

Report of the Directors

The board of directors (the “Board”) of Great Wall Motor Company Limited (the “Company”) hereby presents its report together with the audited accounts of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2006.

PRINCIPAL BUSINESS

The Company is principally engaged in the design, research and development, manufacture and sales, as well as distribution of sports utility vehicles (“SUVs”), pick-up trucks and automobile-related product parts and components. There has not been any significant change to the nature of the Group’s principal activities during the year.

The subsidiaries of the Company established in the PRC for the year ended 31 December 2006 or prior to the year are limited companies. Details are set out in Note 18 to the financial statements.

RESULTS AND DIVIDENDS

The Group’s operating results for the year ended 31 December 2006 and the financial positions of the Company and the Group as at 31 December 2006 are set out in the audited financial statements on pages 66 to 132 of this annual report.

The Board proposed a final dividend of RMB0.16 per share (including H shares and domestic shares of the Company) for the year ended 31 December 2006.

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FINANCIAL EXTRACTS

A summary of the consolidated results, assets and liabilities of the Group for the last five financial years is set out below:

Consolidated Results	Year ended 31 December				
	2006 RMB'000	2005 RMB'000	2004 RMB'000	2003 RMB'000	2002 RMB'000
Turnover	4,918,622	3,809,958	3,184,614	3,691,706	2,601,824
Cost of sales	(3,681,731)	(2,809,268)	(2,296,668)	(2,495,518)	(1,861,652)
Gross profit	1,236,891	1,000,690	887,946	1,196,188	740,172
Other revenue and gains	66,798	42,003	35,206	33,264	15,053
Selling and distribution costs	(241,950)	(219,300)	(170,302)	(183,664)	(144,514)
Administrative expenses	(178,030)	(155,392)	(127,761)	(121,254)	(55,340)
Other expenses	(151,681)	(111,571)	(71,501)	(46,802)	(31,200)
Finance costs	(1,732)	(669)	(619)	(5,093)	(4,073)
Share of profits and losses of jointly controlled entities	12,362	5,807	–	–	1,021
Share of profits and losses of associates	(2)	–	–	–	–
Profit before tax	742,656	561,568	552,969	872,639	521,119
Tax	(9,799)	(69,659)	(69,160)	(187,608)	(117,413)
Profit after tax	732,857	491,909	483,809	685,031	403,706
Profit attributable to shareholders of parent company	702,844	441,007	402,917	523,398	294,367
Profit after tax attributable to minority shareholders	30,013	50,902	80,892	161,633	109,339
	732,857	491,909	483,809	685,031	403,706
Assets and Liabilities	As at 31 December				
	2006 RMB'000	2005 RMB'000	2004 RMB'000	2003 RMB'000	2002 RMB'000
Total assets	6,471,717	5,763,102	4,813,891	4,631,123	1,984,134
Total liabilities	2,011,673	1,912,552	1,319,909	1,528,814	1,236,524

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USE OF PROCEEDS RAISED FROM THE INITIAL PUBLIC OFFERING

The net proceeds raised from the initial public offering of the Company in December 2003 (after deducting relevant expenses) amounted to approximately RMB1,773,488,000 (approximately HK\$1,664,000,000). Set out below is a comparative analysis of the Group's actual usage of funds as at 31 December 2006 vis-a-vis the proposed funds for the Group's future plans as stated in the prospectus of the Company dated 3 December 2003.

	Purposed <i>RMB million</i>	Actual Use <i>RMB million</i>
Development of new production facilities	429.3	401.4
Upgrading and expanding the existing production facilities for engine	198.0	163.9
Upgrading and expanding the existing production facilities for parts and components	88.5	61.8
Improving the research and development capabilities	29.0	29.0
Upgrading the information systems	20.0	20.0
General working capital	1,008.7	1,008.7
Total	1,773.5	1,684.8

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of movements of share capital of the Company for the year ended 31 December 2006, together with the reasons for such movements, are set out in Note 32 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements of property, plant and equipment of the Group and the Company for the year ended 31 December 2006, together with the reasons for such movements, are set out in Note 14 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights that will require the Company to offer new shares to its existing shareholders on a pro rata basis under the Company's articles of association (the "Articles") or the Company Law of the PRC (the "Company Law").

