

Report of the Directors

The directors of the Company (the “Directors”) agree to herein present their report and audited accounts of Great Wall Automobile Holding Company Limited (hereinafter referred to as the “Company”) and its subsidiaries (as a whole hereinafter referred to as the “Group”) for the year ended 31st December, 2003.

Historical Development and Group Reorganisation

Great Wall Motor Industry Company, the predecessor of the Company, was established in 1984 with a registered capital of RMB800,000 and was principally engaged in the business of modifying automobiles. It was converted into Great Wall Motor Group Company Limited in 1998 with a registered capital of RMB39,000,000 and was principally engaged in manufacture and sales of automobiles. In 2001, the Company was re-organised into a joint stock limited company, Baoding Great Wall Automobile Holding Company Limited, with a registered capital of RMB170,500,000. In May 2003, an approval was granted by SAIC to change the Company’s name into Great Wall Automobile Holding Company Limited. In September 2003, the registered capital of the Company was increased to RMB341,000,000.

On 15th December, 2003, the H shares (“H Shares”) of the Company were listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Further details regarding the issue of the H Shares are set out in Note 29 to the financial statements.

Principal Activities

The Company is principally engaged in design, research and development, manufacture and sales as well as distribution of SUVs, pick-up trucks, special vehicles, buses and automobile-related products such as automobile parts and components. There has not been any significant change to the nature of the Group’s activities during the year. Details of subsidiaries of the Company as at 31st December, 2003 are set out in Note 35 to the financial statements.

Results and Dividends

The Group’s operating results for the year ended 31st December, 2003 and the financial positions of the Company and the Group as at 31st December, 2003 are set out in the audited financial statements on pages 52 to 54 and pages 58 and 59 of this annual report.

Due to the fact that the listing of the Company in Hong Kong only took place towards the end of the period under review, the board of directors does not propose to pay any final dividend for year 2003 in order to retain funds for future development of the Company and create greater value for the shareholders in the long run.

Report of the Directors

Financial Extracts

A summary of the consolidated results, assets and liabilities of the Group for the last four financial years, as extracted from the accountants' report for the three years ended 31st December, 2002 in the prospectus of the Company dated 3rd December, 2003, and from the audited consolidated financial statements for the year ended 31st December, 2003 on pages 52 to 54, is set out below:

	Year ended 31st December,			
	2003 RMB'000	2002 RMB'000	2001 RMB'000	2000 RMB'000
Turnover	3,691,706	2,601,824	1,293,117	1,216,489
Cost of sales	(2,495,518)	(1,861,652)	(1,060,743)	(1,037,135)
Gross profit	1,196,188	740,172	232,374	179,354
Other revenue and gains	25,777	15,053	38,053	7,241
Selling and distribution costs	(183,664)	(144,514)	(46,337)	(64,584)
Administrative expenses	(121,254)	(55,340)	(42,515)	(31,123)
Other operating expenses	(46,802)	(31,200)	(9,980)	(826)
Profit from operating activities	870,245	524,171	171,595	90,062
Finance costs, net	2,394	(4,073)	(5,821)	(5,295)
Share of profits and losses of associates	—	1,021	(3,836)	458
Profit before tax	872,639	521,119	161,938	85,225
Tax	(187,608)	(117,413)	(41,334)	(17,224)
Profit before minority interests	685,031	403,706	120,604	68,001
Minority interests	(161,633)	(109,339)	(24,263)	(12,698)
Net profit from ordinary activities attributable to shareholders	523,398	294,367	96,341	55,303

Report of the Directors

Assets and liabilities

	Year ended 31st December,			
	2003	2002	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	4,631,123	1,984,134	935,277	944,773
Total liabilities	1,528,814	1,236,524	601,534	723,375

Use of Proceeds from the Company's Initial Public Offering

The net proceeds from the Company's initial public offering in December 2003, after deduction of related issuance expenses, amounted to about RMB1,773,488,000 (equivalent to about HK\$1,664,000,000). Of these proceeds, an aggregate amount of about RMB 46,670,000 (equivalent to about HK\$43,789,000) was applied during the year ended 31st December, 2003. Set out below is the Group's future plans as stated in the prospectus of the Company:

