



駿威汽車有限公司
DENWAY MOTORS LIMITED

Stock Code : 203

Interim Report

2006

INTERIM RESULTS

The directors of Denway Motors Limited (the “Company”) announce that the unaudited consolidated results of the Company and its subsidiaries (the “Group”) and its share of the results of jointly controlled entities, associates and non-consolidated subsidiaries for the six months ended 30 June 2006 together with comparative figures for the corresponding period in 2005 as follows:

Condensed Consolidated Income Statement

For the six months ended 30 June 2006

	Note	Unaudited Six months ended 30 June	
		2006 HK\$'000	2005 HK\$'000
Continuing operations:			
Turnover	4	352,036	390,856
Cost of sales		<u>(312,062)</u>	<u>(347,143)</u>
Gross profit		39,974	43,713
Other gains		10,751	17,287
Selling and distribution costs		(14,093)	(13,358)
General and administrative expenses		(27,489)	(35,862)
Other operating income/(expenses)		<u>6,885</u>	<u>(564)</u>
Operating profit		16,028	11,216
Finance costs		(560)	(984)
Share of profits less losses of:			
A jointly controlled entity	10	1,228,081	987,732
Other jointly controlled entities		52,108	—
Associates		4,413	9,501
Non-consolidated subsidiaries		<u>49</u>	<u>(391)</u>
Profit before taxation		1,300,119	1,007,074
Taxation	6	<u>(4,008)</u>	<u>(1,830)</u>
Profit for the period from continuing operations		1,296,111	1,005,244
Discontinued operation:			
Loss for the period from discontinued operation		<u>(8,093)</u>	<u>(21,562)</u>
Profit for the period		<u><u>1,288,018</u></u>	<u><u>983,682</u></u>
Attributable to:			
Equity holders of the Company		1,288,560	990,888
Minority interests		<u>(542)</u>	<u>(7,206)</u>
		<u><u>1,288,018</u></u>	<u><u>983,682</u></u>

Condensed Consolidated Income Statement (Continued)

For the six months ended 30 June 2006

		Unaudited	
		Six months ended 30 June	
	<i>Note</i>	2006	2005
		HK\$'000	HK\$'000
Basic earnings/(losses) per share attributable to the equity holders of the Company			
— continuing operations	7	17.19 cents	13.38 cents
— discontinued operation	7	(0.05) cent	(0.14) cent
		<u>17.14 cents</u>	<u>13.24 cents</u>
Diluted earnings/(losses) per share attributable to the equity holders of the Company			
— continuing operations	7	17.16 cents	13.35 cents
— discontinued operation	7	(0.05)cent	(0.14)cent
		<u>17.11 cents</u>	<u>13.21 cents</u>
Interim dividend	8	<u>375,868</u>	<u>300,694</u>

Condensed Consolidated Balance Sheet

As at 30 June 2006

	<i>Note</i>	Unaudited As at 30 June 2006 HK\$'000	Audited As at 31 December 2005 HK\$'000
ASSETS			
Non-current assets			
Intangible asset	9	863,840	863,563
Leasehold land and land use rights	9	29,413	29,638
Property, plant and equipment	9	78,832	72,990
Investment properties	9	41,160	41,160
Interest in a jointly controlled entity	10	5,650,352	5,339,947
Interests in other jointly controlled entities		772,904	721,368
Interests in associates		53,172	51,851
Interests in non-consolidated subsidiaries		149	2,105
		<u>7,489,822</u>	<u>7,122,622</u>
Current assets			
Inventories		120,061	88,710
Trade and other receivables	11	95,646	96,634
Current tax recoverable		127	252
Cash and bank balances			
— pledged		22,788	30,684
— others		1,892,160	1,632,513
		<u>2,130,782</u>	<u>1,848,793</u>
Non-current assets classified as held for sale		—	243,394
		<u>2,130,782</u>	<u>2,092,187</u>
Total assets		<u>9,620,604</u>	<u>9,214,809</u>
EQUITY			
Share capital and reserves attributable to equity holders of the Company			
Share capital	12	751,736	751,736
Reserves			
Proposed final dividend		—	300,694
Proposed special dividend		—	375,868
Others		8,602,685	7,241,898
		<u>9,354,421</u>	<u>8,670,196</u>
Minority interests		65,914	84,462
Total equity		<u>9,420,335</u>	<u>8,754,658</u>

Condensed Consolidated Balance Sheet (Continued)

