

The Board of Directors submits its report together with the audited accounts for the year ended 31st December 2001.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The Company is an investment holding company. The Company and its subsidiaries (together the “Group”), 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 and trading of automotive equipment and parts in the Mainland China (the “PRC”), and the manufacture and trading of audio equipment in Hong Kong. An analysis of the Group’s turnover and contribution to the Group’s operating profits for the year by business and geographical segments is 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 26. The Board of Directors declared an interim dividend of HK2 cents (2000: Nil) per share, totalling HK\$66,901,000 which was paid on 31st October 2001. The Board of Directors of the Company (the “Board”) recommends the payment of a final dividend of HK3 cents (2000: nil) per share payable on 12th June 2002.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 22 to the accounts. Distributable reserves of the Company at 31st December 2001 amounted to HK\$238,235,000 (2000 : nil).

FIXED ASSETS

Details of the movements in fixed assets during the year are set out in note 11 to the accounts.

PRINCIPAL PROPERTIES

Details of the principal properties held for investment purposes are set out on pages 74 to 76.

SHARE CAPITAL AND OPTIONS

Details of movements in the share capital of the Company during the year are set out in note 21 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 2001 are set out on pages 16 to 18.

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

The Company has not redeemed any of its listed securities 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 2001 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 2001 are set out in note 23 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 :-

	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
Profit attributable to shareholders	<u>724,242</u>	<u>453,203</u>	<u>37,867</u>	<u>23,631</u>	<u>31,517</u>
Total assets	<u>2,976,849</u>	<u>2,199,650</u>	<u>1,203,954</u>	<u>1,227,493</u>	<u>846,327</u>
Total liabilities including minority interests	<u>496,414</u>	<u>407,073</u>	<u>329,494</u>	<u>957,543</u>	<u>602,346</u>
Shareholders' funds	<u>2,480,435</u>	<u>1,792,577</u>	<u>874,460</u>	<u>269,950</u>	<u>243,981</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 – appointed on 19th June 2001

Mr. ZENG Qinghong

Mr. HU Peizhuo – resigned on 19th June 2001

Mr. DING Baoshan

Mr. CHEUNG Doi Shu*

Mr. LEE Ka Lun*

* Independent Non-Executive Directors

Messrs, CHEN Xuejun, ZHANG Baoqing, CHEUNG Doi Shu and LEE Ka Lun shall retire at the forthcoming Annual General Meeting in accordance with Article 92 or Article 101 of the Company's Articles 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 45, is the Chairman and Managing Director of the Company. He joined the Group in 1997. He is also the chairman of Guangzhou Automobile Group Co., Ltd ("Guangzhou Automobile"), the chairman of 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. Mr. Zhang 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"), the director of Automotive Industry Office of Guangzhou Government. Mr. Zhang was appointed as the Chairman of the Company in 1998.

Mr. LU Zhifeng, aged 49, was appointed as the Vice-Chairman of the Company on 11th January 2000. He joined the Group in 1998. He is also the managing director of Guangzhou Automobile, a director of China Lounge Investments and a director of Guangzhou Honda. Mr. Lu was the general manager of Guangzhou Yangcheng Automobile Group Co., factory manager of Guangzhou Yangcheng Automobile Factory and also vice chairman and general manager of Guangzhou Yangcheng Automobile Co., Ltd.

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

Mr. YANG Dadong, aged 53, 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 China Lounge Investments and chairman of Guangzhou Motorcycle Group Co. (“Guangzhou Motorcycle”). Mr. Yang was the vice chairman and general manager of Guangzhou Motorcycle, general manager of Wu Yang-Honda Motors (Guangzhou) Co., Ltd. (“Wu Yang-Honda Motors”) and chairman of Guangzhou Wu Yang Group Co., Ltd. (“Guangzhou Wu Yang Group”).

Mr. CHEN Xuejun, aged 58, is a Director of the Company. 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 deputy managing director, and Guangzhou Motorcycle as an executive director and for Wu Yang-Honda Motors as deputy managing director.

Mr. ZHANG Baoqing, aged 52, was appointed as a Director and the Deputy Managing Director on 19th June 2001. He joined the Group in 1998. He is also the deputy managing director of Guangzhou Automobile and the director and general manager of China Lounge Investments. Mr. Zhang was the factory manager of Guangzhou Automotive Manufacturing Factory, and also the deputy general manager for Guangzhou Jinda Motors Holdings Enterprises (“Guangzhou Jinda”). He has over 30 years of experience in automobile industry.