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RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company, its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors, supervisors and chief executive officer of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

RESERVES

Details of the movements in the reserves of the Group and the Company are set out in Consolidated Statement of Changes in Equity and Note 33 to the financial statements respectively.

DISTRIBUTABLE RESERVE

As at 31 December 2006, pursuant to the Company Law and the Articles, the distributable cash reserve of the Company was RMB855,313,000, of which RMB151,072,000 was proposed to be distributed as 2006 final dividend. The aggregate amount of the capital premium reserve and some of the capital provident reserves was RMB1,237,868,000 which may be distributed through capitalisation in future.

CHARITABLE DONATIONS

Charitable donations made by the Group during the Year totalled RMB3,023,000.

MAJOR CUSTOMERS AND SUPPLIES

For the year ended 31 December 2006, the percentage of purchases and sales attributable to the Group's major suppliers and customers was as follows:

Purchases

the largest supplier	6.4%
five largest supplier combined	15.7%

Sales

the largest customer	9.0%
five largest supplier combined	21.3%

During the year, the Group's five largest customers and suppliers accounted for less than 30% of the Group's total turnover and total purchases. The directors did not consider that any customer or supplier had imposed significant influence on the Group.

None of the directors, their associates or any shareholder (who to the knowledge of the directors own more than 5% of the Company's issued share capital) had an interest in the major suppliers or customers noted above.

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DIRECTORS AND SUPERVISORS

The directors and supervisors who held office during the year and up to the date of this report were as follows:

Executive Directors:

Wei Jian Jun (<i>Chairman</i>)	(appointed on 10 May 2005)
Liu Ping Fu	(appointed on 10 May 2005)
Wang Feng Ying	(appointed on 10 May 2005)
Liang He Nian	(appointed on 10 May 2005)
Yang Zhi Juan	(appointed on 10 May 2005)

Non-executive Directors:

He Ping	(appointed on 10 May 2005)
Niu Jun	(appointed on 10 May 2005)

Independent Non-executive Directors:

Han Chuan Mo	(appointed on 10 May 2005)
Zhang Ming Yu	(appointed on 10 May 2005)
Zhao Yu Dong	(appointed on 10 May 2005)
Wong Chi Keung	(appointed on 10 May 2005)

Supervisor:

Zhu En Ze	(appointed on 27 March 2006)
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Independent Supervisors:

Yuan Hong Li	(appointed on 10 May 2005)
Luo Jin Li	(appointed on 10 May 2005)

Mr. Liang He Nian has resigned on 19 January 2007, and a resolution to appoint Deputy General Manager Mr. Hu Ke Gang as a member of the Board will be proposed in the agenda of the 2006 Annual General Meeting.

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DIRECTORS' AND SUPERVISORS' SERVICE AGREEMENTS AND LETTERS OF APPOINTMENT

Each of the executive directors and supervisors was re-appointed at the 2004 Annual General Meeting on 10 May 2005 and supervisors' meeting for a term of three years. In accordance with the Articles, all of the directors and supervisors are eligible for re-election upon the expiry of the term. The service agreements entered into between the Company and each of the executive directors and supervisors, and the appointment letters entered into between the Company and each of the non-executive directors and independent non-executive directors have all been expired. At present, there is no renewal of any of the service agreements or the appointment letters, which are currently under drafting process.

Save as disclosed above, none of the directors or supervisors had entered into or was proposing to enter into any service contracts with the Company or its subsidiaries.

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The biographies of directors, supervisors and senior management are set out on pages 24 to 29 of this report.

REQUIREMENT FOR INDEPENDENCE OF NON-EXECUTIVE DIRECTORS

All independent non-executive directors, namely, Messrs Han Chuan Mo, Zhang Ming Yu, Zhao Yu Dong and Wong Chi Keung, have provided the Company with confirmation as to their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). Based on such confirmation, the Company considers all independent non-executive directors to be independent.

INTERESTS IN MATERIAL CONTRACTS OF CONTROLLING SHAREHOLDERS, DIRECTORS AND SUPERVISORS

Save for those transactions described in the note headed "Related Party Transactions" in Note 38 to the financial statements and the section headed "Connected Transactions" below, none of the controlling shareholders, directors or supervisors was or had been materially interested, whether directly or indirectly, in any contract subsisting during or at the end of 2006 which was significant in relation to the business of the Company or any of its subsidiaries.

