駿威汽車有限公司

DENWAY MOTORS LIMITED

Stock Code: 203

2008

ANNUAL REPORT

Contents

BOARD OF DIRECTORS

Executive Directors

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

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

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 2008.

BUSINESS REVIEW

For the year ended 31 December 2008, turnover of the Group was approximately RMB725,464,000 (2007: RMB862,573,000), a decrease of approximately 15.9% over the same period of last year. The profit attributable to the equity holders of the Company was approximately RMB2,094,259,000 (2007: RMB2,170,395,000), a decrease of approximately 3.5% over the same period of last year. Basic earnings per share was approximately RMB27.9 cents (2007: RMB28.9 cents), a decrease of approximately 3.5% over the same period of last year.

2008 was an extraordinary year where the world economy experienced an extremely unstable and ferocious environment. Pestered by surge in inflation and raw material costs in the first half of 2008 and battered by the credit crunch stemming from the collapse of the US sub-prime market in the second half, the global economy recorded a sharp slippage. Under such circumstances, China economy was inevitably impinged and the economic growth of the People's Republic of China (the "PRC") had dramatically slowed down due to slack of demand. Consequently, the PRC automobile market had been seriously affected causing a plunge in demand in the second half of 2008. According to the statistics from China Association of Automobile Manufacturers, the number of motor vehicles produced and sold nationwide in 2008 amounted to 9.345 million units and 9.380 million units respectively, representing a slight increase of 5.21% and 6.70% respectively over the same period of last year. Of the total, 6.756 million units produced and 6.738 million units sold were passenger vehicles, representing a year-on-year growth of 7.2% and 5.6% respectively. The growth rate of motor vehicles produced and sold had slowed down by 16.81% and 15.14% respectively over the same period of last year. After ten consecutive years of burgeoning growth, the domestic production and sales of motor vehicles recorded the first-ever below double-digit growth.

For the year ended 31 December 2008, an aggregate of 308,305 units and 306,242 units of vehicles were produced and sold respectively by the Company through a jointly controlled entity ("Sedan Company") which is directly owned by the Company's wholly-owned subsidiary, Guangzhou Auto Group Corporation, representing an increase of 4.37% and 3.70% respectively over the previous year. In addition to the impact of financial crisis and economic slowdown, Sedan Company suffered from natural disasters occurred in the Southern China at the beginning of the year. Under such unfavourable condition, the annual growth rate of Sedan Company was basically at par with the average growth rate of vehicles nationwide. Sales of four vehicle categories of Sedan Company were comparably outstanding. The Odyssey, City and Fit topped their respective categories. The eighth generation Accord, which was launched in early 2008, achieved an all-time high annual sales record of Sedan Company by selling 170,500 units in 2008.

Guangzhou Automobile Group Component Co., Ltd. ("Guangzhou Component"), in which the Group holds a 49% equity interest, was seriously affected by natural disasters and increase in transportation and operating costs in 2008, as well as a number of adverse factors including erratic fluctuation in purchase prices of steel, oil and their by-products as well as new vehicle model conversion. Complemented by full support and efforts of its various joint venture partners and invested corporations, Guangzhou Component was able to achieve its various business plans for 2008 by fully capitalising and leveraging its existing resources and competitive advantages in its strenuous efforts to explore markets, cultivate customers, reduce consumable, save energy and increase efficiency. Guangzhou Component has also progressed from its early stage of rapid development to a matured stage for growth. In order to maintain sustainable development of Guangzhou Component, the number of its invested corporations has increased to 17, where there is continual growth in its integrated strength and progression among its peers.

Since the business environment is of intense competition, performance of other business of the Group, namely trading of vehicles, manufacturing of automotive equipment and parts and manufacturing and trading of audio equipment, was slightly below the targets set by the Group in the beginning of 2008.

FUTURE PROSPECTS

2009 shall be a year full of challenges. It is expected that the global economic recession will infest further as the international financial crisis induced by the US sub-prime problem will continue to endanger the world economy. The PRC Government substantiated its efforts in stimulating economic recovery under such difficult environment through launching various economic revitalisation proposals in order to "sustain growth, boast internal consumption and realign structure", including the State Council's mega-sized proposal of RMB4 trillion to expand internal consumption, and a series of policies, such as overhauling and reforming value-added tax regime, in order to enlighten effects of the financial crisis on the economy. Despite the various appropriate economic stabilisation measures taken by the PRC Government, the PRC economy will inevitably be subject to such ferocious challenges and crucial tests since its reform and open policy. From industry perspective, although the automotive industry has been confirmed by the National Development and Reform Commission as one of the pillar industries for the first time and a number of plans have been formulated and will be instilled for full implementation at revitalising several sectors, such as the automotive industry, the multinational auto giants realizing the continuous recession of the global auto market, will increase its competitiveness in PRC market. As a result, fading demand, over-capacity and price competition will hit the PRC's auto industry in 2009. Therefore, the profit margin of the entire auto industry will inevitably shrink. Based on the analysis of the aforesaid economic environment, Sedan Company has set an annual production and sales target of 330,000 units in tandem with the growth rate of the automotive market. In order to achieve such target in 2009, Sedan Company will position itself to establish and perfect its service regime, enhance sales capability of its sales and marketing networks, and strengthen personnel training at Sedan Company and its franchised outlets.

Guangzhou Component will continue to monitor the development of relevant sedan plants in 2009 and will also address the current situation by commencing project development policy that customises its long-term benefits and economic development discipline. In order to lay solid foundation for its next development stage and sustain its stable growth trend, Guangzhou Component will intensify cooperation, upgrade technological capability, improve capability in matching and responding to craftsmanship requirement of new products, expand accessories markets and product ranges, enlarge new proprietary innovation efforts, enhance cost reduction, promote product quality, increase local content, and to adjust production scale in line with market demand.

The Group will closely monitor changes in the market and to identify and capitalise on opportunities under such intricate market environment in order to effectively implement its business targets and thereby increasing returns for its shareholders.

FINANCIAL SUMMARY

The Group's turnover for the year ended 31 December 2008 was approximately RMB725,464,000, representing a decrease of approximately 15.9% compared with that in 2007. The main reason for such decrease was that our management has scaled down the operations of its loss making vehicle trading company in order to minimize any subsequent effects, and a drop in number of sales orders received from a company which is engaged in manufacturing and trading of audio equipment because of economic downturn and trade plunge in our major trading partners. Profit attributable to the equity holders of the Company was approximately RMB2,094,259,000, representing a decrease of 3.5% compared with that in 2007.

The turnover of the trading of motor vehicles decreased by RMB70,976,000 which represented a drop of approximately 12.8% compared with that in 2007. The operating loss of this segment was approximately RMB24,175,000 in 2008 compared with operating profit of approximately RMB139,000 in 2007. Such decrease was mainly due to provisions for impairment of fixed assets as well as trade receivables of the loss making vehicle trading company. The turnover of the manufacturing and trading of automotive equipment and parts decreased by RMB2,521,000 which represented a decrease of approximately 20.7% compared with that in 2007. The operating profit of this segment increased by RMB14,963,000 over 2007, mainly due to a significant increase in interest income. The turnover of the manufacturing and trading of audio equipment decreased by RMB63,612,000 which represented a decrease of approximately 21.6% over 2007, mainly due to a drop in sales orders. The operating loss of this segment was approximately RMB8,639,000 in 2008 compared with the operating profit of approximately RMB26,345,000 in 2007, such change was mainly due to decline in revenue from sales and gross profit resulting from economic downturn and trade plunge in our major trading partners. The operating loss of other segment increased by RMB24,415,000, mainly due to the fact that there was no fair value gains on investment properties and write-back of provision for impairment loss in 2008. The order on hand of the Group for the business of the manufacturing and trading of audio equipment was approximately RMB44,535,000 as at 31 December 2008.

The total borrowings of the Group decreased from approximately RMB4,863,000 at the end of 2007 to approximately RMB2,110,000 as at 31 December 2008, mainly due to repayment of borrowings. The Group maintained a low ratio of borrowings relative to total equity at approximately 0.02% as at 31 December 2008 and 0.04% as at 31 December 2007. The ratio of total liabilities relative to total equity slightly decreased to approximately 1.0% as at 31 December 2008 from approximately 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 RMB33,095,000 and pledged bank deposits of approximately RMB5,721,000. As at 31 December 2007 and 2008, the Group had no contingent liabilities.

The Group had cash and bank balances of approximately RMB4,260,714,000 as at 31 December 2008. This included the net cash used in operating activities of approximately RMB137,496,000, net cash generated from investing activities of approximately RMB1,543,920,000 and net cash used in financing activities of approximately RMB1,022,546,000. 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 2008 were approximately RMB67,260,000, representing an increase of approximately 9.5% compared with that in 2007, mainly due to one-off expenses incurred in scaling down the operations of a loss making vehicle trading company. Finance cost increased by RMB70,000, mainly due to higher average interest rate in 2008 than that in 2007. The interest cover remained at a high level of approximately 3,329 multiples in 2008 compared with that of approximately 3,814 multiples in 2007.

Share of profits of associates was approximately RMB5,784,000 in 2008, representing a decrease of approximately 25.0% compared with that in 2007.

Share of profit of a jointly controlled entity was one of the major sources of profit of the Group, which contributed approximately RMB1,912,723,000, representing an increase of approximately 2.9% compared with that in 2007, mainly due to increase in sales driven by a launch of new products.

