

Notes to the Financial Statements

31 December 2004

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 15 December 2003. On 18 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. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS("HKFRSs")

The Hong Kong Institute of Certified Public Accountants has issued a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group is in the process of making an assessment of the impact of these new HKFRSs and has so far concluded that the adoption of HKFRS 3 "Business Combinations" would have the following effects.

Nature of changes	Estimated increase/(decrease) on the consolidated net profit for the year ending 31 December 2005 <i>RMB'000</i>	Estimated effect on the consolidated net assets as at 31 December 2004 <i>RMB'000</i>
Discontinue amortise goodwill	270	Nil
Discontinue amortise negative goodwill and adjust the carrying amount of negative goodwill to the opening balance of retained profits	(1,935)	15,566

The Group will be continuing with the assessment of the impact of the other new HKFRSs and other significant changes may be identified as a result.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in Renminbi and in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for, as disclosed in the accounting policy below, short term investments which are stated at fair value.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2004. 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 intercompany 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.

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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint venture companies (continued)

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 Group/Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Group/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 Group/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.

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities 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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entities (continued)

The results of jointly-controlled entities are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's investments in jointly-controlled entities are treated as long term assets and are stated at cost less any impairment losses.

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. The Company's investments in associates are treated as long term assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities 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 and jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

On disposal of subsidiaries, associates or jointly-controlled entities, 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.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities 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 and jointly-controlled entities, 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, associates or jointly-controlled entities, 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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 and 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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

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	2.43%-12.13%
Plant and machinery	9.70%-19.40%
Motor vehicles	9.70%-16.17%
Furniture, fixtures and office equipment	19.40%

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.

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.

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3. 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 banks, 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 in 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 the Financial Statements

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3. 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 the Financial Statements

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3. 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 profit and loss account over the expected useful life of the relevant asset by equal annual instalments.

Retirement benefits costs

In accordance with the rules and regulations in the PRC, the employees of the Group participate in various defined contribution retirement benefits 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 year 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.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 currency transactions

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.

Notes to the Financial Statements

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

4. 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 automobiles 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.

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5. 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:

	2004 RMB'000	2003 RMB'000
Turnover		
Sale of automobiles	2,923,192	3,355,243
Sale of automotive parts and components	261,422	336,463
	3,184,614	3,691,706
Other revenue and gains		
Interest income	10,295	7,487
Government grants*	18,239	23,172
Unrealised gain on revaluation of short term investments	-	40
Negative goodwill recognised as income	1,935	1,399
Write-back of long outstanding payables	4,737	1,166
	35,206	33,264

* Government grants represented government subsidies and value-added tax refunds. The government grants are unconditional, except for the grants must be utilised for the development of the Company and its subsidiaries.

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6. PROFIT FROM OPERATING ACTIVITIES

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

	<i>Notes</i>	2004 RMB'000	2003 RMB'000
Cost of inventories sold (including depreciation)		2,296,668	2,495,518
Depreciation of fixed assets	14	69,362	56,968
Loss on disposal of fixed assets		624	5,592
Provision for doubtful receivables		9,468	(1,630)
Amortisation of goodwill included in other operating expenses	16	270	270
Research and development costs included in other operating expenses		53,036	37,457
Minimum lease payments under operating leases:			
Land and buildings		242	147
Auditors' remuneration		4,000	1,400
Staff costs (including directors' and supervisors' remuneration (<i>note 8</i>)):			
Wages and salaries		111,233	93,110
Pension scheme contributions		8,937	7,386
		120,170	100,496
Product warranty provisions		27,732	37,437
Interest income	5	(10,295)	(7,487)
Government grants included in other revenue and gains	5	(18,239)	(23,172)
(Gain)/loss on disposal of other investments		–	410
Unrealised (gain)/loss on revaluation of short term investments		338	(40)
Negative goodwill recognised as income included in other revenue and gains	5/16	(1,935)	(1,399)
Loss on disposal of subsidiaries	31	–	3,475
Write-back of long outstanding payables	5	(4,737)	(1,166)

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7. FINANCE COSTS

	Group	
	2004	2003
	RMB'000	RMB'000
Interest on bank loans wholly repayable within five years	46	4,863
Other finance costs	573	230
	619	5,093

8. DIRECTORS' AND SUPERVISORS' REMUNERATION

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

	2004	2003
	RMB'000	RMB'000
Fees	–	–
Other emoluments:		
Salaries, allowances, and benefits in kind	766	423
Bonuses	–	–
Retirement benefits contributions	7	7
	773	430

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8. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(a) Independent non-executive directors

The emoluments paid to independent non-executive directors were as follows:

	2004	2003
	RMB'000	RMB'000
Han Chuan Mo	48	48
Zhang Ming Yu	48	48
Zhao Yu Dong	48	48
Wong Chi Keung	253	–
	397	144

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8. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors, non-executive directors and supervisors

