1. CORPORATE INFORMATION

The registered office of Great Wall Motor Company Limited (the "Company") is located at No. 115 Gongnong South Road, Nanshi District, Baoding, Hebei Province, the People's Republic of China (the "PRC"). The H shares (RMB1 per share) of the Company amounting to 131,100,000 shares are listed on The Stock Exchange of Hong Kong Limited. On 26 October 2004, the Company's shareholders 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 shareholders registered on the Company's register of members on 25 October 2004 on the basis of 10 new shares for every 10 existing shares held at the extraordinary general meeting (the "EGM") and the increase of the registered capital to RMB944,200,000 upon completion of the capitalisation issue. 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.

On 29 July 2005, approval in respect of the change of name of the Company was granted by the Ministry of Commerce of the PRC. The Company changed its English name from "Great Wall Automobile Holding Company Limited" to "Great Wall Motor Company Limited". The Chinese name of the Company remains unchanged.

During the year, the Company and its subsidiaries (collectively the "Group") were principally engaged in the manufacture and sale of automobiles and automotive parts and components.

2.1 BASIS OF PREPARATION

These financial statements are presented in Renminbi and have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") 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 2005. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 11	Construction Contracts
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39	Transition and Initial Recognition of Financial Assets and Financial Liabilities Amendment
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HK(SIC)-Int 21	Income Taxes - Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases- Determination of the Length of Lease Term in respect of Hong Kong Land Leases

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

The adoption of new or revised HKASs 2, 7, 8, 10, 11, 12, 14, 16, 18, 19, 20, 21, 23, 24, 27, 28, 31, 33, 37, 38, 40, HK-Int 4, HK(SIC)-Int 21 and HKFRSs 2 and 5 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 – Leases

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land premiums, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over lease term. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the consolidated income statement and retained earnings. The comparative amounts for the year ended 31 December 2004 in the consolidated balance sheet have been restated to reflect the reclassification of leasehold land.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(b) HKAS 32 and HKAS 39 – Financial Instruments

In prior years, the Group classified its investments in equity securities for trading purposes as short term investments, and were stated at their fair values on an individual basis with gains and losses recognised in the income statement. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 in the amount of RMB394,000 are designated as held-for-trading financial assets at fair value through profit or loss under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised in the income statement.

The adoption of HKAS 39 has not resulted in any change in the measurement of these equity securities. Comparative amounts have been reclassified for presentation purposes.

(c) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

In prior years, goodwill and negative goodwill arising on acquisitions prior to 1 January 2001 were eliminated against the consolidated retained profits and credited to the consolidated capital reserve, respectively, in the year of acquisition and were not recognised in the income statement until disposal or impairment of the acquired businesses.

Goodwill arising on acquisitions on or after 1 January 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment. Negative goodwill was carried in the balance sheet and was recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(c) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets (continued)

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding entry to the cost of goodwill and to derecognise the carrying amounts of negative goodwill (including that remaining in consolidated capital reserve) against retained profits. Goodwill previously eliminated against the retained earnings remains eliminated against the retained earnings and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Special Market – Waste Electrical and Electrical Equipment

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

HKAS 19 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC)-Int 5 and HK(IFRIC)-Int 6 do not apply to the activities of the Group. HK(IFRIC)-Int 6 shall be applied for annual periods beginning on or after 1 December 2005.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

At 1 January 2005	Effect of adopting HKAS 17# Prepaid land lease premium RMB'000	HKASs 32# & 39* Changes in classification of equity investments RMB'000	HKFRS 3* Derecognition of negative goodwill RMB'000	Total RMB'000
Effect of new policies				
(Increase/(decrease))				
Assets				
Property, plant and equipment	(72,606)	–	–	(72,606)
Construction in progress	(93,688)	–	–	(93,688)
Prepaid land premium	166,294	–	–	166,294
Held for trading financial assets	–	509	–	509
Short term investment	–	(509)	–	(509)
Negative goodwill	–	–	15,566	15,566
				15,566
Liabilities/equity				
Retained profits	–	–	15,566	15,566
				15,566

* Adjustments taken effect prospectively from 1 January 2005

\# Adjustments/presentation taken effect retrospectively

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

(a) Effect on the consolidated balance sheet (continued)

At 31 December 2005	Effect of adopting HKAS 17 Prepaid land lease premium RMB'000	HKASs 32 & 39 Changes in classification of equity investments RMB'000	HKFRS 3 Discontinuation of amortization of goodwill/ Derecognition of negative goodwill RMB'000	Total RMB'000
Effect of new policies				
(Increase/(decrease))				
Assets				
Property, plant and equipment	(108,369)	–	–	(108,369)
Construction in progress	(92,806)	–	–	(92,806)
Prepaid land premium	201,175	–	–	201,175
Held for trading financial assets	–	394	–	394
Short term investment	–	(394)	–	(394)
Goodwill/Negative goodwill	–	–	15,566	15,566
Liabilities/equity				
Retained profits	–	–	15,566	15,566

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

(b) Effect on the balances of equity at 1 January 2004 and 1 January 2005

	Effect of adopting HKFRS 3 Derecognition of negative goodwill
	RMB'000
Effect of new policies (Increase/(decrease))	
1 January 2004	
Retained profits	–
1 January 2005	
Retained profits	15,566

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

(c) Effect on the consolidated income statement for the years ended 31 December 2005 and 2004

	Effect of adopting HKFRS 3 Discontinuation of amortisation of goodwill and negative goodwill RMB'000
Effect of new policies	
Year ended 31 December 2005	
Decrease in other expenses	270
Decrease in other revenue and gains	(1,935)
Total increase/(decrease) in profit	(1,665)
Increase/(decrease) in basic earnings per share (RMB)	(0.002)
Year ended 31 December 2004	
Decrease in other expenses	–
Total increase/(decrease) in profit	–
Increase/(decrease) in basic earnings per share	–

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity 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 income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Joint ventures

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

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

A joint venture is treated as:

(a) a subsidiary, if the Group/Company has unilateral control, directly or indirectly, over the joint venture;

(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;

(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's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entities

A jointly-controlled entity is a joint venture that 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 income statement 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. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's interest in jointly-controlled entities.

