



駿威汽車有限公司
DENWAY MOTORS LIMITED

September 2008

2008

Interim Report

Condensed Consolidated Income Statement

For the six months ended 30 June 2008

		Unaudited	
		Six months ended 30 June	
		2008	2007
<i>Note</i>		RMB'000	<i>RMB'000</i>
	Turnover	361,188	391,179
	Cost of sales	(331,113)	(350,346)
	Gross profit	30,075	40,833
	Other income	52,827	35,774
	Selling and distribution costs	(13,806)	(14,867)
	General and administrative expenses	(29,886)	(29,554)
	Other operating expenses	(21,697)	(14,243)
	Operating profit	17,513	17,943
	Finance costs	(108)	(459)
	Share of profits less losses of:		
	A jointly controlled entity	1,103,726	1,089,902
	Other jointly controlled entities	128,552	120,830
	Associates	5,662	4,789
	Profit before taxation	1,255,345	1,233,005
	Taxation	(17,775)	(3,210)
	Profit for the period	1,237,570	1,229,795
	Attributable to:		
	Equity holders of the Company	1,236,441	1,224,806
	Minority interests	1,129	4,989
		1,237,570	1,229,795
	Basic earnings per share attributable to equity holders of the Company	16.44 cents	16.29 cents
	Diluted earnings per share attributable to equity holders of the Company	16.41 cents	16.26 cents
	Interim dividend	375,935	366,612

Condensed Consolidated Balance Sheet

As at 30 June 2008

	<i>Note</i>	Unaudited As at 30 June 2008 RMB'000	Audited As at 31 December 2007 RMB'000
ASSETS			
Non-current assets			
Intangible asset	9	896,398	896,398
Leasehold land and land use rights	9	36,861	39,595
Property, plant and equipment	9	50,557	69,430
Investment properties	9	51,038	54,358
Interest in a jointly controlled entity	10	6,208,202	5,110,549
Interests in other jointly controlled entities		1,181,941	1,053,389
Interests in associates		64,231	61,607
		8,489,228	7,285,326
Current assets			
Inventories		121,122	92,876
Trade and other receivables	11, 16(c)	107,994	561,901
Cash and bank balances			
— pledged bank deposits		12,688	27,052
— others		3,643,543	3,869,231
		3,885,347	4,551,060
Total assets		12,374,575	11,836,386
EQUITY			
Share capital and reserves attributable to equity holders of the Company			
Share capital	12	757,118	757,118
Reserves			
Proposed final dividend		—	451,122
Proposed special dividend		—	187,967
Others		11,400,509	10,180,765
		12,157,627	11,576,972
Minority interests		75,019	77,680
Total equity		12,232,646	11,654,652

Condensed Consolidated Balance Sheet (Continued)

As at 30 June 2008

	<i>Note</i>	Unaudited As at 30 June 2008 RMB'000	Audited As at 31 December 2007 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	13	1,229	2,247
Deferred tax liabilities		1,284	964
		2,513	3,211
Current liabilities			
Trade and other payables	14,16(c)	116,238	163,262
Current tax liabilities		21,097	12,645
Borrowings	13	2,081	2,616
		139,416	178,523
Total liabilities		141,929	181,734
Total equity and liabilities		12,374,575	11,836,386
Net current assets		3,745,931	4,372,537
Total assets less current liabilities		12,235,159	11,657,863

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2008

	Unaudited						Total RMB'000
	Attributable to equity holders					Minority interests RMB'000	
	Share capital RMB'000	Share premium ¹ RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000		
Balance at 1 January 2008	757,118	2,380,439	1,506,320	(5,527)	6,938,622	77,680	11,654,652
Currency translation differences and net income recognised directly in equity	—	—	—	(16,697)	—	(2,556)	(19,253)
Profit for the period	—	—	—	—	1,236,441	1,129	1,237,570
Total recognised (loss)/ income for the period	—	—	—	(16,697)	1,236,441	(1,427)	1,218,317
2007 final and special dividend paid	—	—	—	—	(639,089)	—	(639,089)
Dividend paid to a minority shareholder	—	—	—	—	—	(1,234)	(1,234)
Balance at 30 June 2008	757,118	2,380,439	1,506,320	(22,224)	7,535,974	75,019	12,232,646

