

The Board of Directors (the “Board”) submits its report together with the audited accounts for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES AND SEGMENT INFORMATION

The Company is an investment holding company. Its subsidiaries (the Company and its subsidiaries are hereafter referred to as the “Group”), non-consolidated subsidiaries, associated companies and a jointly controlled entity are principally engaged in an integrated range of activities relating to the manufacturing, assembly and trading of motor vehicles, and the manufacturing and trading of automotive equipment and parts in the People’s Republic of China (the “PRC”), and the manufacturing and trading of audio equipment in Hong Kong. Details of segment information of the Group are set out in Note 2 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 22. The Board recommends a final dividend of HK4 cents (2003: a final dividend of HK3 cents* and a special dividend of HK4 cents*) per ordinary share for the year ended 31 December 2004. Together with the interim dividend of HK4 cents paid, total dividends for the year will be HK8 cents (2003: interim and final dividends totalled HK5 cents* and a special dividend of HK4 cents*) per ordinary share. Subject to the approval of shareholders at the forthcoming annual general meeting, the final dividend will be paid on 6 June 2005 to shareholders whose names appeared on the register of members of the Company on 30 May 2005.

* Adjusted for one for one bonus issue of shares in May 2004

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 24 May 2005 to Monday, 30 May 2005, both days inclusive, during which no transfer of shares will be registered. In order to qualify for the proposed final dividend, all share certificates with completed transfer forms either overleaf or separately must be lodged with the Company’s Registrars, Abacus Share Registrars Limited, G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:30 p.m. on Monday, 23 May 2005.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 23 to the accounts. The Company had distributable reserves of HK\$601,714,000 at 31 December 2004, calculated pursuant to section 79B of the Company Ordinance (2003: HK\$588,525,000).

FIXED ASSETS

Details of the movements in fixed assets of the Group and of the Company during the year are set out in note 12 to the accounts.

PRINCIPAL PROPERTIES

Details of the principal properties held for investment purposes are set out on pages 63 and 64.

SHARE CAPITAL AND OPTIONS

Details of movements in the issued share capital and options of the Company during the year are set out in note 22 to the accounts.

Details of the movements of the share options granted by the Company during the year and options outstanding as at 31 December 2004 are set out in note 22(c) to the accounts.

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

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

PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2004 are set out in note 35 to the accounts.

BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

Details of bank loans, overdrafts and other borrowings of the Group and of the Company as at 31 December 2004 are set out in note 24 to the accounts.

FIVE-YEAR FINANCIAL SUMMARY

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

	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Profit attributable to shareholders	<u>2,062,447</u>	<u>1,686,709</u>	<u>1,091,913</u>	<u>724,242</u>	<u>453,203</u>
Total assets	7,584,109	5,829,890	3,940,259	2,976,849	2,199,650
Total liabilities	456,178	502,558	335,090	429,576	371,494
Minority interest	<u>157,564</u>	<u>171,228</u>	<u>109,107</u>	<u>66,838</u>	<u>35,579</u>
Shareholders' funds	<u>6,970,367</u>	<u>5,156,104</u>	<u>3,496,062</u>	<u>2,480,435</u>	<u>1,792,577</u>

DIRECTORS

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

Mr. ZHANG Fangyou
Mr. LU Zhifeng
Mr. YANG Dadong
Mr. ZHANG Baoqing
Mr. ZENG Qinghong
Mr. DING Baoshan
Mr. CHEUNG Doi Shu*
Mr. LEE Ka Lun*
Mr. FUNG Ka Pun* (appointed on 23 September 2004)
Mr. CHEN Xuejun (resigned on 23 September 2004)

* Independent Non-Executive Directors

Messrs. ZHANG Baoqing, LEE Ka Lun, CHEUNG Doi Shu, and FUNG Ka Pun shall retire at the forthcoming Annual General Meeting in accordance with Articles 92 and 101 of the Company's Articles of Association and, being eligible, shall offer themselves for re-election.

The Company has received annual confirmation from each of the Independent Non-Executive Directors as regards their independence to the Company and considers that each of the Independent Non-Executive Directors is independent to the Company.