The results of jointly-controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in jointly-controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

When an investment in a jointly-controlled entity is classified as held for sale, it is accounted for in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

Associates

An associate is an entity, 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 income statement 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 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 income statement to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on the acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates and jointly-controlled entities, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Excess over the cost of business combinations (applicable to business combinations for which the agreement date is on or after 1 January 2005)

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries, associates and jointly-controlled entities (previously referred to as negative goodwill), after reassessment, is recognized immediately in the income statement.

The excess for the associates and jointly-controlled entities is included in the Group's share of the associates' and jointly-controlled entities' profit or loss in the period in which the investments are acquired.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, deferred tax assets, financial assets, investment properties, goodwill and non-current assets/disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less cost to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other asset or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that 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 income statement in the period in which it arises.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained that in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment 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 items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement 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 an item of property, plant and equipment and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

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%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised 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 capitalized borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable.

Non-current assets and disposal groups (other than investment properties, deferred tax assets and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. 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.

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 income statement 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 income statement on the straight-line basis over the lease terms.

Prepaid land premium under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Applicable to the year ended 31 December 2004:

The Group classified its equity investments, other than subsidiaries, associates and jointly-controlled entities, as short term investments.

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 a security are credited or charged to the income statement in the period in which they arise.

Applicable to the year ended 31 December 2005:

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Applicable to the year ended 31 December 2005: (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of the other two categories. After initial recognition available for sale financial assets are measured at fair values with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; a discounted cash flow analysis and option pricing models.

Impairment of financial assets (applicable to the year ended 31 December 2005)

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (applicable to the year ended 31 December 2005) (continued)

Assets carried at amortised cost (continued)

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (applicable to the year ended 31 December 2005)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities (applicable to the year ended 31 December 2005)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

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.

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 an 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 sheets, 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 income statement.

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 values as appropriate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognized in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits 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 credits and unused tax losses can be utilised except:

- where deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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 reassessed at each balance sheet date and 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.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

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

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 an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(c) dividend income, when the shareholders' right to receive payment has been established.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits

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 income statement as incurred. The Group has no obligation for payment of retirement benefits beyond the contributions.

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 equity 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 recognized immediately as a liability when they are proposed and declared.

Foreign currency transactions

These financial statements are presented in RMB, which is the Group's functional and presentation currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2005 was RMB2,164,000 (2004: RMB2,164,000).

4. SEGMENT INFORMATION

During the year, over 90% of the Group's revenue and results were derived from the manufacture and sale of automobiles, 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.

	2005			2004		
	PRC	**Overseas**	**Combined**	PRC	Overseas	Combined
	RMB'000	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000
Segment revenue	**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

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's 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 revenue, other income and gains is as follows:

	Notes	**2005** **RMB'000**	2004 RMB'000
Revenue			
Sale of automobiles		**3,581,888**	2,923,192
Sale of automotive parts and components		**228,070**	261,422
		3,809,958	3,184,614
Other income and gains			
Bank interest income		**28,114**	10,295
Government grants:			
Recognition of deferred income	*30*	**974**	–
Others*		**12,915**	18,239
Negative goodwill recognised as income		**–**	1,935
Write-back of long outstanding payables		**–**	4,737
		42,003	35,206

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

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
Cost of inventories sold (including depreciation)		**2,809,268**	2,296,668
Depreciation	*14*	**110,134**	68,970
Recognition of prepaid land premium		**1,944**	392
Loss on disposal of items of property, plant and equipment		**1,265**	624
Research and development costs included in other expenses		**100,743**	53,036
Impairment of property, plant and equipment		**6,170**	–
Amortisation of goodwill included in other expenses		**–**	270
Minimum lease payments under operating leases:			
Land and buildings		**150**	242
Auditors' remuneration		**3,173**	4,000
Employee benefits expense (including directors' and supervisors' remuneration *(note 8)*)			
Wages and salaries		**149,012**	111,233
Retirement benefits contributions		**10,929**	8,937
		159,941	120,170
Foreign exchange differences, net		**3,838**	7,630
Provision for doubtful receivables		**4,859**	9,468
Write-down of inventories to net realisable value		**17,901**	8,443
Product warranty provision	*28*	**22,874**	27,732
Bank interest income		**(28,114)**	(10,295)
Government grants included in other revenue and gains	*5*	**(13,889)**	(18,239)
Unrealised (gain)/loss on revaluation of short term listed investments		**113**	338
Negative goodwill recognised as income included in other revenue and gains		**–**	(1,935)
Write-back of long outstanding payables		**–**	(4,737)

7. FINANCE COSTS

Group

	2005 RMB'000	2004 RMB'000
Interest on bank loans wholly repayable within five years	–	46
Other finance costs	669	573
	669	619

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:

	2005 RMB'000	2004 RMB'000
Fees	–	–
Other emoluments:		
Salaries, allowances, and benefits in kind	786	766
Bonuses	–	–
Retirement benefits contributions	11	7
	797	773

(a) Independent non executive directors

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

	2005 RMB'000	2004 RMB'000
Han Chuan Mo	48	48
Zhang Ming Yu	48	48
Zhao Yu Dong	48	48
Wong Chi Keung	253	253
	397	397

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

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

	2005				
	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	–	113	–	2	115
Liu Ping Fu	–	57	–	1	58
Wang Feng Ying	–	97	–	2	99
Liang He Nian	–	51	–	2	53
Yang Zhi Juan	–	37	–	2	39
Non executive directors:					
He Ping	–	–	–	–	–
Niu Jun	–	–	–	–	–
Supervisors:					
Wu Nan	–	34	–	2	36
Yuan Hong Li	–	–	–	–	–
Luo Jin Li	–	–	–	–	–
	–	389	–	11	400

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

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

	2004				
	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	–	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

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.

