Management Discussion and Analysis

OPERATING ENVIRONMENT

The automobile industry in the People's Republic of China ("PRC") demonstrated signs of recovery in 2005 after undergoing structural adjustments in 2004. The PRC automobile industry in 2005 was characterised by the continued improvement in newly established production lines of automobile manufacturers, constant launch of new products, greater benefits from economies of scale. However, the industry is still confronted with challenges, in view of the underlying factors such as the adjustment to national sales and fuel taxes, the upsurge in crude oil prices and the ending of the transitional period after China's accession to the World Trade Organisation.

In general, the PRC automobile industry was growing at a steady pace. According to statistics from the PRC's Ministry of Commerce, the PRC's automobile production volume and sales volume in 2005 amounted to 5,705,500 units and 5,758,200 units respectively, representing increases of 12.56% and 13.54% respectively from those of the previous year.

The PRC's pick-up truck market experienced steady growth during the Year. According to 全國皮卡車市場數據信息聯合會(National Pick-up Truck Market Information Association), the sales volume of pick-up truck grew by 10.20% from that of the previous year. Domestic sales volume of medium-end and budget pick-up trucks grew by 9.69%, which was slightly lower than the overall growth rate of pick-up truck sales mainly because the basic total sales volume of this type of pick-up trucks was already very large. During the Year, the sales volume of medium-end and budget pick-up trucks accounted for 81.04% of the overall sales volume of the pick-up truck market. In view of the current situation, it is expected that the sales of pick-up trucks in the PRC will sustain stable growth in the coming years. However, there had been substantial decline in the sales of certain low-to-medium-end pick-up trucks.

The SUV (sport utility vehicle) market grew briskly as new products kept being unveiled. According to China Association of Automobile Manufacturers, domestic sales of SUVs in 2005 amounted to 196,401 units in total, which represented a 20.63% increase from that of the previous year. The month of May was a watershed in the development of the SUV market, which was on a downward trend before May and began to rise thereafter. Despite the continuous release of new models that helped facilitate market development, the market still suffered from impact of varying degrees as the above-mentioned factors kept affecting the market structure. Basically, the favourable factors offset against the adverse factors.

FINANCIAL REVIEW

Turnover

During the Year, the Group's turnover amounted to RMB3,809,958,000, representing an increase of 19.6% as compared to that of 2004. The increase in turnover was mainly due to the increase in sales of automobiles.

Automobile sales

During the Year, the Group sold 57,198 units of automobiles, representing an increase of 20.6% as compared to 47,416 units sold in 2004. Automobiles sold in 2005 included 34,756 units of pick-up trucks, representing an increase of 38.2% as compared to 25,147 units sold in 2004, 22,243 units of SUVs, representing an increase of 1.6% as compared to 21,890 units sold in 2004, and 199 units of buses and special vehicles.

Analysis of automobile sales

	2005			2004		
	Sales Volume (units)	**Turnover (RMB'000)**	**Percentage share of automobile sales (%)**	Sales Volume (units)	Turnover (RMB'000)	Percentage share of automobile sales (%)
Pick-up trucks	**34,756**	**1,826,440**	**51.0**	25,147	1,376,303	47.1
SUVs (CUVs included)	**22,243**	**1,726,938**	**48.2**	21,890	1,481,391	50.7
Buses and special vehicles	**199**	**28,510**	**0.8**	379	65,498	2.2
Total	**57,198**	**3,581,888**	**100.0**	47,416	2,923,192	100.0

Sales of automotive parts and components

In addition to the production of automobiles, the Group also engages in the sales of principal automotive parts and components used in the production of pick-up trucks and SUVs. These mainly include self-manufactured engines, front and rear axles, air-conditioning equipment and drag ball pins, lever assembly and other parts and components for production of automobiles. Sales of automotive parts and components not only enhance the Group's revenue but also secure the availability of parts and components for after-sales services. During the Year, the Group reported a 12.8% decrease in sales of automotive parts and components from RMB261,422,000 in 2004 to RMB228,070,000 in 2005. The drop was mainly attributable to the decrease in the sales of engines to independent third parties. The sales of engines represented 30.5% of the Group's sales of automotive parts and components during the Year.