As at 30 June 2006

	<i>Note</i>	Unaudited As at 30 June 2006 HK\$'000	Audited As at 31 December 2005 HK\$'000
LIABILITIES			
Non-current liabilities			
Borrowings	13	4,892	5,563
Deferred tax liabilities		<u>923</u>	<u>1,127</u>
		----- 5,815	----- 6,690
Current liabilities			
Trade and other payables	14	172,091	235,222
Current tax liabilities		9,301	9,982
Borrowings	13	<u>13,062</u>	<u>13,686</u>
		194,454	258,890
Liabilities directly associated with non-current assets classified as held for sale		<u>—</u>	<u>194,571</u>
		----- 194,454	----- 453,461
Total liabilities		----- 200,269	----- 460,151
Total equity and liabilities		<u>9,620,604</u>	<u>9,214,809</u>
Net current assets		<u>1,936,328</u>	<u>1,638,726</u>
Total assets less current liabilities		<u>9,426,150</u>	<u>8,761,348</u>

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2006

	Unaudited						
	Attributable to equity holders						Total
	Share capital	Share premium	Capital reserve	Exchange reserve	Retained earnings	Minority interests	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance at 1 January 2006	751,736	2,501,481	1,077,886	77,691	4,261,402	84,462	8,754,658
Currency translation differences and net income recognised directly in equity	—	—	858	65,459	—	(514)	65,803
Profit/(loss) for the period	—	—	—	—	1,288,560	(542)	1,288,018
Total recognised income/(loss) for the period	—	—	858	65,459	1,288,560	(1,056)	1,353,821
Disposal of a subsidiary	—	—	16	5,894	—	(14,818)	(8,908)
2005 final dividend paid	—	—	—	—	(300,694)	—	(300,694)
2005 special dividend paid	—	—	—	—	(375,868)	—	(375,868)
Dividend paid to a minority shareholder	—	—	—	—	—	(2,674)	(2,674)
Transfer to capital reserve	—	—	14	—	(14)	—	—
Balance at 30 June 2006	<u>751,736</u>	<u>2,501,481</u>	<u>1,078,774</u>	<u>149,044</u>	<u>4,873,386</u>	<u>65,914</u>	<u>9,420,335</u>
Balance at 1 January 2005	741,268	2,263,638	876,236	(33,456)	3,122,681	157,564	7,127,931
Currency translation differences and net income recognised directly in equity	—	—	31	(3,429)	—	(69)	(3,467)
Profit/(loss) for the period	—	—	—	—	990,888	(7,206)	983,682
Total recognised income/(loss) for the period	—	—	31	(3,429)	990,888	(7,275)	980,215
Issue of shares	10,468	237,843	—	—	—	—	248,311
Purchase of partial interest in a subsidiary	—	—	34,293	—	—	(56,456)	(22,163)
2004 final dividend paid	—	—	—	—	(300,427)	—	(300,427)
Dividends payable to minority shareholders	—	—	—	—	—	28,781	28,781
Transfer to capital reserve	—	—	30	—	(30)	—	—
Balance at 30 June 2005	<u>751,736</u>	<u>2,501,481</u>	<u>910,590</u>	<u>(36,885)</u>	<u>3,813,112</u>	<u>122,614</u>	<u>8,062,648</u>

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2006

	Unaudited	
	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Net cash (used in)/generated from operating activities	(48,918)	21,429
Net cash generated from/(used in) investing activities	1,038,357	(144,868)
Net cash used in financing activities	(729,792)	(297,462)
Increase/(decrease) in cash and cash equivalents	259,647	(420,901)
Cash and cash equivalents at 1 January	1,632,513	2,536,995
Cash and cash equivalents at 30 June	<u>1,892,160</u>	<u>2,116,094</u>
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	<u>1,892,160</u>	<u>2,116,094</u>

Selected Notes to Condensed Interim Financial Information

1 General information

The Group is principally engaged in the manufacturing, assembly and trading of motor vehicles, the manufacturing and the 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 is listed on The Stock Exchange of Hong Kong Limited.

These condensed consolidated interim financial information was approved for issue on 5 September 2006.

2 Basis of preparation

These condensed interim financial information for the six months ended 30 June 2006 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and should be read in conjunction with the annual financial statements for the year ended 31 December 2005.

3 Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2005. As described in the annual financial statements for the year ended 31 December 2005, the following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2006.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKAS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment

These standards, amendments and interpretations do not have significant impacts to the Group.

Selected Notes to Condensed Interim Financial Information

3 Accounting policies (Continued)

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives

Management does not expect HK(IFRIC)-Ints 7, 8 and 9 to be relevant to the Group. The Group has assessed the impact of HKFRS 7 and HKAS 1 (Amendment) and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by HKAS 1 (Amendment). The Group will apply HKFRS 7 and HKAS 1 (Amendment) from accounting periods beginning 1 January 2007.

