



Report of the Directors

The board of directors (the "Board") of Great Wall Motor Company Limited (the "Company") hereby presents its report together with the audited accounts of the Company and its subsidiaries (the "Group") for the year ended 31 December 2005 (the "Year").

PRINCIPAL ACTIVITIES

The Company is principally engaged in the design, research and development, manufacture and sales, as well as distribution of sports utility vehicles ("SUVs"), pick-up trucks and automobile-related product parts and components. There has not been any significant change to the nature of the Group's principal activities during the Year. The subsidiaries of the Company established in the PRC as at 31 December 2005 are limited companies. Details are set out in Note 18 to the financial statements.

RESULTS AND DIVIDENDS

The Group's operating results for the year ended 31 December 2005 and the financial positions of the Company and the Group as at 31 December 2005 are set out in the audited financial statements on pages 64 to 148 of this annual report.

The Board proposed a final dividend of RMB0.1 per share (including H shares and domestic shares of the Company) for the year ended 31 December 2005.

FINANCIAL EXTRACTS

A summary of the consolidated results, assets and liabilities of the Group for the last five financial years is set out below:

Consolidated Results	Year ended 31 December				
	2005 RMB'000	2004 RMB'000	2003 RMB'000	2002 RMB'000	2001 RMB'000
Revenue	3,809,958	3,184,614	3,691,706	2,601,824	1,293,117
Cost of sales	(2,809,268)	(2,296,668)	(2,495,518)	(1,861,652)	(1,060,743)
Gross profit	1,000,690	887,946	1,196,188	740,172	232,374
Other revenue and gains	42,003	35,206	33,264	15,053	38,053
Selling and distribution costs	(219,300)	(170,302)	(183,664)	(144,514)	(46,337)
Administrative expenses	(155,392)	(127,761)	(121,254)	(55,340)	(42,515)
Other expenses	(111,571)	(71,501)	(46,802)	(31,200)	(9,980)
Finance costs	(669)	(619)	(5,093)	(4,073)	(5,821)
Share of profits and losses of jointly controlled entities	5,807	–	–	1,021	(3,836)
Profit before tax	561,568	552,969	872,639	521,119	161,938
Tax	(69,659)	(69,160)	(187,608)	(117,413)	(41,334)
Profit after tax	491,909	483,809	685,031	403,706	120,604
Profit attributable to shareholders of parent company	441,007	402,917	523,398	294,367	96,341
Profit after tax attributable to minority shareholders	50,902	80,892	161,633	109,339	24,263
	491,909	483,809	685,031	403,706	120,604
Assets and Liabilities	31 December				
	2005 RMB'000	2004 RMB'000	2003 RMB'000	2002 RMB'000	2001 RMB'000
Total assets	5,763,102	4,813,891	4,631,123	1,984,134	935,277
Total liabilities	1,912,552	1,319,909	1,528,814	1,236,524	601,534

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USE OF PROCEEDS RAISED FROM THE INITIAL PUBLIC OFFERING

The net proceeds raised from the initial public offering of the Company in December 2003 (after deducting relevant expenses) amounted to approximately RMB1,773,488,000 (approximately HK\$1,664,000,000). Set out below is a comparative analysis of the Group's actual usage of funds as at 31 December 2005 vis-à-vis the proposed funds for the Group's future plans as stated in the prospectus of the Company dated 3 December 2003.

	Proposed RMB million	Actual use RMB million
Development of the new production facilities	429.3	261.7
Upgrading and expanding the existing production facilities for engine	198.0	109.6
Upgrading and expanding the existing production facilities for parts and components	88.5	61.2
Improving the research and development capabilities	29.0	18.8
Upgrading the information systems	20.0	8.2
General working capital	1,008.7	1,008.7
Total	1,773.5	1,468.2

SHARE CAPITAL

Details of movements of share capital of the Company for the year ended 31 December 2005, together with the reasons for such movements, are set out in Note 31 to the financial statements.

FIXED ASSETS

Details of movements of fixed assets of the Group and the Company for the year ended 31 December 2005, together with the reasons for such movements, are set out in Note 14 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights that will require the Company to offer new shares to its existing shareholders on a pro rata basis under the Company's articles of association (the "Articles") or the Company Law of the PRC (the "Company Law").

RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company, its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors, supervisors and chief executive officer of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

RESERVES

Details of the movements in the reserves of the Group and the Company are set out in Note 32 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2005, pursuant to the Company Law and the Articles, the distributable cash reserve of the Company was RMB295,054,000, of which RMB94,420,000 was proposed to be distributed as 2005 final dividend. The aggregate amount of the capital premium reserve and some of the capital provident reserves was RMB1,237,868,000 which may be distributed through capitalization in future.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year totalled RMB1,862,000.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2005, the percentage of purchases and sales attributable to the Group's major suppliers and customers was as follows:

Purchases

the largest supplier	4.3%
five largest suppliers combined	14.0%

Sales

the largest customer	7.0%
five largest customers combined	14.7%

During the year, the Group's five largest customers and suppliers accounted for less than 30% of the Group's total turnover and total purchases. The directors did not consider that any customer or supplier had imposed significant influence on the Group.

None of the directors, their associates or any shareholder (who to the knowledge of the directors own more than 5% of the Company's issued share capital) had an interest in the major suppliers or customers noted above.

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DIRECTORS AND SUPERVISORS

The Directors and Supervisors who held office during the year and up to the date of this report were as follows:

Executive Directors

Wei Jian Jun (<i>Chairman</i>)	(appointed on 10 May 2005)
Liu Ping Fu	(appointed on 10 May 2005)
Wang Feng Ying	(appointed on 10 May 2005)
Liang He Nian	(appointed on 10 May 2005)
Yang Zhi Juan	(appointed on 10 May 2005)

Non-executive Directors

He Ping	(appointed on 10 May 2005)
Niu Jun	(appointed on 10 May 2005)

Independent Non-executive Directors

Han Chuan Mo	(appointed on 10 May 2005)
Zhang Ming Yu	(appointed on 10 May 2005)
Zhao Yu dong	(appointed on 10 May 2005)
Wong Chi Keung	(appointed on 10 May 2005)

Supervisor:

Wu Nan	(appointed on 10 May 2005 and resigned on 8 March 2006)
Zhu En Ze	(appointed on 27 March 2006)

Independent Supervisors:

Yuan Hong Li	(appointed on 10 May 2005)
Luo Jin Li	(appointed on 10 May 2005)

As a result of job allocation, Mr. Wu resigned his position as a supervisor of the Company. Pursuant to a resolution of the first meeting of the representatives of the Labour Union of the Company in 2006, Mr. Zhu En Ze was elected as the new Supervisor of the Company. During the second meeting of the Second Supervisory Committee held on 27 March 2006, Mr. Zhu was elected as the Chairman of the Supervisory Committee of the Company.

DIRECTORS' AND SUPERVISORS' SERVICE AGREEMENTS AND LETTERS OF APPOINTMENT

Each of the executive directors and supervisors was re-appointed at the 2004 Annual General Meeting on 10 May 2005 and supervisors' meeting. Each of their service agreements is for a term of three years starting from the listing date of the H Shares. Each of the non-executive directors and independent non-executive directors entered into appointment letters with the Company on 16 November 2003. Each of these appointment letters is for a term of three years starting from the listing date of the H Shares. In accordance with the Articles, all of the directors and supervisors are eligible for re-election upon the expiry of the term.

Save as disclosed above, none of the directors or supervisors had entered into or was proposing to enter into any service contracts with the Company or its subsidiaries (other than contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The biographies of directors, supervisors and senior management are set out on pages 19 to 25 of this report.

REQUIREMENT FOR INDEPENDENCE OF NON-EXECUTIVE DIRECTORS

All independent non-executive directors, namely, Messrs Han Chuan Mo, Zhang Ming Yu, Zhao Yu Dong and Wong Chi Keung, have provided the Company with confirmation as to their independence pursuant to the revised Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). Based on such confirmation, the Company considers all independent non-executive directors to be independent.

INTERESTS IN MATERIAL CONTRACTS OF CONTROLLING SHAREHOLDERS, DIRECTORS AND SUPERVISORS

Save for those transactions described in the note headed "Related Party Transactions" in Note 37 to the financial statements and the section headed "Connected Transactions" below, none of the controlling shareholders, directors or supervisors was or had been materially interested, whether directly or indirectly, in any contract subsisting during or at the end of 2005 which was significant in relation to the business of the Company or any of its subsidiaries.

