

STATEMENT OF ACTIVE BUSINESS PURSUITS

ACTIVE BUSINESS PURSUITS

The following is a statement of active business pursuits since the inception of the Group and during the Active Business Pursuit Period (i.e. the two years ended 31st December, 2000 and 2001 and for the period from 1st January, 2002 to the Latest Practicable Date).

For the period from the date of incorporation of GAPL to 31st December, 1999

Business development

GAPL was incorporated in Singapore in August 1993 to provide luxury and mid-market passenger vehicles to meet the increasing demand for passenger vehicles in the PRC market. Since December 1993, the Group has been appointed by BMW AG as a non-exclusive distributor of BMW passenger vehicles, parts and accessories in Fujian Province. In January 1994, the Group established its first joint venture company, Xiamen BMW, in Xiamen to provide after-sale repair and maintenance services for BMW passenger vehicles in the PRC. The Group also provides sale of auto parts and accessories for repairs and maintenance of BMW and other high-end passenger vehicles in the region.

In January 1994, the Group entered into a distribution agreement with North Anhua for a term of 16 years pursuant to which the Group will supply to North Anhua imported BMW, Honda and Land Rover passenger vehicles and provide after-sale services including testing, tuning, repair and maintenance of the vehicles through Xiamen BMW and Xiamen Honda whereas North Anhua will promote and distribute the passenger vehicles supplied by the Group through its nationwide distribution network and its appointed agents.

In November 1995, the Group was appointed by Honda Motor (China) Co., Ltd. as one of the importers for Honda passenger vehicles in the PRC. The Group's arrangement with Honda Motor (China) Co., Ltd. in respect of the import of Honda passenger vehicles into the PRC are made on a case-by-case basis, that is, no formal agreement had been entered into between each party. The Directors believe that BMW and Honda passenger vehicles could be introduced to the customers from high-income group and the middle class. In 1996, Xiamen BMW set up a branch, Xiamen Honda, in Xiamen as the service centre, to provide after-sale services including repair and maintenance for Honda passenger vehicles in the region.

In September 1997, the Group was granted by Land Rover Group a non-exclusive distribution right of Land Rover passengers vehicles and auto parts in Fujian Province for an indefinite period until termination by either party giving 12-month written notice.

In October 1997, GAL was incorporated in Hong Kong to accommodate the Group's expanding operation of trading of auto parts and accessories to Hong Kong resellers for further distribution in the PRC market.

In October 1997, the Group was appointed by AC Schnitzer as its exclusive distributor of auto parts in Fujian Province for an indefinite period until termination by either party giving 3-month notice.

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Since 1998, the Group has been maintaining close business relationship with North Anhua and other Hong Kong resellers. North Anhua is a licensed motor vehicles reseller with a distribution network of 72 motor vehicle sales offices and 50 distribution agents located in major cities and coastal area of the PRC. In the same year, the Group also traded with 3 Hong Kong resellers who further distributed the Group's imported motor vehicles in the PRC market within their distribution networks.

In September 1998, GAL started to serve as the logistic centre for managing the inventory of the Group. GAL maintains warehouse in Hong Kong to store all the motor vehicles that are going to be delivered to the PRC and Hong Kong resellers.

In December 1998, the Group commenced sourcing and distributing of Toyota and Mercedes-Benz passenger vehicles. The Toyota and Mercedes-Benz passenger vehicles are sourced from the resellers in Hong Kong and will be further distributed in the PRC through resellers in Hong Kong and in the PRC. The sourcing arrangements are made on a case-by-case basis and no formal agreement has been signed between the Group and the suppliers of the Toyota and Mercedes-Benz passenger vehicles.

In December 1999, the Group obtained from Hertz, the world's largest car rental company, a non-exclusive right to use or sub-license its right to use the Hertz System to licensed car rental operators in the PRC for car rental business in the PRC. The Group had previously established CNA Anhua (Tianjin) in the PRC in April 1999 to commence all the preparation works for its car rental operation.

Sales and marketing

The Group held different kinds of marketing activities in Fujian Province to maintain close relationship with the customers.

Financial performance

For the financial year ended 31st December, 1999, the Group recorded a turnover of approximately HK\$292 million of which approximately 83.5%, 11.4% and 5.1% were attributable to (i) the distribution of motor vehicles; (ii) servicing of motor vehicles and sales of auto parts; and (iii) commission income respectively.

For the financial year ended 31st December, 2000

Business development

In January 2000, the Group entered into a technical service agreement with North Anhua for 5 years pursuant to which the Group will provide management consultancy and technical service to the locally manufactured motor vehicles sold by North Anhua.

In March 2000, the Group was accredited the ISO 9002 for maintenance, repair and service of BMW and Honda vehicles. The Group was ascertained its quality of after-sale services.

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In April 2000, since the Group considered that manufacturing of spare parts is not the Group's core business, the Group disposed of its 55% equity interest in 北京中汽安華汽車配件有限公司 (Beijing China National Automotive Anhua Spare Parts Ltd.), a joint venture company incorporated in December 1998 in the PRC, to Super Yield Trading Co., Ltd, an independent third party to the Group and North Anhua. The remaining 45% equity interest in the joint venture is held by CNA Anhua (Hertz), a wholly-owned subsidiary of North Anhua and of which Mr. Loh Nee Peng is a director.

In July 2000, the Group disposed of its 80% equity interest in its subsidiary, Xiamen Xiangyu Jinbow International Trading Co. Ltd., which was incorporated in December 1993 for trading of auto parts in the PRC. The disposal was triggered when GAL took up the trading of auto parts since its incorporation in 1997.

