

# Notes to Financial Statements

31st December, 2003

## 1. Corporate information

The registered office of Great Wall Automobile Holding Company Limited (the “Company”) is located at No. 115 Gongnong Road, South Nanshi District, Baoding, Hebei Province, the People’s Republic of China (the “PRC”). The H shares (RMB1 per share) of the Company amounting to 114,000,000 shares have become listed in The Stock Exchange of Hong Kong Limited since 15th December, 2003. On 18th December, 2003, BNP, the lead underwriter exercised the over-allotment option for 17,100,000 H shares of RMB1 per share.

During the year, the Company and its subsidiaries (the “Group”) was principally engaged in the manufacture and sale of automobiles and automotive parts and components.

## 2. Summary of significant accounting policies

### Basis of preparation

These financial statements have been prepared in Renminbi and in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of equity investments, as further explained below.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st December, 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant inter company transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company’s subsidiaries.

### Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company’s profit and loss account to the extent of dividends received and receivable. The Company’s investments in subsidiaries are stated at cost less any impairment losses.

## Notes to Financial Statements (continued)

31st December, 2003

### 2. Summary of significant accounting policies (continued)

#### Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

## Notes to Financial Statements (continued)

31st December, 2003

### 2. Summary of significant accounting policies (continued)

#### Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable.

#### Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 10 to 15 years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill, which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

## Notes to Financial Statements (continued)

31st December, 2003

### 2. Summary of significant accounting policies (continued)

#### Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries and associates represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates, any negative goodwill not yet recognised in the profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the profit and loss account and any relevant reserves as appropriate.

#### Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

## Notes to Financial Statements (continued)

31st December, 2003

### 2. Summary of significant accounting policies (continued)

#### Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

#### Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life, after taking into account its estimated residual value. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings	8–40 years
Plant and machinery	5–10 years
Motor vehicles	6–10 years
Furniture, fixtures and office equipment	5 years

## Notes to Financial Statements (continued)

31st December, 2003

### 2. Summary of significant accounting policies (continued)

#### Fixed assets and depreciation (continued)

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a fixed asset under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

#### Other Investments

Other investments are non-trading investments in equity securities intended to be held on a long term basis. They are stated at their estimated fair values, on an individual basis. The estimated fair values of unlisted securities are determined by the Directors having regard to, inter alia, the attributable net asset value of the investments, with allowance made for the lower liquidity of the unlisted securities. The gains or losses arising from changes in the fair value of the investments are recognised directly in equity until the securities is sold or determined to be impaired, at which time the cumulative gain or loss is included in the profit or loss for the period.

#### Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair values of such securities are credited or charged to the profit and loss account in the period in which they arise.

#### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of semi-finished goods, work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Spare parts and consumables are stated at cost less any impairment losses.

## Notes to Financial Statements (continued)

31st December, 2003

### 2. Summary of significant accounting policies (continued)

#### Cash and Cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at bank, including term deposits which are not restricted as to use.

#### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present value as appropriate.

#### Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if the tax relates to items that are recognised in the same or a different period, directly to equity.

Current tax is provided at rates applicable to entities in the PRC on the income for statutory financial reporting purposes, as adjusted for income and expense items which are not assessable or deductible for income tax purposes.



## Notes to Financial Statements (continued)

31st December, 2003

### 2. Summary of significant accounting policies (continued)

#### Income tax (continued)

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

#### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (c) dividend income, when the shareholders' right to receive payment has been established.



## Notes to Financial Statements (continued)

31st December, 2003

### 2. Summary of significant accounting policies (continued)

#### Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual installments.

#### Retirement benefit costs

In accordance with the rules and regulations in the PRC, the employees of the Group participate in various defined contribution retirement benefit plans operated by the relevant municipal and provincial social insurance management bodies in the PRC under which the Group and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries during the Relevant Periods or in accordance with the requirements of the operators of the plans. The contributions payable are charged as an expense to the profit and loss account as incurred. The Group has no obligation for payment of retirement benefits beyond the contributions.

#### Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

#### Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.



## Notes to Financial Statements (continued)

31st December, 2003

### 2. Summary of significant accounting policies (continued)

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

#### **Dividends**

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

#### **Foreign currencies**

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

#### **Contingencies**

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

## Notes to Financial Statements (continued)

31st December, 2003

### 3. Segment information

A business segment represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments.

During the year, over 90% of the Group's revenue and results were derived from the manufacture and sale of automobile and, therefore, no business segmental analysis is presented.

No geographical segmental analysis is presented as the Group's operations were substantially carried out in the PRC. During the year, over 90% of the Group's turnover was derived from customers in the PRC.

### 4. Turnover and other revenue and gains

Turnover represents the net invoiced value of goods sold, after allowances for trade discounts and returns and excludes sales taxes and intra-group transactions.

An analysis of turnover and other revenue and gains is as follows:

	2003 RMB'000	2002 RMB'000
<b>Turnover</b>		
Sale of automobiles	3,355,243	2,442,890
Sale of automotive parts and components	336,463	158,934
	<b>3,691,706</b>	2,601,824
<b>Other revenue and gains</b>		
Government grants*	23,172	14,130
Gain on disposal of other investments	—	324
Unrealised gain on revaluation of short term investments	40	—
Negative goodwill recognised as income	1,399	591
Write-back of long outstanding payables	1,166	8
	<b>25,777</b>	15,053

\* Government grants represented government subsidies and turnover tax refunds. Turnover tax includes value added tax, city construction tax and education surcharge. The government grants are unconditional, except for the grants must be utilised for the development of the Company and its subsidiaries. Government grants are recognised upon receipt of cash.

## Notes to Financial Statements (continued)

31st December, 2003

### 5. Profit from operating activities

The Group's profit from operating activities is arrived at after charging/(crediting):

		2003 RMB'000	2002 RMB'000
Cost of inventories sold (including depreciation)		2,495,518	1,861,652
Depreciation of fixed assets	12	56,968	36,670
Loss on disposal of fixed assets		5,592	6,085
Provision for doubtful receivables		(1,630)	3,120
Amortisation of goodwill included in other operating expenses	14	270	—
Research and development costs included in other operating expenses		37,457	21,878
Minimum lease payments under operating leases:			
Land and buildings		147	44
Auditors' remuneration		1,400	461
Staff costs (including directors' and supervisors' remuneration (note 7)):			
— Wages and salaries		93,110	75,906
— Pension scheme contributions		7,386	4,615
		<b>100,496</b>	<b>80,521</b>
Product warranty provisions		37,437	13,638
Interest income	8	(7,487)	(2,545)
Government grants included in other revenue and gains	4	(23,172)	(14,130)
(Gain)/loss on disposal of other investments		41	(324)
Unrealised (gain)/loss on revaluation of short term investments		(40)	117
Negative goodwill recognised as income included in other revenue and gains		(1,399)	(591)
Loss on disposal of a subsidiary		3,475	—
Write-back of long outstanding payables		(1,166)	(8)

## Notes to Financial Statements (continued)

31st December, 2003

### 6. Finance costs

	Group	
	2003 RMB'000	2002 RMB'000
Interest on bank loans wholly repayable within five years	4,863	6,318
Interest income	(7,487)	(2,545)
Interest expense, net	(2,624)	3,773
Other finance costs	230	300
	<b>(2,394)</b>	<b>4,073</b>

### 7. Directors' remuneration

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2003 RMB'000	2002 RMB'000
Fees	—	—
Other emoluments	—	—
— Basic salaries, housing allowances, other allowances and benefits in kind	248	228
— Bonuses	—	—
— Retirement benefits contributions	7	6
	<b>255</b>	<b>234</b>