Share of profit of other jointly controlled entities was another major source of profit of the Group, which contributed approximately RMB217,608,000, representing a decrease of approximately 11.7% compared with that in 2007, mainly due to an increased tax charge in aggregate under the PRC Enterprise Income Tax Law implemented in 2008 as well as tax holiday expiration of certain investment companies. The percentage ratios of such profit to the profit of the Group were approximately 11.3% in 2007 and approximately 10.4% in 2008, continuously and effectively expanding the profit sources of the Group.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2008, the continuing operations of the Group employed approximately 1,300 (2007: 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 2009

The board of directors (the "Board") submits its report together with the audited financial statements for the year ended 31 December 2008.

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 RMB2 cents (2007: a final dividend of RMB6 cents and a special dividend of RMB2.5 cents) per ordinary share for the year ended 31 December 2008. Together with the interim dividend of RMB5 cents per ordinary share paid, total dividends for year 2008 will be RMB7 cents (2007: RMB8.5 cents and HK5 cents) per ordinary share. Subject to the approval of shareholders at the forthcoming annual general meeting, the final dividend will be paid on 16 June 2009 to shareholders whose names appeared on the register of members of the Company on 2 June 2009.

The proposed final dividend for the year 2008 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 at the date on which the Board proposed the distribution of final dividend.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 27 May 2009 to Tuesday, 2 June 2009, both days inclusive, during which no transfer of shares will be registered. In order to qualify for the proposed final 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 Tuesday, 26 May 2009.

RESERVES

Movements in the reserves during the year are set out in note 26 to the consolidated financial statements. The Company had distributable reserves of RMB530,797,000 at 31 December 2008, calculated pursuant to section 79B of the Company Ordinance (2007: RMB645,588,000).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment during the year are set out in note 17 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 25 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 2008 are set out in note 25(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 2008 are set out in note 33 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 2008 are set out in note 27 to the consolidated financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to RMB19,241,000.

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:

	2008	2007	2006
	RMB'000	RMB'000	RMB'000
Profit attributable to the equity holders of the Company	**2,094,259**	2,170,395	2,273,629
Total assets	**12,847,300**	11,836,386	10,462,085
Total liabilities	**(127,584)**	(181,734)	(177,316)
Minority interests	**(67,586)**	(77,680)	(70,772)
	12,652,130	11,576,972	10,213,997

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

1 The average exchange rates of Hong Kong dollars to Renminbi for the year ended 2005 and 2004 were 1.0535 and 1.0627 respectively. The closing exchange rates of Hong Kong dollars to Renminbi as at 31 December 2005 and 2004 were 1.0407 and 1.0648 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. ZENG Qinghong
Mr. YANG Dadong
Mr. ZHANG Baoqing
Mr. FU Shoujie
Mr. YAO Yiming *(appointed on 15/10/2008)*
Mr. LU Zhifeng *(resigned on 10/07/2008)*

Independent Non-Executive Directors

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

Messrs. ZENG Qinghong, YANG Dadong and CHEUNG Doi Shu will retire by rotation in accordance with the Article 101 of the Articles of Association of the Company and Mr. YAO Yiming, as a new director appointed during the year, will retire in accordance with the Article 92 of the Articles of Association of the Company. 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 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 52, joined the Group in 1997 and became the Chairman of the Company on 18 September 1998. He is also the Chairman and Managing Director of Guangzhou Automobile Industry Group Co., Ltd., the Chairman of Guangzhou Automobile Group Co., Ltd., Guangzhou Auto Group (Hong Kong) Ltd. and China Lounge Investments Ltd. as well as a Director of GAC Toyota Motor Co., Ltd. Mr. ZHANG was the Chairman of GAC Toyota Motor Co., Ltd. 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. ZENG Qinghong, aged 47, joined the Group in 1999. Mr. ZENG was appointed as a Director of the Company on 16 January 2001 and promoted as the Vice Chairman of the Company on 30 July 2008. He is also the Vice Chairman of Guangzhou Automobile Industry Group Co., Ltd., the Vice Chairman and Managing Director of Guangzhou Automobile Group Co., Ltd., the Chairman of Guangzhou Automobile Group Motor Co., Ltd. and the Vice Chairman of Guangzhou Auto Group (Hong Kong) Ltd. and China Lounge Investments Ltd. Mr. ZENG was the Deputy Managing Director of Guangzhou Automobile Industry Group Co., Ltd., the Chairman of Guangzhou Automobile Group Component Co., Ltd., Guangzhou Automobile Group Commerce and Trading Co., Ltd. and Guangqi Hino Motors Co., Ltd as well as the Executive Deputy Managing Director of Guangzhou Honda Automobile Co., Ltd.

Mr. YANG Dadong, aged 59, 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 Chairman and Managing Director of Wu Yang- Honda Motors (Guangzhou) Co., Ltd.

Mr. ZHANG Baoqing, aged 59, joined the Group in 1998 and was appointed as Deputy Managing Director of the Company on 19 June 2001. He became Managing Director of the Company 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. and Guangzhou Automobile Group Component 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 several members of the Group. Mr. ZHANG was the Deputy Managing Director of Guangzhou Automobile Industry Group Co., Ltd. and Guangzhou Automobile Group Co., Ltd. and a Director of Guangzhou Automobile Group Commerce and Trading Co., Ltd.

Mr. FU Shoujie, aged 45, joined the Group on 16 August 2007 as a Director of the Company. He is a Director of Guangzhou Automobile Industry Group Co. Ltd., the Deputy Managing Director of Guangzhou Automobile Group Co. Ltd., the Chairman of Guangzhou Honda Automobile Co Ltd., and a Director of Guangzhou Automobile Group Motor Co., Ltd., Guangzhou Auto Group (Hong Kong) Ltd., and China Lounge Investments Ltd. Mr. FU is also the Chairman of Guangzhou Yangcheng Automobile Co. Ltd. In the last three years, Mr. FU had been the Executive Deputy Managing Director of Guangzhou Honda Automobile Co Ltd., the Chairman of Guangzhou Honda Automobile Research & Development Co., Ltd. and a Director of Honda Automobile (China) Co, Ltd.

Mr. YAO Yiming, aged 51, joined the Group on 15 October 2008 as a Director of the Company. He is the Deputy General Manager of Guangzhou Automobile Group Co. Ltd., the Executive Deputy Managing Director of Guangzhou Honda Automobile Co. Ltd., the Chairman of Guangzhou Honda Automobile Research & Development Co., Ltd. and a Director of Honda Automobile (China) Co., Ltd. In the last three years, he had been the Managing Director of Guangzhou Automobile Group Commerce and Trading Co. Ltd.

Independent Non-Executive Directors

Mr. CHEUNG Doi Shu, aged 47, 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 54, 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 REXLot 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 63, 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 Vice Chairman of CIAM Group 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 and Lee Hing Development Limited.

Mr. FUNG is a member of Chinese People's Political Consultative Conference of Hubei Province and was 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 48, 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 and Guangzhou Automobile Group Component Co., Ltd. Mr. LI was the General Manager of Guangzhou Honda Automobile No. 1 Sales Co., Ltd.

Mr. HUANG Liji, aged 51, 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 59, 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.

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 adoption of a share option scheme ("Share Option Scheme") at the general meeting held 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 of directors 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 HK$1 by way of consideration for the grant thereof.

The subscription price for shares of the Company under the Share Option Scheme will be highest of (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet 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 Listing Rules in relation to the Share Option Scheme is as follows:

	Number of share options			
Grantee	**As at 1 January 2008**	**Lapsed during the year**	**As at 31 December 2008**	*Notes*
ZHANG Fangyou	8,528,000	—	8,528,000	*(1)*
LU Zhifeng	7,684,000	7,684,000	—	*(1)(2)*
ZENG Qinghong	5,664,000	—	5,664,000	*(1)*
YANG Dadong	5,664,000	—	5,664,000	*(1)*
ZHANG Baoqing	6,488,000	—	6,488,000	*(1)*
Aggregate total of other participants	5,664,000	5,664,000	—	*(1)*
	39,692,000	13,348,000	26,344,000	

Notes:

(1) These options were granted on 7 August 2003 at an adjusted exercise price of HK$2.1525* 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 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 year. The number of options lapsed during the year was 13,348,000.

* *adjusted per 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 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, during the year ended 31 December 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 SHARES

As at 31 December 2008, 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 2008
YAO Yiming	1,132,000	0.02%
CHEUNG Doi Shu	3,000,000	0.04%

(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 2008
ZHANG Fangyou	8,528,000	0.11%
ZENG Qinghong	5,664,000	0.08%
YANG Dadong	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 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 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**
ZHANG Fangyou	GAC Toyota Motor Co. Ltd. *(Note)*	Director

Note: GAC 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 GAC Toyota Motor Co. Ltd., and Mr. ZHANG Fangyou is the only common director in both the Company and GAC Toyota Motor Co. Ltd. The Group is therefore capable of carrying on its business independently, and at arm's length from the business of GAC Toyota Motor Co. Ltd.

Save as disclosed above and within the knowledge of the directors, as at 31 December 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 31 December 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 31 December 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.	508,304,641 (L)	6.76%	*(e)*
	7,958,000 (S)	0.11%	
	495,685,700 (P)	6.59%	
Schroder Investment Management Limited	377,148,700 (L)	5.02%	*(f)*

Notes:

(a) As at 31 December 2008, China Lounge Investments Limited held 2,849,544,904 shares of Company.

(b) As at 31 December 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 31 December 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 of the Company as investment manager.

(e) J.P. Morgan Chase & Co. was interested in above shares in the Company (including derivative interest of 7,958,000 shares (S)) as beneficial owner, investment manager and custodian through a number of 100% control companies and a 98.95% control company.

(f) Schroder Investment Management Limited was interested in 377,148,700 shares of Company as investment manager.

(g) 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 31 December 2008.

RETIREMENT SCHEME

Details of the Group's retirement scheme are set out in note 13 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 2008.

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 2008.