For the six months ended 30 June 2007

	Unaudited						Total RMB'000
	Attributable to equity holders					Minority interests RMB'000	
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000		
Balance at 1 January 2007	756,979	2,377,596	1,333,094	(1,593)	5,747,921	70,772	10,284,769
Currency translation differences and net income recognised directly in equity	—	—	—	(3,390)	—	(2,658)	(6,048)
Profit for the period	—	—	—	—	1,224,806	4,989	1,229,795
Total recognised (loss)/ income for the period	—	—	—	(3,390)	1,224,806	2,331	1,223,747
2006 final dividend paid	—	—	—	—	(439,856)	—	(439,856)
Balance at 30 June 2007	756,979	2,377,596	1,333,094	(4,983)	6,532,871	73,103	11,068,660

¹ As at 30 June 2008, the share premium, in terms of HK\$, amounted to approximately HK\$2,504,231,000 (2007: HK\$2,501,481,000).

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2008

	Unaudited	
	Six months ended 30 June	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from/(used in) operating activities	351,869	(651,248)
Net cash generated from investing activities	75,622	656,254
Net cash used in financing activities	(653,415)	(447,461)
Decrease in cash and cash equivalents	(225,924)	(442,455)
Cash and cash equivalents at 1 January	3,869,231	2,740,242
Effect of foreign exchange rate changes	236	(2,582)
Cash and cash equivalents at 30 June	3,643,543	2,295,205
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	3,643,543	2,295,205

Notes to Condensed Consolidated Interim Financial Information

1 General information

Denway Motors Limited (“the Company”) and its subsidiaries (together “the Group”) are 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.

This condensed consolidated interim financial information is presented in Renminbi (“RMB”), unless otherwise stated. This condensed consolidated interim financial information was approved for issue on 2 September 2008.

2 Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2008 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and should be read in conjunction with the annual financial statements for the year ended 31 December 2007, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

3 Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2007.

Notes to Condensed Consolidated Interim Financial Information

3 Accounting policies (*Continued*)

The following new interpretations are mandatory for the first time for the financial year beginning 1 January 2008:

HK(IFRIC)-Int 11	HKFRS 2 — Group and treasury share transactions
HK(IFRIC)-Int 12	Service concession arrangements
HK(IFRIC)-Int 14	HKAS 19 — the limit on a defined benefit asset, minimum funding requirements and their interaction

The adoption of the above new interpretations did not have any significant financial impact to the Group.

The following new/revised standards, amendments to standards and interpretation have been issued but are not effective for the financial year beginning 1 January 2008 and have not been early adopted:

HKFRS 8	Operating segments
HKAS 1 (revised)	Presentation of financial statements
HKAS 23 (revised)	Borrowing costs
HKAS 32 (amendment)	Financial instruments: presentation and consequential amendments to HKAS 1, “Presentation of financial statements”
HKFRS 2 (amendment)	Share-based payment
HKFRS 3 (revised)	Business combinations and consequential amendments to HKAS 27, “Consolidated and separate financial statements”, HKAS 28, “Investments in associates” and HKAS 31, “Interests in joint ventures”
HK(IFRIC)-Int 13	Customer loyalty programmes

Notes to Condensed Consolidated Interim Financial Information

4 Turnover and segment information

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

Principal business segments:

	Unaudited Six months ended 30 June 2008					Total RMB'000
	Trading of motor vehicles RMB'000	Manufacturing and assembly of motor vehicles RMB'000	Manufacturing and trading of automotive equipment and parts RMB'000	Manufacturing and trading of audio equipment RMB'000	Other operations RMB'000	
Turnover	252,462	—	6,220	102,506	—	361,188
Segment operating loss	(12,851)	—	(14,342)	(22)	(7,064)	(34,279)
Interest income	252	—	49,592	157	1,791	51,792
Operating (loss)/profit	(12,599)	—	35,250	135	(5,273)	17,513
Finance costs						(108)
Share of profits less losses of:						
A jointly controlled entity		1,103,726				1,103,726
Other jointly controlled entities			128,552			128,552
Associates	632		5,030			5,662
Profit before taxation						1,255,345
Taxation						(17,775)
Profit for the period						1,237,570
Depreciation	1,183	—	536	2,023	1,411	5,153
Amortisation	—	—	—	—	324	324
Impairment loss	11,145	—	—	—	—	11,145

Notes to Condensed Consolidated Interim Financial Information

4 Turnover and segment information (*Continued*)

Principal business segments: (Continued)

