

# Report of the Supervisory Committee

*To all Shareholders and Representatives of Shareholders,*

All members of the supervisory committee (the "Supervisory Committee") of the Company discharged their duties of supervision and review independently and faithfully in accordance with the PRC Company Law, the Articles and the Rules of Procedures of the Supervisory Committee of the Company, thereby actively promoted the improvement of the corporate governance framework and standardisation of operations. A report on the work of the 2005 Supervisory Committee is presented to you as follows:

## 1. MEETING OF THE SUPERVISORY COMMITTEE

On 24 June 2005, the second meeting of the second session of the Supervisory Committee was held in Guangzhou. The meeting considered and approved the 2004 Report of the Supervisory Committee and discussed ways of strengthening the operation of the Supervisory Committee so as to discharge its duties in a better way.

## 2. TASKS OF THE SUPERVISORY COMMITTEE

During the reporting period, members of the Supervisory Committee attended all Board meetings and general meetings of the Company. The Supervisory Committee also duly supervised and monitored the convention procedures, resolutions, poll procedures of the Board meetings, the conduct of general meetings of the Company, the standardisation of operations, financial positions and use of proceeds of the Company, conduct of the Company's senior management as well as connected transactions of the Company. The Supervisory Committee is of the opinion that:

- (1) During the reporting period, the Company has complied with the laws and regulations in respect of its decision-making procedures and the standardised operations. The Board strictly implemented the resolutions and authorisations of general meetings to safeguard the interests of the Shareholders. The Company is improving its internal control framework and risk control gradually in accordance with the requirements of the Stock Exchange.
- (2) All Directors and senior management of the Company have diligently discharged their duties with devotion and commitment. While discharging their duties, no violation of any laws, regulations, the Articles or actions prejudicial to the interests of the Company has been committed.
- (3) The 2005 consolidated financial statements of the Company were audited by PricewaterhouseCoopers, the Company's international auditor, and Guangdong Zhengzhong Zhujiang Certified Public Accountants (廣東正中珠江會計事務所), the Company's PRC auditor. There were slight discrepancies between the business results as audited by the two auditors; however, unqualified auditors' reports were issued by both auditors. According to the review of the Supervisory Committee, the discrepancies on the business results were attributable to the fact that different accounting standards were adopted by the two auditors. Both versions of the financial statements give a true and fair view of the Company's financial position and operational results, and both auditors' reports are true and objective.

## **Report of the Supervisory Committee**

- (4) During the reporting period, the Company acquired 62% equity interests in GD-HK Company and GD-HK Motor. No assets disposal was made during the reporting period. The acquired assets have been independently assessed by an intermediary and confirmed by the relevant authorities. The consideration amounts for the acquisitions were based on the assessed values and were reasonable. The Supervisory Committee was not aware of any insider tradings or transactions, any outflow of assets of the Company, or anything detrimental to the interests of Shareholders.
- (5) During the reporting period, the Company was involved in a substantial amount of connected transactions. However, all such connected transactions were carried out under the principles of openness, fairness and equity and based on market rates without prejudice to the interests of minority Shareholders.
- (6) In compliance with the requirements of the Stock Exchange, the Company made prompt and thorough disclosures in a true and complete manner.
- (7) The Company's proceeds generated from its initial public offering in the 2005 were utilised in accordance with the disclosure set out in the listing prospectus in a due and proper manner and were not diverted to other purposes.

### **3. ISSUES IDENTIFIED**

1. During the reporting period, the Company's connected transactions in relation to the purchase of materials by the Group from the GCGC Group exceeded the annual cap amount for 2005 and thus contravened the related requirements of the Stock Exchange. The Board has made prompt disclosure in this respect. The transactions were entered into in the ordinary and normal course of business of the Company, in which the suppliers were largely selected through a tender process. Hence, it was considered that the relevant transaction prices were fair and in the interests of the Company and its Shareholders. To avoid the reoccurrence of similar problems, the Company has established a control system for connected transactions. The Board and the senior management will closely monitor the monthly amounts of connected transactions and strictly comply with the Listing Rules in making timely disclosures and obtaining prior approval from independent Shareholders when necessary.
2. With rapid expansion of the Company's business, the internal control of the Company has to be further improved. The Company has retained a business consulting firm to further improve the Company's business flow and internal control.

## ***Report of the Supervisory Committee***

### **4. 2006 WORKING PLAN OF THE COMPANY'S SUPERVISORY COMMITTEE**

In 2006, the Supervisory Committee will strengthen its supervision. Practical measures include: (i) to conduct irregular reviews on different business segments of the Company and provide recommendations to the management for major issues identified in the process; (ii) to strengthen liaison with the Board and the management through mutual communications and exchanges in respect of the discharge of duties of the Supervisory Committee; (iii) to increase the education and training of the Supervisors to enhance the quality of work; and (iv) to enhance the organisation of activities of the Supervisory Committee. With the above measures, the Supervisory Committee will further improve the Company's corporate governance framework, ensure standardised operations and effectively reduce operational risks, thereby protecting and maximising the interests of its Shareholders.