



DONGFENG MOTOR GROUP COMPANY LIMITED*

東風汽車集團股份有限公司

(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 489)

2005 ANNUAL RESULTS ANNOUNCEMENT

The Board of Directors (the “Board”) of Dongfeng Motor Group Company Limited (the “Company”) is pleased to announce the audited consolidated results of the Company, its subsidiaries (the “Group” and together with its jointly-controlled entities the “Dongfeng Motor Group”) for the year ended 31 December 2005 together with the comparative figures in 2004.

In this announcement, unless otherwise specified, all references to revenues, profits and other financial information of the Group include those of the relevant jointly-controlled entities of the Company to the extent that such information has been proportionately consolidated or otherwise reflected in the financial results set out below. Subject to the above and unless otherwise specified all information in this announcement relating to the Dongfeng Motor Group includes information of the Group and all companies (including jointly-controlled entities of the Company and Associates) in which the members of the Group have direct or indirect equity interests, as at 31 December 2005, without regard to the ownership level of, or the proportion of interest held by, the members of the Group in such companies. It should be noted that the Company and its subsidiaries only hold up to 50% of interest in the jointly-controlled entities of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	2005 <i>RMB million</i>	2004 <i>RMB million</i>
Revenue — Sale of goods	3, 4	41,735	32,737
Cost of sales		<u>(35,639)</u>	<u>(26,952)</u>
Gross profit		6,096	5,785
Other income	4	1,007	568
Gain on dilution of interests in certain businesses and investments, net		—	852
Selling and distribution costs		(1,738)	(1,384)
Administrative expenses		(1,928)	(1,793)
Other expenses, net		(767)	(654)
Finance costs	5	(478)	(242)
Share of profits and losses of associates		<u>29</u>	<u>42</u>
Profit before tax	6	2,221	3,174
Income tax expense	7	<u>(474)</u>	<u>(308)</u>

Profit for the year		<u>1,747</u>	<u>2,866</u>
Attributable to:			
Equity holders of the parent		<u>1,601</u>	2,598
Minority interests		<u>146</u>	268
		<u>1,747</u>	<u>2,866</u>
Dividend	8	<u>1,390</u>	<u>—</u>
Earnings per share attributable to equity holders of the parent:	9		
Basic for the year		<u>25.86 cents</u>	<u>28.38 cents</u>
Diluted for the year		<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	2005 <i>RMB million</i>	2004 <i>RMB million</i>
ASSETS			
Non-current assets			
Property, plant and equipment		14,414	11,925
Lease prepayments		350	335
Intangible assets		725	619
Goodwill		434	277
Investments in associates		372	293
Available-for-sale financial assets		163	194
Loan to a jointly-controlled entity		200	—
Other long term assets		397	301
Deferred income tax assets		<u>73</u>	<u>71</u>
Total non-current assets		<u>17,128</u>	<u>14,015</u>
Current assets			
Inventories		6,251	6,588
Trade receivables	10	1,436	1,068
Bills receivable		3,542	3,695
Prepayments, deposits and other receivables		1,576	1,509
Due from jointly-controlled entities		126	307
Other financial assets		109	217
Cash and cash equivalents		7,389	5,543
Restricted cash		<u>423</u>	<u>509</u>
Total current assets		<u>20,852</u>	<u>19,436</u>
TOTAL ASSETS		<u>37,980</u>	<u>33,451</u>

EQUITY AND LIABILITIES

Equity attributable to the equity holders of the parent:

Paid-up registered capital		8,616	6,020
Reserves		2,858	936
Retained profits		733	1,081
		<u>12,207</u>	<u>8,037</u>
Minority interests		<u>2,127</u>	<u>2,078</u>
Total equity		<u>14,334</u>	<u>10,115</u>
Non-current liabilities			
Interest-bearing borrowings		2,226	2,727
Other long term liabilities		222	432
Provisions		205	215
Government grants		67	47
Deferred income tax liabilities		564	244
		<u>3,284</u>	<u>3,665</u>
Total non-current liabilities			
Current liabilities			
Trade payables	11	5,757	5,142
Bills payable		2,873	2,315
Other payables and accruals		5,643	7,371
Due to jointly-controlled entities		366	60
Interest-bearing borrowings		5,309	4,403
Government grants		18	5
Income tax payable		69	77
Provisions		327	298
		<u>20,362</u>	<u>19,671</u>
Total current liabilities			
		<u>20,362</u>	<u>19,671</u>
TOTAL LIABILITIES		<u>23,646</u>	<u>23,336</u>
TOTAL EQUITY AND LIABILITIES		<u>37,980</u>	<u>33,451</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Background of the Company

The Company was established in the People's Republic of China (the "PRC") as a limited liability company on 18 May 2001 under the name of Dongfeng Motor Co., Ltd. and was renamed as Dongfeng Automotive Industry Investment Co., Ltd. on 26 March 2003.

During 2004, the Company underwent a reorganisation (the "Reorganisation") to rationalise its business and restructure itself into a joint stock limited liability company. The Reorganisation involves the following steps:

- (a) Pursuant to an asset transfer agreement of 26 August 2004, the Company transferred the Group's social function operations and non-core businesses (such as schools, kindergartens, hospitals, facilities for power, heating and water supplies, etc.), certain equity investments, and certain assets and liabilities (collectively the "Transferred Assets") at an aggregate consolidated net book value of RMB3,048 million to Dongfeng Motor Corporation ("DFM") with an effective date of 31 December 2003, thereby reducing the capital owned by DFM, the Group's reserves and retained profits by RMB2,791 million, RMB149 million and RMB108 million, respectively (the "Assets Transfer Transaction"). The core business of vehicles manufacturing and related businesses (collectively the "Relevant Business") remains with the Company;
- (b) The Company entered into an equity repurchase agreement on 11 August 2004 to repurchase 42.86% of its equity capital held by China Huarong Asset Management Corporation, China Cinda Asset Management Corporation, China Orient Asset Management Corporation, China Great Wall Asset Management Corporation and China Development Bank (collectively referred to as "AMCs") for a total consideration of RMB4,613.5 million (the "Equity Repurchase Transaction") which was completed on 6 September 2004.
- (c) As a result of the Equity Repurchase Transaction and the Assets Transfer Transaction, the Company became a wholly state-owned limited liability company and DFM then became its sole shareholder; and
- (d) On 12 October 2004, the Company was restructured into a joint stock limited liability company with a registered share capital of RMB6,020 million, which was determined based on PRC GAAP audited net assets of RMB10,633.5 million (net of the Transferred Assets) at the base date of 31 December 2003 succeeded by the Company pursuant to the restructuring of the Company into a joint stock limited liability company and after the deduction of the capital repurchased by the Company from AMCs of RMB4,613.5 million in the Equity Repurchase Transaction.

Pursuant to the Assets Transfer Transaction with an effective date of 31 December 2003, the Group discontinued its social function operations and non-core businesses and retains the Relevant Business only.

Upon the restructuring of the Company into a joint stock limited liability company on 12 October 2004, the Company was renamed as Dongfeng Motor Group Company Limited.

On 7 December 2005, an aggregate of 2,483,250,000 H shares of the Company, which comprised 2,257,500,000 new H shares and 225,750,000 H shares converted from the Company's domestic shares (the "Domestic Shares"), were issued to the public and listed on the Main Board of The Stock Exchange of Hong Kong Limited. On 13 December 2005, an additional 338,620,000 new H shares and 33,862,000 H shares converted from the Domestic Shares, were issued to the public and listed on the Main Board of The Stock Exchange of Hong Kong Limited as a result of the full exercise of the over-allotment option as detailed in the Company's prospectus dated 24 November 2005 (the "Over-allotment Option"). The new H shares with a nominal value of RMB1 each were offered and issued to Hong Kong public investors and international professional and institutional investors at a price of HK\$1.6 per share (equivalent to approximately RMB1.67) pursuant to the global offering.

