

Report of the Directors

The directors (the "Directors") of Great Wall Automobile Holding Company Limited (the "Company") agree to herein present their report and audited accounts of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2004 (the "Year").

HISTORICAL DEVELOPMENT AND GROUP REORGANISATION

Baoding 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 Baoding Great Wall Motor Group Company Limited in 1998 with a registered capital of RMB39,000,000 and was principally engaged in the 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 State Administration for Industry & Commerce of the People's Republic of China (the "PRC") 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 15 December 2003, the Company was listed successfully in Hong Kong. In July 2004, the Company was approved by the Ministry of Commerce of the PRC (the "MOC") to change into a foreign-invested joint stock company and by the Hebei Administration for Industry & Commerce to increase its registered capital to RMB472,100,000. On 26 October 2004, a resolution was passed at the second extraordinary general meeting of the Company to capitalise its share premium account on the basis of 10 new shares for every 10 existing shares held (the "Capitalisation Issue"). As at 31 December 2004, the Company's registered capital remained at RMB472,100,000. The MOC approved the Capitalisation Issue on 24 January 2005 and the new shares issued pursuant to the Capitalisation Issue were recorded on the H shares register of members kept in Hong Kong on 1 February 2005. The registered capital of the Company as at the date of this annual report is RMB944,200,000.

PRINCIPAL ACTIVITIES

The Company is principally engaged in design, research and development, manufacture and sales, as well as distribution of sports utility vehicles ("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 principal activities during the Year. Details of subsidiaries of the Company as at 31 December 2004 are set out in Note 17 to the financial statements.

RESULTS AND DIVIDENDS

The Group's operating results for the Year and the financial positions of the Company and the Group as at 31 December 2004 are set out in the audited financial statements on pages 59 to 128 of this annual report.

The board of Directors (the "Board") resolved to declare the final dividend of RMB0.1 per share (H shares (the "H Shares") and domestic shares (the "Domestic Shares") of the Company) for the Year.

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FINANCIAL EXTRACTS

A summary of the consolidated results, assets and liabilities of the Group for the last five financial years is set out below:

Results

	Year ended 31 December				
	2004 RMB'000	2003 RMB'000	2002 RMB'000	2001 RMB'000	2000 RMB'000
Turnover	3,184,614	3,691,706	2,601,824	1,293,117	1,216,489
Cost of sales	(2,296,668)	(2,495,518)	(1,861,652)	(1,060,743)	(1,037,135)
Gross profit	887,946	1,196,188	740,172	232,374	179,354
Other revenue and gains	35,206	33,264	15,053	38,053	7,241
Selling and distribution costs	(170,302)	(183,664)	(144,514)	(46,337)	(64,584)
Administrative expenses	(127,761)	(121,254)	(55,340)	(42,515)	(31,123)
Other operating expenses	(71,501)	(46,802)	(31,200)	(9,980)	(826)
Profit from operating activities	553,588	877,732	524,171	171,595	90,062
Finance costs	(619)	(5,093)	(4,073)	(5,821)	(5,295)
Share of profits and losses of associates	–	–	1,021	(3,836)	458
Share of profits and losses of jointly-controlled entities	–	–	–	–	–
Profit before tax	552,969	872,639	521,119	161,938	85,225
Tax	(69,160)	(187,608)	(117,413)	(41,334)	(17,224)
Profit before minority interests	483,809	685,031	403,706	120,604	68,001
Minority interests	(80,892)	(161,633)	(109,339)	(24,263)	(12,698)
Net profit from ordinary activities attributable to shareholders	402,917	523,398	294,367	96,341	55,303

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Assets and liabilities

	Year ended 31 December				
	2004 RMB'000	2003 RMB'000	2002 RMB'000	2001 RMB'000	2000 RMB'000
Total assets	4,813,891	4,631,123	1,984,134	935,277	944,773
Total liabilities	1,319,909	1,528,814	1,236,524	601,534	723,375

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds raised from the initial public offering of the Company in December 2003 (after deducting relevant expenses) amounted to approximately RMB1,773,488,000 (approximately HK\$1,664,000,000). Set out below is the Group's future plans as stated in the prospectus of the Company dated 3 December 2003 and the Group's usage up to 31 December 2004:

	Proposed RMB million	Actual use RMB million
Development of the new production facilities	429.3	178.2
Upgrading and expanding the existing production facilities for engine	198.0	70.8
Upgrading and expanding the existing production facilities for parts and components	88.5	48.4
Improving the research and development capabilities	29.0	12.3
Upgrading the information systems	20.0	2.8
General working capital	1,008.7	1,008.7
Total	1,773.5	1,321.2

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A SHARES ISSUE

In response to the ever increasing intensive competition in the PRC automobile market, to strengthen the Group's ability to control risks, to improve the economy of scale as well as to expand the types of products offered by the Group, the Company intends to implement the MPV passenger vehicles project (the "MPV Project") for the production of family use passenger vehicles in 2005.

To facilitate the MPV Project, the Company plans to issue A shares in the PRC (the "A Shares Issue"), the proceeds of which will be utilised in the construction of production facilities for the MPV Project. In this respect, the Company has lodged the "Application of Great Wall Automobile Holding Company Limited for Initial Public Offering and Listing of A Shares" with the China Securities Regulatory Commission at the end of 2004.

Currently, the Group is proceeding with its A Shares Issue.

SHARE CAPITAL

Details of movements in the Company's share capital for the Year, together with the reasons for such movements are set out in Note 29 to the financial statements.

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 during the year and the reasons for such changes are set out in Note 14 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 Company Law of the PRC (the "Company Law").

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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 (the "Supervisors") and chief executive 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 are set out in Note 30 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2004, the Company's reserves available for distribution, calculated in accordance with the provisions of the Company Law and the Company's articles of association, amounted to RMB123,566,000, of which RMB94,420,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account and part of its capital reserve account, totalling RMB1,651,536,000, may be distributed in the form of fully paid bonus shares.

CHARITABLE DONATIONS

Charitable donations made by the Group during the Year totalled RMB610,400.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, the percentage of purchases and sales attributable to the Group's major suppliers and customers was as follows:

Purchases

– the largest supplier	6.2%
– five largest suppliers combined	17.5%

Sales

– the largest customer	2.3%
– five largest customers combined	8.1%

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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 (who to the knowledge of the Directors own more than 5% of the Company's issued share capital) had an interest in the major suppliers or customers noted above.

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)
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Independent Supervisors:

Yuan Hong Li	(duly appointed in June 2001)
Luo Jin Li	(duly appointed in September 2003)

Mr. Wei De Yi tendered his resignation as Supervisor of the supervisory committee (the "Supervisory Committee") on 10 August 2004. The eighth meeting of the Supervisory Committee held on 27 August 2004 and the second extraordinary general meeting held on 26 October 2004 approved the resignation of Mr. Wei De Yi as Supervisor.

DIRECTORS' AND SUPERVISORS' SERVICE AGREEMENTS AND LETTERS OF APPOINTMENT

Each of the executive Directors and Supervisors entered into a service agreement with the Company on 16 November 2003. Each of these service agreements is for a term of three 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 16 November 2003. Each of these appointment letters is for a term of three years starting from the listing date of the H Shares. In accordance with the Articles, all of 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 or 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 24 to 29 of the 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 of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). Based on such confirmation, the Company still considers all independent non-executive Directors to be independent.

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CONTROLLING SHAREHOLDERS', DIRECTORS' AND SUPERVISORS' INTERESTS IN MATERIAL CONTRACTS

Save for those transactions described in the note headed "Related Party Transactions" in Note 35 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 2004 which was significant in relation to the business of the Company or any of its subsidiaries.