	Unaudited Six months ended 30 June 2007					Total RMB'000
	Trading of motor vehicles RMB'000	Manufacturing and assembly of motor vehicles RMB'000	Manufacturing and trading of automotive equipment and parts RMB'000	Manufacturing and trading of audio equipment RMB'000	Other operations RMB'000	
Turnover	265,651	—	5,650	119,878	—	391,179
Segment operating profit/(loss)	2,994	—	2,099	7,960	(28,736)	(15,683)
Interest income	367	—	30,509	356	2,394	33,626
Operating profit/(loss)	3,361	—	32,608	8,316	(26,342)	17,943
Finance costs						(459)
Share of profits less losses of:						
A jointly controlled entity		1,089,902				1,089,902
Other jointly controlled entities			120,830			120,830
Associates	514		4,275			4,789
Profit before taxation						1,233,005
Taxation						(3,210)
Profit for the period						1,229,795
Depreciation	1,495	—	493	2,190	1,404	5,582
Amortisation	—	—	—	—	221	221

Notes to Condensed Consolidated Interim Financial Information

4 Turnover and segment information (*Continued*)

Geographical segments:

	Unaudited Six months ended 30 June 2008		
	Turnover <i>RMB'000</i>	Segment operating loss <i>RMB'000</i>	Operating profit/(loss) <i>RMB'000</i>
PRC	252,462	(26,731)	23,100
Hong Kong	102,506	(7,086)	(5,138)
Australia	6,220	(462)	(449)
	361,188	(34,279)	17,513

	Unaudited Six months ended 30 June 2007		
	Turnover <i>RMB'000</i>	Segment operating profit/(loss) <i>RMB'000</i>	Operating profit/(loss) <i>RMB'000</i>
PRC	265,651	4,870	35,729
Hong Kong	119,878	(20,776)	(18,026)
Australia	5,650	223	240
	391,179	(15,683)	17,943

5 Operating profit

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

	Unaudited Six months ended 30 June	
	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Staff costs (including directors' emoluments)	23,775	23,409
Amortisation of leasehold land and land use rights	324	221
Depreciation of property, plant and equipment	5,153	5,582
Impairment loss on property, plant and equipment	11,145	—

Notes to Condensed Consolidated Interim Financial Information

6 Taxation

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits for the period. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

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

	Unaudited	
	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Current taxation		
Hong Kong profits tax	(607)	(1,493)
PRC enterprise income tax	18,062	5,461
	17,455	3,968
Deferred taxation		
Hong Kong profits tax	320	(758)
	17,775	3,210

7 Earnings per share

Basic

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

	Unaudited	
	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Profit attributable to equity holders of the Company	1,236,441	1,224,806
Weighted average number of ordinary shares in issue ('000)	7,518,698	7,517,359
Basic earnings per share (RMB cents) attributable to equity holders of the Company	16.44	16.29

Notes to Condensed Consolidated Interim Financial Information

7 Earnings per share (*Continued*)

Diluted

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

	Unaudited	
	Six months ended 30 June	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Profit attributable to equity holders of the Company	1,236,441	1,224,806
Weighted average number of ordinary shares in issue ('000)	7,518,698	7,517,359
Adjustments for — share options ('000)	16,855	14,843
Weighted average number of ordinary shares for diluted earnings per share ('000)	7,535,553	7,532,202
Diluted earnings per share (RMB cents) attributable to equity holders of the Company	16.41	16.26

8 Interim dividend

	Unaudited	
	Six months ended 30 June	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Interim, declared, of RMB5 cents (2007: HK5 cents) per ordinary share (<i>note (a)</i>)	375,935	366,612

- (a) At a meeting held on 2 September 2008, the directors declared an interim dividend of RMB5 cents (2007: HK5 cents) per ordinary share for the year ending 31 December 2008. This interim dividend is not reflected as dividend payable in this condensed consolidated interim financial information, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2008.