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:

	2005	2004
Director	**–**	–
Employees	**5**	5

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:

	2005 **RMB'000**	2004 RMB'000
Salaries, allowances, and benefits in kind	**741**	798
Bonuses	**–**	–
Retirement benefits contributions	**–**	2
	741	800

10. TAX

Income tax

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

	2005 **RMB'000**	2004 RMB'000
Hong Kong profits tax	**–**	–
PRC corporate income tax:		
Current corporate income tax	**49,702**	67,873
Deferred income tax	**(9,607)**	1,287
Deferred tax expenses resulting from reduction in tax rate	**29,564**	–
	69,659	69,160

10. TAX (continued)

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the year. Under the 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 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 RMB23,847,000 for the year ended 31 December 2005 (2004: 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).

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 ended 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. Great Wall Motor Company Limited is exempted from corporate income tax for the two years ended 31 December 2006 and will be entitled to a 50% reduction in tax rate for corporate income tax for the three years ending 31 December 2009.

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 from corporate income tax on a year-step-year basis. For the two years ended 31 December 2004 and 2005, corporate income tax exempted for these welfare enterprises amounted to approximately RMB38,020,000 and RMB13,915,000, respectively.

10. TAX (continued)

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

	2005 RMB'000	%	2004 RMB'000	%
Profit before tax	**561,568**		552,969	
At PRC corporate income tax rate of 33%	**185,317**	**33.0**	182,480	33.0
Tax effect of expenses not deductible for tax purposes	**23,822**	**4.3**	6,882	1.2
Reduction in opening deferred taxes resulting from reduction in tax rate	**29,564**	**5.3**	–	–
Tax losses utilised from previous year	**(8,318)**	**(1.5)**	–	–
Tax holiday	**(160,726)**	**(28.6)**	(120,202)	(21.7)
Actual tax expenses	**69,659**	**12.5**	69,160	12.5

Value added Tax ("VAT") and Consumption Tax

The general VAT rate applicable to the Company and its subsidiaries in the PRC is 17% for domestic sales and 0% for export sales. 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 RMB16,944,000 was recorded as income.

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net profit from ordinary activities attributable to equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company, was RMB359,911,000 (2004: RMB380,035,000) (note 32).

12. PROPOSED FINAL DIVIDEND

	2005 RMB'000	2004 RMB'000
Proposed final dividend	**94,420**	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 net profit for the year attributable to ordinary equity holders of RMB441,007,000 (2004: RMB402,917,000), and the weighted average of 944,200,000 (2004: 944,200,000) shares 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.

14. PROPERTY, PLANT AND EQUIPMENT

Group

31 December 2005	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	230,686	463,911	24,700	35,885	755,182
Additions	675	20,858	3,794	5,579	30,906
Transfer from construction in progress (note 16)	373,833	326,144	1,466	84,334	785,777
Disposals	(2,326)	(1,503)	(2,668)	(1,292)	(7,789)
At 31 December 2005	602,868	809,410	27,292	124,506	1,564,076
Accumulated depreciation and impairment:					
At beginning of year	41,889	168,763	8,380	12,121	231,153
Provided during the year	16,333	83,921	3,159	6,721	110,134
Impairment during the year	1,869	4,301	–	–	6,170
Disposals	(908)	(822)	(1,525)	(727)	(3,982)
At 31 December 2005	59,183	256,163	10,014	18,115	343,475
Net book value:					
At 31 December 2005	543,685	553,247	17,278	106,391	1,220,601

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

31 December 2004	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and office equipment RMB'000	Total RMB'000 (Restated)
Cost:					
At beginning of year	201,952	296,680	23,838	25,309	547,779
Additions	880	20,860	1,895	7,718	31,353
Transfer from construction in progress (note 16)	28,156	148,562	247	3,461	180,426
Disposals	(302)	(2,191)	(1,280)	(603)	(4,376)
At 31 December 2004	230,686	463,911	24,700	35,885	755,182
Accumulated depreciation:					
At beginning of year	31,937	119,458	5,747	7,199	164,341
Provided during the year	10,045	50,524	3,078	5,323	68,970
Disposals	(93)	(1,219)	(445)	(401)	(2,158)
At 31 December 2004	41,889	168,763	8,380	12,121	231,153
Net book value:					
At 31 December 2004	188,797	295,148	16,320	23,764	524,029

