

The Board of Directors (the “Board”) submits its report together with the audited accounts for the year ended 31st December 2002.

## PRINCIPAL ACTIVITIES AND SEGMENT INFORMATION

The Company is an investment holding company. Its subsidiaries (the Company and its subsidiaries are hereinafter 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 manufacture, assembly and trading of motor vehicles, the manufacture of motor vehicle related electrical equipment and parts in the People’s Republic of China (the “PRC”), and the manufacture 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 26. The Board recommends a final dividend of HK4 cents per share (2001: HK3 cents per share) totalling HK\$136,724,000 for the year ended 31st December 2002. Together with the interim dividend of HK3 cents paid, total dividend for the year will be HK7 cents per share (2001: HK5 cents per share). Subject to approval of shareholders at the forthcoming Annual General Meeting, the final dividend will be paid on 20th June 2003 to shareholders whose names appear on the register of members of the Company on 5th June 2003.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 5th June 2003 to Tuesday, 10th June 2003, both days inclusive, during which no transfer of shares will be effected. 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 of G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:30 pm on Tuesday, 3rd June 2003.

## RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in note 23 to the accounts. The Company had distributable reserves of HK\$262,543,000 as at 31st December 2002 (2001: HK\$238,235,000).

## 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 78 and 80.

## SHARE CAPITAL AND OPTIONS

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

Details of the movements in the share options granted by the Company during the year and options outstanding as at 31st December 2002 are set out in note 22(b) to the accounts.

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

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

## PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31st December 2002 are set out in note 35 to the accounts.

## BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Group and of the Company as at 31st December 2002 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:

	2002	2001	2000	1999	1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit attributable to shareholders	<u>1,091,913</u>	<u>724,242</u>	<u>453,203</u>	<u>37,867</u>	<u>23,631</u>
Total assets	<u>3,940,259</u>	<u>2,976,849</u>	<u>2,199,650</u>	<u>1,203,954</u>	<u>1,227,493</u>
Total liabilities	<u>335,090</u>	<u>429,576</u>	<u>371,494</u>	<u>306,890</u>	<u>945,490</u>
Minority interests	<u>109,107</u>	<u>66,838</u>	<u>35,579</u>	<u>22,604</u>	<u>12,053</u>
Shareholders' funds	<u>3,496,062</u>	<u>2,480,435</u>	<u>1,792,577</u>	<u>874,460</u>	<u>269,950</u>

## DIRECTORS

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

Mr. ZHANG Fangyou  
Mr. LU Zhifeng  
Mr. YANG Dadong  
Mr. CHEN Xuejun  
Mr. ZHANG Baoqing  
Mr. ZENG Qinghong  
Mr. DING Baoshan  
Mr. CHEUNG Doi Shu\*  
Mr. LEE Ka Lun\*

\* Independent non-executive Directors

Messrs. LU Zhifeng, YANG Dadong, DING Baoshan shall retire at the forthcoming Annual General Meeting in accordance with Article 101 of the Company's Articles of Association and, being eligible, offer themselves for re-election.

## DIRECTORS AND SENIOR MANAGEMENT'S PROFILES

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

### Executive Directors

**Mr. ZHANG Fangyou**, aged 46, is Chairman and Managing Director of the Company. He was appointed as Chairman of the Company on 18th September 1998 and as Managing Director of the Company on 5th March 1999. He joined the Group in 1997. He is also the chairman of Guangzhou Automobile Group Co., Ltd ("Guangzhou Automobile"), Guangzhou Auto Group (Hong Kong) Limited ("Guangzhou Auto Group (Hong Kong)"), China Lounge Investments Limited ("China Lounge Investments") and a director of Guangzhou Honda Automobile Co., Ltd. ("Guangzhou Honda"). Mr Zhang was also the general manager of China Lounge Investments, he had held several senior posts in Zeng Cheng City in Guangdong Province and he was the Deputy Secretary-General of Guangzhou Municipal People's Government ("Guangzhou Government") and a director of Automotive Industry Office of Guangzhou Government.

