

# Report of Directors

The Directors present this report together with the audited accounts of the Company and its subsidiaries (the “Group”) for the year ended 31st December, 2003.

## PRINCIPAL ACTIVITIES

The Company is a holding company. The principal activities of its subsidiaries are set out in note 18 to the accounts. The operating businesses of the Group are divided primarily into the manufacture and sale of (1) minibuses and automotive components and (2) sedans.

Prior to May 1998, the Company’s sole operating asset was its interest in Shenyang Automotive. As a result, the Company’s historical results of operations had been primarily driven by the sales price, sales volume and cost of production of Shenyang Automotive’s minibuses. With a view to maintain quality, ensure a stable supply of certain key components and develop new businesses and products, the Company acquired interests in various suppliers of components and established joint ventures in the PRC since May 1998. As a result of these additional investments and joint ventures, the Company’s income base has been broadened and its future financial performance will differ from that of Shenyang Automotive.

In May 1998, the Company acquired indirect interests in two components suppliers: a 51% equity interest in Ningbo Yuming, a wholly foreign-owned PRC enterprise primarily engaged in the production of automobile window molding, stripping and other auto components; and a 50% equity interest in Mianyang Xincheng Engine Co. Ltd., a Sino-foreign equity joint venture manufacturer of gasoline engines for use in passenger vehicles and light duty trucks. In October 1998, June 2000 and July 2000, the Company established Xing Yuan Dong, Ningbo Brilliance Ruixing Auto Components Co., Ltd. and Mianyang Brilliance Ruian Automotive Components Co., Ltd., respectively, as its wholly owned subsidiaries to centralize and consolidate the sourcing of auto parts and components for Shenyang Automotive. In 2001, all three companies, in order to maintain their preferential tax treatment from the PRC government, began manufacturing automotive components as well.

In December 2000, the Company acquired a 50% equity interest in Shenyang Xinguang Brilliance Automobile Engine Co., Ltd., a Sino-foreign equity joint venture manufacturer of gasoline engines for use in passenger vehicles. In December 2001, the Company acquired a 100% equity interest in Shenyang Brilliance Dongxing Automotive Component Co., Ltd. (“Dongxing”), a foreign-invested manufacturer of automotive components in the PRC.

In May 2002, Shenyang Automotive obtained the approval from the Chinese Government to produce and sell its “Zhonghua” sedans in the PRC. The “Zhonghua” sedans were launched in the market in August 2002.

On 27th March, 2003, the Company, through its indirect subsidiary, Shenyang JinBei Automotive Industry Holdings Co., Ltd. (“SJAI”), entered into a joint venture contract with BMW Holding BV to produce and sell BMW-designed and branded sedans in the PRC. The registered capital and total investment cost of the joint venture is Euro 150 million and Euro 450 million, respectively. At that time, the Company’s effective interests in SJAI and the joint venture with BMW were 81% and 40.5%, respectively. On 28th April, 2003, the Company

## Report of Directors (Cont'd)

increased its effective interest in SJAI from 81% to 89.1% and thereby increased its effective interest in the joint venture with BMW from 40.5% to 44.55%. On 16th December, 2003, the Company further increased its effective interest in SJAI from 89.1% to 98.0% and thereby increased its effective interest in the joint venture with BMW from 44.55% to 49.0%.

On 29th December, 2003, the Company entered into agreements in relation to the proposed acquisition of an indirect 40.1% interest in Shenyang JinBei Automotive Company Limited ("JinBei"), the joint venture partner of Shenyang Automotive and a supplier of automotive components for the Group's minibuses and sedans. Upon obtaining the approvals from the relevant government authorities and completion of the proposed acquisition, the Company's effective interest in Shenyang Automotive will be increased from 51% to approximately 70.7%.