## Notes to Financial Statements (continued)

31st December, 2003

### 7. Directors' remuneration (continued)

The number of directors and supervisors, whose individual remuneration fell within the range of nil to RMB1,066,000 (equivalent to HK\$1,000,000), are as follows:

	2003 RMB'000	2002 RMB'000
Directors	11	9
Supervisors	4	5

An analysis of the five individuals whose remuneration were the highest in the Group for the year is as follows:

	2003 RMB'000	2002 RMB'000
Directors	2	4
Employees	3	1

The remuneration of the non-director/supervisor, highest paid employees, whose individual remuneration fell within the range of nil to RMB1,066,000 (equivalent to HK\$1,000,000), is as follows:

	2003 RMB'000	2002 RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	161	64
Bonuses	—	—
Retirement benefits contributions	2	1
	<b>163</b>	<b>65</b>

During the year, no directors or supervisors waived or agreed to waive any emolument; and no emoluments were paid by the Group to the directors, supervisors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## Notes to Financial Statements (continued)

31st December, 2003

### 8. Tax

#### Income tax

An analysis of the major components of tax expenses of the Group is as follows:

	2003 RMB'000	2002 RMB'000
Hong Kong profit tax	—	—
PRC corporate income tax:		
Current corporate income tax	212,741	130,929
Deferred income tax	(25,133)	(12,921)
Share of tax attributable to associates	—	(595)
	<b>187,608</b>	117,413

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the year. Under PRC income tax law, except for certain preferential treatment available to the Company and certain of its subsidiaries, the entities within the Group are subject to corporate income tax at a rate of 33%, on their taxable income.

Pursuant to the Administrative Measures on the Deduction of Corporate Technological Development Expenses Before Tax and the Implementing Measure on the Deduction of Corporate Technological Development Expenses Before Tax of Hebei Province, the Company, being a high technology enterprise, was entitled to deduct technological development expenses before tax in the amount of RMB4,862,700 for the year ended 31st December, 2002, resulting in a reduction in corporate income tax in the amount of RMB1,605,000 in that year.

Pursuant to Tentative Regulation Regarding Income Tax Benefit for Investment in the PRC Made Equipment Used in Technical Reform, the Company and GW Huabei Company were entitled to exempt corporate income tax in the amount of RMB4,762,000 and RMB6,014,000 for the two years ended 31st December, 2002 and 2003, respectively.

## Notes to Financial Statements (continued)

31st December, 2003

### 8. Tax (continued)

#### Income tax (continued)

Pursuant to the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises and applicable local tax regulations, GW Axles Company was exempted from corporate income tax for the two years ended 31st December, 2002, and will be entitled to a 50% reduction in tax rate for corporate income tax for the three years ending 31st December, 2005. Beijing Great Company is exempted from corporate income tax for the two years ending 31st December, 2003, and will be subject to a preferential corporate income tax rate of 12% for the three years ending 31st December, 2006. Changfu Pressings Company exempted from corporate income tax for the two years ending 31st December, 2004 and will be entitled to a 50% reduction in tax rate for corporate income tax for the three years ending 31st December, 2007.

Pursuant to applicable laws and regulations on welfare enterprises in the PRC, GW Accessories Company, Xincheng Company, Great Machinery Company and Riwa Automobile Company, all being recognised as welfare enterprises by the relevant authorities, are entitled to apply for exemption in corporate income tax on a year-by-year basis. For the two years ended 31st December, 2002 and 2003 corporate income tax exempted for these welfare enterprises amounted to approximately RMB12,289,000 and RMB22,996,000, respectively.

A reconciliation of income tax expenses applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expenses at the Group's effective income tax rate for the year is as follows:

	2003 RMB'000	2002 RMB'000
Profit from operating activities before income tax	<b>872,639</b>	521,119
At PRC corporate income tax rate of 33%	<b>287,971</b>	171,969
Tax effect of expenses not deductible for tax purposes	<b>14,633</b>	10,010
Tax holiday	<b>(114,996)</b>	(64,566)
Tax expenses	<b>187,608</b>	117,413



## Notes to Financial Statements (continued)

31st December, 2003

### 8. Tax (continued)

#### Value added tax ("VAT") and consumption tax

The general VAT rate applicable to the Company and its subsidiaries in the PRC is 17%. Certain of the Company's automobiles are also subject to consumption tax at standard rates ranging from of 3% to 5%.

### 9. Net profit from ordinary activities attributable to shareholders

The net profit from ordinary activities attributable to shareholders for the year ended 31st December, 2003 dealt with in the financial statements of the Company was approximately of RMB111,536,000 (2002: RMB91,805,000).

### 10. Dividends

	2003 RMB'000	2002 RMB'000
Proposed final dividend	—	213,125

On 12th March, 2002, the shareholders of the Company approved the payment of a final dividend for the year ended 31st December, 2001 of RMB0.002 per share payable in cash.

On 21st July, 2003, the shareholders of the Company approved the payment of a final dividend for the year ended 31st December, 2002 of RMB1.25 per share, which comprised a cash dividend of RMB0.25 per share and a scrip dividend of one bonus share of RMB1 each for each share held.

No final dividends were declared for the year ended 31st December, 2003.

### 11. Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of RMB523,398,000 (2002: RMB294,367,000), and the weighted average of 346,606,301 (2002: 341,000,000) shares in issue during the year, as adjusted to reflect the bonus issue of 170,500,000 shares on 3rd September, 2003.

There were no potential diluting shares outstanding during the years and therefore diluted earnings per share amounts have not been presented.

## Notes to Financial Statements (continued)

31st December, 2003

### 12. Fixed assets

#### The Group

	Leasehold land and buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixture and office equipment RMB'000	Total RMB'000
<b>Cost:</b>					
At beginning of year	205,342	195,829	21,261	18,475	440,907
Additions	16,095	39,503	6,198	9,492	71,288
Transfer from construction in progress ( <i>note 13</i> )	53,191	10,991	250	930	65,362
Acquisition of subsidiaries ( <i>note 31(a)</i> )	—	72,651	353	193	73,197
Disposals of subsidiaries ( <i>note 31(b)</i> )	(1,870)	(16,390)	(434)	(827)	(19,521)
Disposals	(6,047)	(5,904)	(3,790)	(2,954)	(18,695)
<b>At 31st December, 2003</b>	<b>266,711</b>	<b>296,680</b>	<b>23,838</b>	<b>25,309</b>	<b>612,538</b>
<b>Accumulated depreciation:</b>					
At beginning of year	30,160	58,168	4,969	6,583	99,880
Provided during the year	11,541	39,837	2,670	2,920	56,968
Acquisition of subsidiaries ( <i>note 31(a)</i> )	—	27,078	28	50	27,156
Disposal of subsidiaries ( <i>note 31(b)</i> )	(277)	(2,320)	(168)	(341)	(3,106)
Disposals	(2,634)	(3,305)	(1,752)	(2,013)	(9,704)
<b>At 31st December, 2003</b>	<b>38,790</b>	<b>119,458</b>	<b>5,747</b>	<b>7,199</b>	<b>171,194</b>
<b>Net book value:</b>					
<b>At 31st December, 2003</b>	<b>227,921</b>	<b>177,222</b>	<b>18,091</b>	<b>18,110</b>	<b>441,344</b>
<b>At 31st December, 2002</b>	<b>175,182</b>	<b>137,661</b>	<b>16,292</b>	<b>11,892</b>	<b>341,027</b>

## Notes to Financial Statements (continued)

31st December, 2003

### 12. Fixed assets (continued)

#### The Group (continued)

A valuation of the property of the Group was performed as at 30th September, 2003 by DTZ Debenham Tie Leung Limited, independent professionally qualified surveyors, for the purpose of listing H shares of the Company on The Stock Exchange of Hong Kong Limited. The valuation was based on open market value approach. A valuation surplus of approximately RMB111.6 million arose from the revaluation which was not recorded in the Group's financial statements. Had the property been restated to valuation amount less accumulated amortisation and impairment losses, then the net carrying amount would have been approximately RMB338 million and would have resulted in an additional amortisation on the revaluation surplus of approximately RMB1.5 million in 2003 (2002: Nil).