Gross profit and gross profit margin

During the Year, the Group's gross profit rose from RMB887,946,000 in 2004 to RMB1,000,690,000, representing an increase of approximately 12.7%. The increase in the Group's gross profit was mainly due to the increase in automobile sales volume. The Group's gross profit margin decreased from 27.9% in 2004 to 26.3% in 2005. The decrease in gross profit margin was mainly due to the following reasons:(1) the gross profit margin of the newly-launched *Hover* CUV was relatively low, which was 18.5%; and (2) there were downward adjustments to the price of certain models of automobiles.

Profit after tax attributable to equity holders of the parent and earnings per share

The Group's profit after tax attributable to equity holders of the parent for the Year increased from RMB402,917,000 in 2004 to RMB441,007,000. The rise in the Group's net profit attributable to equity holders of the parent was mainly due to the increase in the gross profit of automobile sales.

For the year ended 31 December 2005, the basic earnings per share of the Company were RMB0.47. The Company did not present diluted earnings per share as it did not have any potential ordinary share for dilution during the Year.

Selling and distribution costs and administrative expenses

The selling and distribution costs and administrative expenses of the Group rose from RMB298,063,000 in 2004 by 25.7% to RMB374,692,000 in 2005. The increase was mainly due to (1) the increase in staff cost resulting from the increase in the number of staff; (2) the increase in transportation expenses resulting from the increase in automobile sales; (3) the increase in expenses in advertisements and promotion resulting from enhanced marketing efforts of new products; (4) the increase in start-up costs of new offices and the increase in administrative expenses; and (5) the increase in export-related port expenses and the increase in the expenses incurred in automobile exhibitions.

Finance costs

The Group's finance costs for 2005 were approximately RMB669,000 as compared to approximately RMB619,000 in 2004. There had not been any material change in the finance costs.

Liquidity and financial resources

As at 31 December 2005, the Group's current assets mainly included cash and cash equivalents of approximately RMB2,556,676,000, trade receivables of approximately RMB54,981,000, inventories of approximately RMB691,837,000, bills receivable of approximately RMB496,267,000, held-for-trading financial assets of approximately RMB394,000, and other receivables of approximately RMB180,304,000. The Group's current liabilities as at the same date mainly included trade payables of approximately RMB966,714,000, bills payables of approximately RMB251,180,000, tax payables of approximately RMB53,024,000, other payables of approximately RMB497,952,000, provision for product warranties of approximately RMB23,820,000 and dividend payables of approximately RMB62,403,000.

Acquisitions

During the Year, the Company and its subsidiaries did not have any material acquisitions.

Capital structure

The Group generally finances its operation with internally generated cash flows. As at 31 December 2005, the Group was in a debt-free position.

Exposure to foreign exchange risk

All of the Group's domestic sales were settled in RMB while sales to overseas customers were settled in US dollars or Euro. During the Year, the Group did not experience any material difficulties or negative effects on its operations or liquidity as a result of fluctuations in currency exchange rates. The Board believes that the Group will have sufficient foreign reserves to meet its foreign exchange requirements.

Employment, training and development

As at 31 December 2005, the Group employed a total of 7,298 employees, which increased by 305 employees from that of 2004. Employees were remunerated on the basis of their performance, experience and prevailing industry practices. The Group's remuneration policies and packages were reviewed on a regular basis. As an incentive for the employees, bonuses and cash awards may also be given based on individual performance evaluation. Total staff cost accounted for 4.2% of the Group's turnover for the Year.

Taxation

Tax of the Group increased from RMB69,160,000 in 2004 to RMB69,659,000 in 2005, representing a rise of 0.7%.

Segment information

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

Geographical segmental analysis is presented based on the geographical location of customers. The Group's assets and liabilities are almost entirely situated in the PRC and accordingly, no information on segment assets, liabilities and capital expenditure is provided.