# Report of Directors (Cont'd)

## TURNOVER AND CONTRIBUTION

The Group's turnover and contribution to profit from operations for the year ended 31st December, 2003, analysed by product category, are as follows:

|                                     | <b>Manufacturing<br/>and sale of<br/>minibuses and<br/>automotive<br/>components</b><br>RMB'000 | <b>Manufacturing<br/>and sale of<br/>Zhonghua<br/>sedans</b><br>RMB'000 | <b>Manufacturing<br/>and sale of<br/>BMW sedans</b><br>RMB'000 | <b>Total</b><br>RMB'000 |
|-------------------------------------|---|---|--|-------------------------|
| Segment sales                       | 6,942,411   | 3,345,332   | —  | 10,287,743              |
| Intersegment sales                  | (178,186)   | —   | —  | (178,186)               |
|                                     | <u>6,764,225</u>  | <u>3,345,332</u>  | <u>—</u>   | <u>10,109,557</u>       |
| Segment results                     | <u>1,380,552</u>  | <u>23,470</u>   | <u>—</u>   | <u>1,404,022</u>        |
| Unallocated costs                   |   |   |  | <u>(131,657)</u>        |
| Operating profit                    |   |   |  | 1,272,365               |
| Interest income                     |   |   |  | 52,672                  |
| Interest expense                    |   |   |  | (167,111)               |
| Share of profits less losses of:    |   |   |  |                         |
| Jointly controlled entities         | 88,361  | —   | (125,214)  | (36,853)                |
| Associated companies                | —   | 131,187   | 767  | <u>131,954</u>          |
| Profit before taxation              |   |   |  | 1,253,027               |
| Taxation                            |   |   |  | <u>(153,033)</u>        |
| Profit after taxation               |   |   |  | 1,099,994               |
| Minority interests                  |   |   |  | <u>(163,547)</u>        |
| Profit attributable to shareholders |   |   |  | <u>936,447</u>          |

# **Report of Directors** (Cont'd)

## **FINANCIAL RESULTS**

The results for the Group for the year ended 31st December, 2003, are set out in the accounts on page 26.

## **CASH FLOW POSITION**

The cash flow position of the Group for the year ended 31st December, 2003 is set out and analysed on pages 30 and 31 and in note 36 to the accounts.

## **DIVIDEND**

The Directors recommend the payment of a final dividend of HK\$0.01 per share in cash for the year ended 31st December, 2003. The dividend, if approved by the shareholders at the annual general meeting to be held on 25th June, 2004, will be paid on or before 2nd July, 2004 to shareholders registered on 24th June, 2004. The register of members of the Company will be closed from Monday, 21st June, 2004 to Thursday, 24th June, 2004, both days inclusive. Details of the dividends paid and proposed are set out in note 9 to the accounts.

## **FIVE-YEAR FINANCIAL SUMMARY**

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 3.

## **RESERVES**

Movements in the reserves of the Group and the Company during the year ended 31st December, 2003 are set out in note 35 to the accounts.

## **FIXED ASSETS**

The movements of fixed assets of the Group for the year ended 31st December, 2003 are set out in note 16 to the accounts.

## **SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES**

Particulars of the subsidiaries, associated companies and jointly controlled entities are set out in notes 18, 19 and 20, respectively to the accounts.

## **SHARE CAPITAL AND SHARE OPTIONS**

Details of the Company's share capital and share options as of 31st December, 2003 are set out in note 34 to the accounts.

# Report of Directors (Cont'd)

On 2nd June, 2001, share options were granted to certain directors and employees entitling them to subscribe ordinary shares of US\$0.01 each in the share capital of the Company (the “Shares”) at HK\$1.896 per Share, totaling 31,800,000 Shares in aggregate, in accordance with the share option scheme of the Company adopted on 18th September, 1999, which came into effect on 20th October, 1999 (the “1999 Share Option Scheme”). Such share options vested immediately upon the grant and are exercisable within a period of ten years.

On 28th June, 2002, the 1999 Share Option Scheme was terminated. A new share option scheme was adopted at a special general meeting of shareholders on 28th June, 2002 (the “New Share Option Scheme”) in compliance with the amendments to Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), which came into effect on 1st September, 2001. The New Share Option Scheme came into effect on 15th July, 2002. Pursuant to Clause 13.1 of the 1999 Share Option Scheme, all the share options granted prior to such termination shall continue to be valid and exercisable in accordance with the terms of the 1999 Share Option Scheme.

