



# DENWAY MOTORS LIMITED

## 駿威汽車有限公司

(Incorporated in Hong Kong under the Companies Ordinance)

website: <http://www.denway-motors.com>

(Stock Code: 0203)

### ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2006

#### RESULTS

The board of directors (“Board”) of Denway Motors Limited (the “Company”) announces the consolidated results of the Company and its subsidiaries (together the “Group”), jointly controlled entities, associates and non-consolidated subsidiaries for the year ended 31 December 2006, together with comparative figures for the corresponding period in 2005 are as follows:

#### CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

|                                     | <i>Note</i> | <b>2006</b><br><b>HK\$'000</b> | 2005<br><i>HK\$'000</i> |
|-------------------------------------|-------------|--------------------------------|-------------------------|
| Continuing operations:              |             |                                |                         |
| Turnover                            | 4           | <b>807,557</b>                 | 850,483                 |
| Cost of sales                       |             | <b>(726,051)</b>               | (754,813)               |
| Gross profit                        |             | <b>81,506</b>                  | 95,670                  |
| Other gains                         |             | <b>45,627</b>                  | 49,409                  |
| Selling and distribution costs      |             | <b>(30,622)</b>                | (31,573)                |
| General and administrative expenses |             | <b>(63,780)</b>                | (94,852)                |
| Other operating income              |             | <b>25,426</b>                  | 34,842                  |
| Operating profit                    | 5           | <b>58,157</b>                  | 53,496                  |
| Finance costs                       |             | <b>(1,305)</b>                 | (1,418)                 |
| Share of profits less losses of:    |             |                                |                         |
| A jointly controlled entity         | 6(a)        | <b>2,092,138</b>               | 1,900,443               |
| Other jointly controlled entities   |             | <b>129,903</b>                 | 16,232                  |
| Associates                          |             | <b>7,414</b>                   | 13,137                  |
| Non-consolidated subsidiaries       |             | <b>–</b>                       | (966)                   |
| Profit before taxation              |             | <b>2,286,307</b>               | 1,980,924               |
| Taxation                            | 7           | <b>(11,707)</b>                | (7,650)                 |

|   | <i>Note</i> | <b>2006</b><br><b>HK\$'000</b> | 2005<br>HK\$'000         |
|---|-------------|--------------------------------|--------------------------|
| Profit for the year from continuing operations  |             | <b>2,274,600</b>               | 1,973,274                |
| A discontinued operation:   |             |                                |                          |
| Loss for the year from a discontinued operation                                       | 8           | <b>(8,093)</b>                 | (113,026)                |
| Profit for the year   |             | <b><u>2,266,507</u></b>        | <b><u>1,860,248</u></b>  |
| Attributable to:  |             |                                |                          |
| Equity holders of the Company   |             | <b>2,261,218</b>               | 1,905,529                |
| Minority interests  |             | <b>5,289</b>                   | (45,281)                 |
|   |             | <b><u>2,266,507</u></b>        | <b><u>1,860,248</u></b>  |
| Basic earnings/(losses) per share attributable to the equity holders of the Company   |             |                                |                          |
| – continuing operations   |             | <b>30.2 cents</b>              | 26.2 cents               |
| – a discontinued operation  |             | <b>(0.1) cents</b>             | (0.8) cents              |
|   | 9           | <b><u>30.1 cents</u></b>       | <b><u>25.4 cents</u></b> |
| Diluted earnings/(losses) per share attributable to the equity holders of the Company |             |                                |                          |
| – continuing operations   |             | <b>30.1 cents</b>              | 26.1 cents               |
| – a discontinued operation  |             | <b>(0.1) cents</b>             | (0.8) cents              |
|   | 9           | <b><u>30.0 cents</u></b>       | <b><u>25.3 cents</u></b> |
| Dividends   | 10          | <b><u>826,910</u></b>          | <b><u>977,256</u></b>    |

**CONSOLIDATED BALANCE SHEET**  
AS AT 31 DECEMBER 2006

|  | <i>Note</i> | <b>2006</b><br><b>HK\$'000</b> | 2005<br>HK\$'000      |
|--|-------------|--------------------------------|-----------------------|
| <b>ASSETS</b>  |             |                                |                       |
| Non-current assets   |             |                                |                       |
| Intangible asset   |             | <b>864,466</b>                 | 863,563               |
| Leasehold land and land use rights                                       |             | <b>29,032</b>                  | 29,638                |
| Property, plant and equipment  |             | <b>76,109</b>                  | 72,990                |
| Investment properties  |             | <b>45,060</b>                  | 41,160                |
| Interest in a jointly controlled entity                                  | 6(a)        | <b>5,551,343</b>               | 5,339,947             |
| Interests in other jointly controlled entities                           | 6(b)        | <b>844,951</b>                 | 721,368               |
| Interests in associates  |             | <b>56,577</b>                  | 51,851                |
| Interests in non-consolidated subsidiaries                               |             | <b>–</b>                       | 2,105                 |
|  |             | <hr/> <b>7,467,538</b> <hr/>   | <hr/> 7,122,622 <hr/> |
| Current assets   |             |                                |                       |
| Inventories  |             | <b>83,017</b>                  | 88,710                |
| Trade and other receivables  | 11          | <b>80,001</b>                  | 96,634                |
| Current tax recoverable  |             | <b>1,033</b>                   | 252                   |
| Cash and bank balances   |             |                                |                       |
| – pledged bank deposits  |             | <b>26,393</b>                  | 30,684                |
| – others   |             | <b>2,727,423</b>               | 1,632,513             |
|  |             | <hr/> <b>2,917,867</b> <hr/>   | <hr/> 1,848,793 <hr/> |
| Non-current assets classified as held for sale                           | 8           | <b>–</b>                       | 243,394               |
|  |             | <hr/> <b>2,917,867</b> <hr/>   | <hr/> 2,092,187 <hr/> |
| <b>Total assets</b>  |             | <hr/> <b>10,385,405</b> <hr/>  | <hr/> 9,214,809 <hr/> |
| <b>EQUITY</b>  |             |                                |                       |
| Share capital and reserves attributable to equity holders of the Company |             |                                |                       |
| Share capital  |             | <b>751,736</b>                 | 751,736               |
| Reserves   |             |                                |                       |
| Proposed final dividend  |             | <b>451,042</b>                 | 300,694               |
| Proposed special dividend  |             | <b>–</b>                       | 375,868               |
| Others   |             | <b>8,935,698</b>               | 7,241,898             |
|  |             | <hr/> <b>10,138,476</b> <hr/>  | <hr/> 8,670,196 <hr/> |
| Minority interests   |             | <b>70,441</b>                  | 84,462                |
| <b>Total equity</b>  |             | <hr/> <b>10,208,917</b> <hr/>  | <hr/> 8,754,658 <hr/> |