MATERIAL CONTRACTS

The material contracts having been entered into as at 31 December 2005 include:

1. A capital increase agreement in Chinese dated 6 August 2004 entered into by the Company and 保定市長城汽車營銷網絡有限公司 (Baoding Great Wall Automobile Sales Network Company Limited), pursuant to which the Company and 保定市長城汽車營銷網絡有限公司 (Baoding Great Wall Automobile Sales Network Company Limited) increased their capital injection in 保定市長城汽車配件有限公司 (Baoding Great Wall Automobile Accessories Company Limited) in the amounts of RMB29,850,000 and RMB1,570,000 respectively, so as to hold 95% and 5% equity interest in 保定市長城汽車配件有限公司 (Baoding Great Wall Automobile Accessories Company Limited) respectively. The increase in capital was approved by the Baoding Municipal Administration of Industry and Commerce on 27 June 2005 and a new business license was issued.
2. A capital increase agreement in Chinese dated 7 July 2004 entered into by the Company and 保定市長城汽車配件有限公司 (Baoding Great Wall Automobile Accessories Company Limited), pursuant to which the Company and 保定市長城汽車配件有限公司 (Baoding Great Wall Automobile Accessories Company Limited) increased their capital injection in 保定市信誠汽車發展有限公司 (Baoding Xincheng Automobile Development Company Limited) in the amounts of RMB29,260,000 and RMB3,250,000 respectively, so as to hold 90% and 10% equity interest in 保定市信誠汽車發展有限公司 (Baoding Xincheng Automobile Development Company Limited) respectively. The increase in capital was approved by the Baoding Municipal Administration of Industry and Commerce on 27 June 2005 and a new business license was issued.
3. A share transfer agreement in Chinese dated 28 March 2005 entered into by the Company and 保定市螞蟻物流網絡有限公司 (Baoding Ants Logistics Company Limited), 暉美國際有限公司 (Future Way International Limited) and 驕龍國際有限公司 (Dragonet International Company Limited), pursuant to which the Company acquired from 保定市螞蟻物流網絡有限公司 (Baoding Ants Logistics Company Limited), and 暉美國際有限公司 (Future Way International Limited) from 驕龍國際有限公司 (Dragonet International Company Limited), 75% and 25% equity interest in 保定伯瑪特模具製造有限公司 (Baoding Prompt Automotive Technology And Engineering Company Limited) for a consideration of RMB750,000 and RMB250,000 respectively.
4. A capital increase agreement in Chinese dated 28 March 2005 entered into by the Company and 暉美國際有限公司 (Future Way International Limited), pursuant to which the Company and 暉美國際有限公司 (Future Way International Limited) increased their capital injection in 保定伯瑪特汽車科技工程有限公司 (Baoding Prompt Company Limited) in the amounts of RMB3,000,000 and US\$120,000 respectively, so as to hold 75% and 25% equity interest in 保定伯瑪特汽車科技工程有限公司 (Baoding Prompt Company Limited) respectively.
5. A settlement agreement in Chinese dated 10 November 2005 entered into by the Company and 暉美國際有限公司 (Future Way International Limited), pursuant to which the Company and 暉美國際有限公司 (Future Way International Limited) agreed to dissolve 保定伯瑪特汽車科技工程有限公司 (Baoding Prompt Company Limited).

MANAGEMENT CONTRACTS

No contract concerning the management or administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SECURITIES

The interests and short positions of each of the directors, supervisors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")), which were required to be notified to the Company and the Stock Exchange upon listing of the H shares on the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or which were required to be recorded in the register referred to in section 352 of the SFO (including the interests and short positions in which they were deemed or taken to have under such provisions of the SFO) or were otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, are as follows:

Name of Director / Supervisor	Capacity / Nature of Interest	No. of Shares	Approximate Percentage of Domestic Shares %	Approximate Percentage of H Shares %	Approximate Percentage of Total Shares %
Mr. Wei Jian Jun	Beneficial owner	313,720,000 ^{(L)*}	46.00	–	33.23
	Interest of spouse	3,410,000 ^{(L)*}	0.50	–	0.36
	Interest of a controlled company	16,806,760 ^{(L)*}	2.46	–	1.78
Total		333,936,760 ^{(L)*}	48.96	–	35.37

Note:

^(L) denotes a long position in shares of the Company.

* represents domestic shares.

