

The Board of Directors submits its report together with the audited financial statements for the year ended 31 December 2006.

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, associates and non-consolidated subsidiaries 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 41. The Board of Directors 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 2006 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 names 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 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.

RESERVES

Movements in the reserves during the year are set out in note 28 to the consolidated financial statements. The Company had distributable reserves of HK\$ 886,727,000 at 31 December 2006, calculated pursuant to section 79B of the Company Ordinance (2005: HK\$996,224,000).

PROPERTY, PLANT AND EQUIPMENT

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

PRINCIPAL PROPERTIES

Details of the investment properties held by the Group are set out on pages 107 and 108.

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 27 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 2006 are set out in note 27(b) 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 2006 are set out in note 35 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 2006 are set out in note 29 to the consolidated financial statements.

FIVE-YEAR FINANCIAL SUMMARY

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

	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
Profit attributable to shareholders	<u>2,261,218</u>	<u>1,905,529</u>	<u>2,062,447</u>	<u>1,686,709</u>	<u>1,091,913</u>
Total assets	10,385,405	9,214,809	7,584,109	5,829,890	3,940,259
Total liabilities	176,488	460,151	456,178	502,558	335,090
Minority interests	<u>70,441</u>	<u>84,462</u>	<u>157,564</u>	<u>171,228</u>	<u>109,107</u>
Shareholders' funds	<u>10,138,476</u>	<u>8,670,196</u>	<u>6,970,367</u>	<u>5,156,104</u>	<u>3,496,062</u>

DIRECTORS

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

Executive Directors

Mr. ZHANG Fangyou

Mr. LU Zhifeng

Mr. YANG Dadong

Mr. ZENG Qinghong

Mr. ZHANG Baoqing

Mr. DING Baoshan

Independent Non-Executive Directors

Mr. CHEUNG Doi Shu

Mr. LEE Ka Lun

Mr. FUNG Ka Pun

Messrs. ZHANG Fangyou, ZENG Qinghong and CHEUNG Doi Shu shall retire by rotation in accordance with Article 101 of the Articles of Association of the Company and, being eligible, shall offer themselves for re-election at the forthcoming annual general meeting.

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

DIRECTORS AND SENIOR MANAGEMENT'S PROFILES

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

Executive Directors

Mr. ZHANG Fangyou, aged 50, joined the Group in 1997 and became the Chairman of the Company on 18 September 1998. He is also the Chairman of Guangzhou Automobile Industry Group Co., Ltd., Guangzhou Automobile Group Co., Ltd., Guangzhou Toyota Motor Co., Ltd., Guangzhou Auto Group (Hong Kong) Ltd. and China Lounge Investments Ltd. Mr. Zhang was a Director of Guangzhou Honda Automobile Co., Ltd. and the Managing Director of China Lounge Investments Ltd. and the Company. He had held senior posts in the Zeng Cheng Municipal People's Government of Guangdong Province and was the Deputy Secretary-General of Guangzhou Municipal People's Government and the Director of the Automotive Industry Office of Guangzhou Municipal People's Government.

Mr. LU Zhifeng, aged 54, joined the Group in 1998 and was appointed as the Vice Chairman of the Company on 11 January 2000. He is also the Managing Director of Guangzhou Automobile Industry Group Co., Ltd., the Vice Chairman of Guangzhou Automobile Group Co., Ltd., the Chairman of Guangzhou Honda Automobile Co., Ltd. and the Vice Chairman of the Guangzhou Auto Group (Hong Kong) Ltd. and China Lounge Investments Ltd. Mr. Lu was the General Manager of Guangzhou Automobile Group Co., Ltd., the Executive Deputy Managing Director of Guangzhou Honda Automobile Co., Ltd., the General Manager of Guangzhou Yangcheng Automobile Group Co. and the Vice Chairman and Managing Director of Guangzhou Yangcheng Automobile Co., Ltd.

Mr. YANG Dadong, aged 57, 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. as well as the Chairman of Wu Yang-Honda Motors (Guangzhou) Co., Ltd. Mr. Yang was the Chairman of Guangzhou Motorcycle Group Co. and the Vice Chairman and Managing Director of Wu Yang-Honda Motors (Guangzhou) Co., Ltd.

Mr. ZENG Qinghong, aged 45, joined the Group in 1999 and was appointed as a Director of the Company on 16 January 2001. He is also a Director of Guangzhou Automobile Industry Group Co., Ltd., the Vice Chairman and Managing Director of Guangzhou Automobile Group Co., Ltd., a Director of Guangzhou Auto Group (Hong Kong) Ltd. and China Lounge Investments Ltd., the Chairman of Guangzhou Automobile Group Component Co., Ltd. and Guangzhou Automobile Group Business Co., Ltd. He was the Deputy Managing Director of Guangzhou Automobile Industry Group Co., Ltd., the Executive Deputy Managing Director of Guangzhou Honda Automobile Co., Ltd. and the Vice Chairman and Executive Deputy Managing Director of Guangzhou Guangke Automobile Enterprises Group Co., Ltd.

