lodged with the Company's Registrars, Tricor Abacus Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 22 May, 2008.

RESERVES

Movements in the reserves during the year are set out in note 27 to the consolidated financial statements. The Company had distributable reserves of RMB645,588,000 at 31 December 2007, calculated pursuant to section 79B of the Company Ordinance (2006: RMB936,084,000).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment during the year are set out in note 18 to the consolidated financial statements.

PRINCIPAL PROPERTIES

Details of the investment properties held by the Group are set out on pages 103 and 104.

SHARE CAPITAL AND OPTIONS

Details of movements in the issued share capital and options of the Company during the year are set out in note 26 to the consolidated financial statements.

Details of movements in the share options granted by the Company during the year and options outstanding as at 31 December 2007 are set out in note 26(a) to the consolidated financial statements.

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

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year.

PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2007 are set out in note 34 to the consolidated financial statements.

BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

Details of bank loans, overdrafts and other borrowings of the Group and of the Company as at 31 December 2007 are set out in note 28 to the consolidated financial statements.

FIVE-YEAR FINANCIAL SUMMARY

The results, assets and liabilities of the Group for the current year and the last four financial years are as follows:

	2007	2006
	RMB'000	RMB'000
Profit attributable to the equity holders of the Company	**2,170,395**	2,273,629
Total assets	**11,836,386**	10,462,085
Total liabilities	**(181,734)**	(177,316)
Minority interests	**(77,680)**	(70,772)
	11,576,972	10,213,997

	2005 HKD'000[1]	2004 HKD'000[1]	2003 HKD'000[1]
Profit attributable to the equity holders of the Company	1,905,529	2,062,447	1,686,709
Total assets	9,214,809	7,584,109	5,829,890
Total liabilities	(460,151)	(456,178)	(502,558)
Minority interests	(84,462)	(157,564)	(171,228)
	8,670,196	6,970,367	5,156,104

1 The average exchange rates of Hong Kong dollars to Renminbi for the year ended 2005, 2004 and 2003 were 1.0535, 1.0627 and 1.0629 respectively. The closing exchange rates of Hong Kong dollars to Renminbi as at 31 December 2005, 2004 and 2003 were 1.0407, 1.0648 and 1.0661 respectively.

DIRECTORS

The directors who held office during the year and up to the date of this report are:

Executive Directors

Mr. ZHANG Fangyou
Mr. LU Zhifeng
Mr. YANG Dadong
Mr. ZENG Qinghong
Mr. ZHANG Baoqing
Mr. FU Shoujie *(appointed on 16 August 2007)*
Mr. DING Baoshan *(resigned on 16 August 2007)*

Independent Non-Executive Directors

Mr. CHEUNG Doi Shu
Mr. LEE Ka Lun
Mr. FUNG Ka Pun

Messrs. ZHANG Baoqing, LEE Ka Lun and FUNG Ka Pun shall retire by rotation in accordance with the Article 101 of the Articles of Association of the Company and Mr. FU Shoujie, as a new director appointed during the year, shall retire in accordance with the Article 92 of the Articles of Association of the Company, and all retiring directors, being eligible, shall offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmation from each of the independent non-executive directors as regards their independence to the Company and considers that each of the independent non-executive directors is independent to the Company.

DIRECTORS AND SENIOR MANAGEMENT'S PROFILES

Biographical details of the directors of the Company and the senior management of the Group are set out as follows:

Executive Directors

Mr. ZHANG Fangyou, aged 51, joined the Group in 1997 and became the Chairman of the Company on 18 September 1998. He is also the Chairman of Guangzhou Automobile Industry Group Co., Ltd., Guangzhou Automobile Group Co., Ltd., Guangzhou Toyota Motor Co., Ltd., Guangzhou Auto Group (Hong Kong) Ltd. and China Lounge Investments Ltd. Mr. ZHANG was a Director of Guangzhou Honda Automobile Co., Ltd. and the Managing Director of China Lounge Investments Ltd. and of the Company. He had held senior posts in the Zeng Cheng Municipal People's Government of Guangdong Province and was the Deputy Secretary-General of Guangzhou Municipal People's Government and the Director of the Automotive Industry Office of Guangzhou Municipal People's Government.

Mr. LU Zhifeng, aged 55, joined the Group in 1998 and was appointed as the Vice Chairman of the Company on 11 January 2000. He is also the Managing Director of Guangzhou Automobile Industry Group Co., Ltd., the Vice Chairman of Guangzhou Automobile Group Co., Ltd., the Chairman of Guangzhou Honda Automobile Co., Ltd. and the Vice Chairman of the Guangzhou Auto Group (Hong Kong) Ltd. and China Lounge Investments Ltd. Mr. LU was the General Manager of Guangzhou Automobile Group Co., Ltd., the Executive Deputy Managing Director of Guangzhou Honda Automobile Co., Ltd., the General Manager of Guangzhou Yangcheng Automobile Group Co. and the Vice Chairman and Managing Director of Guangzhou Yangcheng Automobile Co., Ltd.

Mr. YANG Dadong, aged 58, joined the Group on 16 January 2001 as a Director of the Company. He is also the Vice Chairman of Guangzhou Automobile Industry Group Co., Ltd., a Director of Guangzhou Automobile Group Co., Ltd., Guangzhou Honda Automobile Co., Ltd., Guangzhou Auto Group (Hong Kong) Ltd. and China Lounge Investments Ltd. Mr. YANG was the Chairman of Guangzhou Motorcycle Group Co. and the Vice Chairman and Managing Director of Wu Yang-Honda Motors (Guangzhou) Co., Ltd.

Mr. ZENG Qinghong, aged 46, joined the Group in 1999 and was appointed as a Director of the Company on 16 January 2001. He is also a Director of Guangzhou Automobile Industry Group Co., Ltd., the Vice Chairman and Managing Director of Guangzhou Automobile Group Co., Ltd., a Director of Guangzhou Auto Group (Hong Kong) Ltd. and China Lounge Investments Ltd., the Chairman of Guangzhou Automobile Group Component Co., Ltd., Guangzhou Automobile Group Commerce and Trading Co., Ltd. and Guangqi Hino Motors Co., Ltd.. He was the Deputy Managing Director of Guangzhou Automobile Industry Group Co., Ltd., the Executive Deputy Managing Director of Guangzhou Honda Automobile Co., Ltd. and the Vice Chairman and Executive Deputy Managing Director of Guangzhou Guangke Automobile Enterprises Group Co., Ltd.

Mr. ZHANG Baoqing, aged 58, joined the Group in 1998 and was appointed as the Deputy Managing Director of the Company on 19 June 2001. He became the Managing Director on 23 September 2004 and a member of the Remuneration Committee of the Company on 3 January 2005. He is also a Director of Guangzhou Automobile Group Co., Ltd., Guangzhou Honda Automobile Co., Ltd., Guangzhou Automobile Group Component Co., Ltd. and Guangzhou Automobile Group Commerce and Trading Co., Ltd., the Managing Director of Guangzhou Auto Group (Hong Kong) Ltd. and China Lounge Investments Ltd., as well as the Chairman of Guangzhou Denway Enterprises Development Co., Ltd. and of several members of the Group. He was the Deputy Managing Director of Guangzhou Automobile Industry Group Co., Ltd. and Guangzhou Automobile Group Co., Ltd.

Mr. FU Shoujie, aged 44, joined the Group on 16 August 2007 as a Director of the Company. He is currently a Director of Guangzhou Automobile Industry Group Co. Ltd., the Deputy Managing Director of Guangzhou Automobile Group Co. Ltd., the Executive Deputy Managing Director of Guangzhou Honda Automobile Co Ltd., and a Director of Guangzhou Auto Group (Hong Kong) Ltd., China Lounge Investments Ltd. and Honda Automobile (China) Co, Ltd. Mr. FU is also the Chairman of Guangzhou Yangcheng Automobile Co. Ltd. In the past three years, Mr. FU had been the Assistant to the General Manager of Guangzhou Automobile Industry Group Co. Ltd.

Independent Non-Executive Directors

Mr. CHEUNG Doi Shu, aged 46, was appointed as an Independent Non-Executive Director on 16 April 1998, a member of the Audit Committee of the Company on 30 June 1999, the Chairman of the Remuneration Committee of the Company on 3 January 2005 and a member of the Nomination Committee on 2 September 2005. He is a qualified solicitor in the Australian Capital Territory, Hong Kong, Singapore and England and Wales and received his bachelor's and master's degree in Law from the University of London. Mr. CHEUNG is an Independent Non-Executive Director of GZI Transport Limited and the senior partner of D.S. Cheung & Co.

Mr. LEE Ka Lun, aged 53, was appointed as an Independent Non-Executive Director and the Chairman of the Audit Committee of the Company on 30 June 1999, a member of the Remuneration Committee of the Company on 3 January 2005 and a member of the Nomination Committee of the Company on 2 September 2005. Mr. LEE is also an Independent Non-Executive Director of Guangzhou Investment Company Limited, Chow Sang Sang Holdings International Limited and REXCAPITAL Financial Holdings Limited. Mr. LEE is a Fellow of The Association of Chartered Certified Accountants in UK and has over 25 years of experience in banking and auditing.

Mr. FUNG Ka Pun, aged 62, was appointed as an Independent Non-Executive Director and a member of the Audit Committee of the Company on 23 September 2004, a member of the Remuneration Committee of the Company on 3 January 2005 and the Chairman of the Nomination Committee of the Company on 2 September 2005. He is also the Co-Chairman of E2-Capital (Holdings) Limited, the Chairman of Goodwill International (Holdings) Limited, the Deputy Chairman of Samling Global Limited and an Independent Non-Executive Director of GZI Transport Limited, Lei Shing Hong Limited and Lee Hing Development Limited.

Mr. FUNG is a member of Chinese People's Political Consultative Conference of Hubei Province and is a part-time member of the Central Policy Unit, the Government of the HKSAR. He is a fellow member of the Association of International Accountants and an associate member of the Institute of Chartered Secretaries and Administrators. He has more than 30 years of experience in finance, securities and futures trading and corporate finance.

Senior Management

Mr. LI Tun, aged 47, has joined the Group since 1999 except for the period from 2001 to 2007 during which he was the Deputy General Manager of the Sales Division of Guangzhou Honda Automobile Co., Ltd. He joined the Group again in 2007 as the Deputy General Manager of the Company as well as of China Lounge Investments Ltd. He is also a Director of Guangzhou Denway Enterprises Development Co., Ltd. Mr. LI was the General Manager of Guangzhou Honda Automobile No.1 Sales Co., Ltd.

Mr. HUANG Liji, aged 50, joined the Group as the Deputy General Manager and Financial Controller of the Company in 2007. He is also a Director of Guangzhou Denway Enterprises Development Co., Ltd. He was the General Manager of Finance Division of Guangzhou Automobile Industry Co., Ltd.

Mr. HO Nai Ki, aged 58, is the Business Director of the Company. Prior to joining the Group in 1993, he had worked in various international financial institutions including the Chase Manhattan Bank and Sun Hung Kai Group.

Mr. SU Pui Kwan, aged 43, is the Head of Finance Department and the Qualified Accountant of the Company. He joined the Group in 1997. He is a Fellow of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

DIRECTORS' SERVICE CONTRACTS

The term of service of all independent non-executive directors is two years (subject to renewal every two years).

There is no service contract, which is not determinable by the Company within one year without payment of compensation (other than statutory compensation), in respect of any directors of the Company proposed for re-election at the forthcoming annual general meeting.

DIRECTORS' INTEREST IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its fellow subsidiaries or its holding company was a party, and in which any directors of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SHARE OPTION SCHEME

The shareholders of the Company approved to adopt a share option scheme ("Share Option Scheme") in the general meeting on 6 June 2002. The purpose of the Share Option Scheme is (i) to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the participants and to provide the participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and the shareholders as a whole and (ii) for such other purposes as the Board may approve from time to time. Participants includes (i) any executive or non-executive directors of the Group (or persons proposed to be appointed as such) or any employee of the Group; (ii) any discretionary object of a discretionary trust established by any employee, executive or non-executive director of the Group; (iii) any consultant(s) and professional adviser(s) to the Group (or persons, firms or companies proposed to be appointed for providing such services); (iv) chief executive or substantial shareholder of the Company; (v) associates of director, chief executive or substantial shareholder of the Company; and (vi) employees of substantial shareholder.

The Board may, at their discretion, invite any participant who has rendered service or will render service to the Group to take up options. An option is deemed to have been granted and accepted by the grantee upon his or her signing the duplicate letter comprising acceptance of the option and paying HKD1 by way of consideration for the grant thereof.

The subscription price for shares of the Company under the Share Option Scheme will be the highest of (i) the closing price of the shares of the Company as stated in the daily quotations sheets of The Stock Exchange of Hong Kong Limited on the offer date (which date must be a business day), (ii) a price being the average of the closing prices of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date, and (iii) the nominal value of a share of the Company.

The total number of shares of the Company which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10 per cent of the total number of shares of the Company in issue as at the date of approval of the Scheme. An option may be exercised during a period to be determined by the directors in its absolute discretion and in any event such period shall not be longer than 10 years from the date upon which the option is granted.

The maximum entitlement for any one participant is that the total number of shares issued and to be issued upon exercise of the options granted to each participant under the Share Option Scheme in any 12-month period shall not exceed 1 per cent of the total number of shares in issue of the Company. Any further grant of options in excess of the 1 per cent limit shall be subject to shareholders' approval in general meeting with such participant and his or her associates abstaining from voting. The Share Option Scheme will remain in force for a period of 10 years from 6 June 2002.