Save as disclosed above, as at 31 December 2005, none of the directors, supervisors or chief executive of the Company has any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions in which they were deemed or taken to have), or which were required to be recorded in the register referred to in section 352 of the SFO or were otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules. For this purpose, the relevant provisions of the SFO shall be construed as if they were applicable to the supervisors.

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SHAREHOLDERS' STRUCTURE AND NUMBER OF SHAREHOLDERS

Details of the shareholders whose names were recorded in the register of shareholders of the Company as at 31 December 2005 are as follows:

Holders of Domestic Shares	6
Holders of H Shares	3855
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Total number of shareholders	3861

SHARES HELD BY SUBSTANTIAL SHAREHOLDERS

As at 31 December 2005, the following persons had interests or short positions in the shares and potential underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or had direct or indirect interests amounting to 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group:

Name	No. of Shares	Approximate Percentage of Domestic Shares %	Approximate Percentage of H Shares %	Approximate Percentage of Total Shares %
Mr. Wei Jian Jun (Note 1) 保定市南市區南大園鄉集體 資產經管中心 (the Management Centre of Collective Assets of Nandayuan Town, Nanshi District, Baoding) ("the Management Centre" (Note 2))	317,130,000 ^{(1)*}	46.50	–	33.59%
Mr. Wei De Yi (Note 3)	283,273,240 ^{(1)*}	41.54	–	30.00%
Ms. Chen Yu Zhi (Note 4)	64,790,000 ^{(1)*}	9.50	–	6.86%
Ms. Han Xue Juan (Note 5) 保定市螞蟻物流網絡有限公司 (Baoding Ants Logistics Company Limited) (Note 6)	317,130,000 ^{(1)*}	46.50	–	33.59%
Cheah Cheng Hye (Note 7)	16,806,760 ^{(1)*}	2.46	–	1.78%
Value Partners Limited	31,675,500	–	12.08%	3.35%
	31,675,500	–	12.08%	3.35%

⁽¹⁾ denotes a long position in shares.

* represents domestic shares.

Notes:

- (1) Out of 317,130,000 Domestic Shares, 313,720,000 Domestic Shares are held by Mr. Wei Jian Jun directly. He is also deemed or taken to be interested in the 3,410,000 Domestic Shares held by his spouse, Ms. Han Xue Juan.
- (2) The Management Centre was established in 28 March 2001 as an enterprise under collective ownership with a registered capital of RMB17,260,000. Its place of incorporation is Baoding, Hebei Province, the PRC and its registered address is 政府辦公樓210, Nandayuan Town, Nanshi District, Baoding. It is engaged in the management of the equity interests of the collective assets of the town.
- (3) Out of 64,790,000 Domestic Shares, 61,380,000 Domestic Shares are held by Mr. Wei De Yi directly. He is also deemed or taken to be interested in the 3,410,000 Domestic Shares held by his spouse, Ms. Chen Yu Zhi.
- (4) Out of 64,790,000 Domestic Shares, 3,410,000 Domestic Shares are held by Ms. Chen Yu Zhi directly. She is also deemed or taken to be interested in the 61,380,000 Domestic Shares held by his spouse, Mr. Wei De Yi.
- (5) Out of 317,130,000 Domestic Shares, 3,410,000 Domestic Shares are held by Ms. Han Xue Juan directly. She is also deemed or taken to be interested in the 313,720,000 Domestic Shares held by his spouse, Mr. Wei Jian Jun.
- (6) 保定市螞蟻物流網絡有限公司(Baoding Ants Logistics Company Limited) ("Ants Logistics") was established in 4 March 2002 with a registered capital of RMB120,000,000. Its place of incorporation is Baoding, Hebei Province, the PRC and its registered address is 高新區二期規劃2號路, Baoding, Hebei Province. It is engaged in the transport, warehousing and delivery of goods (other than those operations prohibited under the national law and regulation). Mr. Wei Jian Jun and his associates beneficially own the entire share capital of Ants Logistics.
- (7) Cheah Cheng Hye is deemed or taken to be interested in the 31,675,500 H Shares owned by Value Partners Limited, a company controlled by him. As at 20 February 2006, Value Partners Limited owned 34,168,000 H Shares, representing approximately 13.03% of H Shares and approximately 3.62% of total share capital.