All the Group's land is situated in the PRC and is held under a medium term lease. The cost of the Group's land included above was approximately RMB56,162,000 and RMB64,758,000 as at 31st December, 2002 and 2003, respectively.

#### The Company

	Leasehold land and buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixture and office equipment RMB'000	Total RMB'000
<b>Cost:</b>					
At beginning of year	53,885	40,121	9,367	10,639	114,012
Additions	51,870	3,369	1,055	4,109	60,403
Transfers from construction in progress ( <i>note 13</i> )	14,143	13	—	—	14,156
Disposals	(43,760)	(12,306)	(3,205)	(4,582)	(63,853)
At 31st December, 2003	76,138	31,197	7,217	10,166	124,718

## Notes to Financial Statements (continued)

31st December, 2003

### 12. Fixed assets (continued)

#### The Company (continued)

	Leasehold land and buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixture and office equipment RMB'000	Total RMB'000
Accumulated depreciation:					
At beginning of year	6,678	12,111	3,360	5,079	27,228
Provided during the year	1,804	4,295	793	1,120	8,012
Disposals	(93)	(3,653)	(1,397)	(2,729)	(7,872)
At 31st December, 2003	8,389	12,753	2,756	3,470	27,368
Net book value:					
At 31st December, 2003	67,749	18,444	4,461	6,696	97,350
At 31st December, 2002	47,207	28,010	6,007	5,560	86,784

A valuation of the property of the Company was performed as at 30th September, 2003 by DTZ Debenham Tie Leung Limited, independent professional qualified surveyors, for the purpose of listing H shares of the Company on The Stock Exchange of Hong Kong Limited. The valuation was based on open market value approach. A valuation surplus of approximately RMB41.6 million arose from the revaluation and which was not recorded in the Company's financial statements. Had the property been restated to valuation amount less accumulated amortisation and impairment losses, the net carrying amount would have been approximately RMB109.1 and would have resulted in an additional amortisation on the revaluation surplus of approximately RMB200,000 in 2003 (2002: Nil).

All the Company's land is situated in the PRC and is held under a medium term lease. The cost of the Company's land included above was approximately RMB12,236,000 and RMB20,834,000 as at 31st December, 2002 and 2003, respectively.

## Notes to Financial Statements (continued)

31st December, 2003

### 13. Construction in progress

#### The Group

	2003 RMB'000	2002 RMB'000
At beginning of year	56,985	4,680
Additions	384,388	49,713
Acquisition of subsidiaries ( <i>note 31(a)</i> )	65	16,634
Transfer to fixed assets ( <i>note 12</i> )	(65,362)	(14,042)
At end of year	<b>376,076</b>	56,985

The cost of the Group's land included above was approximately RMB57,875,000 as at 31st December, 2003. The land is situated in the PRC and is held under a medium term lease.

#### The Company

	2003 RMB'000	2002 RMB'000
At beginning of year	1,900	2,805
Additions	252,345	3,203
Transfer to fixed assets ( <i>note 12</i> )	(14,156)	(4,108)
At end of year	<b>240,089</b>	1,900

The cost of the company's land included above was approximately nil and RMB57,875,000 as at 31st December, 2002 and 2003, respectively. The land is situated in the PRC and is held under a medium term lease.

## Notes to Financial Statements (continued)

31st December, 2003

### 14. Goodwill

The movement of goodwill is as follows:

#### The Group

	2003 RMB'000	2002 RMB'000
Cost:		
At beginning of year	—	—
Acquisition of subsidiaries during the year	2,704	—
At end of year	2,704	—
Accumulated amortisation:		
At beginning of year	—	—
Amortisation for the year	270	—
At end of year	270	—
Net book value:		
At end of year	2,434	—

## Notes to Financial Statements (continued)

31st December, 2003

### 15. Negative goodwill

The movements of negative goodwill are as follows:

#### The Group

	2003 RMB'000	2002 RMB'000
Cost:		
At beginning of year	8,763	—
Acquisition of additional equity interest in a subsidiary during the year*	10,728	8,763
At end of year	19,491	8,763
Accumulated amortisation:		
At beginning of year	591	—
Amortisation for the year	1,399	591
At end of year	1,990	591
Net book value:		
At end of year	17,501	8,172

\* In July 2003, the Group further acquired 49% equity interest in Xincheng Company and Xincheng Company became a wholly-owned subsidiary of the Group as the Group already hold 51% equity interest in Xincheng Company. A negative goodwill amounted to RMB10.7 million was derived from the acquisition.

### 16. Investments in subsidiaries

#### The Company

	2003 RMB'000	2002 RMB'000
Unlisted investments, at cost	152,810	99,711

## Notes to Financial Statements (continued)

31st December, 2003

### 16. Investments in subsidiaries (continued)

Particulars of the subsidiaries of the Company are set out in note 35 below.

The Company's other receivables, trade payables and other payables balances with the subsidiaries are disclosed in notes 22, 24 and 25, respectively. The amounts due from/(to) the subsidiaries are unsecured, non-interest bearing and are repayable on demand.

### 17. Interests in associates

#### The Group

	2003 RMB'000	2002 RMB'000
Unlisted investments, at cost	—	13,840
Share of post-acquisition loss, net of dividend received	—	(5,218)
	—	8,622

#### The Company

	2003 RMB'000	2002 RMB'000
Unlisted investments, at cost	—	13,840
Provision for impairment	—	(120)
	—	13,720

Balance of 2002 represented investment cost in a 49% and a 40% owned associates, Changfu Pressings Company and GW After-sales Services Company, respectively. All the associates became wholly owned subsidiaries of the Group during the year. Particulars of the acquisition of the subsidiaries are set out in note 31 (a).

The Company and the Group's trade receivables, other receivables, trade payables and other payables balances in the prior year with the associates are disclosed in notes 20, 22, 24 and 25, respectively. The amounts due from/(to) the associates are unsecured, non-interest bearing and repayable on demand.



## Notes to Financial Statements (continued)

31st December, 2003

### 18. Other investments

#### The Group and the Company

		2003 RMB'000	2002 RMB'000
Baoding Great Wall Property Development Company Limited ("BGW Property Development Limited")	(i)	—	—
Zhengzhou Great Wall Motor manufacturing Company Limited ("Zhengzhou GW Company")	(ii)	—	15,000
		—	15,000

#### Notes:

- (i) On 21st October, 2002, the Company disposed of its entire equity interest in BGW Property Development Limited for a cash consideration of approximately RMB3,324,000, resulting in a gain on disposal of approximately RMB324,000.
- (ii) Zhengzhou GW Company did not commenced business from its date of incorporation. It was deregistered on 30th September, 2003 and the Company recovered its entire investment cost.