Mr. ZENG Qinghong, aged 40, was appointed as a Director of the Company on 16th January 2001. He joined the Group in 1999. He is also the vice general manager of Guangzhou Automobile, a director of China Lounge Investments and a director and the deputy general manager of Guangzhou Honda. He was the deputy managing director of Guangzhou Guangke Automobile Group Co., Ltd.

Mr. DING Baoshan, aged 39, 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 (former name: Beijing Metal College), China Social Science Institute where he had gained his bachelor 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 China Lounge Investments, and the managing director of Guangzhou Honda Automobile No.1 Sales Co., Ltd. (“GZ Honda No.1 Sales”).

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

Independent Non-Executive Directors

Mr. CHEUNG Doi Shu, aged 40, 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 China Convergent Corporation Limited, listed on the Australian Stock Exchange, Nasdaq and the Frankfurt Stock Exchange.

Mr. LEE Ka Lun, aged 47, 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 Chartered Association of Certified Accountants in UK and has over 20 years of experience in banking and auditing.

Senior Management

Ms. GAO Fusheng, aged 44, 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 senior accountant as well. She was the director of the finance department of the Automotive Industry Office of Guangzhou Government. She was promoted to the present position in 1999.

Mr. HO Nai Ki, aged 52, is an assistant to General Manager of the Company and also the 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 42, 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 had been the assistant financial manager of Guangzhou Auto Group Corporation ("GAC") and financial manager of Guangzhou Denway Enterprises Development Company Limited ("GZ Denway"). He was promoted to the present position in 1994.

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' INTERESTS 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 2001.

SHARE OPTION SCHEME

On 1st February 1993, a share option scheme ("Share Option Scheme") was approved at an extraordinary general meeting of the Company as an incentive to the employees under which the Board may, at their discretion, invites 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 of Hong Kong Limited (the "Stock Exchange") for the five trading days immediately preceding the date of offer of the option or the nominal value of the shares, whichever is the higher.

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

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

Share options may be exercised during the three-year period commencing on the expiry of six months after the date on which the option is granted, and shall expire at the end of the three years period or 31st January 2003, whichever is earlier. The share options granted are not recognised in the accounts until they are exercised.

The Stock Exchange amended the requirements for share option schemes under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The new requirements have come into effect from 1st September 2001 and make some of the provisions of the Share Option Scheme no longer applicable.

SHARE OPTION SCHEME (cont'd)

Information in relation to share options of the Company disclosed in accordance with the Listing Rules was as follows :-

1. Number of options outstanding

Name	As at 31st January 2001	Additional options due to bonus issue Note (6)	Granted during the year	Exercised during the year	Lapsed during the year	As at 31st December 2001	Notes
ZHANG Fangyou	2,000,000	200,000	—	2,200,000 ²	—	—	(2)
	3,000,000	300,000	—	3,300,000 ²	—	—	(3)
	—	—	1,920,000 ¹	—	—	1,920,000	(5)
LU Zhifeng	2,700,000	270,000	—	2,970,000 ²	—	—	(2)
	3,000,000	300,000	—	3,300,000 ²	—	—	(3)
	—	—	1,730,000 ¹	—	—	1,730,000	(5)
YANG Dadong	—	—	1,276,000 ¹	—	—	1,276,000	(5)
CHEN Xuejun	—	—	1,276,000 ¹	—	—	1,276,000	(5)
ZHANG Baoqing	—	—	1,460,000 ¹	—	—	1,460,000	(5)
ZENG Qinghong	—	—	1,276,000 ¹	—	—	1,276,000	(5)
DING Baoshan	—	—	1,276,000 ¹	—	—	1,276,000	(5)
HU Peizhuo *	2,000,000	200,000	N/A	N/A	N/A	N/A	(2)
	3,000,000	300,000	N/A	N/A	N/A	N/A	(3)
Aggregate total of employees	1,400,000	—	—	—	1,400,000	—	(1)
	7,502,000	360,000	—	10,062,000 ³	—	—	(2)
	38,178,000	3,817,800	—	44,745,800 ⁴	—	550,000	(3)
	29,866,000	1,392,200	—	30,873,200 ⁵	—	385,000	(4)
	—	—	48,880,000 ¹	—	—	48,880,000	(5)

* On 19th June 2001, Mr. HU Peizhuo resigned as Director of the Company and remained as employee of the Group. Thereafter, his interest in share option was re-classified and included in the aggregate total of employees.