Save as disclosed above, as at 31 December 2005, so far as the directors, supervisors or chief executive of the Company are aware, no person had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or had direct or indirect interests amounting to 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group

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On 5 December 2005, Messrs Wei Jian Jun, Wei De Yi, Chen Yu Zhi and Han Xue Juan, being shareholders of the Company, entered into a share transfer agreement with 保定市沃爾特管理諮詢有限公司(Badoing Woerte Management Consultant Company)("Woerte"), pursuant to which they agreed to transfer the respective equity interests held by them in the Company to Woerte. The share transfer was approved by document 商資批2006(569)號(Shan Zi Pi 2006 No.(569)) "商務部關於同意長城汽車股份有限公司股權轉讓的批復" (Reply in relation to the Approval of Share Transfer of Great Wall Motor Company Limited by the Ministry of Commerce) issued by the Ministry of Commerce on 23 February 2006. Registration for the relevant changes of industry and commerce registration data was approved by the document "企業變更情況" (Change of Particulars of Enterprise) issued by the Hebei Provincial Administration of Industry and Commerce on 8 March 2006, whereupon the domestic shareholding structure of the Company was as follows:

Shareholders	No. of Shares	Approximate Percentage of Domestic Shares %	Approximate Percentage of H Shares %	Approximate Percentage of Total Shares %
保定市沃爾特管理諮詢有限公司 (Badoing Woerte Management Consultant Company) (Note 1)	381,920,000 ^{(1)*}	56	–	40.45
保定市南市區南大園鄉集體 資產經管中心(the Management Centre of Collective Assets of Nandayuan Town, Nanshi District, Baoding)	283,273,240 ^{(1)*}	41.54	–	30
保定市螞蟻物流網絡有限公司 (Baoding Ants Logistics Company Limited)	16,806,760 ^{(1)*}	2.46	–	1.78

Note:

- (1) 保定市沃爾特管理諮詢有限公司 was established in 1 December 2005 with a registered capital of RMB7,638,400. Its place of incorporation is Baoding, Hebei Province, the PRC and its registered address is 115 Gongnong Road South, Baoding, Hebei Province. It is engaged in corporate planning and management consultancies (operations that require pre-approvals according to the law, administrative regulations and the State Council can only be conducted after obtaining approvals). Wei Jian Jun, Wei De Yi, Chen Yu Zhi and Han Xue Juan hold 82.143%, 16.071%, 0.893% and 0.893% of its equity interests respectively.

CONNECTED TRANSACTIONS

During the year, the Group has entered into continuing connected transactions with connected persons. The independent non-executive directors have reviewed the connected transactions and confirmed that such connected transactions have been entered into:

- (1) in the ordinary and usual course of business of the Group;
- (2) on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to the Group than terms available to or from (as appropriate) independent third parties;
- (3) in accordance with the relevant agreement governing them; and
- (4) on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Board has received from its auditors a letter confirming that the continuing connected transactions:

- (1) have received the approval of the Company's Board;
- (2) are in accordance with the pricing policies set by the Group from time to time for transactions involving sale of goods or provision of services by the Group;
- (3) have been entered into in accordance with the terms of the relevant agreement governing such transactions; and
- (4) have not exceeded the cap amounts.

The Group confirmed that it has complied with Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the Year.

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During the year, non-exempted continuing transactions under the Listing Rules were as follows:

- (1) As at the end of 2003, the Company, 保定市螞蟻物流網絡有限公司 (Baoding Ants Logistics Company Limited) and its subsidiary 順平安特運輸有限公司 (Shunping Ante Transport Company Limited) (collectively, the "Logistics Companies") entered into a framework agreement, the 2005 Logistics Agreement, for the transportation and delivery of parts and finished products of the Group.

Mr. Wei Jian Jun, the chairman of the Company, and his associates are the beneficial owners of all of the equity interests in 保定市螞蟻物流網絡有限公司 (Baoding Ants Logistics Company Limited), which in turn holds 90% of the equity interests in 順平安特運輸有限公司 (Shunping Ante Transport Company Limited). As such, the Logistics Companies are associates of Mr. Wei Jian Jun and therefore connected persons of the Company.

The particulars of each transaction contemplated under the 2005 Logistics Agreement such as specifications, quantity, price, quality, warranties, payments and delivery would have been determined by the parties based on the principles set out therein.

- (2) As at 20 May 2005, the Company and 高碑店市中客華北汽車有限責任公司 (Gaobeidian Shi Zhong Ke Huabei Automobile Company Limited) ("Zhong Ke Huabei") entered into a framework agreement (the "2005 Zhong Ke Huabei Agreement") for the sale of automobile parts and components.