MATERIAL CONTRACTS

The material contracts having been entered into as at 31 December 2006 include:

1. A share transfer agreement in Chinese dated 10 September 2006 was entered into between the Company and 保定市長城汽車營銷網絡有限公司 (Baoding Great Wall Automobile Sales Network Company Limited), pursuant to which the Company acquired 5% equity interests in 保定市長城汽車配件有限公司 (Baoding Great Wall Automobile Accessories Company Limited) from 保定市長城汽車營銷網絡有限公司 (Baoding Great Wall Automobile Sales Network Company Limited) for a consideration of RMB1,620,000. The share transfer agreement was approved by the Baoding Municipal Administration of Industry and Commerce on 12 October 2006 and a new business license was issued.
2. A share transfer agreement in Chinese dated 20 September 2006 was entered into between the Company and 保定市長城汽車營銷網絡有限公司 (Baoding Great Wall Automobile Sales Network Company Limited), pursuant to which the Company acquired 10% equity interests in 保定市長城汽車售後服務有限公司 (Baoding Great Wall Automobile After-sales Services Company Limited) from 保定市長城汽車營銷網絡有限公司 (Baoding Great Wall Automobile Sales Network Company Limited) for a consideration of RMB30,000. The share transfer agreement was approved by the Baoding Municipal Administration of Industry and Commerce on 15 November 2006 and a new business license was issued.
3. A share transfer agreement in Chinese dated 6 November 2006 was entered into between the Company and 保定市信誠汽車發展有限公司 (Baoding Xincheng Automobile Development Company Limited), pursuant to which the Company transferred 90% equity interests in 保定市科美貿易有限公司 (Baoding Kemei Trading Company Limited) to 保定市信誠汽車發展有限公司 (Baoding Xincheng Automobile Development Company Limited) for a consideration of RMB1,800,000. The share transfer agreement was approved by the Baoding Municipal Administration of Industry and Commerce on 15 November 2006 and a new business license was issued.
4. A share transfer agreement in Chinese dated 6 November 2006 was entered into between the Company and 保定市信誠汽車發展有限公司 (Baoding Xincheng Automobile Development Company Limited), pursuant to which the Company transferred 90% equity interests in 保定市長城汽車營銷網絡有限公司 (Baoding Great Wall Automobile Sales Network Company Limited) to 保定市信誠汽車發展有限公司 (Baoding Xincheng Automobile Development Company Limited) for a consideration of RMB1,800,000. The share transfer agreement was approved by the Baoding Municipal Administration of Industry and Commerce on 15 November 2006 and a new business license was issued.
5. A share transfer agreement in Chinese dated 6 November 2006 was entered into between the Company, 保定市諾博橡膠製品有限公司 (Baoding Nuobo Rubber Manufacturing Company Limited), formerly 保定市長城汽車配件有限公司 (Baoding Great Wall Automobile Accessories Company Limited), and 保定市信誠汽車發展有限公司 (Baoding Xincheng Automobile Development Company Limited), pursuant to which the Company and 保定市諾博橡膠製品有限公司 (Baoding Nuobo Rubber Manufacturing Company Limited) transferred 90% and 10% equity interests in 保定格瑞特汽車營銷有限公司 (Baoding Great Wall Automobile Sales Company Limited) to 保定市信誠汽車發展有限公司 (Baoding Xincheng Automobile Development Company Limited) for a consideration of RMB1,800,000 and RMB200,000 respectively. The share transfer agreement was approved by the Baoding Municipal Administration of Industry and Commerce on 17 November 2006 and a new business license was issued.