- The closing market price per share at the date preceding the date on which the share options were granted was HK\$2.625.
- The weighted average closing market price per share immediately before the date on which the share options were exercised was HK\$2.075.
- The weighted average closing market price per share immediately before the date on which the share options were exercised was HK\$2.315.
- The weighted average closing market price per share immediately before the date on which the share options were exercised was HK\$2.206.
- The weighted average closing market price per share immediately before the date on which the share options were exercised was HK\$2.060.

SHARE OPTION SCHEME (cont'd)

Notes:

- (1) Share options granted on 4th August 1997 at an exercise price (adjusted due to rights issue and bonus issue) of HK\$1.0398 per share for a period of three years commencing on the expiry of six months after the date of grant of the share options, and shall expire at the end of the three years' period or 31st January 2003, whichever is earlier. The consideration paid by each grantee for the option granted was HK\$1.
- (2) Share options granted on 14th July 1998 at an exercise price (adjusted due to rights issue and bonus issue) of HK\$0.3086 per share for a period of three years commencing on the expiry of six months after the date of grant of the share options, and shall expire at the end of the three years' period or 31st January 2003, whichever is earlier. The consideration paid by each grantee for the option granted was HK\$1.
- (3) Share options granted on 5th March 1999 at an exercise price (adjusted due to bonus issue) of HK\$0.2829 per share for a period for three years commencing on the expiry of six months after the date of grant of the share options, and shall expire at the end of the three years' period or 31st January 2003, whichever is earlier. The consideration paid by each grantee for the option granted was HK\$1.
- (4) Share options granted on 15th June 1999 at an exercise price (adjusted due to bonus issue) of HK\$0.3687 per share for a period of three years commencing on the expiry of six months after the date of grant of the share options, and shall expire at the end of the three years' period or 31st January 2003, whichever is earlier. The consideration paid by each grantee for the option granted was HK\$1.
- (5) Share options granted on 18th July 2001 at an exercise price of HK\$2.156 per share for a period of three years commencing on the expiry of six months after the date of grant of the share options, and shall expire at the end of the three years' period or 31st January 2003, whichever is earlier. The consideration paid by each grantee for the option granted was HK\$1.
- (6) The shareholders of the Company approved one for ten bonus issue on 28th May 2001. The number and relevant exercise price in respect of options outstanding as at the said date have been adjusted accordingly.

2. Options granted during the year ended 31st December 2001

During the year, a total of 59,094,000 options were granted on 18th July 2001 at an exercise price of HK\$2.156 per share to the grantees in the manner as set out above.

The Directors consider it inappropriate to value the Share Options as a number of factors critical for the valuation cannot be determined accurately. Any valuation of the Share Options based on various speculative assumptions would be meaningless and could be misleading to the shareholders. The Directors therefore consider the disclosure of only the relevant market price and exercise price, which are readily ascertainable, will be appropriate.

3. Options exercised during the year ended 31st December 2001

During the year, a total of 97,451,000 options were exercised by the grantees in the manner as set out above.

4. The number of options lapsed during the year is 1,400,000. No option was cancelled during the year.

DIRECTORS' INTERESTS IN SHARES

As at 31st December 2001, the interest of Directors in the shares of the Company as recorded in the register maintained under section 29 of the Securities (Disclosure of Interests) Ordinance (“SDI Ordinance”) or as notified were as follows :-

Name	Number of shares of the Company	Personal Interest
ZHANG Fangyou		5,500,000
LU Zhifeng		6,270,000

Save as disclosed herein and in the section Share Option Scheme, none of the Directors and chief executives of the Company had any interests, as at 31st December 2001, in the equity or debt securities of the Company and its associated corporations (within the meaning of the SDI Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interest which they were deemed or taken to have under Section 31 or Part I of the Schedule to the SDI Ordinance) or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

Apart from the Share Option Scheme, at no time during the year 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 aforesaid, no rights to subscribe for equity or debt securities of the Company have been granted by the Company to, nor have any such rights been exercised by, any directors and chief executives of the Company during the year ended 31st December 2001.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31st December 2001, those persons or corporations having an interest in 10% or more of the issued share capital of the Company as recorded in the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance were as follows :

Substantial shareholders	Number of shares held	Notes
Guangzhou Automobile Industry Group Co., Ltd.	1,406,002,252	(a)
Guangzhou Automobile Group Co., Ltd.	1,406,002,252	(b)
China Lounge Investments Limited	1,406,002,252	(c)

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY (cont'd)

Notes:

- (a) This interest 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 Section 8 of the SDI Ordinance.
- (b) Guangzhou Automobile is a wholly-owned subsidiary of Guangzhou Automobile Industry and their interests in the shares of the Company are 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.