**Mr. LU Zhifeng**, aged 50, was appointed as Vice Chairman of the Company on 11th January 2000. He joined the Group in 1998. He is also a director and the general manager of Guangzhou Automobile, the vice chairman of Guangzhou Auto Group (Hong Kong) and China Lounge Investments, and a director 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)

**Mr. YANG Dadong**, aged 54, was appointed as a Director of the Company on 16th January 2001. He joined the Group in 2001. He is also the vice chairman of Guangzhou Automobile Industry Group Co., Ltd. (“Guangzhou Automobile Industry”), a director of Guangzhou Auto Group (Hong Kong), a director of China Lounge Investments and the chairman of Guangzhou Motorcycle Group Co. (“Guangzhou Motorcycle”). Mr Yang was the vice chairman and general manager of Guangzhou Motorcycle, and the general manager of Wu Yang-Honda Motors (Guangzhou) Co., Ltd. (“Wu Yang-Honda Motors”).

**Mr. CHEN Xuejun**, aged 59, was appointed as a Director of the Company on 15th October 1999. He joined the Group in 1999. He is also the executive deputy managing director of Guangzhou Automobile and a director of China Lounge Investments. He worked for Guangzhou Yangcheng Automobile Group Co. as vice chairman and deputy general manager, Guangzhou Motorcycle as executive director and Wu Yang-Honda Motors as a director.

**Mr. ZHANG Baoqing**, aged 53, was appointed as a Director and Deputy Managing Director on 19th June 2001. He joined the Group in 1998. He is also the deputy managing director of Guangzhou Automobile, the managing director of Guangzhou Auto Group (Hong Kong) and the managing director of China Lounge Investments. Mr. Zhang was the factory manager of Guangzhou Automotive Manufacturing Factory and also the deputy general manager of Guangzhou Jinda Motors Holdings Enterprises (“Guangzhou Jinda”).

**Mr. ZENG Qinghong**, aged 41, was appointed as a Director of the Company on 16th January 2001. He joined the Group in 1999. He is also the deputy general manager of Guangzhou Automobile, a director of Guangzhou Auto Group (Hong Kong), a director of China Lounge Investments, and the executive deputy managing director of Guangzhou Honda. He was the vice chairman and executive deputy managing director of Guangzhou Guangke Automobile Enterprises Group Co., Ltd.

**Mr. DING Baoshan**, aged 40, was appointed as a Director of the Company on 26th October 2000. He joined the Group in 2000. Mr Ding studied in Beijing Technology University (formerly known as “Beijing Metal College”), China Social Science Graduate Institute where had gained his bachelor’s degree, MBA and PHD. He had worked a long period of time in the National Macroeconomics Department in respect of the macroeconomics policy and corporate reform. He is also the chief economist of Guangzhou Automobile, a director of Guangzhou Auto Group (Hong Kong) and a director of China Lounge Investments. He was the chairman of Guangzhou Honda Automobile No.1 Sales Co., Ltd. (“GZ Honda No. 1 Sales”).

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

### **Independent Non-Executive Directors**

**Mr. CHEUNG Doi Shu**, aged 41, is an independent Non-Executive Director of the Company. He joined the Group in 1998. He is a qualified solicitor in the Australian Capital Territory, Hong Kong, Singapore and England and Wales and received his bachelor's and master's degree in law from the University of London. He is a director of GZI Transport Limited and Artfield Group Limited and is the sole practitioner of D.S.Cheung & Co. whose practice includes securities, corporate finance, China investments and international banking and finance and he is also a director of China Convergent Corporation Limited which listed on the Australian Stock Exchange, Nasdaq and the Frankfurt Stock Exchange.

**Mr. LEE Ka Lun**, aged 48, was appointed as an independent Non-Executive Director and Chairman of Audit Committee of the Company on 30th June 1999. He joined the Group in 1999. He is an accountant by profession and is the deputy chief executive of Lloyds TSB Bank Plc, Hong Kong Branch. Mr. Lee is a fellow of The Association of Chartered Certified Accountants in UK and has over 20 years of experience in banking and auditing.