	Proposed	Actual use
	HK\$'000	HK\$'000
Development of the new production facilities	405,000	43,789
Upgrading and expanding the existing production facilities for engine	186,800	—
Upgrading and expanding the existing production facilities for parts and components	83,500	—
Improving the research and development capabilities	27,400	—
Upgrading the information systems	18,900	—
General working capital	942,400	—
Total	1,664,000	43,789

Notes: Certain amounts denominated in Renminbi have been translated (for information only) in HK dollars at the exchange rate of HK\$1.00 to RMB1.0658.

Share Capital and Share Option Scheme

Details of movements in the Company's share capital during the year ended 31st December, 2003, together with the reasons for such movements are set out in Note 29 to the financial statements. The Company does not have any share option scheme.

Report of the Directors

Bank Loans

Details of bank loans of the Company and the Group are set out in Note 26 to the financial statements.

Fixed Assets

Details of the movement in the fixed assets of the Group and the Company in the year ended 31st December, 2003 and the reasons for such changes are set out in Note 12 to the financial statements.

Pre-emptive Rights

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

Rights to Acquire Shares or Debentures

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

Reserves

Details of the movements in the reserves of the Group and the Company in the year are set out in Note 30 to the financial statements.

Distributable Reserves

For the year ended 31st December, 2003, in accordance with the Company Law, an amount of approximately RMB1,649,939,000 standing to the credit of the Company's capital reserves account, was available for distribution by way of future capitalisation issue.

Charitable Donations

Charitable donations made by the Group during the year totalled RMB724,000.

Report of the Directors

Major Customers and Suppliers

During the year ended 31st December, 2003, the percentage of purchases and sales attributable to the Group's major suppliers and customers was as follows:

Purchases

— the largest supplier	4.7%
— five largest suppliers combined	15.4%

Sales

— the largest customer	2.6%
— five largest customers combined	10.1%

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

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

Report of the Directors

Directors and Supervisors

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

Executive directors:

Wei Jian Jun (<i>Chairman</i>)	(duly appointed in June 2001)
Liu Ping Fu	(duly appointed in June 2001)
Wang Feng Ying	(duly appointed in June 2001)
Liang He Nian	(duly appointed in June 2001)
Yang Zhi Juan	(duly appointed in September 2001)

Non-executive directors:

He Ping	(duly appointed in June 2002)
Niu Jun	(duly appointed in August 2003)

Independent non-executive directors:

Han Chuan Mo	(duly appointed in June 2002)
Zhang Ming Yu	(duly appointed in June 2002)
Zhao Yu Dong	(duly appointed in June 2002)
Wong Chi Keung	(duly appointed in August 2003)

Supervisors:

Wu Nan	(duly appointed in December 2002)
Wei De Yi	(duly appointed in June 2002)
Yuan Hong Li	(duly appointed in June 2001)

Independent supervisor:

Luo Jin Li	(duly appointed in September 2003)
------------	------------------------------------

Report of the Directors

Directors' and Supervisors' Service Agreements and Letters of Appointment

Each of the executive directors and supervisors of the Company entered into a service agreement with the Company on 16th November, 2003. Each of these service agreements is for a term of 3 years starting from the listing date of the H Shares. Each of the non-executive directors and independent non-executive directors entered into appointment letters with the Company on 16th November, 2003. Each of these appointment letters is for a term of 3 years starting from the listing date of the H Shares. In accordance with the Articles, all the Directors and supervisors are eligible for re-election upon the expiry of the term.

Save as disclosed above, none of the Directors or supervisors had entered into or was proposing to enter into any service contracts with the Company on its subsidiaries other than contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

Biography of Directors, Supervisors and Senior Management

The biographies of the Directors, supervisors and senior management are set out on pages 17 to 21 of this annual report.