Save as disclosed herein, no other person is recorded in the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance as having an interest in 10% or more of the issued share capital of the Company.

RETIREMENT SCHEME

Details of the Group's retirement schemes 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\$68,000 as Director's fee for the year ended 31st December 2001.

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 2001.

MAJOR SUPPLIERS

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

	2001	2000
	%	%
– the largest supplier	31	37
– five largest suppliers combined	75	58

MAJOR CUSTOMERS

During 2000 and 2001, the Group 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 Listing Rules are as follows:

As at 31st December 2001, GZ Denway, a subsidiary with 95% equity interest owned by the Company, had an aggregate sum of RMB340,176,000 (equivalent to approximately HK\$317,921,000) on current accounts due to the Company. Guangzhou Automobile, the intermediate holding company of the Company, through its subsidiary China Lounge Investments, has advanced an amount of RMB160,000 (equivalent to approximately HK\$150,000) to GZ Denway, of which 5% equity interest is held by Guangzhou Automobile. Further, Guangzhou Automobile maintained an amount of RMB26,249,000 (HK\$24,532,000) due from GZ Denway but classified as minority interests. Both amounts due from the Company, China lounge Investments and Guangzhou Automobile mainly represent the dividend receivable from GZ Denway and advances provided for the purpose of working capital and were interest-free and repayable on demand but without any security from GZ Denway.

During the year, GZ Denway, a subsidiary with 95% equity interest owned by the Company, provided bank guarantees to the total extent of RMB114,000,000 (equivalent to approximately HK\$106,542,000) for Guangzhou Denway Bus Company Limited (“Denway Bus”), another subsidiary with 95% equity interest owned by the Company, to enable Denway Bus to obtain banking facilities. Guangzhou Automobile owns 5% equity interest in both GZ Denway and Denway Bus respectively, has also provided bank guarantees to the total of RMB6,000,000 (equivalent to approximately HK\$5,607,000) for Denway Bus. Both aforesaid guarantees were provided without obtaining any security from Denway Bus.

GZ Denway, a subsidiary with 95% equity interest owned by the Company, has provided bank guarantees to the total extent of RMB76,000,000 (equivalent to approximately HK\$71,028,000) for Guangzhou Machinery Enterprises Corporation Limited - Automotive Industry Trading Company (“GATC”), another subsidiary with 95% equity interest owned by the Company, to enable GATC to obtain certain banking facilities. Besides, GZ Denway has provided loans in the aggregate sum of RMB13,735,000 (equivalent to approximately HK\$12,836,000) to GATC of which RMB9,735,000 (equivalent to approximately HK\$9,098,000) being interest-free and RMB4,000,000 (equivalent to approximately HK\$3,738,000) bearing an interest rate of 5.76% per annum. Guangzhou Automobile, which through Guangzhou Jinda owns 5% equity interest in GATC, has also provided bank guarantees to the total extent of RMB4,000,000 (equivalent to approximately HK\$3,738,000) for GATC without obtaining any security from GATC. Guangzhou Automobile has also through its subsidiary China Lounge Investments advanced an interest-free term loan in the sum of RMB1,760,000 (equivalent to approximately HK\$1,645,000) to GATC. Both China Lounge Investments’ loans and Guangzhou Jinda’s loan were repayable within one year from the respective dates of advancement.

GZ Denway has provided a bank guarantee to the extent of RMB900,000 (equivalent to approximately HK\$841,000) for Guangzhou Densheng Valve Company Limited (“Densheng”), another subsidiary with 90% equity interest owned by the Company, to enable Densheng to obtain a bank loan. Guangzhou Automobile, which through Guangzhou Jinda and Guangzhou Vehicle Valve Factory owns 10% equity interest in Densheng, has also provided a bank guarantee to the extent of RMB100,000 (equivalent to approximately HK\$93,000) for Densheng without obtaining any security from Densheng.