MAJOR SUPPLIERS

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

	2008	2007
	%	%
— the largest supplier	**51**	38
— five largest suppliers combined	**66**	61

MAJOR CUSTOMERS

During 2007 and 2008, the Group sold less than 30% of its goods and services to its five largest customers.

CONNECTED TRANSACTION

On 29 January 2008, Guangzhou Honda Automobile No.1 Sales Company Limited ("Guangzhou Honda No.1 Sales") and Guangzhou GABC Automobile Services Company Limited ("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 would be RMB14,500,000, with the amount transacted at RMB6,632,000 for the financial year ended 31 December 2008.

The Independent Non-Executive Directors of the Company had reviewed the continuing connected transactions contemplated under the Master Agreement for the financial year ended 31 December 2008 and confirmed that the transactions were:

(a) in the ordinary and usual course of business of the Group;

(b) on normal commercial terms; and

(c) in accordance with the Master Agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

In accordance with Rule 14A.38 of the Listing Rules, the Board of the Company engaged the independent auditor of the Company to perform certain agreed-upon procedures on the continuing connected transactions contemplated under the Master Agreement in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The independent auditor has reported to the Board of the Company that the transactions:

(a) have been approved by the Board of the Company;

(b) were in accordance with the pricing policies of the Group;

(c) have been entered into in accordance with the relevant agreements governing such transactions; and

(d) have not exceeded the annual cap amount disclosed in the announcement dated 30 January 2008 of the Company.

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.

INDEPENDENT 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 2009

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 provision; 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 sets a required standard against which directors must measure their conduct regarding transactions in securities of their listed companies. A listed company may adapt 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 related parties;

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

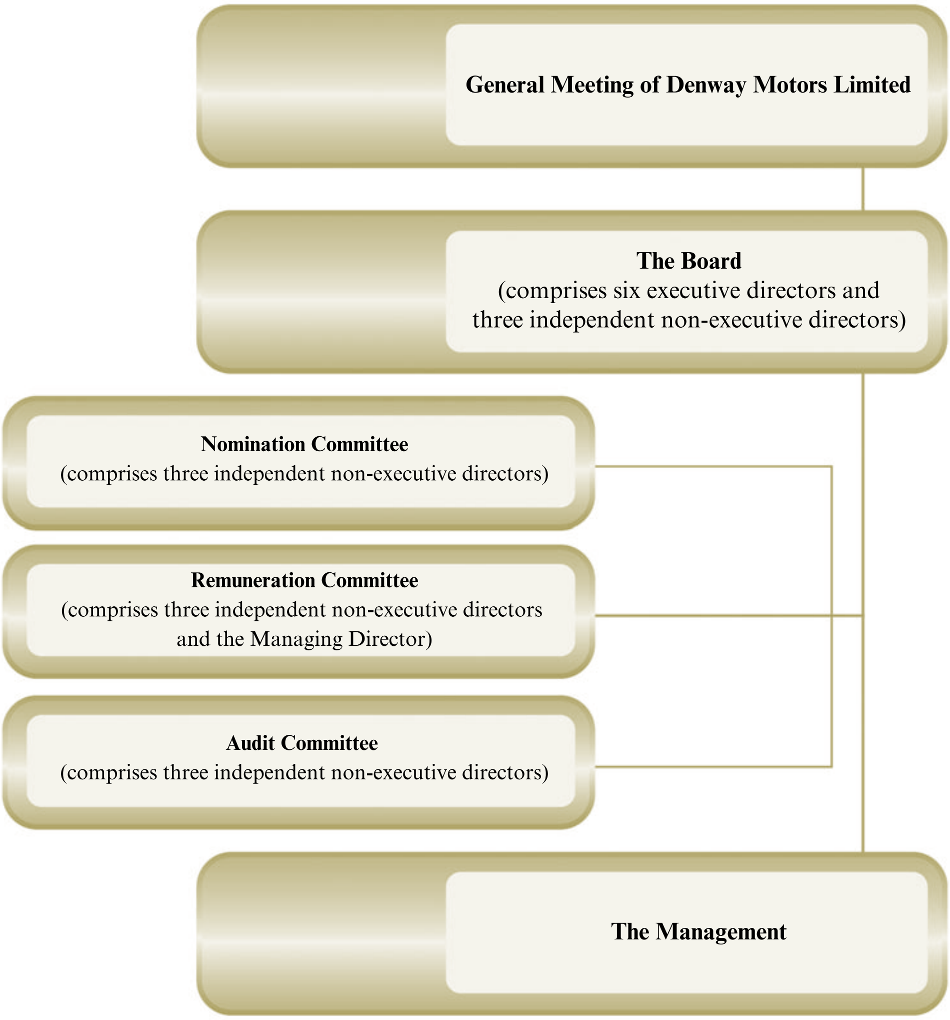
(3) Consistently complying with the Company's Code of Conduct; and

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

During 2008, 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 recognize 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 2008 Annual Report and the Company's website at www.denway-motors.com.

The annual general meeting (the "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 2008, in respect of each substantially separate issue, a separate resolution was proposed for the approval of shareholders at general meeting.

All registered shareholders receive notice of AGM and extraordinary general meeting (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.

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 professional qualifications.

In 2008, the directors are as follows:

Executive Directors
Mr. ZHANG Fangyou *(Chairman)*
Mr. ZENG Qinghong *(Vice Chairman)*
Mr. YANG Dadong
Mr. ZHANG Baoqing *(Managing Director)*
Mr. FU Shoujie
Mr. YAO Yiming *(appointed on 15/10/2008)*
Mr. LU Zhifeng *(resigned on 10/07/2008)*

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

Mr. LU Zhifeng resigned as executive director and vice chairman of the Company on 10 July 2008 due to reassignment of work. Mr. LU Zhifeng 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. The nomination committee of the Company made recommendations to the Board after considering the resignation of Mr. LU Zhifeng and the opinions of the management regarding the nomination of Mr. ZENG Qinghong, an existing executive director, to fill the causal vacancy of vice chairman. The Board approved the resignation of Mr. LU Zhifeng as executive director and vice chairman with effect from 10 July 2008 and appointment of Mr. ZENG Qinghong as vice chairman with effect from 30 July 2008.

The nomination committee of the Company made recommendations to the Board after considering the opinions of the management regarding the nomination of Mr. YAO Yiming as executive director. Finally, the Board approved the appointment of Mr. YAO Yiming as executive director with effect from 15 October 2008. Pursuant to the articles of association of the Company, Mr. YAO Yiming will retire and 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 2008, 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 professional 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 has also submitted an annual confirmation to the Company confirming his independence during 2008.

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 management 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 2008, the Company held four regular and twenty 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 2008, directors' attendance was as follows:

	No. of Attendance *(Note)*
Executive Directors	
Mr. ZHANG Fangyou *(Chairman)*	4
Mr. ZENG Qinghong *(Vice Chairman)*	4
Mr. YANG Dadong	4
Mr. ZHANG Baoqing *(Managing Director)*	4
Mr. FU Shoujie	3
Mr. YAO Yiming *(appointed on 15 October 2008)*	1
Mr. LU Zhifeng *(resigned on 10 July 2008)*	1
Independent Non-Executive Directors	
Mr. CHEUNG Doi Shu	4
Mr. LEE Ka Lun	4
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 (19), Mr. ZENG Qinghong (18), Mr. YANG Dadong (9), Mr. ZHANG Baoqing (20), Mr. FU Shoujie (8), Mr. YAO Yiming (2), Mr. LU Zhifeng (1), Mr. CHEUNG Doi Shu (6), Mr. LEE Ka Lun (6) and Mr. FUNG Ka Pun (6).

The Board has makes arrangements to provide opportunities for all directors to include the 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 decision 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 meting 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 a 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 the 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 2008, all directors gave sufficient time and attention to the affairs of the Company.

The Company appointed Mr. YAO Yiming as an executive director on 15 October 2008. Pursuant to the established guidelines for newly appointed directors, the Company offered Mr. YAO Yiming 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, Remuneration Committee, Nomination Committee and other Board committees; and

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

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

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 2008.

The Company's staff handbook stated clearly, among other things, 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 2008 are disclosed in the section headed "Report of the Directors" in this Annual Report.

Directors' interests as at 31 December 2008 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 to re-election. The names and biographical details of the directors who offer themselves for re-election in 2008 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. 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 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 the Chairman's behalf, taking into account any matters proposed by 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 realization of the objectives set by the Board;

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

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

(6) Putting in place programmes for 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 three committee meetings in 2008. The committee had discussed the acceptance of resignation of Mr. LU Zhifeng, and the nomination of Mr. ZENG Qinghong as vice chairman, the nomination of Mr. YAO Yiming as executive director, and the retirement by rotation and re-election of directors.

During 2008, except for the resignation of Mr. LU Zhifeng as executive director and appointment of Mr. YAO Yiming 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 Baoqing and Mr. FU Shoujie as the Company's executive directors and Mr. LEE Ka Lun and Mr. FUNG Ka Pun as the Company's independent non-executive directors at the 2008 AGM.

For the forthcoming 2009 AGM, the Nomination Committee recommended the re-election of Mr. ZENG Qinghong and Mr. YANG Dadong to be re-appointed as the Company's executive directors and Mr. CHEUNG Doi Shu to be re-appointed as the Company's independent non-executive director. Mr. YAO Yiming, being an executive director newly appointed, 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 2008, the 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)*	3
Mr. LEE Ka Lun *(Independent Non-Executive Director)*	3
Mr. FUNG Ka Pun *(Independent Non-Executive Director)* *(Chairman of the Nomination Committee)*	3

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 senior management, to oversee the administration of the Company's compensation plan 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 2008 to discuss the human resource scheme and the remuneration for the directors and the senior management.