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6. A share transfer agreement in Chinese dated 6 November 2006 was entered into between the Company, 保定市諾博橡膠製品有限公司 (Baoding Nuobo Rubber Manufacturing Company Limited) and 保定市信誠汽車發展有限公司 (Baoding Xincheng Automobile Development Company Limited), pursuant to which the Company and 保定市諾博橡膠製品有限公司 (Baoding Nuobo Rubber Manufacturing Company Limited) transferred 90% and 10% equity interests in 保定市長城客車銷售有限公司 (Baoding Great Wall Automobile Sales Company Limited) to 保定市信誠汽車發展有限公司 (Baoding Xincheng Automobile Development Company Limited) for a consideration of RMB1,800,000 and RMB200,000 respectively. The share transfer agreement was approved by the Baoding Municipal Administration of Industry and Commerce on 20 November 2006 and a new business license was issued.
7. The “Articles” and the “Contract” of 保定天球電器有限公司 (Baoding Tianqiu Electric Company Limited) in Chinese dated 1 April 2006 were entered into between the Company, 溫州天球電器有限公司 (Wenzhou Tianqiu Electric Company Limited) and 驕龍國際有限公司 (Dragonet International Company Limited), pursuant to which the Company, 溫州天球電器有限公司 (Wenzhou Tianqiu Electric Company Limited) and 驕龍國際有限公司 (Dragonet International Company Limited) jointly established 保定天球電器有限公司 (Baoding Tianqiu Electric Company Limited) with 16.25% equity interests of which were held by the Company at the consideration equivalent to the land use right of 20 acres of land valued at RMB2,600,000. The “Articles” and the “Contract” were approved by the Baoding Municipal Administration of Industry and Commerce on 23 May 2006 and a business license was issued.
8. The “Articles” and the “Contract” of 保定精益動力機械有限公司 (Baoding Lean Power Machinery Company Limited) in Chinese dated 16 October 2006 were entered into between the Company and 億新發展有限公司 (Yixin Development Company Limited), pursuant to which the Company and 億新發展有限公司 (Yixin Development Company Limited) jointly established 保定精益動力機械有限公司 (Baoding Lean Power Machinery Company Limited) with 75% equity interests of which were held by the Company at the consideration of RMB3,750,000. The “Articles” and the “Contract” were approved by the Baoding Municipal Administration of Industry and Commerce on 7 November 2006 and a business license was issued.

MANAGEMENT CONTRACTS

No contract concerning the management or administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SECURITIES

As at 31 December 2006, the interests and short positions of each of the directors, supervisors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance (the “SFO”)), which were required to be notified to the Company and the Stock Exchange upon listing of the H shares on the Stock Exchange pursuant

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to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or which were required to be recorded in the register referred to in section 352 of the SFO (including the interests and short positions in which they were deemed or taken to have under such provisions of the SFO) or were otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, are as follows:

Name of Director/ Supervisor	Capacity/Nature of Interest	No. of Shares	Approximate Percentage of Domestic Shares %	Approximate Percentage of H Shares %	Approximate Percentage of Total Shares %
Mr. Wei Jian Jun	Interest of a controlled company	417,610,760(L)*	61.23		44.23
Total		417,610,760(L)*	61.23		44.23

(L) denotes a long position in shares of the Company.

* represents domestic shares.

Save as disclosed above, as at 31 December 2006, none of the directors, supervisors or chief executive of the Company has any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO of Hong Kong), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions in which they were deemed or taken to have), or which were required to be recorded in the register referred to in section 352 of the SFO or were otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules. For this purpose, the relevant provisions of the SFO shall be construed as if they were applicable to the supervisors.

SHAREHOLDERS' STRUCTURE AND NUMBER OF SHAREHOLDERS

Details of the shareholders whose names were recorded in the register of shareholders of the Company as at 31 December 2006 are as follows:

Holders of Domestic Shares	3
Holders of H Shares	2,593
Total number of shareholders	2,596

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SHARES HELD BY SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, the following shareholders (excluding the directors, supervisors or chief executive officer of the Company) had interests or short positions in any shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or had direct or indirect interests amounting to 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group:

Name	No. of Shares	Approximate Percentage of Domestic Shares %	Approximate Percentage of H Shares %	Approximate Percentage of Total Shares %
保定市沃爾特管理諮詢有限公司 (Baoding Woerte Management Consultant Company) (Note 1)	381,920,000(L)*	56.00	–	40.45
保定市南市區南大園鄉 集體資產經管中心 (The Management Centre of Collective Assets of Nandayuan Town, Nanshi District, Baoding) ("Management Centre") (Note 2)	264,389,240(L)*	38.77		28.00
保定市螞蟻物流網絡有限公司 (Baoding Ants Logistics Company Limited) (Note 3)	35,690,760(L)*	5.23		3.78
Cheah Cheng Hye (Note 4)	52,726,500(L)		20.11	5.58
Value Partners Limited	52,726,500(L)		20.11	5.58
Baring Asset Management Ltd.	18,905,000(L)		7.21	2.00
JPMorgan Chase & Co.	13,256,000(L)		5.06	1.40

(L) denotes a long position in shares of the Company.