2004	Salaries, allowances and benefits		Retirement benefits		Total emoluments
	Fees RMB'000	in kind RMB'000	Bonuses RMB'000	contributions RMB'000	
Executive directors:					
Wei Jian Jun	-	91	-	1	92
Liu Ping Fu	-	58	-	2	60
Wang Feng Ying	-	82	-	1	83
Liang He Nian	-	67	-	1	68
Yang Zhi Juan	-	39	-	1	40
Non executive directors:					
He Ping	-	-	-	-	-
Niu Jun	-	-	-	-	-
Supervisors:					
Wu Nan	-	32	-	1	33
Wei De Yi	-	-	-	-	-
Yuan Hong Li	-	-	-	-	-
Luo Jin Li	-	-	-	-	-
	-	369	-	7	376

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8. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors, non-executive directors and supervisors (continued)

2003	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Bonuses RMB'000	Retirement benefits contributions RMB'000	Total emoluments RMB'000
Executive directors:					
Wei Jian Jun	–	62	–	1	63
Liu Ping Fu	–	48	–	2	50
Wang Feng Ying	–	55	–	1	56
Liang He Nian	–	47	–	1	48
Yang Zhi Juan	–	36	–	1	37
Non executive directors:					
He Ping	–	–	–	–	–
Niu Jun	–	–	–	–	–
Supervisors:					
Wu Nan	–	31	–	1	32
Wei De Yi	–	–	–	–	–
Yuan Hong Li	–	–	–	–	–
Luo Jin Li	–	–	–	–	–
	–	279	–	7	286

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, or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office.

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9. FIVE HIGHEST PAID EMPLOYEES

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

	2004	2003
Director	–	2
Employees	5	3

The remuneration of the non-director/supervisor, highest paid employees, whose individual remuneration fell within the range of nil to RMB1,060,000 (equivalent to HK\$1,000,000), is as follows:

	2004 RMB'000	2003 RMB'000
Salaries, allowances, and benefits in kind	798	161
Bonuses	–	–
Retirement benefits contributions	2	2
	800	163

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10. TAX

Income tax

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

	2004	2003
	RMB'000	RMB'000
Hong Kong profits tax	–	–
PRC corporate income tax:		
Current corporate income tax	67,873	212,741
Deferred income tax	1,287	(25,133)
Share of tax attributable to jointly-controlled entities	–	–
	69,160	187,608

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 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, Baoding Great Wall Internal Combustion Engine Manufacturing Company Limited and Baoding Changcheng Vehicle Axles Industries Company Limited, were entitled to deduct an additional technological development expenses before tax in the amount of RMB27,948,300 for the year ended 31 December 2004, resulted in a reduction in corporate income tax in the amount of RMB9,020,900 in the year 2004(2003:Nil).

Pursuant to Tentative Regulation Regarding Income Tax Benefit for Investment in the PRC Made Equipment Used in Technical Reform, Baoding Great Wall Internal Combustion Engine Manufacturing Company Limited and Baoding Changcheng Vehicle Axles Industries Company Limited were entitled to deduct corporate income tax in the amount of RMB12,964,500 for the year ended 31 December 2004(2003: Baoding Great Wall Huabei Automobile Company Limited was entitled to deduct corporate income tax in the amount of RMB6,092,000).

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10. TAX (continued)

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

Pursuant to applicable laws and regulations on welfare enterprises in the PRC, Baoding Great Wall Automobile Accessories Company Limited, Baoding Xincheng Automobile Development Company Limited, Baoding Great Machinery Company Limited, Baoding Riwa Automobile System Accessories Company Limited and Baoding Deer Automobile System Company Limited, 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 31 December 2003 and 2004, corporate income tax exempted for these welfare enterprises amounted to approximately RMB22,996,000 and RMB38,020,000, 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:

	2004 RMB'000	2003 RMB'000
Profit before tax	552,969	872,639
At PRC corporate income tax rate of 33%	182,480	287,971
Tax effect of expenses not deductible for tax purposes	6,882	14,633
Tax holiday	(120,202)	(114,996)
Actual tax expenses	69,160	187,608

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10. 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 of 3% or 5%. Pursuant to the notice of relevant tax bureau, the Company was approved a 30% reduction in the consumption tax previously paid by the Company for certain products. The amount exempted this year amounting to approximately RMB2,532,000 was recorded as income.

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company was approximately RMB380,035,000 (2003: RMB111,536,000).

12. DIVIDEND

	2004 RMB'000	2003 RMB'000
Proposed final dividend	94,420	–

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of RMB402,917,000 (2003: RMB523,398,000), and the weighted average of 944,200,000 (2003: 693,212,602) shares in issue during the year, as adjusted to reflect the capitalisation issue of 472,100,000 shares on 1 February 2005.

No diluting events existed during the year and therefore a diluted earnings per share amount has not been disclosed.

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14. 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
Cost:					
At beginning of year	266,711	296,680	23,838	25,309	612,538
Additions	880	20,860	1,895	7,718	31,353
Transfer from construction in progress (note 15)	43,248	148,562	247	3,461	195,518
Disposals	(302)	(2,191)	(1,280)	(603)	(4,376)
At 31 December 2004	310,537	463,911	24,700	35,885	835,033
Accumulated depreciation:					
At beginning of year	38,790	119,458	5,747	7,199	171,194
Provided during the year	10,437	50,524	3,078	5,323	69,362
Disposals	(93)	(1,219)	(445)	(401)	(2,158)
At 31 December 2004	49,134	168,763	8,380	12,121	238,398
Net book value:					
At 31 December 2004	261,403	295,148	16,320	23,764	596,635
At 31 December 2003	227,921	177,222	18,091	18,110	441,344

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 RMB64,758,000 and RMB66,740,000 as at 31 December 2003 and 2004, respectively.