The Group is engaged in the manufacture and sale of commercial vehicles, passenger vehicles, engines and auto parts and also the manufacture of vehicle equipment, both in order to support the Group's vehicle manufacturing businesses and also for external sales. The Group has also developed automotive-related businesses, such as vehicle and vehicle manufacturing equipment import/export businesses, auto finance businesses, insurance agency businesses and used car businesses.

Substantially all of the Dongfeng Motor Group's vehicles, engines and auto parts business as well as automotive-related businesses are carried out through subsidiaries, JCEs and other companies in which it has direct equity interests. The Company and its subsidiaries, JCEs and the other shareholders in the other companies in which the Company has a direct equity interest, jointly manage branding, strategy, operations, marketing and other areas in accordance with the relevant joint venture agreements.

The registered office of the Company is located at No. 8 Car City Road North, Wuhan Economic and Technology Development Zone, Wuhan, Hubei 430056, the PRC.

In the opinion of the directors, the ultimate holding company of the Group is DFM, a state-owned enterprise established in the PRC.

2. Basis of preparation and principal accounting policies

These audited condensed financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards and Standing Interpretation Committee interpretations approved by the International Accounting Standards

Committee that remain in effect, and the disclosure requirements of the Hong Kong Companies Ordinance (the “Companies Ordinance”). They have been prepared under the historical cost convention, except for the measurement at fair value of foreign currency forward and swap contracts, available-for-sale financial assets and other financial assets.

The accounting policies adopted in these condensed financial statements are consistent with those applied in the annual financial statements of the Group for the year ended 31 December 2004.

3. Revenue on sale of goods

Revenue on sale of goods represents the invoiced value of goods sold, net of value added tax, consumption tax and other sales taxes, after allowances for goods returns and trade discounts, and after eliminations of all significant intra-group transactions.

4. Segment information

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group’s business segments for the years ended 31 December 2005 and 2004.

Year ended 31 December 2005

	Commercial vehicles <i>RMB million</i>	Passenger vehicles <i>RMB million</i>	Engines and other automotive parts <i>RMB million</i>	Corporate and others <i>RMB million</i>	Eliminations <i>RMB million</i>	Total <i>RMB million</i>
Revenue						
Sales to external customers	11,193	21,798	6,676	2,068	—	41,735
Inter-segment sales	—	—	3,425	—	(3,425)	—
Other income	68	177	185	577	—	1,007
Total	<u>11,261</u>	<u>21,975</u>	<u>10,286</u>	<u>2,645</u>	<u>(3,425)</u>	<u>42,742</u>
Results						
Segmental results	<u>272</u>	<u>1,599</u>	<u>916</u>	<u>(117)</u>	—	2,670
Finance costs						(478)
Share of profit and losses of associates	(4)	—	28	5		29
Profit before tax						2,221
Income tax expense						(474)
Profit for the year						<u>1,747</u>
Assets and liabilities						
Segment assets	7,644	15,812	10,034	6,617	(3,267)	36,840
Investments in associates	67	6	255	44		372
Unallocated assets						768
Total assets						<u>37,980</u>
Segment liabilities	5,034	6,814	3,267	3,629	(3,267)	15,477
Unallocated liabilities						8,169
Total liabilities						<u>23,646</u>
Other segment information						
Capital expenditure:						
— Property, plant and equipment	226	2,707	647	471	—	4,051
— Intangible assets	30	124	43	29	—	226
Depreciation of property, plant and equipment	101	746	384	75	—	1,306
Amortisation of intangible assets	7	68	28	9	—	112
Impairment losses recognised in the income statement	10	15	25	1	—	51