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

31 December 2005	**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	**60,533**	**38,874**	**6,841**	**16,226**	**122,474**
Additions	**11**	**2,747**	**63**	**2,390**	**5,211**
Transfers from construction in progress (note 16)	**325,624**	**302,151**	**1,130**	**82,082**	**710,987**
Disposals	**–**	**(196)**	**(1,905)**	**(35)**	**(2,136)**
At 31 December 2005	**386,168**	**343,576**	**6,129**	**100,663**	**836,536**
Accumulated depreciation:					
At beginning of year	**9,646**	**15,359**	**3,285**	**4,753**	**33,043**
Provided during the year	**5,902**	**20,612**	**567**	**3,130**	**30,211**
Disposals	**–**	**(187)**	**(1,132)**	**(30)**	**(1,349)**
At 31 December 2005	**15,548**	**35,784**	**2,720**	**7,853**	**61,905**
Net book value:					
At 31 December 2005	**370,620**	**307,792**	**3,409**	**92,810**	**774,631**

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

31 December 2004	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and office equipment RMB'000	Total RMB'000 (Restated)
Cost:					
At beginning of year	55,305	31,197	7,217	10,166	103,885
Additions	23	1,391	87	3,064	4,565
Transfers from construction in progress (note 16)	5,467	7,651	7	3,456	16,581
Disposals	(262)	(1,365)	(470)	(460)	(2,557)
At 31 December 2004	60,533	38,874	6,841	16,226	122,474
Accumulated depreciation:					
At beginning of year	7,772	12,753	2,756	3,470	26,751
Provided during the year	1,966	3,685	679	1,623	7,953
Disposals	(92)	(1,079)	(150)	(340)	(1,661)
At 31 December 2004	9,646	15,359	3,285	4,753	33,043
Net book value:					
At 31 December 2004	50,887	23,515	3,556	11,473	89,431

15. PREPAID LAND PREMIUM

Group

	2005	2004
	RMB'000	RMB'000
Carrying amount at 1 January	**–**	–
As previously reported	**–**	–
Effect of adopting HKAS 17	**166,294**	115,781
As restated	**166,294**	115,781
Prepaid land premium during the year	**36,825**	50,905
Recognised during the year	**(1,944)**	(392)
Carrying amount at 31 December	**201,175**	166,294

Company

	2005	2004
	RMB'000	RMB'000
Carrying amount at 1 January	**–**	–
As previously reported	**–**	–
Effect of adopting HKAS 17	**113,371**	78,091
As restated	**113,371**	78,091
Prepaid land premium during the year	**36,824**	35,813
Recognised during the year	**(490)**	(533)
Carrying amount at 31 December	**149,705**	113,371

The Group's and the Company's land is situated in the PRC and is held under a medium term lease.

16. CONSTRUCTION IN PROGRESS

Group

	2005	2004
	RMB'000	RMB'000
		(Restated)
At beginning of year	**769,678**	318,201
Additions	**317,163**	631,903
Transfer to property, plant and equipment *(note 14)*	**(785,777)**	(180,426)
At end of year	**301,064**	769,678

Company

	2005	2004
	RMB'000	RMB'000
		(Restated)
At beginning of year	**648,506**	182,214
Additions	**217,473**	482,873
Transfer to property, plant and equipment *(note 14)*	**(710,987)**	(16,581)
At end of year	**154,992**	648,506

17. GOODWILL/NEGATIVE GOODWILL

Group

31 December 2005	Goodwill RMB'000	Negative goodwill RMB'000	Total RMB'000
At 1 January 2005:			
Cost as previously reported	2,704	(19,491)	(16,787)
Effect of adopting HKFRS 3	(540)	19,491	18,951
Cost as restated	2,164	–	2,164
Accumulated amortisation as previously reported	(540)	3,925	3,385
Effect of adopting HKFRS 3	540	(3,925)	(3,385)
Accumulated amortisation as restated	–	–	–
Net carrying amount	2,164	–	2,164
Cost at 1 January 2005	2,164	–	2,164
Impairment during the year	–	–	–
Cost and carrying amount at 31 December 2005	2,164	–	2,164

17. GOODWILL/NEGATIVE GOODWILL (continued)

31 December 2004	Goodwill RMB'000	Negative goodwill RMB'000	Total RMB'000
At 1 January 2004:			
Cost	2,704	(19,491)	(16,787)
Accumulated amortisation	(270)	1,990	1,720
Net carrying amount	2,434	(17,501)	(15,067)
Cost at 1 January 2004, net of accumulated amortisation	2,434	(17,501)	(15,067)
Amortisation provided/(recognised as income) during the year	(270)	1,935	1,665
At 31 December 2004	2,164	(15,566)	(13,402)
At 31 December 2004:			
Cost	2,704	(19,491)	(16,787)
Accumulated amortisation	(540)	3,925	3,385
Net carrying amount	2,164	(15,566)	(13,402)

18. INVESTMENTS IN SUBSIDIARIES

Company

	2005 RMB'000	2004 RMB'000
Unlisted investments, at cost	**229,877**	239,059

The Company's other receivables, trade payables and other payables balances with the subsidiaries are disclosed in notes 23, 26 and 27, respectively. The amounts due from/(to) the subsidiaries are unsecured, non-interest bearing and are repayable on demand. The carrying amounts of these amounts due from/(to) subsidiaries approximate to their fair values.

