1. CORPORATE INFORMATION

The registered office of Great Wall Motor Company Limited (the "Company") is located at No. 2266 ChaoYang Road South, 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 7 July 2006, approval in respect of the change of business scope and registered address of the Company was granted by the Ministry of Commerce of the PRC. The Company changed its registered address from "No. 115 Gongnong Road South, Nanshi District, Baoding, Hebei Province, the PRC" to "No. 2266 ChaoYang Road South, Baoding, Hebei Province, the PRC". The Company changed its scope of business to "production and manufacturing, development, design, consignment processing and sales of vehicles and parts, components and accessories, and related after-sales services and consulting services; manufacturing of electronic equipment and machinery; mould making and manufacturing; vehicle repair; warehousing and logistics; the export of automotive parts, components and accessories manufactured and purchased by the Company; import and export of goods and technology (unless otherwise restricted by the State)".

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 RMB 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, held for trading financial assets 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 2006. 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.

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

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 identifiable 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 not held by the Group in the results and net assets of the Company's subsidiaries. Acquisitions of minority interests are accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 27 Amendment	Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) HKAS 21 The Effects of Changes in Foreign Exchange Rates

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

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

(b) HKAS 27 Consolidated and Separate Financial Statements

The adoption of the revised HKAS 27 has resulted in a change in accounting policy relating to the definition of a subsidiary for the purpose of the consolidated financial statements. The adoption of this amendment has had no material impact on these financial statements.

(c) HKAS 39 Financial Instruments: Recognition and Measurement

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue. The adoption of this amendment has had no material impact on these financial statements.

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

(d) HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

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.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

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 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires an entity to disclose factors used to identify the entity's operating segments, including the basis of organisation (for example, whether management organises the entity around differences in products and services, geographical areas, regulatory environments, or a combination of factors and whether segments have been aggregated), and types of products and services from which each reportable segment derives its revenues.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 Janurary 2008, respectively.

The Group is in the progress of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment and HKFRS 7 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

3.1 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.

3.1 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*.

An associate

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 an associate is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in an associate 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 an associate is included as part of the Group's interests in an associate.

The results of an associate are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in an associate 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*.

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on the acquisition of subsidiaries, an associate 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 an associate 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 recognised.

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.

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

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Excess over the cost of business combinations

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, an associate and jointly-controlled entities (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

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

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and goodwill), 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 such impairment loss is credited to the income statement in the period in which it arises.

3.1 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.

3.1 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 capitalised 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.

3.1 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.

Investments and other financial assets

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 considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

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.

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell 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 at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as 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 subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. 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.

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 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 at 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.

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets

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 the income statement.

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 flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

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 the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

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 them 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, where 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.

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities at amortised cost

Financial liabilities, including trade and other payables, an amount due to the ultimate holding company and interest-bearing loans and borrowings, are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provision, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

Derecognition of financial liabilities

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 the income statement.

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.

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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 recognised 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, an associate 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.

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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, an associate 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.

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.

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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 the 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 recognised immediately as a liability when they are proposed and declared.

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

These financial statements are presented in RMB, which is the Company'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 the income statement. 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.

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date, and their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount ecognized in equity relating to that particular foreign operation is ecognized in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2006 was RMB60,936,000 (2005: RMB28,125,000). The amount of unrecognised tax losses at 31 December 2006 was nil (2005: nil). Further details are contained in note 30 of the financial statements.

Warranty provisions

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. The carrying amount of provisions for product warranties at 31 December 2006 was RMB32,708,000 (2005: RMB23,820,000). Further details are contained in note 29 of the financial statements.

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.

	2006			2005		
	PRC	**Overseas**	**Consolidated**	PRC	Overseas	Consolidated
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue	**3,210,472**	**1,708,150**	**4,918,622**	2,911,804	898,154	3,809,958

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	**2006** ***RMB'000***	2005 *RMB'000*
Revenue			
Sale of automobiles		**4,706,929**	3,581,888
Sale of automotive parts and components		**211,693**	228,070
		4,918,622	3,809,958
Other income and gains			
Bank interest income		**36,541**	28,114
Government grants:			
Recognition of deferred income	*31*	**1,948**	974
Others*		**27,833**	12,915
Unrealised gain on revaluation of held for trading financial assets		**476**	–
		66,798	42,003