The geographical segmental analysis is set out below:

	Year ended 31 December 2005			Year ended 31 December 2004		
	PRC	**Overseas**	**Combined**	PRC	Overseas	Combined
	RMB'000	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000
Turnover	**2,911,804**	**898,154**	**3,809,958**	2,996,787	187,827	3,184,614
Segment result	**743,230**	**257,460**	**1,000,690**	833,604	54,342	887,946
Unallocated expenses			**(438,453)**			(334,358)
Finance costs			**(669)**			(619)
Income tax			**(69,659)**			(69,160)
Profit after tax			**491,909**			483,809
Attributable to:						
Equity holders of the parent			**441,007**			402,917
Minority interests			**50,902**			80,892

BUSINESS REVIEW

Products

The Group's principal products are pick-up trucks and SUVs. The Group also engages in the production and sales of principal automotive parts and components used in the production of pick-up trucks and SUVs.

(1) Pick-up trucks

During the Year, the sales volume of pick-up trucks reached 34,756 units with sales revenue amounting to RMB1,826,440,000, representing an increase of 38.2% and 32.7% respectively when compared with those of 2004. 25,939 units of *Deer* pick-up trucks were sold with revenue amounting to RMB1,309,517,000. 5,555 units of *Sailor* pick-up trucks were sold with revenue amounting to RMB331,000,000. 3,262 units of *So Cool* pick-up trucks were sold with revenue amounting to RMB185,923,000.

(2) SUVs

The sales volume of SUVs of the Group during the Year was 22,243 units, with sales revenue amounting to RMB1,726,938,000, representing a rise of 1.6% and 16.6% respectively when compared with those of 2004. 5,392 units of *Safe* SUVs were sold with revenue amounting to RMB373,046,000. 5,763 units of *Sing* SUVs were sold with revenue amounting to RMB377,853,000. 2,446 units of *Pegasus* SUVs were sold with revenue amounting to RMB165,532,000. *Hover* CUV (Crossover Utility Vehicle) had been well received in the market since its production on 6 March 2005. During the Year, 8,642 units of *Hover* CUV were sold with a revenue of RMB810,507,000 which represented 21.3% of total revenue of the Group.

(3) Automotive parts and components

During the Year, the sales revenue of automotive parts and components amounted to RMB228,070,000, representing a decrease of 12.8% when compared with that of 2004.

(4) Buses and special vehicles

During the Year, the sales volume of buses and special vehicles reached 199 units with sales revenue amounting to RMB28,510,000.

DOMESTIC MARKET

Clienteles

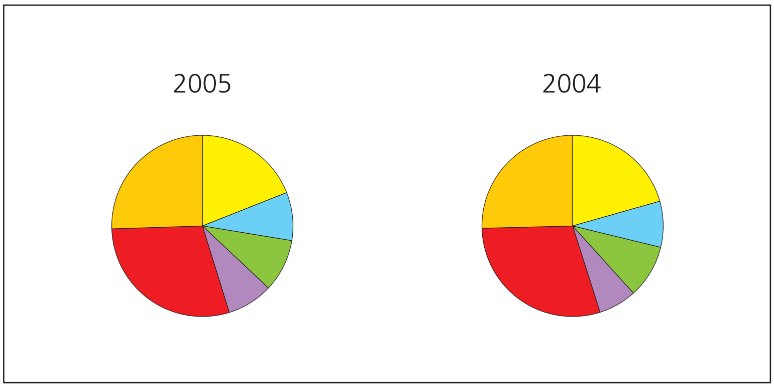
The domestic sales volume of pick-up trucks and SUVs of the Group during the Year amounted to 23,261 units and 19,416 units respectively, with sales revenue amounting to RMB1,169,421,000 and RMB1,487,364,000 respectively, representing 43.6% and 55.4% of the total domestic automobile sales revenue. The sales revenue from the two main groups of customers, namely (1) dealers, and (2) government entities and individual customers amounted to RMB2,560,361,000 and RMB123,373,000, respectively.

