

The Board of Directors (the “Board”) submits its report together with the audited financial statements for the year ended 31 December 2005.

## 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, associates and jointly controlled entities are principally engaged in an integrated range of activities relating to the manufacturing, assembly and trading of motor vehicles, and the manufacturing and trading of automotive equipment and parts in the People’s Republic of China (the “PRC”), and the manufacturing and trading of audio equipment in Hong Kong. Details of segment information of the Group are set out in Note 2 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 29. The Board of directors recommends a final dividend of HK4 cents (2004: HK4 cents) and a special dividend of HK5 cents (2004: nil) per ordinary share totalling HK9 cents for the year ended 31 December 2005. Together with the interim dividend of HK4 cents paid, total dividends for the year will be HK13 cents (2004: HK8 cents) per ordinary share. Subject to the approval of shareholders at the forthcoming Annual General Meeting, the final dividend and the special dividend will be paid on 12 June 2006 to shareholders whose names appeared on the register of members of the Company on 6 June 2006.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 1 June 2006 to Tuesday, 6 June 2006, both days inclusive, during which no transfer of shares will be registered. In order to qualify for the proposed final dividend and special 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 Tuesday, 30 May 2006.

## RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 28 to the consolidated financial statements. The Company had distributable reserves of HK\$996,224,000 at 31 December 2005, calculated pursuant to section 79B of the Company Ordinance (2004: 601,714,000).

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and of the Company during the year are set out in note 17 to the consolidated financial statements.

## PRINCIPAL PROPERTIES

Details of the principal properties held for investment purposes are set out on pages 95 and 96.

## SHARE CAPITAL AND OPTIONS

Details of movements in the issued share capital and options of the Company during the year are set out in note 27 to the consolidated financial statements.

Details of movements in the share options granted by the Company during the year and options outstanding as at 31 December 2005 are set out in note 27(c) to the consolidated financial statements.

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

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year.

## PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2005 are set out in note 38 to the consolidated financial statements.

## BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

Details of bank loans, overdrafts and other borrowings of the Group and of the Company as at 31 December 2005 are set out in note 29 to the consolidated financial statements.

## FIVE-YEAR FINANCIAL SUMMARY

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

	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Profit attributable to shareholders	<u>1,905,529</u>	<u>2,062,447</u>	<u>1,686,709</u>	<u>1,091,913</u>	<u>724,242</u>
Total assets	9,155,311	7,584,109	5,829,890	3,940,259	2,976,849
Total liabilities	400,653	456,178	502,558	335,090	429,576
Minority interests	<u>84,462</u>	<u>157,564</u>	<u>171,228</u>	<u>109,107</u>	<u>66,838</u>
Shareholders' funds	<u>8,670,196</u>	<u>6,970,367</u>	<u>5,156,104</u>	<u>3,496,062</u>	<u>2,480,435</u>

## DIRECTORS

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

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

\* Independent non-executive directors

Messrs. LU Zhifeng, YANG Dadong and DING Baoshan shall retire by rotation in accordance with Article 101 of the Articles of Association of the Company and, being eligible, shall offer themselves for re-election at the forthcoming annual general meeting.

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

## DIRECTORS AND SENIOR MANAGEMENT'S PROFILES

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

### Executive Directors

**Mr. ZHANG Fangyou**, aged 49, joined the Group in 1997 and became the Chairman of the Company on 18 September 1998. He is also the Chairman of Guangzhou Automobile Industry Group Co., Ltd., Guangzhou Automobile Group Co., Ltd., Guangzhou Toyota Motor Co., Ltd., Guangzhou Auto Group (Hong Kong) Ltd. and China Lounge Investments Ltd. Mr. Zhang was the Managing Director of China Lounge Investments Ltd. and the Company and a Director of Guangzhou Honda Automobile Co., Ltd. He had held senior posts in the Zeng Cheng Municipal People's Government of Guangdong Province and was the Deputy Secretary-General of Guangzhou Municipal People's Government and the Director of the Automotive Industry Office of Guangzhou Municipal People's Government.

