

The Board of Directors (the “Board”) submits its report together with the audited accounts for the year ended 31st December 2003.

PRINCIPAL ACTIVITIES AND SEGMENT INFORMATION

The Company is an investment holding company. Its subsidiaries (the Company and its subsidiaries are hereafter referred to as the “Group”), non-consolidated subsidiaries, associated companies and a jointly controlled entity are principally engaged in an integrated range of activities relating to the manufacture, assembly and trading of motor vehicles, the manufacture of motor vehicle related electrical equipment and parts in the People’s Republic of China (the “PRC”), and the manufacture and trading of audio equipment in Hong Kong. Details of segment information of the Group are set out in Note 2 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 22. The Directors recommend a final dividend of HK6 cents per share (2002: HK4 cents per share) totalling HK\$210,512,000 and a special dividend of HK8 cents per share (2002: nil) totalling HK\$280,683,000 for the year ended 31st December 2003. Together with the interim dividend of HK4 cents paid, total dividends for the year will be HK18 cents per share (2002: HK7 cents per share). Subject to approval of shareholders at the forthcoming Annual General Meeting, the final dividend and the special dividend will be paid on 14th May 2004 to shareholders whose name appeared on the register of members of the Company on 10th May 2004.

BONUS ISSUE OF SHARES

The Directors also recommend a bonus issue of one new share for every existing share, credited as fully paid, to shareholders whose names appear on the register of members on 10th May 2004. The bonus shares will not rank for the said final dividend and special dividend and, when issued will rank pari passu in all other respects with the existing issued shares of the Company. The bonus issue is conditional upon (a) the passing by the shareholders at the forthcoming Annual General Meeting of ordinary resolutions respectively approving the increase of authorised share capital and bonus issue of shares; and (b) the Listing Committee of The Stock Exchange of Hong Kong Limited granting listing of and permission to deal in the bonus shares. Details of the bonus issue of shares will be included in a circular to be despatched to shareholders as soon as possible.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 4th May 2004 to Monday, 10th May 2004, both days inclusive, during which no transfer of shares will be effected. In order to qualify for the proposed final dividend, special dividend and bonus issue of shares, all share certificates with completed transfer forms either overleaf or separately must be lodged with the Company's Registrars, Abacus Share Registrars Limited, G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 3rd May 2004.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 23 to the accounts. The Company had distributable reserves of HK\$588,525,000 at 31st December 2003, calculated pursuant to section 79B of the Company Ordinance (2002: HK\$262,543,000).

FIXED ASSETS

Details of the movements in fixed assets of the Group and of the Company during the year are set out in note 12 to the accounts.

PRINCIPAL PROPERTIES

Details of the principal properties held for investment purposes are set out on pages 71 and 72.

SHARE CAPITAL AND OPTIONS

Details of movements in the issued share capital of the Company during the year are set out in note 22 to the accounts.

Details of the movements of the share options granted by the Company during the year and options outstanding as at 31st December 2003 are set out in note 22(a) to the accounts.

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 or sold any of the Company's listed securities.

PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31st December 2003 are set out in note 34 to the accounts.

BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

Details of bank loans, overdrafts and other borrowings of the Group and of the Company as at 31st December 2003 are set out in note 24 to the accounts.

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:

| | 2003 HK\$'000 | 2002 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 | 1999 HK\$'000 |
|-------------------------------------|------------------|------------------|------------------|------------------|------------------|
| Profit attributable to shareholders | <u>1,686,709</u> | <u>1,091,913</u> | <u>724,242</u> | <u>453,203</u> | <u>37,867</u> |
| Total assets | <u>5,829,890</u> | <u>3,940,259</u> | <u>2,976,849</u> | <u>2,199,650</u> | <u>1,203,954</u> |
| Total liabilities | <u>502,558</u> | <u>335,090</u> | <u>429,576</u> | <u>371,494</u> | <u>306,890</u> |
| Minority interests | <u>171,228</u> | <u>109,107</u> | <u>66,838</u> | <u>35,579</u> | <u>22,604</u> |
| Shareholders' funds | <u>5,156,104</u> | <u>3,496,062</u> | <u>2,480,435</u> | <u>1,792,577</u> | <u>874,460</u> |

DIRECTORS

The Directors who held office during the year and up to the date of this report were:

Mr. ZHANG Fangyou
Mr. LU Zhifeng
Mr. YANG Dadong
Mr. CHEN Xuejun
Mr. ZHANG Baoqing
Mr. ZENG Qinghong
Mr. DING Baoshan
Mr. CHEUNG Doi Shu*
Mr. LEE Ka Lun*

* Independent non-executive directors

Messrs. Zhang Fangyou, Chen Xuejun and Zeng Qinghong shall retire at the forthcoming Annual General Meeting in accordance with Article 101 of the Company's Article of Association and, being eligible, offer themselves for re-election.