* represents domestic shares.

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Note:

- (1) 保定市沃爾特管理諮詢有限公司 (Baoding Woerte Management Consultant Company) (“Woerte”) was established on 1 December 2005 with a registered capital of RMB7,638,400. Its place of incorporation is Baoding, Hebei Province, the PRC and its registered address is 1588 Chang Cheng South Road, Nanshi District, Baoding, Hebei Province. It is engaged in corporate planning and management consultancies (operations that require pre-approvals according to the laws, administrative regulations or the State Council can only be conducted after obtaining approvals). Mr. Wei Jian Jun and his associates beneficially own its entire share capital.
- (2) The Management Centre was established on 28 March 2001 as an enterprise under collective ownership with a registered capital of RMB17,260,000. Its place of incorporation is Baoding, Hebei Province, the PRC and its registered address is Room 210, Government Office Building, Nandayuan Town, Nanshi District, Baoding. It is engaged in the management of the equity interests of the collective assets of the town.
- (3) 保定市螞蟻物流網絡有限公司 (Baoding Ants Logistics Company Limited) (“Ants Logistics”) was established on 4 March 2002 with a registered capital of RMB120,000,000. Its place of incorporation is Baoding, Hebei Province, the PRC and its registered address is No.2 Guihua Road, High Technology District Phase II, Baoding, Hebei Province. It is engaged in the transport of goods (other than those operations prohibited under the national law and regulation). Mr. Wei Jian Jun and his associates beneficially own the entire share capital of Ants Logistics.
- (4) Cheah Cheng Hye is deemed or taken to be interested in the 52,726,500 H Shares owned by Value Partners Limited, a company controlled by him.

Save as disclosed above, as at 31 December 2006, so far as the directors, supervisors or chief executive of the Company are aware, no person (excluding the directors, supervisors or chief executive officer of the Company) had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or had direct or indirect interests amounting to 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

PUBLIC FLOAT

As at the date of this report, the directors confirm that 27.77% of the issued capital of the Company was held by the public.

CONNECTED TRANSACTIONS

During the year, the Group has entered into continuing connected transactions with connected persons. The independent non-executive directors have reviewed the connected transactions and confirmed that such connected transactions have been entered into:

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

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- (2) on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to the Group than terms available to or from (as appropriate) independent third parties;
- (3) in accordance with the relevant agreement governing them; and
- (4) on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Board has received from its auditors a letter confirming that the continuing connected transactions:

- (1) have received the approval of the Board of the Company;
- (2) are in accordance with the pricing policies set by the Group from time to time for transactions involving sale of goods or provision of services by the Group;
- (3) have been entered into in accordance with the terms of the relevant agreement governing such transactions; and
- (4) have not exceeded the cap amounts.

During the year, non-exempted continuing connected transactions under the Listing Rules were as follows:

- (1) On 20 January 2006, the Group and 保定市螞蟻物流網絡有限公司 (Baoding Ants Logistics Company Limited) (“Ants Logistics”) and its subsidiary, 順平安特運輸有限公司 (Shunping Ante Transport Company Limited) (“Shunping Ante”) entered into a framework agreement (the “2006 Logistics Company Agreement”), stating the principal terms of providing delivery services of automobiles and automobile parts and components to the Group by Ants Logistics.

Mr. Wei Jian Jun, Chairman of the Company, and his associates are the beneficial owners of the whole equity interests in Ants Logistics, which in turn holds 90% of the equity interests in Shunping Ante. As such, the Logistics Company is an associate of Mr. Wei Jian Jun and therefore a connected person of the Company.

The particulars of each transaction contemplated under the 2006 Logistics Company Agreement such as specifications, quantity, price, quality, warranties, payments and delivery would have been determined by the parties based on the principles set out therein. The cap amount is RMB60 million for each of the three years ended 31 December 2008.

Details of the terms of the 2006 Logistics Company Agreement are disclosed in the announcement dated 23 January 2006.