Requirement for Independence of Non-executive Directors

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

Directors' and Supervisors' Interest in Contracts

Save for those transactions described in the note headed "Related Party Transactions" in Note 36 to the financial statements and the section headed "Connected Transactions" below, none of the controlling shareholders, the Directors or supervisors was or had been materially interested, whether directly or indirectly, in any contract during or subsisted at the end of 2003 which was significant in relation to the business of the Company or any of its subsidiaries.

Report of the Directors

Material Contracts

The material contracts which had been entered into in the year ended 31st December, 2003 were as follows:

1. A non-competition undertaking dated 16th November, 2003 provided by Mr. Wei Jian Jun in favour of the Company.
2. A non-competition undertaking dated 16th November, 2003 provided by 保定市南市區南大園鄉集體資產經管中心 (the Management Centre of Collective Assets of Nandayuan Town, Nanshi District, Baoding) ("Nandayuan Management Centre") in favour of the Company.
3. The Underwriting Agreement.
4. A deed of indemnity dated 2nd December, 2003 entered into by Mr. Wei Jian Jun, Nandayuan Management Centre and the Company pursuant to which Mr. Wei Jian Jun and Nandayuan Management Centre provided a joint and several indemnity for the benefit of the Company in respect of, inter alia, the taxation matters of the Company.
5. An equity transfer agreement in Chinese dated 13th July, 2003 and entered into between the Company and 北京市東方日瓦科貿有限公司 (Beijing Tung Fong Riwa Technology Trading Company Limited) in connection with the transfer by Beijing Tung Fong Riwa Technology Trading Company Limited to the Company of 39% of the equity interest in 保定市信誠汽車發展有限公司 (Baoding Xincheng Automobile Development Company Limited) at the consideration of RMB10,300,000.
6. An equity transfer agreement in Chinese dated 13th July, 2003 and entered into between 保定市長誠汽車配件有限公司 (Baoding Great Wall Automobile Accessories Company Limited) and 北京市東方日瓦科貿有限公司 (Beijing Tung Fong Riwa Technology Trading Company Limited) in connection with the transfer by 北京市東方日瓦科貿有限公司 (Beijing Tung Fong Riwa Technology Trading Company Limited) to 保定市長誠汽車配件有限公司 (Baoding Great Wall Automobile Accessories Company Limited) of 10% of the equity interest in 保定市信誠汽車發展有限公司 (Baoding Xincheng Automobile Development Company Limited) at the consideration of RMB2,650,000.
7. A capital contribution agreement in Chinese dated 23rd June, 2003 and entered into between the Company and 保定市格瑞機械有限公司 (Baoding Great Machinery Company Limited) in connection with the contribution by the Company to 保定市格瑞機械有限公司 (Baoding Great Machinery Company Limited) of the sum of RMB20,000,000.
8. A capital contribution agreement in Chinese dated 20th June, 2003 and entered into between the 保定市長誠汽車配件有限公司 (Baoding Great Wall Automobile Accessories Company Limited) and 保定市格瑞機械有限公司 (Baoding Great Machinery Company Limited) in connection with the

Report of the Directors

contribution by 保定市長誠汽車配件有限公司 (Baoding Great Wall Automobile Accessories Company Limited) to 保定市格瑞機械有限公司 (Baoding Great Machinery Company Limited) of the sum of RMB1,000,000.