18. INVESTMENTS IN SUBSIDIARIES (continued)

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 2005	Percentage of equity interests attributable to the Group as at 31 December 2005 Direct	Indirect	Principal activities
		RMB'000	%	%	
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 Automoblie 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
Baoding Great Wall Internal Combustion Engine Manufacturing Company Limited ("GW Internal Combustion Engine Company") (保定長城內燃機制造有限公司)	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

18. 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 2005	Percentage of equity interests attributable to the Group as at 31 December 2005 Direct	Indirect	Principal activities
		RMB'000	%	%	
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
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 Network 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

18. 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 2005	Percentage of equity interests attributable to the Group as at 31 December 2005 Direct	Indirect	Principal activities
		RMB'000	%	%	
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") (保定市長城汽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

18. 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 2005	Percentage of equity interests attributable to the Group as at 31 December 2005		Principal activities
			Direct	Indirect	
		RMB'000	%	%	
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
Tide Technology and Trade Company Limited ("Tide Company") (v) (泰德科貿有限公司)	Hong Kong 24 December 2004	414	100	–	Provision of adversary relating to automobile technology and trading activities
Closed Joint-Stock Company ("Rus Great Wall") (vi) (俄羅斯長城股份有限公司)	Russia 13 November 2005	404	100	–	Export and import of automobile and related spare parts and provision of after-sale services

18. INVESTMENTS IN SUBSIDIARIES (continued)

Notes:

Sino-foreign joint ventures

(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.

(v) On 15 December 2004, the Company obtained the approval from the Ministry of Commerce of the PRC for establishing Tide Company in Hong Kong. On 24 December 2004, a certificate of incorporation of Tide Company was issued by the local authority.

(vi) On 15 August 2005, the Company obtained the approval from the Ministry of Commerce of the PRC for establishing Rus Great Wall in the Russian Federation. On 13 November 2005, a certificate of incorporation of Rus Great Wall was issued by the local authority.

19. INTERESTS/INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

	Group		**Company**	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted investments, at cost	**–**	–	**23,700**	23,700
Share of net assets	**29,514**	23,707	**–**	–
	29,514	23,707	**23,700**	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 21, 23, 26 and 27, respectively. The amounts due from/(to) the jointly-controlled entities are unsecured, non-interest bearing and are repayable on demand.

19. 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 and operations	Percentage of Ownership interest %	Voting power %	Profit sharing %	Principal activities
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) (保定杰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:

(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.

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

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

Share of the jointly-controlled entities' assets and liabilities:

	2005	2004
	RMB'000	RMB'000
Current assets	**16,145**	13,617
Non-current assets	**32,867**	15,026
Current liabilities	**(19,498)**	(4,936)
Non-current liabilities	**–**	–
Net assets	**29,514**	23,707

Share of the jointly-controlled entities' results:

	2005	2004
	RMB'000	RMB'000
Turnover	**43,191**	–
Other revenue	**–**	–
Total revenue	**43,191**	–
Total expenses	**36,337**	–
Tax	**1,047**	–
Profit after tax	**5,807**	–

20. INVENTORIES

Group

	2005 RMB'000	2004 RMB'000
Raw materials	215,673	166,513
Semi-finished goods	108,914	65,563
Work in progress	62,878	42,170
Finished goods	327,116	137,610
Spare parts and consumables	8,752	7,509
	723,333	419,365
Provision for inventory impairment	(31,496)	(13,593)
	691,837	405,772

Company

	2005 RMB'000	2004 RMB'000
Raw materials	84,095	33,641
Work in progress	21,541	14,186
Finished goods	358,977	155,764
Spare parts and consumables	1,204	882
	465,817	204,473
Provision for inventory impairment	(2,304)	(5,568)
	463,513	198,905

21. 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. In view of the aforementioned and that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

21. TRADE RECEIVABLES (continued)

Group

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

	2005	2004
	RMB'000	RMB'000
Outstanding balances aged:		
Within 6 months	**56,957**	41,171
7 to 12 months	**1,701**	20,731
Over 1 year	**15,526**	2,215
	74,184	64,117
Less: Provision for doubtful debts	**(19,203)**	(14,291)
	54,981	49,826

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

	2005	2004
	RMB'000	RMB'000
Jointly-controlled entities	**–**	–
Other related parties	**2,066**	16,593
	2,066	16,593

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.

21. TRADE RECEIVABLES (continued)

Company

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

	2005 **RMB'000**	2004 RMB'000
Outstanding balances aged:		
Within 6 months	**41,640**	7,655
7 to 12 months	**671**	433
Over 1 year	**1,135**	726
	43,446	8,814
Less: Provision for doubtful debts	**(3,552)**	(998)
	39,894	7,816

All the balances are due from independent third parties.

22. BILLS RECEIVABLE

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

Group

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

	2005 **RMB'000**	2004 RMB'000
Falling due:		
Within 3 months	**243,305**	311,724
4 to 6 months	**252,962**	250,590
	496,267	562,314

As at 31 December 2005, the Group's bills receivable amounting to RMB165,600,000 (2004: RMB134,650,000) was pledged to banks for issuing an equivalent amount of bills payable.

22. BILLS RECEIVABLE (continued)

Company

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

	2005 RMB'000	2004 RMB'000
Falling due:		
Within 3 months	**161,975**	219,725
4 to 6 months	**182,544**	220,503
	344,519	440,228

As at 31 December 2005, the Company's bills receivable amounting to RMB81,220,000 (2004: RMB45,150,000) are pledged to banks for issuing an equivalent amount of bills payable.

23. OTHER RECEIVABLES

Group

	2005 RMB'000	2004 RMB'000
Prepayments	**103,355**	53,996
Export VAT refund	**69,423**	12,866
Others	**7,526**	12,234
	180,304	79,096

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

	2005 RMB'000	2004 RMB'000
Jointly-controlled entities	**12,009**	–
Other related parties	**146**	9,371
	12,155	9,371

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

23. OTHER RECEIVABLES (continued)

Company

	2005 RMB'000	2004 RMB'000
Prepayments	**74,377**	31,582
Export VAT refund	**69,423**	12,866
Other	**2,446**	12,042
	146,246	56,490

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

	2005 RMB'000	2004 RMB'000
Subsidiaries	**1,722**	9,264
Jointly-controlled entities	**12,009**	–
Other related parties	**108**	108
	13,839	9,372

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

24. HELD FOR TRADING FINANCIAL ASSETS

	Group and Company	
	2005 RMB'000	2004 RMB'000
Listed equity investments, at market value:		
Mainland China	**394**	509
Elsewhere	**–**	–
	394	509

The above equity investments at 31 December 2004 and 2005 were classified as held for trading financial assets.