Selected Notes to Condensed Interim Financial Information

4 Turnover and segment information

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

Principal business segments:

	Unaudited					Total HK\$'000
	Six months ended 30 June 2006					
	Trading of motor vehicles HK\$'000	Manufacturing and assembly of motor vehicles HK\$'000	Manufacturing and trading of automotive equipment and parts HK\$'000	Manufacturing and trading of audio equipment HK\$'000	Other operations HK\$'000	
Turnover	<u>229,674</u>	<u>—</u>	<u>5,228</u>	<u>117,134</u>	<u>—</u>	<u>352,036</u>
Segment operating profit/ (loss)	2,078	—	(3,304)	7,961	909	7,644
Interest income	<u>275</u>	<u>—</u>	<u>3,944</u>	<u>83</u>	<u>4,082</u>	<u>8,384</u>
Operating profit	<u>2,353</u>	<u>—</u>	<u>640</u>	<u>8,044</u>	<u>4,991</u>	<u>16,028</u>
Finance costs						(560)
Share of profits of:						
A jointly controlled entity		1,228,081				1,228,081
Other jointly controlled entities			52,108			52,108
Associates	1,047		3,366			4,413
Non-consolidated subsidiaries	49					<u>49</u>
Profit before taxation						1,300,119
Taxation						<u>(4,008)</u>
Profit/(loss) for the period from:						
Continuing operations						1,296,111
Discontinued operation		(8,093)				<u>(8,093)</u>
						<u>1,288,018</u>
Depreciation	1,125	—	489	2,021	1,208	4,843
Amortisation	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>225</u>	<u>225</u>

Selected Notes to Condensed Interim Financial Information

4 Turnover and segment information (Continued)

Principal business segments: (Continued)

	Unaudited Six months ended 30 June 2005					Total HK\$'000
	Trading of motor vehicles HK\$'000	Manufacturing and assembly of motor vehicles HK\$'000	Manufacturing and trading of equipment and automotive parts HK\$'000	Manufacturing and trading of audio equipment HK\$'000	Other operations HK\$'000	
Turnover	280,047	—	5,851	104,958	—	390,856
Segment operating profit/(loss)	2,678	—	(4,214)	8,075	(9,812)	(3,273)
Interest income	345	—	3,299	31	10,814	14,489
Operating profit/(loss)	3,023	—	(915)	8,106	1,002	11,216
Finance costs						(984)
Share of profits less losses of:						
A jointly controlled entity		987,732				987,732
Associates	7,090		2,411			9,501
Non-consolidated subsidiaries	(391)					(391)
Profit before taxation						1,007,074
Taxation						(1,830)
Profit/(loss) for the period from:						
Continuing operations						1,005,244
Discontinued operation		(21,562)				(21,562)
						983,682
Depreciation	973	6,247	387	4,045	949	12,601
Amortisation	—	1,837	—	104	258	2,199

Selected Notes to Condensed Interim Financial Information

4 Turnover and segment information (Continued)

Geographical segments:

	Unaudited		
	Six months ended 30 June 2006		
	Turnover	Segment operating (loss)/profit	Operating profit/(loss)
	HK\$'000	HK\$'000	HK\$'000
PRC	229,674	(1,072)	3,133
Hong Kong	117,134	8,870	13,035
Australia	5,228	(154)	(140)
	<u>352,036</u>	<u>7,644</u>	<u>16,028</u>

	Unaudited		
	Six months ended 30 June 2005		
	Turnover	Segment operating (loss)/profit	Operating profit
	HK\$'000	HK\$'000	HK\$'000
PRC	280,047	(1,557)	2,077
Hong Kong	104,958	(1,737)	9,108
Australia	5,851	21	31
	<u>390,856</u>	<u>(3,273)</u>	<u>11,216</u>

5 Expenses by nature

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

	Unaudited	
	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	4,843	6,354
Amortisation of leasehold land and land use rights	225	362
Staff costs (including directors' emoluments)	<u>21,828</u>	<u>19,343</u>

Selected Notes to Condensed Interim Financial Information

6 Taxation

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

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

	Unaudited	
	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Current taxation:		
Hong Kong profits tax	334	(393)
PRC enterprise income tax	3,878	<u>2,022</u>
	4,212	1,629
Deferred taxation:		
Hong Kong profits tax	<u>(204)</u>	<u>201</u>
	4,008	<u>1,830</u>