**Mr. LU Zhifeng**, aged 53, joined the Group in 1998 and was appointed as the Vice Chairman of the Company on 11 January 2000. He is also the Managing Director of Guangzhou Automobile Industry Group Co., Ltd., the Vice Chairman of Guangzhou Automobile Group Co., Ltd., the Vice Chairman of the Guangzhou Auto Group (Hong Kong) Ltd. and China Lounge Investments Ltd. and the Chairman of Guangzhou Honda Automobile Co., Ltd. Mr. Lu was the General Manager of Guangzhou Automobile Group Co., Ltd., the Executive Deputy Managing Director of Guangzhou Honda Automobile Co., Ltd., the General Manager of Guangzhou Yangcheng Automobile Group Co. and the Vice Chairman and Managing Director of Guangzhou Yangcheng Automobile Co., Ltd.

**Mr. YANG Dadong**, aged 57, joined the Group on 16 January 2001 as a Director of the Company. He is also the Vice Chairman of Guangzhou Automobile Industry Group Co., Ltd., a Director of Guangzhou Automobile Group Co., Ltd., Guangzhou Auto Group (Hong Kong) Ltd., China Lounge Investments Ltd. and Guangzhou Honda Automobile Co., Ltd. as well as the Chairman of Wu Yang-Honda Motors (Guangzhou) Co., Ltd. Mr. Yang was the Chairman of Guangzhou Motorcycle Group Co. and the Vice Chairman and Managing Director of Wu Yang-Honda Motors (Guangzhou) Co., Ltd.

**Mr. ZENG Qinghong**, aged 44, joined the Group in 1999 and was appointed as a Director of the Company on 16 January 2001. He is also a Director of Guangzhou Automobile Industry Group Co., Ltd., the Vice Chairman and Managing Director of Guangzhou Automobile Group Co., Ltd., a Director of Guangzhou Auto Group (Hong Kong) Ltd., China Lounge Investments Ltd. and Guangzhou Honda Automobile Co., Ltd., the Chairman of Guangzhou Automobile Group Component Co., Ltd. and Guangzhou Automobile Group Business Commercial Co., Ltd. as well as the Vice Chairman and Managing Director of Guangzhou Auto Group Corporation. He was the Deputy General Manager of Guangzhou Automobile Industry Group Co., Ltd., the Executive Deputy Managing Director of Guangzhou Honda Automobile Co., Ltd. and the Vice Chairman and Deputy Managing Director of Guangzhou Guangke Automobile Enterprises Group Co., Ltd.

**Mr. ZHANG Baoqing**, aged 56, joined the Group in 1998 and was appointed as the Deputy Managing Director of the Company on 19 June 2001. He became the Managing Director on 23 September 2004 and a member of the Remuneration Committee of the Company on 3 January 2005. He is also a Director of Guangzhou Automobile Group Co., Ltd., the Managing Director of

Guangzhou Auto Group (Hong Kong) Ltd. and China Lounge Investments Ltd. as well as the Chairman of Guangzhou Denway Enterprises Development Co., Ltd. and of several members of the Group. He was the Deputy Managing Director of Guangzhou Automobile Industry Group Co., Ltd. and Guangzhou Automobile Group Co., Ltd., a Director of Guangzhou Motorcycle Group Co., the Factory Manager of Guangzhou Automotive Manufacturing Factory and the Deputy General Manager of Guangzhou Jinda Motors Holdings Enterprises.

**Mr. DING Baoshan**, aged 43, joined the Group as a Director of the Company on 26 October 2000. He studied in the University of Science and Technology Beijing (formerly known as "Beijing Institute of Iron and Steel Engineering") and the Graduate School of Chinese Academy of Social Sciences where he obtained his Bachelor in Engineering, Master's degree in Management and Ph.D. in Economics. He had worked a long period of time in the national macroeconomic departments for research of macroeconomical policies and corporate reform. He is also the Deputy General Manager of Guangzhou Automobile Group Co., Ltd., a Director of Guangzhou Auto Group (Hong Kong) Ltd. and China Lounge Investments Ltd. Mr. Ding was the Chief Economist of Guangzhou Automobile Industry Group Co., Ltd., the Assistant to General Manager and Chief Economist of Guangzhou Automobile Group Co., Ltd. and the Chairman of Guangzhou Honda Automobile No.1 Sales Co., Ltd.