9. A capital contribution agreement in Chinese dated 20th June, 2003 and entered into between the 保定市信誠汽車發展有限公司 (Baoding Xincheng Automobile Development Company Limited) and 保定市格瑞機械有限公司 (Baoding Great Machinery Company Limited) in connection with the contribution by 保定市信誠汽車發展有限公司 (Baoding Xincheng Automobile Development Company Limited) to 保定市格瑞機械有限公司 (Baoding Great Machinery Company Limited) of the sum of RMB1,000,000.
10. A joint venture agreement in Chinese dated 15th January, 2003 and entered into between the Company and 保定市長誠汽車配件有限公司 (Baoding Great Wall Automobile Accessories Company Limited) in connection with the establishment of 保定市格瑞機械有限公司 (Baoding Great Wall Bus Sales Company Limited) and the contribution of the sum of RMB1,800,000 by the Company and of the contribution of the sum of RMB200,000 by 保定市長誠汽車配件有限公司 (Baoding Great Wall Automobile Accessories Company Limited) in exchange for 90% and 10% of the equity interest in 保定市長城客車銷售有限公司 (Baoding Great Wall Bus Sales Company Limited) respectively.
11. A contract dated 20th May, 2003 in Chinese for the sale by 保定市信誠汽車發展有限公司 (Baoding Xincheng Automobile Development Company Limited) to 保定市螞蟻物流網絡有限公司 (Baoding Ants Logistics Network Co., Ltd.) of one boiler at the consideration of RMB1,000.
12. An equity transfer agreement in Chinese dated 13th May, 2003 and entered into between the Company and 保定市長城汽車裝飾件廠 (Baoding Great Wall Automobile Decoration Accessories Factory) and 保定市長城汽車營銷網絡有限公司 (Baoding Great Wall Automobile Sales Network Company Limited) in connection with (1) the transfer by 保定市長城汽車裝飾件廠 (Baoding Great Wall Automobile Decoration Accessories Factory) to the Company of 50% of the equity interest in 保定市長城汽車營銷網絡有限公司 (Baoding Great Wall Automobile Sales Network Company Limited) at nil consideration; and (2) the transfer by 保定市長城汽車裝飾件廠 (Baoding Great Wall Automobile Decoration Accessories Factory) to 保定市長城汽車營銷網絡有限公司 (Baoding Great Wall Automobile Sales Network Company Limited) of 10% of the equity interest in 保定市長城汽車售後服務有限公司 (Baoding Great Wall Automobile After-sales Services Company Limited) at nil consideration.
13. An equity transfer agreement in Chinese dated 20th June, 2003 and entered into between 保定市信誠汽車發展有限公司 (Baoding Xincheng Automobile Development Company Limited) and 保定長城華北汽車有限責任公司 (Baoding Great Wall Huabei Automobile Company Limited) in connection with the transfer by 保定長城華北汽車有限責任公司 (Baoding Great Wall Huabei

Report of the Directors

Automobile Company Limited) to 保定市信誠汽車發展有限公司 (Baoding Xincheng Automobile Development Company Limited) of 10% of the equity interest in 保定市長城汽車營銷網絡有限公司 (Baoding Great Wall Automobile Sales Network Company Limited) at the consideration of RMB200,000.

14. An equity transfer agreement in Chinese dated 20th August, 2003 and entered into between 保定長城內燃機製造有限公司 (Baoding Great Wall Internal Combustion Engine Company Limited) and 保定市太行製泵有限公司 (Baoding Tai Hang Pump Manufacturing Company Limited) in connection with the transfer by 保定長城內燃機製造有限公司 (Baoding Great Wall Internal Combustion Engine Company Limited) to 保定市太行製泵有限公司 (Baoding Tai Hang Pump Manufacturing Company Limited) of 75% of the equity interest in 保定長城威德動力機械有限公司 (Baoding Great Wall Weide Power Machinery Company Limited) at the consideration of RMB622,500.
15. An equity transfer agreement in Chinese dated 12th July, 2003 and a supplementary agreement dated 14th July, 2003, both entered into between 保定長城威德動力機械有限公司 (Baoding Great Wall Internal Combustion Engine Company Limited) and 台灣暉達實業股份有限公司 (Taiwan Faitat Enterprises Company Limited) in connection with, respectively, the transfer by 保定長城威德動力機械有限公司 (Baoding Great Wall Internal Combustion Engine Company Limited) to 台灣暉達實業股份有限公司 (Taiwan Faitat Enterprises Company Limited) of 51% of the equity interest in 沈陽長城富桑內燃機有限公司 (Shengyang Great Wall Fusheung Internal Combustion Engine Company Limited) at the consideration of RMB5,000,000 and the transfer by 保定長城威德動力機械有限公司 (Baoding Great Wall Internal Combustion Engine Company Limited) to 台灣暉達實業股份有限公司 (Taiwan Faitat Enterprises Company Limited) of the right of using the services of 保定市長城汽車售後服務有限公司 (Baoding Great Wall Automobile After-sales Services Company Limited) at nil consideration.