Directors' fees and other emolument 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 2008, the 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)*	0
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 employees 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, interim reports and, if prepare for publication, the quarterly reports of the Company and to review significant financial reporting judgments 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/share can raise issues, to strengthen the position of 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 creditability and objectively of financial statement 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 authorized by the Board to obtain independent legal or other professional advices.

The Audit Committee held two committee meetings in 2008 and the external auditor of the Company attended the two committee meetings. During the two meetings, members of the Audit Committee reviewed financial statements contained in 2007 annual report and 2008 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. The Audit Committee also 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 2008.

In addition, the Audit Committee made recommendation to the Board on the re-appointment of the external auditor, and approved the remuneration and terms of engagement of the external auditor in 2008. Meanwhile, the Audit Committee reviewed and monitored the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with appropriate standard 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 2008, audit fee paid by the Company to PricewaterhouseCoopers (the external auditor of the Company) was RMB3,142,000. Non-auditing fee paid amounted to RMB833,000, representing RMB612,000, RMB158,000 and RMB63,000 for non-auditing advice, taxation services and other fees, respectively.

In 2008, the attendance of committee members of the Audit Committee was as follow:

Audit Committee Members	**No. of Attendance**
Mr. CHEUNG Doi Shu *(Independent Non-Executive Director)*	1
Mr. LEE Ka Lun *(Independent Non-Executive Director)* *(Chairman of the Audit Committee)*	2
Mr. FUNG Ka Pun *(Independent Non-Executive Director)*	2

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 and the senior management, 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 staff responsible for the accounting and financial reporting function 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 the 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.

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' investments and the assets of the Group.

The audit department with the approval of the Board strengthens the internal control function of the Group and communicates 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 in 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 2008, 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 committee, high ethical values and strict staff conduct standards, effective human resources policies, as well as a sound organizational 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 minimizing and managing such risk. Based on the results of the risk assessment, the audit department of the Company conducted and independent detailed review and made feasible proposals in respect of areas of concern of the Group and its jointly controlled entities, so as to minimize 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 2008, 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 2008, 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 2008 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 2009

Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	Group 2008 RMB'000	Group 2007 RMB'000
Turnover	5	**725,464**	862,573
Cost of sales		**(682,776)**	(783,337)
Gross profit		**42,688**	79,236
Other income and other gains	6	**115,467**	103,341
Selling and distribution costs		**(28,210)**	(32,371)
General and administrative expenses		**(67,260)**	(61,424)
Other operating expenses		**(48,210)**	(5,557)
Operating profit	7	**14,475**	83,225
Finance costs	8	**(646)**	(576)
Share of profits less losses of:			
A jointly controlled entity	20(a)	**1,912,723**	1,859,673
Other jointly controlled entities		**217,608**	246,472
Associates	21	**5,784**	7,717
Profit before taxation		**2,149,944**	2,196,511
Taxation	9	**(59,938)**	(15,522)
Profit for the year		**2,090,006**	2,180,989
Attributable to:			
Equity holders of the Company	10	**2,094,259**	2,170,395
Minority interests		**(4,253)**	10,594
		2,090,006	2,180,989
Earnings per share attributable to the equity holders of the Company	11		
Basic		**27.9 cents**	28.9 cents
Diluted		**27.8 cents**	28.8 cents
Dividends	12	**526,309**	1,005,701

AS AT 31 DECEMBER 2008

	Note	Group 2008 RMB'000	Group 2007 RMB'000	Company 2008 RMB'000	Company 2007 RMB'000
ASSETS					
Non-current assets					
Intangible asset	15	**896,398**	896,398	**—**	—
Leasehold land and land use rights	16	**36,503**	39,595	**—**	—
Property, plant and equipment	17	**48,702**	69,430	**1,136**	1,509
Investment properties	18	**49,669**	54,358	**12,550**	11,771
Investments in subsidiaries	19	**—**	—	**1,681,450**	1,681,450
Interest in a jointly controlled entity	20(a)	**5,265,800**	5,110,549	**—**	—
Interests in other jointly controlled entities	20(b)	**1,270,988**	1,053,389	**—**	—
Interests in associates	21	**64,889**	61,607	**—**	—
		7,632,949	7,285,326	**1,695,136**	1,694,730
Current assets					
Inventories	22	**70,788**	92,876	**—**	—
Trade and other receivables	23	**881,343**	561,901	**1,887,882**	1,969,080
Current tax recoverable		**1,506**	—	**—**	—
Cash and bank balances					
— pledged bank deposits	24	**5,721**	27,052	**—**	—
— cash and cash equivalents	24	**4,254,993**	3,869,231	**156,349**	138,568
		5,214,351	4,551,060	**2,044,231**	2,107,648
Total assets		**12,847,300**	11,836,386	**3,739,367**	3,802,378

AS AT 31 DECEMBER 2008

	Note	Group 2008 RMB'000	Group 2007 RMB'000	Company 2008 RMB'000	Company 2007 RMB'000
EQUITY					
Share capital and reserves attributable to the equity holders of the Company					
Share capital	25	**757,118**	757,118	**757,118**	757,118
Reserves					
Proposed final dividend	12 & 26	**150,374**	451,122	**150,374**	451,122
Proposed special dividend	12 & 26	**—**	187,967	**—**	187,967
Others	26	**11,744,638**	10,180,765	**2,760,862**	2,386,938
		12,652,130	11,576,972	**3,668,354**	3,783,145
Minority interests		**67,586**	77,680	**—**	—
Total equity		**12,719,716**	11,654,652	**3,668,354**	3,783,145
LIABILITIES					
Non-current liabilities					
Borrowings	27	**752**	2,247	**—**	—
Deferred tax liabilities	28	**40,999**	964	**—**	—
		41,751	3,211	**—**	—
Current liabilities					
Trade and other payables	29	**76,205**	163,262	**65,244**	13,108
Current tax liabilities		**8,270**	12,645	**5,769**	6,125
Borrowings	27	**1,358**	2,616	**—**	—
		85,833	178,523	**71,013**	19,233
Total liabilities		**127,584**	181,734	**71,013**	19,233
Total equity and liabilities		**12,847,300**	11,836,386	**3,739,367**	3,802,378
Net current assets		**5,128,518**	4,372,537	**1,973,218**	2,088,415
Total assets less current liabilities		**12,761,467**	11,657,863	**3,668,354**	3,783,145

On behalf of the Board

Zhang Fangyou
Chairman

Zhang Baoqing
Director

FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	Attributable to the equity holders of the Company			
		Share capital RMB'000	**Reserves RMB'000**	**Minority interests RMB'000**	**Total RMB'000**
Balance at 1 January 2007		756,979	9,457,018	70,772	10,284,769
Currency translation differences recognised directly in equity	26	—	(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	25 & 26	139	2,843	—	2,982
Dividends	26	—	(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
Balance at 1 January 2008		**757,118**	**10,819,854**	**77,680**	**11,654,652**
Currency translation differences recognised directly in equity	26	**—**	**(4,077)**	**(3,956)**	**(8,033)**
Profit for the year		**—**	**2,094,259**	**(4,253)**	**2,090,006**
Total recognised income for 2008		**—**	**2,090,182**	**(8,209)**	**2,081,973**
Dividends	26	**—**	**(1,015,024)**	**(1,885)**	**(1,016,909)**
Balance at 31 December 2008		**757,118**	**11,895,012**	**67,586**	**12,719,716**

FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	Group 2008 RMB'000	Group 2007 RMB'000
Cash flows from operating activities			
Net cash used in operations	30(a)	**(111,066)**	(30,946)
Interest paid		**(646)**	(576)
Hong Kong profits tax paid		**(2,285)**	(1,063)
Overseas income tax paid		**(23,499)**	(14,956)
Net cash used in operating activities		**(137,496)**	(47,541)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(3,979)**	(6,235)
Proceeds from disposal of property, plant and equipment		**1,953**	53
Purchase of investment properties		**(2,488)**	—
Dividends received from a jointly controlled entity		**1,407,915**	1,889,829
Dividends received from other jointly controlled entities		**20,108**	21,906
Dividends received from an associate		**1,601**	2,953
Interest received		**97,479**	81,170
Net change in bank deposits pledged		**21,331**	(535)
Net cash generated from investing activities		**1,543,920**	1,989,141
Cash flows from financing activities			
Issue of shares		**—**	2,982
New loans borrowed		**—**	1,068
Repayment of bank loans and other loans		**(2,753)**	(10,205)
Dividends paid to minority shareholders		**(4,769)**	(2,614)
Dividends paid		**(1,015,024)**	(806,468)
Net cash used in financing		**(1,022,546)**	(815,237)
Increase in cash and cash equivalents		**383,878**	1,126,363
Cash and cash equivalents at 1 January		**3,869,231**	2,740,242
Effect of foreign exchange rate changes		**1,884**	2,626
Cash and cash equivalents at 31 December		**4,254,993**	3,869,231

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"). These consolidated financial statements were approved by the Board for issue on 2 April 2009.

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 amendments to standards and interpretations are mandatory for financial year ended 31 December 2008:

HKAS 39 and HKFRS 7 (Amendments)	Financial instruments: Recognition and Measurement
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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

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

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

HKFRS 1 and HKAS 27 (Amendments)	Cost of an investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Share-based Payment Vesting Conditions and Cancellations
HKFRS 3 (Revised)	Business Combinations
HKFRS 8	Operating Segments
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations arising on Liquidation
HKAS 39 (Amendment)	Eligible hedged items
HK(IFRIC) — Int 13	Customer Loyalty Programmes
HK(IFRIC) — Int 15	Agreements for Construction of Real Estates
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) — Int 17	Distributions of Non-cash Assets to Owners
HK(IFRIC) — Int 18	Transfer of Assets from Customers

HKICPA's improvements to HKFRS published in October 2008.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary in the consolidated financial statements to ensure consistency with the policies adopted by the Group.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Consolidation (Continued)

(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) and (ii)).