### Independent Non-Executive Directors

**Mr. CHEUNG Doi Shu**, aged 44, was appointed as an Independent Non-Executive Director on 16 April 1998, a member of the Audit Committee of the Company on 30 June 1999, the Chairman of the Remuneration Committee of the Company on 3 January 2005 and a member of the Nomination Committee of the Company on 2 September 2005. He is a qualified solicitor in the Australian Capital Territory, Hong Kong, Singapore and England and Wales and received his Bachelor's and Master's degree in Law from University of London. Mr. Cheung is an Independent Non-Executive Director of GZI Transport Limited and the senior partner of D.S. Cheung & Co.

**Mr. LEE Ka Lun**, aged 51, was appointed as an Independent Non-Executive Director and the Chairman of Audit Committee of the Company on 30 June 1999, a member of the Remuneration Committee of the Company on 3 January 2005 and a member of the Nomination Committee of the Company on 2 September 2005. Mr. Lee is also an Independent Non-Executive Director of Guangzhou Investment Company Limited and Chow Sang Sang Holdings International Limited. 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 25 years of experience in banking and auditing.

**Mr. FUNG Ka Pun**, aged 60, was appointed as an Independent Non-Executive Director and a member of Audit Committee of the Company on 23 September 2004, a member of the Remuneration Committee of the Company on 3 January 2005 and the Chairman of the Nomination Committee on 2 September 2005. He is also the Co-Chairman of E2-Capital (Holdings) Limited, the Chairman of Goodwill International (Holdings) Limited, the Executive Director and Co-Chairman of Capital Publications Limited and an Independent Non-Executive Director of GZI Transport Limited, Lei Shing Hong Limited and Lee Hing Development Limited.

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

## Senior Management

**Ms. GAO Fusheng**, aged 48, joined the Group in 1999 as the Deputy General Manager and the Financial Controller of the Company. She is also a Director of a number of subsidiaries of the Group. Ms. Gao obtained a Master in Business Administration from Murdoch University in Australia and is a qualified senior accountant in the PRC. She was the Director of the Finance Department of Guangzhou Automobile Group Co., Ltd. and the Director of the Finance Department of the Automotive Industry Office of Guangzhou Municipal People's Government.

**Mr. HO Nai Ki**, aged 56, is the Assistant to Managing Director of the Company and General Manager of the Company's Marketing Department. Prior to joining the Group in 1993, he had worked in international financial institutions like the Chase Manhattan Bank and Sun Hung Kai Group. Mr. Ho has over 25 years of experience in investment and financial management.

**Mr. Su Pui Kwan**, aged 41, is the Deputy General Manager of the Finance Department and the Qualified Accountant of the Company. He joined the Group in 1997. He holds a Bachelor of Social Science degree from the Chinese University of Hong Kong. He is also a Fellow of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

## 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 of the Company proposed for re-election at the forthcoming annual general meeting.

## DIRECTORS' INTEREST IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its 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 2005.

## SHARE OPTION SCHEME

During the year, the Company has a share option scheme ("Share Option Scheme") which was approved by the shareholders of the Company in general meeting on 6 June 2002. The purpose of the Share Option Scheme is (i) to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the participants and to provide the participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and the shareholders as a whole and (ii) for such other purposes as the board of directors may approve from time to time. Participants includes (i) any executive or non-executive directors of the Group (or persons proposed to be appointed as such) or any 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 of the Company under the Share Option Scheme will be highest of (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the offer date (which date must be a business day), (ii) a price being the average of the closing prices of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date, and (iii) the nominal value of a share of the Company.

The total number of shares of the Company which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10 per cent. of the total number of shares of the Company in issue as at the date of approval of the Share Option Scheme. (ie. 671,957,652 shares (after adjustments of one for one bonus issue of shares in May 2004, representing 8.94 per cent. of the total number of shares of the Company in issue as at the date of this report). An option may be exercised during a period to be determined by the directors in its absolute discretion and in any event such period shall not be longer than 10 years from the date upon which the option is granted.

The maximum entitlement for any one participant is that the total number of shares issued and to be issued upon exercise of the options granted to each participant under the Share Option Scheme in any 12-month period shall not exceed 1 per cent. of the total number of shares in issue of the Company. Any further grant of options in excess of the 1 per cent. limit shall be subject to shareholders' approval in general meeting with such participant and his or her associates abstaining from voting. The Share Option Scheme will remain in force for a period of 10 years from 6 June 2002.