Notes to the Financial Statements

31 December 2004

14. FIXED ASSETS (continued)

The Company

	Leasehold land and buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and office equipment RMB'000	Total RMB'000
Cost:					
At beginning of year	76,138	31,197	7,217	10,166	124,718
Additions	23	1,391	87	3,064	4,565
Transfers from construction in progress (<i>note 15</i>)	5,467	7,651	7	3,456	16,581
Disposals	(262)	(1,365)	(470)	(460)	(2,557)
At 31 December 2004	81,366	38,874	6,841	16,226	143,307
Accumulated depreciation:					
At beginning of year	8,389	12,753	2,756	3,470	27,368
Provided during the year	2,499	3,685	679	1,623	8,486
Disposals	(92)	(1,079)	(150)	(340)	(1,661)
At 31 December 2004	10,796	15,359	3,285	4,753	34,193
Net book value:					
At 31 December 2004	70,570	23,515	3,556	11,473	109,114
At 31 December 2003	67,749	18,444	4,461	6,696	97,350

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 RMB20,834,000 and RMB20,834,000 as at 31 December 2003 and 2004, respectively.

Notes to the Financial Statements

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15. CONSTRUCTION IN PROGRESS

The Group

	2004	2003
	RMB'000	RMB'000
At beginning of year	376,076	56,985
Additions	682,808	384,388
Acquisition of subsidiaries (<i>note 31</i>)	–	65
Transfer to fixed assets (<i>note 14</i>)	(195,518)	(65,362)
At end of year	863,366	376,076

The cost of the Group's land included above was approximately RMB57,875,000 and RMB106,797,000 as at 31 December, 2003 and 2004, respectively. The land is situated in the PRC and is held under a medium term lease.

The Company

	2004	2003
	RMB'000	RMB'000
At beginning of year	240,089	1,900
Additions	518,686	252,345
Transfer to fixed assets (<i>note 14</i>)	(16,581)	(14,156)
At end of year	742,194	240,089

The cost of the Company's land included above was approximately RMB57,875,000 and RMB93,688,000 as at 31 December 2003 and 2004, respectively. The land is situated in the PRC and is held under a medium term lease.

Notes to the Financial Statements

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16. GOODWILL AND NEGATIVE GOODWILL

The amounts of the goodwill and negative goodwill capitalised in the consolidated balance sheet, arising from the acquisition of subsidiaries are as follows:

The Group

	Goodwill	Negative
	RMB'000	goodwill
		RMB'000
Cost:		
At beginning and end of year	2,704	19,491
Accumulated amortisation:		
At beginning of year	270	1,990
Amortisation for the year	270	1,935
At end of year	540	3,925
Net book value:		
At 31 December 2004	2,164	15,566
At 31 December 2003	2,434	17,501

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17. INVESTMENTS IN SUBSIDIARIES

The Company

	2004 RMB'000	2003 RMB'000
Unlisted investments, at cost	239,059	152,810

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.

Particulars of the subsidiaries are as follows:

Company name	Place and date of incorporation and operations	Nominal value of paid-up share/ registered capital as at 31 December 2004 RMB'000	Percentage of equity interests attributable to the Group as at 31 December 2004		Principal activities
			Direct %	Indirect %	
Baoding Great Wall Huabei Automobile Company Limited ("GW Huabei Company") (保定長城華北汽車有限責任公司)	PRC 18 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)	PRC 31 August 2001	53,910	90	10	Manufacture of automotive parts and components

Notes to the Financial Statements

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17. INVESTMENTS IN SUBSIDIARIES (continued)

Company name	Place and date of incorporation and operations	Nominal value of paid-up share/ registered capital as at 31 December 2004 RMB'000	Percentage of equity interests attributable to the Group as at 31 December 2004		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)	PRC 25 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)	PRC 29 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)	PRC 25 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)	PRC 18 June 2001	32,420	95	5	Manufacture of automotive parts and components

Notes to the Financial Statements

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17. INVESTMENTS IN SUBSIDIARIES (continued)

Company name	Place and date of incorporation and operations	Nominal value of paid-up share/ registered capital as at 31 December 2004 RMB'000	Percentage of equity interests attributable to the Group as at 31 December 2004		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)	PRC 13 December 2000	5,460	75	–	Manufacture of automotive parts and components
Baoding Changfu Pressings Company Limited # ("Changfu Pressings Company") (ii) (保定長福沖壓件有限公司)	PRC 4 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)	PRC 22 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)	PRC 28 August 2001	2,000	90	10	Marketing and sale of automobiles

Notes to the Financial Statements

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17. INVESTMENTS IN SUBSIDIARIES (continued)