MATERIAL CONTRACTS

The material contracts which had been entered into during the year ended 31 December 2004:

1. A capital increase agreement in Chinese dated 2 January 2004 and entered into by the Company and 保定市長城汽車配件有限公司 (Baoding Great Wall Automobile Accessories Company Limited), pursuant to which the Company shall establish 保定格瑞特汽車營銷有限公司 (Baoding Great Automobile Sales Company Limited). The Company shall inject a total capital of RMB1,800,000 and 保定市長城汽車配件有限公司 (Baoding Great Wall Automobile Accessories Company Limited) shall inject a total capital of RMB200,000 in exchange for 90% and 10% equity interest in 保定格瑞特汽車營銷有限公司 (Baoding Great Wall Automobile Sales Company Limited), respectively.
2. A capital injection agreement in Chinese dated 6 January 2004 and entered into by the Company and 奧拓瑪控股有限公司 (Automart Holding Limited), pursuant to which the Company shall establish 麥克斯(保定)汽車空調系統有限公司 (Macs (Baoding) Auto A/C System Co., Limited). The Company shall inject a total capital of RMB8,415,000 and 奧拓瑪控股有限公司 (Automart Holding Limited) shall inject a total capital of US\$980,000 in exchange for 51% and 49% equity interest in 麥克斯(保定)汽車空調系統有限公司 (Macs (Baoding) Auto A/C System Co., Limited), respectively.
3. The equity transfer agreements in Chinese dated 15 January 2004 between the Company and 保定市太行塑鋼門窗有限公司 (Baoding Taihang Steel Door and Window Company Limited); between 保定長城內燃機製造有限公司 (Baoding Great Wall Internal Combustion Engine Manufacturing Company Limited) and 保定市太行塑鋼門窗有限公司 (Baoding Taihang Steel Door and Window Company Limited) and between 保定長城內燃機製造有限公司 (Baoding Great Wall Internal Combustion Engine Manufacturing Company Limited) and 保定市屹馬汽車配件製造有限公司 (Baoding Yima Automotive Parts Manufacturing Company Limited), pursuant to which the 5%, 35% and 60% equity interest in 保定德爾汽車系統有限公司 (Baoding Deer Automobile System Co. Ltd.) were transferred respectively from 保定市太行塑鋼門窗有限公司 (Baoding Taihang Steel Door and Window Company Limited) to the Company, from 保定市太行塑鋼門窗有限公司 (Baoding Taihang Steel Door and Window Company Limited) to 保定長城內燃機製造有限公司 (Baoding Great Wall Internal Combustion Engine Manufacturing Company Limited) and from 保定市屹馬汽車配件製造有限公司 (Baoding Yima Automotive Parts Manufacturing Company Limited) to 保定長城內燃機製造有限公司 (Baoding Great Wall Internal Combustion Engine Manufacturing Company Limited) for considerations of RMB25,000, RMB175,000 and RMB300,000, respectively.

