MANAGEMENT DISCUSSION AND ANALYSIS

Operating Environment

In the first half of 2006, the Chinese government launched a series of measures targeted at the domestic automobile industry, such as new adjustments to the automobile consumption tax, fuel prices as well as the tariff rate on automobiles and automotive components, etc.

The new consumption tax became effective on 1 April 2006, of which the tax rate for automobiles from 2.0 litres to 2.5 litres engine displacement has been increased from 5% to 9%, which will affect the Group's SUV sales in the domestic market. To reduce the impact of the increased consumption tax, the Group will enhance management to effectively lower costs, augment product quality and raise sales volume.

In June 2006, the State Council of the PRC promulgated that the reduction of tariff rate on automobiles and automotive components would begin on 1 July 2006. With the completion of the final downward adjustment to the tariff rate on automobiles, the price of imported vehicles in the PRC will gradually become stable. This will lead to more rational and regulated competition among automobiles produced locally and overseas, thereby facilitating healthy competition in the PRC automobile market.

During the period, the price of petroleum products increased. In spite of increased oil price, the rise in demand of the PRC automobile market had not been deterred. Growth in the automobile market remained strong, and performance, quality, brand, service, fashion and uniqueness of automobile products continued to be the major features for attracting consumers.

In the first half of 2006, driven by the continued rapid growth of the PRC economy, the PRC automobile industry demonstrated signs of positive development. According to China Association of Automobile Manufacturers, the total production volume and total sales volume of automobiles in the PRC for the first half of 2006 was 3,630,300 units and 3,535,200 units respectively, representing increases of 28.94% and 26.71% from those of the same period in the previous year respectively. In addition, the statistics from China Association of Automobile Manufacturers showed a strong demand in the PRC automobile market and rapid growth in the export of automobiles.

2006 is the first year of the "11th Five-Year Plan" of the PRC, which emphasises that the automobile industry should strengthen the ability to innovate its own products, and play a key role in increasing the market share of automobiles of self-owned brand. As one of the largest automobile enterprises with self-owned brands in the PRC, the Group is in line with and benefits from the PRC's long-term planning on the automobile market.

Financial Review

Revenue

During the period, the revenue of the Group was RMB2,518,988,000, representing an increase of 57.7% as compared to that of the same period last year.

Sales analysis

	For the six months ended 30 June 2006			For the six months ended 30 June 2005		
	Sales volume (units)	**Revenue RMB'000**	**Percentage (%)**	Sales volume (units)	Revenue RMB'000	Percentage (%)
Pick-up truck	**24,591**	**1,216,769**	**48.3**	15,250	806,014	50.5
SUV (including CUV)	**13,876**	**1,193,016**	**47.4**	9,484	668,232	41.8
Other vehicles	**42**	**5,027**	**0.2**	146	21,958	1.4
Automotive parts and components	**—**	**104,176**	**4.1**	—	100,922	6.3
Total	**38,509**	**2,518,988**	**100.0**	24,880	1,597,126	100.0

Gross profit and gross profit margin

During the period, the Group's gross profit increased by approximately 50.4% from RMB435,615,000 for the corresponding period of last year to RMB654,968,000. The increase in the Group's gross profit was mainly due to the increase in the sales volume of automobiles. The gross profit margin of the Group decreased from 27.3% for the corresponding period of last year to 26.0%. The decrease in gross profit margin was mainly due to (1) the increase in total sales percentage of lower profit margin Hover CUV and (2) slight reduction in the price of various models of automobiles since the second half of 2005.

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

During the period, the Group's profit after tax attributable to equity holders of the parent company increased from RMB202,916,000 of the same period of the previous year to RMB367,452,000. The rise in the Group's profit after tax attributable to equity holders of the parent company was mainly due to the upsurges in sales volume and sales revenue, which led to increase in profit.

For the six months ended 30 June 2006, the basic earnings per share of the Company were RMB0.39. The Company did not present diluted earnings per share as it did not have any potential ordinary share for dilution during the period.