Company name	Place and date of incorporation and operations	Nominal value of paid-up share/ registered capital as at 31 December 2004 RMB'000	Percentage of equity interests attributable to the Group as at 31 December 2004		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)	PRC 20 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") (保定市長城客車售後服務有限公司)	PRC 13 June 1996	300	90	10	Provision of after-sale services
Baoding Great Automobile Sales Company Limited (Baoding Great Sales Company) (保定格瑞特汽車營銷有限公司)	PRC 9 January 2004	2,000	90	10	Marketing and sale of automobiles
Baoding Kemei Commerce Company Limited (Baoding Kemei Company) (保定科美貿易有限公司)	PRC 26 March 2004	2,000	90	10	Marketing and sale of automobiles
Baoding Deer Automobile System Company Limited (Baoding Deer Company) (保定德爾汽車系統有限公司)	PRC 26 September 2003	500	5	48.45	Manufacture of automotive parts and components

Notes to the Financial Statements

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17. INVESTMENTS IN SUBSIDIARIES (continued)

Company name	Place and date of incorporation and operations	Nominal value of paid-up share/ registered capital as at 31 December 2004 RMB'000	Percentage of equity interests attributable to the Group as at 31 December 2004		Principal activities
			Direct %	Indirect %	
Macs (Baoding) Auto A/C System Co., Ltd. # ("Macs Auto A/C Company") (iv) (麥克斯(保定)空調系統有限公司)	PRC 18 January 2004	16,500	51	–	Manufacture of automotive parts and components
Baoding Huanqiu Auto Spare Parts Co., Ltd. (Baoding Huanqiu Company) (保定環球汽車零部件有限公司)	PRC 5 April 2004	10,000	51	–	Manufacture of automotive parts and components
Hebei Great Wall Automobile Technical Academy (GW Automobile Technical Academy) (河北省長城汽車工程研究院)	PRC 18 May 2004	10,000	100	–	Research and development of automobiles and relevant components

Notes to the Financial Statements

31 December 2004

17. INVESTMENTS IN SUBSIDIARIES (continued)

Notes:

- # Sino-foreign joint venture.
- * During the year, the paid-up share capital of Xincheng Company and GW Accessories Company increased by RMB32,510,000 and RMB31,420,000, respectively. Upon 31 December 2004, it is subject to approval by the relevant department of Administration for Industry and Commerce.
- (i) The joint venture agreement of GW Axles Company will expire on 12 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 3 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 21 January 2013. Upon expiry, the Company is entitled to the remaining net assets according to the profit sharing ratio.
- (iv) The joint venture agreement of Macs Auto A/C Company will expire on 17 January 2019. Upon expiry, the Company is entitled to the remaining net assets according to the profit sharing ratio.

18. INTERESTS/INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Unlisted investments, at cost	–	–	23,700	–
Share of net assets	23,707	–	–	–
	23,707	–	23,700	–

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

Notes to the Financial Statements

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18. INTERESTS/INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Particulars of the jointly-controlled entities of the Group are as follows:

Name	Business structure	Place and Date of incorporation	Ownership interest	Percentage of		Principal activities
				Voting power	Profit sharing	
			%	%	%	
Baoding Deye Automobile Inner Decoration Co., Ltd. (Baoding Deye Company) (保定德業汽車內飾件有限公司) # (i)	Sino-foreign joint venture	PRC 30 April 2004	49	49	49	Manufacture of automotive parts and components
Baoding Jiehua Automobile Components and Accessories Co., Ltd (Baoding Jiehua Company) (保定傑華汽車零部件有限公司)	Corporation	PRC 15 September 2004	50	50	50	Manufacture of automotive parts and components

Notes:

Sino-foreign joint venture.

(i) The joint venture agreement of Baoding Deye Company will expire on 29 April 2016. Upon expiry, the Company is entitled to the remaining net assets according to the profit sharing ratio.

All of the above investments in jointly-controlled entities are directly held by the Company.

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19. INVENTORIES

The Group

	2004	2003
	RMB'000	RMB'000
Raw materials	166,513	180,790
Semi-finished goods	65,563	75,844
Work in progress	42,170	31,019
Finished goods	137,610	230,846
Spare parts and consumables	7,509	3,741
	419,365	522,240
Provision for inventory impairment	(13,593)	(5,150)
	405,772	517,090

The carrying amount of inventories carried at net realisable value included in the above balances was RMB26,799,000 (2003: Nil).

The Company

	2004	2003
	RMB'000	RMB'000
Raw materials	33,641	28,285
Work in progress	14,186	9,874
Finished goods	155,764	273,734
Spare parts and consumables	882	-
	204,473	311,893
Provision for inventory impairment	(5,568)	(667)
	198,905	311,226

The carrying amount of inventories carried at net realisable value included in the above balances was RMB25,238,000 (2003: Nil).