* It represents government grants 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	2006 RMB'000	2005 RMB'000
Cost of inventories sold (including depreciation)		**3,681,731**	2,809,268
Depreciation	*14*	**141,273**	110,134
Recognition of prepaid land premium	*15*	**2,695**	1,944
Loss on disposal of items of property, plant and equipment		**529**	1,265
Research and development costs included in other expenses		**152,812**	100,743
(Write-back of) Impairment of property, plant and equipment	*14*	**(4,901)**	6,170
Minimum lease payments under operating leases: Land and buildings		**75**	150
Auditors' remuneration		**3,145**	3,173
Employee benefits expense (including directors' and supervisors' remuneration *(note 8)*):			
Wages and salaries		**206,647**	149,012
Retirement benefits contributions		**22,778**	10,929
		229,425	159,941
Foreign exchange differences, net		**1,878**	3,838
(Write-back of) Impairment of receivables		**(4,009)**	4,859
Write-down of inventories to net realisable value		**18,589**	17,901
Product warranty provision	*29*	**26,533**	22,874
Bank interest income	*5*	**(36,541)**	(28,114)
Government grants included in other income and gains	*5*	**(29,781)**	(13,889)
Unrealised (gain)/loss on revaluation of held for trading financial assets		**(476)**	113

7. FINANCE COSTS

	Group	
	2006	2005
	RMB'000	*RMB'000*
Other finance costs	**1,732**	669

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:

	2006	2005
	RMB'000	*RMB'000*
Fees	**–**	–
Other emoluments:		
Salaries, allowances, and benefits in kind	**878**	786
Bonuses	**–**	–
Retirement benefits contributions	**7**	11
	885	797

(a) Independent non-executive directors

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

	2006	2005
	RMB'000	*RMB'000*
Han Chuan Mo	**48**	48
Zhang Ming Yu	**48**	48
Zhao Yu Dong	**48**	48
Wong Chi Keung	**242**	253
	386	397

8. DIRECTORS' AND SUPERVISORS' REMUNERATION *(Continued)*

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

2006	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	–	147	–	2	149
Liu Ping Fu	–	61	–	–	61
Wang Feng Ying	–	123	–	2	125
Liang He Nian	–	49	–	1	50
Yang Zhi Juan	–	40	–	2	42
Non executive directors:					
He Ping	–	48	–	–	48
Niu Jun	–	–	–	–	–
Supervisors:					
Yuan Hong Li	–	–	–	–	–
Zhu En Ze	–	24	–	–	24
Luo Jin Li	–	–	–	–	–
	–	492	–	7	499

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

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 was the highest in the Group for the year is as follows:

	2006	2005
Director	1	–
Employees	4	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:

	2006 *RMB'000*	2005 *RMB'000*
Salaries, allowances, and benefits in kind	871	741
Bonuses	–	–
Retirement benefits contributions	–	–
	871	741

10. TAX

Income tax

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

	2006 *RMB'000*	2005 *RMB'000*
Hong Kong profits tax	–	–
PRC corporate income tax:		
Current corporate income tax	42,610	49,702
Deferred income tax	(32,811)	(9,607)
Deferred tax expenses arising from changes in tax rate *(note 30)*	–	29,564
	9,799	69,659

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.

10. TAX *(Continued)*

Income tax *(Continued)*

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

Pursuant to applicable laws and regulations on welfare enterprises in the PRC, Baoding Nuobo Rubber Manufacturing Company Limited (Formerly known as 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 2005 and 2006, corporate income tax exempted for these welfare enterprises amounted to approximately RMB13,915,000 and RMB38,110,000, respectively.

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

	2006		2005	
	RMB'000	**%**	*RMB'000*	%
Profit before tax	**742,656**		561,568	
At PRC corporate income tax rate of 33%	**245,076**	**33.0**	185,317	33.0
Tax effect of expenses not deductible/ (further deductible) for tax purposes	**(28,304)**	**(3.8)**	23,822	4.3
Effect on deferred taxes arising from changes in tax rate	**–**	**–**	29,564	5.3
Tax losses utilised from previous years	**(1,033)**	**(0.1)**	(8,318)	(1.5)
Tax holiday	**(205,940)**	**(27.7)**	(160,726)	(28.6)
Actual tax expenses	**9,799**	**1.4**	69,659	12.5

10. TAX *(Continued)*

Value added Tax (''VAT") and Consumption Tax

The general VAT rate applicable to the Company and its subsidiaries in the PRC is 17% for domestic sales and nil 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 RMB10,152,000 was recorded as other income. On 20 March 2006, the State Tax Bureau issued a new regulation regarding consumption tax. In accordance with the regulation, certain automobiles of the Company are subject to consumption tax at standard rates of 5%, 9% and 12% since 1 April 2006.

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2006 includes a profit of RMB719,809,000 (2005: RMB359,911,000) which has been dealt with in the financial statements of the Company *(note 33)*.

12. PROPOSED FINAL DIVIDEND

	2006	2005
	RMB'000	*RMB'000*
Proposed final dividend-RMB0.16 (2005: RMB0.10) per ordinary share	**151,072**	94,420

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

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit for the year attributable to ordinary equity holders of RMB702,844,000 (2005: RMB441,007,000), and the weighted average of 944,200,000 (2005: 944,200,000) ordinary shares in issue during the year.