7 Earnings per share

Basic

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

	Unaudited	
	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Profit/(loss) attributable to equity holders		
— continuing operations	1,292,606	1,001,548
— discontinued operation	(4,046)	<u>(10,660)</u>
	1,288,560	<u>990,888</u>
Weighted average number of ordinary shares in issue ('000)	7,517,359	<u>7,486,410</u>
Basic earnings/(losses) per share (HK cents)		
— continuing operations	17.19	13.38
— discontinued operation	(0.05)	<u>(0.14)</u>
	17.14	<u>13.24</u>

Selected Notes to Condensed Interim Financial Information

7 Earnings per share (Continued)

Diluted

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

	Unaudited	
	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Profit/(loss) attributable to equity holders		
— continuing operations	1,292,606	1,001,548
— discontinued operation	(4,046)	(10,660)
	<u>1,288,560</u>	<u>990,888</u>
Weighted average number of ordinary shares in issue ('000)	7,517,359	7,486,410
Adjustments for — share options ('000)	13,724	14,220
Weighted average number of ordinary shares for diluted earnings per share ('000)	<u>7,531,083</u>	<u>7,500,630</u>
Diluted earnings/(losses) per share (HK cents)		
— continuing operations	17.16	13.35
— discontinued operation	(0.05)	(0.14)
	<u>17.11</u>	<u>13.21</u>

Selected Notes to Condensed Interim Financial Information

8 Interim Dividend

	Unaudited	
	Six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000
Interim, declared, of HK5 cents (2005: HK4 cents) per ordinary share (note (a))	<u>375,868</u>	<u>300,694</u>

- (a) At a meeting held on 5 September 2006, the directors declared an interim dividend of HK5 cents (2005: HK4 cents) per ordinary share for the year ending 31 December 2006. This interim dividend is not reflected as dividend payable in these condensed interim financial information, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2006.

9 Capital expenditures

	Unaudited				Total HK\$'000
	Intangible asset — goodwill HK\$'000	Leasehold land and land use rights HK\$'000	Property, plant and equipment HK\$'000	Investment properties HK\$'000	
As at 1 January 2006	863,563	29,638	72,990	41,160	1,007,351
Exchange differences	277	—	307	—	584
Additions	—	—	10,496	—	10,496
Disposals	—	—	(118)	—	(118)
Amortisation/depreciation	—	(225)	(4,843)	—	(5,068)
As at 30 June 2006	<u>863,840</u>	<u>29,413</u>	<u>78,832</u>	<u>41,160</u>	<u>1,013,245</u>
As at 1 January 2005	24,526	81,378	201,770	37,740	345,414
Exchange differences	—	32	53	—	85
Additions	838,348	—	9,553	—	847,901
Disposals	—	—	(1,266)	—	(1,266)
Amortisation/depreciation	—	(2,199)	(12,601)	—	(14,800)
As at 30 June 2005	<u>862,874</u>	<u>79,211</u>	<u>197,509</u>	<u>37,740</u>	<u>1,177,334</u>

Selected Notes to Condensed Interim Financial Information

10 Interest in a jointly controlled entity

- (a) This is a Sino-foreign equity joint-venture in which 50% of the equity capital, voting power and profit sharing is held by a wholly 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:

	Unaudited As at 30 June 2006 <i>HK\$'000</i>	Audited As at 31 December 2005 <i>HK\$'000</i>
Assets:		
Property, plant and equipment	2,345,242	2,029,928
Land use rights	125,614	126,962
Intangible assets ¹	222,482	230,429
Current assets	<u>5,778,458</u>	<u>5,605,088</u>
	<u>8,471,796</u>	<u>7,992,407</u>
Liabilities:		
Non-current liabilities	(971)	(961)
Current liabilities	<u>(2,817,086)</u>	<u>(2,648,532)</u>
	<u>(2,818,057)</u>	<u>(2,649,493)</u>
Minority interests	<u>(3,387)</u>	<u>(2,967)</u>
	<u>5,650,352</u>	<u>5,339,947</u>
	Unaudited	
	Six months ended 30 June	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Income	9,052,678	7,256,501
Expenses	<u>(7,824,597)</u>	<u>(6,268,769)</u>
Profit for the period	<u>1,228,081</u>	<u>987,732</u>

¹ Included in this balance is a goodwill of approximately HK\$146,124,000 (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.