Information disclosed in accordance with The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") in relation to the Share Option Scheme is as follows:

	Number of share options			
Grantee	**As at 1 January 2007**	**Exercised during the year**	**As at 31 December 2007**	*Notes*
ZHANG Fangyou	8,528,000	—	8,528,000	*(1)*
LU Zhifeng	7,684,000	—	7,684,000	*(1)*
YANG Dadong	5,664,000	—	5,664,000	*(1)*
ZENG Qinghong	5,664,000	—	5,664,000	*(1)*
ZHANG Baoqing	6,488,000	—	6,488,000	*(1)*
LEE Ka Lun	1,340,000	1,340,000	—	*(1)*
FU Shoujie	—	—	—	*(2)*
DING Baoshan	5,664,000	—	—	*(1)(2)*
Aggregate total of other participants	—	—	5,664,000	*(1)*

Notes:

(1) These options were granted on 7 August 2003 at an adjusted exercise price of HKD2.1525* per share. The exercise period is from 7 August 2003 to 5 June 2012. The consideration paid by each grantee for the options granted was HKD1. The adjusted closing price of the share immediately before the date on which the options were granted was HKD2.075*.

(2) On 16 August 2007, Mr. DING Baoshan resigned and Mr. FU Shoujie was appointed as a director of the Company. Mr. DING Baoshan remain as an employee of the holding company and thereafter, his interest in share options has been re-classified and included in the aggregate total of other participants.

(3) No option was granted, lapsed or cancelled during the year.

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

Apart from the Share Option Scheme, at no time during the year ended 31 December 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, during the year ended 31 December 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 SHARES

As at 31 December 2007, the interests and short positions of the directors 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 31 December 2007
CHEUNG Doi Shu	3,000,000	0.04%
LEE Ka Lun	500,000	0.01%

(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 31 December 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%

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 31 December 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.

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 and associates ("Competing Business") were as follows:

1. Core business activities of the Group, jointly controlled entities and associates

(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 Commerce and Trading Co. Ltd. *(Note 2)*	Chairman	(2)
ZHANG Baoqing	Guangzhou Automobile Group Commerce and Trading 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 of, and at arm's length from the business of Guangzhou Toyota.

Note 2: Guangzhou Automobile Group Commerce and Trading Co. Ltd. ("GZ C&T Co") is a wholly owned subsidiary of Guangzhou Automobile Group Co. Ltd. There are 5 directors on the board of GZ C&T Co. Mr. ZENG Qinghong and Mr. ZHANG Baoqing are the only common directors in both the Company and GZ C&T Co. The Group is therefore capable of carrying on its business independently of, and at arm's length from the business of GZ C&T Co.

Save as disclosed above and within the knowledge of the directors, as at 31 December 2007, none of the 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 31 December 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 31 December 2007**	*Note*
China Lounge Investments Limited	2,849,544,904	37.90%	*(a)*
Guangzhou Automobile Group Co. Ltd.	2,849,544,904	37.90%	*(b)*
Guangzhou Automobile Industry Group Co. Ltd.	2,849,544,904	37.90%	*(c)*
Templeton Asset Management Limited	1,056,010,237	14.05%	*(d)*

Notes:

(a) As at 31 December 2007, China Lounge Investments Limited held 2,849,544,904 shares of the Company.

(b) As at 31 December 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 31 December 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 1,056,010,237 shares in the Company as an 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 31 December 2007.

RETIREMENT SCHEME

Details of the Group's retirement scheme are set out in note 14 to the consolidated financial statements.

INDEPENDENT NON-EXECUTIVE DIRECTORS' FEE

Each of the independent non-executive directors of the Company received HKD180,000 as director's fee for the year ended 31 December 2007.

MANAGEMENT CONTRACTS

No contract, other than the contracts of service with persons engaged in the full-time employment of the Company, concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year of 2007.

MAJOR SUPPLIERS

The percentage of purchase attributable to the Group's major suppliers for the continuing operations is as follows:

	2007	2006
	%	%
— the largest supplier	**38**	32
— five largest suppliers combined	**61**	58

MAJOR CUSTOMERS

During 2006 and 2007, the Group sold less than 30% of its goods and services to its five largest customers.

CONNECTED TRANSACTIONS

(1) On 23 October 2007, Guangzhou Honda Automobile No. 1 Sales Company Limited ("Guangzhou Honda No. 1 Sales"), in which the Company owns 51% equity interest, entered into a motor vehicle lease agreement ("the Agreement") with Guangzhou GABC Automobile Services Company Limited ("Guangzhou GABC"), an indirect non wholly-owned subsidiary of Guangzhou Automobile Group Company Limited, in relation to the lease of 140 motor vehicles by Guangzhou Honda No. 1 Sales to Guangzhou GABC for the period from 1 November 2007 to 30 November 2007. The rental payable by Guangzhou GABC to Guangzhou Honda No. 1 Sales under the Agreement was RMB3,062,500.

(2) On 29 January 2008, Guangzhou Honda No. 1 Sales and Guangzhou GABC entered into a master agreement (the "Master Agreement") in relation to the supply of Accord, Fit, City, Odyssey and related accessories (the "Motor Vehicle Products"). Under the Master Agreement, Guangzhou Honda No.1 Sales agreed to supply and Guangzhou GABC agreed to purchase Motor Vehicle Products for the period from 29 January 2008 to 31 December 2008 pursuant to the particular terms and conditions of the relevant contract(s) to be entered into from time to time. The Company estimated that the annual cap amount of Motor Vehicle Products to be supplied to Guangzhou GABC under the Master Agreement will be RMB14,500,000 for the financial year ending 31 December 2008. The annual cap was determined with reference to the estimated number of Motor Vehicle Products to be supplied by Guangzhou Honda No. 1 Sales to

Guangzhou GABC for the financial year ending 31 December 2008, the unit price of the Motor Vehicle Products offered to third party customers of Guangzhou Honda No. 1 Sales and the number of motor vehicles to be purchased for the car leasing business of Guangzhou GABC.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors, as at the date of this report, there is sufficient public float of not less than 25% of the issued shares of the Company as required under the Listing Rules.

EXTERNAL AUDITOR

The consolidated financial statements have been audited by PricewaterhouseCoopers, who retire and, being eligible, offer themselves for re-appointment, and a resolution to this effect will be proposed at the forthcoming annual general meeting of the Company.

By the order of the Board
ZHANG Fangyou
Chairman

Hong Kong, 2 April 2008

As an important member of automotive industry in the People's Republic of China (the "PRC"), Denway Motors Limited (the "Company") endeavors to maintain its high standard of corporate governance, and continues to review and reinforce its corporate governance measures.

DENWAY CODE ON CORPORATE GOVERNANCE

Code on Corporate Governance Practices (the "CG Code") in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") sets out the principles of good corporate governance, and two levels of recommendations: (a) code provisions; and (b) recommended best practices. A listed company may devise its own code on corporate governance practices on the terms it considers to be appropriate.

Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 of the Listing Rules on the Stock Exchange sets a required standard against which directors must measure their conduct regarding transactions in securities of their listed companies. A listed company may adopt its own code on terms no less exacting than those set out in the Model Code.

Since 2005, the Company has adopted its own Code on Corporate Governance (the "Denway Code"), which covers all mandatory code provisions of the CG Code and recommended best practices considered by the board of directors (the "Board") as reasonable and appropriate as well as a set of model code for securities transactions by directors on term no less exacting than those set out in the Model Code. In fact, while implementing the Denway Code, the Company has exceeded the requirements of the CG Code in various aspects, which include:

(1) Establishing a clear corporate governance framework, which covers the relationship and responsibilities of relevant external and internal parties;

(2) Including shareholders' rights that set out in the Principles of Corporate Governance published by the highly regarded Organisation for Economic Co-operation and Development;

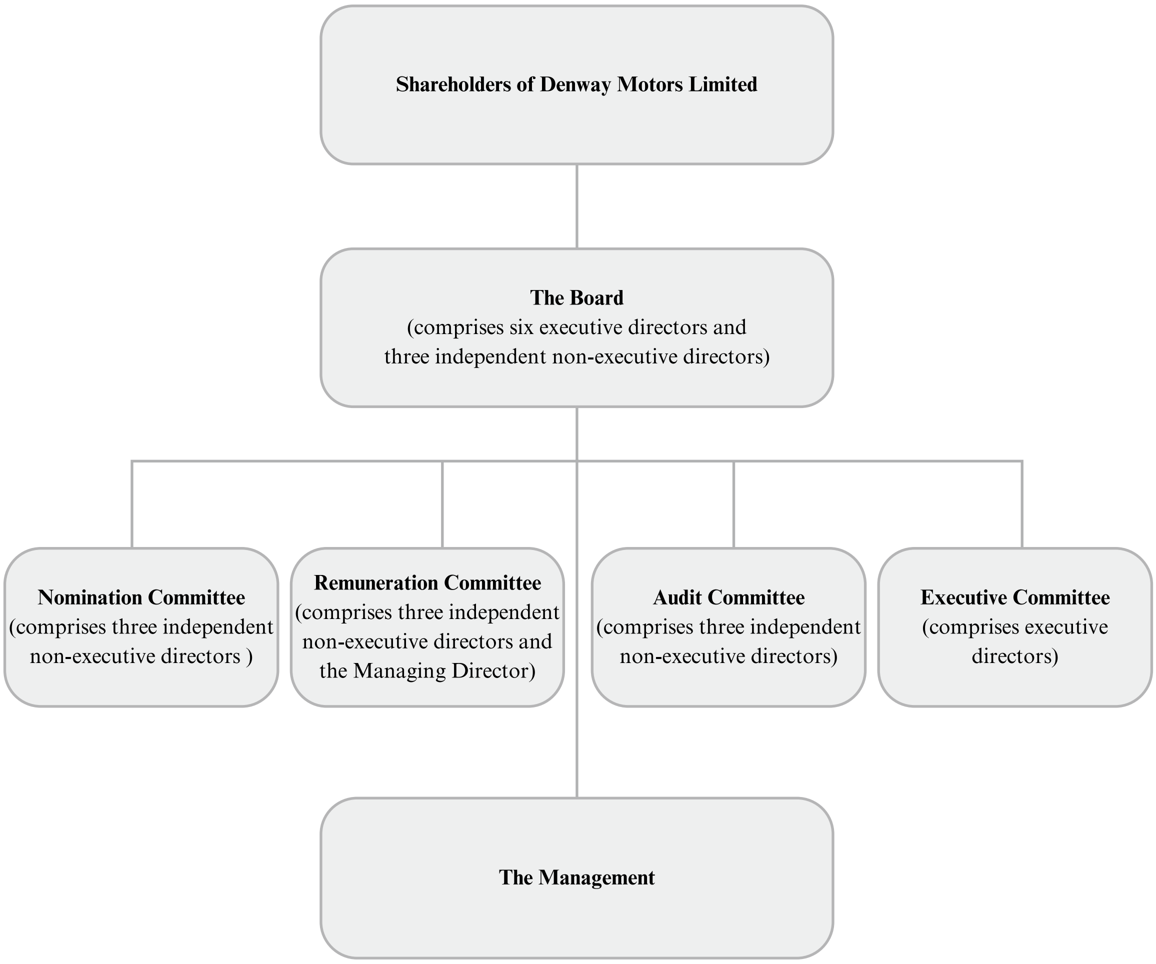
(3) Consistently complying with the Company's Code of Conduct; and

(4) The Audit Committee and the Nomination Committee comprising only independent non-executive directors.

During 2007, the Company complied with all code provisions as set out in the CG Code.

DENWAY CORPORATE GOVERNANCE STRUCTURE

The Company's corporate governance structure is as follows:



The Company is led by an efficient, high-caliber and responsible Board which ensures the Company and its subsidiaries (together the "Group") maintain a high standard in corporate governance complemented by comprehensive internal control systems, so as to meet the requirements of the Group's overall business development and enhance shareholder value. The corporate governance structure of the Company is under constant review by the Board and may be adjusted from time to time so as to meet the need of the Company.

SHAREHOLDERS

All the directors recognise that they are collectively responsible for the management and operations of the Company. By fulfilling their fiduciary duties and exercising care, skill and diligence, they represent the interests of the shareholders and enhance shareholder value.

Shareholders have the basic rights to:

(1) Secure methods of ownership registration;

(2) Convey or transfer shares;

(3) Obtain relevant and important information of the Company in a timely manner and on a regular basis;

(4) Attend and vote in general meetings;

(5) Elect and remove directors; and

(6) Share the profits of the Company.

The Company has a policy of open communication and fair disclosure. Disclosure is a key means to enhance corporate governance standards. It provides shareholders and other stakeholders with information necessary for them to form their own judgment and to provide feedback to the Company. Information relating to the Group's business review, future prospects and financial summary, are disclosed in the 2007 Annual Report and the Company's website at www.denway-motors.com.

The annual general meeting ("AGM") is considered as an annual precious event of the Company. The AGM provides an important opportunity for constructive communication between the Board and shareholders. Directors and senior management attend the AGM and answer questions raised by shareholders.

In 2007, in respect of each substantially separate issue, a separate resolution was proposed for the approval of shareholders at all general meetings.

All registered shareholders receive notice of the AGM and extraordinary general meetings (together the "General Meetings") by post. The notice of the General Meetings contains an agenda, resolutions proposed and a voting form. All registered shareholders, whose names are registered in the register of members, are entitled to attend the General Meetings. Shareholders who cannot attend the General Meetings can appoint their proxies or the chairman of the General Meetings to attend on their behalf by completing the proxy form enclosed with the notice of the General Meetings and returning it to the Company's share registrar. Pursuant to the Company's Articles of Association, every resolution shall be decided on a show of hands unless a poll is demanded in accordance with the Listing Rules, or by the chairman of the General Meetings or shareholders in accordance with the Listing Rules. Procedures for demanding a vote by poll have been set out in circulars dispatched to shareholders together with the notice of the General Meetings. The procedures are read out at the General Meetings by the chairman of the General Meetings.

The Company appoints the representative of its share registrar as scrutineer, ensuring that votes cast are properly counted and recorded. The chairman of the General Meetings declares at the meeting the numbers of votes cast by attending shareholders and proxies in favour of or against each resolution.