DIRECTORS AND SENIOR MANAGEMENT'S PROFILES

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

Executive Directors

Mr. ZHANG Fangyou, aged 47, is Chairman and Managing Director of the Company. He was appointed as Chairman of the Company on 18th September 1998 and as Managing Director of the Company on 5th March 1999. He joined the Group in 1997. He is also the chairman of Guangzhou Automobile Group Co., Ltd. (“Guangzhou Automobile”), Guangzhou Auto Group (Hong Kong) Limited (“Guangzhou Auto Group (Hong Kong)”), China Lounge Investments Limited (“China Lounge Investments”) and a director of Guangzhou Honda Automobile Co., Ltd. (“Guangzhou Honda”). Mr. Zhang was also the general manager of China Lounge Investments, he had held several senior posts in Zeng Cheng City in Guangdong Province and he was the Deputy Secretary-General of Guangzhou Municipal People’s Government (“Guangzhou Government”) and a director of Automotive Industry Office of Guangzhou Government.

Mr. LU Zhifeng, aged 51, was appointed as Vice Chairman of the Company on 11th January 2000. He joined the Group in 1998. He is also a director and the general manager of Guangzhou Automobile, the vice chairman of Guangzhou Auto Group (Hong Kong) and China Lounge Investments, and a director of Guangzhou Honda. Mr. Lu was the executive deputy managing director of Guangzhou Honda, the general manager of Guangzhou Yangcheng Automobile Group Co., the factory manager of Guangzhou Yangcheng Automobile Factory and also the vice chairman and general manager of Guangzhou Yangcheng Automobile Co., Ltd.

Mr. YANG Dadong, aged 55, was appointed as a Director of the Company on 16th January 2001. He joined the Group in 2001. He is also the vice chairman of Guangzhou Automobile Industry Group Co., Ltd. (“Guangzhou Automobile Industry”), a director of Guangzhou Auto Group (Hong Kong), a director of China Lounge Investments and the chairman of Guangzhou Motorcycle Group Co. (“Guangzhou Motorcycle”). Mr. Yang was the vice chairman and general manager of Guangzhou Motorcycle, and the general manager of Wu Yang-Honda Motors (Guangzhou) Co., Ltd. (“Wu Yang-Honda Motors”).

Mr. CHEN Xuejun, aged 60, was appointed as a Director of the Company on 15th October 1999. He joined the Group in 1999. He is also the executive deputy managing director of Guangzhou Automobile and a director of China Lounge Investments. He worked for Guangzhou Yangcheng Automobile Group Co. as vice chairman and deputy general manager. Guangzhou Motorcycle as executive director and Wu Yang-Honda Motors as a director.

Mr. ZHANG Baoqing, aged 54, was appointed as a Director and Deputy Managing Director on 19th June 2001. He joined the Group in 1998. He is also the deputy managing director of Guangzhou Automobile, the managing director of Guangzhou Auto Group (Hong Kong) and the managing director of China Lounge Investments. Mr. Zhang was the factory manager of Guangzhou Automotive Manufacturing Factory and also the deputy general manager of Guangzhou Jinda Motors Holdings Enterprises (“Guangzhou Jinda”).

Mr. ZENG Qinghong, aged 42, was appointed as a Director of the Company on 16th January 2001. He joined the Group in 1999. He is also the deputy general manager of Guangzhou Automobile, a director of Guangzhou Auto Group (Hong Kong), a director of China Lounge Investments, and the executive deputy managing director of Guangzhou Honda. He was the vice chairman and executive deputy managing director of Guangzhou Guangke Automobile Enterprises Group Co., Ltd.

DIRECTORS AND SENIOR MANAGEMENT'S PROFILES (cont'd)

Mr. DING Baoshan, aged 41, was appointed as a Director of the Company on 26th October 2000. He joined the Group in 2000. Mr. Ding studied in Beijing Technology University (formerly known as “Beijing Metal College”), China Social Science Graduate Institute where had gained his bachelor’s degree, MBA and PHD. He had worked a long period of time in the National Macroeconomics Department in respect of the macroeconomics policy and corporate reform. He is also the chief economist of Guangzhou Automobile, a director of Guangzhou Auto Group (Hong Kong) and a director of China Lounge Investments. He was the chairman of Guangzhou Honda Automobile No. 1 Sales Co., Ltd. (“GZ Honda No. 1 Sales”).