During the year ended 31st December, 2003, no option had been cancelled or lapsed in accordance with the terms of the 1999 Share Option Scheme. No option had been granted in accordance with the New Share Option Scheme since it came into effect.

Details of the share options outstanding as at 31st December, 2003 under the 1999 Share Option Scheme are as follows:

## Category and name of participants

| <b>Directors</b>                     | <b>Number of share options</b> |
|--------------------------------------|--------------------------------|
| Wu Xiao An (also known as Ng Siu On) | 2,800,000                      |
| Su Qiang (also known as So Keung)    | 2,338,000                      |
| Hong Xing                            | 2,338,000                      |
| He Tao (also known as Ho To)         | 2,338,000                      |
| Yang Mao Zeng                        | 2,338,000                      |
| <b>Employees (in aggregate)</b>      | <b>3,338,000</b>               |
| <hr/>                                |                                |
| Total                                | 15,490,000                     |

On 13th October, 2003, 2,338,000 share options granted to an employee of the Company were exercised at an exercise price of HK\$1.896 per Share in accordance with the terms of the 1999 Share Option Scheme. The closing price of the Shares immediately before the date on which these share options were exercised was HK\$3.150.

# Report of Directors (Cont'd)

The Directors consider that it is not appropriate to state the value of the outstanding share options given that the variables which are critical for the calculation of the value of such outstanding share options cannot be determined. The variables which are critical for the determination of the value of such share options include the subscription price for the shares upon the exercise of the subscription rights attaching to the share options, which may be adjusted under certain circumstances, and whether or not such share options will be exercised by the grantees. The Directors are of the view that the value of the share options depends on a number of variables which are either difficult to ascertain or can only be ascertained subject to a number of theoretical bases and speculative assumptions, and accordingly, believe that any calculation of the value of the share options will not be meaningful.

## DIRECTORS

The Directors of the Company who held office during the year ended 31st December, 2003 and up to the date of this report were:

### *Executive Directors:*

|  |                               |
|--|-------------------------------|
| Mr. Wu Xiao An ( <i>Chairman</i> )     | (also known as Mr. Ng Siu On) |
| Mr. Hong Xing ( <i>Vice Chairman</i> ) |                               |
| Mr. Su Qiang                           | (also known as Mr. So Keung)  |
| Mr. He Tao                             | (also known as Mr. Ho To)     |
| Mr. Yang Mao Zeng                      |                               |

### *Non-executive Directors:*

|                  |                                |
|------------------|--------------------------------|
| Mr. Wu Yong Cun  | (appointed on 27th June, 2003) |
| Mr. Lei Xiaoyang | (appointed on 27th June, 2003) |

### *Independent non-executive Directors:*

|                    |                                |
|--------------------|--------------------------------|
| Mr. Yi Min Li      |                                |
| Mr. Xu Bingjin     | (appointed on 27th June, 2003) |
| Mr. Wei Sheng Hong | (retired on 27th June, 2003)   |
| Mr. Huang Anjiang  | (retired on 27th June, 2003)   |

Mr. Hong Xing, Mr. He Tao (also known as Mr. Ho To) and Mr. Yi Min Li will retire by rotation in accordance with bye-law 99 of the bye-laws of the Company at the forthcoming annual general meeting of the Company.

Mr. Wu Yong Cun, Mr. Lei Xiaoyang and Mr. Xu Bingjin will retire in accordance with bye-law 102(B) of the bye-laws of the Company at the forthcoming annual general meeting of the Company.

# Report of Directors (Cont'd)

Each of Mr. Hong Xing, Mr. He Tao (also known as Mr. Ho To), Mr. Wu Yong Cun, Mr. Lei Xiaoyang and Mr. Xu Bingjin will offer themselves for re-election at the forthcoming annual general meeting of the Company. Mr. Yi Min Li has informed the Board of his intention not to offer himself for re-election at the forthcoming annual general meeting.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES OF THE COMPANY