THE BOARD

1. Board Composition

The Board comprises six executive directors, who are experienced in the PRC automotive industry, and three independent non-executive directors who possess appropriate qualifications. In 2007, the directors are as follows:

Executive Directors
Mr. ZHANG Fangyou *(Chairman)*
Mr. LU Zhifeng *(Vice Chairman)*
Mr. YANG Dadong
Mr. ZENG Qinghong
Mr. ZHANG Baoqing *(Managing Director)*
Mr. FU Shoujie *(appointed on 16 August 2007)*
Mr. DING Baoshan *(resigned on 16 August 2007)*

Independent Non-Executive Directors
Mr. CHEUNG Doi Shu
Mr. LEE Ka Lun
Mr. FUNG Ka Pun

Mr. DING Baoshan resigned as executive director of the Company on 16 August 2007 due to re-assignment of his duties. Mr. DING Baoshan confirmed that he had no disagreement with the Board and there were no other matters relating to his resignation that need to be brought to the attention of the shareholders of the Company. Such change in directorship is in compliance with the requirements of the CG Code. The nomination committee of the Company made recommendations to the Board after considering the resignation of Mr. DING Baoshan and collecting opinions of the management regarding the nomination of Mr. FU Shoujie to fill the causal vacancy of executive director. Finally, the Board approved the resignation of Mr. DING Baoshan and appointment of Mr. FU Shoujie as executive director with effect from 16 August 2007. Pursuant to the Articles of Association of the Company, Mr. FU Shoujie will be subject to re-election by shareholders at the first general meeting after his appointment.

Biographies for all directors (including the number and nature of their posts in public companies and other information related to material commitment information) are set out in the section headed "Directors and Senior Management's Profiles" in this Annual Report.

There are no relationship, whether financial, business, family or other material/relevant aspects, between the directors.

During 2007, all corporate correspondences which set out the names of the directors expressly identified the identities of all independent non-executive directors. The independent non-executive directors possess appropriate qualifications, of which two have accounting and related financial management expertise. Each independent non-executive director confirmed to the Stock Exchange his independence in accordance with the requirements of the Listing Rules, and also submitted an annual confirmation to the Company confirming his independence during 2007.

2. The Operation of the Board

The Board assumes responsibility for leadership and control of the Company and is responsible for promoting the success of the Company by directing and supervising the Company's affairs. The directors take decisions objectively in the interests of the Company and fulfill their fiduciary duties.

The responsibilities of the Board include, but not limited to:

(1) Establishing strategic direction for the Company;

(2) Setting objectives for the management;

(3) Monitoring performance of the management;

(4) Overseeing the management's relationships with stakeholders;

(5) Ensuring a framework of prudent and effective control is in place to assess and manage risks; and

(6) Setting the values and standards of the Company.

The Board establishes written procedures determining which issues require a decision of the full Board and which issues may be delegated to the Board committee or management and the Company reviews such arrangements on a periodic basis.

Matters reserved to the full Board for decision include the setting of strategic direction for the Group, any matters involving a conflict of interest for a substantial shareholder or a director, material acquisition and disposals of assets, investments, capital projects, authority levels, major treasury policies, risk management policies and key human resources issues.

When the Board delegates management and administrative functions to the management, it gives clear directions on the powers of the management with respect to the circumstances where the management is to report back and should obtain prior approval from the Board before making decisions or entering into any commitment on behalf of the Company.

The task of the management and staff is to implement the strategies and directions determined by the Board. In doing so, they apply business principles and ethics, which are consistent with those expected by shareholders, the Board and other stakeholders.

The directors actively participate in the Board meetings to discuss the overall strategies and business directions of the Group. During 2007, the Company held four regular and eleven non-regular Board meetings. In each of the regular Board meetings, most of the directors who were entitled to attend the meetings attended in person.

In 2007, directors' attendance was as follows:

	No. of Attendance *(Note)*
Executive Directors	
Mr. ZHANG Fangyou *(Chairman)*	4
Mr. LU Zhifeng *(Vice Chairman)*	3
Mr. YANG Dadong	4
Mr. ZENG Qinghong	3
Mr. ZHANG Baoqing *(Managing Director)*	4
Mr. FU Shoujie *(appointed on 16 August 2007)*	1
Mr. DING Baoshan *(resigned on 16 August 2007)*	1
Independent Non-Executive Directors	
Mr. CHEUNG Doi Shu	4
Mr. LEE Ka Lun	3
Mr. FUNG Ka Pun	4

Note: The above figures do not take into account non-regular Board meetings. Directors who attended such meetings included Mr. ZHANG Fangyou (11), Mr. LU Zhifeng (5), Mr. YANG Dadong (6), Mr. ZENG Qinghong (7), Mr. ZHANG Baoqing (10), Mr. DING Baoshan (1), Mr. FU Shoujie (2), Mr. CHEUNG Doi Shu (4), Mr. LEE Ka Lun (4) and Mr. FUNG Ka Pun (4).

The Board makes arrangements to provide opportunities for all directors to include proposed matters for discussion in the agenda of regular Board meetings.

At least 14 days' notice is given in respect of regular Board meetings. For all other Board meetings, reasonable notice is given.

An agenda and accompanying Board papers are circulated to all directors at least 3 days before regular Board meetings. Draft versions of minutes are sent to all directors after regular Board meetings. After expressing opinions on the draft versions of minutes, final versions of minutes are sent to all directors for their records. The delivery of agenda and accompanying Board papers of other Board meetings complies with the above arrangement on a best effort basis.

The management provides the Board and Board committees with adequate and timely information which is complete and reliable. It enables the directors to make informed decisions on matters placed before them. The management also provides such explanation and analysis to the Board so as to enable the directors to make an informed assessment of the financial and other information put before them for approval. In addition, the Board and each director have separate and independent access to the Company's senior management.

Minutes of each Board meeting and Board committee meeting are kept by the company secretary (the "Company Secretary") and are available for inspection by any director. Minutes record in sufficient detail the matters considered by the Board and the decisions reached.

All directors have free access to the advice and services of the Company Secretary with a view to ensuring that Board procedures are followed and that applicable laws and regulations, including obligations on the directors relating to disclosure of interests in securities, disclosure of any conflict of interest in a transaction involving the Company, prohibitions on dealing in securities and restrictions on disclosure of price-sensitive information, are complied with and on any matter relating to the application and implementation of Denway Code.

The Board adopts a system whereby the directors may seek independent professional advice in appropriate circumstances in furtherance of their duties and for the associated fees to be borne by the Company.

If a substantial shareholder or a director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter will be dealt with by holding a Board meeting or a Board committee meeting set up for that purpose pursuant to a resolution passed in a Board meeting. In addition, only independent non-executive directors who, and whose associates, have no material interest in the transaction concerned should be present at such meeting. Any director concerned should declare his/her interest at or prior to the Board meeting or the Board committee meeting in question and consider withdrawal from the meeting when the matter is discussed. The directors concerned must abstain from voting on any Board resolution or Board committee resolution and will not be counted in the quorum.

The Company maintains a directors' and officers' liability insurance.

3. Responsibilities of directors

The directors recognise that they are collectively and individually responsible to the shareholders, as well as to the operations, business activities and developments of the Company, and they perform their duties in accordance with Denway Code. Independent non-executive directors have the same duties of care and fiduciary duties as executive directors.

Directors acknowledge their responsibility for preparing the accounts. Directors do not aware of material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern and present the accounts on a going concern basis. The relevant statement by the auditor about their reporting responsibilities set out in the section headed "Independent Auditor's Report" in this Annual Report.

In 2007, all directors gave sufficient time and attention to the affairs of the Company.

The Company appointed Mr. FU Shoujie as an executive director on 16 August 2007. Pursuant to the established guidelines for newly appointed directors, the Company offered Mr. FU Shoujie a comprehensive, formal and tailored induction on the first occasion of his appointment, to ensure that he has a proper understanding of the operations and business of the Company and that he is fully aware of his responsibilities as an executive director under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Company.

Independent non-executive directors of the Company give the Board and Board committees they are serving the benefit of their skills, expertise, varied backgrounds and qualifications through attending Board meetings and Board committee meetings. The responsibilities of independent non-executive directors include:

(1) Participating in Board meetings to bring an independent judgment on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct;

(2) Taking the lead where potential conflicts of interests arise;

(3) Serving on the Audit Committee, the Remuneration Committee, the Nomination Committee and other Board committees; and

(4) Scrutinising the Company's performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance.

All independent non-executive directors attend Board meetings regularly and serve in the Audit Committee, the Remuneration Committee and the Nomination Committee.

In 2007, the Company arranged independent non-executive directors to visit the jointly controlled entities of the holding company so that they gained insight into the latest business development of the major related companies of the Company, which served as an important benchmark for them to consider the continuous professional development of the Company.

Denway Code covers model code for securities transactions by directors on terms no less exacting than those set out in the Model Code in Appendix 10 of the Listing Rules on the Stock Exchange. Having made specific enquiries, all directors confirmed that they strictly complied with the Model Code and the model code for securities transactions by the directors stated in Denway Code throughout 2007.

The Company has adopted a new staff handbook which, among other things, states clearly that, other than under specific circumstances, employees of the Company are prohibited to deal in stocks and related derivatives of the Company.

Directors' interests in the shares of the Company as at 31 December 2007 are disclosed in the section headed "Report of the Directors" in this Annual Report.

Directors' interests as at 31 December 2007 in any business that could or may compete with the business of the Group are disclosed in the section headed "Report of the Directors" in this Annual Report.

4. Appointment, re-election and removal of directors

The Company has a formal, considered and transparent procedure for the appointment of new directors to the Board and has plans in place for orderly succession for appointments to the Board.

The Company has the Nomination Committee. For further details, please refer to the section headed "Nomination Committee" in this report. The appointment of a new director is a matter for consideration by the Nomination Committee and decision by the Board.

All directors appointed to fill a casual vacancy are subject to election by shareholders at the first general meeting after their appointment.

Every director is subject to retirement by rotation at least once every 3 years and is eligible for re-election. The names and biographical details of the directors who offer themselves for re-election in 2007 are contained in a circular to shareholders to assist them in making an informed decision on their election.

The term of service of all independent non-executive directors is two years (subject to renewal every two years). They are also subject to retirement by rotation and re-election at least once every 3 years in accordance with the Company's Articles of Association.

5. Chairman and Managing Director

The Chairman and the Managing Director (for the purpose of this report, the "Managing Director" has the same capacity as the "Chief Executive Officer" referred to in Appendix 23 of the Listing Rules) are two separate roles and are not performed by the same individual. Mr. ZHANG Fangyou, the Chairman, is responsible for managing the Board and Mr. ZHANG Baoqing, the Managing Director, is responsible for managing the Company's business. The division of responsibilities between the Chairman and Managing Director is clearly established and set out in writing in Denway Code.

The responsibilities of the Chairman of the Board include, but not limited to:

(1) Providing leadership for the Board;

(2) Ensuring all directors are properly briefed on matters to be discussed at Board meetings;

(3) Ensuring all directors receive adequate, complete and reliable information in a timely manner;

(4) Ensuring that the Board works effectively, discharges its responsibilities and discusses all key issues in a timely manner;

(5) Ensuring that, the Company Secretary settles and approves the agenda for Board meeting on Chairman's behalf, taking into account any matters proposed by the other directors for inclusion in the agenda;

(6) Providing effective communication with shareholders and ensuring that views of shareholders are communicated to the Board as a whole;

(7) Ensuring good corporate governance practices and procedures are in place;

(8) Ensuring each director has an opportunity to express his/her views at Board meetings, encouraging all directors to fully contribute to the Board's affairs and ensuring that the Board acts in the best interests of the Company; and

(9) Facilitating the effective contribution of all directors, in particular independent non-executive directors, and building constructive relations between executive and independent non-executive directors.

The Managing Director is appointed by the Board. The responsibilities of the Managing Director include, but not limited to:

(1) Providing leadership for the management;

(2) Implementing and reporting to the Board on the Company's strategy;

(3) Overseeing the realisation of the objectives set by the Board;

(4) Providing all necessary information to the Board to enable it to monitor the performance of the management;

(5) Leading the management's relationship with stakeholders;

(6) Putting in place programmes for the management development and succession;

(7) Together with the head of finance, establishing and maintaining proper internal controls and systems as well as disclosure controls and procedures; and

(8) Discharging such duties and authority as may be delegated in writing to him/her by the Board.

NOMINATION COMMITTEE

The objectives of the Nomination Committee are to lead the process for Board appointments and to identify and nominate candidate for the approval of the Board.

The Nomination Committee was set up on 2 September 2005. It comprises three independent non-executive directors. The Nomination Committee is chaired by Mr. FUNG Ka Pun. The Nomination Committee is provided with sufficient resources to discharge its duties and is authorized by the Board to obtain independent legal or other professional advices.

The Nomination Committee held two committee meetings in 2007. The committee had discussed the acceptance of resignation of Mr. DING Baoshan and nomination of Mr. FU Shoujie as executive director, and the retirement by rotation and re-election of directors.

During 2007, except for the resignation of Mr. DING Baoshan as executive director and appointment of Mr. FU Shoujie as executive director, there was no change to the composition of the Board and no resignation or removal of a director. The Nomination Committee recommended the re-election of Mr. ZHANG Fangyou and Mr. ZENG Qinghong as the Company's executive directors and Mr. CHEUNG Doi Shu as the Company's independent non-executive director at the 2007 AGM.

For the forthcoming 2008 AGM, the Nomination Committee recommended the re-election of Mr. ZHANG Baoqing to be re-appointed as the Company's executive director and Mr. LEE Ka Lun and Mr. FUNG Ka Pun to be re-appointed as the Company's independent non-executive director. Mr. FU Shoujie, being an executive director newly appointed to fill the casual vacancy, will also be subject to re-election by shareholders at the AGM to be re-appointed as the Company's executive director.

The Nomination Committee reported to the Board its conclusions and recommendations following each committee meeting.