Notes to Condensed Consolidated Interim Financial Information

9 Capital expenditures

	Unaudited				
	Intangible asset — goodwill <i>RMB'000</i>	Leasehold land and land use rights <i>RMB'000</i>	Property, plant and equipment <i>RMB'000</i>	Investment properties <i>RMB'000</i>	Total <i>RMB'000</i>
As at 1 January 2008	896,398	39,595	69,430	54,358	1,059,781
Exchange differences	—	(2,410)	(2,220)	(3,320)	(7,950)
Additions	—	—	866	—	866
Disposals	—	—	(1,221)	—	(1,221)
Amortisation/depreciation	—	(324)	(5,153)	—	(5,477)
Impairment	—	—	(11,145)	—	(11,145)
As at 30 June 2008	896,398	36,861	50,557	51,038	1,034,854
As at 1 January 2007	896,398	29,169	76,467	45,272	1,047,306
Exchange differences	—	(877)	(1,222)	(1,366)	(3,465)
Additions	—	—	4,927	—	4,927
Amortisation/depreciation	—	(221)	(5,582)	—	(5,803)
As at 30 June 2007	896,398	28,071	74,590	43,906	1,042,965

Notes to Condensed Consolidated Interim Financial Information

10 Interest in a jointly controlled entity

This is a Sino-foreign equity joint venture in which 50% (2007: 50%) of the equity capital, voting power and profit sharing is held by a 100% (2007: 100%) owned subsidiary of the Company. The Group's investment cost in this company is RMB551,000,000 (2007: RMB551,000,000). The Group has no unilateral control over the joint venture company. The joint venture period is 30 years from May 1998.

The following amounts represent the Group's 50% (2007: 50%) share of assets and liabilities, income and expenses of the jointly controlled entity:

	Unaudited As at 30 June 2008 <i>RMB'000</i>	Audited As at 31 December 2007 <i>RMB'000</i>
Assets:		
Non-current assets ¹	2,644,563	2,822,199
Current assets	7,950,636	7,367,031
	10,595,199	10,189,230
Liabilities:		
Non-current liabilities	(3,000)	(3,000)
Current liabilities	(4,380,178)	(5,072,043)
	(4,383,178)	(5,075,043)
Minority interests	(3,819)	(3,638)
	6,208,202	5,110,549
	Unaudited	
	Six months ended 30 June	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Income	10,528,536	9,545,077
Expenses	(9,424,810)	(8,455,175)
Profit for the period	1,103,726	1,089,902

¹ Included in this balance is a goodwill of approximately RMB150,420,000 (2007: RMB150,420,000) arising from the acquisition of motor vehicle manufacturing business and a production plant in Guangzhou by the jointly controlled entity.

Notes to Condensed Consolidated Interim Financial Information

10 Interest in a jointly controlled entity (*Continued*)

Capital commitments

At 30 June 2008, the Group's share of capital commitments of the jointly controlled entity itself was as follows:

	Unaudited As at 30 June 2008 <i>RMB'000</i>	Audited As at 31 December 2007 <i>RMB'000</i>
Authorised but not contracted for	—	985,167
Contracted but not provided for	835,429	—

11 Trade and other receivables

Included in this balance are trade receivables of approximately RMB 31,942,000 (2007: RMB 43,142,000). At 30 June 2008, the ageing analysis of the trade receivables, net of provision, was as follows:

	Unaudited As at 30 June 2008 <i>RMB'000</i>	Audited As at 31 December 2007 <i>RMB'000</i>
Within 3 months	29,491	38,765
4–6 months	948	3,503
7–12 months	1,035	379
Over 12 months	468	495
	31,942	43,142

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

Notes to Condensed Consolidated Interim Financial Information

12 Share capital

	Ordinary shares of HK\$0.1 each		
	Number of shares	HK\$'000	RMB'000
Authorised:			
At 1 January 2007, 31 December 2007 and 30 June 2008	10,000,000,000	1,000,000	
Issued and fully paid:			
At 1 January 2007	7,517,358,534	751,736	756,979
Exercise of options	1,340,000	134	139
At 31 December 2007 and 30 June 2008	7,518,698,534	751,870	757,118

Share options

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

	Unaudited Six months ended 30 June 2008		Unaudited Six months ended 30 June 2007	
	Average exercise price in HK\$ per share	Options ('000)	Average exercise price in HK\$ per share	Options ('000)
At the beginning of the period	2.15	39,692	2.15	41,032
Forfeited	2.15	(5,664)	—	—
At the end of the period	2.15	34,028	2.15	41,032

All of the above outstanding options were exercisable. No option was exercised during the six months ended 30 June 2008 and 30 June 2007.