As at 31st December, 2003, so far as is known to the Directors or chief executives of the Company, the following persons other than a Director or chief executive of the Company had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the Securities and Futures Ordinance (the "SFO"):

| Name of shareholder  | Number of Shares held/Approximate shareholding percentage |       |          |              |      |  |
|--|---|-------|----------|--------------|------|--|
|  | Long  |       | Short    |              |      |  |
|  | Position  | %     | Position | Lending Pool | %    |  |
| Huachen  | 1,446,121,500   | 39.42 | —        | —            | —    |  |
| J.P. Morgan Chase & Co. <i>(Note)</i>                            | 320,936,741   | 8.75  | —        | 101,660,893  | 2.77 |  |
| JF Asset Management Limited <i>(Note)</i>                        | 200,595,217   | 5.47  | —        | —            | —    |  |
| J.P. Morgan Fleming Asset Management (Asia) Inc. <i>(Note)</i>   | 204,045,217   | 5.56  | —        | —            | —    |  |
| J.P. Morgan Fleming Asset Management Holdings Inc. <i>(Note)</i> | 204,045,217   | 5.56  | —        | —            | —    |  |

*Note:* Each of JF Asset Management Limited, J.P. Morgan Fleming Asset Management (Asia) Inc. and J.P. Morgan Fleming Asset Management Holdings Inc. are companies controlled by J.P. Morgan Chase & Co. and their interests in the shares of the Company are included in the interest of J.P. Morgan Chase & Co. J.P. Morgan Fleming Asset Management (Asia) Inc. is the controlling shareholder of JF Asset Management Limited and the interest of JF Asset Management Limited is included in the interest of J.P. Morgan Fleming Asset Management (Asia) Inc. J.P. Morgan Fleming Asset Management Holdings Inc. is the controlling shareholder of J.P. Morgan Fleming Asset Management (Asia) Inc. and the interest of J.P. Morgan Fleming Asset Management (Asia) Inc. is included in the interest of J.P. Morgan Fleming Asset Management Holdings Inc.

Save as disclosed herein, as at 31st December, 2003, there was no other person so far known to the Directors or chief executives of the Company, other than a Director or chief executive of the Company as having an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

# Report of Directors (Cont'd)

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31st December, 2003, the interests and short positions of each Director, chief executive and their respective associates in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or 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, are set out below:

| Name of Director                        | Type of interests | Number of Shares held |                | Approximate shareholding percentage | Number of share options granted | Number of Shares to be acquired under a call option agreement |
|---|-------------------|-----------------------|----------------|-------------------------------------|---------------------------------|---|
|   |                   | Long Position         | Short Position |                                     |                                 |   |
| Wu Xiao An<br>(also known as Ng Siu On) | Personal          | —                     | —              | —                                   | 2,800,000                       | 92,911,266  |
| Su Qiang<br>(also known as So Keung)    | Personal          | 14,500,000            | —              | 0.40                                | 2,338,000                       | 84,464,788  |
| Hong Xing                               | Personal          | —                     | —              | —                                   | 2,338,000                       | 84,464,788  |
| He Tao (also known as Ho To)            | Personal          | 45,000                | —              | 0.00                                | 2,338,000                       | 84,464,788  |
| Yang Mao Zeng                           | Personal          | —                     | —              | —                                   | 2,338,000                       | —   |

*Note:* Pursuant to four call option agreements all dated 18th December, 2002, Huachen has granted to each of Mr. Wu Xiao An (also known as Mr. Ng Siu On), Mr. Su Qiang (also known as Mr. So Keung), Mr. Hong Xing and Mr. He Tao (also known as Mr. Ho To) a call option to acquire up to 92,911,266 Shares, 84,464,788 Shares, 84,464,788 Shares and 84,464,788 Shares, respectively, representing approximately 2.533%, 2.303%, 2.303% and 2.303%, respectively, of the existing issued share capital of the Company, at HK\$0.95 per Share, exercisable in whole or in part at any time during a period of three years commencing from the date falling six months after 6th February, 2003. During the year ended 31st December, 2003, none of the call options had been exercised by the above Directors.

Save as disclosed above, as at 31st December, 2003, none of the Directors, chief executives of the Company or their respective associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or 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.



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## **DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES**

At no time during the year ended 31st December, 2003 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate; and none of the Directors, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

## **DIRECTORS' INTERESTS IN CONTRACTS**

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries or associated companies 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.