Particulars of the other investments are as follows:

Company name	Place and date of incorporation	Paid-up Capital	Percentage of equity interests attributable to the group	Principal activities
Baoding Great Wall Property Development Company Limited (保定市長城房地產開發有限公司)	The PRC 2nd December, 1996	5,000	58%	Real estate development and property leasing
Zhengzhou Great Wall Motor Manufacturing Company Limited (鄭州長城汽車製造有限公司)	The PRC 5th February, 2002	25,000	60%	Dormant



## Notes to Financial Statements (continued)

31st December, 2003

### 19. Inventories

#### The Group

	2003 RMB'000	2002 RMB'000
Raw materials	129,096	156,008
Semi-finished goods	85,145	29,505
Work in progress	34,265	42,093
Finished goods	273,734	175,337
Spare parts and consumables	—	2,257
	<b>522,240</b>	405,200
Provision for inventory impairment	<b>(5,150)</b>	(15,113)
	<b>517,090</b>	390,087

#### The Company

	2003 RMB'000	2002 RMB'000
Raw materials	28,285	52,324
Work in progress	9,874	16,257
Finished goods	273,734	114,417
	<b>311,893</b>	182,998
Provision for inventory impairment	<b>(667)</b>	(3,799)
	<b>311,226</b>	179,199

## Notes to Financial Statements (continued)

31st December, 2003

### 20. Trade receivables

The Group normally receives payment or bills in advance for sale of automobiles. For other customers, the Group normally allows a credit period of not more than 90 days. The Group closely monitors overdue balances and a provision for doubtful debts is made when it is considered that amounts due may not be recovered.

#### The Group

An aged analysis of the trade receivables of the Group is as follows:

	2003 RMB'000	2002 RMB'000
Outstanding balances aged:		
Within 6 months	57,682	37,527
7 to 12 months	2,988	2,349
Over 1 year	1,581	9,518
	62,251	49,394
Less: Provision for doubtful debts	(5,945)	(7,844)
	<b>56,306</b>	41,550

The amounts due from related parties included in the above are as follows:

	2003 RMB'000	2002 RMB'000
Associates	—	7,060
Other related parties	15,738	8,716
	<b>15,738</b>	15,776

The balances are unsecured, non-interest bearing and are repayable on credit terms similar to those offered to the major customers of the Group.

## Notes to Financial Statements (continued)

31st December, 2003

### 20. Trade receivables (continued)

#### The Company

	2003 RMB'000	2002 RMB'000
Outstanding at end of year	1,980	15,906
Less: Provision for doubtful debts	(981)	(5,248)
	<b>999</b>	10,658

All the balances are due from independent third parties.

### 21. Bills receivables

The balance represents bank acceptance notes with periods of within six months.

#### The Group

The maturity profile of the bills receivables of the Group is as follows:

	2003 RMB'000	2002 RMB'000
Falling due:		
Within 3 months	84,959	213,443
4 to 6 months	513,741	61,115
	<b>598,700</b>	274,558

As at 31st December, 2003, the Group's bills receivables amounting to RMB60,151,000 (2002:Nil) are pledged to banks for issuing an equivalent amount of bills payables.

## Notes to Financial Statements (continued)

31st December, 2003

### 21. Bills receivables (continued)

#### The Company

As at 31st December, 2003, the Company's bills receivables amounting to RMB49,044,000 (2002: Nil) are pledged to banks for issuing an equivalent amount of bills payables.

### 22. Other receivables

#### The Group

	2003 RMB'000	2002 RMB'000
Prepayments	90	42,788
Export VAT refund	2,887	5,178
Other	82,851	161,427
	<b>85,828</b>	<b>209,393</b>

The amounts due from related parties included in the above are as follows:

	2003 RMB'000	2002 RMB'000
Associates	—	57,925
Other related parties	662	12,946
	<b>662</b>	<b>70,871</b>

The balances are unsecured, non-interest bearing and repayable on demand.

## Notes to Financial Statements (continued)

31st December, 2003

### 22. Other receivables (continued)

#### The Company

	2003 RMB'000	2002 RMB'000
Prepayments	5	19,402
Export VAT refund	2,887	5,178
Other	60,173	39,888
	<b>63,065</b>	<b>64,468</b>

The amounts due from related parties included in the above are as follows:

	2003 RMB'000	2002 RMB'000
Subsidiaries	—	7,195
Other related parties	—	3,012
	—	10,207

The balances in the prior year were unsecured, non-interest bearing and repayable on demand. They were repaid during the year.

### 23. Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand. Cash at banks earns interest at floating rates based on daily bank deposit rates. As at 31st December, 2003, the Group's and the Company's cash and cash equivalents amounting to RMB115,014,880 (2002: RMB9,400,874) and RMB48,973,081 (2002: RMB6,097,496) are pledged to banks for issuing bills payables, respectively.

## Notes to Financial Statements (continued)

31st December, 2003

### 24. Trade payables

#### The Group

An aged analysis of the trade payable of the Group is as follows:

	2003 RMB'000	2002 RMB'000
Outstanding balances aged:		
Within 6 months	473,654	656,461
7 to 12 months	125,938	13,466
1 to 2 years	45,049	6,651
Over 2 years	18,841	18,370
	<b>663,482</b>	<b>694,948</b>

The amounts due to related parties included in the above are as follows:

	2003 RMB'000	2002 RMB'000
Associates	—	29,146
Other related parties	41,716	54,135
	<b>41,716</b>	<b>83,281</b>

The balances are unsecured, non-interest bearing and payable on demand.

## Notes to Financial Statements (continued)

31st December, 2003

### 24. Trade payables (continued)

#### The Company

The amounts due to related parties included in trade payables are as follows:

	2003 RMB'000	2002 RMB'000
Subsidiaries	768,847	284,574
Associates	—	18,367
Other related parties	4,734	31,234
	<b>773,581</b>	<b>334,175</b>

The balances are unsecured, non-interest bearing and are payable on demand.

### 25. Other payables

#### The Group

	2003 RMB'000	2002 RMB'000
Advance from customers	196,708	115,023
Accruals	32,366	3,847
Other	101,683	136,358
	<b>330,757</b>	<b>255,228</b>

Included in the Group's other payables are amounts due to related parties of RMB15,235,000 and RMB211,300 for the two years ended 31st December, 2002 and 2003, respectively, which are unsecured, non-interest bearing and are payable on demand.



## Notes to Financial Statements (continued)

31st December, 2003

### 25. Other payables (continued)

#### The Company

	2003 RMB'000	2002 RMB'000
Advance from customers	309,634	105,791
Accruals	29,240	2,284
Other	46,742	65,846
	<b>385,616</b>	173,921

The amounts due to related parties included in the above are as follows:

	2003 RMB'000	2002 RMB'000
Subsidiaries	300,111	—
Associates	—	902
Other related parties	211	9,845
	<b>300,322</b>	10,747

The balances are unsecured, non-interest bearing and are payable on demand.



## Notes to Financial Statements (continued)

31st December, 2003

### 26. Bank loans

#### The Group

	2003 RMB'000	2002 RMB'000
Bank loans:		
Secured	—	—
Unsecured	1,000	75,630
	<b>1,000</b>	<b>75,630</b>

Certain of the Group's unsecured bank loans were guaranteed by:

	2003 RMB'000	2002 RMB'000
The Company and its subsidiaries	—	36,480
Related parties	—	39,150
	<b>—</b>	<b>75,630</b>

## Notes to Financial Statements (continued)

31st December, 2003

### 26. Bank loans (continued)

#### The Company

	2003 RMB'000	2002 RMB'000
Bank loans:		
Secured	—	—
Unsecured	1,000	54,960
	<b>1,000</b>	<b>54,960</b>
Certain of the Company's unsecured bank loans were guaranteed by:		
The Company and its subsidiaries	—	19,310
Related parties	—	35,650
	<b>—</b>	<b>54,960</b>

On 3rd September, 2003, the Company entered into an agreement with a bank for a general banking facility to the extent of RMB100 million, which includes a sub-limit of RMB40 million for an unsecured loan. Unutilised banking facilities amounted RMB99 million as at 31st December, 2003.