In 2007, attendance of committee members of the Nomination Committee was as follows:

Nomination Committee Members	**No. of Attendance**
Mr. CHEUNG Doi Shu *(Independent Non-Executive Director)*	2
Mr. LEE Ka Lun *(Independent Non-Executive Director)*	2
Mr. FUNG Ka Pun *(Independent Non-Executive Director)* *(Chairman of the Nomination Committee)*	2

The roles and functions of the Nomination Committee include:

(1) Reviewing the structure, size and composition of the Board on a regular basis and making recommendations to the Board regarding any proposed changes;

(2) Identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of, individuals nominated for directorships;

(3) Assessing the independence of independent non-executive directors;

(4) Making recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors; and

(5) Considering other topics, as defined by the Board.

Terms of reference of the Nomination Committee have been published on the Company's website at www.denway-motors.com.

REMUNERATION COMMITTEE

The objectives of the Remuneration Committee are to discharge the Board's responsibilities relating to the compensation of the Company's directors and the senior management, to oversee the administration of the Company's compensation plans and to prepare any report on executive compensation required by the applicable rules and regulations.

The Remuneration Committee was set up on 3 January 2005. It comprises three independent non-executive directors and the Managing Director. The Remuneration Committee is chaired by Mr. CHEUNG Doi Shu. The Remuneration Committee is provided with sufficient resources to discharge its duties and is authorized by the Board to obtain independent legal or other professional advices.

The Remuneration Committee held one committee meeting in 2007 to discuss the human resource scheme and the remuneration for the directors and the senior management.

Directors' fees and other emoluments paid to directors are disclosed on a named basis in the section headed "Notes to the Consolidated Financial Statements" in this Annual Report in accordance with the requirements of the Listing Rules.

The Remuneration Committee reported to the Board its conclusions and recommendations following each committee meeting.

In 2007, attendance of committee members of the Remuneration Committee was as follows:

Remuneration Committee Members	No. of Attendance
Mr. CHEUNG Doi Shu *(Independent Non-Executive Director)* *(Chairman of the Remuneration Committee)*	1
Mr. LEE Ka Lun *(Independent Non-Executive Director)*	1
Mr. FUNG Ka Pun *(Independent Non-Executive Director)*	1
Mr. ZHANG Baoqing *(Executive Director and Managing Director)*	1

The roles and functions of the Remuneration Committee include:

(1) Making recommendations to the Board on the policy and structure for all remuneration of directors, senior management and all other employee of the corporate office and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

(2) Determining the specific compensation packages of all executive directors and senior management, and making recommendations to the Board of the remuneration of non-executive directors;

(3) Reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

(4) Reviewing and approving the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms;

(5) Reviewing and approving compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms;

(6) Ensuring that no director or any of his associates is involved in deciding his/her own remuneration;

(7) Consulting the Managing Director about their proposals relating to the remuneration of other executive directors; and

(8) Considering other topics, as defined by the Board.

Terms of reference of the Remuneration Committee have been published on the Company's website at www.denway-motors.com.

AUDIT COMMITTEE

The objectives of the Audit Committee are to monitor integrity of the financial statements contained in the annual reports, the interim reports and, if prepared for publication, the quarterly reports of the Company and to review significant financial reporting judgements contained in them, to create a climate of discipline, risk management awareness and control, to enable the independent non-executive directors sitting on the Board committees to contribute an independent judgment and play a positive role, to help the head of finance by providing a forum in which he/she can raise issues, to strengthen the position of the external auditor by providing a channel of communication and forum for issues of concern, to provide a framework within which the external auditor can assert his/her independence in the event of a dispute with management, to increase public confidence in the credibility and objectivity of financial statements and of the Board.

The Audit Committee was set up on 30 June 1999. It comprises three independent non-executive directors. The Audit Committee is chaired by Mr. LEE Ka Lun. The Audit Committee is provided with sufficient resources to discharge its duties and is authorised by the Board to obtain independent legal or other professional advices.

The Audit Committee held three committee meetings in 2007 and the external auditor of the Company attended two of the committee meetings. During the two meetings, members of the Audit Committee reviewed financial statements contained in 2006 annual report and 2007 interim report, and review significant financial reporting judgments contained in them. Meanwhile, the Audit Committee discussed with the external auditor and the management and reviewed the system of internal control and financial control. During the last committee meeting, the Audit Committee discussed the engagement of the external auditor and its remuneration.

The Audit Committee has reviewed the results of the Group for the year ended 31 December 2007.

In addition, the Audit Committee made recommendations to the Board on the re-appointment of the external auditor, and approved the remuneration and terms of engagement of the external auditor in 2007. Meanwhile, the Audit Committee reviewed and monitored the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards and implemented policy on the engagement of the external auditor to supply non-audit services.

The Audit Committee reported to the Board its conclusions and recommendations following each committee meeting.

For the year ended 31 December 2007, audit fee paid by the Company to PricewaterhouseCoopers (the external auditor of the Company) was RMB2,799,000. Non-auditing fee paid amounted to RMB497,000, representing RMB317,000, RMB131,000 and RMB49,000 for non-auditing advice, taxation services and other fees, respectively.

In 2007, attendance of committee members of the Audit Committee was as follows:

Audit Committee Members	**No. of Attendance**
Mr. CHEUNG Doi Shu *(Independent Non-Executive Director)*	3
Mr. LEE Ka Lun *(Independent Non-Executive Director)* *(Chairman of the Audit Committee)*	3
Mr. FUNG Ka Pun *(Independent Non-Executive Director)*	3

The roles and functions of the Audit Committee include:

Relationship with the external auditor

(1) Being primarily responsible for making recommendation to the Board on the appointment, re-appointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;

(2) Reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, and discussing with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;

(3) Developing and implementing policy on the engagement of the external auditor to supply non-audit services.

Review of financial information

(1) Monitoring integrity of financial statements contained in the Company's annual report and interim report, and reviewing significant financial reporting judgments contained in them;

(2) Liaising with the Board, the senior management and the Company's qualified accountant, and meeting, at least once a year, with the external auditor; and

(3) Considering any significant or unusual items that are, or may need to be, reflected in such reports and accounts and giving due consideration to any matters that have been raised by the Company's qualified accountant and the external auditor.

Oversight of financial reporting system and internal control procedures

(1) Reviewing the Company's financial controls, internal control and risk management systems;

(2) Discussing with the management the system of internal control and ensuring that the management has discharged its duty to have an effective internal control system;

(3) Considering any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and the management's response;

(4) Reviewing the Group's financial and accounting policies and practices;

(5) Reviewing the external auditor's management letter;

(6) Ensuring that the Board will provide a timely response to the issues raised in the external auditor's management letter;

(7) Reporting to the Board on the matters set out in CG Code as required by the Stock Exchange; and

(8) Considering other topics, as defined by the Board.

Terms of reference of the Audit Committee have been published on the Company's website at www.denway-motors.com.

EXECUTIVE COMMITTEE

The objective of the Executive Committee is to oversee the day-to-day management of the Group, its jointly controlled entities and associates.

The Executive Committee was set up on 2 September 2005. It comprises not less than three executive directors appointed by the Board. The Executive Committee is provided with sufficient resources to discharge its duties and is authorized by the Board to obtain independent legal or other professional advices.

The Executive Committee held one committee meeting in 2007. During the meeting, the Company's internal departmental re-organization and personnel deployment was discussed.

In 2007, the attendance of committee members of the Executive Committee was as follows:

Executive Committee Members	**No. of Attendance**
Mr. ZHANG Fangyou *(Executive Director, Chairman of the Board)*	1
Mr. LU Zhifeng *(Executive Director, Vice Chairman of the Board)*	1
Mr. YANG Dadong *(Executive Director)*	1
Mr. ZHANG Baoqing *(Executive Director, Managing Director)*	1

Due to unexpected business commitment, Mr. ZENG Qinghong and Mr. DING Baoshan who are also members of the Executive Committee, were unable to attend the committee meeting.

Terms of reference of the Executive Committee have been published on the Company's website at www.denway-motors.com.

INTERNAL CONTROL

The Board is responsible for maintaining a sound and effective internal control system for the Group. The system is for the interests of the shareholders by safeguarding the shareholders' investment and the assets of the Group.

In 2007, the Company set up the audit department with the approval of the Board in order to strengthen the internal control function of the Group and communicate the results of the monitoring to the Board regularly to enable the Board to build up cumulative assessment of the state of control in the Group and the effectiveness with which risk is being managed.

The Company's internal control system, which is based on the "Internal Control and Risk Management — A Basic Framework" issued by the Hong Kong Institute of Certified Public Accountants in June 2005, is a set of procedures for providing reasonable guarantee, with a view to meeting the following objectives:

(1) Effectiveness and efficiencies of operations;

(2) Reliability of financial reporting; and

(3) Compliance with the applicable laws and regulations.

During 2007, the comprehensive internal control review activities for the Group undertaken by the audit department of the Company included:

(1) Control Environment

Confirmed the Group has an active and involved Board and other Board committees, high ethical values and strict staff conduct standards, effective human resources policies, as well as a sound organisational structure that has provided solid foundations, discipline and structure for the Company's control environment.

(2) Risk Assessment

Pursuant to the Group's development strategies and corporate goals and by adopting appropriate risk models, the Company identified and conducted a thorough risk assessment affecting the Group and its jointly controlled entities, including business risks, financial risks, compliance risks and operational and other risks, which served as a basis for minimising and managing such risk. Based on the results of the risk assessment, the audit department of the Company conducted an independent detailed review and made feasible proposals in respect of areas of concern of the Group and its jointly controlled entities, so as to minimise the original risk to a level acceptable to and controllable by the Group and its jointly controlled entities. The Group and its jointly controlled entities had been actively responding to the opinion of the audit department of the Company and carrying out follow-up actions and furnished a detailed report to the Board.

(3) Control Activities

Confirmed the Group establishes control activities comprising a diverse range of policies and procedures, include conducting reviews of actual performance versus budgets, reviewing of performance reports, checking information processing in transactions, performing physical controls, analyzing performance indicators and reviewing the segregation of duties amongst different people. Such policies and procedures help to ensure the implementation of the management's instructions and deal with risks in order to achieve the Group's objectives.

(4) Information and Communication

Monitored and confirmed the Group establishes sound channels and communication systems for internal and external flows of information, which are effectively used, wherever appropriate, to identify, access and report relevant information on operational, financial and regulatory compliance. The Group's procedures and internal controls for the handling and dissemination of price sensitive information are developed with reference to the Guide on Disclosure of Price-Sensitive Information published by the Stock Exchange in January 2002.

(5) Monitoring

The audit department of the Company monitored the implementation of the Group's internal control system regularly and evaluated its performance quality on an ongoing basis to ensure the effective operation of internal controls. The audit department of the Company also carried out follow-up supervision to the rectification plan proposed after the previous annual review.

In 2007, the Board conducted a review of the effectiveness of the system of internal control of the Group based on reports submitted by the audit department of the Company. The review covered all material controls, including financial, operational and compliance controls and risk management functions.

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF DENWAY MOTORS LIMITED
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Denway Motors Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 42 to 102, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 2 April 2008

FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	Group 2007 RMB'000	Group 2006 RMB'000
Continuing operations:			
Turnover	5	**862,573**	828,949
Cost of sales		**(783,337)**	(745,285)
Gross profit		**79,236**	83,664
Other income and other gains	6	**103,341**	46,836
Selling and distribution costs		**(32,371)**	(31,433)
General and administrative expenses		**(61,424)**	(65,470)
Other operating expenses		**(5,557)**	(21,476)
Operating profit	8	**83,225**	12,121
Finance costs	9	**(576)**	(1,340)
Share of profits less losses of:			
A jointly controlled entity	21(a)	**1,859,673**	2,147,559
Other jointly controlled entities		**246,472**	133,344
Associates	22	**7,717**	7,610
Profit before taxation		**2,196,511**	2,299,294
Taxation	10	**(15,522)**	(12,017)
Profit for the year from continuing operations		**2,180,989**	2,287,277
A discontinued operation:			
Loss for the year from a discontinued operation	7	**—**	(8,380)
Profit for the year		**2,180,989**	2,278,897
Attributable to:			
Equity holders of the Company	11	**2,170,395**	2,273,629
Minority interests		**10,594**	5,268
		2,180,989	2,278,897
Basic earnings/(losses) per share attributable to the equity holders of the Company			
— continuing operations	12	**28.9 cents**	30.3 cents
— a discontinued operation	12	**—**	(0.1) cents
		28.9 cents	30.2 cents
Diluted earnings/(losses) per share attributable to the equity holders of the Company			
— continuing operations	12	**28.8 cents**	30.3 cents
— a discontinued operation	12	**—**	(0.1) cents
		28.8 cents	30.2 cents
Dividends	13	**1,005,701**	825,681

AS AT 31 DECEMBER 2007

	Note	Group 2007 RMB'000	Group 2006 RMB'000	Company 2007 RMB'000	Company 2006 RMB'000
ASSETS					
Non-current assets					
Intangible asset	16	**896,398**	896,398	**—**	—
Leasehold land and land use rights	17	**39,595**	29,169	**—**	—
Property, plant and equipment	18	**69,430**	76,467	**1,509**	1,026
Investment properties	19	**54,358**	45,272	**11,771**	10,409
Investments in subsidiaries	20	**—**	—	**1,681,450**	1,681,450
Interest in a jointly controlled entity	21(a)	**5,110,549**	5,577,434	**—**	—
Interests in other jointly controlled entities	21(b)	**1,053,389**	848,922	**—**	—
Interests in associates	22	**61,607**	56,843	**—**	—
		7,285,326	7,530,505	**1,694,730**	1,692,885
Current assets					
Inventories	23	**92,876**	83,407	**—**	—
Trade and other receivables	24	**561,901**	80,376	**1,969,080**	2,266,919
Current tax recoverable		**—**	1,038	**—**	—
Cash and bank balances					
— pledged bank deposits	25	**27,052**	26,517	**—**	—
— others	25	**3,869,231**	2,740,242	**138,568**	126,604
		4,551,060	2,931,580	**2,107,648**	2,393,523
Total assets		**11,836,386**	10,462,085	**3,802,378**	4,086,408