	2005			2004		
	Sales volume (units)	**RMB'000**	**Percentage share of domestic automobile sales (%)**	Sales volume (units)	RMB'000	Percentage share of domestic automobile sales (%)
Dealers	**40,993**	**2,560,361**	**95.4**	41,474	2,586,128	94.5
Government entities and individual customers	**1,879**	**123,373**	**4.6**	2,348	149,238	5.5
Total	**42,872**	**2,683,734**	**100.0**	43,822	2,735,366	100.0

The Group's domestic sales by geographical distribution

The following table sets out the geographical breakdown of the Group's domestic sales in 2005 and 2004.

	2005		2004	
	Sales revenue RMB'000	**Percentage share of domestic automobile sales (%)**	Sales revenue RMB'000	Percentage share of domestic automobile sales (%)
Northern Region	**511,605**	**19.0**	563,872	20.6
Northeastern Region	**231,956**	**8.6**	225,335	8.2
Northwestern Region	**251,037**	**9.4**	261,008	9.5
Southwestern Region	**219,351**	**8.2**	184,171	6.8
Eastern Region	**786,462**	**29.3**	807,428	29.5
Central Region	**683,323**	**25.5**	693,552	25.4
Total	**2,683,734**	**100.0**	2,735,366	100.0



Eastern region:	Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi, Shandong
Central region:	Henan, Hubei, Hunan, Guangdong, the Guangxi Zhuangzu Autonomous Region, Hainan
Northern region:	Beijing, Tianjin, Hebei, Shanxi, the Inner Mongolia Autonomous Region
Northwestern region:	Shanxi, Gansu, Qinghai, the Ningxia Huizu Autonomous Region, the Xinjiang Uygur Autonomous Region
Northeastern region:	Liaoning, Jilin, Heilongjiang
Southwestern region:	Chongqing, Sichuan, Guizhou, Yunnan, the Tibet Autonomous Region

Export market

During the Year, the Group's exports displayed satisfactory performance, surpassing 10,000 units for the first time and breaking the sales record. The export volume reached 14,326 units of vehicles, representing a jump of 298.6% as compared to that of the previous year. The total export value amounted to RMB898,154,000, representing a 378.2% increase from that of the previous year and accounting for 23.6% of the total revenue of the Year.

11,495 units of pick-up trucks were sold with an export value of RMB657,019,000, representing increases of 273.0% and 348.2% respectively when compared to those of the previous year. Pick-up trucks accounted for 73.2% of total export value.

2,827 units of SUVs were sold with an export value of RMB239,575,000, representing increases of 458.7% and 513.5% respectively when compared with those of the previous year. SUVs accounted for 26.7% of total export value.

The Group's overseas markets were mainly the Eastern European countries and the Middle East. Sales network spanned across 65 countries and regions including Russia, Iraq, Ukraine, Saudi Arabia and Algeria etc.

During the Year, the Group tapped into new markets in four different regions: Venezuela, Bolivia and Columbia in Central and South America; Ukraine, Kazakhstan, Turkmenistan and Belarus in Eastern Europe; Senegal and Cote d'Ivoire in Africa; the Philippines, Bangladesh, Sri Lanka and other countries in Southeast Asia.

New products

Since mass production in June, *Hover* CUV had been well received in the market. During the Year, 8,642 units are sold, and *Hover* CUV had become a new profit driver of the Group.

In order to meet the various demands from different consumers, the Group launched, in mid 2005, two models under the *Chai Shen* (柴神) series of budget pick-up trucks, featuring the 2.8L 4L68 diesel engine. The new products received encouraging response from the market in general.

Newly established company

In view of the increasing demand for the Group's products in the Russian market, the Group on 13 October 2005 established Russia Great Wall Company Limited ("Russia Great Wall") in Moscow, which principally engages in the sale of automobiles and parts and components, import and export of the relevant equipment, as well as the provision of after-sales services and other international trading activities.

The establishment of Russia Great Wall can facilitate the Group's import and export business, sales and after-sales services in the Russian market.