Zhong Ke Huabei is a company controlled as to 37.6% by Ms. Mu Ya Li, who was a director of Baoding Great Wall Huabei Automobile Company Limited ("Great Wall Huabei"), a 51% subsidiary of the Company. Ms Mu Ya Li was a director of Great Wall Huabei until 28 June 2004 (she was removed from her position as director at the general meeting of Great Wall Huabei on 28 June 2004). As such, Zhong Ke Huabei is a connected person (as defined under the Listing Rules) of the Company.

The particulars of each transaction contemplated under the 2005 Zhong Ke Huabei Agreement such as specifications, quantity, price, quality, warranties, payments and delivery would have been determined by the parties based on the principles set out therein.

- (3) As at 20 May 2005, the Company and 天津天汽集團美亞汽車製造有限公司 (Tianjin Tianqi Group Meiya Automobile Manufacturing Company Limited) ("Tianqi Meiya") entered into a framework agreement (the "2005 Tianqi Meiya Agreement") for the sale of automobile parts and components of the Group.

Tianqi Meiya is a company indirectly controlled as to 32.1% by Mr. Li Jin Xiang who is a director of Baoding Great Wall Internal Combustion Engine Manufacturing Company Limited, a 51% subsidiary of the Company. As such Tianqi Meiya is a connected person (as defined under the Listing Rules) of the Company.

The particulars of each transaction contemplated under the 2005 Tianqi Meiya Agreement such as specifications, quantity, price, quality, warranties, payments and delivery would have been determined by the parties based on the principles set out therein.

- (4) As at 20 May 2005, the Company and 保定太行鋼結構工程有限公司 (Baoding Tai Hang Steel Structure Construction Co. Ltd.) (“Tai Hang”) entered into a framework agreement (the “2005 Baoding Tai Hang Agreement”) for the provision of building construction services.

The Group has also engaged Tai Hang to provide design and construction services for the Group’s production facility and auxiliary facilities. Mr. Wei Jian Jun and his associates are the ultimate beneficial owners of approximately 100% of the equity interests in Tai Hang. As such, Tai Hang is an associate of Mr. Wei Jian Jun and therefore a connected person of the Company.

The particulars of each transaction contemplated under the 2005 Baoding Tai Hang Agreement such as specifications, quantity, price, quality, warranties, payments and delivery would have been determined by the parties based on the principles set out therein.

The Stock Exchange has granted a waiver to the Company from compliance with the relevant requirements of the Listing Rules in respect of non-exempted continuing connected transaction 1 above for the three financial years ending 31 December 2005 and an announcement was made on 27 May 2005 in respect of non-exempted continuing connected transactions 2, 3 and 4 above. The cap and actual amount of the non-exempted continuing connected transactions for 2005 are set out below:

Type of transactions	Cap amount of non-exempted continuing connected transactions for 2005	Total value for the year ended 31 December 2005 Approximate RMB’000
1. Utilisation of transportation and delivery services of the Logistics Companies	3% of the Group’s revenue for the financial year ended 31 December 2005 (being RMB114,298,740)	90,382
2. Design and construction services provided by Tai Hang to the Group	RMB25,000,000	12,873
3. Sale of internal combination engines and other automotive parts and components to Tianqi Meiya	RMB64,000,000	21,427
4. Sale of internal combination engines and other automotive parts and components to Zhong Ke Huabei	RMB50,000,000	–

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Transaction 1 was disclosed in the prospectus and transactions 2, 3 and 4 were disclosed in an announcement dated 27 May 2005. The above agreements expired on 31 December 2005 and were renewable subject to agreement by the respective contracting parties.

Particulars of the Company's connected transactions as at the date of this report are as follows:

- (1) As at 20 January 2006, the Company and the Logistics Companies entered into a framework agreement (the "2006 Logistics Agreement") for the transportation of automobile and automobile components.

Mr. Wei Jian Jun and his associates (as defined under the Listing Rules) are the beneficial owners of all of the equity interests in Baoding Ants Logistics Company Limited, which in turn holds 90% of the equity interests in Shunping Ante Transport Company Limited. As such, the Logistics Companies are associates of Mr. Wei Jian Jun and therefore connected persons of the Company.