|   | <i>Note</i> | <b>2006</b><br><b>HK\$'000</b> | 2005<br>HK\$'000 |
|---|-------------|--------------------------------|------------------|
| <b>LIABILITIES</b>  |             |                                |                  |
| Non-current liabilities   |             |                                |                  |
| Borrowings  |             | <b>3,138</b>                   | 5,563            |
| Deferred tax liabilities  |             | <b>1,797</b>                   | 1,127            |
|   |             | <u><b>4,935</b></u>            | <u>6,690</u>     |
| Current liabilities   |             |                                |                  |
| Trade and other payables  | 12          | <b>147,479</b>                 | 235,222          |
| Current tax liabilities   |             | <b>13,277</b>                  | 9,982            |
| Borrowings  |             | <b>10,797</b>                  | 13,686           |
|   |             | <u><b>171,553</b></u>          | <u>258,890</u>   |
| Liabilities directly associated with non-current assets classified as held for sale | 8           | –                              | 194,571          |
|   |             | <u><b>171,553</b></u>          | <u>453,461</u>   |
| Total liabilities   |             | <u><b>176,488</b></u>          | <u>460,151</u>   |
| Total equity and liabilities  |             | <u><b>10,385,405</b></u>       | <u>9,214,809</u> |
| Net current assets  |             | <u><b>2,746,314</b></u>        | <u>1,638,726</u> |
| Total assets less current liabilities   |             | <u><b>10,213,852</b></u>       | <u>8,761,348</u> |

**NOTES:**

**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 thousands of HK dollars (HK\$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board on 28 March 2007.

## 2. 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.

## 3. Changes in accounting policies

In 2006, the Group adopted the revised standards of HKFRS below, which are relevant to its operations.

|                                     |                                       |
|-------------------------------------|---------------------------------------|
| HKAS 21 (Amendment)                 | Net Investment in a Foreign Operation |
| HKAS 39 and HKFRS 4<br>(Amendments) | Financial Guarantee Contracts         |

The adoption of the above revised standards did not result in substantial changes to the Group’s accounting policies. In Summary:

- HKAS 21 (Amendment) changes the net investment definition and permits inter-company loans denominated in any currency to be part of a net investment in a foreign operation. Exchange differences arising from these inter-company loans are taken to exchange reserve in the consolidated financial statements.
- HKAS 39 and HKFRS 4 (Amendments) requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, and (b) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

## 4. Turnover and segment information

Turnover recognised during the year are as follows:

|   | <b>Group</b>           |                 |
|---|------------------------|-----------------|
|   | <b>2006</b>            | 2005            |
|   | <b><i>HK\$’000</i></b> | <i>HK\$’000</i> |
| Trading of motor vehicles                                   | <b>527,108</b>         | 563,891         |
| Manufacturing and trading of automotive equipment and parts | <b>10,115</b>          | 11,369          |
| Manufacturing and trading of audio equipment                | <b>270,334</b>         | 275,223         |
|   | <b><u>807,557</u></b>  | <u>850,483</u>  |

### 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

## Primary reporting format – business segments

|                                   | Trading<br>of motor<br>vehicles<br>2006<br>HK\$'000 | Manufacturing<br>and<br>assembly of<br>motor<br>vehicles<br>2006<br>HK\$'000 | Manufacturing<br>and trading<br>of automotive<br>equipment<br>and parts<br>2006<br>HK\$'000 | Manufacturing<br>and trading<br>of audio<br>equipment<br>2006<br>HK\$'000 | Other<br>operations<br>2006<br>HK\$'000 | Total<br>2006<br>HK\$'000 |
|-----------------------------------|---|--|---|---|---|---------------------------|
| Turnover                          | <u>527,108</u>                                      | <u>-</u>   | <u>10,115</u>   | <u>270,334</u>  | <u>-</u>                                | <u>807,557</u>            |
| Segment operating profit/(loss)   | <u>7,206</u>  | <u>-</u>   | <u>(7,369)</u>  | <u>20,991</u>   | <u>467</u>                              | <u>21,295</u>             |
| Interest income                   | <u>667</u>  | <u>-</u>   | <u>28,698</u>   | <u>398</u>  | <u>7,099</u>                            | <u>36,862</u>             |
| Operating profit                  | <u>7,873</u>  | <u>-</u>   | <u>21,329</u>   | <u>21,389</u>   | <u>7,566</u>                            | <u>58,157</u>             |
| Finance costs                     |   |  |   |   |   | (1,305)                   |
| Share of profits less losses of:  |   |  |   |   |   |                           |
| A jointly controlled entity       |   | 2,092,138  |   |   |   | 2,092,138                 |
| Other jointly controlled entities |   |  | 129,903   |   |   | 129,903                   |
| Associates                        | 1,711   |  | 5,703   |   |   | 7,414                     |
| Profit before taxation            |   |  |   |   |   | <u>2,286,307</u>          |
| Taxation                          |   |  |   |   |   | <u>(11,707)</u>           |
| Profit/(loss) for the year from:  |   |  |   |   |   |                           |
| Continuing operations             |   |  |   |   |   | <u>2,274,600</u>          |
| A discontinued operation          |   | (8,093)  |   |   |   | <u>(8,093)</u>            |
|                                   |   |  |   |   |   | <u>2,266,507</u>          |