Independent Non-Executive Directors

Mr. CHEUNG Doi Shu, aged 42, is an independent Non-Executive Director of the Company. He joined the Group in 1998. He is a qualified solicitor in the Australian Capital Territory, Hong Kong, Singapore and England and Wales and received his bachelor’s and master’s degree in law from the University of London. He is a director of GZI Transport Limited and Artfield Group Limited and is the sole practitioner of D.S. Cheung & Co. whose practice includes securities, corporate finance, China investments and international banking and finance and he is also a director of China Convergent Corporation Limited which listed on the Australian Stock Exchange, Nasdaq and the Frankfurt Stock Exchange.

Mr. LEE Ka Lun, aged 49, was appointed as an independent Non-Executive Director and Chairman of Audit Committee of the Company on 30th June 1999. He joined the Group in 1999. He is an accountant by profession and is the deputy chief executive of Lloyds TSB Bank Plc, Hong Kong Branch. Mr. Lee is a fellow of The Association of Chartered Certified Accountants in UK and has over 20 years of experience in banking and auditing.

Senior Management

Ms. GAO Fusheng, aged 46, is the Deputy General Manager and the Financial Controller of the Company. She joined the Group in 1999. She is also a director of GZ Honda No. 1 Sales. Ms. Gao obtained a master’s degree in business administration from Murdoch University in Australia and she is a qualified senior accountant in the PRC. She was the director of the finance department of Guangzhou Automobile and the director of finance department of Automotive Industry Office of Guangzhou Government. She was promoted to the present position in 1999.

Mr. HO Nai Ki, aged 54, is an assistant to General Manager of the Company and also General Manager of the Company’s investment department. He joined the Group in 1993. Prior to joining the Company in 1993, he had worked for the Chase Manhattan Bank, Sun Hung Kai Group and several leading financial institutions in Hong Kong. Mr. Ho has over 20 years of experience in investment and financial management.

Mr. LIANG Yaohua, aged 44, is the General Manager of the Company’s finance department. He joined the Group in 1992. Mr. Liang obtained a master’s degree in business administration from Murdoch University in Australia. He is also a director of GZ Honda No. 1 Sales. He had been the assistant financial manager of Guangzhou Auto Group Corporation (“GAC”) and financial manager of Guangzhou Denway Enterprises Development Company Limited (“GZ Denway”). Mr. Liang transferred to GZ Denway as deputy general manager in October 2003.

DIRECTORS' SERVICE CONTRACTS

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 director 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 holding company, its subsidiaries or its fellow subsidiaries was a party, and in which any Director 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 of 2003.

SHARE OPTION SCHEMES

The share option scheme which was adopted by the Company on 1st February 1993 ("Old Scheme") was originally due to expire on 31st January 2003. As a result of certain changes to the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") in 2001, the Board proposed and the shareholders in general meeting approved on 6th June 2002 early termination of the Old Scheme and adoption of a new share option scheme ("New Scheme"). After termination of the Old Scheme, no more option can be granted pursuant to the Old Scheme and in respect of all the outstanding options granted under the Old Scheme, the provisions of the Old Scheme shall remain in force.

The principal terms of the Old Scheme and New Scheme are as follows:

(a) Old Scheme

The Old Scheme was adopted as an incentive to the employees under which the Board might, at their discretion, invite full time employees including executive directors of any member of the Group to take up options to subscribe for shares in the Company at a price to be determined by the Board which will not be less than 80% of the average closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of offer of the option or the nominal value of the shares of the Company, whichever was the higher.

The maximum number of shares of the Company in respect of which options might be granted (together with shares of the Company issued pursuant to options exercised and shares of the Company in respect of which any options remained outstanding) under the Old Scheme might not exceed 10% of the issued share capital of the Company from time to time, excluding for this purpose shares of the Company issued on exercise of options granted pursuant to the Old Scheme.

No option might be granted to any employee which, if exercised in full, would result in such employee becoming entitled to subscribe for such number of shares of the Company and when aggregated with the total number of shares of the Company already issued and remaining issuable to him under the Old Scheme, would exceed 25% of the aggregate number of shares of the Company for the time being issued and were issuable under the Old Scheme. The offer of a grant of share options might be accepted within 28 days from the date of the offer with payment of consideration of HK\$1.00 by the grantee. Each option gave the holder the right to subscribe for one share of the Company at the relevant exercise price.