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

Expiry date	Exercise price in HK\$ per share	Options ('000)	
		2008	2007
5 June 2012	2.1525	34,028	41,032

Notes to Condensed Consolidated Interim Financial Information

13 Borrowings

	Unaudited As at 30 June 2008 <i>RMB'000</i>	Audited As at 31 December 2007 <i>RMB'000</i>
Non-current		
Long-term bank loans	1,229	2,247
Current		
Trust receipt loans	346	553
Current portion of long-term bank loans	1,735	2,063
	2,081	2,616
Total borrowings	3,310	4,863

The maturity of borrowings is as follows:

	Unaudited As at 30 June 2008 <i>RMB'000</i>	Audited As at 31 December 2007 <i>RMB'000</i>
Within one year	2,081	2,616
In the second year	754	1,448
In the third to fifth year inclusive	475	799
	3,310	4,863

- (a) Borrowings of the Group totalling RMB3,310,000 (2007: RMB4,863,000) are secured by certain leasehold land, property, plant and equipment, investment properties and pledged bank balances of the Group.
- (b) The weighted average effective interest rates of bank loans and trust receipt loans were 4.205% (2007: 6.827%) and 5.250% (2007: 7.238%) respectively.

Notes to Condensed Consolidated Interim Financial Information

14 Trade and other payables

Included in this balance are trade payables of approximately RMB61,318,000 (2007: RMB53,335,000). At 30 June 2008, the ageing analysis of the trade payables was as follows:

	Unaudited As at 30 June 2008 RMB'000	Audited As at 31 December 2007 <i>RMB'000</i>
Within 3 months	53,608	42,577
4–6 months	160	9,748
7–12 months	7,222	321
Over 12 months	328	689
	61,318	53,335

15 Commitments

(a) Commitments under operating leases

At 30 June 2008, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Unaudited As at 30 June 2008 RMB'000	Audited As at 31 December 2007 <i>RMB'000</i>
Not later than one year	5,192	9,728
Later than one year and not later than five years	15,370	17,039
Later than five years	21,856	32,463
	42,418	59,230

(b) Capital commitments

At 30 June 2008 and 31 December 2007, the Group had no capital commitments in respect of purchase of property, plant and equipment.

Notes to Condensed Consolidated Interim Financial Information

16 Related party transactions

(a) *Related parties*

The Company's single largest shareholder is China Lounge Investments Limited (incorporated in Hong Kong), which owns 37.90% (2007: 37.91%) of the Company's shares. The remaining 62.10% (2007: 62.09%) of its shares are widely held. China Lounge Investments Limited is a subsidiary of Guangzhou Automobile Industry Group Company Limited (incorporated in the PRC).

Related parties are those parties which have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. There is no change in the names of significant parties and nature of relationship with the Company since 31 December 2007 (Refer to 2007 annual report for details).

(b) *Transactions with related parties*

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

	Unaudited	
	Six months ended 30 June	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Purchases from a jointly controlled entity	150,764	137,615

(c) *Balances with related parties*

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Included in trade and other receivables:		
— a jointly controlled entity	4,907	448,107
— other jointly controlled entities	20,108	20,099

INTERIM DIVIDEND

The directors have resolved to pay an interim dividend for the year ending 31 December 2008 of RMB5 cents per share which will be payable on Thursday, 16 October 2008 to shareholders whose names appear on the register of members of the Company on Friday, 10 October 2008.

The declared interim dividend for the year 2008 will be 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 at the date on which the directors declared the distribution of interim dividend.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 6 October 2008 to Friday, 10 October 2008, both days inclusive, during which no transfer of shares will be registered. In order to qualify for the interim dividend, all share certificates with completed transfer forms either overleaf or separately 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 Friday, 3 October 2008.

BUSINESS REVIEW

For the six months ended 30 June 2008, unaudited turnover of the Group was approximately RMB361,188,000 (2007: RMB391,179,000), a decrease of 7.7% over the same period of last year; unaudited interim consolidated profit attributable to equity holders of the Company was approximately RMB1,236,441,000 (2007: RMB1,224,806,000), an increase of 0.9% over the same period of last year. Basic earnings per share was RMB16.44 cents (2007: RMB16.29 cents), an increase of 0.9% over the same period of last year.

China's national economy continued to sustain stable growth in the first half of 2008. According to the statistics of China Association of Automobile Manufacturers, the number of vehicles produced and sold nationwide in the first half of 2008 amounted to approximately 5,199,600 units and 5,182,200 units respectively, representing an increase of approximately 16.7% and 18.5% respectively, over the same period of last year, despite intricate uncertainties in the global economy, rising raw material and oil prices and the snowstorm and earthquake in China earlier in the year. A total of approximately 3,609,000 sedans were sold, representing an increase of 17.1%. The slowdown in growth, as compared to 22.1% for the same period last year, was in line with market estimation at the beginning of the year for car production and sales.