DIRECTORS AND SENIOR MANAGEMENT'S PROFILES

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

Executive Directors

Mr. ZHANG Fangyou, aged 48, joined the Group in 1997 and became the Chairman of the Company on 18 September 1998. He is responsible for formulating the overall strategy and policy of the Company and its subsidiaries. He is also the Chairman of Guangzhou Automobile Industry Group Co. Ltd. ("Guangzhou Automobile Industry Group"), Guangzhou Automobile Group Co. Ltd. ("Guangzhou Automobile Group"), Guangzhou Toyota Motor Co. Ltd., Guangzhou Auto Group (Hong Kong) Ltd. ("Guangzhou Auto Group (Hong Kong)") and China Lounge Investments Limited ("China Lounge Investments"). Mr. Zhang was the General Manager of China Lounge Investments and the Company and a Director of Guangzhou Honda Automobile Co. Ltd. ("Guangzhou Honda"). He had held senior posts in the Zeng Cheng Municipal People's Government of Guangdong Province and was the Deputy Secretary-General of Guangzhou Municipal People's Government ("Guangzhou Government") and a director of the Automotive Industry Office of Guangzhou Government.

Mr. LU Zhifeng, aged 52, joined the Group in 1998 and was appointed as the Vice Chairman of the Company on 11 January 2000. He is also a Director and the General Manager of Guangzhou Automobile Industry Group, the Vice Chairman and General Manager of Guangzhou Automobile Group, the Vice Chairman of Guangzhou Auto Group (Hong Kong) and China Lounge Investments and the Chairman of Guangzhou Honda. Mr. Lu was the Executive Deputy Managing Director of Guangzhou Honda, the General Manager of Guangzhou Yangcheng Automobile Group Co., the Factory Manager of Guangzhou Yangcheng Automobile Factory and also the Vice Chairman and General Manager of Guangzhou Yangcheng Automobile Co., Ltd.

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

Executive Directors (cont'd)

Mr. YANG Dadong, aged 56, joined the Group on 16 January 2001 as a Director of the Company. He is also the Vice Chairman of Guangzhou Automobile Industry Group, a Director of Guangzhou Auto Group (Hong Kong), China Lounge Investments and Guangzhou Honda as well as the Chairman of Wu Yang-Honda Motors (Guangzhou) Co., Ltd. (“Wu Yang-Honda Motors”). Mr. Yang was the Chairman of Guangzhou Motorcycle Group Co. (“Guangzhou Motorcycle”) and the Vice Chairman and General Manager of Wu Yang-Honda Motors.

Mr. ZHANG Baoqing, aged 55, joined the Group in 1998 and was appointed as the Deputy Managing Director of the Company on 19 June 2001. He became the Managing Director on 23 September 2004 and a member of the Remuneration Committee of the Company on 3 January 2005. He is also a Director of Guangzhou Automobile Industry Group, the Deputy Managing Director of Guangzhou Automobile Group, the Managing Director of Guangzhou Auto Group (Hong Kong) and China Lounge Investments as well as the Chairman of Guangzhou Denway Enterprises Development Company Limited (“Guangzhou Denway”) and of a number of subsidiaries of the Group. Mr. Zhang was the Deputy Managing Director of Guangzhou Automobile Industry Group, a Director of Guangzhou Motorcycle, the Factory Manager of Guangzhou Automotive Manufacturing Factory and also the Deputy General Manager of Guangzhou Jinda Motors Holdings Enterprise (“Guangzhou Jinda”).

Mr. ZENG Qinghong, aged 43, joined the Group in 1999 and was appointed as a Director of the Company on 16 January 2001. He is also the Deputy Managing Director of Guangzhou Automobile Industry Group, the Deputy Managing Director of Guangzhou Automobile Group, a Director of Guangzhou Auto Group (Hong Kong) and China Lounge Investments and the Executive Deputy Managing Director of Guangzhou Honda. Mr. Zeng was the Vice Chairman and Executive Deputy General Manager of Guangzhou Guangke Automobile Enterprises Group Co., Ltd.

Mr. DING Baoshan, aged 42, joined the Group as a Director of the Company on 26 October 2000. He studied in the University of Science and Technology Beijing (formerly known as “Beijing Institute of Iron and Steel Engineering”) and the Graduate School of Chinese Academy of Social Sciences where he obtained his Bachelor in Engineering, Master’s degree in Management and Ph.D. in Economics. He had worked a long period of time in the national macroeconomic departments for the research of macroeconomics policy and corporate reform. He is also the Chief Economist of Guangzhou Automobile Industry Group and Guangzhou Automobile Group and a Director of Guangzhou Auto Group (Hong Kong) and China Lounge Investments. Mr. Ding was the Assistant to General Manager of Guangzhou Automobile Group and the Chairman of Guangzhou Honda Automobile No. 1 Sales Co., Ltd. (“GZ Honda No. 1 Sales”).