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 2006	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	602,868	809,410	27,292	124,506	1,564,076
Additions	1,296	7,716	6,828	8,915	24,755
Transfer from construction in progress *(note 16)*	89,579	214,462	2,112	33,717	339,870
Disposals	(2,386)	(5,475)	(2,042)	(587)	(10,490)
At 31 December 2006	691,357	1,026,113	34,190	166,551	1,918,211
Accumulated depreciation and impairment:					
At beginning of year	59,183	256,163	10,014	18,115	343,475
Depreciation provided during the year	22,677	89,821	3,586	25,189	141,273
Write-back of impairment during the year	(1,869)	(3,032)	–	–	(4,901)
Disposals	(374)	(2,477)	(757)	(339)	(3,947)
At 31 December 2006	79,617	340,475	12,843	42,965	475,900
Net book value:					
At 31 December 2006	611,740	685,638	21,347	123,586	1,442,311

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Group

31 December 2005	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and office equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*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
Depreciation 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)*

Company

31 December 2006	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	386,168	343,576	6,129	100,663	836,536
Additions	30	229	718	5,604	6,581
Transfers from construction in progress *(note 16)*	65,807	109,748	1,952	30,751	208,258
Disposals	(17)	(106)	(481)	(213)	(817)
At 31 December 2006	451,988	453,447	8,318	136,805	1,050,558
Accumulated depreciation:					
At beginning of year	15,548	35,784	2,720	7,853	61,905
Depreciation provided during the year	11,483	38,211	645	20,462	70,801
Disposals	(6)	(50)	(26)	(166)	(248)
At 31 December 2006	27,025	73,945	3,339	28,149	132,458
Net book value:					
At 31 December 2006	424,963	379,502	4,979	108,656	918,100

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
Depreciation 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

15. PREPAID LAND PREMIUM

Group

	2006 RMB'000	2005 RMB'000
Carrying amount at 1 January	**201,175**	166,294
Prepaid land premium during the year	**67,306**	36,825
Disposal of land premium	**(11,538)**	–
Recognised during the year	**(2,695)**	(1,944)
Carrying amount at 31 December	**254,248**	201,175

Company

	2006 RMB'000	2005 RMB'000
Carrying amount at 1 January	**149,705**	113,371
Prepaid land premium during the year	**66,821**	36,824
Disposal of land premium	**(15,374)**	–
Recognised during the year	**(1,222)**	(490)
Carrying amount at 31 December	**199,930**	149,705

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

16. CONSTRUCTION IN PROGRESS

Group

	2006 RMB'000	2005 RMB'000
At beginning of year	**301,064**	769,678
Additions	**909,234**	317,163
Transfer to property, plant and equipment *(note 14)*	**(339,870)**	(785,777)
At end of year	**870,428**	301,064

Company

	2006 RMB'000	2005 RMB'000
At beginning of year	**154,992**	648,506
Additions	**772,305**	217,473
Transfer to property, plant and equipment *(note 14)*	**(208,258)**	(710,987)
At end of year	**719,039**	154,992

17. GOODWILL

Group

31 December 2006	***RMB'000***
At 1 January 2006:	
Cost	**2,164**
Accumulated impairment	**–**
Net carrying amount	**2,164**
Cost at 1 January 2006, net of accumulated impairment	**2,164**
Impairment during the year	**–**
Cost and carrying amount at 31 December 2006	**2,164**

31 December 2005	*RMB'000*
At 1 January 2005:	
Cost	2,164
Accumulated impairment	–
Net carrying amount	2,164
Cost at 1 January 2005, net of accumulated impairment	2,164
Impairment during the year	–
Cost and carrying amount at 31 December 2005	2,164

18. INVESTMENTS IN SUBSIDIARIES

Company

	2006	2005
	RMB'000	*RMB'000*
Unlisted investments, at cost	**231,101**	229,877

The Company's trade receivables, other receivables, trade payables and other payables with the subsidiaries are disclosed in notes 22, 24, 27 and 28, 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 capital/ registered capital *RMB'000*	Percentage of equity interests attributable to the Company Direct	Indirect	Principal Activities
Baoding Great Wall Huabei Automobile Company Limited ("GW Huabei Company") (viii) (保定長城華北汽車有限責任公司)	PRC 18 January 2000	177,550	52.97	–	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") (保定長城內燃機製造有限公司)	PRC 25 May 2000	40,816	51	–	Manufacture of automotive parts and components
Baoding Riwa Automobile System Accessories Company Limited ("Riwa Automobile Company") (保定日瓦汽車系統配套有限公司)	PRC 29 April 1999	1,000	–	100	Manufacture of automotive parts and components
Baoding Great Machinery Company Limited ("Great Machinery Company") (保定市格瑞機械有限公司)	PRC 25 October 2001	23,000	87	13	Manufacture of automotive parts and components
Baoding Nuobo Rubber Manufacturing Company Limited ("Baoding Nuobo Company") (Formerly known as Baoding Great Wall Automobile Accessories Company Limited) (保定市諾博橡膠製品有限公司) (原名為保定市長城汽車配件有限公司)	PRC 18 June 2001	32,420	100	–	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

18. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Company name	Place and date of incorporation and operations	Nominal value of paid-up capital/ registered capital *RMB'000*	Percentage of equity interests attributable to the Company Direct	Indirect	Principal Activities
Baoding Changfu Pressings Company Limited # ("Changfu Pressings Company") (ii) (保定長福沖壓有限公司)	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 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	100	–	Provision of after-sale services
Baoding Great Wall Automobile Sales Company Limited ("GW Sales Company") (Formerly known as Baoding Kemei Commerce Company Limited) (保定長城汽車銷售有限公司) (原名為保定科美貿易有限公司)	PRC 26 March 2004	8,000	–	100	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
Macs (Baoding) Auto A/C System Co., Ltd. # ("Macs Auto A/C Company ") (iv) (麥克斯(保定)空調系調有限公司)	PRC 18 January 2004	20,339	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

18. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Company name	Place and date of incorporation and operations	Nominal value of paid-up capital/ registered capital *RMB'000*	Percentage of equity interests attributable to the Company Direct	Indirect	Principal 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
Baoding Mind Auto Component Co., Ltd. # ("Baoding Mind Company") (vii) (保定曼德汽車配件有限公司)	PRC 26 March 2003	600	75	–	Manufacture of automotive parts and components

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.

(vii) The joint venture agreement of Baoding Mind Company will expire on 6 June 2018. Upon expiry, the Company is entitled to the remaining net assets according to the profit sharing ratio.

(viii) During 2006, the Company acquired 1.97% equity interest of GW Huabei Company from Mu Xiheng, the minority shareholder, for a cash consideration of RMB 4,367,000, which was determined based on the net assets at end of April 2006.

19. INTERESTS/INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted investments, at cost	**–**	–	**29,405**	23,700
Share of net assets	**47,584**	29,514	**–**	–
	47,584	29,514	**29,405**	23,700

The Group and the Company's trade receivables, other receivables, trade payables and other payables with the jointly-controlled entities are disclosed in notes 22, 24, 27 and 28, respectively. The amounts due from/(to) the jointly-controlled entities are unsecured, non-interest bearing and are repayable on demand.

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	Percentage of Voting power	Percentage of 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") (保定傑華汽車零部件有限公司)	Corporation	PRC 15 September 2004	50	50	50	Manufacture of automotive parts and components

Note:

(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.

(ii) During the year, the Company invested additional RMB5,705,000 in the form of prepaid land premium to Deye and Jiehua. The equity interest share remained after the investments.

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:

	2006	2005
	RMB'000	*RMB'000*
Current assets	**12,464**	16,145
Non-current assets	**38,303**	32,867
Current liabilities	**(3,183)**	(19,498)
Non-current liabilities	**–**	–
Net assets	**47,584**	29,514

Share of the jointly-controlled entities' results:

	2006	2005
	RMB'000	*RMB'000*
Turnover	**73,244**	43,191
Other revenue	**–**	–
Total revenue	**73,244**	43,191
Total expenses	**59,505**	36,337
Tax	**1,377**	1,047
Profit after tax	**12,362**	5,807

20. INTERESTS/INVESTMENTS IN AN ASSOCIATE

	Group		**Company**	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted investments, at cost	**–**	–	**125**	–
Share of net assets	**123**	–	**–**	–
	123	–	**125**	–

The Group and the Company's trade receivables, other receivables, trade payables and other payables with an associate are disclosed in notes 22, 24, 27 and 28, respectively. The amounts due from/(to) the an associate are unsecured, non-interest bearing and are repayable on demand.

20. INTERESTS/INVESTMENTS IN AN ASSOCIATE *(Continued)*

Particulars of an associate of the Group are as follows:

Name	Business structure	Place and date of incorporation and operations	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Baoding Greatwall Jiehua Automobile Inner Decoration Co., Ltd. ("GW Jiehua Company") (保定長城傑華汽車內飾件有限公司)	Sino-foreign joint venture	PRC 16 March 2004	25	25	25	Manufacture of automotive parts and components

Notes:

The joint venture agreement of GW Jiehua Company will expire on 26 September 2018. Upon expiry, the Company is entitled to the remaining net assets according to the profit sharing ratio.