|                                   | Trading<br>of motor<br>vehicles<br>2006<br><i>HK\$'000</i> | Manufacturing<br>and<br>assembly of<br>motor<br>vehicles<br>2006<br><i>HK\$'000</i> | Manufacturing<br>and trading<br>of automotive<br>equipment<br>and parts<br>2006<br><i>HK\$'000</i> | Manufacturing<br>and trading<br>of audio<br>equipment<br>2006<br><i>HK\$'000</i> | Other<br>operations<br>2006<br><i>HK\$'000</i> | Total<br>2006<br><i>HK\$'000</i> |
|-----------------------------------|--|---|--|--|--|----------------------------------|
| Segment assets                    | 191,197  |   | 2,545,092  | 163,996  | 1,031,216                                      | 3,931,501                        |
| Interests in                      |  |   |  |  |  |                                  |
| A jointly controlled entity       |  | 5,551,343   |  |  |  | 5,551,343                        |
| Other jointly controlled entities |  |   | 844,951  |  |  | 844,951                          |
| Associates                        | 11,711   |   | 44,866   |  |  | 56,577                           |
| Unallocated assets                |  |   |  |  |  | 1,033                            |
| Total assets                      |  |   |  |  |  | <u>10,385,405</u>                |
| Segment liabilities               | (95,068)   |   | (7,508)  | (35,739)   | (9,164)  | (147,479)                        |
| Unallocated liabilities           |  |   |  |  |  | (29,009)                         |
| Total liabilities                 |  |   |  |  |  | <u>(176,488)</u>                 |
| Capital expenditure               | 3,584  | -   | 17   | 4,095  | 5,283  | 12,979                           |
| Depreciation                      | 3,116  | -   | 268  | 4,787  | 2,626  | 10,797                           |
| Amortisation                      | -  | -   | -  | 156  | 450  | 606                              |
|                                   | <u>-</u>   | <u>-</u>  | <u>-</u>   | <u>156</u>   | <u>450</u>                                     | <u>606</u>                       |

|                                   | Trading<br>of motor<br>vehicles<br>2005<br><i>HK\$'000</i> | Manufacturing<br>and<br>assembly of<br>motor<br>vehicles<br>2005<br><i>HK\$'000</i> | Manufacturing<br>and trading<br>of automotive<br>equipment<br>and parts<br>2005<br><i>HK\$'000</i> | Manufacturing<br>and trading<br>of audio<br>equipment<br>2005<br><i>HK\$'000</i> | Other<br>operations<br>2005<br><i>HK\$'000</i> | Total<br>2005<br><i>HK\$'000</i> |
|-----------------------------------|--|---|--|--|--|----------------------------------|
| Turnover                          | <u>563,891</u>   | <u>–</u>  | <u>11,369</u>  | <u>275,223</u>   | <u>–</u>                                       | <u>850,483</u>                   |
| Segment operating profit/(loss)   | 7,316  | –   | (8,244)  | 27,951   | (7,391)  | 19,632                           |
| Interest income                   | <u>541</u>   | <u>–</u>  | <u>13,038</u>  | <u>145</u>   | <u>20,140</u>                                  | <u>33,864</u>                    |
| Operating profit                  | <u>7,857</u>   | <u>–</u>  | <u>4,794</u>   | <u>28,096</u>  | <u>12,749</u>                                  | 53,496                           |
| Finance costs                     |  |   |  |  |  | (1,418)                          |
| Share of profits less losses of:  |  |   |  |  |  |                                  |
| A jointly controlled entity       |  | 1,900,443   |  |  |  | 1,900,443                        |
| Other jointly controlled entities |  |   | 16,232   |  |  | 16,232                           |
| Associates                        | 10,248   |   | 2,889  |  |  | 13,137                           |
| Non-consolidated subsidiaries     | (966)  |   |  |  |  | <u>(966)</u>                     |
| Profit before taxation            |  |   |  |  |  | 1,980,924                        |
| Taxation                          |  |   |  |  |  | <u>(7,650)</u>                   |
| Profit/(loss) for the year from:  |  |   |  |  |  |                                  |
| Continuing operations             |  |   |  |  |  | 1,973,274                        |
| A discontinued operation          |  | (113,026)   |  |  |  | <u>(113,026)</u>                 |
|                                   |  |   |  |  |  | <u>1,860,248</u>                 |



|  | Trading<br>of motor<br>vehicles<br>2005<br>HK\$'000 | Manufacturing<br>and<br>assembly of<br>motor<br>vehicles<br>2005<br>HK\$'000 | Manufacturing<br>and trading<br>of automotive<br>equipment<br>and parts<br>2005<br>HK\$'000 | Manufacturing<br>and trading<br>of audio<br>equipment<br>2005<br>HK\$'000 | Other<br>operations<br>2005<br>HK\$'000 | Total<br>2005<br>HK\$'000 |
|--|---|--|---|---|---|---------------------------|
| Segment assets   | 202,442   |  | 1,449,508   | 165,162   | 1,038,780                               | 2,855,892                 |
| Interests in   |   |  |   |   |   |                           |
| A jointly controlled entity  |   | 5,339,947  |   |   |   | 5,339,947                 |
| Other jointly controlled entities  |   |  | 721,368   |   |   | 721,368                   |
| Associates   | 13,950  |  | 37,901  |   |   | 51,851                    |
| Non-consolidated subsidiaries  | 2,105   |  |   |   |   | 2,105                     |
| Non-current assets classified as<br>held for sale  |   | 243,394  |   |   |   | 243,394                   |
| Unallocated assets   |   |  |   |   |   | 252                       |
| <b>Total assets</b>  |   |  |   |   |   | <b>9,214,809</b>          |
| Segment liabilities  | (110,069)   |  | (70,922)  | (44,345)  | (9,886)                                 | (235,222)                 |
| Liabilities directly associated with<br>non-current assets classified as<br>held for sale  |   | (194,571)  |   |   |   | (194,571)                 |
| Unallocated liabilities  |   |  |   |   |   | (30,358)                  |
| <b>Total liabilities</b>   |   |  |   |   |   | <b>(460,151)</b>          |
| Capital expenditure  | 825   | –  | 1,650   | 2,072   | 198                                     | 4,745                     |
| Depreciation   | 2,272   | 5,826  | 787   | 5,695   | 1,864                                   | 16,444                    |
| Amortisation   | –   | 1,237  | –   | 229   | 359                                     | 1,825                     |
| Provision/(write-back of provision)<br>for impairment loss of<br>leasehold land and<br>land use rights, property,<br>plant and equipment | –   | 23,487   | –   | (4,846)   | (7,369)                                 | 11,272                    |