Notes to the Financial Statements

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20. TRADE RECEIVABLES

The Group normally receives payments or bills in advance for the 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:

	2004 RMB'000	2003 RMB'000
Outstanding balances aged:		
Within 6 months	41,171	57,682
7 to 12 months	20,731	2,988
Over 1 year	2,215	1,581
	64,117	62,251
Less: Provision for doubtful debts	(14,291)	(5,945)
	49,826	56,306

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

	2004 RMB'000	2003 RMB'000
Jointly-controlled entities	-	-
Other related parties	16,593	15,738
	16,593	15,738

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

Notes to the Financial Statements

31 December 2004

20. TRADE RECEIVABLES (CONTINUED)

The Company

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

	2004	2003
	RMB'000	RMB'000
Outstanding balances aged:		
Within 6 months	7,655	865
7 to 12 months	433	354
Over 1 year	726	761
	8,814	1,980
Less: Provision for doubtful debts	(998)	(981)
	7,816	999

All the balances are due from independent third parties.

Notes to the Financial Statements

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21. BILLS RECEIVABLE

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

The Group

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

	2004 RMB'000	2003 RMB'000
Falling due:		
Within 3 months	311,724	84,959
4 to 6 months	250,590	513,741
	562,314	598,700

As at 31 December 2004, the Group's bills receivable amounting to RMB134,650,000 (2003: RMB60,151,000) was pledged to banks for issuing an equivalent amount of bills payable.

The Company

The maturity profile of the bills receivable of the Company is as follows:

	2004 RMB'000	2003 RMB'000
Falling due:		
Within 3 months	219,725	21,817
4 to 6 months	220,503	392,941
	440,228	414,758

As at 31 December 2004, the Company's bills receivable amounting to RMB45,150,000 (2003: RMB49,044,000) are pledged to banks for issuing an equivalent amount of bills payable.

Notes to the Financial Statements

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22. OTHER RECEIVABLES

The Group

	2004	2003
	RMB'000	RMB'000
Prepayments	53,996	31,714
Export VAT refund	12,866	2,887
Other	12,234	51,227
	79,096	85,828

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

	2004	2003
	RMB'000	RMB'000
Jointly-controlled entities	-	-
Other related parties	9,371	662
	9,371	662

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

Notes to the Financial Statements

31 December 2004

22. OTHER RECEIVABLES (CONTINUED)

The Company

	2004	2003
	RMB'000	RMB'000
Prepayments	31,582	3,874
Export VAT refund	12,866	2,887
Other	12,042	56,304
	56,490	63,065

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

	2004	2003
	RMB'000	RMB'000
Subsidiaries	9,264	-
Jointly-controlled entities	-	-
Other related parties	108	-
	9,372	-

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

Notes to the Financial Statements

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23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Cash and bank balances	2,196,877	2,515,369	1,607,668	2,326,812
Less: Pledged to bank for issuing bills payable	(168,464)	(115,015)	(35,546)	(48,973)
Cash and cash equivalents	2,028,413	2,400,354	1,572,122	2,277,839

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.

24. TRADE PAYABLES

The Group

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

	2004 RMB'000	2003 RMB'000
Outstanding balances aged:		
Within 6 months	571,232	473,654
7 to 12 months	14,309	125,938
1 to 2 years	16,867	45,049
Over 2 years	14,625	18,841
	617,033	663,482

Notes to the Financial Statements

31 December 2004

24. TRADE PAYABLES (continued)

The Group (continued)

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

	2004 RMB'000	2003 RMB'000
Jointly-controlled entities	–	–
Other related parties	8,605	41,716
	8,605	41,716

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

The Company

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

	2004 RMB'000	2003 RMB'000
Subsidiaries	395,751	768,847
Jointly-controlled entities	–	–
Other related parties	961	4,734
	396,712	773,581

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

Notes to the Financial Statements

31 December 2004

25. OTHER PAYABLES

The Group

	2004	2003
	RMB'000	RMB'000
Advances from customers	136,085	196,708
Accruals	9,029	32,366
Other	131,587	101,683
	276,701	330,757

Included in the Group's other payables are amounts due to related parties of RMB211,300 and RMB120,000 for the two years ended 31 December 2003 and 2004, respectively, which are unsecured, non-interest bearing and are payable on demand.

The Company

	2004	2003
	RMB'000	RMB'000
Advances from customers	285,680	309,634
Accruals	4,918	29,240
Other	27,784	46,742
	318,382	385,616

Notes to the Financial Statements

31 December 2004

25. OTHER PAYABLES (continued)

The Company (continued)

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

	2004	2003
	RMB'000	RMB'000
Subsidiaries	254,253	300,111
Jointly-controlled entities	–	–
Other related parties	–	211
	254,253	300,322

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

Notes to the Financial Statements

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26. BANK LOANS

The Group

	2004	2003
	RMB'000	RMB'000
Bank loans:		
Secured	–	–
Unsecured	–	1,000
	–	1,000

The Company

	2004	2003
	RMB'000	RMB'000
Bank loans:		
Secured	–	–
Unsecured	–	1,000
	–	1,000

The carrying amounts of the bank loans at the end of each year approximated their fair value based on the prevailing borrowing rates available for loans with similar terms and maturities.