## **DIRECTORS' SERVICE CONTRACTS**

Each of Mr. Wu Xiao An (also known as Mr. Ng Siu On), Mr. Su Qiang (also known as Mr. So Keung), Mr. Hong Xing and Mr. He Tao (also known as Mr. Ho To), all of whom are executive Directors, has entered into a service agreement with the Company dated 21st August, 2000 for a term of five years commencing from 1st October, 2000. All the service contracts with the Directors are exempted from the shareholders' approval requirement under Rule 13.68 of the Listing Rules.

Save as disclosed herein, there is no service contract between the Directors and members of the Group that does not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

## **PURCHASE, SALE OR REDEMPTION**

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities during the year.

## **ANALYSIS OF BORROWINGS AND INTERESTS CAPITALISED**

The particulars of the Group's borrowings as at the end of the year are set out in notes 29, 30 and 31 to the accounts. Details of interest capitalised are set out in note 6 to the accounts.

## **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which oblige the Company to offer new shares on a pro-rata basis to existing shareholders. Such obligations are provided for in the Listing Rules.

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## MAJOR CUSTOMERS AND SUPPLIERS

During 2003, the aggregate sales attributable to the Group's five largest customers represented approximately 33.7% of the Group's turnover and sales attributable to the Group's largest customer was approximately 19.2%. The aggregate purchases attributable to the Group's five largest suppliers during the year represented approximately 13.2% of the Group's total purchases and the purchases attributable to the Group's largest supplier represented approximately 3.1%.

None of the Directors, their associates or any shareholders that, to the knowledge of the Directors, own more than 5% of the Company's issued share capital, has any interest in the share capital of any of the five largest customers or suppliers of the Group.

## CONNECTED TRANSACTIONS

During the year, the Group had entered into the following on-going connected transactions ("On-going Connected Transactions") as defined under Chapter 14 of the then Listing Rules:

|   | <b>RMB'000</b> |
|---|----------------|
| Purchases of materials and component parts by Shenyang Automotive from subsidiaries and associates of JinBei  | 415,724        |
| Purchases of materials and component parts by Xing Yuan Dong from subsidiaries and associates of JinBei   | 538,961        |
| Purchases of materials and component parts by Dongxing from subsidiaries and associates of JinBei   | 17,801         |
| Purchases of materials and component parts by Ningbo Yuming from subsidiaries and associates of Mr. Qin, a substantial shareholder of Ningbo Yuming | 29,680         |
| Sale of automobiles and automotive component parts by Shenyang Automotive to subsidiaries and associates of JinBei                                  | 148,991        |
| Sales of automotive component parts by Dongxing to a subsidiary of JinBei   | 45             |

On 26th February, 2003, waivers were granted by the Stock Exchange from strict compliance with the requirements as stipulated in Chapter 14 of the Listing Rules in respect of the On-going Connected Transactions, subject to certain conditions.

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The independent non-executive Directors of the Company confirmed that all the On-going Connected Transactions in 2003 to which any member of the Group was a party:

1. had been entered into by the Group in the ordinary and usual course of its business;
2. had been entered into either (a) on normal commercial terms or (b) on terms not less favourable than those available to or from (as the case may be) independent third parties, or (c) where there is no available comparison for the purpose of determining whether (a) or (b) is satisfied, on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
3. had not exceeded the relevant annual caps as approved by the Stock Exchange.

The auditors of the Company have reviewed the On-going Connected Transactions and confirmed to the Directors that:

1. the Directors had approved the On-going Connected Transactions;
2. the On-going Connected Transactions had been entered into in accordance with the terms of the related agreements governing such transactions; and
3. the On-going Connected Transactions had not exceeded the relevant annual caps as approved by the Stock Exchange.