## Secondary reporting format – geographical segments

|   | Turnover<br>2006<br>HK\$'000 | Segment<br>operating<br>profit/(loss)<br>2006<br>HK\$'000 | Interest<br>income<br>2006<br>HK\$'000 | Operating<br>profit/(loss)<br>2006<br>HK\$'000 | Total<br>assets<br>2006<br>HK\$'000 | Capital<br>expenditure<br>2006<br>HK\$'000 |
|---|------------------------------|---|--|--|-------------------------------------|--|
| PRC   | 527,108                      | 722   | 29,337                                 | 30,059   | 2,730,553                           | 3,584                                      |
| Hong Kong   | 270,334                      | 21,458  | 7,497                                  | 28,955   | 1,195,212                           | 9,378                                      |
| Australia   | 10,115                       | (885)   | 28                                     | (857)  | 5,736                               | 17   |
|   | <u>807,557</u>               | <u>21,295</u>   | <u>36,862</u>                          | <u>58,157</u>                                  | 3,931,501                           | <u>12,979</u>                              |
| Interests in                                      |                              |   |  |  |                                     |  |
| A jointly controlled entity                       |                              |   |  |  | 5,551,343                           |  |
| Other jointly controlled entities                 |                              |   |  |  | 844,951                             |  |
| Associates  |                              |   |  |  | 56,577                              |  |
| Unallocated assets                                |                              |   |  |  | 1,033                               |  |
| Total assets                                      |                              |   |  |  | <u>10,385,405</u>                   |  |
|   |                              |   |  |  |                                     |  |
|   | Turnover<br>2005<br>HK\$'000 | Segment<br>operating<br>(loss)/profit<br>2005<br>HK\$'000 | Interest<br>income<br>2005<br>HK\$'000 | Operating<br>profit/(loss)<br>2005<br>HK\$'000 | Total<br>assets<br>2005<br>HK\$'000 | Capital<br>expenditure<br>2005<br>HK\$'000 |
| PRC   | 563,891                      | (441)   | 13,549                                 | 13,108   | 1,645,634                           | 2,475                                      |
| Hong Kong   | 275,223                      | 20,560  | 20,285                                 | 40,845   | 1,203,942                           | 2,232                                      |
| Australia   | 11,369                       | (487)   | 30                                     | (457)  | 6,316                               | 38   |
|   | <u>850,483</u>               | <u>19,632</u>   | <u>33,864</u>                          | <u>53,496</u>                                  | 2,855,892                           | <u>4,745</u>                               |
| Interests in                                      |                              |   |  |  |                                     |  |
| A jointly controlled entity                       |                              |   |  |  | 5,339,947                           |  |
| Other jointly controlled entities                 |                              |   |  |  | 721,368                             |  |
| Associates  |                              |   |  |  | 51,851                              |  |
| Non-consolidated subsidiaries                     |                              |   |  |  | 2,105                               |  |
| Non-current assets classified<br>as held for sale |                              |   |  |  | 243,394                             |  |
| Unallocated assets                                |                              |   |  |  | 252                                 |  |
| Total assets                                      |                              |   |  |  | <u>9,214,809</u>                    |  |

## 5. Operating profit

|  | Group           |                 |
|--|-----------------|-----------------|
|  | 2006            | 2005            |
|  | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Expenses included in cost of sales, selling and distribution costs, general and administrative expenses and other operating income of continuing operations are analysed as follows: |                 |                 |
| Auditor's remuneration   | 2,540           | 2,898           |
| Staff costs (including directors' emoluments)  | 46,229          | 40,562          |
| Operating lease rentals in respect of land and buildings   | 10,326          | 7,658           |
| Outgoings in respect of investment properties  | 1,437           | 574             |
| Outgoings in respect of other properties   | 48              | 46              |
| Amortisation of prepaid leasehold land and land use rights   | 606             | 588             |
| Depreciation of property, plant and equipment  | 10,797          | 10,618          |
| Loss on disposal of property, plant and equipment  | 61              | 622             |
| Write-back of provision for impairment loss  | -               | (12,215)        |
| Provision/(write-back of provision) for inventory obsolescence   | 735             | (480)           |
| Write-back of provision for doubtful debts   | (328)           | (27)            |
| Net exchange gain  | <u>(28,383)</u> | <u>(22,742)</u> |

Expenses included in a discontinued operation are analysed as follows:

|  |          |                |
|--|----------|----------------|
| Staff costs  |          |                |
| – Termination benefits                                     | -        | 36,439         |
| – Others   | 7,345    | 39,805         |
| Operating lease rentals in respect of land and buildings   | 238      | 952            |
| Amortisation of prepaid leasehold land and land use rights | -        | 1,237          |
| Depreciation of property, plant and equipment              | -        | 5,826          |
| Provision for impairment loss                              | -        | 23,487         |
| Provision for inventory obsolescence                       | -        | 14,896         |
| Write-back of provision for doubtful debts                 | -        | (2,908)        |
|  | <u>-</u> | <u>(2,908)</u> |

## 6. Interests in jointly controlled entities

(a) *Interest in a jointly controlled entity*

|                     | Group            |                  |
|---------------------|------------------|------------------|
|                     | 2006             | 2005             |
|                     | <i>HK\$'000</i>  | <i>HK\$'000</i>  |
| Share of net assets | <u>5,551,343</u> | <u>5,339,947</u> |

Particulars of a jointly controlled entity are as follows:

| <u>Name</u>                            | <u>Place of incorporation/<br/>establishment</u> | <u>Principal activities</u>                                 | <u>Effective<br/>interest held</u> |
|--|--|---|------------------------------------|
| Guangzhou Honda<br>Automobile Co. Ltd. | PRC  | Manufacture and<br>assembly of motor<br>vehicles in the PRC | 50%                                |

This is a Sino-foreign equity joint-venture in which 50% of the equity capital, voting power and profit sharing is held by a 100% owned subsidiary of the Company. The Group's investment cost in this company is HK\$514,333,000 (2005: HK\$514,333,000). The Group has no unilateral control over the joint venture company. The joint venture period is 30 years from May 1998.