	Commercial vehicles <i>RMB million</i>	Passenger vehicles <i>RMB million</i>	Engines and other automotive parts <i>RMB million</i>	Corporate and others <i>RMB million</i>	Eliminations <i>RMB million</i>	Total <i>RMB million</i>
Revenue						
Sales to external customers	14,556	9,212	7,685	1,284	—	32,737
Intersegment sales	—	—	4,716	—	(4,716)	—
Other income	57	130	147	234	—	568
Total	14,613	9,342	12,548	1,518	(4,716)	33,305
Results						
Segmental results	476	642	1,890	(486)	—	2,522
Unallocated gains						852
Finance costs						(242)
Share of profit and losses of associates	(1)	—	32	11	—	42
Profit before tax						3,174
Income tax expense						(308)
Profit for the year						2,866
Assets and liabilities						
Segment assets	5,946	13,821	10,284	5,060	(2,944)	32,167
Investments in associates	51	—	203	39	—	293
Unallocated assets						991
Total assets						33,451
Segment liabilities	3,574	4,437	4,088	6,730	(2,944)	15,885
Unallocated liabilities						7,451
Total liabilities						23,336
Other segment information						
Capital expenditure:						
— Property, plant and equipment	424	1,280	1,065	216	—	2,985
— Intangible assets	32	180	21	57	—	290
Depreciation of property, plant and equipment	122	493	365	50	—	1,030
Amortisation of intangible assets	12	37	27	7	—	83
Impairment losses recognised in the income statement	3	2	1	20	—	26

5. Finance Costs

	2005 <i>RMB million</i>	2004 <i>RMB million</i>
Interest on bank loans, and other borrowings wholly repayable:		
— within five years	358	168
— beyond five years	127	65
Interest on discounted bills	<u>37</u>	<u>26</u>
	522	259
Less: Amount capitalised in construction in progress	<u>(44)</u>	<u>(17)</u>
Total interest expense	<u><u>478</u></u>	<u><u>242</u></u>

6. Profit before Tax

The Group's profit before tax is arrived at after charging:

	2005 <i>RMB million</i>	2004 <i>RMB million</i>
Cost of inventories recognised as expense	35,639	26,952
Amortisation of intangible assets	112	83
Depreciation	1,306	1,030
Loss on disposal of items of property, plant and equipment, net	14	25
Loss on disposal of intangible assets, net	<u>8</u>	<u>—</u>

7. Taxation

	2005 <i>RMB million</i>	2004 <i>RMB million</i>
Current income tax charge	170	241
Deferred income tax	<u>304</u>	<u>67</u>
Income tax charge for the year	<u><u>474</u></u>	<u><u>308</u></u>

(a) *Corporate income tax*

Under the relevant PRC Income Tax Law and the respective regulations, the corporate income tax for the Company, its subsidiaries and its jointly-controlled entities is calculated at rates ranging from 10% to 33%, on their estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof. As certain of the Company's subsidiaries and its jointly-controlled entities are foreign investment enterprises, after obtaining authorisation from respective tax authorities, these subsidiaries and its jointly-controlled entities are subject to a full corporate income tax exemption for the first two years and a 50% reduction in the succeeding three years, commencing from the first profitable year.

(d) *Hong Kong profits tax*

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the years ended 31 December 2004 and 2005.

8. Dividend

	2005 <i>RMB million</i>	2004 <i>RMB million</i>
Dividend of RMB23.09 cents (2004: nil) per ordinary share	<u><u>1,390</u></u>	<u><u>—</u></u>

On 29 October 2005, the directors proposed to declare a dividend of RMB23.09 cents per share amounting to RMB1,390 million to its then sole shareholder, DFM, which was approved in the shareholder's meeting on the same date.

The Board resolved not to declare any final dividend for the year (2004 : nil).

9. Earnings Per Share Attributable to Equity Holders of the Parent

The calculation of basic earnings per share is based on:

	2005 <i>RMB million</i>	2004 <i>RMB million</i>
Earnings:		
Profit for the year attributable to equity holders of the parent	<u>1,601</u>	<u>2,598</u>
	Number of shares	
	<i>million</i>	<i>million</i>
Shares:		
Weighted average number of shares in issue during the year	<u>6,192</u>	<u>9,154</u>

The Company's weighted average number of shares in issue used in the basic earnings per share calculation for the year ended 31 December 2005 is determined by adjusting 2,257,500,000 new H shares issued to the public and listed on the Main Board of The Stock Exchange of Hong Kong Limited on 7 December 2005 and a further 338,620,000 new H shares issued as a result of the full exercise of Over-allotment Option on 13 December 2005.