SHARE OPTION SCHEMES (cont'd)

Share options might be exercised during the three-year period commencing on the expiry of six months after the date on which the option is granted, and should expire at the end of the three-year period or 31st January 2003, whichever was earlier. The Old Scheme was terminated on 6th June 2002.

(b) New Scheme

The purpose of the New 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 may approve from time to time. Participants includes (i) any executive or non-executive directors of the Group (or persons proposed to be appointed as such) or any employee of the Group; (ii) any discretionary object of a discretionary trust established by any employee, executive or non-executive director of the Group; (iii) any consultant(s) and professional adviser(s) to the Group (or persons, firms or companies proposed to be appointed for providing such services); (iv) chief executive or substantial shareholder of the Company; (v) associates of director, chief executive or substantial shareholder of the Company; and (vi) employees of substantial shareholder.

The Board may, at their discretion, invite any participant who has rendered service or will render service to the Group to take up options. An option is deemed to have been granted and accepted by the grantee upon his or her signing the duplicate letter comprising acceptance of the option and paying HK\$1 by way of consideration for the grant thereof.

The subscription price for shares in the Company under the New 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 New Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares of the Company in issue as at the date of approval of the New 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 New Scheme in any 12-month period shall not exceed 1% of the total number of shares in issue of the Company. Any further grant of options in excess of the 1% limit shall be subject to shareholders' approval in general meeting with such participant and his or her associates abstaining from voting. The New Scheme will remain in force for a period of 10 years from 6th June 2002.

SHARE OPTION SCHEMES (cont'd)

Information disclosed in accordance with the Listing Rules in relation to share option schemes is as follows :

1. Options granted under the Old Scheme :

| Name | As at 1st January 2003 | Number of options | | As at 31st December 2003 |
|------------------------------|-----------------------------------|--|---------------------------------------|---|
| | | Exercised during the year | Lapsed during the year | |
| Aggregate total of employees | 784,000 | 693,000 | 91,000 | — |

Notes :

- (1) The above options were granted on 18th July 2001 at an exercise price of HK\$2.156 per share for an exercise period of three years commencing on the expiry of six months after the date of grant of the options, and had expired on 31st January 2003. The consideration paid by each grantee for the option granted was HK\$1.
- (2) No option was granted or cancelled under the Old Scheme during the year.
- (3) The weighted average closing price per share immediately before the date on which the options were exercised was HK\$2.661.

SHARE OPTION SCHEMES (cont'd)

2. Options granted under the New Scheme :

| Name | As at 1st January 2003 | Number of options | | As at 31st December 2003 | Notes |
|--|---------------------------|-------------------------------|------------------------------------|-----------------------------|-------|
| | | Granted during the year | Exercised during the year(4) | | |
| ZHANG Fangyou | — | 4,264,000 | — | 4,264,000 | (3) |
| LU Zhifeng | — | 3,842,000 | — | 3,842,000 | (3) |
| YANG Dadong | — | 2,832,000 | — | 2,832,000 | (3) |
| CHEN Xuejun | — | 2,832,000 | — | 2,832,000 | (3) |
| ZHANG Baoqing | — | 3,244,000 | — | 3,244,000 | (3) |
| ZENG Qinghong | — | 2,832,000 | — | 2,832,000 | (3) |
| DING Baoshan | — | 2,832,000 | — | 2,832,000 | (3) |
| CHEUNG Doi Shu | — | 1,000,000 | — | 1,000,000 | (3) |
| LEE Ka Lun | — | 1,000,000 | 330,000 | 670,000 | (3) |
| Aggregate total of employees | — | 62,856,000 | 18,796,000 | 44,060,000 | (1) |
| | — | 12,368,000 | 3,710,000 | 8,658,000 | (2) |
| Aggregate total of other participants | — | 212,486,000 | 62,991,000 | 149,495,000 | (1) |
| | — | 14,762,000 | 3,916,500 | 10,845,500 | (2) |

Notes :