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, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investments in associates include goodwill (net of any accumulated impairment loss) identified on acquisition (see note 2(c)(i)).

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.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

(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.

(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.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs over their estimated useful lives, as follows:

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Property, plant and equipment (Continued)

(i) Depreciation (Continued)

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

Gains and losses on disposals are eliminated by comparing the proceeds with the carrying amount and are recognised in the consolidated income statement.

(e) Investment properties

Investment property, principally comprising leasehold land and buildings, that is held for long-term rental yields and is not occupied by the companies in the Group.

Investment property is carried at fair value, representing open market value determined annually by external valuers. 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 reviewed annually by external valuers, changes in fair values are recorded in the consolidated income statement.

(f) Impairment of investments in subsidiaries, associates, jointly controlled entities and 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 consolidated income statement.

(i) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(j) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Current and deferred income tax

The tax expense comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries, associates and jointly controlled entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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 on the basis of the tax laws enacted or substantially enacted at 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.

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.

(l) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases net of any incentives received from the lessor, including upfront payment made for leasehold land and land use rights, are charged to the consolidated 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.

(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 consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Foreign currency translation (Continued)

(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 partially disposed of or sold, such exchange differences that are recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

(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

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Employee benefits (Continued)

(iii) Pension obligations

The Group participates in a number of defined contribution plans, the assets of which are generally held in independently administered funds. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The Group pays contributions to administered funds on a mandatory, contractual or voluntary basis. The Group has no future payment obligation once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

(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 vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become vested. 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 (Continued)

(q) 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.

(a) Foreign exchange risk

Majority of the subsidiaries of the Group operate in the PRC with most of the transactions denominated in RMB. The Group is exposed to foreign exchange risk arising from the exposure of Hong Kong Dollars ("HKD") and United States dollars ("USD") against RMB. It has not hedged its foreign exchange rate risk, as management does not anticipate significant foreign exchange rate risk associated with these assets or liabilities.

As at 31 December 2008, if RMB had strengthened/weakened by 6% against HKD and USD with all other variables held constant, post-tax profit for the year would have been approximately RMB9,035,000 lower/higher, mainly as a result of foreign exchange gains/losses on translation of certain borrowings (note 27) and cash and bank balances (note 24) denominated in foreign currencies.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk

The Group has no significant concentrations of credit risk. The carrying amount of trade and other receivables, pledged bank deposits, 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 2007 and 2008, the majority of the Group's cash and bank balances are deposited in major banks which are entities incorporated in the PRC. Management believes all these financial institutions have no significant credit risk.

The Group's credit sales are only made to customers with an appropriate credit history and normally under a credit period of 90 days. The Group has policies in place to ensure that trade receivables are followed on a timely basis.

The Group is of the view that there is low recoverability issue for dividend receivables from jointly controlled entities included in other receivables because these jointly controlled entities have repayment capabilities.

(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 operations in the PRC.

At 31 December 2008, total liabilities of the Group amounted to approximately RMB127,584,000 (2007: RMB181,734,000), while cash and cash equivalents on hand amounted to approximately RMB4,254,993,000 (2007: RMB3,869,231,000). With sufficient cash and cash equivalents on hand to cover all the debts and the strong cash flows generated from investing activities amounted to approximately RMB1,543,920,000 (2007: RMB1,989,141,000), the directors believe that the Group's current cash flows are sufficient for financng 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 cash and bank balances, details of which have been disclosed in note 24.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(d) Cash flow and fair value interest rate risk (Continued)

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 cash and bank balances and borrowings.

Details of the borrowings have been disclosed in note 27 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 27 are immaterial to the Group.

The management analyses its interest rate exposure on cash and bank balances by way of sensitivity analysis. If the market interest rates had been 0.5% higher/lower with all other variables held constant at 31 December 2008, profit would have been approximately RMB3,199,000 (2007: RMB5,621,000) higher/lower as a result of higher/lower interest income on floating rate cash and bank balances.

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 interests as shown in the consolidated balance sheet. Total borrowings include non-current borrowings and current borrowings.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Capital risk management (Continued)

During 2008, the Group's strategy, which was unchanged from 2007, was to maintain a minimal stable gearing ratio. The gearing ratios at 31 December 2007 and 2008 were as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Total borrowings *(note 27)*	**2,110**	4,863
Total equity (excluding minority interest)	**12,652,130**	11,576,972
Gearing ratio	**0.02%**	0.04%

The decrease in the gearing ratio during 2008 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) Estimated useful lives and impairment 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 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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(b) Estimated useful lives and impairment of property, plant and equipment (Continued)

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or market valuations. These calculations require the use of judgements and estimates.

(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.

(d) 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.

(e) Provision

Provisions including but not limited to warranty provisions are based on management's best estimates of the expenditure required to settle the obligations. Management estimates the provisions based on historical information, as well as recent trends that might suggest that past information may differ from future occurrence. The amount of the provisions contains uncertainties because it requires management to make assumptions and apply judgement regarding past occurrence. Any increase or decrease in the actual occurrence will affect profit or loss in future years.

5 TURNOVER AND SEGMENT INFORMATION

Turnover represents sales by the Company and its subsidiary companies to external customers and comprises revenue from:

	Group	
	2008	2007
	RMB'000	RMB'000
Trading of motor vehicles	**485,217**	556,193
Manufacturing and trading of automotive equipment and parts	**9,655**	12,176
Manufacturing and trading of audio equipment	**230,592**	294,204
	725,464	862,573

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 (Continued)

Primary reporting format — business segments

	Trading of motor vehicles 2008 RMB'000	Manufacturing and assembly of motor vehicles 2008 RMB'000	Manufacturing and trading of automotive equipment and parts 2008 RMB'000	Manufacturing and trading of audio equipment 2008 RMB'000	Other operations 2008 RMB'000	Total 2008 RMB'000
Turnover	485,217	—	9,655	230,592	—	725,464
Segment operating loss	(24,566)	—	(29,703)	(8,866)	(38,826)	(101,961)
Interest income	391	—	111,793	227	4,025	116,436
Operating (loss)/profit	(24,175)	—	82,090	(8,639)	(34,801)	14,475
Finance costs						(646)
Share of profits less losses of:						
A jointly controlled entity		1,912,723				1,912,723
Other jointly controlled entities			217,608			217,608
Associates	2,117		3,667			5,784
Profit before taxation						2,149,944
Taxation						(59,938)
Profit for the year						2,090,006
Segment assets	111,999		4,899,219	136,052	1,096,847	6,244,117
Interests in						
A jointly controlled entity		5,265,800				5,265,800
Other jointly controlled entities			1,270,988			1,270,988
Associates	13,877		51,012			64,889
Unallocated assets						1,506
Total assets						12,847,300
Segment liabilities	(32,624)		(4,472)	(29,928)	(9,181)	(76,205)
Unallocated liabilities						(51,379)
Total liabilities						(127,584)
Capital expenditure	869	—	879	2,178	53	3,979
Depreciation	1,597	—	1,028	4,033	2,622	9,280
Amortisation	—	—	—	156	639	795
Impairment loss	11,148	—	—	—	—	11,148

5 TURNOVER AND SEGMENT INFORMATION (Continued)

Primary reporting format — business segments (Continued)

	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 (Continued)

Secondary reporting format — geographical segments

	Turnover 2008 RMB'000	Segment operating loss 2008 RMB'000	Interest income 2008 RMB'000	Operating profit/(loss) 2008 RMB'000	Total assets 2008 RMB'000	Capital expenditure 2008 RMB'000
PRC	**485,217**	**(53,542)**	**112,150**	**58,608**	**5,007,362**	**1,574**
Hong Kong	**230,592**	**(47,692)**	**4,252**	**(43,440)**	**1,232,899**	**2,231**
Australia	**9,655**	**(727)**	**34**	**(693)**	**3,856**	**174**
	725,464	**(101,961)**	**116,436**	**14,475**	**6,244,117**	**3,979**
Interests in						
A jointly controlled entity					**5,265,800**	
Other jointly controlled entities					**1,270,988**	
Associates					**64,889**	
Unallocated assets					**1,506**	
Total assets					**12,847,300**	

	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	

6 OTHER INCOME AND OTHER GAINS

	Group	
	2008	2007
	RMB'000	RMB'000
Other income		
Interest income	**116,436**	81,170
Gross rental income from investment properties	**1,817**	2,053
Rental income from leasing of motor vehicles	**375**	3,165
Handling service charges for motor vehicles registration	**1,073**	1,020
	119,701	87,408
Other gains		
Fair value (losses)/gains on investment properties *(note 18(a))*	**(4,734)**	13,211
Others	**500**	2,722
	(4,234)	15,933
	115,467	103,341

7 OPERATING PROFIT

	Group	
	2008	2007
	RMB'000	RMB'000
Expenses included in cost of sales, selling and distribution costs, general and administrative expenses and other operating expenses are analysed as follows:		
Cost of inventories sold *(note 22)*	**622,157**	740,543
Auditor's remuneration	**3,142**	2,799
Staff costs (including directors' emoluments) *(note 13)*	**42,286**	46,512
Operating lease rentals in respect of land and buildings	**9,066**	10,504
Outgoings in respect of investment properties	**1,056**	1,201
Outgoings in respect of other properties	**33**	43
Amortisation of prepaid leasehold land and land use rights *(note 16)*	**795**	608
Depreciation of property, plant and equipment *(note 17)*	**9,280**	11,090
Loss/(gain) on disposal of property, plant and equipment	**33**	(53)
Provision/(write-back of provision) for impairment loss of property, plant and equipment/land use rights *(note 16 and 17 (a))*	**11,148**	(12,907)

8 FINANCE COSTS

	Group	
	2008	2007
	RMB'000	RMB'000
Interest on bank borrowings	**173**	477
Interest on other loans — wholly repayable within five years	**473**	99
	646	576

9 TAXATION

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 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.