Mr. ZHANG Baoqing, aged 57, joined the Group in 1998 and was appointed as the Deputy Managing Director of the Company on 19 June 2001. He became the Managing Director on 23 September 2004 and a member of the Remuneration Committee of the Company on 3 January 2005. He is also a Director of Guangzhou Automobile Group Co., Ltd., Guangzhou Honda Automobile Co., Ltd., Guangzhou Automobile Group Component Co., Ltd. and Guangzhou Automobile Group Business Co., Ltd., the Managing Director of Guangzhou Auto Group (Hong Kong) Ltd. and China Lounge Investments Ltd., as well as the Chairman of Guangzhou Denway Enterprises Development Co., Ltd. and of several members of the Group. He was the Deputy Managing Director of Guangzhou Automobile Industry Group Co., Ltd. and Guangzhou Automobile Group Co., Ltd.

Mr. DING Baoshan, aged 43, joined the Group as a Director of the Company on 26 October 2000. He is also the Deputy General Manager of Guangzhou Automobile Group Co., Ltd. and a Director of Guangzhou Auto Group (Hong Kong) Ltd. and China Lounge Investments Ltd. Mr. Ding was the Chief Economist of Guangzhou Automobile Industry Group Co., Ltd., the Assistant to the General Manager and Chief Economist of Guangzhou Automobile Group Co., Ltd. and the Chairman of Guangzhou Honda Automobile No.1 Sales Co., Ltd. He had worked in the national macroeconomics departments for research of macroeconomical policies and corporate reform and development.

Independent Non-Executive Directors

Mr. CHEUNG Doi Shu, aged 45, 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 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 52, 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 and Chow Sang Sang Holdings International 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 61, was appointed as an Independent Non-Executive Director and a member of the Audit Committee of the Company on 23 September 2004, a member of the Remuneration Committee of the Company on 3 January 2005 and the Chairman of the Nomination Committee of the Company on 2 September 2005. He is also the Co-Chairman of E2-Capital (Holdings) Limited, the Chairman of Goodwill International (Holdings) Limited, the Deputy Chairman of Samling Global Limited and an Independent Non-Executive Director of GZI Transport Limited, Lei Shing Hong Limited and Lee Hing Development Limited.

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

Senior Management

Ms. GAO Fusheng, aged 49, joined the Group in 1999 and was appointed as the Deputy General Manager and the Financial Controller of the Company in November 2000. She is also a Director of Guangzhou Denway Enterprises Development Co., Ltd. She is a qualified senior accountant in the PRC. She was the Director of the Finance Department of Guangzhou Automobile Group Co., Ltd. and the Director of the Finance Department of the Automotive Industry Office of Guangzhou Municipal People's Government.

Mr. HO Nai Ki, aged 57, is the Assistant to the Managing Director of the Company and the General Manager of the Company's Marketing Department. Prior to joining the Group in 1993, he had worked in various international financial institutions including the Chase Manhattan Bank and Sun Hung Kai Group.

Mr. Su Pui Kwan, aged 42, is the Deputy General Manager of the Finance Department and the Qualified Accountant of the Company. He joined the Group in 1997. He is a Fellow of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

DIRECTORS' SERVICE CONTRACTS

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

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 has approved to adopt a share option scheme ("Share Option Scheme") in the general meeting on 6 June 2002. The purpose of the Share Option Scheme is (i) to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the participants and to provide the participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and the shareholders as a whole, and (ii) for such other purposes as the board 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 employees of the Group; (ii) any discretionary objects of a discretionary trust established by any

employees, executive or non-executive directors 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 executives or substantial shareholders of the Company; (v) associates of directors, chief executives or substantial shareholders of the Company; and (vi) employees of substantial shareholders.

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 Share Option 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 a 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:

Grantee	Number of share options			As at 31 December 2006	Notes
	As at 1 January 2006	Exercised during the year	Lapsed during the year		
ZHANG Fangyou	8,528,000	–	–	8,528,000	(2)
LU Zhifeng	7,684,000	–	–	7,684,000	(2)
YANG Dadong	5,664,000	–	–	5,664,000	(2)
ZENG Qinghong	5,664,000	–	–	5,664,000	(2)
ZHANG Baoqing	6,488,000	–	–	6,488,000	(2)
DING Baoshan	5,664,000	–	–	5,664,000	(2)
LEE Ka Lun	1,340,000	–	–	1,340,000	(2)
Aggregate total of other participants	1,628,000	–	1,628,000	–	(1)
	5,664,000	–	5,664,000	–	(2)

Notes:

1. These options were granted on 9 May 2003 at an adjusted exercise price of HK\$1.325* per share. The exercise period is from 9 May 2003 to 8 May 2006. 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\$1.35*.
2. 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*.
3. No option was granted, exercised or cancelled during the year. The number of options lapsed during the year was 7,292,000.