### 27. Provision for product warranties

#### The Group

	2003 RMB'000	2002 RMB'000
At beginning of year	7,184	4,093
Additional provisions	37,437	13,638
Amounts utilised	(24,608)	(10,547)
At end of year	<b>20,013</b>	<b>7,184</b>



## Notes to Financial Statements (continued)

31st December, 2003

### 27. Provision for product warranties (continued)

#### The Company

	2003 RMB'000	2002 RMB'000
At beginning of year	7,184	4,093
Additional provisions	26,864	8,524
Amounts utilised	(14,035)	(5,433)
At end of year	<b>20,013</b>	7,184

The Company and the Group provide free inspection services (once or twice, depending on the type of car) to their customers within, in general, the first two months of purchase. The Company and the Group also provide a standard warranty to their customers for the first 24 months or 50,000 km of usage (whichever occurs earlier), during which period free repairs and maintenance services are provided. A provision for product warranties is made at between 0.5% to 1% of turnover, and is estimated based upon the sales volumes, the pre-determined fee and past experience of the level of repair and maintenance. The basis of the provision is reviewed on an ongoing basis and is revised where appropriate.

## Notes to Financial Statements (continued)

31st December, 2003

### 28. Deferred tax

The movements in the deferred tax accounts are as follows:

#### The Group

##### Deferred tax assets:

	2003 RMB'000	2002 RMB'000
At beginning of year	33,288	22,486
Increase during the year	21,334	10,802
At end of year	<b>54,622</b>	33,288
Provisions in respect of:		
Provision for doubtful receivables	2,667	2,955
Provision for inventory impairment	1,623	3,203
Unrealised loss on revaluation of short term investments	199	212
Liabilities for accrued expenses that are deductible for tax purpose only when paid	4,610	300
Receipt in advance that was taxable when received	17,367	—
Unrealised profit arising on consolidation	19,672	15,631
Temporary differences arising from transfer of intangible assets between group companies	8,484	10,987
	<b>54,622</b>	33,288

## Notes to Financial Statements (continued)

31st December, 2003

### 28. Deferred tax (continued)

#### Deferred tax liabilities:

	2003 RMB'000	2002 RMB'000
At beginning of year	9,052	11,171
Decrease during the year	(3,799)	(2,119)
At end of year	<b>5,253</b>	9,052
Provision in respect of:		
Depreciation of fixed assets	2,147	1,823
Other temporary differences arising from transfer of assets between group companies	3,106	7,229
	<b>5,253</b>	9,052

## Notes to Financial Statements (continued)

31st December, 2003

### 28. Deferred tax (continued)

#### The Company

##### Deferred tax assets:

	2003 RMB'000	2002 RMB'000
At beginning of year	3,831	3,583
Increase during the year	11,677	248
At end of year	<b>15,508</b>	3,831
Provisions in respect of:		
Provision for doubtful receivables	849	1,919
Provision for inventory impairment	220	1,254
Unrealised loss on revaluation of short term investments	199	212
Receipt in advance that was taxable when received	9,630	—
Liabilities for accrued expenses that are deductible for tax purpose only when paid	4,610	446
	<b>15,508</b>	3,831

##### Deferred tax liabilities:

	2003 RMB'000	2002 RMB'000
At beginning of year	7,229	9,997
Decrease during the year	(4,123)	(2,768)
At end of year	<b>3,106</b>	7,229
Provision in respect of:		
Other temporary differences arising from transfer of assets between group companies	3,106	7,229

## Notes to Financial Statements (continued)

31st December, 2003

### 29. Capital

	2003 RMB'000	2002 RMB'000
Issued and fully paid:		
341,000,000 (2002: 170,500,000) domestic shares of RMB1 each	341,000	170,500
131,100,000 (2002: Nil) H shares of RMB1 each	131,100	—
	<b>472,100</b>	170,500

On 12th June, 2001, the Company was converted into a joint stock limited company and was renamed as Baoding Great Wall Automobile Holding Company Limited. The registered paid-in capital, capital reserves, statutory reserves and retained profits earnings as at 31st March, 2001 were capitalised into 170,500,000 shares of RMB1 each, to form a share capital of RMB170,500,000, in accordance with Article 99 of the PRC Company Law. On 28th May, 2003, the Company's name was changed to Great Wall Automobile Holding Company Limited.

On 3rd September, 2003, the Company's share capital was increased to RMB341,100,000 by the creation of 170,500,000 additional shares of RMB1 each as bonus shares. The bonus shares were credited as fully paid, by the way of capitalisation of retained profits in the amount of RMB170,500,000.

On 15th December, and 18th December, 2003, 114,000,000 newly issued H Shares of the Company and 17,100,000 additional H Shares of RMB1 each, respectively, were issued at a price of HK\$13.3 (equivalent to RMB14.1) per share. The aggregate net proceeds were approximately HK\$1,664,000,000 (equivalent to RMB1,773,488,000) after deducting related expenses for the placing and initial public offering of approximately HK\$80,111,000 (equivalent to RMB84,918,000).

The H shares ranked pari passu, in all material respects, with the domestic shares of the Company.

The proceeds for the issuance of H shares are to be mainly used for the acquisition of the facilities for the development of the Company, further details of which are included in the prospectus for the Placing and Public Offer for the H Shares of the Company on 3rd December, 2003.

As at 31st December, 2003, the registered capital of the Company was RMB341,000,000. An increment of the registered capital of the Company from RMB341,000,000 to RMB472,100,000 will be proposed in the extraordinary general meeting to be held on 19th May, 2004.



## Notes to Financial Statements (continued)

31st December, 2003

### 30. Reserves

#### The Group

The amounts of the Group's reserves and the movements therein for the year are presented in the consolidated statements of changes in equity.

#### The Company

	Notes	Capital	Share premium account	Capital reserves (Note ii)	Statutory reserves	Retained profits/ losses (Accumulated)	Proposed final dividend	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January, 2002		170,500	—	(23,971)	17,790	(8,381)	346	156,284
Final dividend for 2001 declared		—	—	—	—	—	(346)	(346)
Net profit for the year		—	—	—	—	91,805	—	91,805
Transfer to statutory reserves		—	—	—	62,179	(62,179)	—	—
Transfer to capital reserves	(i)	—	—	8	—	(8)	—	—
Proposed final dividend	10	—	—	—	—	(213,125)	213,125	—
At 31st December, 2002 and 1st January, 2003		170,500	—	(23,963)	79,969	(191,888)	213,125	247,743
Net profit for the year		—	—	—	—	111,536	—	111,536
Transfer to statutory reserves		—	—	—	100,070	(100,070)	—	—
Capitalisation of bonus shares		170,500	—	—	—	—	(170,500)	—
Final cash dividend for 2002 declared		—	—	—	—	—	(42,625)	(42,625)
Issue of H shares	29	131,100	1,727,306	—	—	—	—	1,858,406
Expenses for the placing and initial public offering	29	—	(84,918)	—	—	—	—	(84,918)
At 31st December, 2003		472,100	1,642,388	(23,963)	180,039	(180,422)	—	2,090,142

## Notes to Financial Statements (continued)

31st December, 2003

### 30. Reserves (continued)

#### The Company (continued)

Note:

- (i) In accordance with the relevant PRC regulations, an amount arising from the Company's write back of long-outstanding payables during the year was transferred to a non-deductible capital reserve.
- (ii) The capital reserves of the Group include non-distributable reserves of the Company and its subsidiaries created in accordance with accounting and financial regulations in PRC.