	Group	
	2008	2007
	RMB'000	RMB'000
Current taxation		
Hong Kong profits tax	**—**	1,010
PRC enterprise income tax	**14,666**	15,353
Under-provision in prior year	**5,237**	—
	19,903	16,363
Deferred taxation		
Recognition of deferred withholding tax	**29,127**	—
Origination and reversal of temporary differences	**10,853**	(841)
Impact of change in Hong Kong tax rate	**55**	—
	40,035	(841)
Taxation charge	**59,938**	15,522

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

	2008	2007
	RMB'000	RMB'000
Profit before taxation, less share of profits less losses of jointly controlled entities and associates	**13,829**	82,649
Calculated at a tax rate of 25% (2007: 33%)	**3,457**	27,274
Effect of different tax rates in different tax jurisdictions	**(1,733)**	(895)
Income not subject to tax	**(661)**	(11,254)
Expenses not deductible for tax purposes	**17,144**	397
Tax losses not recognised	**7,312**	—
Impact of change in Hong Kong tax rate	**55**	—
Under-provision in prior year	**5,237**	—
Recognition of deferred withholding tax	**29,127**	—
Taxation charge	**59,938**	15,522

9 TAXATION (Continued)

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty or an arrangement between China and jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries and jointly controlled entities established in the PRC in respect of earnings generated from 1 January 2008.

10 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Included in the Group's profit attributable to the equity holders of the Company of approximately RMB2,094,259,000 (2007: RMB2,170,395,000) is a profit of approximately RMB900,233,000 (2007: RMB515,972,000), which is dealt with in the Company's own financial statements.

11 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.

	2008	2007
	RMB'000	RMB'000
Profit attributable to the equity holders of the Company	**2,094,259**	2,170,395
Weighted average number of ordinary shares in issue *('000)*	**7,518,699**	7,517,953
Basic earnings per share *(RMB cents)*	**27.9**	28.9

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.

11 EARNINGS PER SHARE (Continued)

Diluted (Continued)

	2008	2007
	RMB'000	RMB'000
Profit attributable to the equity holders of the Company	**2,094,259**	2,170,395
Weighted average number of ordinary shares in issue *('000)*	**7,518,699**	7,517,953
Adjustments for share options *('000)*	**9,886**	17,921
Weighted average number of ordinary shares for diluted earnings per share *('000)*	**7,528,585**	7,535,874
Diluted earnings per share *(RMB cents)*	**27.8**	28.8

12 DIVIDENDS

	Company	
	2008	2007
	RMB'000	RMB'000
Interim, paid, of RMB5 cents (2007: HK5 cents) per ordinary share	**375,935**	366,612
Final, proposed, of RMB2 cents (2007: RMB6 cents) per ordinary share *(note (a))*	**150,374**	451,122
Special, proposed, of RMB Nil cents (2007: RMB2.5 cents) per ordinary share *(note (a))*	**—**	187,967
	526,309	1,005,701

(a) The Board recommend the payment of a final dividend of RMB2 cents per ordinary share. Total dividends for year 2008 will be RMB7 cents per ordinary share. Such dividend is to be approved by the shareholders at the Annual General Meeting on 2 June 2009. 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 2009.

13 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	Group	
	2008	2007
	RMB'000	RMB'000
Wages and salaries	**39,762**	42,912
Pension costs — retirement benefit costs	**2,524**	3,600
	42,286	46,512

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 2007 and 2008. There was no outstanding balance available at the balance sheet dates of 2007 and 2008 to reduce future contributions. As at 31 December 2008, contributions totalling RMB63,000 (2007: RMB76,000) 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.

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 20% of the entire payroll of its staff while the employees need to contribute 8% of their payroll. The pension plan has been paying monthly pensions to the retired employees of these subsidiaries. In 2008 and 2007, 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 RMB2,524,000 (2007: RMB3,600,000).

14 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) The remuneration of every director for the year ended 31 December 2008 is set out below:

Name of Director	Fees RMB'000	Salaries, allowances, and benefits in kind RMB'000	Retirement benefit costs RMB'000	Total RMB'000
Executive director:				
Zhang Fangyou	892	—	—	892
Zeng Qinghong	713	—	—	713
Yang Dadong	713	—	—	713
Zhang Baoqing	268	1,167	64	1,499
Fu Shoujie[3]	268	—	—	268
Yao Yiming[1]	268	—	—	268
Lu Zhifeng[2]	—	—	—	—
	3,122	1,167	64	4,353
Independent non-executive director:				
Cheung Doi Shu	161	—	—	161
Lee Ka Lun	161	—	—	161
Fung Ka Pun	161	—	—	161
	483	—	—	483
	3,605	1,167	64	4,836

14 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

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

Name of Director	Fees RMB'000	Salaries, allowances, and benefits in kind RMB'000	Retirement benefit costs RMB'000	Options exercised RMB'000	Total RMB'000
Executive director:					
Zhang Fangyou	975	—	—	—	975
Lu Zhifeng[2]	780	—	—	—	780
Yang Dadong	780	—	—	—	780
Zeng Qinghong	780	—	—	—	780
Zhang Baoqing	293	1,357	53	—	1,703
Fu Shoujie[3]	293	—	—	—	293
Ding Baoshan[4]	—	—	—	—	—
	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

1 The director was appointed on 15 October 2008.

2 The director was resigned on 10 July 2008.

3 The director was appointed on 16 August 2007.

4 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 2007 and 2008.

14 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest for the year include two (2007: four) of the directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2007: one) individuals during the year are as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Basic salaries and allowances	**2,500**	1,069

The emoluments fell within the following bands:

	Number of individuals	
Emolument bands	**2008**	2007
Below HKD1,000,000	**2**	—
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.

15 INTANGIBLE ASSET

	Group
	Goodwill
	RMB'000
At 1 January 2007, 31 December 2007 and 2008	
Cost	**896,398**

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

15 INTANGIBLE ASSET (Continued)

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

	2008			2007		
	Trading of motor vehicles	**Manufacturing and assembly of motor vehicles**	**Manufacturing and trading of automotive equipment and parts (note 20(b))**	Trading of motor vehicles	Manufacturing and assembly of motor vehicles	Manufacturing and trading of automotive equipment and parts (note 20(b))
	RMB'000	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000
PRC	26,241	870,157	215,897	26,241	870,157	215,897

In accordance with HKAS 36 "Impairment of Assets", and following the allocation of goodwill to CGUs, the impairment test for goodwill was carried out by comparing the recoverable amounts to the carrying amounts as at the balance sheet date. The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering the financial year of 2008/09. Cash flows from the financial year of 2009 onwards are projected based on conservative financial forecasts using the estimated growth rates for manufacturing and trading CGUs. The forecast profitability is based on past performance and expected future changes in costs and sales prices. Future cash flows are discounted at 6%. The discount rate used is pre-tax and reflects specific risks relating to the relevant CGUs. There was no evidence of impairment arising from tests of reasonable variations of the assumptions used.

16 LEASEHOLD LAND AND LAND USE RIGHTS

	Group	
	2008	2007
	RMB'000	RMB'000
At 1 January	**39,595**	29,169
Exchange differences	**(2,297)**	(2,465)
Transfer from investment properties *(note 18)*	**—**	750
Amortisation of leasehold land and land use rights *(note 7)*	**(795)**	(608)
Write-back of provision for impairment loss	**—**	12,749
At 31 December	**36,503**	39,595

16 LEASEHOLD LAND AND LAND USE RIGHTS (Continued)

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:

	2008 RMB'000	2007 RMB'000
In Hong Kong, held on:		
Leases of over 50 years	**3,807**	4,082
Leases of between 10 to 50 years	**31,230**	33,906
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	**1,466**	1,607
	36,503	39,595

At 31 December 2008, certain leasehold land with a total net book value of approximately RMB4,507,000 (2007: RMB4,909,000) were pledged as securities for the Group's bank borrowings (note 27).

17 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 2008					
Opening net book amount	**39,897**	**14,375**	**9,909**	**5,249**	**69,430**
Exchange differences	**(1,235)**	**(808)**	**(287)**	**37**	**(2,293)**
Additions	**368**	**1,315**	**1,289**	**1,007**	**3,979**
Disposals	**—**	**(18)**	**(1,928)**	**(40)**	**(1,986)**
Depreciation *(note 7)*	**(2,354)**	**(2,990)**	**(2,798)**	**(1,138)**	**(9,280)**
Impairment *(note 7)*	**(9,665)**	**(509)**	**(329)**	**(645)**	**(11,148)**
Closing net book amount	**27,011**	**11,365**	**5,856**	**4,470**	**48,702**
At 31 December 2008					
Cost	**66,060**	**45,219**	**23,317**	**13,009**	**147,605**
Accumulated depreciation and accumulated impairment	**(39,049)**	**(33,854)**	**(17,461)**	**(8,539)**	**(98,903)**
Net book amount	**27,011**	**11,365**	**5,856**	**4,470**	**48,702**

17 PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) (Continued)

	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 2007					
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
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 18)*	533	—	—	—	533
Write back of provision for impairment loss *(note 7)*	158	—	—	—	158
Depreciation *(note 7)*	(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

The above assets were carried at cost at 31 December 2008 and 2007.