### **Senior Management**

**Ms. GAO Fusheng**, aged 45, is Deputy General Manager and Financial Controller of the Company. She joined the Group in 1999. She is also a director of GZ Honda No. 1 Sales. Ms Gao obtained a master's degree in business administration from Murdoch University in Australia and she is a qualified senior accountant in the PRC. She was the director of finance department of Guangzhou Automobile and the director of finance department of Automotive Industry Office of Guangzhou Government. She was promoted to the present position in 1999.

**Mr. HO Nai Ki**, aged 53, is an assistant to General Manager of the Company and also General Manager of the Company's investment department. He joined the Group in 1993. Prior to joining the Company in 1993, he had worked for the Chase Manhattan Bank, Sun Hung Kai Group and several leading financial institutions in Hong Kong. Mr. Ho has over 20 years of experience in investment and financial management.

**Mr. LIANG Yaohua**, aged 43, is General Manager of the Company's finance department. He joined the Group in 1992. Mr. Liang obtained a master's degree in business administration from Murdoch University in Australia. He is also a director of GZ Honda No.1 Sales. He had been the assistant financial manager of Guangzhou Auto Group Corporation ("GAC") and financial manager of Guangzhou Denway Enterprises Development Limited ("GZ Denway"). He was promoted to the present position in 1994.

## **DIRECTORS' SERVICE CONTRACTS**

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

## DIRECTORS' 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 2002.

## SHARE OPTION SCHEMES

The share option scheme which was adopted by the Company on 1st February 1993 ("Old Scheme") was originally due to expire on 31st January 2003. As a result of certain changes to the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), the Board proposed and the shareholders approved at a general meeting held on 6th June 2002 the early termination of the Old Scheme and adoption of a new share option scheme ("New Scheme"). After termination of the Old Scheme, no more option can be granted pursuant to the Old Scheme and in respect of all the outstanding options granted under the Old Scheme, the provisions of the Old Scheme shall remain in force.

The principal terms of the Old Scheme and New Scheme are as follows:

### (a) Old Scheme

The Old Scheme was adopted as an incentive to the employees under which the Board may, at their discretion, invites full time employees including executive directors of any member of the Group to take up options to subscribe for shares in the Company at a price to be determined by the Board which will not be less than 80% of the average closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of offer of the option or the nominal value of the shares of the Company, whichever is higher.

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

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

Share options may be exercised during the three-year period commencing on the expiry of six months after the date on which the option is granted, and shall expire at the end of the three years period or 31st January 2003, whichever is earlier. The Old Scheme was terminated on 6th June 2002.

**SHARE OPTION SCHEMES** (cont'd)

(b) New Scheme

The purpose of the New 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 in the Company under the New Scheme will be 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 New 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 New Scheme. An option may be exercised during a period to be determined by the Board 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 New 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 New Scheme will remain in force for a period of 10 years from 6th June 2002.

**SHARE OPTION SCHEMES** (cont'd)

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

1. Options granted under the Old Scheme and outstanding are as follows:

Name	As at 1st January 2002	Exercised during the year	Lapsed during the year	As at 31st December 2002	Notes
ZHANG Fangyou	1,920,000	1,920,000	—	—	(3)
LU Zhifeng	1,730,000	1,730,000	—	—	(3)
YANG Dadong	1,276,000	1,276,000	—	—	(3)
CHEN Xuejun	1,276,000	1,276,000	—	—	(3)
ZHANG Baoqing	1,460,000	1,460,000	—	—	(3)
ZENG Qinghong	1,276,000	1,276,000	—	—	(3)
DING Baoshan	1,276,000	1,276,000	—	—	(3)
Aggregate total of employees	550,000	—	550,000	—	(1)
	385,000	—	385,000	—	(2)
	48,880,000	48,096,000	—	784,000	(3)
Total	60,029,000	58,310,000	935,000	784,000	

The weighted average closing price per share immediately before the date on which the options were exercised was HK\$2.2723.