AS AT 31 DECEMBER 2007

		Group		Company	
		2007	2006	**2007**	2006
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
EQUITY					
Share capital and reserves attributable to the equity holders of the Company					
Share capital	26	**757,118**	756,979	**757,118**	756,979
Reserves					
Proposed final dividend	13&27	**451,122**	439,856	**451,122**	439,856
Proposed special dividend	13&27	**187,967**	—	**187,967**	—
Others	27	**10,180,765**	9,017,162	**2,386,938**	2,873,824
		11,576,972	10,213,997	**3,783,145**	4,070,659
Minority interests		**77,680**	70,772	**—**	—
Total equity		**11,654,652**	10,284,769	**3,783,145**	4,070,659
LIABILITIES					
Non-current liabilities					
Borrowings	28	**2,247**	3,153	**—**	—
Deferred tax liabilities	29	**964**	1,805	**—**	—
		3,211	4,958	**—**	—
Current liabilities					
Trade and other payables	30	**163,262**	148,172	**13,108**	9,177
Current tax liabilities		**12,645**	13,339	**6,125**	6,572
Borrowings	28	**2,616**	10,847	**—**	—
		178,523	172,358	**19,233**	15,749
Total liabilities		**181,734**	177,316	**19,233**	15,749
Total equity and liabilities		**11,836,386**	10,462,085	**3,802,378**	4,086,408
Net current assets		**4,372,537**	2,759,222	**2,088,415**	2,377,774
Total assets less current liabilities		**11,657,863**	10,289,727	**3,783,145**	4,070,659

On behalf of the Board

ZHANG Fangyou
Chairman

ZHANG Baoqing
Director

FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	Attributable to the equity holders of the Company: Share capital RMB'000	Attributable to the equity holders of the Company: Reserves RMB'000	Minority interests RMB'000	Total RMB'000
Balance at 1 January 2006		756,979	8,263,782	87,900	9,108,661
Currency translation differences and net income recognised directly in equity	27	—	(101)	(1,362)	(1,463)
Profit for the year		—	2,273,629	5,268	2,278,897
Total recognised income for 2006		—	2,273,528	3,906	2,277,434
Disposal of a subsidiary	27	—	17	(15,451)	(15,434)
Dividends	27	—	(1,080,309)	(5,583)	(1,085,892)
		—	(1,080,292)	(21,034)	(1,101,326)
Balance at 31 December 2006		756,979	9,457,018	70,772	10,284,769
Balance at 1 January 2007		756,979	9,457,018	70,772	10,284,769
Currency translation differences and net income recognised directly in equity	27	—	(3,934)	(1,072)	(5,006)
Profit for the year		—	2,170,395	10,594	2,180,989
Total recognised income for 2007		—	2,166,461	9,522	2,175,983
Issue of shares upon exercise of share options	26&27	139	2,843	—	2,982
Dividends	27	—	(806,468)	(2,614)	(809,082)
		139	(803,625)	(2,614)	(806,100)
Balance at 31 December 2007		757,118	10,819,854	77,680	11,654,652

FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	Group 2007 RMB'000	Group 2006 RMB'000
Cash flows from operating activities			
Net cash used in operations	31(a)	**(30,946)**	(87,309)
Interest paid		**(576)**	(1,340)
Hong Kong profits tax paid		**(1,063)**	(3,441)
Overseas income tax paid		**(14,956)**	(5,308)
Operating cash flows of a discontinued operation	7	**—**	(18,876)
Net cash used in operating activities		**(47,541)**	(116,274)
Cash flows from investing activities			
Purchase of property, plant and equipment	18	**(6,235)**	(13,040)
Proceeds from disposal of property, plant and equipment		**53**	74
Proceeds from disposal of a subsidiary	31(b)	**—**	16,351
Dividends received from a jointly controlled entity		**1,889,829**	2,137,133
Dividends received from other jointly controlled entities		**21,906**	25,092
Dividends received from associates	22	**2,953**	4,980
Interest received	6	**81,170**	37,839
Net change in bank deposits pledged		**(535)**	4,311
Investing cash flows of a discontinued operation	7	**—**	5,919
Net cash generated from investing activities		**1,989,141**	2,218,659
Cash flows from financing activities			
Issue of shares		**2,982**	—
New loans borrowed		**1,068**	4,142
Repayment of bank loans and other loans		**(10,205)**	(9,481)
Dividends paid to minority shareholders		**(2,614)**	(5,583)
Dividends paid		**(806,468)**	(1,080,309)
Financing cash flows of a discontinued operation	7	**—**	5,597
Net cash used in financing		**(815,237)**	(1,085,634)
Increase in cash and cash equivalents		**1,126,363**	1,016,751
Cash and cash equivalents at 1 January		**2,740,242**	1,720,677
Effect of foreign exchange rate changes		**2,626**	2,814
Cash and cash equivalents at 31 December		**3,869,231**	2,740,242
Analysis of the balances of cash and cash equivalents:			
Cash and bank balances		**3,869,231**	2,740,242

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 consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements were approved for issue on 2 April 2008.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

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

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

The following new standard, amendment to standard and interpretations are mandatory for financial year ended 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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(a) Basis of preparation (cont'd)

The adoption of the above standard, amendment to standard and interpretations did not have any significant financial impact to the Group. The adoption of HKAS 1 (Amendment) and HKFRS 7 has resulted in additional disclosures on capital disclosures and sensitivity analysis on financial risks.

The Group has not early adopted the following new/revised standards or interpretations that have been issued but are not yet effective. The directors are currently assessing the impact on their adoption.

HKAS 1 (Revised)	Presentation of Financial Statements
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
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

(b) Consolidation

(i) Subsidiaries

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(b) Consolidation (cont'd)

(i) Subsidiaries (cont'd)

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

In the Company's balance sheet the 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.

(ii) Jointly controlled entities

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

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

(iii) Associates

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(b) Consolidation (cont'd)

(iii) Associates (cont'd)

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

(c) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries/ associates/ jointly controlled entities at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates and jointly controlled entities is included in respective investments and is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

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

(ii) Technology

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(d) Property, plant and equipment

(i) Depreciation

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

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

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

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(e) Investment properties

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

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

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

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

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

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

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

Changes in fair values are recognised in the income statement.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(f) Impairment of non-financial assets

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

(g) Inventories

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

(h) Trade and other receivables

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

(i) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and bank overdrafts.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(j) 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.

(k) Borrowings

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

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

(l) Deferred taxation

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

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(l) Deferred taxation (cont'd)

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

(m) Revenue recognition

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

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

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

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

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

(n) Operating leases

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

(o) Foreign currency translation

(i) Functional and presentation currency

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

The presentation currency for the preparation of financial statements is changed from Hong Kong dollars ("HKD") to RMB for the year ended 31 December 2007. The directors consider that the change results in a more appropriate presentation of the Group's transactions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(o) Foreign currency translation (cont'd)

(ii) Transactions and balances

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

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

(iii) Group companies

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(p) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Profit sharing and bonus plans

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

(iii) Pension obligations

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

(iv) Share-based compensation

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(q) Borrowing costs

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

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

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

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

3 FINANCIAL RISK MANAGEMENT (cont'd)

3.1 Financial risk factors (cont'd)

(a) Foreign exchange risk

Majority of the subsidiaries of the Group operates in the PRC with most of the transactions denominated in RMB. The Group is exposed to foreign exchange risk arising from the exposure of HKD and United States dollars ("USD") against RMB. It has not hedged its foreign exchange rate risk.

As at 31 December 2007, the Group had certain borrowings (note 28) and deposits in banks (note 25) denominated in foreign currencies. In recent years, RMB experienced certain appreciation against HKD and USD. The directors are of the opinion that such appreciation did not have any material adverse impact on the Group's financial statements.

(b) Credit risk

The Group has no significant concentrations of credit risk. The carrying amount of the trade receivables, restricted bank balances, cash and cash equivalents included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to its financial assets.

As at 31 December 2006 and 2007, all bank deposits are deposited in the high quality financial institutions without significant credit risk.

The table shows the bank deposits balance of the five major banks as at 31 December 2006 and 2007. The management does not expect any losses from non-performance by these banks.

	2007 **RMB'000**	2006 RMB'000
Counterparty		
China Minsheng Bank	**2,099,345**	979,441
Industrial Bank Co	**564,128**	809,038
China Everbright Bank	**389,045**	452,250
China Citic Bank	**352,805**	60,565
Huaxia Bank	**207,771**	203,999
	3,613,094	2,505,293

The Group's credit sales are only made to customers with an appropriate credit history and at credit period of 90 days.

3 FINANCIAL RISK MANAGEMENT (cont'd)

3.1 Financial risk factors (cont'd)

(c) Liquidity risk

The Group operates in an industry with intensive capital requirement. The liquidity risk of the Group is controlled by maintaining sufficient cash and cash equivalents, which is mainly generated from the investing cash flow.

As at 31 December 2007, total liabilities of the Group amounted to RMB181,734,000 (2006: RMB177,316,000), while cash and bank balances on hand amounted to RMB3,869,231,000 (2006: RMB2,740,242,000). With sufficient cash and cash equivalent on hand to cover all the debts and the strong cash flow generated from investing activities amounted to RMB1,989,141,000 (2006: RMB2,218,659,000), the directors believe that the Group's current cash flows are sufficient for financing its capital commitments in the near future and for working capital purposes.

(d) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for the bank deposits and cash and cash equivalents, details of which have been disclosed in note 25.

Financial assets and liabilities at fixed rates expose the Group to fair value interest-rate risk. The Group currently does not hedge its exposure to interest rate risk. Financial assets and liabilities at variable rates expose the Group to cash flow interest rate risk. The Group's exposure to changes in interest rates is mainly attributable to its bank deposits and borrowings.

Details of the borrowings have been disclosed in note 28 to the consolidated financial statements. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk. The management does not anticipate significant impact resulted from the changes in interest rates because the interest-bearing bank borrowings as disclosed in note 28 are immaterial to the Group.

The management analyses its interest rate exposure on bank deposits by way of sensitivity analysis. If the market interest rates had been 500 basis points higher/lower with all other variables held constant at 31 December 2007, profit would have been RMB5,621,000 (2006: RMB1,034,000) higher/lower as a result of higher/lower interest income on floating rate bank deposits.

3 FINANCIAL RISK MANAGEMENT (cont'd)

3.2 Fair value estimation

The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of their fair values.

3.3 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total equity less minority interest as shown in the consolidated balance sheet. Total borrowings include non-current borrowings and current borrowings.

During 2007, the Group's strategy, which was unchanged from 2006, was to maintain a minimal stable gearing ratio. The gearing ratios at 31 December 2006 and 2007 were as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
Total borrowings *(note 28)*	**4,863**	14,000
Total equity less minority interests	**11,576,972**	10,213,997
Gearing ratio	**0.04%**	0.14%

The decrease in the gearing ratio during 2007 resulted primarily from less utilisation of bank borrowing facilities.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Estimated impairment of goodwill

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

(b) Taxation

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

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

(c) Estimate of fair value of investment properties

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (cont'd)

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

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

5. TURNOVER AND SEGMENT INFORMATION

Turnover recognised during the year are as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
Trading of motor vehicles	**556,193**	541,071
Manufacturing and trading of automotive equipment and parts	**12,176**	10,383
Manufacturing and trading of audio equipment	**294,204**	277,495
	862,573	828,949

Primary reporting format — business segments

The Group is organised into four main business segments:

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

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

Secondary reporting format — geographical segments

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

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

5. TURNOVER AND SEGMENT INFORMATION (cont'd)

Primary reporting format — business segments

	Trading of motor vehicles 2007 RMB'000	Manufacturing and assembly of motor vehicles 2007 RMB'000	Manufacturing and trading of automotive equipment and parts 2007 RMB'000	Manufacturing and trading of audio equipment 2007 RMB'000	Other operations 2007 RMB'000	Total 2007 RMB'000
Turnover	556,193	—	12,176	294,204	—	862,573
Segment operating (loss)/profit	(565)	—	(5,354)	25,498	(17,524)	2,055
Interest income	704	—	72,481	847	7,138	81,170
Operating profit/(loss)	139	—	67,127	26,345	(10,386)	83,225
Finance costs						(576)
Share of profits less losses of:						
A jointly controlled entity		1,859,673				1,859,673
Other jointly controlled entities			246,472			246,472
Associates	953		6,764			7,717
Profit before taxation						2,196,511
Taxation						(15,522)
Profit for the year						2,180,989
Segment assets	200,396		4,136,700	167,503	1,106,242	5,610,841
Interests in						
A jointly controlled entity		5,110,549				5,110,549
Other jointly controlled entities			1,053,389			1,053,389
Associates	14,161		47,446			61,607
Total assets						11,836,386
Segment liabilities	(105,874)		(9,541)	(39,550)	(8,297)	(163,262)
Unallocated liabilities						(18,472)
Total liabilities						(181,734)
Capital expenditure	2,215	—	357	3,005	658	6,235
Depreciation	3,087	—	1,019	4,429	2,555	11,090
Amortisation	—	—	—	171	437	608

5. TURNOVER AND SEGMENT INFORMATION (cont'd)

Primary reporting format — business segments (cont'd)