Selected Notes to Condensed Interim Financial Information

10 Interest in a jointly controlled entity (Continued)

(b) Capital commitments

At 30 June 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:

	Unaudited As at 30 June 2006 <i>HK\$'000</i>	Audited As at 31 December 2005 <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>

11 Trade and other receivables

Included in this balance are trade receivables of approximately HK\$58,700,000 (2005: HK\$58,336,000). At 30 June 2006, the ageing analysis of the trade receivables, net of provision, was as follows:

	Unaudited As at 30 June 2006 <i>HK\$'000</i>	Audited As at 31 December 2005 <i>HK\$'000</i>
Within 3 months	43,057	45,893
4–6 months	10,221	6,593
7–12 months	43	177
Over 12 months	<u>5,379</u>	<u>5,673</u>
	<u>58,700</u>	<u>58,336</u>

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

Selected Notes to Condensed Interim Financial Information

12 Share capital

	Ordinary shares of HK\$0.1 each	
	<i>Number of shares</i>	<i>HK\$'000</i>
Authorised:		
At 1 January 2005, 31 December 2005 and 30 June 2006	<u>10,000,000,000</u>	<u>1,000,000</u>
Issued and fully paid:		
At 1 January 2005	7,412,680,534	741,268
Issuance of shares for purchase of partial interest in a subsidiary	73,800,000	7,380
Exercise of options	<u>30,878,000</u>	<u>3,088</u>
At 31 December 2005 and 30 June 2006	<u>7,517,358,534</u>	<u>751,736</u>

Share options

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

	Unaudited Six months ended 30 June 2006		Audited Year ended 31 December 2005	
	Average exercise price in HK\$ per share	Options ('000)	Average exercise price in HK\$ per share	Options ('000)
At the beginning of the period/year	2.12	48,324	1.82	79,202
Exercised	—	—	1.34	(30,878)
Lapsed	1.33	(1,628)	—	—
At the end of the period/year	2.15	46,696	2.12	48,324

All of the above outstanding options were exercisable. Options exercised during the year ended 31 December 2005 resulted in the issue of 30,878,000 shares at HK\$1.34 each. The related weighted average share price at the time of exercise was HK\$2.87 per share.

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

Expiry date	Exercise price in HK\$ per share	Options ('000)	
		2006	2005
8 May 2006	1.325	—	1,628
5 June 2012	2.1525	46,696	46,696
		46,696	48,324

Selected Notes to Condensed Interim Financial Information

13 Borrowings

	Unaudited As at 30 June 2006 <i>HK\$'000</i>	Audited As at 31 December 2005 <i>HK\$'000</i>
Non-current		
Long-term bank loans	<u>4,892</u>	<u>5,563</u>
Current		
Trust receipt loans	9,471	10,095
Current portion of long-term bank loans	<u>3,591</u>	<u>3,591</u>
	<u>13,062</u>	<u>13,686</u>
Total borrowings	<u>17,954</u>	<u>19,249</u>

The maturity of bank borrowings is as follows:

	Unaudited As at 30 June 2006 <i>HK\$'000</i>	Audited As at 31 December 2005 <i>HK\$'000</i>
Within one year	13,062	13,686
In the second year	2,394	2,222
In the third to fifth year inclusive	2,372	3,085
After the fifth year	<u>126</u>	<u>256</u>
	<u>17,954</u>	<u>19,249</u>

- (a) Bank borrowings of the Group totalling HK\$17,954,000 (2005: HK\$12,460,000) are secured by certain leasehold land, property, plant and equipment, investment properties and pledged bank balances of the Group.
- (b) The weighted average effective interest rates of bank loans and trust receipt loans were 7.122% (2005: 5.563%) and 7.876% (2005: 7.750%) respectively.
- (c) The carrying amounts of the borrowings approximate their fair value and are denominated in Hong Kong dollar.

Selected Notes to Condensed Interim Financial Information

14 Trade and other payables

Included in this balance are trade payables of approximately HK\$66,236,000 (2005: HK\$45,301,000). At 30 June 2006, the ageing analysis of the trade payables was as follows:

	Unaudited As at 30 June 2006 <i>HK\$'000</i>	Audited As at 31 December 2005 <i>HK\$'000</i>
Within 3 months	65,437	44,760
4–6 months	598	402
7–12 months	2	66
Over 12 months	199	73
	<u>66,236</u>	<u>45,301</u>

15 Commitments

(a) *Commitments under operating leases*

At 30 June 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Unaudited As at 30 June 2006 <i>HK\$'000</i>	Audited As at 31 December 2005 <i>HK\$'000</i>
Not later than one year	9,073	9,197
Later than one year and not later than five years	20,939	27,699
Later than five years	33,401	35,656
	<u>63,413</u>	<u>72,552</u>

(b) *Capital commitments*

At 30 June 2006, the Group had capital commitments in respect of purchase of property, plant and equipment as follows:

	Unaudited As at 30 June 2006 <i>HK\$'000</i>	Audited As at 31 December 2005 <i>HK\$'000</i>
Authorised but not provided for	<u>—</u>	<u>1,546</u>
Contracted but not provided for	<u>—</u>	<u>938</u>

Selected Notes to Condensed Interim Financial Information

16 Contingent liabilities

	Unaudited As at 30 June 2006 <i>HK\$'000</i>	Audited As at 31 December 2005 <i>HK\$'000</i>
Guarantees for bank loans borrowed by an associate	14,280	14,125

17 Related party transactions

(a) *Related parties*

The Company's single largest shareholder is China Lounge Investments Limited, which owns 37.91% of the Company's shares. The Company's directors regard Guangzhou Automobile Industry Group Company Limited (incorporated in the PRC) to be the ultimate holding company.

Related parties are those parties which have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. There is no change in the names of significant parties and nature of relationship with the Company since 31 December 2005 (Refer to 2005 annual report for details).

(b) *Transactions with related parties*

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

	Unaudited Six months ended 30 June 2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Purchases from a jointly controlled entity	107,326	157,655

Selected Notes to Condensed Interim Financial Information

17 Related party transactions *(Continued)*

(c) *Balances with related parties*

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2006	2005
	HK\$'000	HK\$'000
Included in trade and other receivables:		
— a jointly controlled entity	5,967	7,071
— immediate holding company	177	5
	<u> </u>	<u> </u>
Included in trade and other payables:		
— immediate holding company	6,085	8,123
— an associate	930	1,448
— minority shareholder of a subsidiary	443	443
	<u> </u>	<u> </u>

INTERIM DIVIDEND

The directors have resolved to pay an interim dividend for the year ending 31 December 2006 of HK5 cents per share which will be payable on Tuesday, 17 October 2006 to shareholders whose names appear on the register of members of the Company on Friday, 13 October 2006.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 9 October 2006 to Friday, 13 October 2006, both days inclusive, during which no transfer of shares will be registered. In order to qualify for the interim dividend, all share certificates with completed transfer forms either overleaf or separately must be lodged with the Company's Registrars, Abacus Share Registrars Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, 6 October 2006.

BUSINESS REVIEW

For the six months ended 30 June 2006, the Group's turnover was HK\$352,036,000 (2005: HK\$390,856,000) and unaudited interim consolidated profit attributable to the shareholders was HK\$1,288,560,000 (2005: HK\$990,888,000). Basic earnings per share was HK17.14 cents (2005: HK13.24 cents).

During the first half of the year, the State authority continued to fortify and enhance its austerity measures in order to maintain significant and stable growth of its national economy. With the withdrawals of the "Restriction on small vehicles" policies nationwide and the impact of the new consumption tax policy which stimulated demand for sedans, the number of vehicles produced and sold in China recorded significant growth. According to the statistics of the China Association of Automobile Manufacturers, the number of vehicles produced and sold nationwide in the first half of 2006 amounted to approximately 3,630,300 units and 3,535,200 units respectively, representing an increase of approximately 28.94% and 26.71% respectively, of which the number of sedans produced and sold amounted to approximately 2,596,300 units and 2,511,600 units respectively, representing an increase of approximately 40.3% and 36.53% respectively. Sales of vehicles with low engine capacity (1L to 1.6L) had the biggest increase among all sedans at 78.19% growth rate.

For the six months ended 30 June 2006, an aggregate of 126,357 units and 123,502 units of vehicles, were produced and sold by the Group respectively through a jointly controlled entity (hereinafter the "Sedan Company"), representing an increase of approximately 16.3% for both. Of the nationwide market share ranking of single brand name vehicles produced by the Sedan Company, sedans with a capacity of 2.0L and above ranked first, multi-purpose sedans with a capacity of 2.0L and above ranked second, and compact car with a capacity of 1.3L to 1.5L ranked first. In order to continue expanding its market share, the Sedan Company, while at the same time completing the construction work of its second plant according to the schedule, produced vehicles at full capacity to satisfy the demand of consumers for its products.

The extraordinary general meeting of the Company held on the 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 optimized and enhanced.

Guangzhou Automobile Group Component Co., Ltd., whose 49% equity interest was acquired by the Group last year, maintained its sound operation and development trend. With the increase in its productivity and its production volume, the efficiency of Guangzhou Automobile Group Component Co., Ltd. has increased

steadily, while the export volume of its products has also increased. It has become an auto component ancillary system mainly for the parent company of the Group and sedans in Guangzhou area. Its profit for the first half of the year was in line with our expectation.