Selling and distribution costs and administrative expenses

The selling and distribution costs and administrative expenses of the Group rose from RMB161,479,000 in the first half of 2005 to RMB201,939,000 in the first half of 2006, representing an increase of 25.1%. The percentage of selling and distribution costs and administrative expenses to total revenue decreased from 10.1% in the first half of 2005 to 8.0% for the first half of 2006. The increase was mainly due to: (1) increase in transportation expenses as a result of the increase in sales volume of automobiles; (2) increase in the provision for product warranties resulting from increase in the sales volume of automobiles; (3) increase in port expenses resulting from increased export volume; (4) increase in advertising expenses.

Finance costs

During the first half of 2006, the Group's finance costs were approximately RMB821,000 as compared to approximately RMB259,000 for the first half of 2005.

Liquidity and financial resources

As at 30 June 2006, the Group's current assets mainly included cash and cash equivalents of approximately RMB2,570,548,000, trade receivables of approximately RMB68,884,000, inventories of approximately RMB690,622,000, bills receivable of approximately RMB509,565,000, held-for-trading financial assets of approximately RMB609,000 and other receivables of approximately RMB190,122,000. The Group's current liabilities mainly included dividend payable of approximately RMB137,153,000, other payables of approximately RMB569,774,000, tax payable of approximately RMB58,379,000, bills payable of approximately RMB201,010,000, trade payables of approximately RMB1,024,263,000 and, provision for product warranties of approximately RMB30,102,000.

Acquisitions

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

Capital structure

The Group generally finances its operation with internally generated cash flows. As at 30 June 2006, the Group was at a debt-free position.

Exposure to foreign exchange risk

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

As the materials and components used by the Group were purchased from the domestic market, the slight revaluation of RMB did not constitute any impact on the Group's business. With respect to the export business, the pricing of the Group's products is relatively competitive and hence its current sales have not been affected.

Employment, training and development

As at 30 June 2006, the Group employed a total of approximately 7,474 employees. Employees were remunerated on the basis of their performance, experience and prevailing industry practices. The Group's remuneration policies and packages were reviewed on a regular basis. As an incentive for the employees, bonuses and cash awards may also be given to employees based on individual performance evaluation. Total staff cost accounted for 4.3% of the Group's revenue for the six months ended 30 June 2006.

Taxation

Tax payable by the Group increased from RMB15,035,000 in the first half of 2005 to RMB33,286,000 in the first half of 2006, representing a rise of 121.4%. The rise in tax was mainly due to the increase in profit.

Segment information

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

Geographical segmental analysis has been analysed according to the location of customers. As most of the assets and liabilities of the Group are located in the PRC, no geographical segmental analysis of assets, liabilities and capital expenditure information is presented.

	For the six months ended 30 June 2006			For the six months ended 30 June 2005		
	PRC RMB'000	**Overseas RMB'000**	**Combined RMB'000**	PRC RMB'000	Overseas RMB'000	Combined RMB'000
Segment revenue	**1,795,764**	**723,224**	**2,518,988**	1,346,344	250,782	1,597,126
Segment result	**450,370**	**204,598**	**654,968**	361,818	73,797	435,615
Unallocated expenses			**(237,542)**			(189,559)
Finance costs			**(821)**			(259)
Income tax			**(33,286)**			(15,035)
Profit after tax			**383,319**			230,762
Attributable to:						
Equity holders of the parent			**367,452**			202,916
Minority interests			**15,867**			27,846

Interim Dividends

The directors do not recommend the payment of any interim dividend for the period.

Business Review

Automobile sales

During the period, the Group's total sales volume was 38,509 units, representing an increase of 54.8% as compared to that of the same period last year. According to the statistics issued by China Association of Automobile Manufacturers in June 2006, the sales volume of Great Wall's pick-up trucks had continued to lead the market in the first half of 2006. During the period, the sales volume of pick-up trucks was 24,591 units, representing an increase of 61.3% as compared to that of the same period last year. Sales revenue amounted to RMB1,216,769,000, representing an increase of approximately 51.0% as compared to that of the same period in 2005.

Sales of the Group's sport utility vehicles ("SUVs") were satisfactory, with sales volume and sales revenue amounting to 13,876 units and RMB1,193,016,000, representing increases of approximately 46.3% and approximately 78.5% from those of the same period of 2005.