In accordance with the PRC Company Law and the Company's articles of association, the Company and its subsidiaries registered in the PRC, except for sino-foreign joint ventures, are required to appropriate 10% of the statutory net profit after tax (after offsetting any prior years' losses) to the statutory surplus reserve (except where the reserve balance has reached 50% of each entity's capital), and 5 to 10% of the statutory net profit after tax for the statutory public welfare fund and, on an optional basis, the discretionary surplus reserve fund. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, the balance of the statutory surplus reserve must be maintained at a minimum of 25% of capital after such utilisation. The statutory public welfare fund can only be utilised for collective benefits to the employees of the respective companies. The above reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

As stipulated by the relevant laws and regulations for foreign-investment enterprises in the PRC, certain of the Company's subsidiaries, being sino-foreign joint ventures, are required to maintain discretionary dedicated capital, which includes a general reserve fund, an enterprise expansion fund and a staff welfare and incentive bonus fund. The dedicated capital is to be appropriated from statutory net income as stipulated by statute or by the board of directors and is recorded as a component of shareholders' equity. Under generally accepted accounting principles in Hong Kong, the appropriation for the staff welfare and incentive bonus fund is charged to the profit and loss account and any unutilised balance is included in current liabilities. Appropriations of approximately RMB1,248,000 and RMB14,231,000 were made to the staff welfare and incentive bonus fund for the two years ended 31st December, 2002 and 2003, respectively.

In accordance with the relevant PRC regulations, the welfare enterprises of the Group are also required to transfer the tax benefits received (including corporate income tax exempted, value-added tax, city construction tax and education surcharge refunded) each year to a non-distributable statutory reserve for the development of the welfare enterprises.

## Notes to Financial Statements (continued)

31st December, 2003

### 31. Notes to consolidated cash flow statement

#### (a) Acquisition of subsidiaries

	<i>Notes</i>	<b>2003</b> RMB'000	2002 RMB'000
Net assets acquired			
Fixed assets	12	46,041	26,261
Construction in progress		65	16,634
Inventories		22,356	26,624
Trade receivables		29,558	19,276
Bills receivables		—	2,500
Other receivables		6,836	8,323
Cash and bank balances		6,914	16,938
Trade payables		(18,902)	(28,830)
Other payables		(75,271)	(26,784)
Dividend payable		—	(7,413)
Bank loans		—	(3,500)
Minority interests		(4,399)	(22,373)
		<b>13,198</b>	27,656
Goodwill on acquisition	14	2,704	—
Negative goodwill on acquisition	15	—	(8,763)
		<b>15,902</b>	18,893
Satisfied by:			
Cash		3,512	9,077
Other receivables		3,768	5,865
Reclassification to interests in subsidiaries from interests in associates		8,622	3,951
		<b>15,902</b>	18,893

## Notes to Financial Statements (continued)

31st December, 2003

### 31. Notes to consolidated cash flow statement (continued)

#### (a) Acquisition of subsidiaries (continued)

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2003 RMB'000	2002 RMB'000
Cash consideration	3,512	9,077
Cash and bank balances acquired	(6,914)	(16,938)
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<b>3,402</b>	7,861

On 15th January, 2002, GW Accessories Company acquired a 90% equity interest in Riwa Automobiles Company for a cash consideration of RMB2,271,000.

On 5th February, 2002, GW Internal Combustion Engine Company acquired a further 49% equity interest in Weide Power Machinery Company for a cash consideration of RMB406,000 and Weide Power Machinery Company became a 75% owned subsidiary of GW Internal Combustion Engine Company.

On 16th January, 2003, the Company acquired a further 26% equity interest in Changfu Pressings Company for an aggregate consideration of RMB7,280,000 from Shenyang Shuangfu Machinery Company Limited. Changfu Pressings Company then became a 75% owned subsidiary of the Company as the Group already held a 49% equity interest in Changfu Pressings Company prior to 16th January, 2003. The consideration was settled by cash of RMB3,512,000 and netting off against other receivables from Shenyang Shuangfu Machinery Company Limited amounting to RMB3,768,000.

On 13th May, 2003, the Company and GW Sales Network Company acquired a further 50% and 10% equity interest in GW After-sales Services Company respectively at zero consideration.

Since the acquisitions, Changfu Pressings Company and GW After-sales Services Company contributed approximately RMB5 million (after elimination of inter company transactions) and RMB48 million (after elimination of inter company transactions) to the Group's turnover and approximately RMB40 million and RMB5 million to the consolidated profit after tax and before minority interests for the year ended 31st December, 2003. In case of the associate which was reclassified to a subsidiary, these turnover and profit after tax amounts exclude the former associate's contribution to the results prior to its becoming a subsidiary.

## Notes to Financial Statements (continued)

31st December, 2003

### 31. Notes to consolidated cash flow statement (continued)

#### (b) Disposal of subsidiaries

	<i>Notes</i>	2003 RMB'000	2002 RMB'000
Net assets disposed of			
Fixed assets	12	16,415	—
Inventories		9,825	—
Trade receivables		5,853	—
Bills receivables		641	—
Other receivables		843	—
Cash and bank balances		1,625	—
Trade payables		(8,998)	—
Other payables		(5,369)	—
Minority interests		(11,737)	—
		<b>9,098</b>	<b>—</b>
Loss on disposal of subsidiaries	5	(3,475)	—
		<b>5,623</b>	<b>—</b>
Satisfied by:			
Cash consideration		3,000	—
Other receivables		2,623	—
		<b>5,623</b>	<b>—</b>

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2003 RMB'000	2002 RMB'000
Cash consideration	3,000	—
Cash and bank balance disposed of	(1,625)	—
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<b>1,375</b>	<b>—</b>

## Notes to Financial Statements (continued)

31st December, 2003

### 31. Notes to consolidated cash flow statement (continued)

#### (b) Disposal of subsidiaries (continued)

On 11th July, 2003, GW Internal Combustion Engine Company entered into a sales and purchase agreement to dispose of its entire 51% equity interest in Shenyang Great Wall Fusang Internal Combustion Engine Company Limited (“Shenyang Gusang Company”) for a consideration of RMB5,000,000 to a minority shareholder of Shenyang Fusang Company which was determined based on the net asset value of Shenyang Fusang Company. The transaction was approved by the relevant authorities on 11th August, 2003. The Group’s share of the loss on disposal before tax was approximately RMB3,475,000.

On 20th August, 2003, GW Internal Combustion Engine Company disposed of its entire interest in Weide Power Machinery Company at its then carrying amount for a consideration of approximately RMB623,000 to a related party, which did not result in any profit or loss to the Group. The transaction was approved by the relevant authorities on 25th August, 2003.

The results of the subsidiaries disposal in the year ended 31st December, 2003 had no significant impact on the Group’s consolidated turnover or profit after tax for the year.

### 32. Contingent Liabilities

The Group and the Company did not have any significant contingent liabilities at the end of the year.