At 31 December 2008, certain properties, plant and equipment with total net book value of approximately RMB2,881,000 (2007: RMB6,309,000) were pledged as securities for the Group's bank borrowings (note 27).

17 PROPERTY, PLANT AND EQUIPMENT (Continued)

(b)

	Company		
	Office equipment and leasehold improvements RMB'000	**Motor vehicles RMB'000**	**Total RMB'000**
At 1 January 2007			
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
Year ended 31 December 2008			
Opening net book amount	**1,057**	**452**	**1,509**
Additions	**53**	**—**	**53**
Depreciation	**(319)**	**(107)**	**(426)**
Closing net book amount	**791**	**345**	**1,136**
At 31 December 2008			
Cost	**4,453**	**2,616**	**7,069**
Accumulated depreciation	**(3,662)**	**(2,271)**	**(5,933)**
Net book amount	**791**	**345**	**1,136**

18 INVESTMENT PROPERTIES

(a)

	Group	
	2008	2007
	RMB'000	RMB'000
At 1 January	**54,358**	45,272
Exchange differences	**(2,443)**	(2,842)
Transfer to leasehold land and buildings *(notes 16 and 17(a))*	**—**	(1,283)
Additions	**2,488**	—
Fair value (losses)/gains *(note 6)*	**(4,734)**	13,211
At 31 December	**49,669**	54,358

Investment properties were revalued at 31 December 2008 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:

	2008	2007
	RMB'000	RMB'000
In Hong Kong, held on:		
Leases of over 50 years	**12,003**	13,119
Leases of between 10 to 50 years	**22,497**	26,472
Outside Hong Kong, held on:		
Leases of over 50 years	**599**	721
Leases of between 10 to 50 years	**14,570**	14,046
	49,669	54,358

At 31 December 2008, certain investment properties with a total net book value of approximately RMB25,707,000 (2007: RMB30,143,000) were pledged as securities for the Group's bank borrowings (note 27).

18 INVESTMENT PROPERTIES (Continued)

(b)

	Company	
	2008	2007
	RMB'000	RMB'000
At 1 January	**11,771**	10,409
Additions	**2,488**	—
Fair value (losses)/gains	**(1,709)**	1,362
At 31 December	**12,550**	11,771

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

	2008	2007
	RMB'000	RMB'000
Outside Hong Kong, held on:		
Leases of over 50 years	**599**	721
Leases of between 10 to 50 years	**11,951**	11,050
	12,550	11,771

19 INVESTMENTS IN SUBSIDIARIES

	Company	
	2008	2007
	RMB'000	RMB'000
Investments at cost		
— unlisted investments	**1,752,859**	1,752,859
— provision for impairment losses	**(71,409)**	(71,409)
	1,681,450	1,681,450

Particulars of principal subsidiaries are set out in note 33 to the consolidated financial statements.

20 INTERESTS IN JOINTLY CONTROLLED ENTITIES

(a) Interest in a jointly controlled entity

	Group	
	2008	2007
	RMB'000	RMB'000
Share of net assets	**5,265,800**	5,110,549

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% (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.

20 INTERESTS IN JOINTLY CONTROLLED ENTITIES (Continued)

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

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

	2008	2007
	RMB'000	RMB'000
Assets:		
Non-current assets[1]	**2,882,882**	2,822,199
Current assets	**7,334,971**	7,367,031
	10,217,853	10,189,230
Liabilities:		
Non-current liabilities	**(3,000)**	(3,000)
Current liabilities	**(4,944,830)**	(5,072,043)
	(4,947,830)	(5,075,043)
Minority interests	**(4,223)**	(3,638)
	5,265,800	5,110,549
Income	**22,414,913**	19,319,044
Expenses	**(20,502,190)**	(17,459,371)
Profit for the year	**1,912,723**	1,859,673

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

20 INTERESTS IN JOINTLY CONTROLLED ENTITIES (Continued)

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

Capital commitments

At 31 December 2008, 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:

	2008 RMB'000	2007 RMB'000
Authorised but not contracted for	—	985,167
Contracted but not provided for	85,467	—

(b) Interests in other jointly controlled entities

	Group	
	2008 RMB'000	2007 RMB'000
Share of net assets	894,544	669,381
Intangible assets		
— Technology	160,547	168,111
— Goodwill *(note 15)*	215,897	215,897
	376,444	384,008
	1,270,988	1,053,389

Included in this balance is goodwill (note 15) of approximately RMB215,897,000 (2007: RMB215,897,000) arising from the acquisition of shares and shareholder's loan by the Group.

20 INTERESTS IN JOINTLY CONTROLLED ENTITIES (Continued)

(b) Interests in other jointly controlled entities (Continued)

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% (2007: 49%) of the equity capital is held by a 100% (2007: 100%) owned subsidiary of the Company. The Group's investment cost in this company is RMB740,388,000 (2007: RMB740,388,000). The Group has no unilateral control over the joint venture company. The joint venture period is 40 years from September 2005.

21 INTERESTS IN ASSOCIATES

	Group	
	2008	2007
	RMB'000	RMB'000
At 1 January	**61,607**	56,843
Share of results	**5,784**	7,717
Dividend	**(2,502)**	(2,953)
At 31 December	**64,889**	61,607

21 INTERESTS IN ASSOCIATES (Continued)

Particulars of a principal associate is as follows:

Name	Place of establishment	Principal activities	Registered capital	Effective interest indirectly 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%

The associate is indirectly held by a subsidiary of the Company. The Group's investment cost in this company is approximately RMB3,000,000 (2007: RMB3,000,000) The operation period is 30 years from March 1999.

22 INVENTORIES

	Group	
	2008	2007
	RMB'000	RMB'000
Raw materials	**18,346**	16,467
Work in progress	**14,279**	11,068
Finished goods	**42,130**	69,427
Less: provision	**(3,967)**	(4,086)
	70,788	92,876

The cost of inventories recognised as expense and included in cost of sales amounted to RMB622,157,000 (2007: RMB740,543,000) (note 7).

23 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables *(note(a))*	**38,197**	44,190	**—**	—
Less: provision for impairment of receivables	**(2,150)**	(1,048)	**—**	—
	36,047	43,142	**—**	—
Due from the subsidiaries *(note (b))*	**—**	—	**1,883,215**	1,963,364
Due from the single largest shareholder of the Company *(note (b))*	**102**	—	**102**	—
Due from a jointly controlled entity *(note (b))*	**5,087**	11,378	**—**	—
Dividend receivable from a jointly controlled entity *(note (b))*	**786,286**	436,729	**—**	—
Dividend receivable from other jointly controlled entities *(note (b))*	**—**	20,099	**—**	—
Dividend receivable from an associate *(note (b))*	**901**	—	**—**	—
Other receivables and deposits	**52,920**	50,553	**4,565**	5,716
	881,343	561,901	**1,887,882**	1,969,080

(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 2008, the ageing analysis of the trade receivables was as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Within 3 months	**30,022**	38,765
4–6 months	**7,242**	3,985
7–12 months	**67**	379
Over 12 months	**866**	1,061
	38,197	44,190

23 TRADE AND OTHER RECEIVABLES (Continued)

As at 31 December 2008, trade receivables of RMB2,150,000 (2007: RMB1,048,000) were impaired. The amount of the provision was RMB2,150,000 as at 31 December 2008 (2007: RMB1,048,000). The individually impaired receivables mainly relate to smaller customers which are in financial difficulties. The ageing of these impaired receivables is as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
1–6 months	**1,813**	482
over 12 months	**337**	566
	2,150	1,048

As at 31 December 2008, trade receivables of RMB6,025,000 (2007: RMB4,377,000) 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	
	2008	2007
	RMB'000	RMB'000
1–6 months	**5,429**	3,503
7–12 months	**67**	379
over 12 months	**529**	495
	6,025	4,377

Trade and other receivables are denominated in the following currencies:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Hong Kong dollar	**6,089**	6,632	**483,261**	580,274
US dollar	**23,484**	34,319	**6,476**	1,346
Renminbi	**851,121**	519,402	**1,398,145**	1,387,460
Others	**649**	1,548	**—**	—
	881,343	561,901	**1,887,882**	1,969,080

24 CASH AND BANK BALANCES

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**145,553**	1,462,467	**13,098**	6,818
Short-term bank deposits	**4,115,161**	2,433,816	**143,251**	131,750
	4,260,714	3,896,283	**156,349**	138,568

Cash and bank balances are denominated in the following currencies:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Hong Kong dollar	**34,767**	45,697	**20,534**	11,320
US dollar	**136,020**	127,533	**134,971**	126,405
Renminbi *(note (a))*	**4,088,651**	3,721,088	**—**	—
Others	**1,276**	1,965	**844**	843
	4,260,714	3,896,283	**156,349**	138,568

(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 2008, bank balances of the Group totalling RMB5,721,000 (2007: RMB27,052,000) were pledged as collateral for the Group's bank borrowing facilities (note 27).

The effective interest rate on short-term bank deposits was 2.97% (2007: 3.01%); these deposits have an average maturity of approximately 120 days (2007: 180 days).

25 SHARE CAPITAL

	Ordinary shares of HK$0.1 each		
	No. of shares	**HK$000**	**RMB'000**
Authorised:			
At 1 January 2007, 31 December 2007 and 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 *(note (a))*	1,340,000	134	139
At 31 December 2007 and 2008	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:

	2008		2007	
	Average exercise price in HK$ per share	**Options ('000)**	Average exercise price in HK$ per share	Options ('000)
At 1 January	**2.15**	**39,692**	2.15	41,032
Exercised	**—**	**—**	2.15	(1,340)
Forfeited	**2.15**	**(13,348)**	—	—
At 31 December	**2.15**	**26,344**	2.15	39,692

All of the above outstanding options were exercisable. No Options were exercised in 2008 (2007: 1,340,000 shares).