25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**2,556,676**	2,196,877	**2,151,499**	1,607,668
Less: Pledged for bank overdraft facilities	**(118,240)**	(168,464)	**(51,242)**	(35,546)
Cash and cash equivalents	**2,438,436**	2,028,413	**2,100,257**	1,572,122

Cash and cash equivalents comprise cash at banks and on hand. Cash at banks earns interest at floating rates based on daily bank deposit rates. The carrying amounts of the cash and cash equivalents and the pledge deposits approximate to their fair values.

26. TRADE PAYABLES

Group

An aged analysis of the trade payables is as follows:

	2005	2004
	RMB'000	RMB'000
Outstanding balances aged:		
Within 6 months	**893,526**	571,232
7 to 12 months	**33,097**	14,309
1 to 2 years	**17,511**	16,867
Over 2 years	**22,580**	14,625
	966,714	617,033

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

26. TRADE PAYABLES (continued)

Group (continued)

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

	2005 RMB'000	2004 RMB'000
Jointly-controlled entities	**19,411**	–
Other related parties	**15,427**	8,605
	34,838	8,605

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

Company

An aged analysis of the trade payables is as follows:

	2005 RMB'000	2004 RMB'000
Outstanding balances aged:		
Within 6 months	**878,611**	606,619
7 to 12 months	**48,857**	2,816
1 to 2 years	**9,614**	12,558
Over 2 years	**20,845**	10,633
	957,927	632,626

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

26. TRADE PAYABLES (continued)

Company (continued)

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

	2005 RMB'000	2004 RMB'000
Subsidiaries	**432,997**	395,751
Jointly-controlled entities	**18,932**	–
Other related parties	**3,642**	961
	455,571	396,712

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

27. OTHER PAYABLES

Group

	2005 RMB'000	2004 RMB'000
Advances from customers	**321,019**	136,085
Accruals	**22,223**	9,029
Other	**154,710**	131,587
	497,952	276,701

Included in the Group's other payables are amounts due to related parties of RMB120,000 and RMB50,000 for the two years ended 31 December 2004 and 2005, respectively, which are unsecured, non-interest-bearing and are payable on demand.

27. OTHER PAYABLES (continued)

Company

	2005 RMB'000	2004 RMB'000
Advances from customers	**481,591**	285,680
Accruals	**13,627**	4,918
Other	**47,164**	27,784
	542,382	318,382

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

	2005 RMB'000	2004 RMB'000
Subsidiaries	**337,678**	254,253
Jointly-controlled entities	**–**	–
Other related parties	**50**	–
	337,728	254,253

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

28. PROVISION FOR PRODUCT WARRANTIES

Group

	2005	2004
	RMB'000	RMB'000
At beginning of year	**25,335**	20,013
Additional provision	**22,874**	27,732
Amounts utilised during the year	**(24,389)**	(22,410)
At end of year	**23,820**	25,335
Company		
At beginning of year	**18,412**	20,013
Additional provision	**12,888**	9,931
Amounts utilised during the year	**(12,189)**	(11,532)
At end of year	**19,111**	18,412

The Company and the Group provide free inspection services twice 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 rates ranging from 0.5% to 1% of revenue, 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.

29. DEFERRED TAX

The movements in the deferred tax accounts are as follows:

Group

Deferred tax assets:

	2005 RMB'000	2004 RMB'000
At beginning of year	**49,191**	54,622
Increase/(decrease) during the year	**8,498**	(5,431)
Effect on opening deferred taxes of reduction in tax rate	**(29,564)**	–
At end of year	**28,125**	49,191
Provisions in respect of:		
Provision for doubtful receivables	**5,847**	5,841
Provision for inventory impairment	**10,041**	4,397
Unrealised loss on revaluation of short term listed investments	**–**	311
Liabilities for accrued expenses that are deductible for tax purpose only when paid	**3,406**	4,593
Provision for impairment of property, machinery and equipment	**2,036**	–
Revenue in nature received in advance that was not taxable when settled	**793**	5,351
Unrealised profit arising on consolidation	**–**	13,002
Temporary differences arising from transfer of intangible assets among group companies	**6,002**	7,378
Unused tax loss	**–**	8,318
	28,125	49,191

29. DEFERRED TAX (continued)

Group (continued)

Deferred tax liabilities:

	2005 RMB'000	2004 RMB'000
At beginning of year	**1,109**	5,253
Increase/(decrease) during the year	**(1,109)**	(4,144)
At end of year	–	1,109
Provisions in respect of:		
Depreciation of fixed assets	–	771
Other temporary differences arising from transfer of assets among group companies	–	338
	–	1,109

Company

Deferred tax assets:

	2005 RMB'000	2004 RMB'000
At beginning of year	**16,562**	15,508
Increase/(decrease) during the year	–	1,054
Effect on opening deferred taxes of reduction in tax rate	**(16,562)**	–
At end of year	–	16,562
Provisions in respect of:		
Provision for doubtful receivables	–	755
Provision for inventory impairment	–	1,837
Unrealised loss on revaluation of short term listed investments	–	311
Revenue in nature received in advance was not taxable when settled	–	1,551
Liabilities for accrued expenses that are deductible for tax purpose only when paid	–	3,790
Unused tax loss	–	8,318
	–	16,562

29. DEFERRED TAX (continued)

Company (continued)

Deferred tax liabilities:

	2005 **RMB'000**	2004 RMB'000
At beginning of year	**338**	3,106
Increase/(decrease) during the year	**(338)**	(2,768)
At end of year	**–**	338
Provision in respect of:		
Other temporary differences arising from transfer of assets among group companies	**–**	338

30. DEFERRED INCOME

Baoding Finance Bureau provided subsidy totaled in RMB58,433,000 to support the construction projects of the Company. In accordance with HKAS 20 "Accounting for Government Grants and Disclosure of Government Assistance", the Group recorded the subsidy as deferred income upon receipt of the subsidy. Upon completion of the construction project, the deferred income is recognised as income over the expected useful life of the completed construction project.