- (1) These options were granted on 9th May 2003 at an exercise price of HK\$2.65 per share for an exercise period of three years from the date of grant of the options and shall expire at the end of three years' period. The consideration paid by each grantee for the options granted was HK\$1. The closing price of the share immediately before the date on which the options were granted was HK\$2.70.
- (2) These options were granted on 2nd July 2003 at an exercise price of HK\$3.65 per share for an exercise period of three years from the date of grant of options and shall expire at the end of three years' period. The consideration paid by each grantee for options granted was HK\$1. The closing price of the share immediately before the date on which the options were granted was HK\$3.525.
- (3) These options were granted on 7th August 2003 at an exercise price of HK\$4.305 per share for an exercise period of ten years from the date of grant of the options and shall expire at the end of ten years' period or 5th June 2012, whichever is earlier. The consideration paid by each grantee for the options granted was HK\$1. The closing price of the share immediately before the date on which the options were granted was HK\$4.15.
- (4) The weighted average closing price per share immediately before the date on which the options were exercised was HK\$5.463.
- (5) No option was lapsed or cancelled during the year.
- (6) The Board considers it is inappropriate to value the options granted during the year as a number of factors critical for the valuation cannot be determined accurately. Any valuation of the options based on various speculative assumptions would be meaningless and could be misleading to the shareholders. The Board therefore considers the disclosure of only the relevant market price and exercise price, which are readily ascertainable, will be appropriate.

DIRECTORS' INTEREST IN SHARES

As at 31st December 2003, 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

None of the Directors had any interests, as at 31st December 2003, in the shares of the Company.

(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 31st December 2003 |
|------------------|---|--|
| ZHANG Fangyou | 4,264,000 | 0.12% |
| LU Zhifeng | 3,842,000 | 0.11% |
| CHEN Xuejun | 2,832,000 | 0.08% |
| YANG Dadong | 2,832,000 | 0.08% |
| ZHANG Baoqing | 3,244,000 | 0.09% |
| ZENG Qinghong | 2,832,000 | 0.08% |
| DING Baoshan | 2,832,000 | 0.08% |
| CHEUNG Doi Shu | 1,000,000 | 0.03% |
| LEE Ka Lun | 670,000 | 0.02% |

Save as disclosed above, as at 31st December 2003, 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 schemes, at no time during the year ended 31st December 2003 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 SCHEMES", during the year ended 31st December 2003, no rights to subscribe for equity or debt securities of the Company had been granted by the Company to, nor have any such rights been exercised by, any directors and chief executives of the Company.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31st December 2003, 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 | Long Position in Underlying shares of equity derivatives | Aggregate Long Position | Lending Pool | Percentage of total shareholding as at 31st December 2003 | | Notes |
|---|-------------------------|--|-------------------------|--------------|---|--------------|-------|
| | | | | | Aggregate Long Position | Lending Pool | |
| Guangzhou Automobile Industry Group Co. Ltd. ("Guangzhou Automobile Industry") | 1,387,872,452 | — | 1,387,872,452 | — | 39.56% | — | (a) |
| Guangzhou Automobile Group Co. Ltd. ("Guangzhou Automobile") | 1,387,872,452 | — | 1,387,872,452 | — | 39.56% | — | (b) |
| China Lounge Investments Limited ("China Lounge Investments") | 1,387,872,452 | — | 1,387,872,452 | — | 39.56% | — | (c) |
| J.P. Morgan Chase & Co. ("J.P. Morgan") | 383,019,200 | 750,000 | 383,769,200 | 109,216,000 | 10.94% | 3.11% | (d) |

Notes :

- (a) The interest of Guangzhou Automobile Industry represents the total number of shares of the Company held by certain subsidiaries of Guangzhou Automobile Industry where Guangzhou Automobile Industry is taken to be interested in such shares under Part XV of SFO.
- (b) Guangzhou Automobile is a wholly-owned subsidiary of Guangzhou Automobile Industry and its interests in the shares of the Company is duplicated in the interest of Guangzhou Automobile Industry.
- (c) China Lounge Investments is a wholly-owned subsidiary of Guangzhou Automobile and its interest in the shares of the Company is duplicated in the interests of Guangzhou Automobile.
- (d) The interest of J.P. Morgan (which was held in the capacity of beneficial owner, investment manager and custodian corporation/approved lending agent) was attributable on account through a number of wholly-owned subsidiaries and non-wholly owned subsidiaries, including, Robert Fleming Asset Management Ltd. (99.96% control), Robert Fleming Holdings Ltd. (96% control), JF Asset Management Limited (99.99% control) and J.P. Morgan Securities Ltd. (90% control).

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 31st December 2003.

RETIREMENT SCHEME

Details of the Group's retirement scheme are set out in note 31 to the accounts.

INDEPENDENT NON-EXECUTIVE DIRECTORS' FEES

Each of the independent non-executive Directors of the Company received HK\$88,000 as director's fee for the year ended 31st December 2003.

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 2003.