Independent Non-Executive Directors

Mr. CHEUNG Doi Shu, aged 43, was appointed as an Independent Non-Executive Director on 16 April 1998, a member of the Audit Committee of the Company on 30 June 1999 and the Chairman of the Remuneration Committee of the Company on 3 January 2005. He is a qualified solicitor in the Australian Capital Territory, Hong Kong, Singapore and England and Wales and received his bachelor’s and master’s degree in Law from the University of London. Mr. Zhang is an independent non-executive director of GZI Transport Limited and the senior partner of D.S. Cheung & Co.. He was an independent non-executive director of TPV Technology Limited and Artfield Group Limited, the managing director of Prosper eVision Limited and the director and chief executive officer of China Convergent Corporation Limited.

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

Independent Non-Executive Directors (cont'd)

Mr. LEE Ka Lun, aged 50, was appointed as an Independent Non-Executive Director, the Chairman of the Audit Committee of the Company on 30 June 1999 and a member of the Remuneration Committee of the Company on 3 January 2005. Mr. Lee is also an independent non-executive director of Guangzhou Investment Company Limited and Chow Sang Sang Holdings International Limited. He is an accountant by profession and is the deputy chief executive of Lloyds TSB Bank Plc, Hong Kong Branch. Mr. Lee is a fellow of The Association of Chartered Certified Accountants in UK and has over 25 years of experience in banking and auditing.

Mr. FUNG Ka Pun, aged 59, was appointed as an Independent Non-Executive Director and a member of the Audit Committee of the Company on 23 September 2004 and a member of the Remuneration Committee on 3 January 2005. He is also the executive co-chairman of E2-Capital (Holdings) Limited, the chairman of Goodwill International (Holdings) Limited, the executive director and co-chairman of Capital Publications Limited and an independent non-executive director of GZI Transport Limited, Lei Shing Hong Limited and Lee Hing Development Limited.

Mr. Fung is a part-time member of the Central Policy Unit, the Government of the HKSAR. He is a fellow member of the Association of International Accountants and an associate member of the Institute of Chartered Secretaries and Administrators and has over 29 years of experience in finance, securities and futures trading and corporate finance.

Senior Management

Ms. GAO Fusheng, aged 47, joined the Group in 1999 as the Deputy General Manager and the Financial Controller. She is also a Director of GZ Honda No. 1 Sales and of a number of subsidiaries of the Group. Ms. Gao obtained a Master in Business Administration from Murdoch University in Australia and is a qualified senior accountant in the PRC. She was the Director of Finance Department of Guangzhou Automobile Group and the Director of Finance Department of the Automotive Industry Office of Guangzhou Government.

Mr. HO Nai Ki, aged 55, is the Assistant to Managing Director of the Company and General Manager of the Company's Marketing Department. Prior to joining the Group in 1993, he had worked in international financial institutions like the Chase Manhattan Bank and Sun Hung Kai Group. Mr. Ho has over 20 years of experience in investment and financial management.

DIRECTORS' SERVICE CONTRACTS

There is no service contract, which is not determinable by the Company within one year without payment of compensation (other than statutory compensation), in respect of any Director of the Company proposed for re-election at the forthcoming Annual General Meeting.

DIRECTORS' INTEREST IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its holding company, its subsidiaries or its fellow subsidiaries was a party, and in which any Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year of 2004.

SHARE OPTION SCHEME

During the year, the Company has a share option scheme (“Scheme”) which was approved by the shareholders of the Company in the general meeting held on 6 June 2002. The purpose of the Scheme is (i) to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the participants and to provide the participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and the shareholders as a whole and (ii) for such other purposes as the Board may approve from time to time. Participants includes (i) any executive or non-executive directors of the Group (or persons proposed to be appointed as such) or any employee of the Group; (ii) any discretionary object of a discretionary trust established by any employee, executive or non-executive director of the Group; (iii) any consultant(s) and professional adviser(s) to the Group (or persons, firms or companies proposed to be appointed for providing such services); (iv) chief executive or substantial shareholder of the Company; (v) associates of director, chief executive or substantial shareholder of the Company; and (vi) employees of substantial shareholder.