Information disclosed in accordance with the Listing Rules in relation to the Share Option Scheme is as follows:

Grantee	Number of share options			Notes
	As at 1 January 2005	Exercised during the year	As at 31 December 2005	
ZHANG Fangyou	8,528,000	—	8,528,000	(3)
LU Zhifeng	7,684,000	—	7,684,000	(3)
YANG Dadong	5,664,000	—	5,664,000	(3)
ZENG Qinghong	5,664,000	—	5,664,000	(3)
ZHANG Baoqing	6,488,000	—	6,488,000	(3)
DING Baoshan	5,664,000	—	5,664,000	(3)
LEE Ka Lun	1,340,000	—	1,340,000	(3)
Aggregate total of employees	480,000	480,000	—	(1)
Aggregate total of other participants	30,954,000	29,326,000	1,628,000	(1)
	1,072,000	1,072,000	—	(2)
	5,664,000	—	5,664,000	(3)

*Notes:*

- (1) These options were granted on 9 May 2003 at an adjusted exercise price of HK\$1.325\* per share for an exercise period of three years from the date of grant of the options. 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 2 July 2003 at an adjusted exercise price of HK\$1.825\* per share for an exercise period of three years from the date of grant of options. The consideration paid by each grantee for options granted was HK\$1. The adjusted closing price of the share immediately before the date on which the options were granted was HK\$1.7625\*.
- (3) These options were granted on 7 August 2003 at an adjusted exercise price of HK\$2.1525\* per share for an exercise period of ten years from the date of grant of the options. 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\*.
- (4) The weight average closing price per share immediately before the date on which the options were exercised was HK\$2.8418.
- (5) No option was granted, lapsed or cancelled pursuant to the Share Option Scheme during the year.

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

## DIRECTORS' INTEREST IN SHARES

As at 31 December 2005, the interests and short positions of the directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

### (a) Long positions in shares of the Company

Name of Director	Number of shares Personal interest (as beneficial owner)	Percentage of shareholding as at 31 December 2005
CHEUNG Doi Shu	3,000,000	0.04%
LEE Ka Lun	100,000	0.0013%

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

Name of Director	Number of underlying shares in respect of options granted Personal Interest (as beneficial owner)	Percentage of shareholding as at 31 December 2005
ZHANG Fangyou	8,528,000	0.11%
LU Zhifeng	7,684,000	0.10%
YANG Dadong	5,664,000	0.08%
ZENG Qinghong	5,664,000	0.08%
ZHANG Baoqing	6,488,000	0.09%
DING Baoshan	5,664,000	0.08%
LEE Ka Lun	1,340,000	0.02%

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

Save as disclosed above, as at 31 December 2005, 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 year ended 31 December 2005 was the Company or its holding companies or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Save as disclosed above and in the section “SHARE OPTION SCHEME”, during the year ended 31 December 2005, 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**

Guangzhou Toyota Motor Co. Ltd. (“Guangzhou Toyota”), a sino-foreign equity joint venture incorporated in the PRC, was established in September 2004 and 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.

Guangzhou Toyota is engaged in product development, manufacturing of motor vehicles, sale and after-sale service of automobiles and related business. Guangzhou Toyota is expected to commence production in mid 2006.

The Board of the Company is of the view that the business of Guangzhou Toyota might compete with that of the Group after mid 2006 when it commences production. But Guangzhou Toyota and Guangzhou Honda Automobile Company Limited are both jointly-controlled entities whereby no joint venture partner can control or dominate the board. The business and management of each company are decided by the respective joint venture partners. The day-to-day operation of Guangzhou Toyota and Guangzhou Honda is undertaken by different groups of staff and management. As the Board of the Group is independent of the board of Guangzhou Toyota (save for Mr. Zhang Fangyou who is the chairman of the Company and Guangzhou Toyota, is the only common director in both of these companies), therefore the business of the Group and Guangzhou Toyota is totally independent and operating separately.

Save as disclosed above and within the knowledge of the Directors, as at the date of this report, none of the Directors and their respective associates had any interest in a business which competes or may compete with the business of the Group.



## SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2005, the corporations having an interest in 5% or more of the issued share capital of the Company as recorded in the register of interests in shares and short positions required to be kept under Section 336 of the Part XV of SFO were as follows:

Name	Long position in shares	Percentage of total shareholding as at 31 December 2005	Note
China Lounge Investments Limited	2,849,544,904	37.91%	(a)
Guangzhou Automobile Group Company Limited	2,849,544,904	37.91%	(b)
Guangzhou Automobile Industry Group Company Limited	2,849,544,904	37.91%	(c)
Templeton Asset Management Limited	451,406,000	6.00%	(d)

Notes:

- As at 31 December 2005, China Lounge Investment Limited held 2,775,744,904 shares of the Company and City Achieve Investments Limited, which was wholly-owned by China Lounge, held 73,800,000 shares of the Company. Accordingly, China Lounge Investment Limited was deemed to be interested under the SFO in a total of 2,849,544,904 shares of the Company.
- As at 31 December 2005, China Lounge Investment Limited was wholly-owned by Guangzhou Automobile Group Company Limited which was accordingly deemed to be interested under the SFO in 2,849,544,904 shares.
- As at 31 December 2005, Guangzhou Automobile Group Company Limited was 91.93% owned by Guangzhou Automobile Industry Group Company Limited which was accordingly deemed to be interested under the SFO in 2,849,544,904 shares of the Company.
- Templeton Asset Management Limited was interested in 451,406,000 shares in the Company as investment manager.

Save as disclosed herein, no other person was recorded in the register of substantial shareholders maintained under Section 336 of Part XV of the SFO as having an interest in 5% or more of the issued share capital of the Company as at 31 December 2005.

## RETIREMENT SCHEME

Details of the Group's retirement scheme are set out in note 13 to the consolidated financial statements.

## INDEPENDENT NON-EXECUTIVE DIRECTORS' FEE

Each of the Independent Non-Executive Directors of the Company received HK\$180,000 as director's fee for the year ended 31 December 2005.

## 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 2005.

## MAJOR SUPPLIERS

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

	2005 %	2004 %
— the largest supplier	45	41
— five largest suppliers combined	77	67

## MAJOR CUSTOMERS

During 2004 and 2005, the Group's sold less than 30% of its goods and services to its five largest customers

## CONNECTED TRANSACTIONS

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

- (a) In accordance with the announcement dated 20 February 2003 and the agreement entered into between Guangzhou Denway Development Enterprises Limited with Guangzhou Guangyue Asset Management Limited, the fixed annual payment of RMB602,000 (equivalent to approximately HK\$563,000) (subject to reduction after the year of death of any retired employee) for the year 2003 was reduced to RMB429,000 (equivalent to approximately HK\$408,000) in 2005, paid to Guangzhou Guangyue Asset Management Limited in respect of transferring to Guangzhou Guangyue Asset Management Limited of Guangzhou Denway Development Enterprises Limited'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. Guangzhou Guangyue Asset Management Limited is indirectly wholly-owned by Guangzhou Automobile Industry Group Company Limited which is the Company's ultimate holding company.
- (b) During the year, Guangzhou Denway Development Enterprises Limited provided bank guarantees to the total extent of RMB30,000,000 (equivalent to approximately HK\$28,835,000) on several basis for Guangzhou Denway Bus Company Limited, a subsidiary with 50% equity interest owned by the Company, to enable Guangzhou Denway Bus Company Limited to obtain banking facilities. Guangzhou Automobile Group Company Limited owns 50% equity interest in Guangzhou Denway Bus Company Limited has also provided bank guarantees in its proportion of shareholdings in Guangzhou Denway Bus Company Limited to the total of RMB30,000,000 (equivalent to approximately HK\$28,835,000) for Guangzhou Denway Bus Company Limited. Both aforesaid guarantees were provided without obtaining security from Guangzhou Denway Bus Company Limited. Guangzhou Denway Development Enterprises Limited has also provided a shareholder's loan of RMB10,775,000 (equivalent to HK\$10,356,000) to Guangzhou Denway Bus Company Limited for interest free short term loan and repayable in demand. Guangzhou Automobile Group Company Limited also provided RMB10,775,000 (equivalent to HK\$10,356,000) in proportion of shareholdings in Guangzhou Denway Bus Company Limited.

The above-mentioned guarantees and short term loan will be released after the shareholding meetings held on 23 March 2006 for the approval of the disposal of the owned total 50% equity interest of Guangzhou Denway Bus Company Limited.