MAJOR SUPPLIERS

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

| | 2003 | 2002 |
|-----------------------------------|------|------|
| | % | % |
| — the largest supplier | 36 | 35 |
| — five largest suppliers combined | 69 | 75 |

MAJOR CUSTOMERS

During 2002 and 2003, the Group's sold less than 12% of its goods and services to its five largest customers.

CONNECTED TRANSACTIONS

Details of transactions regarded as connected transactions as defined in the Listing Rules are as follows:

- (a) On 20th February 2003, GZ Denway entered into an agreement (the "Agreement") with Guangzhou Guangyue Asset Management Limited ("Guangyue"). Guangyue is indirectly wholly-owned by Guangzhou Automobile Industry which is the Company's ultimate holding company. Pursuant to the Agreement, GZ Denway has agreed to pay the consideration comprising: (i) a lump sum payment of RMB2,730,000 (equivalent to approximately HK\$2,551,000); and (ii) a fixed annual payment of RMB602,000 (equivalent to approximately HK\$563,000) (subject to reduction after the year of death of any retired employee) to Guangyue in respect of transferring to Guangyue of GZ Denway's obligations in the administration and management (including but not limited to the pension, medical expenses, housing subsidies and other benefits) of the retired employees. The directors believe that the transfer would relieve the administrative burden on GZ Denway in respect of the retired employees. The directors also believe that it would be more effective and efficient for Guangyue to administer and manage the retired employees on consolidation basis.

CONNECTED TRANSACTIONS (cont'd)

- (b) As at 31st December 2003, GZ Denway had an aggregate sum of RMB543,625 (equivalent to approximately HK\$507,298) on current accounts due from the Company. Amounts due to GZ Denway were interest-free and repayable on demand.
- (c) During the year, GZ Denway provided bank guarantees to the total extent of RMB30,000,000 (equivalent to approximately HK\$28,140,000) for Guangzhou Denway Bus Limited (“GZ Denway Bus”), a subsidiary with 50% equity interest owned by the Company, to enable GZ Denway Bus to obtain banking facilities. Guangzhou Automobile owns 5% equity interest in GZ Denway and 50% equity interest in GZ Denway Bus respectively, has also provided bank guarantees in its proportion of shareholdings in GZ Denway Bus to the total of RMB30,000,000 (equivalent to approximately HK\$28,140,000) for GZ Denway Bus. Both aforesaid guarantees were provided without obtaining security from GZ Denway Bus.
- (d) GZ Denway has provided bank guarantees to the total extent of RMB104,500,000 (equivalent to approximately HK\$98,021,000) for Guangzhou Automotive Industry Trading Company Limited (“GZAT”), another subsidiary with 95% indirect equity interest owned by the Company, to enable GZAT to obtain certain banking facilities. Besides, GZ Denway has provided loans in the aggregate sum of RMB4,000,000 (equivalent to approximately HK\$3,752,000) to GZAT and bearing an interest rate of 5.31% per annum. Guangzhou Automobile, which indirectly owns 5% equity interest in GZAT, has also provided bank guarantees by its wholly-owned subsidiaries to the total extent of RMB5,500,000 (equivalent to approximately HK\$5,190,000) for GZAT without obtaining any security from GZAT. Guangzhou Automobile has also through its subsidiary advanced an interest-free term loan in the sum of RMB1,246,000 (equivalent to approximately HK\$1,164,000) to GZAT. Loans were repayable within one year from the respective date of advancement.

PRACTICE NOTE 19 OF THE LISTING RULES

As at 31st December 2003, the Group had provided guarantees for bank loans in the aggregate sum of about HK\$13,873,000 to a non-consolidated subsidiary. The financial assistance given to the above company during the year or as at 31st December 2003, in aggregate, represented 0.27% of the consolidated net tangible assets of the Group at the balance sheet date. Accordingly, no separate disclosure in accordance with the requirements under Practice 19 of the Listing Rules is provided.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED

The 2003 Annual Report of the Company containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange in due course.

CODE OF BEST PRACTICE

In the opinion of the Board, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the accounting year covered by the annual accounts. The Directors of the Company are not appointed for a specific term as they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association. The audit committee was established with written terms of reference which deal clearly with its authority and duties in pursuance of paragraph 14 of Appendix 14 of the Listing Rules. Amongst the audit committee's principal duties are the review and supervision of the Company's financial reporting process and internal control systems.

AUDITORS

The accounts 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.

On behalf of the Board

Zhang Fangyou

Chairman and Managing Director

Hong Kong, 29th March 2004