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4. A capital injection agreement in Chinese dated 12 February 2004 and entered into by the Company and 溫州市環球汽車襯墊有限公司 (Wenzhou Huanqiu Automobile Gasket Company Limited), pursuant to which the Company shall establish 保定環球汽車零部件有限公司 (Baoding Huanqiu Auto Spare Parts Company Limited). The Company shall inject a total capital of RMB5,100,000 and 溫州市環球汽車襯墊有限公司 (Wenzhou Huanqiu Automobile Gasket Company Limited) shall inject a total capital of RMB4,900,000 in exchange for 51% and 49% equity interest in 保定環球汽車零部件有限公司 (Baoding Huanqiu Auto Spare Parts Company Limited), respectively.
5. A capital injection agreement in Chinese dated 10 March 2004 and entered into by the Company and 保定市信誠汽車發展有限公司 (Baoding Xincheng Automobile Development Company Limited), pursuant to which the Company shall establish 保定科美貿易有限公司 (Baoding Kemei Trading Company Limited). The Company shall inject a total capital of RMB1,800,000 and 保定市信誠汽車發展有限公司 (Baoding Xincheng Automobile Development Company Limited) shall inject a total capital of RMB200,000 in exchange for 90% and 10% equity interest in 保定科美貿易有限公司 (Baoding Kemei Trading Company Limited), respectively.
6. A capital injection agreement in Chinese dated 23 April 2004 and entered into by the Company, 寧波德業化學材料有限公司 (Ningbo Deye Chemical Material Co., Ltd.) and 德業(香港)電器科技有限公司 (Deye (H.K.) Technological Electric Appliance Company Limited), pursuant to which the Company shall establish 保定德業汽車內飾件有限公司 (Baoding Deye Automobile Inner Decoration Co. Ltd.). The Company shall inject a total capital of RMB14,700,000 and 寧波德業化學材料有限公司 (Ningbo Deye Chemical Material Co., Ltd.) shall inject a total capital of RMB7,800,000 and 德業(香港)電器科技有限公司 (Deye (H.K.) Technological Electric Appliance Company Limited) shall inject a total capital of US\$907,900 in exchange for 49%, 26% and 25% equity interest in 保定德業汽車內飾件有限公司 (Baoding Deye Automobile Inner Decoration Co. Ltd.), respectively.
7. A capital injection agreement in Chinese dated 2 August 2004 and entered into by the Company and 上海傑華汽車飾件發展中心 (Shanghai Jiehua Automobile Decoration Development Centre), pursuant to which the Company shall establish 保定傑華汽車零部件有限公司 (Baoding Jiehua Automobile Components and Accessories Company Limited). The Company shall inject a total capital of RMB9,000,000 and 上海傑華汽車飾件發展中心 (Shanghai Jiehua Automobile Decoration Development Centre) shall inject a total capital of RMB9,000,000 in exchange for 50% and 50% equity interest in 保定傑華汽車零部件有限公司 (Baoding Jiehua Automobile Components and Accessories Company Limited), respectively.
8. A master contract dated 1 September 2004 and entered into by the Company and 長江巴黎百富勤證券有限責任公司 (Changjiang BNP Paribas Perigrine Security Company Limited), the purpose of which was to apply for the initial public offering and listing of RMB denominated ordinary shares (A shares) in the PRC.
9. A non-competition undertaking dated 18 November 2004 provided by Mr. Wei Jian Jun in favour of the Company.
10. A non-competition undertaking dated 18 November 2004 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.
11. An undertaking dated 18 November 2004 and provided by Mr. Wei Jian Jun and Nandayuan Management Centre to the Company, pursuant to which Mr. Wei Jian Jun and Nandayuan Management Centre jointly indemnify the Company against, among other things, any loss arising from its tax issues.

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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 or administration of the whole or any substantial part of the business of the Company were entered into or existed for the Year.

DIRECTORS' AND SUPERVISORS' INTEREST IN SECURITIES

As at 31 December 2004, 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 (Chapter 571 of the Laws of Hong Kong (the "SFO")), as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange 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	Approximate	Approximate
			percentage of Domestic Shares %	percentage of H Shares %	percentage of total shares %
Mr. Wei Jian Jun	Beneficial owner	156,860,000 (L)*	46.00	–	33.23
	Interest of spouse	1,705,000 (L)*	0.50	–	0.36
	Interest of a controlled corporation	8,403,380 (L)*	2.46	–	1.78
Total:		166,968,380 (L)*	48.96	–	35.37

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Note:

1. The letter "L" denotes a long position in shares of the Company.
2. Out of the 166,968,380 Domestic Shares, Mr. Wei Jian Jun directly holds 156,860,000 Domestic Shares. He is also deemed or taken to be interested in 1,705,000 Domestic Shares and 8,403,380 Domestic Shares held by his spouse Ms. Han Xue Juan and by his associate, Baoding Ants Logistics Company Limited, respectively.

* represents Domestic Shares

Save as disclosed above, as at 31 December 2004, none of the Directors, Supervisors or chief executive 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) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange 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 31 December 2004 are as follows:

Holders of Domestic Shares	6
Holders of H Shares	<u>4,189</u>
Total number of shareholders	<u>4,195</u>

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SHARES HELD BY SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, the following persons, other than a Director, Supervisor or chief executive of the Company, had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name	Number of shares	Approximate percentage of Domestic Shares %	Approximate percentage of H Shares %	Approximate percentage of total shares %
Nandayuan Management Centre	141,636,620 (L)*	41.54	–	30.00
Mr. Wei De Yi (Note 1)	32,395,000 (L)*	9.50	–	6.86
Ms. Chen Yu Zhi (Note 2)	32,395,000 (L)*	9.50	–	6.86
Ms. Han Xue Juan (Note 3)	166,968,380 (L)*	48.96	–	35.37
Baoding Ants Logistics Network Co., Ltd. (保定市螞蟻物流網絡有限公司)	8,403,380 (L)*	2.46	–	1.78

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

* represents Domestic Shares

Notes:

1. 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.
2. 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.
3. Out of 166,968,380 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 165,263,380 Domestic Shares held by her spouse, Mr. Wei Jian Jun and his associate.