Despite the adverse impact of surging oil prices, the Group's automobile sales volume still sustained rapid growth as a result of the Group's continued improvement of its product mix. The Group's successful establishment of a leading position in the budget and medium-end automobiles market segments in the PRC was due to several factors, including: continued enhancement of product quality, good brand image, product meeting customer's demand, premium after-sales service and extensive distribution network, etc.

Sales revenue of other products of the Group for the period amounted to RMB5,027,000.

Sales of automotive parts and components

During the period, the sales revenue of automotive parts and components amounted to RMB104,176,000, representing an increase of approximately 3.2% as compared to that of the same period in 2005 and accounting for 4.1% of the total sales revenue. The increase in the sales of automotive parts and components was mainly due to the increase in the sales volume of automobiles, which led to the rise in the revenue from parts and components sold for after-sales operation.

Domestic market

During the period, the Group's domestic sales volume and sales revenue amounted to 25,570 units and RMB1,691,588,000, representing increases of 22.5% and 35.8% respectively. Of the Group's domestic sales, 13,741 units and 11,787 units of pick-up trucks and SUVs were sold respectively, with sales revenue amounting to RMB690,795,000 and RMB995,766,000 respectively. The sales revenue from the two main groups of customers, namely (1) dealers; and (2) government entities and individual customers amounted to RMB1,616,642,000 and RMB74,946,000 respectively.

	For the six months ended 30 June 2006			For the six months ended 30 June 2005		
	Sales volume (units)	**Revenue RMB'000**	**Percentage share of domestic automobile sales (%)**	Sales volume (units)	Revenue RMB'000	Percentage share of domestic automobile sales (%)
Dealers	**24,438**	**1,616,642**	**95.6**	19,853	1,178,231	94.6
Government entities and individual customers	**1,132**	**74,946**	**4.4**	1,028	67,191	5.4
Total	**25,570**	**1,691,588**	**100.0**	20,881	1,245,422	100.0

Overseas markets

During the period, the automobile export market of the Group had displayed outstanding performance, with a continuous growth. The Group's export volume of automobiles continued to set new records. For the six months ended 30 June 2006, the export volume exceeded 10,000 units, reaching 12,939 units, representing an increase of 223.6% from that of the same period last year. The Group thus became the largest automobile export enterprise in the PRC. The total export value amounted to RMB723,224,000, representing an increase of 188.4% from that of the same period of the previous year and accounting for approximately 28.7% of the total sales revenue of the Group. The export volume of pick-up trucks and SUVs during the period amounted to 10,850 units and 2,089 units respectively, with export value amounting to RMB525,974,000 and RMB197,250,000 respectively, representing increases of 169.3% and 261.9% from those of the same period in 2005 respectively. Pick-up trucks and SUVs accounted for 72.7% and 27.3% of the total export value respectively. The Group's export markets were mainly concentrated in four regions, namely Eastern Europe, Middle East, America and Africa, spanning across 80 countries and regions including Russia, Ukraine, Iraq, Saudi Arabia.

In view of the great demand for the Group's products in the Russian market, the Group has established Russia Great Wall Company Limited in Moscow, which is responsible for the Group's export business, related sales and after-sales services in the local market.

Launch of new products

The Group has a diversified product portfolio to satisfy different market needs.

During the period, the Group launched four new types of four-wheel drive vehicles including Sailor (pick-up truck), Pegasus (SUV), Sing (SUV) and So Cool (pick-up truck), which meet Euro III emission standards. These four new types of four-wheel drive vehicles have been developed with enhanced stability, safety, body stiffness and reliability to overcome adverse road conditions. A new type of two-wheel drive model has also been added to each of the series of Sailor, Pegasus and Sing. The major engine of these vehicles has been upgraded, leading to a reduction of fuel consumption by 1.2 litres per hundred kilometre and a 4.6% increase in power, which signifies a new milestone of the Group in creating products with energy saving features.

To meet the needs of export markets, the Group launched the latest right-hand drive Sailor and Sing during the period.