For the six months ended 30 June 2008, an aggregate of 146,498 units and 142,335 units of vehicles were produced and sold respectively by the Group through a jointly controlled entity (hereinafter the "Sedan Company") which is directly owned by the Company's wholly-owned subsidiary, Guangzhou Auto Group Corporation. A total of 123,163 vehicles were sold in the first five months, which was 14.2% increase over the same period last year and generally in tandem with China's average vehicle growth rate. Overall production and sales volume in the first six months grew by approximately 6.3% and 6.9% respectively over the same period of last year, as sales declined in June following natural disasters occurring in South China. During the period, the Sedan Company marketed 73,690 units of the eighth generation Accord, achieving a 14.3% sales growth over the same period last year despite a relatively short period of market promotion for the new product.

Guangzhou Automobile Group Component Co., Ltd. (“Guangzhou Component”), in which the Group holds a 49% equity interest, invested in a new company during the first six months to bring the total number of its invested enterprises to 15. Guangzhou Component attained double-digit growth in its gross industrial output during the period and achieved the target contemplated in its business plan, namely completing 50% of its tasks by the end of the interim period, despite a number of adverse factors such as rising prices for oil and raw materials, RMB appreciation and higher transportation and operating costs. Overall and economic indicators continued to show a trend of growth. Meanwhile, Guangzhou Component continued to implement various expansion projects to materialise its strategic plans. Technology upgrade and expansion projects complementing the sedan plant were progressing according to scheduled timetable and required quality standards.

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

FUTURE PROSPECTS

China’s automobile market reported double-digit growth in the first six months of 2008 despite certain contingencies, although the growth trend was inconsistent as inflation in the markets for raw materials such as steel products, unyielding retail and oil prices, volatility in the foreign exchange and financial markets and other uncertainties lingered on. Double-digit growth in China’s automobile production and sales for the full year is anticipated as economic activities in the second half will be underpinned by benefits of the Beijing Olympic Games, post-earthquake capital investments and market belief in the central government’s ability to adjust economic development for a desirable pace of growth.

The 2008 model of Fit was launched by the Sedan Company in July. Historical sales records indicate that Fit has been one of the top two best-selling brands among automobiles with the same capacity. The successful launch of the 2008 Fit should make positive contributions to the Sedan Company’s full-year sales.

The Sedan Company will make focused plans for the latter half of the year in accordance with the decisions of its board of directors to develop and improve its service regime, enhance the sales capabilities of its marketing network and strengthen personnel training at the Sedan Company and licensed outlets, as it strives to accomplish the full-year targets for production and sales set at the beginning of the year.

In the next six months, Guangzhou Component will continue to monitor the development of relevant sedan plants and seek to maintain rapid growth by expanding production scales, assuring cost reductions, enhancing in product quality, increasing the level of domestic production and pursuing management improvement, while keeping up with efforts in new project development.

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 turnover of the Group for the period ended 30 June 2008 was approximately RMB361,188,000, representing a decrease of about 7.7% compared with that for the same period of 2007. Profit attributable to equity holders of the Company was approximately RMB1,236,441,000, representing an increase of about 0.9% compared with that for the same period of 2007.

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 condensed consolidated interim financial information of the Group for the period ended 30 June 2008 together with the comparative figures for 2007 are presented in Renminbi.

The turnover of the trading of motor vehicles decreased by RMB13,189,000 which represented a decrease of about 5.0% compared with that for the same period of 2007. An operating loss of approximately RMB12,599,000 was reported for this segment, compared with an operating profit of approximately RMB3,361,000 for the same period of 2007, mainly due to provision for impairment loss in respect of a vehicle trading company which had sustained losses. The turnover of the manufacturing and trading of automotive equipment and parts increased by RMB570,000 which represented an increase of about 10.1% compared with that for the same period of 2007. Operating profit of this segment increased by RMB2,642,000 over the same period of 2007, mainly due to an increase in interest income. The turnover of the manufacturing and trading of audio equipment decreased by RMB17,372,000 which represented a decrease of about 14.5% compared with that for the same period of 2007, mainly due to a decrease in sales orders. Operating profit of this segment decreased by RMB8,181,000 compared with that for the same period of 2007, mainly due to an increase in operating costs. Operating loss for other businesses decreased by RMB21,069,000, mainly due to a decrease in foreign exchange losses. The Group's orders on hand for the business of the manufacturing and trading of audio equipment was approximately RMB52,465,000 as at 30 June 2008.