Principal of GLM

During the Year, the Group promoted the GLM management principles across the board. GLM stands for "Great Wall Lean Management", which implies the Group's streamlined management. It is the fruition of the Group's corporate philosophy on cost control and advancement. It serves as the guidance for people working in the Group. It emphasises team spirit by learning from each other. It also emphasises the importance of attention to detail.

The Group also implemented various measures encouraging the staff to set higher standard for themselves and encouraging the staff to more actively participate in their work, with an aim to further improve the product quality.

OUTLOOK

New products

In order to better satisfy the various needs of consumers and enlarge the Group's market share, the Group commenced the design and development of five series of vehicles, namely M11, CH011, CH021, CH031 and V22 simultaneously in the second half of 2005. Models of the M series and CH series are family sedans targeting ordinary families, young and middle-aged consumers pursuing individual lifestyle. Models of V series are 5-door 8 seater MPVs (Multi Purpose Vehicles) targeting businessmen and middle-class families. The design of the body of M series and CH series models has started and satisfactory progress has been made. The engine selection for V series has been basically completed. Small-scale production of the above-mentioned five series is scheduled to commence in the fourth quarter of 2007.

A new model of pick-up truck, K2, produced on the same production line with *Hover* CUV is currently undergoing road test and is expected to be launched in the fourth quarter of 2006. This model is equipped with a GW2.8T turbo diesel engine with high pressure common rail electronic fuel injection. Its four-wheel drive adopts an electronic control system from Borg Warner. It is a new pick-up truck model for passenger and cargo, suitable for use by small- and medium-sized companies and individual entrepreneurs.

A brand new 2006 version of *Hover* CUV is planned to be launched in the second quarter of 2006. A number of modifications had been made to the interior and exterior of 2006 version of *Hover* CUV, including changing the colour of the interior decoration, enhancement of the noise suppression ability of the vehicle and upgrading the engine, with an aim to effectively improve the quality of *Hover* CUV. By the end of 2006, the Group plans to launch a right-hand drive *Hover* CUV. This involves the development of the vehicle body, interior and exterior decoration and chassis function. Such a move is aimed at facilitating the Group achieving the ratio of 1:1 for domestic sales and overseas sales in 2008.

New export markets

After years of dedication, the Group has achieved satisfactory export results in certain overseas markets. The Group plans to continue expanding into the overseas markets, with a long-term objective of tapping into markets in Europe and the USA. In addition, the Group is ready to develop the right-hand drive model, aiming at tapping into markets in former Commonwealth countries and regions.

New facilities

Construction of Phase 3 of Great Wall Industrial Zone, with a designed annual production capacity of 200,000 units, commenced on 1 July 2005. The construction of infrastructure has been making good progress. The information and data of the equipment required for Phase 3 has been confirmed and the tendering process has started. It is expected that all the equipment necessary for Phase 3 will be ready in the second half of 2006 and in the beginning of 2007.

Establishing a factory in Russia

At present, the Group is tapping into the Russian market through export trading, which involves high costs and extended delivery timescale. In light of this, the Group plans to establish a factory in Russia to manufacture vehicles. The planned investment for the project is US$70,000,000. The factory is planning to achieve an annual capacity of 50,000 units in three years, and to principally produce the Group's existing pick-up trucks and SUVs. At present, details of the collaboration on the project are under negotiation with the Russian party. It is expected that the project will be in full operation in the third quarter of 2006.

This project is funded by the Group's internal resources.

Production scale

The Board believes that operational efficiency can be improved and the domestic market share can be enlarged through the expansion of the existing production scale.

The Group's designed annual capacity reached 170,000 units with the commencement of the operation of the production line of the Group's *Hover* CUV.

Up to the Year, the Group's actual production capacity reached 110,000 units.

Enlarged client base

The Group will continue to develop the bulk purchase sector, which mainly consists of the government authorities. In view of globalisation, demand from developing countries for automobiles continues to rise. In order to further increase its sales volume in overseas markets, the Group will continue to enhance its marketing and promotion activities in overseas markets.