Share of an associate's assets and liabilities:

	2006 **RMB'000**	2005 RMB'000
Current assets	**122**	–
Non-current assets	**1,859**	–
Current liabilities	**1,858**	–
Non-current liabilities	**–**	–
Net assets	**123**	–

Share of an associate's results:

	2006 **RMB'000**	2005 RMB'000
Turnover	**–**	–
Other revenue	**–**	–
Total revenue	**–**	–
Total expenses	**(2)**	–
Tax	**–**	–
Profit after tax	**(2)**	–

21. INVENTORIES

Group

	2006 RMB'000	2005 RMB'000
Raw materials	253,719	215,673
Semi-finished goods	57,700	108,914
Work in progress	82,633	62,878
Finished goods	297,208	327,116
Spare parts and consumables	10,533	8,752
	701,793	723,333
Provision for inventory impairment	(50,084)	(31,496)
	651,709	691,837

Company

	2006 RMB'000	2005 RMB'000
Raw materials	55,706	84,095
Work in progress	30,867	21,541
Finished goods	182,164	358,977
Spare parts and consumables	12,536	1,204
	281,273	465,817
Provision for inventory impairment	(519)	(2,304)
	280,754	463,513

22. 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 impairment of trade receivables is made when it is considered that amounts due may not be recovered. In view of the aforementioned and the fact 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.

22. TRADE RECEIVABLES *(Continued)*

Group

An aged analysis of the trade receivables of the Group, based on invoice date, is as follows:

	2006	2005
	RMB'000	*RMB'000*
Outstanding balances aged:		
Within 6 months	**32,080**	56,957
7 to 12 months	**1,206**	1,701
Over 1 year	**11,914**	15,526
	45,200	74,184
Less: Impairment of trade receivables	**(14,115)**	(19,203)
	31,085	54,981

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

	2006	2005
	RMB'000	*RMB'000*
Jointly-controlled entities	**–**	–
An associate	**–**	–
Other related parties	**17**	2,066
	17	2,066

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

22. TRADE RECEIVABLES *(Continued)*

Company

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

	2006 RMB'000	2005 RMB'000
Outstanding balances aged:		
Within 6 months	**25,577**	41,640
7 to 12 months	**25**	671
Over 1 year	**1,481**	1,135
	27,083	43,446
Less: Impairment of trade receivables	**(2,773)**	(3,552)
	24,310	39,894

All the balances are due from independent third parties.

23. 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:

	2006 RMB'000	2005 RMB'000
Falling due:		
Within 3 months	**200,450**	243,305
4 to 6 months	**287,336**	252,962
	487,786	496,267

As at 31 December 2006, the Group's bills receivable amounting to RMB130,780,000, (2005: RMB165,600,000) were pledged to banks for issuing an equivalent amount of bills payable.

23. BILLS RECEIVABLE *(Continued)*

Company

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

	2006 RMB'000	2005 RMB'000
Falling due:		
Within 3 months	**126,510**	161,975
4 to 6 months	**206,123**	182,544
	332,633	344,519

As at 31 December 2006, the Company's bills receivable amounting to RMB49,030,000 (2005: RMB81,220,000) were pledged to banks for issuing an equivalent amount of bills payable.

24. OTHER RECEIVABLES

Group

	2006 RMB'000	2005 RMB'000
Prepayments	**87,712**	103,355
Export VAT refund	**80,266**	69,423
Others	**25,314**	7,526
	193,292	180,304

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

	2006 RMB'000	2005 RMB'000
Jointly-controlled entities	**–**	12,009
An associate	**–**	–
Other related parties	**2,306**	146
	2,306	12,155

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

24. OTHER RECEIVABLES *(Continued)*

Company

	2006 **RMB'000**	2005 RMB'000
Prepayments	**216,928**	74,377
Export VAT refund	**77,218**	69,423
Other	**17,886**	2,446
	312,032	146,246

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

	2006 **RMB'000**	2005 RMB'000
Subsidiaries	**158,450**	1,722
Jointly-controlled entities	**–**	12,009
An associate	**–**	–
Other related parties	**203**	108
	158,653	13,839

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

25. HELD FOR TRADING FINANCIAL ASSETS

Group and Company

	2006 **RMB'000**	2005 RMB'000
Listed equity investments, at market value:		
Mainland China	**863**	394
Elsewhere	**–**	–
	863	394

The above equity investments at 31 December 2005 and 2006 were classified as held for trading financial assets.

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances	**2,429,188**	2,556,676	**2,098,836**	2,151,499
Less: Pledged for bank overdraft facilities	**(132,600)**	(118,240)	**(72,139)**	(51,242)
Cash and cash equivalents	**2,296,588**	2,438,436	**2,026,697**	2,100,257

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. The pledge deposits for bank overdraft facilities are released within three months after the balance sheet date, which are included in the cash and cash equivalents of cash flow statement.