The total borrowings of the Group decreased from approximately RMB4,863,000 at the end of 2007 to approximately RMB3,310,000 at 30 June 2008, mainly due to repayment of the borrowings. The Group maintained a low ratio of borrowings relative to total equity at about 0.03% as at 30 June 2008 and 0.04% as at 31 December 2007. The ratio of total liabilities relative to total equity decreased to about 1.2% as at 30 June 2008 from about 1.6% as at 31 December 2007. The Group's borrowings were secured by leasehold land, buildings and investment properties with a total net book value of approximately RMB35,960,000 and pledged bank deposits of approximately RMB12,688,000. The Group had no contingent liabilities as at 30 June 2008.

The Group had cash and bank balances of approximately RMB3,656,231,000 as at 30 June 2008. This included net cash generated from operating activities of approximately RMB351,869,000. During the period, the payment of dividend by the Company was financed mainly by the receipt of cash dividends from investment vehicles.

The Group's general and administrative expenses for the period ended 30 June 2008 were approximately RMB29,886,000 which represented a slight increase of about 1.1% compared with that for the same period of 2007, mainly due to the Group's effective cost control measures. Finance costs decreased by RMB351,000, mainly due to the reduction of the borrowings of the Group. The interest cover rose to about 11,625 multiples compared to about 2,687 multiples in 2007.

Share of profits from associates was approximately RMB5,662,000 for the period ended 30 June 2008, representing an increase of about 18.2% compared with that for the same period of 2007.

Share of profits from other jointly controlled entities was approximately RMB128,552,000 for the period ended 30 June 2008, representing an increase of about 6.4% compared with that for the same period of 2007, mainly due to increases in sales orders coupled with capacity growth.

Share of profit from a jointly controlled entity was another major source of profit of the Group, which contributed approximately RMB1,103,726,000, representing an increase of about 1.3% compared with that for the same period of 2007, mainly due to an increase in product sales.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2008, the Group employed approximately 1,500 (2007: 1,500) staff in the PRC, Hong Kong and Australia.

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

SHARE OPTION SCHEME

The Company has a share option scheme which was adopted on 6 June 2002 ("Share Option Scheme") and remains in force for a period of 10 years from the date of adoption. Each option granted under the Share Option Scheme gives the holder the right to subscribe for one share of the Company. Movement of the share options during the six months ended 30 June 2008 was as follows :

Name	Number of options		
	As at 1 January 2008	lapsed during the period	As at 30 June 2008
ZHANG Fangyou	8,528,000	—	8,528,000
LU Zhifeng	7,684,000	—	7,684,000
YANG Dadong	5,664,000	—	5,664,000
ZENG Qinghong	5,664,000	—	5,664,000
ZHANG Baoqing	6,488,000	—	6,488,000
Aggregate total of other participants	5,664,000	5,664,000	—

Notes :

- (1) The above options were granted on 7 August 2003 at an adjusted exercise price of HK\$2.1525* per share. The exercisable period is from 7 August 2003 to 5 June 2012. The consideration paid by each grantee for the options granted was HK\$1. The adjusted closing price of the share immediately before the date on which the options were granted was HK\$2.075*.
- (2) Mr. LU Zhifeng resigned as director of the Company on 10 July 2008.
- (3) No option was granted, exercised or cancelled during the period.

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

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2008, the interests and short positions of the directors (who held office on 30 June 2008) 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 Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") were as follows :

(a) Long positions in shares of the Company

Name of Director	Number of shares Personal interest (as Beneficial Owner)	Percentage of shareholding as at 30 June 2008
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 the options granted by the Company

Name of Director	Number of underlying shares in respect of options granted Personal Interest (as Beneficial Owner)	Percentage of shareholding as at 30 June 2008
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%

Notes:

- (1) Details of the options held by the directors are disclosed in the section "SHARE OPTION SCHEME" in this report.
- (2) Mr. LU Zhifeng resigned as director of the Company on 10 July 2008.

Save as disclosed above, as at 30 June 2008, 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.