On 19 April 2006, the Company and Ants Logistics amended the 2006 Logistics Company Agreement to change the annual cap of transactions contemplated under the agreement for the three years ended 31 December 2008 from RMB60 million to RMB95 million. Except for the amended annual cap, all the other terms of the Amended and Restated Baoding Ants Logistics Agreement remain the same as the 2006 Logistics Company Agreement.

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Details of amended terms are disclosed in the announcement dated 19 April 2006.

On 17 August 2006, the Company and Ants Logistics entered into a supplemental letter agreement (the “Supplemental Letter Agreement”). Save and except for the addition of 順平縣現代物流有限公司 (Shunping County Modern Logistics Company Limited) (“Shunping Logistics”) as a party to the Amended and Restated 2006 Logistics Company Agreement for the provision of the services referred therein to the Company, all the other terms of the Amended and Restated 2006 Logistics Company Agreement remain unchanged.

Mr. Wei Jian Jun, Chairman of the Company, and his associates are the beneficial owners of all of the equity interests in 保定市長城創業投資有限公司 (Baoding Great Wall Pioneer Enterprise Investment Company Limited) (“Baoding Great Wall Pioneer”) and 保定市長城開發建設集團有限公司 (Baoding Great Wall Development Construction Group Company Limited) (“Baoding Great Wall Development”), which in turn hold 49% and 51%, respectively, of the equity interests in Shunping Logistics. As such, Shunping Logistics is an associate of Mr. Wei Jian Jun and is therefore a connected person of the Company.

Details of the amended terms are disclosed in the announcement dated 17 August 2006.

As such, based on the 2006 Logistics Company Agreement and the Supplemental Letter Agreement, the aggregate value of considerations in respect of transactions contemplated therein is capped at RMB95 million for each of the three years ended 31 December 2008.

- (2) On 20 January 2006, the Group and 高碑店市中客華北汽車有限責任公司 (Gaobeidian Shi Zhong Ke Huabei Automobile Company Limited) (“Zhong Ke Huabei”) entered into a framework agreement (the “2006 Zhong Ke Huabei Agreement”), stating the principal terms of sale of automobile parts and components to Zhong Ke Huabei by the Group.

Zhong Ke Huabei is a company controlled as to 40.5% by 高碑店市華北汽車製造廠 (Gaobeidian Huabei Motor Production Factory) (in liquidation), which is a substantial shareholder of 保定長城華北汽車有限公司 (Baoding Great Wall Huabei Automobile Company Limited), a 51% subsidiary of the Company. As such, Zhong Ke Huabei is a connected person (as defined under the Listing Rules) of the Company.

Based on the 2006 Zhong Ke Huabei Agreement, the aggregate value of considerations in respect of transactions contemplated therein is capped at RMB10.5 million for the year ended 31 December 2006.

Detailed terms in respect of the 2006 Zhong Ke Huabei Agreement are disclosed in the announcement dated 23 January 2006.

Due to changes in shareholding of Zhong Ke Huabei, Zhong Ke Huabei has ceased to be a connected person of the Company after May 2006.

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- (3) On 20 January 2006, the Group and 天津天汽集團美亞汽車製造有限公司 (Tianjin Tianqi Group Meiya Automobile Manufacturing Company Limited) (“Tianqi Meiya”) entered into a framework agreement (the “2006 Tianqi Meiya Agreement”) for the sale of automobile parts and component of the Group to Tianqi Meiya.

Tianqi Meiya is a company indirectly controlled as to 34.37% by Mr. Li Jin Xiang who is a director of 保定長城內燃機製造有限公司 (Baoding Great Wall Internal Combustion Engine Manufacturing Company Limited), a 51% subsidiary of the Company. As such Tianqi Meiya is a connected person (as defined under the Listing Rules) of the Company.

Based on the 2006 Tianqi Meiya Agreement, the aggregate considerations in respect of transactions contemplated therein is capped at RMB38.5 million for the year ended 31 December 2006. Detailed terms in respect of the 2006 Tianqi Meiya Agreement are disclosed in the announcement dated 23 January 2006.

Due to changes in shareholding of Tianqi Meiya, Tianqi Meiya has ceased to be a connected person of the Company after May 2006.