27. TRADE PAYABLES

Group

An aged analysis of the trade payables, based on invoice date, is as follows:

	2006	2005
	RMB'000	*RMB'000*
Within 6 months	**866,468**	893,526
7 to 12 months	**23,762**	33,097
1 to 2 years	**48,569**	17,511
Over 2 years	**29,666**	22,580
	968,465	966,714

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

27. TRADE PAYABLES *(Continued)*

Group *(Continued)*

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

	2006 RMB'000	2005 RMB'000
Jointly-controlled entities	**34,460**	19,411
An associate	**–**	–
Other related parties	**6,391**	15,427
	40,851	34,838

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

Company

An aged analysis of the trade payables is as follows:

	2006 RMB'000	2005 RMB'000
Within 6 months	**958,375**	878,611
7 to 12 months	**116,509**	48,857
1 to 2 years	**54,795**	9,614
Over 2 years	**23,284**	20,845
	1,152,963	957,927

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

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

	2006 RMB'000	2005 RMB'000
Subsidiaries	**585,313**	432,997
Jointly-controlled entities	**33,285**	18,932
An associate	**–**	–
Other related parties	**2,460**	3,642
	621,058	455,571

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

28. OTHER PAYABLES

Group

	2006 RMB'000	2005 RMB'000
Advances from customers	**444,321**	321,019
Accruals	**17,654**	22,223
Other	**192,491**	154,710
	654,466	497,952

Included in the Group's other payables are amounts due to other related parties of RMB50,000 and RMB120,500 for the year ended 31 December 2005 and 2006, respectively, which are unsecured, non-interest-bearing and are repayable on demand.

Company

	2006 RMB'000	2005 RMB'000
Advances from customers	**364,642**	481,591
Accruals	**9,771**	13,627
Other	**63,603**	47,164
	438,016	542,382

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

	2006 RMB'000	2005 RMB'000
Subsidiaries	**210,053**	337,678
Jointly-controlled entities	**–**	–
An associate	**–**	–
Other related parties	**1**	50
	210,054	337,728

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

29. PROVISION FOR PRODUCT WARRANTIES

Group

	2006	2005
	RMB'000	*RMB'000*
At beginning of year	**23,820**	25,335
Additional provision	**26,533**	22,874
Amounts utilised during the year	**(17,645)**	(24,389)
At end of year	**32,708**	23,820

Company

	2006	2005
	RMB'000	*RMB'000*
At beginning of year	**19,111**	18,412
Additional provision	**7,179**	12,888
Amounts utilised during the year	**(2,854)**	(12,189)
At end of year	**23,436**	19,111

The Group and the Company provide free inspection services twice to their customers within, in general, the first two months of purchase. The Group and the Company 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 volume, 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.

30. DEFERRED TAX

The movements in the deferred tax accounts are as follows:

Group

Deferred tax assets

	2006 RMB'000	2005 RMB'000
At beginning of year	**28,125**	49,191
Increase during the year	**32,811**	8,498
Effect on deferred taxes of changes in tax rate	**–**	(29,564)
At end of year	**60,936**	28,125
Provisions in respect of:		
Impairment of receivables	**4,872**	5,847
Write-down of inventories to net realisable value	**15,894**	10,041
Unrealised loss on revaluation of held for trading financial assets	**87**	–
Liabilities for accrued expenses that are deductible for tax purpose only when paid	**9,706**	3,406
Impairment of property, plant and equipment	**–**	2,036
Over charge of depreciation	**6,638**	–
Revenue in nature received in advance that is not taxable when settled	**10,136**	793
Unrealised profit arising on consolidation	**8,977**	–
Temporary differences arising from transfer of intangible assets among group companies	**4,626**	6,002
	60,936	28,125

30. DEFERRED TAX *(Continued)*

Deferred tax liabilities

	2006 *RMB'000*	2005 *RMB'000*
At beginning of year	–	1,109
Decrease during the year	–	(1,109)
At end of year	–	–

Company

Deferred tax assets

	2006 *RMB'000*	2005 *RMB'000*
At beginning of year	–	16,562
Increase during the year	11,036	–
Effect on deferred taxes of changes in tax rate	–	(16,562)
At end of year	11,036	–
Provisions in respect of:		
Impairment of receivables	770	–
Write-down of inventories to net realisable value	78	–
Unrealised loss on revaluation of held for trading financial assets	87	–
Revenue in nature received in advance is not taxable when settled	5,367	–
Liabilities for accrued expenses that are deductible for tax purpose only when paid	4,734	–
	11,036	–

30. DEFERRED TAX *(Continued)*

Deferred tax liabilities

	2006 RMB'000	2005 RMB'000
At beginning of year	–	338
(Decrease) during the year	–	(338)
At end of year	–	–

31. DEFERRED INCOME

In 2005, Baoding Finance Bureau provided subsidy totalling 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 projects, the deferred income is recognised as income over the expected useful life of the completed construction projects.