### 33. Capital Commitments

The Group and the Company had the following capital commitments at the end of each of the year:

#### The Group

	2003 RMB'000	2002 RMB'000
Contracted, but not provided for	481,168	23,661
Authorised but not contracted for	809,860	—
	<b>1,291,028</b>	23,661

## Notes to Financial Statements (continued)

31st December, 2003

### 33. Capital commitments (continued)

#### The Group (continued)

An analysis of the above capital commitments by nature is as follows:

	2003 RMB'000	2002 RMB'000
Acquisition of plant and machinery	957,528	9,700
Construction commitment	333,500	5,671
Other	—	8,290
	<b>1,291,028</b>	<b>23,661</b>

#### The Company

	2003 RMB'000	2002 RMB'000
Contracted, but not provided for	332,724	9,054
Authorised, but not contracted for	600,404	—
	<b>933,128</b>	<b>9,054</b>

An analysis of the above capital commitments by nature is as follows:

	2003 RMB'000	2002 RMB'000
Acquisition of plants and machinery	658,169	856
Construction commitment	274,959	608
Other	—	7,590
	<b>933,128</b>	<b>9,054</b>

## Notes to Financial Statements (continued)

31st December, 2003

### 34. Operating lease commitments

#### The Group

At the end of the year, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2003 RMB'000	2002 RMB'000
As lessee:		
Within one year	251	72
In the second to fifth years, inclusive	383	40
After five years	—	238
	<b>634</b>	<b>350</b>

#### The Company

At the end of the year, the Company had total future minimum lease payments under non-cancellable operating leases with its tenants falling due as follows:

	2003 RMB'000	2002 RMB'000
As lessee:		
Within one year	118	6
In the second to fifth years, inclusive	215	24
After five years	—	237
	<b>333</b>	<b>267</b>



## Notes to Financial Statements (continued)

31st December, 2003

### 35. Particulars of companies comprising the Group

Particulars of the companies comprising the Group, which have substantially similar characteristics to a private company incorporated in Hong Kong, are as follows:

Company name	Place and date of incorporation	Paid-up share/ Registered capital as at 31st December, 2003 RMB'000	Percentage of equity interests attributable to the Group as at 31st December, 2003		Principal activities
			Direct %	Indirect %	
<b>The Company:</b>					
Great Wall Automobile Holding Company Limited (長城汽車股份有限公司)	The PRC 12th June, 2001	341,000	N/A	N/A	Manufacture and sale of automobiles
<b>Subsidiaries:</b>					
Baoding Great Wall Huabei Automobile Company Limited ("GW Huabei Company") (保定長城華北汽車有限責任公司)	The PRC 18th January, 2000	177,550	51	—	Manufacture of automotive parts and components
Baoding Xincheng Automobile Development Company Limited ("Xincheng Company") (保定信誠汽車發展有限公司)	The PRC 31st August, 2001	21,400	90	10	Manufacture of automotive parts and components

## Notes to Financial Statements (continued)

31st December, 2003

## 35. Particulars of companies comprising the Group (continued)

Company name	Place and date of incorporation	Paid-up share/ Registered capital as at 31st December, 2003 RMB'000	Percentage of equity interests attributable to the Group as at 31st December, 2003		Principal activities
			Direct %	Indirect %	
Baoding Great Wall Internal Combustion Engine Manufacturing Company Limited ("GW Internal Combustion Engine Company") (保定長城內燃機製造有限公司)	The PRC 25th May, 2000	40,816	51	—	Manufacture of automotive parts and components
Baoding Riwa Automobile System Accessories Company Limited ("Riwa Automobile Company") (保定日瓦汽車系統配套有限公司)	The PRC 29th April, 1999	1,000	—	100	Manufacture of automotive parts and components
Baoding Great Machinery Company Limited ("Great Machinery Company") (保定市格瑞機械有限公司)	The PRC 25th October, 2001	23,000	87	13	Manufacture of automotive parts and components
Baoding Great Wall Automobile Accessories Company Limited ("GW Accessories Company") (保定市長城汽車配件有限公司)	The PRC 18th June, 2001	1,000	95	5	Manufacture of automotive parts and components

## Notes to Financial Statements (continued)

31st December, 2003

### 35. Particulars of companies comprising the Group (continued)

Company name	Place and date of incorporation	Paid-up share/ Registered capital as at 31st December, 2003 RMB'000	Percentage of equity interests attributable to the Group as at 31st December, 2003		Principal activities
			Direct %	Indirect %	
Baoding Changcheng Vehicle Axles Industries Company Limited# ("GW Axles Company") (i) (保定長城汽車橋業有限公司)	The PRC 13th December, 2000	5,460	75	—	Manufacture of automotive parts and components
Baoding Changfu Pressings Company Limited # ("Changfu Pressings Company") (ii) (保定長福沖壓有限公司)	The PRC 4th January, 1999	28,000	75	—	Manufacture of automotive parts and components
Beijing Great Automotive Components Company Limited# ("Beijing Great Company") (iii) (北京格瑞特汽車零部件有限公司)	The PRC 22nd January, 2002	1,000	75	—	Manufacture of automotive parts and components
Baoding Great Wall Automobile Sales Network Company Limited ("GW Sales Networks Company") (保定市長城汽車營銷網絡有限公司)	The PRC 28th August, 2001	2,000	90	10	Marketing and sale of automobiles

## Notes to Financial Statements (continued)

31st December, 2003

### 35. Particulars of companies comprising the Group (continued)

Company name	Place and date of incorporation	Paid-up share/ Registered capital as at 31st December, 2003 RMB'000	Percentage of equity interests attributable to the Group as at 31st December, 2003		Principal activities
			Direct %	Indirect %	
Baoding Great Wall Bus Sales Company Limited ("GW Bus Sales Company") (保定市長城客車銷售有限公司)	The PRC 20th January, 2003	2,000	90	10	Marketing and sale of automobiles
Baoding Great Wall Automobile After-sales Services Company Limited ("GW After-sales Services Company") (保定市長城汽車售後服務有限公司)	The PRC 13th June, 1996	300	90	10	Provision of after-sales services

*Notes:*

- # Sino-foreign joint venture.
- (i) The joint venture agreement of GW Axles Company will expire on 12th December, 2015. Upon expiry, the Company is entitled to the remaining net assets according to the profit sharing ratio.
- (ii) The joint venture agreement of Changfu Pressings Company will expire on 3rd January, 2014. Upon expiry, the Company is entitled to the remaining net assets according to the profit sharing ratio.
- (iii) The joint venture agreement of Beijing Great Company will expire on 21st January, 2013. Upon expiry, the Company is entitled to the remaining net assets according to the profit sharing ratio.

## Notes to Financial Statements (continued)

31st December, 2003

### 36. Related party transactions

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

#### (a) Continuing transactions

Name of related parties	Relationship with the Group	Nature of transactions	Pricing policy	Year ended 31st December,	
				2003 RMB'000	2002 RMB'000
GW After-sales Services Company	Associated (i)	Sales of automotive parts and components (c)	(c)	3,240	13,222
		Purchases of automotive parts and components (c)	(c)	926	9,651
		Mandatory inspection service fee paid (d)	(d)	4,646	7,079
Changfu Pressings company	Associated (ii)	Purchases of automotive parts and components (b)	(b)	—	17,851
		Processing service fee received (d)	(d)	—	4,046
Baoding Great Wall Automobile Decoration Accessories Factory (保定長城汽車裝飾件廠)	Related party (iii)	Purchases of automotive parts and components (b)	(b)	5,744	10,049
		Sales of spare parts (a)	(a)	197	—
		Guarantees received in respect of bank loans (a)	(a)	3,500	3,500
Xincheng Company	Related party (iv)	Purchases of automotive parts and components (b)	(b)	—	42,765
		Sales of spare parts (a)	(a)	—	445
		Purchase of fixed assets (a)	(a)	—	236
Riwa Automobile Company	Related party (v)	Purchases of automotive parts and components (b)	(b)	—	—
Baoding Tai Hang Steel Structure Construction Company Limited (保定市太行鋼結構工程有限公司)	Related party (vi)	Construction services fee paid (d)	(d)	34,512	15,282