CONNECTED TRANSACTIONS (cont'd)

On 15th January 2001, GAC, the Company's indirect non wholly-owned subsidiary, entered into the agreement with Guangzhou Automobile. Pursuant to the agreement, GAC has acquired from Guangzhou Automobile 51% equity interest in GZ Honda No. 1 Sales, a wholly-owned subsidiary of Guangzhou Automobile, at a consideration of RMB46,000,000 (equivalent to approximately HK\$42,990,654). GZ Honda No.1 Sales has continuously increased its sales amount and enhanced the added value of the after-sale services for the "Guangzhou Honda" brand automobiles. The basis of profit will also be broadened as the demand of maintenance services of the "Guangzhou Honda" brand automobiles is expected to grow over the next few years. The Board considers that GZ Honda No.1 Sales will have good earnings potential in the foreseeable future and the acquisition of its controlling stake will enhance the Company's earning source on a consolidated basis. This transaction was completed on 1st February 2001.

In relation to the lease of the factory premises, Denway Bus as the tenant entered into a lease agreement with Guangzhou Bus Factory as the landlord, a wholly-owned subsidiary of Guangzhou Automobile, on 4th March 2002. Pursuant to the lease agreement, Denway Bus is paying a monthly rental charge of RMB560,000 (equivalent to approximately HK\$523,364) to Guangzhou Bus Factory for renting the premises commencing from 10th March 2002 until 10th January 2003 or its termination in accordance with provisions thereof. Since Denway Bus's previous factory site was adjacent to Guangzhou Honda factory site, the Board considers that it is commercially viable for Denway Bus to move out from its premises factory site and give way to Guangzhou Honda for its expansion.

The Company has conditionally agreed to transfer 45% equity interest in Denway Bus to Guangzhou Automobile at a consideration of RMB53,205,000 (equivalent to approximately HK\$49,724,000) on 28th March 2002. The consideration was determined on 45% of the total audited revalued net asset value of Denway Bus as at 31st December 2001 (prepared in accordance with the PRC accounting standards) of RMB118,233,000 (equivalent to approximately HK\$110,498,000). The Board considers the equity transfer to be a part of the business strategy of the Company so as to facilitate the future growth of bus manufacturing business and to share the risk of its investment in Denway Bus while maintaining the optimal level of shareholding and control of the operation with minimal amount of capital which can otherwise be more efficiently utilized.

The Company would like to report the current status of the connected transactions mentioned in the announcement dated 31st August 2000 and the Company's circular to shareholders dated 21st September 2000 as follows:

1. Classic Tech Development Limited has repaid part of the loan due by it to the Company and the outstanding balance as at 31st December 2001 is HK\$3,710,719.
2. The loans advanced by GZ Denway to Guangzhou Hua De Automobile Spring Company Limited was repaid in full and the guarantee provided was released in October 2001.
3. GZ Denway's loan to Densheng was reduced to RMB1,028,333 (HK\$961,000) as the loan from Guangzhou Vehicle Valve Factory remained the same. However, the loan advanced by GZ Denway is less than the amount to be contributed in proportion to its shareholding in Densheng. The loan should be exempted from disclosure under the Listing Rules.
4. Due to the fact that Guangzhou Xilong Automotive Maintenance Centre ("Xilong") was in the process of liquidation during the year 2001, the related short-term loans advanced to Xilong by GZ Denway and Guangzhou Auto Group Corporation were also written off.

PRACTICE NOTE 19 OF THE LISTING RULES

As at 31st December 2001, the Group had given guarantee for bank loans in the total sum of HK\$1,907,000 (2000 : HK\$2,804,000) to a non-consolidated subsidiary. The other shareholder of the non-consolidated subsidiary also provided bank guarantees to the total extent of HK\$25,196,000. Both aforesaid guarantees were provided without obtaining any security from the non-consolidated subsidiary. The financial assistance given to the above companies during the year or as at 31st December 2001, in aggregate, represented less than 25% of the consolidated net assets of the Group at the balance sheet date. Accordingly, no separate disclosure in accordance with the requirements under Practice Note 19 of the Listing Rules is provided.

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

The 2001 Annual Report of the Company containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 to the Listing Rules is also 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 independent non-executive 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.

On behalf of the Board

Zhang Fangyou

Chairman and Managing Director

Hong Kong, 11th April 2002