Notes to the Financial Statements

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27. PROVISION FOR PRODUCT WARRANTIES

The Group

	2004	2003
	RMB'000	RMB'000
At beginning of year	20,013	7,184
Additional provisions	27,732	37,437
Amounts utilised	(22,410)	(24,608)
At end of year	25,335	20,013

The Company

At beginning of year	20,013	7,184
Additional provisions	9,931	26,864
Amounts utilised	(11,532)	(14,035)
At end of year	18,412	20,013

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 repairs and maintenance. The estimation basis is reviewed on an ongoing basis and is revised where appropriate.

Notes to the Financial Statements

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28. DEFERRED TAX

The movements in the deferred tax accounts are as follows:

The Group

Deferred tax assets:

	2004 RMB'000	2003 RMB'000
At beginning of year	54,622	33,288
Increase/(decrease) during the year	(5,431)	21,334
At end of year	49,191	54,622
Provisions in respect of:		
Provision for doubtful receivables	5,841	2,667
Provision for inventory impairment	4,397	1,623
Unrealised loss on revaluation of short term investments	311	199
Liabilities for accrued expenses that are deductible for tax purpose only when paid	4,593	4,610
Revenue in nature received in advance that was not taxable when settled	5,351	17,367
Unrealised profit arising on consolidation	13,002	19,672
Temporary differences arising from transfer of intangible assets among group companies	7,378	8,484
Unused tax loss	8,318	–
	49,191	54,622

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28. DEFERRED TAX (continued)

The Group (continued)

Deferred tax liabilities:

	2004 RMB'000	2003 RMB'000
At beginning of year	5,253	9,052
Increase/(decrease) during the year	(4,144)	(3,799)
At end of year	1,109	5,253
Provision in respect of:		
Depreciation of fixed assets	771	2,147
Other temporary differences arising from transfer of assets among group companies	338	3,106
	1,109	5,253

The Company

Deferred tax assets:

	2004 RMB'000	2003 RMB'000
At beginning of year	15,508	3,831
Increase/(decrease) during the year	1,054	11,677
At end of year	16,562	15,508
Provisions in respect of:		
Provision for doubtful receivables	755	849
Provision for inventory impairment	1,837	220
Unrealised loss on revaluation of short term investments	311	199
Revenue in nature received in advance was not taxable when settled	1,551	9,630
Liabilities for accrued expenses that are deductible for tax purpose only when paid	3,790	4,610
Unused tax loss	8,318	-
	16,562	15,508

Notes to the Financial Statements

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28. DEFERRED TAX (continued)

The Company (continued)

Deferred tax liabilities:

	2004 RMB'000	2003 RMB'000
At beginning of year	3,106	7,229
Increase/(decrease) during the year	(2,768)	(4,123)
At end of year	338	3,106
Provision in respect of: Other temporary differences arising from transfer of assets among group companies	338	3,106

29. SHARE CAPITAL

	2004 RMB'000	2003 RMB'000
Issued and fully paid:		
341,000,000 domestic shares of RMB1 each	341,000	341,000
131,100,000 H shares of RMB1 each	131,100	131,100
	472,100	472,100

On 3 September 2003, the Company's share capital was increased to RMB341,000,000 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.

Notes to the Financial Statements

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29. SHARE CAPITAL (continued)

On 15 December and 18 December 2003, 114,000,000 newly issued H shares of the Company and 17,100,000 additional H shares of RMB1 each, respectively, were offered at a price of HK\$13.3 (equivalent to RMB14.1) per share to the public and were traded on The Stock Exchange of Hong Kong Limited. The aggregate net proceeds were approximately HK\$1,673,102,000 (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.

On 3 September 2004, the Management Centre of Collective Assets of Nandayuan Town, Nanshi District, Baoding transferred 1.78% equity interest in the Company to Baoding Ants Logistic Company Limited, a related company controlled by Mr. Wei Jianjun. The cash consideration of the acquisition was RMB49,950,000.

On 26 October 2004, the Company's extraordinary general meeting approved the capitalisation of RMB472,100,000 in the share premium account of the Company into share capital by issuing new shares at no consideration to all of the shareholders registered on the Company's register of members on the record date, being 25 October 2004, on the basis of 10 new shares for every 10 existing shares held and the increase of the registered capital to RMB944,200,000 upon completion of the capitalisation issue. As at 31 December 2004, the capitalisation issue was subject to obtaining the approval from the Ministry of Commerce of the PRC.

On 24 January 2005, the capitalisation issue was approved by the Ministry of Commerce of the PRC. The new shares were issued and allotted on 1 February 2005.

Notes to the Financial Statements

31 December 2004

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	Issued share capital RMB'000	Share premium account RMB'000	Capital reserves (Note ii) RMB'000	Statutory reserves RMB'000	Retained profits/ (losses) RMB'000	Proposed final dividend RMB'000	Total RMB'000
At 1 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 the 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 31 December 2003 and 1 January 2004		472,100	1,642,388	(23,963)	180,039	(180,422)	–	2,090,142
Net profit for the year		–	–	–	–	380,035	–	380,035
Transfer to statutory reserves		–	–	–	74,504	(74,504)	–	–
Transfer to capital reserves	(i)	–	–	1,543	–	(1,543)	–	–
Adjustment to expenses for the placing and initial public offering of H shares		–	112	–	–	–	–	112
Proposed final dividend		–	–	–	–	(94,420)	94,420	–
At 31 December 2004		472,100	1,642,500	(22,420)	254,543	29,146	94,420	2,470,289