	Trading of motor vehicles 2006 RMB'000	Manufacturing and assembly of motor vehicles 2006 RMB'000	Manufacturing and trading of automotive equipment and parts 2006 RMB'000	Manufacturing and trading of audio equipment 2006 RMB'000	Other operations 2006 RMB'000	Total 2006 RMB'000
Turnover	541,071	—	10,383	277,495	—	828,949
Segment operating profit/(loss)	7,397	—	(7,564)	21,547	(47,098)	(25,718)
Interest income	685	—	29,458	409	7,287	37,839
Operating profit/(loss)	8,082	—	21,894	21,956	(39,811)	12,121
Finance costs						(1,340)
Share of profits less losses of:						
A jointly controlled entity		2,147,559				2,147,559
Other jointly controlled entities			133,344			133,344
Associates	1,756		5,854			7,610
Profit before taxation						2,299,294
Taxation						(12,017)
Profit/(loss) for the year from:						
Continuing operations						2,287,277
A discontinued operation		(8,380)				(8,380)
						2,278,897
Segment assets	192,096		2,556,016	164,767	1,064,969	3,977,848
Interests in						
A jointly controlled entity		5,577,434				5,577,434
Other jointly controlled entities			848,922			848,922
Associates	11,766		45,077			56,843
Unallocated assets						1,038
Total assets						10,462,085
Segment liabilities	(95,515)		(7,543)	(35,907)	(9,207)	(148,172)
Unallocated liabilities						(29,144)
Total liabilities						(177,316)
Capital expenditure	3,601	—	17	4,114	5,308	13,040
Depreciation	3,199	—	275	4,914	2,695	11,083
Amortisation	—	—	—	160	462	622

5. TURNOVER AND SEGMENT INFORMATION (cont'd)

Secondary reporting format — geographical segments

	Turnover 2007 RMB'000	Segment operating (loss)/profit 2007 RMB'000	Interest income 2007 RMB'000	Operating profit 2007 RMB'000	Total assets 2007 RMB'000	Capital expenditure 2007 RMB'000
PRC	**556,193**	**(6,053)**	**73,151**	**67,098**	**4,330,608**	**2,267**
Hong Kong	**294,204**	**7,974**	**7,985**	**15,959**	**1,273,745**	**3,663**
Australia	**12,176**	**134**	**34**	**168**	**6,488**	**305**
	862,573	**2,055**	**81,170**	**83,225**	**5,610,841**	**6,235**
Interests in						
A jointly controlled entity					**5,110,549**	
Other jointly controlled entities					**1,053,389**	
Associates					**61,607**	
Total assets					**11,836,386**	

	Turnover 2006 RMB'000	Segment operating profit/(loss) 2006 RMB'000	Interest income 2006 RMB'000	Operating profit/(loss) 2006 RMB'000	Total assets 2006 RMB'000	Capital expenditure 2006 RMB'000
PRC	541,071	742	30,114	30,856	2,742,348	3,601
Hong Kong	277,495	(25,551)	7,696	(17,855)	1,229,736	9,422
Australia	10,383	(909)	29	(880)	5,764	17
	828,949	(25,718)	37,839	12,121	3,977,848	13,040
Interests in						
A jointly controlled entity					5,577,434	
Other jointly controlled entities					848,922	
Associates					56,843	
Unallocated assets					1,038	
Total assets					10,462,085	

6 OTHER INCOME AND OTHER GAINS

	Group	
	2007	2006
	RMB'000	RMB'000
Other income		
Interest income	**81,170**	37,839
Gross rental income from investment properties	**2,053**	1,953
Rental income from leasing of motor vehicles *(note 33(b))*	**3,165**	—
Handling service charges for motor vehicles registration	**1,020**	663
	87,408	40,455
Other gains		
Fair value gains on investment properties *(note 19(a))*	**13,211**	4,003
Others	**2,722**	2,378
	15,933	6,381
	103,341	46,836

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

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

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

	2007	2006
	RMB'000	RMB'000
Income	—	18,500
Expense	—	(26,880)
Loss for the year	—	(8,380)

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

	2007	2006
	RMB'000	RMB'000
Operating cash flows	—	(18,876)
Investing cash flows	—	5,919
Financing cash flows	—	5,597
Total cash flows	—	(7,360)

8 OPERATING PROFIT

	Group	
	2007	2006
	RMB'000	RMB'000
Expenses included in cost of sales, selling and distribution costs, general and administrative expenses and other operating expenses of continuing operations are analysed as follows:		
Auditor's remuneration	**2,799**	2,607
Staff costs (including directors' emoluments) *(note 14)*	**46,512**	47,454
Operating lease rentals in respect of land and buildings	**10,504**	10,600
Outgoings in respect of investment properties	**1,201**	1,475
Outgoings in respect of other properties	**43**	49
Amortisation of prepaid leasehold land and land use rights *(note 17)*	**608**	622
Depreciation of property, plant and equipment *(note 18)*	**11,090**	11,083
(Gain)/loss on disposal of property, plant and equipment	**(53)**	63
Write-back of provision for impairment loss *(notes 17 and 18(a))*	**(12,907)**	—
Provision for inventory obsolescence	**392**	754
Provision/(write-back of provision) for doubtful debts	**156**	(337)

Expenses included in a discontinued operation are analysed as follows:

Staff costs	—	7,606
Operating lease rentals in respect of land and buildings	—	246

9 FINANCE COSTS

	Group	
	2007	2006
	RMB'000	RMB'000
Interest on bank borrowings	**477**	672
Interest on other loans — wholly repayable within five years	**99**	668
	576	1,340

10 TAXATION

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

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

	Group	
	2007	2006
	RMB'000	RMB'000
Current taxation		
Hong Kong profits tax	**1,010**	2,623
PRC enterprise income tax	**15,353**	8,762
	16,363	11,385
Deferred taxation *(note 29)*		
Hong Kong profits tax	**(841)**	632
	15,522	12,017

10 TAXATION (cont'd)

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

	2007 **RMB'000**	2006 RMB'000
Profit before taxation, less share of profits less losses of jointly controlled entities and associates	**82,649**	10,781
Calculated at a tax rate of 33% (2006: 33%)	**27,274**	3,558
Effect of different tax rates in different tax jurisdictions	**(895)**	(1,263)
Income not subject to tax	**(11,254)**	(2,540)
Expenses not deductible for tax purposes	**397**	10,634
Underprovision in prior years	**—**	1,628
Taxation charge	**15,522**	12,017

11 PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

Included in the Group's profit attributable to the equity holders of the Company of RMB2,170,395,000 (2006: RMB2,273,629,000) is a profit of RMB515,972,000 (2006: RMB900,778,000), which is dealt with in the Company's own financial statements.

12 EARNINGS PER SHARE

Basic

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

	2007	2006
	RMB'000	RMB'000
Profit/(loss) attributable to the equity holders of the Company		
— continuing operations	**2,170,395**	2,277,819
— a discontinued operation	**—**	(4,190)
	2,170,395	2,273,629
Weighted average number of ordinary shares in issue ('000)	**7,517,953**	7,517,359
Basic earnings/(losses) per share (RMB cents)		
— continuing operations	**28.9**	30.3
— a discontinued operation	**—**	(0.1)
	28.9	30.2

12 EARNINGS PER SHARE (cont'd)

Diluted

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

	2007	2006
	RMB'000	RMB'000
Profit/(loss) attributable to the equity holders of the Company		
— continuing operations	**2,170,395**	2,277,819
— a discontinued operation	**—**	(4,190)
	2,170,395	2,273,629
Weighted average number of ordinary shares in issue ('000)	**7,517,953**	7,517,359
Adjustments for share options ('000)	**17,921**	12,111
Weighted average number of ordinary shares for diluted earnings per share ('000)	**7,535,874**	7,529,470
Diluted earnings/(losses) per share (RMB cents)		
— continuing operations	**28.8**	30.3
— a discontinued operation	**—**	(0.1)
	28.8	30.2

13 DIVIDENDS

	Company	
	2007	2006
	RMB'000	RMB'000
Interim, paid, HK5 cents (2006: HK5 cents) per ordinary share	**366,612**	385,825
Final, proposed, of RMB6 cents (2006: HK6 cents) per ordinary share *(note (a))*	**451,122**	439,856
Special, proposed, of RMB2.5 cents (2006: Nil) per ordinary share *(note (a))*	**187,967**	—
	1,005,701	825,681

(a) The directors recommend the payment of a final dividend of RMB6 cents and a special dividend of RMB2.5 cents per ordinary share. Total dividends for year 2007 will be RMB8.5 cents plus HK5 cents per ordinary share. Such dividend is to be approved by the shareholders at the annual general meeting on 29 May 2008. These proposed dividends are not reflected as dividend payable in these financial statements but will be reflected as an appropriation of retained earnings for the year ending 31 December 2008.

14 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	Group	
	2007	2006
	RMB'000	RMB'000
Wages and salaries	**42,912**	42,896
Pension costs — retirement benefit costs	**3,600**	4,558
	46,512	47,454

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

The Group's contributions are reduced by contributions forfeited by those employees who leave the ORSO Schemes prior to vesting fully in the contributions. There was no forfeited contribution utilised during the years ended 31 December 2006 and 2007. There was no outstanding balance available at the balance sheet dates of 2006 and 2007 to reduce future contributions. As at 31 December 2007, contributions totalling RMB76,000 (2006: RMB85,000) were payable to the ORSO and MPF Schemes and are included in other payables. The assets of the schemes are held separately from those of the Group in independently administered funds.

14 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS) (cont'd)

The subsidiaries of the Group in the PRC participate in an employees' retirement scheme of Guangzhou city. The implementation of such scheme by the Guangzhou Municipal Government is an administrative measure to provide pensions for retired employees. Pursuant to the relevant provisions, the subsidiaries in the PRC make a monthly defined contribution of 23% of the entire payroll of its staff while the employees need to contribute 3% of their payroll. The pension plan has been paying monthly pensions to the retired employees of these subsidiaries. In 2007 and 2006, there was no material contribution forfeited by employees who left the scheme prior to vesting fully in such contributions. The Group has no further obligations for the actual payment of the pensions or post-retirement benefits beyond the annual contributions made.

The Group's retirement benefit costs were expensed as incurred and the total amount charged to the income statement for the year was approximately RMB3,600,000 (2006: RMB4,558,000).

15 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) The remuneration of every director for the year ended 31 December 2007 is set out below:

Name of director	Fees	Salaries, allowances, and benefits in kind	Retirement benefit costs	Share options exercised	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive director:					
Zhang Fangyou	**975**	**—**	**—**	**—**	**975**
Lu Zhifeng	**780**	**—**	**—**	**—**	**780**
Yang Dadong	**780**	**—**	**—**	**—**	**780**
Zeng Qinghong	**780**	**—**	**—**	**—**	**780**
Zhang Baoqing	**293**	**1,357**	**53**	**—**	**1,703**
Fu Shoujie[1]	**293**	**—**	**—**	**—**	**293**
Ding Baoshan[2]	**—**	**—**	**—**	**—**	**—**
	3,901	**1,357**	**53**	**—**	**5,311**
Independent non-executive director:					
Cheung Doi Shu	**176**	**—**	**—**	**—**	**176**
Lee Ka Lun	**176**	**—**	**—**	**2,310**	**2,486**
Fung Ka Pun	**176**	**—**	**—**	**—**	**176**
	528	**—**	**—**	**2,310**	**2,838**
	4,429	**1,357**	**53**	**2,310**	**8,149**

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

(a) The remuneration of every director for the year ended 31 December 2006 is set out below: (cont'd)

Name of director	Fees RMB'000	Salaries, allowances, and benefits in kind RMB'000	Retirement benefit costs RMB'000	Share options exercised RMB'000	Total RMB'000
Executive director:					
Zhang Fangyou	1,026	—	—	—	1,026
Lu Zhifeng	821	—	—	—	821
Yang Dadong	821	—	—	—	821
Zeng Qinghong	308	—	—	—	308
Zhang Baoqing	308	1,423	49	—	1,780
Ding Baoshan[2]	308	—	—	—	308
	3,592	1,423	49	—	5,064
Independent non-executive director:					
Cheung Doi Shu	185	—	—	—	185
Lee Ka Lun	185	—	—	—	185
Fung Ka Pun	185	—	—	—	185
	555	—	—	—	555
	4,147	1,423	49	—	5,619

[1] The director was appointed on 16 August 2007.

[2] The director was resigned on 16 August 2007.

No director waived any emoluments and no emoluments were paid to the directors as an inducement fee to join or as compensation for loss of office during the years ended 31 December 2006 and 2007.

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest for the year include four (2006: three) of the directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2006: two) individuals during the year are as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
Basic salaries, allowances and bonus	**1,069**	2,012

The emoluments fell within the following bands:

Emolument bands	**Number of individuals**	
	2007	2006
Below HKD1,000,000	**—**	1
HKD1,000,001 — HKD1,500,000	**1**	1

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

16 INTANGIBLE ASSET

	Group
	Goodwill
	RMB'000
At 1 January 2006, 31 December 2006 and 2007	
Cost	**896,398**

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

16 INTANGIBLE ASSET (cont'd)

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

	2006 and 2007		
	Trading of motor vehicles	Manufacturing and assembly of motor vehicles	Manufacturing and trading of automotive equipment and parts (note 21(b))
	RMB'000	RMB'000	RMB'000
PRC	26,241	870,157	215,897

17 LEASEHOLD LAND AND LAND USE RIGHTS

	Group	
	2007	2006
	RMB'000	RMB'000
At 1 January	**29,169**	30,844
Exchange differences	**(2,465)**	(1,053)
Transfer from investment properties *(note 19)*	**750**	—
Amortisation of leasehold land and land use rights *(note 8)*	**(608)**	(622)
Write-back of provision for impairment loss *(note 8)*	**12,749**	—
At 31 December	**39,595**	29,169

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

	2007	2006
	RMB'000	RMB'000
In Hong Kong, held on:		
Leases of over 50 years	**4,082**	3,560
Leases of between 10 to 50 years	**33,906**	23,832
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	**1,607**	1,777
	39,595	29,169

At 31 December 2007, certain leasehold land with a total net book value of approximately RMB4,909,000 (2006: RMB4,593,000) were pledged as security for the Group's bank borrowings (note 28).