- (4) On 20 January 2006, the Group and 保定太行鋼結構工程有限公司 (Baoding Tai Hang Steel Structure Construction Co. Ltd.) (“Baoding Tai Hang”) entered into a framework agreement (the “2006 Baoding Tai Hang Agreement”), stating the principal terms of provision of building construction services to the Group by Baoding Tai Hang.

The Group has also engaged Baoding Tai Hang to provide design and construction services for the Group’s production facility and auxiliary facilities. Mr. Wei Jian Jun as an ultimate beneficial owner holds 52% of the equity interests in Baoding Tai Hang through other companies controlled by him. As such, Baoding Tai Hang is a connected person (as defined under the Listing Rules) of the Company.

The particulars of each transaction contemplated under the 2006 Baoding Tai Hang Agreement such as specifications, selection of construction materials, price, quality, warranties and payments would be determined by the parties based on the principles set out therein.

Detailed terms of the 2006 Baoding Tai Hang Agreement are disclosed in the announcement dated 23 January 2006.

On 27 October 2006, the Company and Baoding Tai Hang amended the 2006 Baoding Tai Hang Agreement to change the annual cap of transactions contemplated therein for the three years ended 31 December 2008 from RMB55 million to RMB90 million. Except for the amended annual cap, all the other terms of the 2006 Baoding Tai Hang Agreement remain unchanged.

The details of the amended terms are disclosed in the announcement dated 27 October 2006.

As such, based on the 2006 Baoding Tai Hang Agreement and its amendment, the aggregate value of considerations in respect of transactions contemplated therein is capped at RMB90 million.

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- (5) On 20 January 2006, the Group and 保定太行熱士美工業有限公司 (Baoding Tai Hang Reshimei Industrial Company Limited) (“Baoding Tai Hang Reshimei”) entered into a framework agreement (the “2006 Baoding Tai Hang Reshimei Agreement”), stating the principal terms of sale of heating facilities to the Company by Baoding Tai Hang Reshimei.

Baoding Tai Hang Reshimei is a company indirectly controlled as to 45% by Mr. Wei De Yi, who is the father of Mr. Wei Jian Jun. As such, Baoding Tai Hang Reshimei is a connected person (as defined under the Listing Rules) of the Company.

The particulars of each transaction contemplated under the 2006 Baoding Tai Hang Reshimei Agreement such as specifications, quantity, price, quality, warranties, payments and delivery would be determined by the parties based on the principles set out therein.

Based on the 2006 Baoding Tai Hang Reshimei Agreement, the aggregate value of considerations in respect of transactions contemplated therein is capped at RMB4.5 million for the year ended 31 December 2006. Detailed terms of the 2006 Baoding Tai Hang Reshimei Agreement are disclosed in the announcement dated 23 January 2006.

- (6) On 17 August 2006, the Group and 奧拓瑪熱交換器(上海)有限公司 (Automart Hot Exchange Device (Shanghai) Company Limited) (“Automart”) entered into a framework agreement (the “Automart Framework Agreement”) for the purchase of automobile air-conditioning parts and components from Automart.

麥克斯(保定)汽車空調系統有限公司 (Macs (Baoding) Auto A/C System Co., Limited) is a sino-foreign equity joint venture owned as to 51% by the Company and as to 49% by 香港奧拓瑪控股有限公司 (Automart Holdings Limited) (“Hong Kong Automart”). Automart is a wholly-foreign owned enterprise established in the PRC owned by Hong Kong Automart. As such, Automart is an associate of Hong Kong Automart and therefore a connected person of the Company (as defined in the Listing Rules).

Based on the Automart Framework Agreement, the annual cap of aggregate considerations of the transactions contemplated therein is RMB90 million for each of the three years ended 31 December 2008. Details of the terms of the Automart Framework Agreement are disclosed in the announcement dated 17 August 2006.