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

|                                | <b>2006</b><br><i>HK\$'000</i> | 2005<br><i>HK\$'000</i> |
|--------------------------------|--------------------------------|-------------------------|
| Assets:                        |                                |                         |
| Intangible assets <sup>1</sup> | <b>217,500</b>                 | 230,429                 |
| Land use rights                | <b>129,676</b>                 | 126,962                 |
| Property, plant and equipment  | <b>2,391,242</b>               | 2,029,928               |
| Current assets                 | <b>6,497,050</b>               | 5,605,088               |
|                                | <u><b>9,235,468</b></u>        | <u>7,992,407</u>        |
| Liabilities:                   |                                |                         |
| Non-current liabilities        | <b>(2,588)</b>                 | (961)                   |
| Current liabilities            | <b>(3,678,164)</b>             | (2,648,532)             |
|                                | <u><b>(3,680,752)</b></u>      | <u>(2,649,493)</u>      |
| Minority interests             | <b>(3,373)</b>                 | (2,967)                 |
|                                | <u><b>5,551,343</b></u>        | <u>5,339,947</u>        |
| Income                         | <b>18,271,507</b>              | 16,059,400              |
| Expenses                       | <b>(16,179,369)</b>            | (14,158,957)            |
| Profit for the year            | <u><b>2,092,138</b></u>        | <u>1,900,443</u>        |

<sup>1</sup> Included in this balance is goodwill of approximately HK\$149,716,000 (2005: HK\$144,538,000) arising from the acquisition of motor vehicle manufacturing business and a production plant in Guangzhou by the jointly controlled entity.

## Capital commitments

At 31 December 2006, 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:

|                                   | <b>2006</b><br><i>HK\$'000</i> | 2005<br><i>HK\$'000</i> |
|-----------------------------------|--------------------------------|-------------------------|
| Authorised but not contracted for | <u>–</u>                       | <u>247,896</u>          |
| Contracted but not provided for   | <u>–</u>                       | <u>1,192,919</u>        |

### (b) *Interests in other jointly controlled entities*

|                     | <b>Group</b>                   |                         |
|---------------------|--------------------------------|-------------------------|
|                     | <b>2006</b><br><i>HK\$'000</i> | 2005<br><i>HK\$'000</i> |
| Share of net assets | <u>468,034</u>                 | <u>319,542</u>          |
| Intangible assets   |                                |                         |
| – Technology        | <u>168,450</u>                 | <u>193,359</u>          |
| – Goodwill          | <u>208,467</u>                 | <u>208,467</u>          |
|                     | <u>376,917</u>                 | <u>401,826</u>          |
|                     | <u>844,951</u>                 | <u>721,368</u>          |

Particulars of the principal jointly controlled entity are as follows:

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

This is a Sino-foreign equity joint-venture in which 49% of the equity capital is held by a 100% owned subsidiary of the Company. The Group's investment cost in this company is HK\$710,000,000 (2005: HK\$710,000,000). The Group has no unilateral control over the joint venture company. The joint venture period is 40 years from September 2005.

## 7. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

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

|                           | <b>Group</b>           |                 |
|---------------------------|------------------------|-----------------|
|                           | <b>2006</b>            | 2005            |
|                           | <b><i>HK\$'000</i></b> | <i>HK\$'000</i> |
| Current taxation          |                        |                 |
| Hong Kong profits tax     | <b>2,501</b>           | 2,061           |
| PRC enterprise income tax | <b>8,536</b>           | 5,379           |
| Overseas income tax       | –                      | 9               |
|                           | <b>11,037</b>          | 7,449           |
| Deferred taxation         |                        |                 |
| Hong Kong profits tax     | <b>670</b>             | 201             |
|                           | <b>11,707</b>          | 7,650           |

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

|  | <b>2006</b>            | 2005            |
|--|------------------------|-----------------|
|  | <b><i>HK\$'000</i></b> | <i>HK\$'000</i> |
| Profit before taxation, less share of profits less losses of jointly controlled entities, associates and non-consolidated subsidiaries | <b>56,852</b>          | 52,078          |
| Calculated at a tax rate of 33% (2005: 33%)  | <b>18,761</b>          | 17,186          |
| Effect of different tax rates in different tax jurisdictions   | <b>(2,215)</b>         | (1,825)         |
| Income not subject to tax  | <b>(6,459)</b>         | (7,896)         |
| Underprovision in prior years  | <b>1,620</b>           | 185             |
| Taxation charge  | <b>11,707</b>          | 7,650           |

## 8. Non-current assets held for sale and a discontinued operation

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

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

|                   | <b>2006</b><br><i>HK\$'000</i> | 2005<br><i>HK\$'000</i> |
|-------------------|--------------------------------|-------------------------|
| Income            | <b>17,866</b>                  | 179,526                 |
| Expense           | <b>(25,959)</b>                | (292,552)               |
|                   | <hr/>                          | <hr/>                   |
| Loss for the year | <b>(8,093)</b>                 | (113,026)               |

|                      | <b>2006</b><br><i>HK\$'000</i> | 2005<br><i>HK\$'000</i> |
|----------------------|--------------------------------|-------------------------|
| Operating cash flows | <b>(18,337)</b>                | (31,006)                |
| Investing cash flows | <b>5,750</b>                   | 15,396                  |
| Financing cash flows | <b>5,437</b>                   | (3,500)                 |
|                      | <hr/>                          | <hr/>                   |
| Total cash flows     | <b>(7,150)</b>                 | (19,110)                |