Pursuant to a share subscription agreement and a share acquisition agreement which were entered into in August 2000 between the Group and Comfort (China), a wholly-owned subsidiary of Comfort Group, became the strategic investor of the Group by taking up a minority interest of 19.28% in the issued share capital of GAPL.

Sales and marketing

The Group held different kinds of marketing activities in Fujian Province to promote the Group's products and maintain close relationship with customers. A race day was scheduled in a kart racing track to share the driving pleasure with customers.

Financial performance

For the financial year ended 31st December, 2000, the Group's turnover was approximately HK\$125 million, of which approximately 91.8% and 8.2% were attributable to (i) the distribution of motor vehicle and technical fee and (ii) servicing of motor vehicle and sales of auto parts respectively. The establishment of the Honda factory in late 1999 in Guangzhou also affected the sale of imported Honda cars in 2000. The Group only supplied the imported Honda passenger vehicles, excluding Accord models, to North Anhua. For the year ended 31st December, 2000, the Group's turnover generated from distribution of Honda passenger vehicles to North Anhua was approximately HK\$382,500. In view of the decrease in the sales of imported motor vehicles, in January 2000, the Group entered into a contract with its business partner, North Anhua, pursuant to which the Group will provide management consulting and technical service to North Anhua in return for a technical fee based on the number of locally manufactured motor vehicles sold by North Anhua. (For details please refer to "Relationship with North Anhua"). During the financial year of 2000, approximately HK\$28 million was generated from the Group's provision of such technical service and advice. Together with such technical service income, the Group had a total of HK\$4.8 million net profit for the financial year of 2000. Though the Group's sales of imported motor vehicles made in the beginning of the year was not satisfactory, the Group managed to improve its sales record of imported car in the middle of the year. Approximately HK\$87 million was generated from the sales of imported cars.

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For the financial year ended 31st December, 2001

Business development

In August 2001 the Group was appointed by Hertz as its principal licensee under three non-exclusive license agreements for three different types of motor vehicles. The Group further appointed 3 licensed car operators in the PRC to enter into non-exclusive license agreements with Hertz as the Group's sub-licensees to use the Hertz System to operate car rental business in Beijing Municipality, Shanghai Municipality and Guangzhou Municipality. Such Municipalities are planned to be the origins of the Group's car rental business network. In addition, the Group also entered into 5-year management agreements with the above three sub-licensees for provision of management consulting, financial assistance and technical expertise services in relation to car rental operations with the assistance of management consultation support from Hertz. The sub-licensees are required to pay the Group an one-time initial fee plus a share of their respective annual profit based on the audited net profit derived from these sub-licensees.

In November 2001, these sub-licensees soft launched their respective car rental business in Beijing Municipality, Shanghai Municipality and Guangzhou Municipality.

Sales and marketing

The Group arranged a fun day in Xiamen for its customers. The activities on the fun day included golf competition, exhibition and introduction of new models. The Group also provided test drive to the participants. It was the first time that test drive of BMW passenger vehicles was provided to the customers in the PRC.

Financial performance

For the financial year ended 31st December, 2001, the Group recorded a turnover of approximately HK\$254 million comprising approximately HK\$219 million generated from sales of motor vehicles, approximately HK\$15 million from provision of car service and sales auto parts and approximately HK\$20 million from provision of technical service. The gross profit margin of the Group dropped from approximately 31% to 18% which was mainly due to the decrease of technical fee income (the decrease of technical income was resulted as the drop of number of locally manufactured Honda distributed by North Anhua), while the net profit margin for the year ended 31st December, 2001 increased to 4.78% from 3.83% of the turnover for the year ended 31st December, 2000.

For the period from 1st January, 2002 to the Latest Practicable Date

Business development

In January 2002, the car rental businesses run by the sub-licensees of the Group were officially launched and operated in 9 rental locations in Beijing Municipality, Shanghai Municipality and Guangzhou Municipality. The Group will provide management consulting and technical service in relation to the car rental business operated by the sub-licensees.

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Deployment of Human Resources

The numbers of employees of the Company during the Active Business Pursuit Period are summarised as follows:

			Xiamen	Xiamen	CNA Anhua (Tianjin)	
As at 31st December, 2000	GAPL	GAL	BMW	Honda		Total
Management	1	1	2	2	—	6
Finance and Administration	3	3	2	2	2	12
After-sales service & technical support	—	—	23	8	—	31
Sales and Marketing	3	1	5	1	—	10
Purchasing	3	1	4	2	—	10
	<u>10</u>	<u>6</u>	<u>36</u>	<u>15</u>	<u>2</u>	<u>69</u>

			Xiamen	Xiamen	CNA Anhua (Tianjin)	
As at 31st December, 2001	GAPL	GAL	BMW	Honda		Total
Management	1	1	2	2	—	6
Finance and Administration	3	3	2	2	2	12
After-sales service & technical support	—	—	23	7	—	30
Sales and Marketing	3	2	6	3	—	14
Purchasing	3	1	3	1	—	8
	<u>10</u>	<u>7</u>	<u>36</u>	<u>15</u>	<u>2</u>	<u>70</u>

			Xiamen	Xiamen	CNA Anhua (Tianjin)	
As at the Latest Practicable Date	GAPL	GAL	BMW	Honda		Total
Management	1	1	2	2	—	6
Finance and Administration	3	3	2	2	2	12
After-sales service & technical support	—	—	23	7	—	30
Sales and Marketing	3	2	6	3	—	14
Purchasing	3	1	3	1	—	8
	<u>10</u>	<u>7</u>	<u>36</u>	<u>15</u>	<u>2</u>	<u>70</u>