Report of the Directors

The transactions contemplated under each of the above agreements constitute continuing connected transactions for the Company under the Listing Rules, and are subject to the reporting and announcement requirements and are exempt from the independent shareholders' approval requirements of the Listing Rules. The cap and actual amounts of the non-exempted continuing connected transactions for 2006 are set out below:

Type of transactions	Cap amount of non-exempted continuing connected transactions for 2006 <i>RMB'000</i>	Total value for the year ended 31 December 2006 <i>RMB'000</i>
1. Utilisation of transportation and delivery services of the Logistics Companies	95,000	94,445
2. Design and construction services provided by Tai Hang to the Group	90,000	55,721
3. Sale of automobile parts and components to Tianqi Meiya	38,500	6,804
4. Purchase of heating facilities from Tai Hang Reshimei	4,500	864
5. Purchase of automobile air-conditioning parts and components from Automart	90,000	0
6. Sale of automobile parts and component to Zhong Ke Huabei	10,500	0

POST BALANCE SHEET EVENTS

Details of major events after the balance sheet date of the Company are set out in Note 40 to the financial statements.

PENSION SCHEME

Details of the Group's pension scheme are set out in Notes 3 and 6 to the financial statements.

Report of the Directors

REMUNERATION POLICIES

The Company set up the Remuneration Committee on 3 March 2006 comprising two independent non-executive directors and one executive director. The Remuneration Committee is responsible for reviewing the remuneration policies for directors and senior management of the Company and fixing the remuneration packages for directors and senior management.

Directors

The Company determined the salaries of the Board members with regard to the members' market competitiveness in their respective professions, their duties and the performance of the Company. The salaries and remuneration include basic salaries, bonuses, long-term incentives and non-monetary benefits.

Details of salaries of the directors for 2006 are set out in Note 8 to the financial statements.

Non-executive Directors

In connection with the remuneration of the non-executive directors, it was approved by the shareholders at the general meeting held on 10 December 2003 that the remuneration will not be less than RMB40,000 per annum.

Employees

Employees were remunerated on the basis of their performance, experience and prevailing industry practices. The Group's remuneration policies and packages were reviewed on a regular basis in order to ensure the competitiveness of the level of wages and to recruit, retain and encourage the employees. Bonuses and incentives may also be awarded to employees based on their individual performance. These measures provided drive and incentive for individual employees.

UNCOLLECTED DIVIDENDS

As at 31 December 2006, of the Company's 2005 final dividend, there were 99 cases of unclaimed final dividends, and the aggregate amount of unclaimed final dividends was HK\$14,795.10.

MATERIAL LITIGATIONS

The legal action between Beijing Jiameiya Investment Company Limited and Baoding Zhongxin Internal Combustion Engine Manufacturing Company Limited as disclosed in the 2006 Interim Report of the Company is still outstanding.

Save for the above litigation, the Company is not involved in, nor aware of any other proceedings instituted against the Company.

Report of the Directors

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

There were no purchases, redemption or sale of the Company's listed securities by the Company or its subsidiaries during the year.

CORPORATE GOVERNANCE

During the year ended 31 December 2006, the Company has complied with provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules throughout the period.

AUDIT COMMITTEE

In compliance with Code on Corporate Governance Practices, the Company has set up an Audit Committee ("Audit Committee") for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The committee comprises four independent non-executive directors. The Audit Committee held a meeting on 26 March 2007 to review the annual report of the Group and to give their opinion and recommendations to the Board. The Audit Committee is of the opinion that the annual report and the annual financial statements of 2006 comply with the applicable accounting standards and that adequate disclosures have been made by the Company.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company was set up on 3 March 2006, comprising two Independent Non-executive Directors and one Executive Director. The Remuneration Committee is responsible for making recommendations on the remuneration policies in relation to the directors and senior management of the Company, and determining the remuneration packages of executive directors and senior management, including benefits in kind, pension rights and compensation payments.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED COMPANIES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by all directors of the Company (the "Moral Code"). Having made specific enquiry from the directors of the Company, the Board believes that all directors had complied with the requirements set out in the Moral Code during the period.

Report of the Directors

AUDITORS

Ernst & Young Hua Ming and Ernst & Young were the Group's PRC auditors and international auditors respectively for the year ended 31 December 2006. A resolution for the re-appointment of Ernst & Young Hua Ming and Ernst & Young as the Group's PRC auditors and international auditors, respectively, will be proposed at the forthcoming annual general meeting.

The auditors appointed by the Company remained the same for the past three years (including this year).

By order of the Board

Wei Jian Jun

Chairman

Baoding, Hebei Province, the PRC
27 March 2007