Hover•π, the latest product developed by the Group, is the first domestic limousine that leads the avant-garde of fashion and trend for uniqueness. The limousine stretches 6.72 metres in length, with a streamlined bodywork and a stunning look. With a luxurious, comfortable interior, Hover•π can be used for business purposes or as a place to carry out business work. The limousine has attracted the attention of the automobile industry, and gained positive response from the markets of ceremony services, rental services, wedding organisers, and foreign trading and business.

New technology

During the period, the Group has developed a diesel engine with an electronic control high pressure common rail, using the world's latest high pressure common rail fuel injection technology. This engine is powerful and stable, as well as energy saving and environmental friendly, meeting Euro III emission standards. This is a technological breakthrough in diesel engine with a self-owned brand name. This engine can be installed in all of the product series of the Group.

During the first half of the year, the Group was engaged in the design and development of two gasoline engines as well as the mapping of a diesel engine. Up till now, the testing and product design of the components of the gasoline engines has been completed, and preparations are being made for the trial production of the components.

OUTLOOK

New products

The Group is currently conducting research and development of a total of seven models for small passenger vehicles and multi-purpose vehicles (''MPV''). Car design of some of the models has been completed, and trial production of these automobiles has started. It is expected that the Group will begin launching certain models at the end of 2007. The Group will continue to maintain its market position in pick-up trucks, to optimise the product mix of SUVs and to leverage the existing production platform to actively develop new products.

Wingle, a new model of pick-up truck, has reached the stage of Good Manufacturing Practice inspection. It is expected that this model will be launched in the second half of 2006. Wingle is a high-end pick-up truck with a diesel engine using high pressure common rail technology. The design and production of this model has reached excellent level. Wingle combines the features of a tractor, cross-country vehicle and passenger car.

In the second half of 2006, the Group will launch a new model of vehicle — ''Proteus'' van, which is now at the trial assembly stage. ''Proteus'' van is equipped with excellent passenger seats and load-carrying ability, which satisfy the needs for carrying both passenger and cargo. It has a high quality price ratio.

In addition, a 2006 version of Hover CUV, being a new model intended for upgrading the Hover CUV series, is scheduled to be launched in the third quarter of 2006. By the end of 2006, the Group plans to launch a right-hand drive Hover CUV to satisfy the demand of export markets.

New export markets

After years of dedication, the Group has achieved remarkable export results in overseas markets. The number of export markets and regions has increased from more than 60 to over 80. The Group will continue to consolidate its existing global market presence, while focusing on the development of markets for right-hand drive vehicles.

New facilities

To cater to the needs for the production of new models, the Group commenced the construction of Phase 3 of Great Wall Industrial Zone in July 2005. At present, construction of part of the infrastructure has been completed. Production is expected to commence in the second half of 2007, with an initial annual capacity of 100,000 units.

Establishing a factory in Russia

The establishment of a factory in Russia by the Group is now pending for approval by the Russian Federation Government. The Group plans to make its investment in Russia by phase upon obtaining the official approval of the Russian government.

Future objectives

The Group will maintain its leading position in the pick-up truck and SUV markets, while actively engaging in the development of new vehicle models, continuing to launch new products and upgrade its existing products to satisfy various customers' needs, with the aim of producing premium products with high quality price ratio. The Group will also maintain its position as the PRC's largest automobile exporter with self-owned brand through increasing export, developing more new international markets and actively enlarging its client base. The Group will continue to launch products that meet international standards, in order to increase its share in the international market through introducing premium products. Such a move is aimed at facilitating the Group achieving the ratio of 1:1 for domestic sales and overseas sales in 2008.

At present, the automobile industry is still undergoing consolidation. The Group believes that only enterprises with strong development capabilities and competitive products will eventually remain in the market, while enterprises with inferior products will be eliminated. The Group will seize the opportunities arising from this industry consolidation. It will upgrade its product quality through continued enhancement of development capabilities; further enhance the Company's competitiveness in the PRC automobile industry by accelerating the launch of premium products that have energy saving, low fuel consumption, environmental-friendly, small engine displacement and economical features. While the Group will continue to augment its in-house research and development capabilities, it will maintain collaboration with renowned domestic and overseas automobile companies, and components manufacturers, in order to enable its products to keep pace with international technology and trend.