Notes to the Financial Statements

31 December 2004

30. RESERVES (continued)

Notes:

- (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-distributable 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 the 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 usages. 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 the statutory net income as stipulated by statute or by the board of directors and recorded as a component of shareholders' equity. Under Hong Kong Financial Reporting Standards, 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 RMB14,231,000 and RMB18,539,000 were made to the staff welfare and incentive bonus fund for the two years ended 31 December 2003 and 2004, 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 the Financial Statements

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31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

	<i>Note</i>	2004 RMB'000	2003 RMB'000
Net assets acquired:			
Fixed assets		–	46,041
Construction in progress	15	–	65
Inventories		–	22,356
Trade receivables		–	29,558
Other receivables		–	6,836
Cash and bank balances		500	6,914
Trade payables		–	(18,902)
Other payables		–	(75,271)
Minority interests		–	(4,399)
		500	13,198
Goodwill on acquisition			
		–	2,704
Negative goodwill on acquisition			
		–	–
		500	15,902
Satisfied by:			
Cash		500	3,512
Other receivables		–	3,768
Reclassification to interests in subsidiaries from interests in associates		–	8,622
		500	15,902

Notes to the Financial Statements

31 December 2004

31. NOTES TO THE 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:

	2004 RMB'000	2003 RMB'000
Cash consideration	500	3,512
Cash and bank balances acquired	(500)	(6,914)
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	–	3,402

On 16 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 became a 75% owned subsidiary of the Company as the Group already held a 49% equity interest in Changfu Pressings Company prior to 16 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 13 May 2003, the Company and GW Sales Network Company acquired further 50% and 10% equity interests in GW After-sales Services Company, respectively, at zero consideration.

On 15 January 2004, the Company and GW Internal Combustion Engine Company acquired 5% and 95% equity interests in Baoding Deer Company, respectively, at a total cash consideration of RMB500,000.

Since its acquisition, Baoding Deer Company contributed approximately RMB60,000 to the Group's turnover and approximately RMB-167,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2004.

The subsidiaries acquired in the prior year contributed approximately RMB53 million (after elimination of intercompany transactions) to the Group's turnover and approximately RMB45 million to the consolidated profit after tax and before minority interests for the year ended 31 December 2003. In the 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 the Financial Statements

31 December 2004

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Disposal of subsidiaries

	<i>Note</i>	2004 RMB'000	2003 RMB'000
Net assets disposed of:			
Fixed assets		–	16,415
Inventories		–	9,825
Trade receivables		–	5,853
Bills receivable		–	641
Other receivables		–	843
Cash and bank balances		–	1,625
Trade payables		–	(8,998)
Other payables		–	(5,369)
Minority interests		–	(11,737)
		–	9,098
Loss on disposal of subsidiaries	6	–	(3,475)
		–	5,623
Satisfied by:			
Cash consideration		–	3,000
Other receivables		–	2,623
		–	5,623

Notes to the Financial Statements

31 December 2004

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Disposal of subsidiaries

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

	2004 RMB'000	2003 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	–	1,375

On 11 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 Fusang 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 11 August 2003. The Group’s share of loss on disposal before tax is expected to be approximately RMB3,475,000.

On 20 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 25 August 2003.

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

32. CONTINGENT LIABILITIES

At the balance sheet date, neither the Group nor the Company had any significant contingent liabilities.

Notes to the Financial Statements

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33. OPERATING LEASE COMMITMENTS

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

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
As lessee:				
Within one year	200	251	538	118
In the second to fifth years, inclusive	135	383	221	215
After five years	–	–	–	–
	335	634	759	333

34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the Group and the Company had the following commitments at the balance sheet date:

(a) Capital commitment

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Contracted, but not provided for	452,171	481,168	358,026	332,724
Authorised, but not contracted for	2,133,706	809,860	2,132,288	600,404
	2,585,877	1,291,028	2,490,314	933,128

Notes to the Financial Statements

31 December 2004

34. COMMITMENTS (continued)

(a) Capital commitment (continued)

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

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Acquisition of plant and machinery	1,571,587	957,528	1,557,293	658,169
Construction commitment	963,185	333,500	884,416	274,959
Other	51,105	–	48,605	–
	2,585,877	1,291,028	2,490,314	933,128

In addition, the Group's and the Company's shares of the jointly-controlled entities' own capital commitments, which are not included in the above, were as follows:

	The Group and The Company	
	2004 RMB'000	2003 RMB'000
Contracted, but not provided for	10,106	–
Authorised, but not contracted for	–	–
	10,106	–

(b) Other commitment

According to the Company's proposed plan in relation to the use of proceeds from the A share issue, which had been approved by the Company's extraordinary general meeting on 26 October 2004, the Company planned to invest approximately RMB500 million for the production and development of the 200,000 unit passenger vehicles project.