18 PROPERTY, PLANT AND EQUIPMENT

(a)

	Group				
	Buildings RMB'000	Plant and machinery RMB'000	Office equipment and leasehold improvements RMB'000	Motor vehicles RMB'000	Total RMB'000
Year ended 31 December 2007					
Opening net book amount	43,767	16,456	10,812	5,432	76,467
Exchange differences	(1,736)	(627)	(410)	(100)	(2,873)
Additions	72	1,899	3,112	1,152	6,235
Transfer from investment properties *(note 19)*	533	—	—	—	533
Write-back of provision for impairment loss *(note 8)*	158	—	—	—	158
Depreciation *(note 8)*	(2,897)	(3,353)	(3,605)	(1,235)	(11,090)
Closing net book amount	39,897	14,375	9,909	5,249	69,430
At 31 December 2007					
Cost	69,083	46,711	26,960	13,129	155,883
Accumulated depreciation and accumulated impairment	(29,186)	(32,336)	(17,051)	(7,880)	(86,453)
Net book amount	39,897	14,375	9,909	5,249	69,430

18 PROPERTY, PLANT AND EQUIPMENT (cont'd)

(a) (cont'd)

	Group				
	Buildings RMB'000	Plant and machinery RMB'000	Office equipment and leasehold improvements RMB'000	Motor vehicles RMB'000	Total RMB'000
At 1 January 2006					
Cost	73,171	44,577	19,592	11,739	149,079
Accumulated depreciation and accumulated impairment	(26,079)	(28,202)	(12,182)	(6,655)	(73,118)
Net book amount	47,092	16,375	7,410	5,084	75,961
Year ended 31 December 2006					
Opening net book amount	47,092	16,375	7,410	5,084	75,961
Exchange differences	(870)	(336)	(122)	14	(1,314)
Additions	372	4,185	6,694	1,789	13,040
Disposals	—	(127)	(10)	—	(137)
Depreciation *(note 8)*	(2,827)	(3,641)	(3,160)	(1,455)	(11,083)
Closing net book amount	43,767	16,456	10,812	5,432	76,467
At 31 December 2006					
Cost	71,795	47,293	25,242	13,405	157,735
Accumulated depreciation and accumulated impairment	(28,028)	(30,837)	(14,430)	(7,973)	(81,268)
Net book amount	43,767	16,456	10,812	5,432	76,467

The above assets were carried at cost at 31 December 2007 and 2006.

At 31 December 2007, certain properties, plant and equipment with a total net book value of approximately RMB6,309,000 (2006: RMB6,677,000) were pledged as security for the Group's bank borrowings (note 28).

18 PROPERTY, PLANT AND EQUIPMENT (cont'd)

(b)

	Company		
	Office equipment and leasehold improvements RMB'000	Motor vehicles RMB'000	Total RMB'000
At 1 January 2006			
Cost	3,589	2,792	6,381
Accumulated depreciation	(3,222)	(2,717)	(5,939)
Net book amount	367	75	442
Year ended 31 December 2006			
Opening net book amount	367	75	442
Additions	1,060	—	1,060
Depreciation	(428)	(48)	(476)
Closing net book amount	999	27	1,026
At 31 December 2006			
Cost	4,280	2,696	6,976
Accumulated depreciation	(3,281)	(2,669)	(5,950)
Net book amount	999	27	1,026
Year ended 31 December 2007			
Opening net book amount	**999**	**27**	**1,026**
Additions	**120**	**533**	**653**
Depreciation	**(62)**	**(108)**	**(170)**
Closing net book amount	**1,057**	**452**	**1,509**
At 31 December 2007			
Cost	**4,400**	**2,616**	**7,016**
Accumulated depreciation	**(3,343)**	**(2,164)**	**(5,507)**
Net book amount	**1,057**	**452**	**1,509**

19 INVESTMENT PROPERTIES

(a)

	Group	
	2007	2006
	RMB'000	RMB'000
At 1 January	**45,272**	42,835
Exchange differences	**(2,842)**	(1,566)
Transfer to leasehold land and buildings *(notes 17 and 18(a))*	**(1,283)**	—
Fair value gains *(note 6)*	**13,211**	4,003
At 31 December	**54,358**	45,272

Investment properties were revalued at 31 December 2007 on the basis of their open market values by Colliers International (Hong Kong) Limited, a member of the Hong Kong Institute of Surveyors.

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

	2007	2006
	RMB'000	RMB'000
In Hong Kong, held on:		
Leases of over 50 years	**13,119**	10,710
Leases of between 10 to 50 years	**26,472**	21,390
Outside Hong Kong, held on:		
Leases of over 50 years	**721**	593
Leases of between 10 to 50 years	**14,046**	12,579
	54,358	45,272

At 31 December 2007, certain investment properties with a total net book value of approximately RMB30,143,000 (2006: RMB25,529,000) were pledged as security for the Group's bank borrowings (note 28).

19 INVESTMENT PROPERTIES (cont'd)

(b)

	Company	
	2007	2006
	RMB'000	RMB'000
At 1 January	**10,409**	10,409
Fair value gains	**1,362**	—
At 31 December	**11,771**	10,409

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

	2007	2006
	RMB'000	RMB'000
Outside Hong Kong, held on:		
Leases of over 50 years	**721**	593
Leases of between 10 to 50 years	**11,050**	9,816
	11,771	10,409

20 INVESTMENTS IN SUBSIDIARIES

	Company	
	2007	2006
	RMB'000	RMB'000
Investments at cost		
— unlisted shares	**1,752,859**	1,752,859
— provision for impairment losses	**(71,409)**	(71,409)
	1,681,450	1,681,450

Particulars of principal consolidated subsidiaries are set out in note 34 to the consolidated financial statements.

21 INTERESTS IN JOINTLY CONTROLLED ENTITIES

(a) Interest in a jointly controlled entity

	Group	
	2007	2006
	RMB'000	RMB'000
Share of net assets	**5,110,549**	5,577,434

Particulars of a jointly controlled entity are as follows:

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

This is a Sino-foreign equity joint-venture in which 50% (2006: 50%) of the equity capital, voting power and profit sharing is held by a 100% (2006: 100%) owned subsidiary of the Company. The Group's investment cost in this company is RMB551,000,000 (2006: RMB551,000,000). The Group has no unilateral control over the joint venture company. The joint venture period is 30 years from May 1998.

21 INTERESTS IN JOINTLY CONTROLLED ENTITIES (cont'd)

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

The following amounts represent the Group's 50% (2006: 50%) share of assets and liabilities, income and expenses of the jointly controlled entity:

	2007 RMB'000	2006 RMB'000
Assets:		
Non-current assets[1]	**2,822,199**	2,751,287
Current assets	**7,367,031**	6,527,588
	10,189,230	9,278,875
Liabilities:		
Non-current liabilities	**(3,000)**	(2,600)
Current liabilities	**(5,072,043)**	(3,695,452)
	(5,075,043)	(3,698,052)
Minority interests	**(3,638)**	(3,389)
	5,110,549	5,577,434
Income	**19,319,044**	18,755,519
Expenses	**(17,459,371)**	(16,607,960)
Profit for the year	**1,859,673**	2,147,559

[1] Included in this balance is goodwill of approximately RMB150,420,000 (2006: RMB150,420,000) arising from the acquisition of motor vehicle manufacturing business and a production plant in Guangzhou by the jointly controlled entity.

21 INTERESTS IN JOINTLY CONTROLLED ENTITIES (cont'd)

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

Capital commitments

At 31 December 2007, the Group's share of capital commitments in respect of construction and purchase of property, plant and equipment of the jointly controlled entity itself was as follows:

	2007 RMB'000	2006 RMB'000
Authorised but not contracted for	**985,167**	—
Contracted but not provided for	**—**	—

(b) Interests in other jointly controlled entities

	Group	
	2007 RMB'000	2006 RMB'000
Share of net assets	**669,381**	457,350
Intangible assets[2]	**384,008**	391,572
	1,053,389	848,922

[2] Included in this balance is goodwill of approximately RMB215,897,000 (2006: RMB215,897,000) arising from the acquisition of shares and shareholder's loan by the Group.

21 INTERESTS IN JOINTLY CONTROLLED ENTITIES (cont'd)

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

Particulars of the principal jointly controlled entity are as follows:

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

This is a Sino-foreign equity joint-venture in which 49% (2006: 49%) of the equity capital is held by a 100% (2006: 100%) owned subsidiary of the Company. The Group's investment cost in this company is RMB740,388,000 (2006: RMB740,388,000). The Group has no unilateral control over the joint venture company. The joint venture period is 40 years from September 2005.

22 INTERESTS IN ASSOCIATES

	Group	
	2007	2006
	RMB'000	RMB'000
At 1 January	**56,843**	52,365
Additions	**—**	2,191
Liquidation of an associate	**—**	(343)
Share of results	**7,717**	7,610
Dividend paid	**(2,953)**	(4,980)
At 31 December	**61,607**	56,843

22 INTERESTS IN ASSOCIATES (cont'd)

Particulars of the principal associate are as follows:

Name	Place of establishment	Principal activities	Registered capital	Effective interest held
Shanghai Guangchee Automotive Trading and Services Company Limited	PRC	Wholesale and retail of various types of motor vehicles in the PRC	RMB10,000,000	30%

This is a Sino-foreign equity joint-venture in which 30% of the equity capital is held by a subsidiary of the Company. The Group's investment cost in this company is approximately RMB3,000,000 (2006: RMB3,000,000). The joint venture period is 30 years from March 1999.

23 INVENTORIES

	Group	
	2007	2006
	RMB'000	RMB'000
Raw materials	**16,467**	21,961
Work in progress	**11,068**	7,524
Finished goods	**69,427**	57,616
Less: provision	**(4,086)**	(3,694)
	92,876	83,407

The cost of inventories recognised as expense and included in cost of sales amounted to RMB740,543,000 (2006: RMB706,996,000).

24 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables *(note (a))*	**44,190**	46,817	**—**	—
Less: provision for impairment of receivables	**(1,048)**	(892)	**—**	—
Trade receivables — net	**43,142**	45,925	**—**	—
Due from subsidiaries *(note (b))*	**—**	—	**1,963,364**	2,261,923
Due from a jointly controlled entity *(note (b))*	**11,378**	5,796	**—**	—
Dividend receivable from a jointly controlled entity *(note (b))*	**436,729**	—	**—**	—
Dividend receivables from other jointly controlled entities *(note (b))*	**20,099**	—	**—**	—
Other receivables, prepayments and deposits	**50,553**	28,655	**5,716**	4,996
	561,901	80,376	**1,969,080**	2,266,919

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

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

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

At 31 December 2007, the ageing analysis of the trade receivables was as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
Within 3 months	**38,765**	42,921
4–6 months	**3,985**	2,003
7–12 months	**379**	468
Over 12 months	**1,061**	1,425
	44,190	46,817

24 TRADE AND OTHER RECEIVABLES (cont'd)

As at 31 December 2007, trade receivables of RMB1,048,000 (2006: RMB892,000) were impaired. The amount of the provision was RMB1,048,000 as of 31 December 2007 (2006: RMB892,000). The individually impaired receivables mainly relate to smaller customers which are in financial difficulties. The ageing of these impaired receivables is as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
Current to 6 months	**482**	463
7–12 months	**—**	2
Over 12 months	**566**	427
	1,048	892

As at 31 December 2007, trade receivables of RMB4,377,000 (2006: RMB3,004,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these past due but not impaired receivables is as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
Current to 6 months	**3,503**	1,540
7–12 months	**379**	466
Over 12 months	**495**	998
	4,377	3,004

Trade and other receivables are denominated in the following currencies:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
HKD	**6,632**	8,333	**580,274**	647,391
USD	**34,319**	39,279	**1,346**	—
RMB	**519,402**	31,333	**1,387,460**	1,619,528
Others	**1,548**	1,431	**—**	—
	561,901	80,376	**1,969,080**	2,266,919

25 CASH AND BANK BALANCES

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**1,462,467**	192,921	**6,818**	6,941
Short-term bank deposits	**2,433,816**	2,573,838	**131,750**	119,663
	3,896,283	2,766,759	**138,568**	126,604

Cash and bank balances are denominated in the following currencies:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
HKD	**45,697**	36,753	**11,320**	5,546
USD	**127,533**	122,141	**126,405**	120,266
RMB *(note (a))*	**3,721,088**	2,606,116	**—**	—
Others	**1,965**	1,749	**843**	792
	3,896,283	2,766,759	**138,568**	126,604

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

At 31 December 2007, bank balances of the Group totalling RMB27,052,000 (2006: RMB26,517,000) were pledged as collateral for the Group's bank borrowing facilities (note 28).

The effective interest rate on short-term bank deposits was 3.01% (2006: 2.19%); these deposits have an average maturity of approximately 180 days (2006: 120 days).

26 SHARE CAPITAL

	Ordinary shares of HKD0.1 each		
	No. of shares	HKD'000	RMB'000
Authorised:			
At 1 January 2006,			
31 December 2006 and 2007	10,000,000,000	1,000,000	
Issued and fully paid:			
At 1 January 2006 and			
31 December 2006	7,517,358,534	751,736	756,979
Exercise of options *(note (a))*	1,340,000	134	139
At 31 December 2007	7,518,698,534	751,870	757,118

(a) A share option scheme was approved at an Extraordinary General Meeting of the Company held on 6 June 2002 under which the directors may, at their discretion, invite any participant who has rendered services or will render services to the Group to take up options. Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2007		2006	
	Average exercise price in HKD per share	**Options ('000)**	Average exercise price in HKD per share	Options ('000)
At 1 January	**2.15**	**41,032**	2.12	48,324
Exercised	**2.15**	**(1,340)**	—	—
Forfeited	—	—	2.15	(5,664)
Expired	—	—	1.33	(1,628)
At 31 December	**2.15**	**39,692**	2.15	41,032

All of the above outstanding options were exercisable. Options exercised in 2007 resulted in 1,340,000 shares (2006: Nil) being issued at the average exercise price of HKD2.15 each. The related weighted average share price at the time of exercise was HKD3.92 per share.