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

DIRECTORS' INTEREST IN SHARES

As at 31 December 2006, 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 2006
CHEUNG Doi Shu	3,000,000	0.04%
LEE Ka Lun	100,000	0.0013%

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

Name of Director	Number of underlying shares in respect of options granted Personal Interest (as beneficial owner)	Percentage of shareholding as at 31 December 2006
ZHANG Fangyou	8,528,000	0.11%
LU Zhifeng	7,684,000	0.10%
YANG Dadong	5,664,000	0.08%
ZENG Qinghong	5,664,000	0.08%
ZHANG Baoqing	6,488,000	0.09%
DING Baoshan	5,664,000	0.08%
LEE Ka Lun	1,340,000	0.02%

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

Save as disclosed above, as at 31 December 2006, none of the directors or chief executives of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Apart from the Share Option Scheme, at no time during the year ended 31 December 2006 was the Company or its holding companies or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Save as disclosed above and in the section “SHARE OPTION SCHEME”, during the year ended 31 December 2006, no rights to subscribe for equity or debt securities of the Company has been granted by the Company to, nor have any such rights been exercised by, any directors and chief executives of the Company.

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

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

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

2. Interests in Competing Business

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

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

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

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

Save as disclosed above and within the knowledge of the Directors, as at 31 December 2006, none of the Directors and their respective associates had any interest in a business which competes or may compete, either directly or indirectly, with the business of the Group as required to be disclosed pursuant to the Listing Rules.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2006, the corporations having an interest in 5% or more of the issued share capital of the Company as recorded in the register of interests in shares and short positions required to be kept under Section 336 of the Part XV of SFO were as follows:

Name	Long position in shares	Percentage of total shareholding as at 31 December 2006	Note
China Lounge Investments Limited	2,849,544,904	37.91%	(a)
Guangzhou Automobile Group Company Limited	2,849,544,904	37.91%	(b)
Guangzhou Automobile Industry Group Company Limited	2,849,544,904	37.91%	(c)
Templeton Asset Management Limited	681,354,000	9.06%	(d)

Notes:

- (a) As at 31 December 2006, China Lounge Investments Limited held 2,849,544,904 shares of the Company.
- (b) As at 31 December 2006, China Lounge Investments Limited was wholly-owned by Guangzhou Automobile Group Company Limited which was accordingly deemed to be interested under the SFO in 2,849,544,904 shares.
- (c) As at 31 December 2006, Guangzhou Automobile Group Company Limited was 91.93% owned by Guangzhou Automobile Industry Group Company Limited 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 681,354,000 shares in the Company as investment manager.

Save as disclosed herein, no other person was recorded in the register of substantial shareholders maintained under Section 336 of Part XV of the SFO as having an interest in 5% or more of the issued share capital of the Company as at 31 December 2006.

RETIREMENT SCHEME

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

INDEPENDENT NON-EXECUTIVE DIRECTORS' FEE

Each of the independent non-executive directors of the Company received HK\$180,000 as director's fee for the year ended 31 December 2006.

MANAGEMENT CONTRACTS

No contracts, other than contract of service with person 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 2006.

MAJOR SUPPLIERS

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

	2006	2005
	%	%
The largest supplier	32	45
Five largest suppliers combined	58	77

MAJOR CUSTOMERS

During 2005 and 2006, the Group's sold less than 30% of its goods and services to its five largest customers.

CONNECTED TRANSACTIONS

Details of transactions regarded as connected transactions as defined in the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) are as follows:

- (a) On 16 February 2006, the Company entered into the Agreement (the “Disposal”) with China Lounge, its immediate controlling shareholder, pursuant to which the Company has conditionally agreed to sell US \$14,950,000 in the registered capital of GZ Denway Bus being 50% equity interest in GZ Denway Bus for a total consideration of HK\$18,877,000. All shareholders other than China Lounge and its associates have approved the Disposal by way of poll at the Extraordinary General Meeting held on 23 March 2006.
- (b) Guangzhou Denway Development Enterprises Limited provided bank guarantees to the total extent of RMB 14,700,000 (equivalent to approximately HK\$14,769,000) for Guangzhou Hua De Automobile Spring Company Limited, an associated company with 49% owned by the Company, to enable Guangzhou Hua De Automobile Spring Company Ltd to obtain banking facilities. Guangzhou Automobile Group Component Co., Ltd owns 51% equity interest in Guangzhou Hua De Automobile Spring Company Ltd has also provided bank guarantees in its proportion of shareholdings in Guangzhou Hua De Automobile Spring Company Ltd to the total of RMB15,300,000 (equivalent to approximately HK\$15,372,000) for Guangzhou Hua De Automobile Spring Company Ltd. Both aforesaid guarantees were provided on several bases and without obtaining any security from Guangzhou Hua De Automobile Spring Company Ltd.

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, 28 March 2007