Apart from the share option schemes, at no time during the six months ended 30 June 2008 was the Company or its holding companies or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Save as disclosed above and in the section “SHARE OPTION SCHEME”, during the six months ended 30 June 2008, no rights to subscribe for equity or debt securities of the Company has been granted by the Company to, nor have any such rights been exercised by, any directors and chief executives of the Company.

DIRECTORS’ INTEREST IN COMPETING BUSINESS

The interests of the directors in the businesses which compete or may compete, either directly or indirectly, with the business of the Group, jointly controlled entities 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. 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 Motor Co. Ltd., and Mr. ZHANG Fangyou is the only common director in both the Company and Guangzhou Toyota Motor Co. Ltd. The Group is therefore capable of carrying on its business independently, and at arm’s length from the business of Guangzhou Toyota Motor Co. Ltd.

Note 2: Guangzhou Automobile Group Commerce and Trading Co. Ltd. is a wholly owned subsidiary of Guangzhou Automobile Group Co. Ltd. There are 5 directors on the board of Guangzhou Automobile Group Commerce and Trading Co. Ltd. Mr. ZENG Qinghong and Mr. ZHANG Baoqing are the only common directors in both the Company and Guangzhou Automobile Group Commerce and Trading Co. Ltd. The Group is therefore capable of carrying on its business independently of, and at arm’s length from the business of Guangzhou Automobile Group Commerce and Trading Co. Ltd.

Save as disclosed above and within the knowledge of the directors, as at 30 June 2008, none of directors and their respective associates had any interest in a business which competes or may compete, either directly or indirectly, with the business of the Group as required to be disclosed pursuant to the Listing Rules.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 30 June 2008, 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	Number of shares	Percentage of total shareholding as at 30 June 2008	Note
China Lounge Investments Limited	2,849,544,904 (L)	37.90%	(a)
Guangzhou Automobile Group Co. Ltd.	2,849,544,904 (L)	37.90%	(b)
Guangzhou Automobile Industry Group Co. Ltd.	2,849,544,904 (L)	37.90%	(c)
Templeton Asset Management Limited	1,048,178,380 (L)	13.94%	(d)
J.P. Morgan Chase & Co.	451,751,489 (L)	6.01%	(e)
	114,000 (S)	0.00%	(f)
	433,381,939 (P)	5.76%	

Notes :

- (a) As at 30 June 2008, China Lounge Investments Limited held 2,849,544,904 shares of the Company.
- (b) As at 30 June 2008, China Lounge Investments Limited was wholly-owned by Guangzhou Automobile Group Co. Ltd. which was accordingly deemed to be interested under the SFO in 2,849,544,904 shares.
- (c) As at 30 June 2008, 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 1,048,178,380 shares in the Company as investment manager.
- (e) J.P. Morgan Chase & Co. was interested in above shares in the Company as beneficial owner, investment manager and custodian through a number of 100% control companies.
- (f) L = long position, S = short position, P = lending pool.

Save as disclosed herein, no other person was recorded in the register of substantial shareholders maintained under Section 336 of Part XV of the SFO as having an interest in 5% or more of the issued share capital of the Company as at 30 June 2008.

CORPORATE GOVERNANCE

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

During the six months ended 30 June 2008, the Company complied with all code provisions as set out in the CG Code.

The Company has adopted the Model Code as the codes of conduct regarding securities transactions by the directors. Having made specific enquiry, all directors have confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2008.

The Audit Committee comprises three independent non-executive directors, namely Mr. LEE Ka Lun, Mr. CHEUNG Doi Shu and Mr. FUNG Ka Pun. The Audit Committee reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited condensed consolidated interim financial information for the six months ended 30 June 2008.

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

The Company has not redeemed any of its shares during the six months ended 30 June 2008. Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2008.

LIST OF DIRECTORS

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

Executive Directors

Mr. ZHANG Fangyou (*Chairman*)

Mr. ZENG Qinghong (*Vice Chairman*)

Mr. YANG Dadong

Mr. ZHANG Baoqing (*Managing Director*)

Mr. FU Shoujie

Independent Non-Executive Directors

Mr. CHEUNG Doi Shu

Mr. LEE Ka Lun

Mr. FUNG Ka Pun

Note: Mr. LU Zhifeng resigned as the Vice Chairman and Executive Director of the Company on 10 July 2008 and Mr. ZENG Qinghong was appointed as the Vice Chairman of the Company on 30 July 2008.

By the Order of the Board

Zhang Fangyou

Chairman

Hong Kong, 2 September 2008