The Company's weighted average number of shares in issue used in the basic earnings per share calculation for the year ended 31 December 2004 is determined on the assumption that the 6,020,000,000 domestic shares of RMB1 each issued as a result of the Reorganisation had been in issue during the year and as adjusted to add back the deemed 4,613,500,000 domestic shares of RMB1 each in issue for the period prior to 6 September 2004 (the effective date when the Company repurchased such shares pursuant to the Equity Repurchase Transaction as described in note 1 to the audited condensed financial statements).

No diluted earnings per share amount has been disclosed as no diluting events existed during the year.

10. Trade Receivables

An aged analysis of the trade receivables, net of provision for bad and doubtful debts of the Group, based on the due date, is as follows:

	2005 <i>RMB million</i>	2004 <i>RMB million</i>
Within three months	1,171	860
More than three months but within one year	208	171
More than one year	<u>57</u>	<u>37</u>
	<u>1,436</u>	<u>1,068</u>

Sales of the Group's and its jointly-controlled entities' commercial and passenger vehicles are normally settled on an advance receipt basis, whereby the dealers are required to pay in advance either in cash or by bank acceptance drafts. However, in the case of long-standing customers with bulk purchases and a good repayment history, the Group and its jointly-controlled entities may offer these customers credit terms that are generally between 30 and 180 days. For sales of engines and other automotive parts, the Group and its jointly-controlled entities generally offer their customers credit terms that are generally between 30 and 180 days. Trade receivables are non-interest-bearing.

11. Trade Payables

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

	2005 <i>RMB million</i>	2004 <i>RMB million</i>
Within three months	5,098	4,452
More than three months but within one year	514	505
More than one year	<u>145</u>	<u>185</u>
	<u>5,757</u>	<u>5,142</u>

12. Commitments

(a) *Operating lease commitments as lessee*

The Group's future minimum rental payables under non-cancellable operating leases are as follows:

	2005 <i>RMB million</i>	2004 <i>RMB million</i>
Within one year or on demand	—	3
After one year but not more than five years	50	—
More than five years	<u>835</u>	<u>—</u>
	<u><u>885</u></u>	<u><u>3</u></u>

In addition, the Group's share of future minimum rental payables under non-cancellable operating leases of its jointly-controlled entities, which are not included in the above are as follows:

	2005 <i>RMB million</i>	2004 <i>RMB million</i>
Within one year or on demand	83	86
After one year but not more than five years	328	272
More than five years	<u>485</u>	<u>237</u>
	<u><u>896</u></u>	<u><u>595</u></u>

(b) *Commitments*

In addition to the operating lease commitments detailed above, the Group had the following commitments at the balance sheet date:

	2005 <i>RMB million</i>	2004 <i>RMB million</i>
Contracted, but not provided for:		
Property, plant and equipment	86	144
Capital contribution to jointly-controlled entities	<u>—</u>	<u>458</u>
	<u><u>86</u></u>	<u><u>602</u></u>
Authorised, but not contracted for:		
Property, plant and equipment	<u><u>3</u></u>	<u><u>—</u></u>

In addition, the Group's share of capital commitments of its jointly-controlled entities, which are not included in the above, is as follows:

	2005 <i>RMB million</i>	2004 <i>RMB million</i>
Contracted, but not provided for:		
Property, plant and equipment	1,675	2,507
Capital contribution to a jointly-controlled entity	<u>—</u>	<u>12</u>
	<u><u>1,675</u></u>	<u><u>2,519</u></u>
Authorised, but not contracted for:		
Property, plant and equipment	1,210	2,141
Acquisition of a jointly-controlled entity	<u>—</u>	<u>141</u>
	<u><u>1,210</u></u>	<u><u>2,282</u></u>