2005  
*HK\$'000*

Non-current assets classified as held for sale:

|                               |                |
|-------------------------------|----------------|
| Land use right                | 40,742         |
| Property, plant and equipment | 124,226        |
| Inventories                   | 18,950         |
| Trade and other receivables   | 24,342         |
| Cash and bank balances        |                |
| – pledged bank deposits       | 14,263         |
| – others                      | 20,871         |
|                               | <hr/>          |
|                               | <b>243,394</b> |

Liabilities directly associated with non-current assets classified as held for sale:

|                                       |                |
|---------------------------------------|----------------|
| Bank borrowings                       |                |
| – non-current                         | 4,804          |
| – current                             | 48,045         |
| Trade and other payables              |                |
| – due to intermediate holding company | 10,719         |
| – others                              | 131,003        |
|                                       | <hr/>          |
|                                       | <b>194,571</b> |

## 9. Earnings per share

### Basic

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

|   | <b>2006</b><br><i>HK\$'000</i> | 2005<br><i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Profit/(loss) attributable to equity holders of the Company |                                |                         |
| – continuing operations                                     | <b>2,265,264</b>               | 1,962,548               |
| – a discontinued operation                                  | <b>(4,046)</b>                 | (57,019)                |
|   | <b><u>2,261,218</u></b>        | <u>1,905,529</u>        |
| Weighted average number of ordinary shares in issue ('000)  | <b><u>7,517,359</u></b>        | <u>7,502,012</u>        |
| Basic earnings/(losses) per share (HK cents)                |                                |                         |
| – continuing operations                                     | <b>30.2</b>                    | 26.2                    |
| – a discontinued operation                                  | <b>(0.1)</b>                   | (0.8)                   |
|   | <b><u>30.1</u></b>             | <u>25.4</u>             |

### 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.

|  | <b>2006</b><br><i>HK\$'000</i> | 2005<br><i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Profit/(loss) attributable to equity holders of the Company                      |                                |                         |
| – continuing operations  | <b>2,265,264</b>               | 1,962,548               |
| – a discontinued operation   | <b>(4,046)</b>                 | (57,019)                |
|  | <b><u>2,261,218</u></b>        | <u>1,905,529</u>        |
| Weighted average number of ordinary shares in issue ('000)                       | <b>7,517,359</b>               | 7,502,012               |
| Adjustments for share options ('000)   | <b>12,111</b>                  | 10,543                  |
| Weighted average number of ordinary shares for diluted earnings per share ('000) | <b><u>7,529,470</u></b>        | <u>7,512,555</u>        |
| Diluted earnings/(losses) per share (HK cents)                                   |                                |                         |
| – continuing operations  | <b>30.1</b>                    | 26.1                    |
| – a discontinued operation   | <b>(0.1)</b>                   | (0.8)                   |
|  | <b><u>30.0</u></b>             | <u>25.3</u>             |



## 10. Dividends

|  | Company                 |                         |
|--|-------------------------|-------------------------|
|  | 2006<br><i>HK\$'000</i> | 2005<br><i>HK\$'000</i> |
| Interim, paid, of HK5 cents (2005: HK4 cents)<br>per ordinary share                  | 375,868                 | 300,694                 |
| Final, proposed, of HK6 cents (2005: HK4 cents)<br>per ordinary share (note (a))     | 451,042                 | 300,694                 |
| Special, proposed, of HKNil cents (2005: HK5 cents)<br>per ordinary share (note (a)) | –                       | 375,868                 |
|  | <u>826,910</u>          | <u>977,256</u>          |

- (a) At a meeting held on 28 March 2007, the directors proposed a final dividend of HK6 cents (2005: a final dividend of HK4 cents and a special dividend of HK5 cents) per ordinary share. 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 2007.

## 11. Trade and other receivables

|  | Group                   |                         |
|--|-------------------------|-------------------------|
|  | 2006<br><i>HK\$'000</i> | 2005<br><i>HK\$'000</i> |
| Due from a jointly controlled entity<br>(note (a)) | 5,769                   | 7,071                   |
| Trade receivables (note (b))                       | 45,711                  | 58,336                  |
| Other receivables, prepayments<br>and deposits     | 28,521                  | 31,227                  |
|  | <u>80,001</u>           | <u>96,634</u>           |

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

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

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

At 31 December 2006, the ageing analysis of the trade receivables was as follows:

|                 | <b>Group</b>                   |                         |
|-----------------|--------------------------------|-------------------------|
|                 | <b>2006</b><br><i>HK\$'000</i> | 2005<br><i>HK\$'000</i> |
| Within 3 months | <b>42,721</b>                  | 45,893                  |
| 4-6 months      | <b>1,533</b>                   | 6,593                   |
| 7-12 months     | <b>464</b>                     | 177                     |
| Over 12 months  | <b>993</b>                     | 5,673                   |
|                 | <b>45,711</b>                  | 58,336                  |

The ageing analysis of the trade receivables included in non-current assets classified as held for sale was as follows:

|                 | 2005<br><i>HK\$'000</i> |
|-----------------|-------------------------|
| Within 3 months | 5,864                   |
| 4-6 months      | 8,217                   |
| 7-12 months     | 2,258                   |
|                 | <b>16,339</b>           |

## 12. Trade and other payables

|  | <b>Group</b>                   |                         |
|--|--------------------------------|-------------------------|
|  | <b>2006</b><br><i>HK\$'000</i> | 2005<br><i>HK\$'000</i> |
| Due to the single largest shareholder of the Company ( <i>note (a)</i> ) | <b>2,765</b>                   | 8,123                   |
| Due to a fellow subsidiary ( <i>note (a)</i> )                           | <b>40</b>                      | –                       |
| Due to an associate ( <i>note (a)</i> )                                  | <b>769</b>                     | 1,448                   |
| Due to a minority shareholder of a subsidiary ( <i>note (a)</i> )        | <b>443</b>                     | 443                     |
| Trade payables   | <b>33,639</b>                  | 45,301                  |
| Bills payables ( <i>note (b)</i> )                                       | <b>78,232</b>                  | 81,705                  |
| Other payables, deposits received and accrued charges                    | <b>31,591</b>                  | 98,202                  |
|  | <b>147,479</b>                 | 235,222                 |