The Board may, at their discretion, invite any participant who has rendered service or will render service to the Group to take up options. An option is deemed to have been granted and accepted by the grantee upon his or her signing the duplicate letter comprising acceptance of the option and paying HK\$1 by way of consideration for the grant thereof.

The subscription price for shares of the Company under the Scheme will be the highest of (i) the closing price of the shares of the Company as stated in the Stock Exchange’s daily quotations sheet on the offer date (which date must be a business day), (ii) a price being the average of the closing prices of the shares of the Company as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the offer date, and (iii) the nominal value of a share of the Company.

The total number of shares of the Company which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company shall not in aggregate exceed 10 per cent. of the total number of shares of the Company in issue as at the date of approval of the Scheme. An option may be exercised during a period to be determined by the Directors in its absolute discretion and in any event such period shall not be longer than 10 years from the date upon which the option is granted.

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

SHARE OPTION SCHEME (cont'd)

Information disclosed in accordance with the Listing Rules in relation to share option schemes is as follows:

Name	Number of options				As at 31 December 2004	Notes
	As at 1 January 2004	Exercised before the bonus issue of shares during the year	Additional options due to bonus issue of shares	Exercised after the bonus issue of shares during the year		
ZHANG Fangyou	4,264,000	—	4,264,000	—	8,528,000	(3)
LU Zhifeng	3,842,000	—	3,842,000	—	7,684,000	(3)
YANG Dadong	2,832,000	—	2,832,000	—	5,664,000	(3)
ZHANG Baoqing	3,244,000	—	3,244,000	—	6,488,000	(3)
ZENG Qinghong	2,832,000	—	2,832,000	—	5,664,000	(3)
DING Baoshan	2,832,000	—	2,832,000	—	5,664,000	(3)
CHEUNG Doi Shu	1,000,000	—	1,000,000	2,000,000	—	(3)
LEE Ka Lun	670,000	—	670,000	—	1,340,000	(3)
CHEN Xuejun	2,832,000	—	2,832,000	—	—	(3)(4)
Aggregate total of employees	44,060,000	6,159,000	37,901,000	75,322,000	480,000	(1)
	8,658,000	898,000	7,760,000	15,520,000	—	(2)
Aggregate total of other participants	149,495,000	18,388,000	131,107,000	231,260,000	30,954,000	(1)
	10,845,500	338,000	10,507,500	19,943,000	1,072,000	(2)
	—	—	—	—	5,664,000	(3)(4)

Notes:

- (1) These options were granted on 9 May 2003 at an adjusted exercise price of HK\$1.325* per share for an exercise period of three years from the date of grant of the options. The consideration paid by each grantee for the options granted was HK\$1. The adjusted closing price of the share immediately before the date on which the options were granted was HK\$1.35*.
- (2) These options were granted on 2 July 2003 at an adjusted exercise price of HK\$1.825* per share for an exercise period of three years from the date of grant of the options. The consideration paid by each grantee for options granted was HK\$1. The adjusted closing price of the share immediately before the date on which the options were granted was HK\$1.7625*.
- (3) These options were granted on 7 August 2003 at an adjusted exercise price of HK\$2.1525* per share for an exercise period of ten years from the date of grant of the options. The consideration paid by each grantee for the options granted was HK\$1. The adjusted closing price of the share immediately before the date on which the options were granted was HK\$2.075*.
- (4) On 23 September 2004, Mr. CHEN Xuejun resigned as Director of the Company and remained as employee of the holding company. Thereafter, his interest in share options was re-classified and included in the aggregate total of other participants.
- (5) The weighted average closing price per share immediately before the date on which the options were exercised was HK\$3.0491*.
- (6) No option was lapsed or cancelled during the year.