Share options outstanding at the end of the year have the following expiry date and exercise price:

		Options ('000)	
Expiry date	**Exercise price in HK$ per share**	**2008**	2007
5 June 2012	2.15	**26,344**	39,692

26 RESERVES

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Share premium[1]				
At 1 January	**2,380,439**	2,377,596	**2,380,439**	2,377,596
Issue of shares	**—**	2,843	**—**	2,843
At 31 December	**2,380,439**	2,380,439	**2,380,439**	2,380,439
Exchange reserve				
At 1 January	**(5,527)**	(1,593)	**—**	—
Exchange differences on translation of financial statements of foreign subsidiaries, jointly controlled entities and associates	**(4,077)**	(3,934)	**—**	—
At 31 December	**(9,604)**	(5,527)	**—**	—
Retained earnings *(note (a))*				
At 1 January	**6,938,622**	5,747,921	**645,588**	936,084
Profit for the year	**2,094,259**	2,170,395	**900,233**	515,972
2007 final dividend/2006 final dividend paid	**(451,122)**	(439,856)	**(451,122)**	(439,856)
2007 special dividend paid	**(187,967)**	—	**(187,967)**	—
Interim dividend paid	**(375,935)**	(366,612)	**(375,935)**	(366,612)
Transfer to capital reserve	**(181,829)**	(173,226)	**—**	—
At 31 December	**7,836,028**	6,938,622	**530,797**	645,588
Capital reserve *(note (b))*				
At 1 January	**1,506,320**	1,333,094	**—**	—
Transfer from income statement	**181,829**	173,226	**—**	—
At 31 December	**1,688,149**	1,506,320	**—**	—
Total reserves	**11,895,012**	10,819,854	**2,911,236**	3,026,027

[1] As at 31 December 2008, the share premium, in terms of HKD, amounted to approximately HKD2,504,231,000 (2007: HKD2,504,231,000).

26 RESERVES (Continued)

(a) Retained earnings/(accumulated losses)

	Group	
	2008	2007
	RMB'000	RMB'000
Company and subsidiaries	**4,189,727**	3,488,106
A jointly controlled entity	**3,211,732**	3,203,323
Other jointly controlled entities	**437,391**	254,779
Associates	**(2,822)**	(7,586)
	7,836,028	6,938,622

(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.

27 BORROWINGS

	Group	
	2008	2007
	RMB'000	RMB'000
Non-current		
Long-term bank loans	**752**	2,247
Current		
Trust receipt loans	**—**	553
Current portion of long-term bank loans	**1,358**	2,063
	1,358	2,616
Total borrowings	**2,110**	4,863

27 BORROWINGS (Continued)

The maturity of bank borrowings is as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Within one year	**1,358**	2,616
In the second year	**526**	1,448
In the third to fifth year inclusive	**226**	799
	2,110	4,863

(a) Borrowings of the Group totalling RMB2,110,000 (2007: RMB4,863,000) are secured by certain leasehold land, property, plant and equipment, investment properties and pledged bank balances (notes 16, 17, 18 and 24) of the Group.

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

	2008	2007
Bank loans	**3.94%**	6.82%
Trust receipt loans	**n/a**	7.24%

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

28 DEFERRED TAXATION

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

The movement on the deferred tax liabilities during the year is as follows:

	Group			
	Accelerated tax depreciation	**Withholding tax**	**Interest income**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	1,805	—	—	1,805
Credited to income statement	(841)	—	—	(841)
At 31 December 2007	964	—	—	964
Charged to income statement *(note 9)*	148	29,127	10,760	40,035
At 31 December 2008	1,112	29,127	10,760	40,999

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. The Group did not recognise deferred income tax assets in respect of losses amounting to RMB89,632,000 (2007: RMB88,145,000) that can be carried forward against future taxable income. Except for tax losses amounting to RMB28,210,000 (2007: Nil) which expire in 2013, the remaining losses have no expiry date. Total potential deferred tax assets not provided for in the financial statements is as follows:

	Group		**Company**	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Tax losses	**17,187**	15,425	**8,630**	9,783

29 TRADE AND OTHER PAYABLES

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Due to a subsidiary *(note (a))*	**—**	—	**56,098**	4,848
Due to the single largest shareholder of the Company *(note (a))*	**846**	906	**—**	—
Due to a fellow subsidiary *(note (a))*	**713**	45	**—**	—
Due to an associate *(note (a))*	**—**	235	**—**	—
Due to a minority shareholder of a subsidiary *(note (a))*	**391**	415	**—**	—
Trade payables	**34,155**	53,335	**—**	—
Bills payables *(note (b))*	**16,130**	80,397	**—**	—
Other payables, deposits received and accrued charges	**23,970**	27,929	**9,146**	8,260
	76,205	163,262	**65,244**	13,108

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

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

29 TRADE AND OTHER PAYABLES (Continued)

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

At 31 December 2008, the ageing analysis of the trade payables was as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Within 3 months	**26,592**	42,577
4–6 months	**6,362**	9,748
7–12 months	**82**	321
Over 12 months	**1,119**	689
	34,155	53,335

Trade and other payables are denominated in the following currencies:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Hong Kong dollar	**33,679**	41,680	**65,244**	13,108
Renminbi	**38,774**	116,023	**—**	—
Others	**3,752**	5,559	**—**	—
	76,205	163,262	**65,244**	13,108

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2008	2007
	RMB'000	RMB'000
Profit before taxation	**2,149,944**	2,196,511
Interest income	**(116,436)**	(81,170)
Interest expense	**646**	576
Share of profits less losses of:		
A jointly controlled entity	**(1,912,723)**	(1,859,673)
Other jointly controlled entities	**(217,608)**	(246,472)
Associates	**(5,784)**	(7,717)
Fair value losses/(gains) on investment properties	**4,734**	(13,211)
Amortisation of prepaid leasehold land and land use rights	**795**	608
Depreciation of property, plant and equipment	**9,280**	11,090
Loss/(gain) on disposal of property, plant and equipment	**33**	(53)
Provision/(write back of provision) for impairment loss of property, plant and equipment/land use rights	**11,148**	(12,907)
Provision for inventory obsolescence	**—**	392
Provision for doubtful debts	**—**	156
Operating loss before working capital changes	**(75,971)**	(11,870)
Decrease/(increase) in inventories	**22,088**	(9,469)
Decrease/(increase) in trade and other receivables	**29,874**	(24,697)
(Decrease)/increase in trade and other payables	**(87,057)**	15,090
Net cash used in operations	**(111,066)**	(30,946)

31 COMMITMENTS

(a) Commitments under operating leases

At 31 December 2008, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Not later than one year	**8,779**	9,728
Later than one year and not later than five years	**30,049**	17,039
Later than five years	**74,919**	32,463
	113,747	59,230

The Company had no operating lease commitments as at 31 December 2007 and 2008.

(b) Capital commitments

The Group and the Company had no capital commitments as at 31 December 2007 and 2008.

32 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: 37.90%) of the Company's shares. The remaining 62.10% (2007: 62.10%) 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. Saved as disclosed in note 20 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 2008:

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

(b) Transactions with related parties

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

	Group	
	2008	2007
	RMB'000	RMB'000
Purchase from a jointly controlled entity	**308,602**	303,553
Rental income received from a fellow subsidiary for leasing of motor vehicles	**—**	3,063
Sales to a fellow subsidiary	**6,632**	—

32 RELATED PARTY TRANSACTIONS (Continued)

(c) Balances with related parties

Save as disclosed in notes 23 and 29 in the consolidated financial statements, there are no other significant balances with related parties.

(d) Key management compensation

	Group	
	2008	2007
	RMB'000	RMB'000
Salaries and other short-term employee benefits	**4,772**	8,096
Retirement benefits	**64**	53
	4,836	8,149

33 SUBSIDIARIES

The following includes the principal subsidiaries of the Company which, in the opinion of the directors, are significant to the results for the year ended 31 December 2008 or formed a substantial portion of the net assets of the Group at 31 December 2008:

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	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	PRC, limited liability company	Investment holding and management	RMB468,200,000	100%
Guangzhou Automotive Industry Trading Company Limited	PRC, limited liability company	Wholesale and retail of various types of motor vehicles	RMB20,000,000	95%
Guangzhou Honda Automobile No.1 Sales Company Limited	PRC, limited liability company	Trading of sedans	RMB18,000,000	51%

33 SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment and kind of legal entity	Principal activities	Registered capital/ issued share capital	Effective interest held
Interest held indirectly: (Continued)				
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	Hong Kong, limited liability company	Manufacturing of metal parts	HKD400,000	63%
Uni-Art Precise Products Limited	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	Australia, limited liability company	Design and manufacturing of motor vehicle accessories	AUD215,710	51%
Baker and Priem Sales Pty Limited	Australia, limited liability company	Sales of motor vehicle accessories	AUD2	51%

Note:

All subsidiaries above mainly operate in their respective places of incorporation/establishment.

Particulars of investment properties held by the Group at 31 December 2008 are as follows:

Location	Gross area (sq. ft.)	Type	Tenure
Rooms 807 and 808 8th Floor, Citicorp Centre, No. 18 Whitfield 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

Location	Gross area (sq. ft.)	Type	Tenure
Unit A on 15th Floor, Eu Yan Sang Tower, Nos 11–15 Chatham Road South, Tsim Sha Tsui, Kowloon	658	Commercial	Medium lease
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
Carpark B110–B117, B148–B150 and B166 58 Yong Tai Road Guangzhou, People's Republic of China	—	Carpark	Medium lease