Management Contracts

Save as those service contracts in the section headed “Directors’ and Supervisors’ Service Agreements and Letters of Appointment” above, no contract 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 ended 31st December, 2003.

Report of the Directors

Directors' and Supervisors' Interest in Securities

As at 31st December, 2003, the interests and short positions of each of the directors, supervisors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO"), which, once the H Shares are listed on the Stock Exchange, will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provision of the SFO), or will be required pursuant to section 352 of the SFO (including interests and short positions which they have taken or are deemed to have taken under the SFO), to be entered in the register referred to therein, or will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, are as follows:

Name of director/ supervisor	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
			%
Mr. Wei Jian Jun	Beneficial owner	156,860,000 (L)*	33.23
	Interest of spouse total	1,705,000 (L)*	0.36
		158,565,000 (L)*	33.59
Mr. Wei De Yi	Beneficial owner	30,690,000 (L)*	6.50
	Interest of spouse total	1,705,000 (L)*	0.36
		32,395,000 (L)*	6.86

Note:

The letter "L" denotes a long position in shares of the Company.

* represents domestic shares

Save as disclosed above, as at 31st December, 2003, none of the directors, supervisors or chief executives of the Company has any interest or short positions in any shares, underlying shares or debentures of the Company or any associated corporation within the meaning of the SFO, which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including such interests or short positions which they are deemed to have) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to the

Report of the Directors

Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules. For this purpose, the relevant provisions of the SFO will be interpreted as if they applied to the supervisors.

Shareholders' Structure and Number of Shareholders

Details of the shareholders whose names were being recorded in the register of shareholders of the Company as at 31st December, 2003 are as follows:

Holders of domestic shares	5
Holders of H shares	9,246
<hr/>	
Total number of shareholders	9,251

Shares Held by Substantial Shareholders

As at 31st December, 2003, the following shareholders had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name	Number of Shares	Approximate percentage of shareholding
Mr. Wei Jian Jun (<i>Note 1</i>)	158,565,000 (L)*	33.59%
Nandayuan Management Centre	150,040,000 (L)*	31.78%
Mr. Wei De Yi (<i>Note 2</i>)	32,395,000 (L)*	6.86%
Ms. Chen Yu Zhi (<i>Note 3</i>)	32,395,000 (L)*	6.86%
Ms. Han Xue Juan (<i>Note 4</i>)	158,565,000 (L)*	33.59%

The letter "L" denotes a long position in shares of the Company.

* represents domestic shares

Notes:

1. Out of 158,565,000 domestic shares, 156,860,000 domestic shares are held by Mr. Wei Jian Jun directly and he is also deemed or taken to be interested in 1,705,000 domestic shares held by his spouse, Ms. Han Xue Juan.
2. Out of 32,395,000 domestic shares, 30,690,000 domestic shares are held by Mr. Wei De Yi directly and he is also deemed or taken to be interested in 1,705,000 domestic shares held by his spouse, Ms. Chen Yu Zhi.

Report of the Directors

3. Out of 32,395,000 Domestic Shares, 1,705,000 Domestic Shares are held by Ms. Chen Yu Zhi directly and she is also deemed or taken to be interested in 30,690,000 Domestic Shares held by her spouse, Mr. Wei De Yi.
4. Out of 158,565,000 Domestic Shares, 1,705,000 Domestic Shares are held by Ms. Han Xue Juan directly and she is also deemed or taken to be interested in 156,860,000 Domestic Shares held by her spouse, Mr. Wei Jian Jun.