* Adjusted for one for one bonus issue of shares in May 2004

DIRECTORS' INTEREST IN SHARES

As at 31 December 2004, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

(a) Long positions in shares of the Company

Name of Director	Number of shares Personal interest (as beneficial owner)	Percentage of shareholding as at 31 December 2004
LEE Ka Lun	100,000	0.0014%
CHEUNG Doi Shu	3,000,000	0.0405%

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

Name of Director	Number of underlying shares in respect of options granted Personal Interest (as beneficial owner)	Percentage of shareholding as at 31 December 2004
ZHANG Fangyou	8,528,000	0.1150%
LU Zhifeng	7,684,000	0.1037%
YANG Dadong	5,664,000	0.0764%
ZHANG Baoqing	6,488,000	0.0875%
ZENG Qinghong	5,664,000	0.0764%
DING Baoshan	5,664,000	0.0764%
LEE Ka Lun	1,340,000	0.0181%

Save as disclosed above, as at 31 December 2004, none of the Directors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Apart from the share option schemes of the Company, at no time during the year ended 31 December 2004 was the Company or its holding companies or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Save as disclosed above and in the section "SHARE OPTION SCHEME", during the year ended 31 December 2004, no rights to subscribe for equity or debt securities of the Company has been granted by the Company to, nor have any such rights been exercised by, any Directors and chief executives of the Company.

DIRECTORS' INTEREST IN COMPETING BUSINESS

廣州豐田汽車有限公司 (Guangzhou Toyota Motor Co. Ltd.) (“Guangzhou Toyota”), a Sino-foreign equity joint venture incorporated in the PRC, was established in September 2004 and owned as to 50% by 廣州汽車集團有限公司 (Guangzhou Automobile Group Company Limited) (“Guangzhou Automobile Group”) and as to 50% by Toyota Motor Corporation (“Toyota Motor”). Guangzhou Automobile Group is a wholly-owned subsidiary of Guangzhou Automobile Industry Group, the ultimate holding company of the Company.

Guangzhou Toyota will be engaged in the development, manufacture, sale and after-sale service of automobiles and their parts and accessories. At present, the production plant of Guangzhou Toyota is under construction and is expected to come into initial operation in mid 2006.

The Board is of the view that the business of Guangzhou Toyota might compete with that of the Group after mid 2006 when it commences its production. Guangzhou Toyota and Guangzhou Honda are both jointly-controlled entities whereby no joint venture partner can control or dominate the board, the business and management of each company will be decided by the respective joint venture partners. The day-to-day operation of Guangzhou Toyota and Guangzhou Honda will be undertaken by different groups of staff and management. As the Board is independent of the board of Guangzhou Toyota (save for Mr. Zhang Fangyou who is the Chairman of the Company and Guangzhou Toyota, is the only common director in both of these companies), the Group is therefore capable of carrying on the business independently of, and at arm's length from, the business of Guangzhou Toyota.

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2004, the corporations having an interest in 5% or more of the issued share capital of the Company as recorded in the register of interests in shares and short positions required to be kept under Section 336 of the Part XV of SFO were as follows:

Name	Number of shares of the Company		Percentage of total shareholding as at 31 December 2004		Notes
	Long Position	Lending Pool	Long Position	Lending Pool	
Guangzhou Automobile Industry Group Co. Ltd. (“Guangzhou Automobile Industry Group”)	2,775,744,904	—	37.45%	—	(a)
Guangzhou Automobile Group Co. Ltd. (“Guangzhou Automobile Group”)	2,775,744,904	—	37.45%	—	(b)
China Lounge Investments Limited (“China Lounge Investments”)	2,775,744,904	—	37.45%	—	(c)

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

Notes:

- (a) The interest of Guangzhou Automobile Industry Group represents the total number of shares of the Company held by certain subsidiaries of Guangzhou Automobile Industry Group where Guangzhou Automobile Industry Group is taken to be interested in such shares under Part XV of SFO.
- (b) Guangzhou Automobile Group is a wholly-owned subsidiary of Guangzhou Automobile Industry Group and its interests in the shares of the Company is duplicated in the interest of Guangzhou Automobile Industry Group.
- (c) China Lounge Investments is a wholly-owned subsidiary of Guangzhou Automobile Group and its interest in the shares of the Company is duplicated in the interests of Guangzhou Automobile Group.

Save as disclosed herein, no other person was recorded in the register of substantial shareholders maintained under Section 336 of Part XV of the SFO as having an interest in 5% or more of the issued share capital of the Company as at 31 December 2004.

RETIREMENT SCHEME

Details of the Group's retirement scheme are set out in note 31 to the accounts.