- (c) On 3 January 2005, the Company has entered into an agreement (the "Acquisition Agreement") with City Achieve Investments Limited, a wholly-owned subsidiary of China Lounge Investments Limited, whereby the Company has conditionally agreed to acquire and take an assignment of, and City Achieve Investments Limited has conditionally agreed to dispose of the one (1) share of US\$1.00 in the issued share capital of Smartstate Investments Limited which is legally and beneficially owned by City Achieve Investments Limited (i.e. the entire shareholding in Smartstate Investments Limited), and the Shareholders' Loan amounted of HK\$56,272,916.95 which is outstanding, repayable upon demand and owing by Smartstate Investments Limited to City Achieve Investments Limited as at the date of the Acquisition Agreement and at Completion in respect of an interest-free and unsecured loan made available by City Achieve Investments Limited to Smartstate Investments Limited. The sole asset held by Smartstate is the 5% equity interests in Guangzhou Denway Development Enterprises Limited. Upon Completion, each of Smartstate and Guangzhou Denway Development Enterprises Limited will become wholly-owned subsidiary of the Company.

The total consideration of the Acquisition Agreement is HK\$996,215,000 and will be satisfied as to HK\$789,353,600 in cash, and as to the balance thereof by the allotment and issue of 73,800,000 new ordinary shares (“Shares”) (“Consideration Shares”) of HK\$0.10 each in the share capital of the Company at the issue price of HK\$2.803 to City Achieve Investment Limited (or such other person(s) as may be directed by City Achieve Investment Limited in writing). Based on the closing price of the Shares of HK\$2.75 and HK\$2.60 per Share as quoted on the Stock Exchange on 3 January 2005 and 11 January 2005, being the date of the Acquisition Agreement and the latest practicable date prior to the publication of the circular dated 17 January 2005 for ascertaining certain information contained in the circular respectively, the market value of the Consideration Shares would be equivalent to approximately HK\$203.0 million and HK\$191.9 million respectively. The cash portion of the total considerations will be settled as to HK\$305,900,000 by the proceeds obtained from the subscription of 350,000,000 new Shares by China Lounge Investments Limited as announced by the Company on 7 September 2000 and as to HK\$483,453,600 by the internal resources of the Group.

- (d) On 5 October 2005, the Company entered into the Agreement with Yue Lung Enterprises Limited, a wholly-owned subsidiary of China Lounge Investments Limited, to purchase and take an assignment of the share, representing the entire issued share capital of Steed Full Development Limited and the Shareholder’s Loan amounted of RMB533,000,000 (equivalent to approximately HK\$512,000,000) at a total consideration of HK\$710,000,000 payable in cash by the Company. The sole asset held by Steed Full Development Limited is the 49% equity interests in Guangzhou Automobile Group Component Co., Ltd., a limited company incorporated in the PRC, and is owned as to 51% by Guangzhou Automobile Group Company Limited and as to 49% by Steed Full Development Limited after the acquisition.
- (e) Guangzhou Denway Development Enterprises Limited provided bank guarantees to the total extent of RMB 14,700,000 (equivalent to approximately HK\$14,125,000) for Guangzhou Hua De Automobile Spring Company Limited, an associated company with 49% owned by the Company, to enable Guangzhou Hua De Automobile Spring Company Ltd to obtain banking facilities. Guangzhou Automobile Group Component Co., Ltd owns 51% equity interest in Guangzhou Hua De Automobile Spring Company Ltd has also provided bank guarantees in its proportion of shareholdings in Guangzhou Hua De Automobile Spring Company Ltd to the total of RMB15,300,000 (equivalent to approximately HK\$14,706,000) for Guangzhou Hua De Automobile Spring Company Ltd. Both aforesaid guarantees were provided on several bases and without obtaining any security from Guangzhou Hua De Automobile Spring Company Ltd.

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors, as at the date of this report, there is sufficient public float of not less than 25% of the issued shares of the Company as required under the Listing Rules.

## AUDITORS

The financial statements have been audited by PricewaterhouseCoopers, who retire and, being eligible, offer themselves for re-appointment, and a resolution to this effect will be proposed at the forthcoming annual general meeting of the Company.

By the Order of the Board  
**ZHANG Fangyou**  
Chairman

Hong Kong, 19 April 2006