Save as disclosed above, as at 31st December, 2003, so far as is known to the directors, supervisors or chief executive of the Company, there was no other person who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who was, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

Connected Transactions

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

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to the Group than terms available to or from (as appropriate) independent third parties;
- (iii) in accordance with the relevant agreement governing them; and
- (iv) on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

1. Non-exempted continuing connected transactions under the Listing Rules

- (1) *Relating to the utilisation of transportation and delivery services of the Logistics Companies*

The Group has been engaging 保定市螞蟻物流網絡有限公司 (Baoding Ants Logistics Company Limited) and its subsidiary 順平安特運輸有限公司 (Shunping Ante Transport Company Limited) (collectively, the "Logistics Companies") for the transportation and delivery of parts and finished products of the Group. Mr. Wei Jian Jun, the Chairman of the Company, and his associates ("Associates", as defined in the Listing Rules) are the beneficial owners of all of the equity interest in 保定市螞蟻物流網絡有限公司 (Baoding Ants Logistics Company Limited) which in turn holds 90%

Report of the Directors

of the equity interest in 順平安特運輸有限公司 (Shunping Ante Transport Company Limited). As such, the Logistics Companies are Associates of Mr. Wei Jian Jun and therefore connected persons of the Company upon the listing of the H Shares on the Stock Exchange.

(2) *Relating to the design and construction services provided by Tai Hang to the Group*

The Group has also been engaging 保定太行鋼結構工程有限公司 (Baoding Tai Hang Steel Structure Construction Co. Ltd.) (“Tai Hang”) to provide design and construction services for the Group’s production facility and auxiliary facilities. Mr. Wei Jian Jun and his Associates are the ultimate beneficial owners of approximately 86% of the equity interest in Tai Hang. As such, Tai Hang is an Associate of Mr. Wei Jian Jun and therefore a connected person of the Company upon the Listing.

(3) *Relating to Dragonet Group Transactions*

Companies within the Group have also been engaging in various transactions required for the production of the Group’s products. In particular, 北京格瑞特汽車零部件有限公司 (Beijing Great Automotive Components Company Limited), 保定長城汽車橋業有限公司 (Baoding Changcheng Vehicle Axles Industries Company Limited) and 保定長福沖壓件有限公司 (Baoding Changfu Pressings Company Limited) (collectively, the “Dragonet Group Companies”), each of which is owned as to 25% by Dragonet Company, are engaged in transactions between themselves and with other companies within the Group. Save and except for certain transactions involving the purchase and sale of parts and components for the manufacturing of automobiles such as air conditioning systems for automobiles (in respect of 北京格瑞特汽車零部件有限公司 (Beijing Great Automotive Components Company Limited)), axles (in respect of 保定長城汽車橋業有限公司 (Baoding Changcheng Vehicle Axles Industries Company Limited)) and auto bodies (in respect of 保定長福沖壓件有限公司 (Baoding Changfu Pressings Company Limited)) and provision of processing services for semi-finished products of those parts and components that are not exempted pursuant to Rule 14.24(5) of the Listing Rules (the “Dragonet Group Transactions”), the other transactions involving the Dragonet Group Companies and companies within the Group are conducted on normal commercial terms and the annual total consideration or value would not exceed the higher of either HK\$1,000,000 or 0.03% of the net tangible asset value of the Group and are thus exempted from disclosure and shareholders approval requirements pursuant to Rule 14.24(5) of the Listing Rules.