INDEPENDENT NON-EXECUTIVE DIRECTORS' FEES

Each of the Independent Non-Executive Directors of the Company received HK\$180,000 as director's fee for the year ended 31 December 2004.

MANAGEMENT CONTRACTS

No contracts, other than contract of service with person engaged in the full-time employment of the Company, concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year of 2004.

MAJOR SUPPLIERS

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

	2004	2003
	%	%
— the largest supplier	20	31
— five largest suppliers combined	48	75

MAJOR CUSTOMERS

During 2003 and 2004, the Group's sold less than 30% of its goods and services to its five largest customers.

CONNECTED TRANSACTIONS

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

- (a) Refer to the announcement dated 20 February 2003 and the agreement entered into between Guangzhou Denway with Guangzhou Guangyue Asset Management Limited (“Guangyue”), the fixed annual payment of RMB602,000 (equivalent to approximately HK\$563,000) (subject to reduction after the year of death of any retired employee) for the year 2003 was reduced to RMB516,000 (equivalent to approximately HK\$486,000), paid to Guangyue in respect of transferring to Guangyue of GZ Denway’s obligations in the administration and management (including but not limited to the pension, medical expenses, housing subsidies and other benefits) of the retired employees. Guangyue is indirectly wholly-owned by Guangzhou Automobile Industry Group which is the Company’s ultimate holding company.
- (b) During the year, Guangzhou Denway provided bank guarantees to the total extent of RMB40,000,000 (equivalent to approximately HK\$37,566,000) for Guangzhou Denway Bus, a subsidiary with 50% equity interest owned by the Company, to enable Guangzhou Denway Bus to obtain banking facilities. Guangzhou Automobile Group owns 5% equity interest in Guangzhou Denway and 50% equity interest in Guangzhou Denway Bus respectively, has also provided bank guarantees in its proportion of shareholdings in Guangzhou Denway Bus to the total of RMB40,000,000 (equivalent to approximately HK\$37,566,000) for Guangzhou Denway Bus. Both aforesaid guarantees were provided without obtaining security from Guangzhou Denway Bus. Guangzhou Denway has also provided a shareholder’s loan of RMB10,775,000 (equivalent to HK\$10,119,000) to Guangzhou Denway Bus for short term loan bearing an interest rate at 5.31% per annum and repayable in demand. Guangzhou Automobile Group also provided RMB10,775,000 (equivalent to HK\$10,119,000) in proportion of shareholdings in Guangzhou Denway Bus.
- (c) On 3 January 2005, the Company entered into an agreement (the “Acquisition Agreement”) with City Achieve Investments Limited (“City Achieve”), a wholly-owned subsidiary of China Lounge Investments, whereby the Company conditionally agreed to acquire and take an assignment of, and City Achieve conditionally agreed to dispose of the one (1) share of US\$1.00 in the issued share capital of Smartstate Investments Limited (“Smartstate”) which was legally and beneficially owned by City Achieve (i.e. the entire shareholding in Smartstate), and the Shareholders’ Loan amounted of HK\$56,272,916.95 which is outstanding, repayable upon demand and owing by Smartstate to City Achieve as at the date of the Acquisition Agreement and at Completion in respect of an interest-free and unsecured loan made available by City Achieve to Smartstate. The sole asset held by Smartstate is the 5% equity interest in Guangzhou Denway. Upon Completion, each of Smartstate and Guangzhou Denway will become wholly-owned subsidiary of the Company.

CONNECTED TRANSACTIONS (cont'd)

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

CODE OF BEST PRACTICE

In the opinion of the Board, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the accounting year covered by the annual accounts. The audit committee was established with written terms of reference which deal clearly with its authority and duties in pursuance of paragraph 14 of Appendix 14 of the Listing Rules. Amongst the audit committee's principal duties are the review and supervision of the Company's financial reporting process and internal control, including the review of the audited financial statements for the year ended 31 December 2004.

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the Code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors of the Company, the Company confirmed that all Directors have complied with the required standard set out in the Model Code.

PUBLIC FLOAT

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

AUDITORS

The accounts have been audited by PricewaterhouseCoopers, who retire and, being eligible, offer themselves for re-appointment, and a resolution to this effect will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board
ZHANG Fangyou
Chairman

Hong Kong, 14 April 2005