As for the other business operations of the Group comprising the trading of vehicles, manufacturing of automobile equipment and parts, and manufacturing and trading of audio equipment, all the targets set out in the medium-term plan as formulated by the Group at the beginning of the year have been achieved.

FUTURE PROSPECTS

Looking forward, China will continue to strengthen and enhance the austerity measures which will be vital to the long-term stability of the economy thereby controlling the inflation rate and avoiding an overheated economy. Accordingly, growth of the Chinese economy will remain steady and fast for a rather long period of time. Experts forecasted that the GDP growth rate of China for the second half of the year will be approximately 9.8% and probably within 10% for the full year. A stable macro-economic environment provides a solid foundation for the stable development of the automobile industry. It is foreseeable that the prospect of the consumption market in China will be more positive.

With the acceleration of urbanization in China, the living standards of the general public are continually upgraded with continual increases in income, which brings forth promotions in consumption, including the popularity of automobiles. Hence, the PRC automobile market in future will maintain a steady and significant growth rate.

Save for the production of motor vehicles and manufacturing of auto components, automobile servicing and trading is essential to the development of the automobile industry, which is exemplified by the larger size of chain brand names, sophisticated sales service networks, huge consumption credit financing, second-hand car sales and related services. As the PRC vehicle servicing and trading system is still under development stage, the future development prospect will be huge.

In view of the prevailing ferocious competition of the PRC automobile market, the Sedan Company during the second half of the year will follow the decision of its Board in upgrading its after-sales services, expanding sales network, providing more products that may satisfy market demands and user preferences. The Sedan Company will continue to increase its production volume and capacity, in order to complete the annual production and sales plan of the year formulated by the Board. With the second plant fully operational in the second half of the year, the annual production capacity of the Sedan Company will further increase, which lays a solid foundation for future development.

The Group considered that the acquisition of the auto component business last year will be a remarkable growth sector besides its sedan business. The Group will continue to seek better investment opportunities in automobile business. The Board believes that the Group will be able to secure such opportunities and expedite its development thereby creating better returns for its shareholders.

FINANCIAL SUMMARY

The Group's turnover for the six months ended 30 June 2006 was about HK\$352,036,000.

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 at the extraordinary general meeting on 23 March 2006.

The turnover of the trading of motor vehicles decreased by HK\$50,373,000 which represented a decrease of about 18.0% in 2006 compared with that of 2005. The operating profit of this segment decreased by HK\$670,000 or a decrease of about 22.2% in 2006, mainly due to reduction of sales of sedans. The turnover of the manufacturing and trading of automotive equipment and parts decreased by HK\$623,000 which represented a decrease of about 10.6% in 2006 compared with that of 2005. However, the operating profit of this segment increased by HK\$1,555,000 in 2006, mainly due to successful cost control implementing in this segment. The operating result of this segment turned from loss to profit and recorded operating profit of HK\$640,000. The turnover of manufacturing and trading of audio equipment increased by HK\$12,176,000 which represented an increase of about 11.6% in 2006, mainly due to increase of sales orders. The operating profit of this segment had no significant change. The order on hand of the Group for the business of the manufacturing and trading of audio equipment was about HK\$65,710,000 as at 30 June 2006.

The total borrowings of the Group were decreased from about HK\$19,249,000 at the end of 2005 to about HK\$17,954,000 at 30 June 2006, mainly due to repayment of the borrowings. The Group maintained a low ratio of borrowings relative to total equity at about 0.2% as at 30 June 2006 and 31 December 2005. The ratio of total liabilities relative to total equity was decreased to only about 2.1% as at 30 June 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\$24,449,000 and bank balances of about HK\$22,788,000. As at 30 June 2006, the Group had contingent liabilities of about HK\$14,280,000 which mainly represented guarantees of bank loans borrowed by an associate.

The Group had cash and bank balances of about HK\$1,914,948,000 as at 30 June 2006. This included the net cash used in operating activities of about HK\$48,918,000. During the period, 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 six months ended 30 June 2006 were about HK\$27,489,000, representing a decrease of about 23.3% compared with that of 2005, mainly due to implementation of effective cost controls within the Group. The finance costs decreased by HK\$424,000, mainly due to reduction of the total borrowings of the Group. The interest cover remained at a high level of 2,323 multiples in 2006 compared to that of 1,024 multiples in 2005. The Group enjoyed the benefit of the currency appreciation of Renminbi, 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 HK\$49,000 in 2006 compared with that of share of losses of non-consolidated subsidiaries of about HK\$391,000 in 2005. Share of profits of associates were about HK\$4,413,000 in 2006.