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

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

At 31 December 2006, the ageing analysis of the trade payables was as follows:

|                 | <b>Group</b>    |                 |
|-----------------|-----------------|-----------------|
|                 | <b>2006</b>     | 2005            |
|                 | <b>HK\$'000</b> | <b>HK\$'000</b> |
| Within 3 months | <b>33,108</b>   | 44,760          |
| 4-6 months      | <b>119</b>      | 402             |
| 7-12 months     | <b>85</b>       | 66              |
| Over 12 months  | <b>327</b>      | 73              |
|                 | <b>33,639</b>   | 45,301          |

The ageing analysis of the trade payables included in liabilities directly associated with non-current assets classified as held for sale was as follows:

|                 | 2005            |
|-----------------|-----------------|
|                 | <b>HK\$'000</b> |
| Within 3 months | 27,506          |
| 4-6 months      | 1,618           |
| 7-12 months     | 1,130           |
| Over 12 months  | 1,486           |
|                 | <b>31,740</b>   |

#### **PROPOSED FINAL DIVIDEND**

The Board recommends a final dividend of HK6 cents (2005: a final dividend of HK4 cents and a special dividend of HK5 cents) per ordinary share for the year ended 31 December 2006. Together with the interim dividend of HK5 cents paid, total dividends for the year will be HK11 cents (2005: HK13 cents) per ordinary share. Subject to the approval of shareholders at the forthcoming Annual General Meeting, the final dividend will be paid on 13 June 2007 to shareholders whose name appeared on the register of members of the Company on 6 June 2007.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Thursday, 31 May 2007 to Wednesday, 6 June 2007 both days inclusive, during which no transfer of shares will be registered. In order to qualify for the proposed final dividend, all share certificates with completed transfer forms either overleaf or separately must be lodged with the Company's Registrars, Abacus Share Registrars Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Wednesday, 30 May 2007.

## **BUSINESS REVIEW**

For the year ended 31 December 2006, turnover from the continuing operations of the Group was approximately HK\$807,557,000 (2005: HK\$850,483,000), a decrease of 5.0% over the last year. The consolidated profit attributable to shareholders was HK\$2,261,218,000 (2005: HK\$1,905,529,000), an increase of 18.7% over the last year. Earnings per share from the continuing operations was HK30.2 cents (2005: HK26.2 cents), an increase of 15.3% over the last year.

The automobile industry of China continued to sustain relatively fast growth in 2006 amidst a stable and favourable economic environment. Approximately 7,279,700 units of motor vehicles were manufactured and 7,216,000 were sold during the year, representing a year-on-year growth of approximately 27.32% and 25.13%, respectively. Of the total, approximately 5,233,100 units manufactured and 5,176,000 units sold were passenger vehicles, representing a year-on-year growth of approximately 32.76% and 30.02%, respectively.

During 2006, the Group manufactured and sold an aggregate of 261,951 and 260,096 units of motor vehicles respectively, through a jointly controlled entity (the "Sedan Company") which is directly owned by the Company's wholly owned subsidiary, Guangzhou Auto Group Corporation, representing an increase of approximately 13.1% and 12.7% respectively over the previous year and well exceeding the production and sales target laid down at the beginning of the year. In terms of nationwide market share ranking of single brand name vehicles produced by the Sedan Company, sedans with a capacity of 2.0L and above and multi-purpose sedans ranked the first and second respectively. Its 2-compartment compact cars with a capacity of 1.3L to 1.5L ranked the second and 3-compartment compact cars with a capacity of 1.3L to 1.5L also ranked on top.

In order to satisfy the demand, the Sedan Company started to build the second plant in May 2005 and the second plant was completed in September 2006. With the completion of the second plant, the production capacity of the Sedan Company was further expanded to an annual capacity of 360,000 units. The smooth operation of the second plant means that it will complement the first plant thereby contributing a better cost production system and will upgrade the competitive edge of the Sedan Company.

The extraordinary general meeting of the Company held on 23 March 2006 approved the disposal of the Company's 50% equity interest in Guangzhou Denway Bus Co., Ltd, which enabled the Group's asset structure to be optimised and enhanced.

Guangzhou Automobile Group Component Co., Ltd. ("Guangzhou Component"), whose 49% equity interest was acquired by the Group in 2005, maintained its sound operations in 2006. The turnover and production capacity have increased constantly. A stable growth has been maintained at a relatively fast pace, exceeding all targets set by the board of directors of Guangzhou Component.

The performance of the Group's motor vehicle trading business in 2006 was slightly below expectation given the intense competition in the market, but was nevertheless in line with the overall performance of China's motor vehicle trading market for the year. The performance of the Group's audio equipment manufacturing and trading business was in line with expectation.

## **FUTURE PROSPECTS**

The steady and balanced development trend for the PRC economy is expected to continue in 2007. Sound business opportunities for the automobile industry are expected, as the Central Government is expected to implement a series of policies aiming at stimulating consumption in a move to enhance the role of domestic consumption as the drive for the overall economic growth. With the continuous growth in China's GDP and the hosting of the Olympic Games, the domestic automobile market will grow rapidly as the car ownership in China is far behind the global average. It is forecasted that the output and sales of automobiles shall reach 8,500,000 units this year, representing a year-on-year increase of approximately 17%.

The Sedan Company plans to produce and sell 310,000 units of sedans in 2007, representing an increase of approximately 19% over 2006. It will continue to adopt a market-oriented approach and produce more products that may satisfy market demands and user preferences. Meanwhile, in view of the increasing competition and growing car ownership, the Sedan Company will endeavor to bring more benefits to consumers by strengthening its marketing capabilities, improving its after-sales services, enhancing the efficiency of its authorized dealers and providing more staff training and streamlining the distribution process.

In 2007, Guangzhou Component will closely follow the development of the sedan plants so as to grasp any opportunity for new project developments, seeking to maintain vigorous growth through ongoing improvements in its management system, higher levels of domestic production, production of auxiliary items in more significant scale and reductions in production costs.

The automobile industry of Guangzhou is expected to continue its growth in full swing in 2007. The Group will continue to identify potential business opportunities related to the automobile industry. The Board is confident that the Group is well-positioned to grasp such opportunities for further development, thereby increasing returns for its shareholders.