Group and Company

	2006 RMB'000	2005 RMB'000
Deferred income:		
At beginning of year	58,433	–
Additions during the year	–	58,433
At end of year	58,433	58,433
Accumulated income recognised as other income and gains:		
At beginning of year	974	–
Release during the year	1,948	974
At end of year	2,922	974
Net book value:		
At end of year	55,511	57,459

32. SHARE CAPITAL

Group and Company

	2006 RMB'000	2005 RMB'000
Issued and fully paid:		
Domestic shares of RMB1 each	**682,000**	682,000
H shares of RMB1 each	**262,200**	262,200
	944,200	944,200

33. RESERVES

Group

The amounts of the Group's reserves and the movements therein during the year are presented in the consolidated statement of changes in equity on page 69 of the financial statements.

Company

	Notes	Share premium account RMB'000	Capital reserves (Note i) RMB'000	Statutory reserves RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2005		1,642,500	(22,420)	254,543	29,146	1,903,769
Capitalisation of bonus share		(472,100)	–	–	–	(472,100)
Profit for the year		–	–	–	359,911	359,911
Transfer to statutory reserves		–	–	93,029	(93,029)	–
Transfer to capital reserves	(ii)	–	974	–	(974)	–
Proposed final dividend		–	–	–	(94,420)	(94,420)
At 31 December 2005		1,170,400	(21,446)	347,572	200,634	1,697,160
Profit for the year		–	–	–	719,809	719,809
Transfer to statutory reserves		–	–	63,182	(63,182)	–
Transfer to capital reserves	(ii)	–	1,948	–	(1,948)	–
Proposed final dividend		–	–	–	(151,072)	(151,072)
At 31 December 2006		1,170,400	(19,498)	410,754	704,241	2,265,897

33. RESERVES *(Continued)*

Notes:

(i) The capital reserves of the Company include non-distributable reserves created in accordance with accounting and financial regulations of the PRC.

(ii) 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.

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, 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.

In previous years, the Company and certain of its subsidiaries are required to transfer 5% to 10% of their profit after tax, as determined in accordance with PRC accounting standards and regulations applicable to these companies, to statutory public welfare fund (the "PWF"). According to the "Company Law of the PRC (2005 revised)" that become effective on 1 January 2006 and the revised articles of associations of the Company and its subsidiaries, they do not make appropriation to the PWF commencing from 2006.

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 HKFRSs, the appropriation for the staff welfare and incentive bonus fund is charged to the profit and loss account and any unutilised balance is included in current liabilities. Appropriations of approximately RMB14,215,000 and RMB11,117,000 were made to the staff welfare and incentive bonus fund for the two years ended 31 December 2005 and 2006, 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 subsidy for the construction projects received from the Baoding Finance Bureau is also required to be transferred to a non-distributable capital reserve for the development of the Company. Therefore the deferred income recognised as other income during the year is transferred to capital reserve.

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

	2006 RMB'000	2005 RMB'000
Net assets acquired:		
Cash and bank balances	**600**	1,000
Minority interests	**(150)**	(250)
	450	750
Goodwill on acquisition	**–**	–
Negative goodwill on acquisition	**–**	–
	450	750
Satisfied by:		
Cash	**450**	750

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

	2006 RMB'000	2005 RMB'000
Cash consideration	**(450)**	(750)
Cash and bank balances acquired	**600**	1,000
Net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries	**150**	250

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.

On 29 May 2006, the Company acquired a 75% interest of Baoding Mind Company from Baoding Ants Logistics Company Limited, a related party, at a total cash consideration of RMB450,000.

(b) Deregistration of a subsidiary

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.

35. CONTINGENT LIABILITIES

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

36. OPERATING LEASE COMMITMENTS

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

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
As lessee:				
Within one year	**–**	–	**461**	107
In the second to fifth years, inclusive	**–**	–	**461**	–
After five years	**–**	–	**–**	–
	–	–	**922**	107

37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36 above, the Group and the Company had the following commitments at the balance sheet date:

(a) Capital commitments

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Contracted, but not provided for	**536,440**	226,160	**491,296**	153,803
Authorised, but not contracted for	**962,172**	1,581,340	**946,512**	1,531,970
	1,498,612	1,807,500	**1,437,808**	1,685,773

37. COMMITMENTS *(Continued)*

(a) Capital commitments *(Continued)*

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

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Acquisition of items of plant and machinery	**1,342,049**	1,377,936	**1,305,522**	1,269,289
Construction commitments	**156,563**	429,564	**132,286**	416,484
	1,498,612	1,807,500	**1,437,808**	1,685,773

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

	2006	2005
	RMB'000	*RMB'000*
Contracted, but not provided for	**2,655**	8,050
Authorised, but not contracted for	**–**	–
	2,655	8,050

(b) Other commitment

(i) According to the Company's proposed plan which had been approved by the board of directors of the Company at its 5th meeting of the second session held on 16 January 2006, the Company plans to invest approximately US$70 million to establish a factory in Russia for the manufacture of vehicles with an annual capacity of 50,000 units (see note 40 also).