The particulars of each transaction contemplated under the 2006 Logistics Agreement such as specifications, quantity, price, quality, warranties, payments and delivery would have been determined by the parties based on the principles set out therein.

- (2) As at 20 January 2006, the Company and Zhong Ke Huabei entered into a framework agreement (the "2006 Zhong Ke Huabei Agreement") for the sale of automobile parts and components of the Group.

Zhong Ke Huabei is a company controlled as to 40.5% by 高碑店市華北汽車制造廠(清算) (Gaobeidian Huabei Motor Production Factory (in liquidation)), which is a substantial shareholder of Baoding Great Wall Huabei Automobile Company Limited, a 51% subsidiary of the Company. As such, Zhong Ke Huabei is a connected person (as defined under the Listing Rules) of the Company.

The particulars of each transaction contemplated under the 2006 Zhong Ke Huabei Agreement such as specifications, quantity, price, quality, warranties, payments and delivery would have been determined by the parties based on the principles set out therein.

- (3) As at 20 January 2006, the Company and Tianqi Meiya entered into a framework agreement (the "2006 Tianqi Meiya Agreement") for the sale of automobile parts and components of the Group.

Tianqi Meiya is a company indirectly controlled as to 32.1% by Mr. Li Jin Xiang who is a director of 保定長城內燃機制造有限公司 (Baoding Great Wall Internal Combustion Engine Manufacturing Company Limited), a 51% subsidiary of the Company. As such, Tianqi Meiya is a connected person (as defined under the Listing Rules) of the Company.

The particulars of each transaction contemplated under the 2006 Tianqi Meiya Agreement such as specifications, quantity, price, quality, warranties, payments and delivery would have been determined by the parties based on the principles set out therein.

- (4) As at 20 January 2006, the Company and Tai Hang entered into a framework agreement (the "2006 Baoding Tai Hang Agreement"), for the provision of building construction services.

The Group has also engaged Tai Hang to provide design and construction services for the Group's production facility and auxiliary facilities. Mr. Wei Jian Jun and his associates are the ultimate beneficial owners of 52% of the equity interests in Tai Hang. As such, Tai Hang is a connected person (as defined under the Listing Rules) of the Company.

The particulars of each transaction contemplated under the 2006 Baoding Tai Hang Agreement such as specifications, quantity, price, quality, warranties, payments and delivery would have been determined by the parties based on the principles set out therein.

- (5) As at 20 January 2006, the Company and 保定太行熱士美工業有限公司(Baoding Tai Hang Reshimei Industrial Company Limited) ("Baoding Tai Hang Reshimei") entered in to a framework agreement (the "2006 Baoding Tai Hang Reshimei Agreement") for the sale of heating facilities by Baoding Tai Hang Reshimei to the Company.

Baoding Tai Hang Reshimei is a company indirectly controlled as to 45% by Mr. Wei De Yi, who is the father of Mr. Wei Jian Jun. As such, Baoding Tai Hang Reshimei is a connected person (as defined under the Listing Rules) of the Company.

The particulars of each transaction contemplated under the 2006 Baoding Tai Hang Reshimei Agreement such as specifications, quantity, price, quality, warranties, payments and delivery would have been determined by the parties based on the principles set out therein.

The annual cap amounts of the aggregate considerations under the 2006 Logistics Agreement, the 2006 Zhong Ke Huabei Agreement, the 2006 Tianqi Meiya Agreement, the 2006 Baoding Tai Hang Agreement and the 2006 Baoding Tai Hang Reshimei Agreement (collectively the "2006 Connected Transactions Agreements") are RMB60 million, RMB10.5 million, RMB38.5 million, RMB55 million and RMB4.5 million respectively.

Details of the terms of the 2006 Connected Transaction Agreements are disclosed in the announcement dated 23 January 2006.

Report of the Directors

POST BALANCE SHEET EVENTS

Details of major events after the balance sheet date of the Company are set out in Note 39 to the financial statements.

PENSION SCHEME

Details of the Group's pension scheme are set out in Notes 3 and 6 to the financial statements.

REMUNERATION POLICIES

Directors

The Company determined the salaries of the Board members with regard to the members' market competitiveness in their respective professions, their duties and the performance of the Company. The salaries and remuneration include basic salaries, bonuses, long-term incentives and non-monetary benefits.

Details of salaries of the directors for 2005 are set out in Note 8 to the financial statements.