*Notes:*

- (1) Share options granted on 5th March 1999 at an exercise price (adjusted due to bonus issue) of HK\$0.2829 per share for a period for three years commencing on the expiry of six months after the date of grant of the share options, and shall expire at the end of the three years' period or 31st January 2003, whichever is earlier. The consideration paid by each grantee for the option granted was HK\$1.
- (2) Share options granted on 15th June 1999 at an exercise price (adjusted due to bonus issue) of HK\$0.3687 per share for a period of three years commencing on the expiry of six months after the date of grant of the share options, and shall expire at the end of the three years' period or 31st January 2003, whichever is earlier. The consideration paid by each grantee for the option granted was HK\$1.
- (3) Share options granted on 18th July 2001 at an exercise price of HK\$2.156 per share for a period of three years commencing on the expiry of six months after the date of grant of the share options, and shall expire at the end of the three years' period or 31st January 2003, whichever is earlier. The consideration paid by each grantee for the option granted was HK\$1.

## SHARE OPTION SCHEMES (cont'd)

2. No option was granted or cancelled under the Old Scheme during the year. The number of options lapsed under the Old Scheme during the year was 935,000.
3. No option was granted during the year pursuant to the New Scheme.

## DIRECTORS' INTERESTS IN SHARES

As at 31st December 2002, the interests of Directors in the shares of the Company as recorded in the register maintained under section 29 of the Securities (Disclosure of Interests) Ordinance (“SDI Ordinance”) or as notified were as follows:

<b>Name</b>	<b>Number of shares Personal Interest</b>
ZHANG Fangyou	1,920,000
LU Zhifeng	1,730,000

Save as disclosed herein and in the section Share Option Schemes, none of the Directors and chief executives of the Company had any interests, as at 31st December 2002, in the equity or debt securities of the Company and its associated corporations (within the meaning of the SDI Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interest which they were deemed or taken to have under Section 31 or Part I of the Schedule to the SDI Ordinance) or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

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

Save as aforesaid, no rights to subscribe for equity or debt securities of the Company has been granted by the Company to, nor has any such rights been exercised by, any directors and chief executives of the Company during the year ended 31st December 2002.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31st December 2002, those persons or corporations having an interest in 10 per cent or more of the issued share capital of the Company as recorded in the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance were as follows:

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

### Notes:

- (a) This interest represents the total number of shares of the Company held by certain subsidiaries of Guangzhou Automobile Industry where Guangzhou Automobile Industry is taken to be interested in such shares under Section 8 of the SDI Ordinance.
- (b) Guangzhou Automobile is a wholly-owned subsidiary of Guangzhou Automobile Industry and their interests in the shares of the Company are duplicated in the interest of Guangzhou Automobile Industry.
- (c) China Lounge Investments is a wholly-owned subsidiary of Guangzhou Automobile and its interest in the shares of the Company are duplicated in the interests of Guangzhou Automobile.

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

## RETIREMENT SCHEME

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

## INDEPENDENT NON-EXECUTIVE DIRECTORS' FEES

Each of the independent non-executive Directors of the Company received HK\$88,000 as director's fees for the year ended 31st December 2002.

## 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 2002.

## MAJOR SUPPLIERS

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

	<b>2002</b>	2001
	<b>%</b>	%
– the largest supplier	<b>35</b>	31
– five largest suppliers combined	<b>75</b>	75

## MAJOR CUSTOMERS

During 2001 and 2002, 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 Listing Rules are as follows:

- (a) Guangzhou Denway Bus Limited ("Guangzhou Denway Bus"), the Company's non wholly-owned subsidiary, as the tenant entered into a lease agreement with Guangzhou Bus Factory as the landlord, a wholly-owned subsidiary of Guangzhou Automobile on 4th March 2002 (the "Lease Agreement") for leasing a factory site for its operation. Pursuant to the lease agreement, Guangzhou Denway Bus is paying a monthly rental charge of RMB560,000 (equivalent to approximately HK\$523,364) to Guangzhou Bus Factory for renting the premises for the period from 10th March 2002 to 10th January 2003 or its termination in accordance with provisions thereof. This factory site is located at Eastern Factory Zone, Shang Yuangang, Sha He, Guangzhou, the PRC.
- (b) On 11th December 2002, Guangzhou Denway Bus entered into a conditional agreement with Guangdong Province Bus Factory, a wholly-owned subsidiary of Guangzhou Automobile which is the Company's intermediate holding company. Pursuant to the agreement, Guangzhou Denway Bus has conditionally agreed to purchase the property (comprising land use rights and 86 buildings erected thereon) situated at No. 451, Shisha Road, Baiyun District, Guangzhou, the PRC from Guangdong Province Bus Factory at a consideration of RMB71,940,000 (equivalent to approximately HK\$67,234,000). The Directors believe that it is commercial viable for Guangzhou Denway Bus to purchase the above mentioned property for its business operation in the assembly and sale of coaches and other vehicles on a long-term basis.

- (c) The Company agreed to transfer 45% equity interest in Guangzhou Denway Bus to Guangzhou Automobile at a consideration of RMB53,205,000 (equivalent to approximately HK\$49,724,000) on 28th March 2002 and completed on 27th September 2002. The consideration was determined based on 45% of the total audited revalued net asset value of Guangzhou Denway Bus as at 31st December 2001 (prepared in accordance with the PRC accounting standards) of RMB118,233,000 (equivalent to approximately HK\$110,498,000). The Board considers the equity transfer to be a part of the business strategy of the Company so as to facilitate the future growth of its bus manufacturing business and to share the risk of its investment in Guangzhou Denway Bus while maintaining the optimal level of shareholding and control of the operation with minimal amount of capital which can otherwise be more efficiently utilized.
- (d) On 20th February 2003, GZ Denway entered into an agreement (the “Agreement”) with Guangzhou Guangyue Asset Management Limited (“Guangyue”). Guangyue is indirectly wholly-owned by Guangzhou Automobile Industry which is the Company’s ultimate holding company. Pursuant to the Agreement, GZ Denway has agreed to pay a consideration comprising: (i) a lump sum payment of RMB2,730,000 (equivalent to approximately HK\$2,551,000); and (ii) a fixed annual payment of RMB602,000 (equivalent to approximately HK\$563,000) (subject to reduction after the year of death of any retired employee) 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. The Directors believe that the transfer would relieve the administrative burden on GZ Denway in respect of the retired employees. The Directors also believe that it would be more effective and efficient for Guangyue to administer and manage the retired employees on a consolidation basis.
- (e) As at 31st December 2002, GZ Denway had an aggregate sum of RMB460,221,000 (equivalent to approximately HK\$430,113,000) on current accounts due to the Company. Guangzhou Automobile also maintained an amount of RMB24,024,000 (HK\$22,452,000) due from GZ Denway but classified as minority interest. Both amounts due to the Company and Guangzhou Automobile mainly represent the dividend receivable from GZ Denway and advances provided for the purpose of working capital and were interest-free and repayable on demand but without any security from GZ Denway.
- (f) During the year, GZ Denway provided bank guarantees to the total extent of RMB35,000,000 (equivalent to approximately HK\$32,710,000) 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 owns 5% equity interest in GZ 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 RMB35,000,000 (equivalent to approximately HK\$32,710,000) for Guangzhou Denway Bus. Both aforesaid guarantees were provided without obtaining any security from Guangzhou Denway Bus.