(ii) The Group and the Company had the following commitments for R&D projects at the balance sheet date:

Group and Company

	2006	2005
	RMB'000	*RMB'000*
Contracted, but not provided for	**75,985**	103,210

38. 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 2006 RMB'000	2005 RMB'000
Baoding Tai Hang Steel Structure Construction Company Limited (保定市太行鋼結構工程有限公司)	Related party (i)	Construction services fee paid	(c)	55,721	12,873
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)	864	190
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)	62,445	87,397
Shunping Ante Transport Company Limited (順平安特運輸有限公司)	Related party (iii)	Transportation fee paid	(b)	1,192	2,985
Shunping County Modern Logistics Company Limited (順平縣現代物流有限公司)	Related party (iii)	Transportation fee paid	(b)	30,808	–
Gaobeidian Zhongke Huabei Automobile Company Limited (高碑店市中客汽車華北有限責任公司)	Related party (iv)	Purchase of service	(c)	–	539
Hebei Baoding Tai Hang Group Company Limited (河北保定太行集團有限公司)	Related party (v)	Purchase of fixed assets	(c)	233	380
Baoding Taihang Pump Manufacturing Company Limited (保定市太行製泵有限公司)	Related party (vi)	Purchase of spare parts	(b)	879	676
Beijing Weide Automobile System Accessories Company Limited (北京威德汽車系統配套有限公司)	Related party (vii)	Sales of spare parts	(a)	1,972	–
Tianjin Tianqi Group Meiya Automobile Manufacturing Company Limited (天津天汽集團美亞汽車製造有限公司)	Related party (viii)	Sale of automotive components	(b)	6,804	21,427
		Rendering of service	(b)	–	325

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

38. RELATED PARTY TRANSACTIONS *(Continued)*

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, Shunping Ante Transport Company Limited and Shunping County Modern Logistics Company Limited are controlled and beneficially owned by a director of the Company.

(iv) Gaobeidian Zhongke Huabei Automobile Company Limited ceased to be a related party on 8 May 2006. Prior to that date, it was a related party of a director of GW Huabei Company.

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

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

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

(viii) Tianjin Tianqi Group Meiya Automobile Manufacturing Company Limited ceased to be a related party on 9 May 2006. Prior to that date, it was a related party of a director of GW Internal Combustion Engine Company.

Details of the Group's trade and other balances with its jointly-controlled entities, an associate and other related parties as at the end of the year are disclosed in notes 22, 24, 27 and 28.

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. RELATED PARTY TRANSACTIONS *(Continued)*

Compensation of key management personnel of the Group

	2006 RMB'000	2005 RMB'000
Short term employee benefits	739	931
Post-employment benefits	19	16
Total compensation paid to key management personnel	758	947

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

39. 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 mainly comprise 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.

39. 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 2006 will mature within six months.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from export sales in currencies other than the operating units' functional currency. Approximately 33.8% (2005: 23.4%) of the Group's sales are denominated in currencies other than the functional currency. The Group exchanged foreign currencies arising from export sales into functional currency upon receipt to eliminate the currency exposures.

40. POST BALANCE SHEET EVENTS

(a) On 28 Januray 2007, the Company entered into a joint venture contract with the Land and Property Management Authority of the Republic of Tatarstan, the Russian Federation ("Tatanstan Property Authority"), a legal entity independent of and not connected with the Company, in respect of the formation of a joint venture company, Great Wall Alabuga Motor Open Joint Stock Company ("GW Alabuga Company"), to engage principally in the production and trading of automobiles, automotive parts and components. The registration procedures have been completed as at 12 February 2007. The registered capital of GW Alabuga Company will be 420,000,000 Roubles (equivalent to approximately RMB121,800,000). The Company will contribute a total of 314,999,000 Rubles (equivalent to approximately RMB91,349,710), of which 126,000,000 Rubles (equivalent to approximately RMB36,540,000) will be contributed by grants of trademarks and 188,999,000 Roubles (equivalent to approximately RMB54,809,710) will be contributed in cash. The Company will own approximately 75% of the registered capital of the GW Alabuga Company.

(b) During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the future financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2007.