## Notes to Financial Statements (continued)

31st December, 2003

### 36. Related party transactions (continued)

#### (a) Continuing transactions (continued)

Name of related parties	Relationship with the Group	Nature of transactions	Pricing policy	Year ended 31st December,	
				2003 RMB'000	2002 RMB'000
Baoding Tai Hang Rosemex Engineering Company Limited (保定市太行熱士美工程有限公司)	Related party (vii)	Purchase of fixed assets	(d)	538	218
Baoding Ants Logistics Company Limited ("Ants Logistics") (保定市螞蟻物流網絡有限公司)	Related party (viii)	Transportation fee paid	(c)	68,743	50,932
Shunping Ante Transport Company Limited (順平安特運輸有限公司)	Related party (viii)	Transportation expenses	(c)	3,996	—
Beijing Beiqi Momeiya Automobiles Manufacturing Company Limited (北京北汽摩美亞汽車製造有限公司)	Related party (ix)	Sales of automotive components	(c)	18,486	2,511
Beijing Jiayou Trading Company Limited (北京佳友興業商貿有限公司)	Related party (ix)	Sales of automotive components	(c)	202	—
Gaobeidian Shi Zhong Ke Huabei Automobile Company Limited (高碑店市中客汽車華北有限責任公司)	Related party (x)	Utilities fee paid Sales of spare parts	(d)	313 828	— —
Hebei Baoding Tai Hang Group Company Limited (河北保定太行集團有限公司)	Related party (xiii)	Purchase of spare parts	(b)	326	—

In the opinion of the directors of the Company, the above transactions were conducted in the ordinary course of business and will continue after the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited.

## Notes to Financial Statements (continued)

31st December, 2003

## 36. Related party transactions (continued)

## (b) Discontinued transactions

Name of related parties	Relationship with the Group	Nature of transactions	Pricing policy	Year ended 31st December,	
				2003 RMB'000	2002 RMB'000
Beijing Oriental Riwa Technology and Trading Company Limited (北京東方日瓦科貿有限公司)	Related party (xi)	Purchase of raw materials (b)	(b)	—	260
		Acquisition of a 50% equity interest in Riwa Automobile Company (d)	(d)	—	1,262
Beijing Weide Automobile System Accessories Company Limited (北京威德汽車系統配套有限公司)	Related party (xii)	Purchase of raw materials	(b)	—	21,825
Hebei Baoding Tai Hang Group Company Limited (河北保定太行集團有限公司)	Related party (xiii)	Purchase of fixed assets (d)	(d)	1,346	1,893
		Guarantees received in respect of bank loans (a)	(a)	—	35,650
Baoding Zhongxin Internal Combustion Engine Company Limited (保定中信內燃機製造有限公司)	Related party (xiv)	Acquisition of a 24.5% equity interest in Weide Power Machinery Company (d)	(d)	—	203
Baoding Taihang Pump Manufacturing company Limited (保定市太行製泵有限公司)	Related party (xv)	Acquisition of a 40% equity interest in Riwa Automobile Company (d)	(d)	—	1,099
		Disposal of 58% equity interest in BGW Property Development Limited (d)	(d)	623	3,324
		Acquisition of a 21.1% equity interest in Xincheng Company (d)	(d)	—	5,865
Gaobeidian Shi Zhong Ke Huabei Automobile Company Limited (高碑店市中客汽車華北有限責任公司)	Related party (x)	Processing service fee paid (d)	(d)	1,171	2,597

## Notes to Financial Statements (continued)

31st December, 2003

### 36. Related party transactions (continued)

#### (b) Discontinued transactions (continued)

In the opinion of the directors of the Company, the above transactions were conducted in the ordinary course of business and discontinued after the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited.

Notes:

- (a) The bank guarantees, all of which had been released, were provided by the related parties at nil consideration.
- (b) The price was determined at a cost plus basis.
- (c) The price was determined with reference to the then prevailing market prices/rates and the price charged to third parties.
- (d) The consideration was in accordance with the terms of the underlying agreement.
- (i) GW After-sales Services Company became a subsidiary of the Company in May 2003.
- (ii) Changfu Pressings Company became a subsidiary of the Company in January 2003.
- (iii) Baoding Great Wall Automobile Decoration Accessories Factory ceased to be a related party on 20th June, 2003. Prior to that date, two directors of the Company held minority beneficial interests in the equity.
- (iv) Xincheng Company became a 29.9% owned associate of the Company in March 2002 and it became a 51% owned subsidiary of the Company in October 2002.
- (v) Riwa Automobile Company became a subsidiary of the Group in January 2002.
- (vi) Baoding Tai Hang Steel Structure Construction Company Limited is controlled and beneficially owned by four directors of the Company.
- (vii) Baoding Tai Hang Rosemex Engineering Company Limited is substantially beneficially owned by a director of the Company.
- (viii) Baoding Ants Logistics Company Limited and Shunping Ante Transport Company Limited are controlled and beneficially owned by three directors of the Company.
- (ix) Beijing Beiqi Momeiya Automobiles Manufacturing Company Limited and Beijing Jiayou Trading Company Limited are related parties of a minority shareholder of GW Internal Combustion Engine Company
- (x) Gaobeidian Shi Zhong Ke Huabei Automobile Company Limited is a related party of a minority shareholder of GW Huabei Company.



## Notes to Financial Statements (continued)

31st December, 2003

### 36. Related party transactions (continued)

#### (b) Discontinued transactions (continued)

Notes: (continued)

- (xi) Beijing Oriental Riwa Technology and Trading Company Limited is controlled and beneficially owned by three Directors of the Company.
- (xii) Beijing Weide Automobile System Accessories Company Limited is controlled and beneficially owned by three Directors of the Company.
- (xiii) Hebei Baoding Tai Hang Group Company Limited is controlled and beneficially owned by a director of the Company.
- (xiv) Baoding Zhongxin Internal Combustion Engine Company Limited is a minority shareholder of GW Internal Combustion Engine Company.
- (xv) Baoding Taihang Pump Manufacturing Company Limited is beneficially owned by three directors of the Company.

Details of the Group's trade and other balances with its associates and other related parties as at the end of the year are disclosed in notes 20, 22, 24 and 25.

### 37. Subsequent events

- (1) On 6th January, 2004, the Company entered into a joint venture agreement with an independent third party, Automart Holding Limited, to set up a sino-foreign joint venture company with limited liability, Macs (Baoding) Auto A/C System Limited ("Macs Auto A/C System"). The registered capital of Macs Auto A/C System is RMB16,500,000 with an approved tenure of 15 years. The Company subscribed for a 51% equity interest of Mac Auto A/C System in cash.
- (ii) On 12th February, 2004, the Company and an independent third party, Wenzhou Huanqiu Automobile Gasket Co., Ltd. (溫州市環球汽車襯墊有限公司) set up a limited liability company, Baoding-Huanqiu Auto Spare Parts Co., Ltd. ("Baoding-Huanqiu") (保定環球汽車零部件有限公司). The registered capital of Baoding Global Automotive is RMB10,000,000 with an approved tenure of 15 years. The Company subscribed for a 51% equity interest of Baoding-Huanqiu in cash.

### 38. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 26th March, 2004.