- (g) Before the signing of the agreement to transfer of 45% equity interest of Guangzhou Denway Bus from the Company to Guangzhou Automobile in March 2003, the balance of the retained earnings as at 31st December 2001 was agreed to be totally distributed for further capitalization purposes. The outstanding dividends payable to the Company and Guangzhou Automobile are RMB7,686,000 (equivalent to approximately HK\$7,182,000) and RMB404,000 (equivalent to approximately HK\$378,000) respectively.
- (h) GZ Denway has provided bank guarantees to the total extent of RMB85,500,000 (equivalent to approximately HK\$79,907,000) for Guangzhou Weida Machinery Enterprises Coporation-Automotive Industry Trading Company (“GATC”), another subsidiary with 95% equity interest owned by the Company, to enable GATC to obtain certain banking facilities. Besides, GZ Denway has provided loans in the aggregate sum of RMB4,000,000 (equivalent to approximately HK\$3,738,000) to GATC and bearing an interest rate of 5.4% per annum but exempted in payment during the year. Guangzhou Automobile, which indirectly owns 5% equity interest in GATC, has also provided bank guarantees by its wholly-owned subsidiaries to the total extent of RMB4,500,000 (equivalent to approximately HK\$4,206,000) for GATC without obtaining any security from GATC. Guangzhou Automobile has also through its subsidiary advanced an interest-free term loan in the sum of RMB1,246,000 (equivalent to approximately HK\$1,164,000) to GATC. The loans were repayable within one year from the respective date of advancement.
- (i) On 20th December 2002, GATC declared dividend of RMB3,000,000 (equivalent to approximately HK\$2,804,000) to the shareholders of which RMB150,000 (equivalent to approximately HK\$140,000) was distributed to the minority shareholder who is a subsidiary of Guangzhou Automobile in December 2002 and the remaining dividend payable of RMB2,850,000 (equivalent to approximately HK\$2,664,000) will be distributed to the Company after the relevant statutory procedures to be completed in 2003.
- (j) GZ Denway has provided a bank guarantee to the extent of RMB900,000 (equivalent to approximately HK\$841,000) for Guangzhou Densheng Valve Company Limited (“Densheng”), another subsidiary with 90% equity interest owned by the Company, to enable Densheng to obtain a bank loan. Guangzhou Automobile, which indirectly owns 10% equity interest in Densheng, has also provided a bank guarantee by its wholly-owned subsidiary to the extent of RMB100,000 (equivalent to approximately HK\$93,000) for Densheng without obtaining any security from Densheng.

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

Classic Tech Development Limited had repaid the remaining loan balances of HK\$ 3,710,719 due by it to the Company during the year ended 31st December 2002.

All other financial assistances made to the connected parties mentioned in the announcement and circular were either repaid or released as previously stated in last year’s annual report.

## PRACTICE NOTE 19 OF THE LISTING RULES

As at 31st December 2002, the Group had given guarantee for bank loans in the total sum of HK\$16,252,000 (2001: HK\$1,907,000) to a non-consolidated subsidiary. The other shareholder of the non-consolidated subsidiary also provided bank guarantees to the total extent of HK\$16,710,000. Both aforesaid guarantees were provided without obtaining any security from the non-consolidated subsidiary. The financial assistance given to the above companies during the year as at 31st December 2002, in aggregate, represented less than 25% of the consolidated net assets of the Group at the balance sheet date. Accordingly, no separate disclosure in accordance with the requirements under Practice Note 19 of the Listing Rules is provided.

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

The 2002 Annual Report of the Company containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 to the Listing Rules is also published on the website of the Stock Exchange.

## CODE OF BEST PRACTICE

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 accounting year covered by the annual accounts. The independent non-executive Directors of the Company are not appointed for a specific term as they are subject to retirement by rotation and re-election at the Annual General Meeting of the Company in accordance with the Company's Articles of Association. The audit committee was established with written terms of reference which deal clearly with its authority and duties in pursuance of paragraph 14 of Appendix 14 of the Listing Rules. Amongst the audit committee's principal duties are the review and supervision of the Company's financial reporting process and internal control systems.

## AUDITORS

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

On behalf of the Board

**Zhang Fangyou**

*Chairman and Managing Director*

Hong Kong, 15th April 2003