(4) *Relating to the sales of internal combination engines to Beiqi Momeiya*

Furthermore, GW Internal Combustion Engine Company has been selling internal combustion engines to 北京北汽摩美亞汽車製造有限公司 (Beijing Beiqi Momeiya Automobiles Manufacturing Company Limited) (“Beiqi Momeiya”) which was established as a limited liability company under

Report of the Directors

the laws of the PRC on 10th July, 2002. 北京佳美亞投資有限公司 (Beijing Jiameiya Investment Limited) is a substantial shareholder of GW Internal Combustion Engine Company holding 24.5% of the equity interest in GW Internal Combustion Engine Company. 李金祥 (Li Jin Xiang) is a director of GW Internal Combustion Engine Company and is the beneficial owner of about 37% of the equity interest in 北京佳美亞投資有限公司 (Beijing Jiameiya Investment Limited) which in turn holds 80% of the equity interest in 北京北汽摩美亞汽車製造有限公司 (Beijing Beiqi Momeiya Automobiles Manufacturing Company Limited). As such, 北京北汽摩美亞汽車製造有限公司 (Beijing Beiqi Momeiya Automobiles Manufacturing Company Limited), is an Associate of 北京佳美亞投資有限公司 (Beijing Jiameiya Investment Limited) (as well as an Associate of Li Jin Xiang) and therefore a connected person of the Company upon the listing of the H Shares on the Stock Exchange.

The Stock Exchange has granted a waiver to the Company from strict compliance with the relevant requirements of the Listing Rules in respect of the above non-exempted continuing connected transactions for the three financial year ending 31st December, 2005, and the caps and the actual amount for 2003 set forth below:

Type of transactions	Cap amount of non-exempted continuing connected transactions during 2003	Total value for the year ended 31st December, 2003 approximately RMB'000
1. Utilisation of transportation and delivery services of the Logistics Companies	3% of the Group's turnover for the financial year ending 31st December, 2003 (being about RMB110,751,000)	72,739
2. Design and construction services provided by Tai Hang to the Group	RMB35,000,000	34,512
3. Dragonet Group Transactions	18% of the Group's turnover for the financial year ending 31st December, 2003 (being about RMB664,507,000)	553,288
4. Sale of internal combustion engines to Beiqi Momeiya	1% of the Group's turnover for the financial year ending 31st December, 2003 (being about RMB36,917,000)	18,486

Report of the Directors

2. Exempted continuing connected transactions under the Listing Rules

- (1) *Relating to the sales of accessories for internal combustion engine to 北京佳友興業商貿有限公司*

Baoding Great Wall Internal Combustion Engine Manufacturing Company Limited has been engaged in selling accessories for internal combustion engine to 北京佳友興業商貿有限公司 (“Beijing Jiayou”).

李金祥 (Li Jin Xiang) is a director of Baoding Great Wall Internal Combustion Engine Manufacturing Company Limited and with its Associates, hold an aggregate of 100% of the equity interest in Beijing Jiayou. As such, Beijing Jiayou becomes an Associate of 李金祥 (Li Jin Xiang) and therefore a connected person of the Company upon the listing of the H Shares on the Stock Exchange.

- (2) *Relating to the receipt of heat and electricity fares from and the sales of engine and parts and components to Gaobeidian Shi Zhong Ke Huabei Automobile Company Limited*

(i) 保定長城華北汽車有限責任公司 (Baoding Great Wall Huabei Automobile Company Limited) has been receiving heat and electricity fares from 高碑店市中客華北汽車有限責任公司 (Gaobeidian Shi Zhong Ke Huabei Automobile Company Limited) (“Zhong Ke Huabei”);

(ii) 保定長城內燃機製造有限公司 (Baoding Great Wall Internal Combustion Engine Manufacturing Company Limited) and 保定日瓦汽車系統配套有限公司 (Baoding Riwa Automobile System Accessories Company Limited) has begun and continued to sell internal combustion engine and automotive parts and components to Zhong Ke Huabei in the second half year of 2003.

穆亞麗 (Mu Ya Li) is a director of Baoding Great Wall Huabei Automobile Company Limited and holds 37.6% of the equity interest in Zhong Ke Huabei. As such, Zhong Ke Huabei becomes an Associate of Zhong Ke Huabei and therefore a connected person of the Company upon the listing of the H Shares on the Stock Exchange.