Save as disclosed above, as at 31 December 2004, so far as is known to the Directors, Supervisors or chief executive of the Company, there was no persons, other than a Director, Supervisor or chief executive of the Company, who had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

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CONNECTED TRANSACTIONS

During the Year, the Group has entered into continuing connected transactions with connected persons. The independent non-executive Directors have reviewed the connected transactions and confirmed that such connected transactions have been entered into:

- (1) in the ordinary and usual course of business of the Group;
- (2) 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;
- (3) in accordance with the relevant agreement governing them; and
- (4) on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Board has received from its auditors a letter confirming that the continuing connected transactions:

- (1) have received the approval of the Company's board of directors;
- (2) are in accordance with the pricing policies set by the Group from time to time for transactions involving sale of goods or provision of services by the Group;
- (3) have been entered into in accordance with the terms of the relevant agreement governing such transactions; and
- (4) have not exceeded the Cap Amounts.

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 engaged 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 are the beneficial owners of all of the equity interests in 保定市螞蟻物流網絡有限公司 (Baoding Ants Logistics Company Limited) which in turn holds 90% of the equity interests 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.

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

The Group has also engaged 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 interests in Tai Hang. As such, Tai Hang is an associate of Mr. Wei Jian Jun and therefore a connected person of the Company.

(3) *Transaction relating to the sales of internal combination engines and other automobile parts and components 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") and 天津天汽集團美亞汽車製造有限公司 (Tianjin Tianqi Group Meiya Automobile Manufacturing Company Limited) ("Tianqi Meiya").*

保定長城內燃機製造有限公司 (Baoding Great Wall Internal Combustion Engine Manufacturing Company Limited) ("Great Wall Internal Combustion Engine") and 保定格瑞機械有限公司 (Baoding Great Machinery Company Limited) have been selling internal combustion engines and other automobile parts and components to Beiqi Momeiya and Tianqi Meiya.

Beiqi Momeiya was established as a limited liability company under the laws of the PRC on 10 July 2002. 北京佳美亞投資有限公司 (Beijing Jiameiya Investment Limited) ("Jiameiya") is a substantial shareholder of Great Wall Internal Combustion Engine, holding 24.5% of its equity interest. Mr. Li Jin Xiang is a director of Great Wall Internal Combustion Engine who together with its associates holds an aggregate of 100% of the equity interest in Jiameiya, which in turn holds 80% of the equity interest in Beiqi Momeiya. As such, Beiqi Momeiya is an associate of Jiameiya (as well as an associate of Mr. Li Jin Xiang) and therefore becomes a connected person of the Company.

Tianqi Meiya was established as a limited liability company under the laws of the PRC on 30 June 2003. Jiameiya is a substantial shareholder of Great Wall Internal Combustion Engine, holding 24.5% of its equity interest. Mr. Li Jin Xiang is a director of Great Wall Internal Combustion Engine who together with its associates holds an aggregate of 100% of the equity interest in Jiameiya, which in turn holds 53.5% of the equity interest in Tianqi Meiya. As such, Tianqi Meiya is an associate of Jiameiya (as well as an associate of Mr. Li Jin Xiang) and therefore becomes a connected person of the Company.

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- (4) *Transactions relating to the sales of internal combination engines and other automobile parts and components to 高碑店市中容華北汽車有限責任公司 (Gaobeidian Shi Zhong Ke Huabei Automobile Company Limited) ("Zhong Ke Huabei")*.

Ms. Mu Ya Li was a director of Baoding Great Wall Huabei Automobile Company Limited ("Great Wall Huabei") before 28 June 2004 (she was removed from her position as director at the general meeting of Great Wall Huabei on 28 June 2004). She holds 37.6% of the equity interest in Zhong Ke Huabei. As such, Zhong Ke Huabei is an associate of Ms. Mu Ya Li and therefore becomes a connected person of the Company.