	Group and Company	
	2005	2004
	RMB'000	RMB'000
Deferred income:		
At beginning of year	**–**	–
Additions during the year	**58,433**	–
At end of year	**58,433**	–
Accumulated income recognised as other income and gains:		
At beginning of year	**–**	–
Release during the year	**974**	–
At end of year	**974**	–
Net book value:		
At end of year	**57,459**	–

31. SHARE CAPITAL

	2005	2004
	RMB'000	RMB'000
Issued and fully paid:		
Domestic shares of RMB1 each	**682,000**	341,000
H shares of RMB1 each	**262,200**	131,100
	944,200	472,100

31. SHARE CAPITAL (continued)

On 26 October 2004, the Company's shareholders 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 at the extraordinary general meeting and the increase of the registered capital to RMB944,200,000 upon completion of the capitalisation issue.

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.

32. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the year are presented in the consolidated statement of changes in equity on page 68 of the financial statements.

32. RESERVES (continued)

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 2004		472,100	1,642,388	(23,963)	180,039	(180,422)	–	2,090,142
Net profit for the year		–	–	–	–	380,035	–	380,035
Capitalisation of bonus		–	–	–	–	–		
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
Capitalisation of bonus share		472,100	(472,100)	–	–	–	–	–
Net profit for the year		–	–	–	–	359,911	–	359,911
Transfer to statutory reserves		–	–	–	93,029	(93,029)	–	–
Transfer to capital reserves	*(iii)*	–	–	974	–	(974)	–	–
Final 2004 dividend declared		–	–	–	–	–	(94,420)	(94,420)
Proposed final dividend		–	–	–	–	(94,420)	94,420	–
At 31 December 2005		**944,200**	**1,170,400**	**(21,446)**	**347,572**	**200,634**	**94,420**	**2,735,780**

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 of the PRC.

(iii) In accordance with the relevant PRC regulations, other income arising from government grants for subsidising the Company's construction was transferred to a non-distributable capital reserve.

32. RESERVES (continued)

Company (continued)

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 year's losses) for 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 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 RMB18,539,000 and RMB14,215,000 were made to the staff welfare and incentive bonus fund for the two years ended 31 December 2004 and 2005, 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.

In accordance with the relevant PRC regulations, the subsidies for the construction projects received from the Baoding Finance Bureau are also required to transfer the subsidy received to a non-distributable capital reserve for the development of the Company. Therefore the deferred income recognised as other revenue during the year is transferred to capital reserve.

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

	2005 RMB'000	2004 RMB'000
Net assets acquired:		
Cash and bank balances	**1,000**	500
Minority interests	**(250)**	–
	750	500
Goodwill on acquisition	**–**	–
Negative goodwill on acquisition	**–**	–
	750	500
Satisfied by:		
Cash	**750**	500

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

	2005 RMB'000	2004 RMB'000
Cash consideration	**(750)**	(500)
Cash and bank balances acquired	**1,000**	500
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**250**	–

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.

On 11 April 2005, the Company acquired a 75% interest of Baoding Prompt Company from Baoding Ants Logistics Company Limited, a related party, at a total cash consideration of RMB750,000.

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

(b) Deregistration of subsidiaries

On 24 October 2005, the board of directors of Baoding Prompt Company approved a deregistration application. On 12 December 2005, the deregistration application was approved by relevant authorities. The deregistration caused a payment to minority shareholders in the amount of RMB250,000.

34. CONTINGENT LIABILITIES

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

35. OPERATING LEASE COMMITMENTS

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

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
As lessee:				
Within one year	**–**	200	**107**	538
In the second to fifth years, inclusive	**–**	135	**–**	221
After five years	**–**	–	**–**	–
	–	335	**107**	759

36. COMMITMENTS

In addition to the operating lease commitments detailed in note 35 above, the Group and the Company had the following commitments at the balance sheet date:

(a) Capital commitments

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Contracted, but not provided for	**329,370**	452,171	**257,013**	358,026
Authorised, but not contracted for	**1,581,340**	2,133,706	**1,531,970**	2,132,288
	1,910,710	2,585,877	**1,788,983**	2,490,314

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

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Acquisition of plant and machinery	**1,377,936**	1,571,587	**1,269,289**	1,557,293
Construction commitment	**429,563**	963,185	**416,484**	884,416
R&D projects	**103,211**	51,105	**103,210**	48,605
	1,910,710	2,585,877	**1,788,983**	2,490,314

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:

	Group and Company	
	2005	2004
	RMB'000	RMB'000
Contracted, but not provided for	**8,050**	10,106
Authorised, but not contracted for	**–**	–
	8,050	10,106

36. COMMITMENTS (continued)

(b) Other commitment

According to the Company's proposed plan which had been approved by the Company's extraordinary general meeting on 26 October 2004, the Company planned to invest approximately RMB500,000,000 for the research and development of the 200,000 unit passenger vehicles project.