- (3) *Relating to the transactions in respect of the purchase of accessories from Hebei Baoding Tai Hang Group Company Limited*

Baoding Great Wall Internal Combustion Engine Manufacturing Company Limited has been purchasing accessories from 河北保定太行集團有限責任公司 (Hebei Baoding Tai Hang Group Company Limited) (“Tai Hang Group”).

Wei De Yi is the supervisor of Great Wall Automobile Holding Company Limited and holds 70% of the equity interest in Tai Hang Group. As such, Tai Hang Group becomes an Associate and therefore a connected person of the Company upon the listing of H Shares on the Stock Exchange.

Report of the Directors

(4) *Relating to the transactions in respect of the purchase of fixed assets from Baoding Tai Hang Rosemex Engineering Company Limited*

Great Wall Automobile Holding Company Limited and Baoding Great Wall Internal Combustion Engine Manufacturing Company Limited has been purchasing fixed assets from 保定太行熱士美工業有限公司 (Baoding Tai Hang Rosemex Engineering Company Limited) ("Tai Hang Rosemex").

Wei De Yi is the supervisor of Great Wall Automobile Holding Company Limited and beneficially owns 31.5% of the equity interest in Tai Hang Rosemex. As such, Tai Hang Rosemex becomes an Associate and therefore a connected person of the Company upon the listing of H Shares on the Stock Exchange.

The Directors consider that the above continuing connected transactions are conducted on normal commercial terms and the annual total consideration or value did not exceed the higher of either HK\$1,000,000 or 0.03% of the net tangible asset value of the Group. As such, these transactions are exempted from any disclosure or shareholders approval requirements as connected transactions under the Listing Rules. The relevant caps to qualify for such exemption and the actual amount for 2003 are set forth below:

Types of transactions	Subject of transactions	Cap amount of	Total value for
		exempted continuing connected transactions during 2003 (RMB'000)	the year ended 31st December, 2003 (RMB'000)
1.	Transactions of Beijing Jiayou Sales of accessories	1,066*	202
2.	Transactions of Zhong Ke Huabei Receipt of heat and electricity fares	1,066*	313
	Sales of internal combustion engine and automotive parts and components	1,066*	828
3.	Transactions of Tai Hang Group Purchase of accessories	1,066*	326
4.	Transactions of Tai Hang Rosemex Purchase of fixed assets	1,066*	538

* *The maximum limit for an exempted continuing connected transaction: value of transaction shall not exceed the higher of HK\$1,000,000 (base on exchange rate 1:1.0658, HK\$1,000,000 should be equivalent to RMB1,065,800) or 0.03% of the net tangible asset value of the listed issuer. The 0.03% of the net tangible asset value of the Group for 2003 was RMB826,000.*

Report of the Directors

Post-balance Sheet Date Events

Details of major post-balance sheet date events are set out in Note 37 to the financial statements.

Pension Scheme

Details of the Group's pension scheme are set out in Notes 2 and 5 to the financial statements.

Material Litigation

During the year ended 31st December, 2003 of this report, the Company was not involved in any material litigations.

Purchase, Redemption or Sale of the Company's Listed Securities

There were no purchases, redemption or sale of the Company's listed securities by the Company or its subsidiaries during the year ended 31st December, 2003.

Compliance with the Code of Best Practice

To the knowledge of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules since the listing of its H Shares.


Audit Committee

The Company has set up an audit committee in accordance with the requirements of the Code of Best Practice for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises four independent non-executive directors of the Company. The audit committee held a meeting on 25th March, 2004 to review the annual report of the Group and to give opinion and advice to the board of directors of the Company.

Report of the Directors

Auditors

Ernst & Young Hua Ming and Ernst & Young were the Company's PRC auditors and international auditors respectively for the year ended 31st December, 2003. A resolution for the reappointment of Ernst & Young Hua Ming and Ernst & Young as the Group's PRC auditors and international auditors will be proposed at the forthcoming annual general meeting.



By Order of the Board

Wei Jian Jun

Chairman

Baoding Hebei Province, the PRC
26th March, 2004