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 at the extraordinary general meeting on 2 November 2005. After the completion of the transaction, the Group shared profits of HK\$52,108,000 from other jointly controlled entities for the six months ended 30 June 2006.

Share of profit from a jointly controlled entity was the major source of profit for the Group, which contributed about HK\$1,228,081,000, and represented an increase of about 24.3% compared with that of 2005, mainly due to increase of sales of sedans during the period.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2006, the Group employed approximately 1,500 (2005: 1,800) staff in the PRC, Hong Kong and Australia.

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

SHARE OPTION SCHEME

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

Grantee	Number of options				Notes
	As at 1 January 2006	Exercised during the period	Lapsed during the period	As at 30 June 2006	
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 5,664,000	— —	1,628,000 —	— 5,664,000	(1) (2)
	48,324,000	—	1,628,000	46,696,000	

Notes:

- (1) These options were granted on 9 May 2003 at an adjusted exercise price of HK\$1.325* per share. The exercisable 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 exercisable period is from 7 August 2003 to 5 June 2012. The consideration paid by each grantee for the options granted was HK\$1. The adjusted closing price of the share immediately before the date on which the options were granted was HK\$2.075*.
- (3) No option was granted or cancelled during the period. The number of options lapsed during the period was 1,628,000.

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

DIRECTORS' INTERESTS IN SHARES

As at 30 June 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 ("Model Code") were as follows:

(a) Long positions in shares of the Company

Name of director	Number of shares Personal interest (as beneficial owner)	Percentage of shareholding as at 30 June 2006
CHEUNG Doi Shu	3,000,000	0.04%
LEE Ka Lun	100,000	0.0013%

(b) Long positions in underlying shares of equity derivatives of the Company

Name of director	Number of underlying shares in respect of options granted Personal interest (as beneficial owner)	Percentage of shareholding as at 30 June 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 30 June 2006, 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.

Apart from the Share Option Scheme, at no time during the six months ended 30 June 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 six months ended 30 June 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, its non-consolidated subsidiaries, associates and jointly controlled entities (“Competing Business”) were as follows:

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

- (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 of, 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 30 June 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 30 June 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 30 June 2006	Note
China Lounge Investments Limited (“China Lounge Investments”)	2,849,544,904	37.91%	(a)
Guangzhou Automobile Group Co. Ltd. (“GAC”)	2,849,544,904	37.91%	(b)
Guangzhou Automobile Industry Group Co. Ltd. (“Guangzhou Automobile Industry Group”)	2,849,544,904	37.91%	(c)
Templeton Asset Management Limited	681,354,000	9.06%	(d)

Notes:

- (a) As at 30 June 2006, China Lounge Investments held 2,775,744,904 shares of the Company and City Achieve Investments Limited, which was wholly-owned by China Lounge Investments, held 73,800,000 shares of the Company. Accordingly, China Lounge Investments was deemed to be interested under the SFO in a total of 2,849,544,904 shares of the Company.
- (b) As at 30 June 2006, China Lounge Investments was wholly-owned by GAC which was accordingly deemed to be interested under the SFO in 2,849,544,904 shares.
- (c) As at 30 June 2006, GAC was 91.93% owned by Guangzhou Automobile Industry Group 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 30 June 2006.

CORPORATE GOVERNANCE

The Board in 2005 formulated Denway Code on Corporate Governance, which incorporates all the code provisions and some recommended best practices, that are considered by the Board as reasonable and appropriate to the Company, as set out in the Code on Corporate Governance (“CG Code”) in Appendix 14 in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

During the six months ended 30 June 2006, the Company complied with all the code provisions as set out in the CG Code except the following deviation. Code provision E.1.2 of CG Code provides that the Chairman of the Board shall attend the annual general meeting of the Company. Due to unexpected business commitment, Mr. ZHANG Fangyou, the Chairman of the Board, was unable to attend the annual general meeting of the Company 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 annual general meeting and together with other directors, answered questions at the annual general meeting.

The Audit Committee comprises three independent non-executive directors namely Mr. LEE Ka Lun, Mr. CHEUNG Doi Shu and Mr. FUNG Ka Pun. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited consolidated interim financial statements for the six months ended 30 June 2006.

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the codes of conduct regarding securities transactions by the directors (“Model Code”). Having made specific enquiry, all directors have confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June, 2006.

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

The Company has not redeemed any of its shares during the six months ended 30 June 2006. Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2006.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

The 2006 Interim 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 as soon as practicable.

LIST OF DIRECTORS

As at the date of this report, 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 the Order of the Board

Zhang Fangyou

Chairman

Hong Kong, 5 September 2006