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

Expiry date	**Exercise price in HKD per share**	**Options ('000)**	
		2007	2006
5 June 2012	2.1525	**39,692**	41,032

27 RESERVES

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Share premium[1]				
At 1 January	**2,377,596**	2,377,596	**2,377,596**	2,377,596
Issue of shares	**2,843**	—	**2,843**	—
At 31 December	**2,380,439**	2,377,596	**2,380,439**	2,377,596
Exchange reserve				
At 1 January	**(1,593)**	(1,492)	**—**	—
Exchange differences on translation of financial statements of foreign subsidiaries	**(3,934)**	(101)	**—**	—
At 31 December	**(5,527)**	(1,593)	**—**	—
Retained earnings *(note (a))*				
At 1 January	**5,747,921**	4,742,567	**936,084**	1,115,615
Profit for the year	**2,170,395**	2,273,629	**515,972**	900,778
2006 final dividend/2005 final and special dividends paid	**(439,856)**	(694,484)	**(439,856)**	(694,484)
Interim dividend paid	**(366,612)**	(385,825)	**(366,612)**	(385,825)
Transfer to capital reserve	**(173,226)**	(187,966)	**—**	—
At 31 December	**6,938,622**	5,747,921	**645,588**	936,084
Capital reserve *(note (b))*				
At 1 January	**1,333,094**	1,145,111	**—**	—
Transfer from income statement	**173,226**	187,966	**—**	—
Transfer to income statement upon disposal of a subsidiary	**—**	17	**—**	—
At 31 December	**1,506,320**	1,333,094	**—**	—
Total reserves	**10,819,854**	9,457,018	**3,026,027**	3,313,680

1 As at 31 December 2007, the share premium, in terms of HKD, amounted to approximately HKD2,504,231,000 (2006: HKD2,501,481,000).

27 RESERVES (cont'd)

(a) Retained earnings/(accumulated losses)

	Group	
	2007	2006
	RMB'000	RMB'000
Company and subsidiaries	**3,488,106**	2,299,425
A jointly controlled entity	**3,203,323**	3,396,661
Other jointly controlled entities	**254,779**	66,665
Associates	**(7,586)**	(14,830)
	6,938,622	5,747,921

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

28 BORROWINGS

	Group	
	2007	2006
	RMB'000	RMB'000
Non-current		
Long-term bank loans	**2,247**	3,153
Current		
Trust receipt loans	**553**	4,982
Current portion of long-term bank loans	**2,063**	5,865
	2,616	10,847
Total borrowings	**4,863**	14,000

28 BORROWINGS (cont'd)

The maturity of bank borrowings is as follows:

	Group 2007 RMB'000	Group 2006 RMB'000
Within one year	**2,616**	10,847
In the second year	**1,448**	2,604
In the third to fifth year inclusive	**799**	549
	4,863	14,000

(a) Borrowings of the Group totalling RMB4,683,000 (2006: RMB14,000,000) are secured by certain leasehold land, property, plant and equipment, investment properties and pledged bank balances (notes 17, 18, 19 and 25) of the Group.

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

	2007	2006
Bank loans	**6.827%**	7.386%
Trust receipt loans	**7.238%**	7.750%

(c) The carrying amounts of all borrowings approximate their fair values and denominated in HKD.

29 DEFERRED TAXATION

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

Deferred taxation at 31 December 2006 and 2007 represents deferred tax liabilities arising from Hong Kong profits tax provided in respect of accelerated depreciation allowances.

29 DEFERRED TAXATION (cont'd)

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

	Group	
	2007	2006
	RMB'000	RMB'000
At 1 January	**1,805**	1,173
(Credited)/charged to income statement *(note 10)*	**(841)**	632
At 31 December	**964**	1,805

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

	2007	2006
	RMB'000	RMB'000
Tax losses	**15,425**	58,468

30 TRADE AND OTHER PAYABLES

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Due to a subsidiary *(note (a))*	**—**	—	**4,848**	—
Due to the single largest shareholder of the Company *(note (a))*	**906**	2,778	**—**	102
Due to a fellow subsidiary *(note (a))*	**45**	40	**—**	—
Due to an associate *(note (a))*	**235**	773	**—**	—
Due to a minority shareholder of a subsidiary *(note (a))*	**415**	445	**—**	—
Trade payables	**53,335**	33,797	**—**	—
Bills payables *(note (b))*	**80,397**	78,600	**—**	—
Other payables, deposits received and accrued charges	**27,929**	31,739	**8,260**	9,075
	163,262	148,172	**13,108**	9,177

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

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

30 TRADE AND OTHER PAYABLES (cont'd)

At 31 December 2007, the ageing analysis of the trade payables was as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
Within 3 months	**42,577**	33,264
4–6 months	**9,748**	119
7–12 months	**321**	85
Over 12 months	**689**	329
	53,335	33,797

Trade and other payables are denominated in the following currencies:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
HKD	**41,680**	38,915	**13,108**	9,075
RMB	**116,023**	105,427	**—**	102
Others	**5,559**	3,830	**—**	—
	163,262	148,172	**13,108**	9,177

31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash used in operations:

	2007	2006
	RMB'000	RMB'000
Profit before taxation	**2,196,511**	2,299,294
Interest income	**(81,170)**	(37,839)
Interest expense	**576**	1,340
Share of profits less losses of:		
A jointly controlled entity	**(1,859,673)**	(2,147,559)
Other jointly controlled entities	**(246,472)**	(133,344)
Associates	**(7,717)**	(7,610)
Fair value gains on investment properties	**(13,211)**	(4,003)
Amortisation of prepaid leasehold land and land use rights	**608**	622
Depreciation of property, plant and equipment	**11,090**	11,083
(Gain)/loss on disposal of property, plant and equipment	**(53)**	63
Write-back of provision for impairment loss	**(12,907)**	—
Gain on disposal of a subsidiary *(note (b))*	**—**	(3,982)
Loss on liquidation of an associate	**—**	342
Provision for inventory obsolescence	**392**	754
Provision/(write-back of provision) for doubtful debts	**156**	(337)
Operating loss before working capital changes	**(11,870)**	(21,176)
(Increase)/decrease in inventories	**(9,469)**	4,981
(Increase)/decrease in trade and other receivables	**(24,697)**	17,041
Increase/(decrease) in trade and other payables	**15,090**	(88,155)
Net cash used in operations	**(30,946)**	(87,309)

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

(b) Disposal of a subsidiary

	2006
	RMB'000
Net assets disposed of:	
Land use rights	40,677
Property, plant and equipment	129,194
Inventories	31,605
Trade and other receivables	26,021
Cash and bank balances	
— pledged bank deposits	5,943
— others	3,081
Trade and other payables	(145,637)
Bank borrowings	(60,000)
Minority interests	(15,451)
Reserve	17
	15,450
Gain on disposal	3,982
Cash consideration received	19,432

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

	2006
	RMB'000
Cash consideration received	19,432
Cash and bank balances disposed of	(3,081)
Net cash generated	16,351

32 COMMITMENTS

(a) Commitments under operating leases

At 31 December 2007, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
Not later than one year	**9,728**	9,486
Later than one year and not later than five years	**17,039**	19,786
Later than five years	**32,463**	34,791
	59,230	64,063

The Company had no operating lease commitments as at 31 December 2006 and 2007.

(b) Capital commitments

At 31 December 2007, the Group had capital commitments in respect of purchase of property, plant and equipment as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
Authorised but not provided for	**—**	—
Contracted but not provided for	**—**	435

The Company had no capital commitments as at 31 December 2006 and 2007.

33 RELATED PARTY TRANSACTIONS

(a) Related parties

The Company's single largest shareholder is China Lounge Investments Limited (incorporated in Hong Kong), which owns 37.90% (2006: 37.91%) of the Company's shares. The remaining 62.10% (2006: 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).

33 RELATED PARTY TRANSACTIONS (cont'd)

(a) Related parties (cont'd)

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. Saved as disclosed in note 21 in the consolidated financial statements, the table set forth below summarised the name of significant party and nature of relationship with the Company as at 31 December 2007:

Significant related party	Relationship with the Company
Guangzhou GABC Automobile Services Company Limited	Fellow subsidiary

(b) Transactions with related parties

Save as disclosed in note 7 in these financial statements, the following is a summary of significant transactions with related parties during the year:

	Group	
	2007	2006
	RMB'000	RMB'000
Purchase from a jointly controlled entity	**303,553**	238,491
Rental income received from a fellow subsidiary for leasing of motor vehicles	**3,063**	—

(c) Balances with related parties

Save as disclosed in notes 24 and 30 in the consolidated financial statements, there are no other significant balances with related parties.

(d) Key management compensation

	Group	
	2007	2006
	RMB'000	RMB'000
Salaries and other short-term employee benefits	**8,096**	5,570
Retirement benefits	**53**	49
	8,149	5,619

34 SUBSIDIARIES

The following includes the principal consolidated subsidiaries of the Company which, in the opinion of the directors, are significant to the results for the year ended 31 December 2007 or formed a substantial portion of the net assets of the Group at 31 December 2007:

Name	Place of incorporation/ establishment and kind of legal entity	Principal activities	Registered capital/issued share capital	Effective interest held
Interest held directly:				
Guangzhou Denway Enterprises Development Company Limited *(note (a))*	PRC, limited liability company	Investment holding and management	US$87,272,700	100%
Easeco Enterprises Limited	Hong Kong, limited liability company	Property holding	HKD2	100%
Gardex Development Limited	Hong Kong, limited liability company	Property holding	HKD2	100%
National Grade Limited	Hong Kong, limited liability company	Property holding	HKD2	100%
Interest held indirectly:				
Guangzhou Auto Group Corporation *(note (a))*	PRC, limited liability company	Investment holding and management	RMB468,200,000	100%
Guangzhou Automotive Industry Trading Company Limited *(note (a))*	PRC, limited liability company	Wholesale and retail of various types of motor vehicles	RMB20,000,000	95%

34 SUBSIDIARIES (cont'd)

Name	Place of incorporation/ establishment and kind of legal entity	Principal activities	Registered capital/issued share capital	Effective interest held
Interest held indirectly: (cont'd)				
Guangzhou Honda Automobile No.1 Sales Company Limited *(note (a))*	PRC, limited liability company	Trading of sedans	RMB18,000,000	51%
Promowide Technology Limited	Hong Kong, limited liability company	Investment holding and management	HKD42,394,938	63%
Arkon Industrial Limited	Hong Kong, limited liability company	Investment holding and management	HKD10,000,000	61%
Art Sea Metal Works Limited *(note (b))*	Hong Kong, limited liability company	Manufacturing of metal parts	HKD400,000	63%
Uni-Art Precise Products Limited *(note (b))*	Hong Kong, limited liability company	Manufacturing of audio equipment	HKD400,000	63%
Classic Tech Development Limited	Hong Kong, limited liability company	Property holding	HKD35,010,000	63%
Baker and Priem Bull Bars Pty Limited *(note (a))*	Australia, limited liability company	Design and manufacturing of motor vehicle accessories	AUD215,710	51%
Baker and Priem Sales Pty Limited *(note (a))*	Australia, limited liability company	Sales of motor vehicle accessories	AUD2	51%

Notes:

(a) Statutory financial statements of these subsidiaries were not audited by PricewaterhouseCoopers.

(b) Apart from these subsidiaries which mainly operate in the PRC, all the other subsidiaries above mainly operate in their respective places of incorporation/establishment.

Particulars of investment properties held by the Group at 31 December 2007 are as follows:

Location	**Gross area (sq. ft.)**	**Type**	**Tenure**
Rooms 807 and 808 8th Floor, Citicorp Centre, No. 18 Whitefield Road, Causeway Bay, Hong Kong	2,304	Commercial	Medium lease
Unit 5 on 4th Floor, Eastern Building, No. 305 Huan Shi Road Central, Guangzhou, People's Republic of China	1,039	Commercial	Medium lease
Offices 1, 2, 3, 4 and 5 on 23rd Floor, Shun Feng International Centre, No. 182 Queen's Road East, Wanchai, Hong Kong	2,228	Commercial	Medium/long lease (The property is held partly under medium lease and partly under long lease)
Unit 6 on 23rd Floor, 118 Connaught Road West, Sheung Wan, Hong Kong	1,474	Commercial	Long lease
Duplex Unit C on the 8th and 9th Floors of Block 16, Classical Gardens, (with one level of basement car park) No. 10 Ma Wo Road, Tai Po, New Territories	1,563	Residential and car park	Medium lease
Car Park No. 592A on Basement (Designated as Basement 2 in Occupation Permit), Laguna City, Kwun Tong, Kowloon	—	Car park	Medium lease
Flat E on 10th Floor of Tower 1 (Sau Ming Court), Yue Xiu Plaza, No. 9 Ning Yuen Street, Sang Po Kong, Kowloon	749	Commercial	Medium lease
Unit A on 15th Floor, Eu Yan Sang Tower, Nos 11–15 Chatham Road South, Tsim Sha Tsui, Kowloon	658	Commercial	Medium lease

Location	Gross area (sq. ft.)	Type	Tenure
Office 08 on 7th Floor, Empress Plaza, Nos 17–19 Chatham Road South, Tsim Sha Tsui, Kowloon	765	Commercial	Medium lease
Unit 2 on 7th Floor, Jingshan Burlingame Commercial Centre, Degshikou Street, Dong Cheng, Beijing, People's Republic of China	808	Commercial	Medium lease
Unit 4, 16th Floor, Block A, Dide Building, 188 Dide Road, Guangzhou, People's Republic of China	977	Commercial	Medium lease
Unit 206, 56 Yong Tai Road, Tienhe District, Guangzhou, People's Republic of China	1,276	Commercial	Medium lease
Ground Floor, 54 Yong Tai Road, Tienhe District, Guangzhou, People's Republic of China	15,488	Commercial	Medium lease
Carpark C5, 87 Hung To Road, Yue Xiu Industrial Building, Kwun Tong, Kowloon	—	Carpark	Medium lease