Notes to the Financial Statements

31 December 2004

35. 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:

Name of related parties	Relationship with the Group	Nature of transaction	Pricing policy	Year ended 31 December	
				2004 RMB'000	2003 RMB'000
GW After-sales Services Company (保定市長城汽車售後服務有限公司)	Associated company (i)	Sale of automotive parts and components	(c)	–	3,240
		Purchases of automotive parts and components	(c)	–	926
		Mandatory inspection service fee paid	(d)	–	4,646
Baoding Great Wall Automobile Decoration Accessories Factory (保定長城汽車裝飾件廠)	Related party (ii)	Purchases of automotive parts and components	(b)	–	5,744
		Sale of spare parts	(c)	–	197
		Obtained guarantee on bank loans	(a)	–	3,500
Baoding Tai Hang Steel Structure Construction Company Limited (保定市太行鋼結構工程有限公司)	Related party (iii)	Construction services fee paid	(d)	34,848	34,512
Baoding Tai Hang Rosemex Engineering Company Limited (保定太行熱士美工程有限公司)	Related party (iv)	Construction services fee paid	(d)	803	538

Notes to the Financial Statements

31 December 2004

35. RELATED PARTY TRANSACTIONS (continued)

Name of related parties	Relationship with the Group	Nature of transactions	Pricing policy	Year ended 31 December	
				2004 RMB'000	2003 RMB'000
Baoding Ants Logistics Company Limited ("Ants Logistics") (保定市螞蟻物流網絡有限公司)	Related party (v)	Transportation fee paid	(c)	64,336	68,743
Shunping Ante Transport Company Limited (順平安特運輸有限公司)	Related party (v)	Transportation expenses	(c)	9,877	3,996
Beijing Beiqi Momeiya Automobile Manufacturing Company Limited (北京北汽摩美亞汽車製造有限公司)	Related party (vi)	Sale of automotive components	(c)	17,260	18,486
Beijing Jiayou Trading Company Limited (北京佳友興業商貿有限公司)	Related party (vi)	Sale of automotive components	(c)	272	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 (vii)	Utilities fee paid	(d)	502	313
		Sale of spare parts	(c)	6,211	828
		Processing service fee paid	(d)	196	1,171
		Purchase of service	(d)	952	–

Notes to the Financial Statements

31 December 2004

35. RELATED PARTY TRANSACTIONS (continued)

Name of related parties	Relationship with the Group	Nature of transactions	Pricing policy	Year ended 31 December	
				2004 RMB'000	2003 RMB'000
Beijing Weide Automobile System Accessories Company Limited (北京威德汽車系統配套有限公司)	Related party (viii)	Purchase of raw materials	(b)	2,084	–
Hebei Baoding Tai Hang Group Company Limited (河北保定太行集團有限公司)	Related party (ix)	Purchase of fixed assets	(d)	1,423	1,346
		Purchase of spare parts	(b)	273	326
Baoding Taihang Pump Manufacturing Company Limited (保定市太行制泵有限公司)	Related party (x)	Disposal of 58% equity interest in BGW Property Development Limited	(d)	–	623
		Purchase of spare parts	(c)	601	–
Tianjin Tianqi Group Meiya Automobile Manufacturing Company Limited (天津天汽集團美亞汽車製造有限公司)	Related party (vi)	Sale of automotive components	(c)	13,250	–
Wenzhou Huanqiu Automobile Gasket Company Limited (溫州環球汽車襯墊有限公司)	Related party (xi)	Purchase of raw materials	(c)	594	–

In the opinion of the directors of the Company, the above transactions were conducted in the ordinary course of business.

Notes to the Financial Statements

31 December 2004

35. RELATED PARTY TRANSACTIONS (continued)

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) Baoding Great Wall Automobile Decoration Accessories Factory ceased to be a related party on 20 June 2003. Prior to that date, two directors of the Company held minority beneficial interests in the entity.
 - (iii) Baoding Taihang Steel Structure Construction Company Limited is controlled and beneficially owned by a director of the Company.
 - (iv) Baoding Tai Hang Rosemex Engineering Company Limited is substantially beneficially owned by the associate of a director of the Company.
 - (v) Baoding Ants Logistics Company Limited and Shunping Ante Transport Company Limited are controlled and beneficially owned by a director of the Company.
 - (vi) Beijing Beiqi Momeiya Automobile Manufacturing Company Limited, Beijing Jiayou Trading Company Limited and Tianjin Tianqi Group Meiya Automobile Manufacturing Company Limited are related parties of a director of GW Internal Combustion Engine Company.
 - (vii) Gaobeidian Shi Zhong Ke Huabei Automobile Company Limited is a related party of a director of GW Huabei Company.
 - (viii) Beijing Weide Automobile System Accessories Company Limited is controlled and beneficially owned by a director of the Company.
 - (ix) Hebei Baoding Tai Hang Group Company Limited is controlled and beneficially owned by the associate of a director of the Company.

Notes to the Financial Statements

31 December 2004

35. RELATED PARTY TRANSACTIONS (continued)

Notes: (continued)

- (x) Baoding Tai Hang Pump Manufacturing Company Limited is beneficially owned by a director of the Company.

- (xi) Wenzhou Huanqiu Automobile Gasket Company Limited is a minority shareholder of Baoding-Huanqiu Auto Spare Parts Company limited.

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

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 15 March 2005.