## **FINANCIAL SUMMARY**

The Group's turnover from the continuing operations of the Group for the year ended 31 December 2006 was about HK\$807,557,000, representing a decrease of about 5.0% compared to that of 2005.

On 17 February 2006, the Group announced a connected transaction to dispose the equity interest in a subsidiary ("the disposed subsidiary") solely conducting business in the manufacturing and assembly of motor vehicles. In accordance to HKFRS, the relevant items relating to the disposed subsidiary in the income statement in 2005 and 2006 and the balance sheet in 2005 were classified separately as a discontinued operation. The transaction was approved by independent shareholders and completed on 23 March 2006.

The turnover of the trading of motor vehicles decreased by HK\$36,783,000 which represented a decrease of about 6.5% in 2006 compared that of 2005. The operating profit of this segment had no significant change. The turnover of the manufacturing and trading of automotive equipment and parts decreased by HK\$1,254,000 which represented a decrease of about 11.0% in 2006 compared that of 2005. However, the operating profit of this segment increased by HK\$16,535,000 in 2006, mainly due to higher interest income. The turnover of the manufacturing and trading of audio equipment decreased by HK\$4,889,000 which represented a decrease of about 1.8% in 2006, mainly due to reduction of sales orders. The operating profit of this segment decreased by

HK\$6,707,000 in 2006, mainly due to increase of cost of goods sold. The order on hand of the Group for the business of the manufacturing and trading of audio equipment was about HK\$23,263,000 as at 31 December 2006.

The total borrowings of the Group were decreased from about HK\$19,249,000 at the end of 2005 to about HK\$13,935,000 at 31 December 2006, mainly due to repayment of the borrowings. The Group maintained a low ratio of borrowings relative to total equity at about 0.1% as at 31 December 2006 and 0.2% as at 31 December 2005. The ratio of total liabilities relative to total equity was decreased to only about 1.7% as at 31 December 2006 from about 5.3% as at 31 December 2005. The Group's borrowings were secured by leasehold land, buildings and investment properties with a total net book value of about HK\$36,627,000 and bank balances of about HK\$26,393,000. As at 31 December 2006, the Group had no contingent liabilities.

The Group had cash and bank balances of about HK\$2,753,816,000 as at 31 December 2006. This included the net cash used in operating activities of about HK\$62,173,000. During the year, the payment of dividend by the Company was financed by the receipt of cash dividend from the investment vehicles.

The Group's general and administrative expenses for the year ended 31 December 2006 were about HK\$63,780,000, representing a decrease of about 32.8% compared with that of 2005, mainly due to implementation of effective cost controls within the Group. The finance costs decreased by HK\$113,000, mainly due to reduction of the total borrowings of the Group. The interest cover remained at a high level of 1,753 multiples in 2006 compared to that of 1,398 multiples in 2005. The Group enjoyed the benefit of the currency appreciation of Reminbi, the major operating currency of the Group and resulted a significant exchange gains upon realization.

Share of profit of a non-consolidated subsidiary was about nil in 2006 compared with that of share of losses of non-consolidated subsidiaries of about HK\$966,000 in 2005. Further, share of profits of associates were about HK\$7,414,000 in 2006, represented a decrease of about 43.6% compared to that of 2005.

On 6 October 2005, the Group announced a connected transaction to acquire 49% effective equity interest in a jointly controlled entity. The jointly controlled entity holds other jointly controlled entities and the Group classified all of them as other jointly controlled entities for presentation purpose. The transaction was approved by independent shareholders and completed on 2 November 2005. After the completion of the transaction, the Group shared profits of HK\$129,903,000 from other jointly controlled entities for the year ended 31 December 2006.

Share of profit from a jointly controlled entity was the major source of profit for the Group, which contributed about HK\$2,092,138,000, and represented an increase of about 10.1% compared with that of 2005, mainly due to increase of sales of sedans during the year.

## **EMPLOYEES AND REMUNERATION POLICY**

As at 31 December 2006, the continuing operations of the Group employed approximately 1,500 (2005: 1,800) 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 the 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.

## **CORPORATE GOVERNANCE**

Since 2005, the Company has adopted its own Code on Corporate Governance (the “Denway Code”), which covered all of the code provisions and recommended best practices that are considered reasonable and appropriate by the Board of Appendix 14 “Code of Corporate Governance Practices” (the “CG Code”), and model code for securities transactions by the directors on terms no less exacting than those set out in Appendix 10 “Model Code for Securities Transactions by Directors of Listed Companies” (the “Model Code”) of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited.

During 2006, the Company complied with all code provisions as set out in the CG Code except for a single deviation. According to code provision E.1.2 of the CG Code, the Chairman of the Board should attend the annual general meeting. Due to an unexpected business commitment, Mr. Zhang Fangyou, the Chairman of the Board, was unable to attend the annual general meeting of the Company (the “AGM”) held on 6 June 2006. Mr. Lu Zhifeng, the Vice Chairman of the Board, was elected in accordance with the Company’s Articles of Association, to act as the chairman of the AGM and answered questions raised by shareholders together with the chairmen of the Audit Committee, the Remuneration Committee and the Nomination Committee and other directors.

Having made specific enquiries, all directors have confirmed that they have strictly complied with the Model Code and the model code for securities transactions by the directors stated in Denway Code throughout 2006.

The Audit Committee has reviewed the results of the Group for the year ended 31 December 2006.

## **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.

## **DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE**

The 2006 Annual Report of the Company containing all the information required by Appendix 16 to the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited and will be sent to shareholders of the Company in due course.

## **LIST OF DIRECTORS**

As at the date of this announcement, the Board comprised the following directors:

### **Executive Directors:**

Mr. Zhang Fangyou, Mr. Lu Zhifeng, Mr. Yang Dadong, Mr. Zeng Qinghong, Mr. Zhang Baoqing, and Mr. Ding Baoshan

### **Independent Non-Executive Directors:**

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

By order of the Board  
**Zhang Fangyou**  
*Chairman*

Hong Kong, 28 March 2007

Please also refer to the published version of this announcement in The Standard.