During the year, the Group had also entered into the following connected transactions as defined under the then Chapter 14 of the Listing Rules:

1. At the special general meeting held on 26th February, 2003, shareholders of the Company approved the increase of the registered capital and total investment of Shenyang Automotive, a subsidiary of the Company, by an amount of US\$273 million (the "Capital Increase"). The increase in capital was contributed by the Company and JinBei in proportion to their then equity interests in Shenyang Automotive (i.e. the Company's portion being US\$139.23 million and JinBei's portion being US\$133.77 million). While the Company contributed the US\$139.23 million by dividend receivable, JinBei injected the US\$133.77 million partly by cash and partly by transferring to Shenyang Automotive the technology of components used by Shenyang Automotive mainly in the manufacturing of Zhonghua sedans and certain training facilities. The Capital Increase constitutes a connected transaction for the Company under Chapter 14 of the then Listing Rules.
2. On 27th March, 2003, SJAI, an indirect subsidiary of the Company, entered into a joint venture contract ("JV Contract") with BMW Holding BV in relation to the establishment of a joint venture ("JV") in the PRC. The registered capital and total investment cost of the JV is Euro 150 million and Euro 450 million, respectively. The JV is to be owned as to 50% by each of SJAI and BMW Holding BV and is for a term of 15 years from the date of issuance of business license. Prior to the establishment of the JV, the Company has

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provided a guarantee (the “BMW Guarantee”) to BMW Holding BV guaranteeing the performance by SJAI of its obligations under the JV Contract. A reciprocal guarantee was provided by BMW AG to SJAI in respect of the obligations of BMW Holding BV under the JV Contract. The provision of the BMW Guarantee constitutes a connected transaction for the Company under Chapter 14 of the then Listing Rules.

3. In April 2003, Xing Yuan Dong, a wholly owned subsidiary of the Company, entered into a guarantee agreement with JinBei, pursuant to which Xing Yuan Dong agreed to provide a guarantee (the “XYD Guarantee”) in respect of a loan amounted to RMB300 million (the “Loan”) by a bank to JinBei as secured by an indemnity given by JinBei in favour of Xing Yuan Dong (the “Indemnity”). The XYD Guarantee and the Indemnity will continue during the term of the Loan until the Loan together with interest therein is repaid in full. As at 31st December, 2003, the outstanding Loan amount of JinBei was RMB100 million. The provision of the XYD Guarantee constitutes a connected transaction for the Company under Chapter 14 of the then Listing Rules and has been approved by the Company’s shareholders at the special general meeting held on 26th February, 2003.
4. On 28th April, 2003, Shenyang Xinjinbei Investment and Development Co., Ltd. (“SXID”), an indirect subsidiary of the Company, entered into an agreement with Shenyang JinBei Automobile Industry Company Limited, the then substantial shareholder of SJAI, for the acquisition of an additional 9% interest in SJAI for a consideration of RMB135 million. Upon completion of the acquisition, the Company’s effective interest in the JV with BMW Holding BV increased from 40.5% to 44.55%. The transaction constitutes a connected transaction for the Company under Chapter 14 of the Listing Rules.
5. On 16th December, 2003, Xing Yuan Dong entered into a share transfer agreement with Shenyang Automobile Industry Asset Management Company Limited, the then substantial shareholder of SXID, in relation to the transfer of an additional 9% interest in SXID to Xing Yuan Dong for a consideration of RMB135 million. As a result of the acquisition, SXID is 99% owned by Xing Yuan Dong. Accordingly, the Company’s effective interest in the JV with BMW Holding BV was increased from 44.55% to 49%. The acquisition constitutes a connected transaction for the Company under Chapter 14 of the Listing Rules.

Save as disclosed above, in the opinion of the Directors, the transactions disclosed as related party transactions in note 40 to the accounts do not constitute connected transactions as defined under the Listing Rules in force at the time of the entering into of the relevant transactions.

## **CODE OF BEST PRACTICE AND AUDIT COMMITTEE**

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year, except that the independent non-executive Directors of the Company are not appointed for specific terms and are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company’s bye-laws.

# Report of Directors (Cont'd)

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial report matters, including the audited consolidated accounts for the year ended 31st December, 2003.

## AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for appointment. A resolution will be submitted to the annual general meeting to authorise the Board to appoint auditors and to fix their remuneration.

By order of the Board

**Wu Xiao An**

(also known as Ng Siu On)

*Chairman*

Hong Kong,

22nd April, 2004