37. 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 2005 RMB'000	2004 RMB'000
Baoding Tai Hang Steel Structure Construction Company Limited (保定市太行網結構工程有限公司)	Related party (i)	Construction services fee paid	(c)	**12,873**	34,848
Baoding Tai Hang Rosemex Engineering Company Limited (保定太行熱士美工程有限公司)	Related party (ii)	Construction services fee paid	(c)	**190**	803
Baoding Ants Logistics Company Limited ("Ants Logistics") (保定市螞蟻物流網絡有限公司)	Related party (iii)	Transportation fee paid	(b)	**87,397**	64,336
Shunping Ante Transport Company Limited (順平安特運輸有限公司)	Related party (iii)	Transportation expenses	(b)	**2,985**	9,877
Beijing Beiqi Momeiya Automobile Manufacturing Company Limited (北京北汽摩美亞汽車制造有限公司)	Related party (iv)	Sale of automotive components	(b)	**–**	17,260
Beijing Jiayou Trading Company Limited (北京佳友興業商貿有限公司)	Related party (iv)	Sale of automotive components	(b)	**142**	272

37. RELATED PARTY TRANSACTIONS (continued)

Name of related parties	Relationship with the Group	Nature of transaction	Pricing policy	Year ended 31 December 2005 RMB'000	2004 RMB'000
Gaobeidian Zhongke Huabei Automobile Company Limited (高碑店市中客汽車華北有限責任公司)	Related party (v)	Utilities fee paid	(c)	**–**	502
		Sale of spare parts	(b)	**–**	6,211
		Processing service fee paid	(c)	**–**	196
		Purchase of service	(c)	**539**	952
Beijing Weide Automobile System Accessories Company Limited (北京威德汽車系統配套有限公司)	Related party (vi)	Purchase of raw materials	(a)	**–**	2,084
Hebei Baoding Tai Hang Group Company Limited (河北保定太行集團有限責任公司)	Related party (vii)	Purchase of fixed assets	(c)	**380**	1,423
		Purchase of spare parts	(a)	**13**	273
Baoding Taihang Pump Manufacturing Company Limited (保定市太行制泵有限公司)	Related party (viii)	Purchase of spare parts	(b)	**676**	601
Tianjin Tianqi Group Meiya Automobile Manufacturing Company Limited (天津天汽集團美亞汽車制造有限公司)	Related party (iv)	Sale of automotive components	(b)	**21,427**	13,250
		Purchase of service	(b)	**325**	–
Wenzhou Huanqiu Automobile Gasket Company Limited (溫州環球汽車衬墊有限公司)	Related party (ix)	Purchase of raw materials	(b)	**385**	594

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

37. RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel of the Group

	2005 RMB'000	2004 RMB'000
Short term employee benefits	**931**	994
Post-employment benefits	**16**	17
Share-based payments	**–**	–
Total compensation paid to key management personnel	**947**	1,011

Further details of directors' and supervisors' emoluments are included in note 8 to the financial statements.

Notes:

(a) The price was determined at a cost plus basis.

(b) The price was determined with reference to the then prevailing market prices/rates and the price charged to third parties.

(c) The consideration was in accordance with the terms of the underlying agreements.

(i) Baoding Tai Hang Steel Structure Construction Company Limited is controlled and beneficially owned by a director of the Company.

(ii) Baoding Tai Hang Rosemex Engineering Company Limited is substantially beneficially owned by the associate of a director of the Company.

(iii) Baoding Ants Logistics Company Limited and Shunping Ante Transport Company Limited are controlled and beneficially owned by a director of the Company.

(iv) 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.

(v) Gaobeidian Zhongke Huabei Automobile Company Limited is a related party of a director of GW Huabei Company.

(vi) Beijing Weide Automobile System Accessories Company Limited is controlled and beneficially owned by a director of the Company.

37. RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel of the Group (continued)

Notes: (continued)

(vii) Hebei Baoding Tai Hang Group Company Limited is controlled and beneficially owned by the associate of a director of the Company.

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

(ix) 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 21, 23, 26 and 27.

The related party transactions in respect of the above transactions also constituted connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank overdrafts, cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and foreign currency risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

With respect to credit risk arising from the other financial assets of the Group, which is mainly cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts. All the bank overdrafts of the Group at 31 December 2005 will mature within six months.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from export sales in currency other than the units' functional currency. Approximately 23.4% (2004: 5.9%) of the Group's sales are denominated in currency other than the functional currency. The Group exchanged foreign currency arising from export sales into functional currency upon receipt to eliminate the currency exposures.

39. POST BALANCE SHEET EVENTS

On 5 December 2005, Mr. Wei Jian Jun, Wei De Yi, Chen Yu Zhi and Han Xue Fen, the shareholders of the Company, reached a share transfer agreement with Baoding Woerte Management Consultant Company Limited ("Baoding Woerte") to transfer 33.23%, 6.5%, 0.36% and 0.36% equity interests in the Company to Baoding Woerte for a cash consideration of RMB1 respectively. The agreement was approved by Ministry of Commercial of People's Republic of China on 27 February 2006.

On 3 January 2006, 北京佳美亞投資有限公司 (Beijing Jiameiya Investment Company Limited) and 保定中信內燃機製造有限公司 (Baoding Zhongxin Internal Combustion Engine Manufacturing Company Limited) instituted a court action in the Higher People's Court of Hebei Province, alleging that the Company reduced the price of internal combustion engine substantially, resulting in the illegal transfer of the profit of internal combustion engine 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 the action vigorously.

40. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2006.