Non-executive Directors

In connection with the remuneration of the non-executive directors, it was approved by the shareholders at the general meeting held on 10 December 2003 that the remuneration will not be less than RMB40,000 per annum.

Employees

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 in order to ensure the competitiveness of the level of wages and to recruit, retain and stimulate the employees. Bonuses and incentives may also be awarded to employees based on their individual performance. These measures provided drive and incentive for individual employees.

PUBLIC FLOAT

As at the date of this report, the directors confirm that 27.77% of the issued capital of the Company was held by the public.

UNCOLLECTED DIVIDENDS

As at 31 December 2005, within the Company's 2004 final dividend, there were 95 unclaimed final dividends, and the aggregate amount of unclaimed final dividends is HK\$8,671.92.

MATERIAL LITIGATIONS

A court action was instituted against the Company and 保定長城內燃機製造有限公司(Baoding Great Wall Internal Combustion Engine Manufacturing Company Limited) (“Internal Combustion Engine”) by 北京佳美亞投資有限公司(Beijing Jiameiya Investment Company Limited) (“Jiameiya”) and 保定中信內燃機製造有限公司(Baoding Zhongxin Internal Combustion Engine Manufacturing Company Limited) (“Zhongxin”) on 16 December 2004 in Dingxing County People’s Court in Baoding, Hebei Province in China alleging that the Company had appointed two directors to the board of directors of Internal Combustion Engine in contravention of the articles of association of Internal Combustion Engine and the Company Law of China (the “Action”).

Dingxing County People’s Court issued the Civil Judgment (2005) Ding Min Chu Zi No. 112 ((2005) 定民初字第112號《民事判決書》) on 16 August 2005 to dismiss the action lodged by the two plaintiffs.

On 30 August 2005, the two plaintiffs lodged an appeal in the Middle People’s Court of Baoding City, pleading for the revocation of the Civil Judgment (2005) Ding Min Chu Zi No. 112 (2005) 定民初字第 112號《民事判決書》issued by the Dingxing County People’s Court and alleging that the Company’s appointment of the two directors to the board of directors of Internal Combustion Engine was in breach of the articles of association of Internal Combustion Engine and the Company Law of China.

The Baoding City Intermediate People’s Court in Hebei Province, the PRC issued the Civil Ruling (2005) Bao Min Zhong Zi No. 3300 ((2005) 保民終字第3300號《民事裁定書》) on 9 December 2005 to dismiss the appeal lodged by the two plaintiffs.

On 3 January 2006, the two plaintiffs instituted a court action in the Higher People’s Court of Hebei Province, alleging that the Company unilaterally reduced the price of internal combustion engine substantially, resulting in the illegal transfer of Internal Combustion Engine’s profit of RMB56,000,000 to the Company. The Company is seeking legal advice from a law firm in China regarding the action, and intends to defend this action vigorously.

Save and except for the above allegations regarding the actions, the Company is not involved in nor aware of any other proceedings instituted against the Company.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

There were no purchases, redemption or sale of the Company’s listed securities by the Company or its subsidiaries during the Year.

Report of the Directors

CORPORATE GOVERNANCE

The Company has complied with the provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules (the "Code") throughout the year ended 31 December 2005. The only deviation from the provisions was that the Company did not set up any remuneration committee in the Year. The Remuneration Committee of the Company was established on 3 March 2006.

AUDIT COMMITTEE

The Company has set up an audit committee in accordance with the requirements of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises four Independent Non-executive Directors of the Company. The Audit Committee held a meeting on 27 March 2006 to review the annual report of the Group and to give their opinion and recommendations to the Board.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company was set up on 3 March 2006, comprising two Independent Non-executive Directors and one Executive Director. The Remuneration Committee is responsible for making recommendations on the remuneration policies in relation to the directors and senior management of the Company, and determining the remuneration packages of executive directors and senior management, including benefits in kind, pension rights and compensation payments.

AUDITORS

Ernst & Young Hua Ming and Ernst & Young were the Company's PRC auditors and international auditors respectively for the year ended 31 December 2005. A resolution for the re-appointment of Ernst & Young Hua Ming and Ernst & Young as the Group's PRC auditors and international auditors, respectively, will be proposed at the forthcoming annual general meeting.

The auditors appointed by the Company remained the same for the past three years (including the Year).

By order of the Board

Wei Jian Jun

Chairman

Baoding City, Hebei Province, the PRC

27 March 2006