The Stock Exchange has granted a waiver to the Company from strict compliance with the relevant requirements of the Listing Rules in respect of non-exempted continuing connected transactions 1 and 2 above for the three financial years ending 31 December 2005 and an announcement was made on 7 June 2004 in respect of non-exempted continuing connected transactions 3 and 4 above. The caps and the actual amount of the non-exempted continuing connected transactions for 2004 are set forth below:

Type of transactions	Cap amount of non-exempted continuing connected transactions for 2004	Total value for the year ended 31 December 2004 Approximate RMB'000
1. Utilisation of transportation and delivery services of the Logistics Companies	3% of the Group's turnover for the financial year ended 31 December 2004 (being RMB95,538,420)	74,213
2. Design and construction services provided by Tai Hang to the Group	RMB35,000,000	34,848
3. Sales of internal combination engines and other automobile parts and components to Beiqi Momeiya and Tianqi Meiya	RMB90,000,000 (excluding tax on parts)	30,510
4. Sales of internal combination engines and other automobile parts and components to Zhong Ke Huabei	RMB60,000,000 (excluding tax on parts)	6,211

Report of the Directors

PENSION SCHEME

Details of the Group's pension scheme are set out in Notes 3 and 6 to the financial statements.

REMUNERATION POLICIES

Directors

The Company determined the salaries of the Board members on the basis of the market competitiveness, duties and performance. The salaries and remuneration include basic salaries, bonuses, long term incentives and non-monetary benefits.

Details of salaries of directors for 2004 are set out in Note 8 to the financial statements.

Non-executive Directors

In connection with the remuneration of the non-executive Directors, it was approved by the shareholders at the general meeting held on 10 December 2003 that the remuneration will not be less than RMB40,000 per annum.

Employees

Employees were remunerated on the basis of their performance, experience and prevailing industry practices. The Group's remuneration policies and packages were reviewed on a regular basis in order to ensure the competitiveness of the level of wages and to absorb, retain and stimulate the employees. Bonuses and incentives may also be awarded to the employees based on their individual performance. These measures drive and incentivise individual performance.

Report of the Directors

The Group's salaries and remuneration comprise of the followings:

(a) *Basic salaries*

The review of basic salaries will be conducted annually according to the similar positions in the market, market custom, performance of the Company and of the individual.

(b) *Incentives*

In order to appraise the contributions made by the employees and to achieve the purposes of motivating and encouraging the employees to continuously follow the Group's directions and targets, those employees with outstanding performance and the key staff will be awarded with various incentives, including cash bonuses.

(c) *Employees welfare*

Retirement funds and welfare plan

In accordance with the laws and regulations of the PRC, the employees have participated in different regular contribution retirement fund and welfare plans set up by the relevant municipal government of the PRC and the social insurance management organisations of provincial level which include pension insurance and other benefits such as medical insurance, work accident insurance, unemployment insurance, pregnant insurance and housing fund.

The Group and the employees are required to make contributions to those organisations each month, of which the amounts made by the employees are calculated on the percentage of their salaries or the requirements of the social insurance management organisations. For the year ended 31 December 2004, these retirement fund of the Group amount to RMB8,937,000, and other welfare contribution amounted to RMB7,211,000.

Report of the Directors

PUBLIC SHAREHOLDINGS

As of the date hereof, the Directors confirm that 27.77% of the issued capital of the Company are held by the public.

MATERIAL LITIGATION

During the Year, neither the Company nor its subsidiaries were involved in any material litigation.

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.

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 during the Year.

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. The audit committee held a meeting on 14 March 2005 to review the annual report of the Group and to give opinion and advice to the Board.

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. A resolution for the reappointment of Ernst & Young Hua Ming and Ernst & Young as the Group's PRC auditors and international auditors, respectively, will be proposed at the forthcoming annual general meeting.

By Order of the Board

Wei Jian Jun

Chairman

Baoding, Hebei Province, the PRC

15 March 2005