13. Contingent Liabilities

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group	
	2005	2004
	<i>RMB million</i>	<i>RMB million</i>
Guarantees given to banks in connection with facilities granted to the following parties at nil consideration:		
— Jointly-controlled entities	844	65
— Fellow subsidiaries	<u>—</u>	<u>189</u>
	<u>844</u>	<u>254</u>

In addition, the Group's share of contingent liabilities of its jointly-controlled entities, which are not included in the above, is as follows:

	2005	2004
	<i>RMB million</i>	<i>RMB million</i>
Guarantees given to banks in connection with facilities granted to the following parties at nil consideration:		
— Associates	10	23
— Others	<u>111</u>	<u>—</u>
	<u>121</u>	<u>23</u>

BUSINESS REVIEW AND OUTLOOK

Business Overview

1. Sales Revenue

As of 31st December, 2005, the sales revenue of Dongfeng Motor Group was approximately RMB41,735 million.

Sales revenue from the major businesses of Dongfeng Motor Group in 2005

Business	Contribution to	
	Sales revenue (<i>RMB millions</i>)	the Group's sales revenue (%)
Commercial vehicles	11,193	26.8
Passenger vehicles	21,798	52.2
Engines and auto parts	6,676	16.0
Others	<u>2,068</u>	<u>5.0</u>
Total	<u>41,735</u>	<u>100.0</u>

2. Sales And Production Volume For Whole Vehicles Of Dongfeng Motor Group

As of 31 December 2005, the production volume and sales volume for whole vehicles of Dongfeng Motor Group was 598,218 and 594,801 units respectively. According to the China Association of Automobile Manufacturers, the Dongfeng Motor Group held a domestic market share of

approximately 10.3% in terms of the total domestic sales of commercial and passenger vehicles in 2005. The following table sets out the sales and production volume of the Dongfeng Motor Group for commercial and passenger vehicles, as well as its market share in terms of sales volumes in 2005:

	No. of units produced <i>(units)</i>	No. of units sold <i>(units)</i>	Market share in terms of sales volume <i>(%)</i>
Commercial Vehicles	239,340	243,582	13.6
Trucks	206,308	210,104	14.38
Buses	33,032	33,478	12.4
Passenger Vehicles	358,878	351,219	8.84
Basic passenger cars	306,427	297,915	10.7
MPVs	18,600	18,800	12
SUVs	33,851	34,504	17.5

3. *Ranking of Dongfeng Motor Group's major vehicle lines in the domestic market*

	Number of units sold <i>(units)</i>	Ranking in the domestic market
Heavy trucks	71,652	1
Medium trucks	55,883	2
Light trucks	82,569	2
Basic passenger cars	297,915	3
MPVs	18,800	4
SUVs	34,504	2

In 2005, Dongfeng Motor Group was one of the largest automotive manufacturers in the PRC in terms of sales of whole vehicles. Dongfeng Motor Group is one of the most extensive ranges of commercial and passenger vehicles amongst PRC vehicle manufacturers, and it is also one of the largest automotive manufacturers in the PRC to manufacture both commercial vehicles and passenger vehicles (including trucks, buses, cars, MPVs and SUVs).

Dongfeng Motor Group is currently one of the two leading manufacturers of heavy and medium trucks in the PRC. In 2005, the domestic sales volume of its heavy and medium trucks accounted for 34% of total sales volume of heavy and medium trucks in the domestic automotive market, while sales revenue of commercial vehicles accounted for 26.8% of the Group's sales revenue.

Currently, the Dongfeng Motor Group is also one of the largest manufacturers of passenger vehicles in the PRC. In 2005, the domestic sales volume of its passenger vehicles accounted for 8.84% of total sales volume of passenger vehicles in the domestic automotive market, while sales revenue of passenger vehicles accounted for 52.2% of the Group's sales revenue.

Apart from manufacturing commercial and passenger vehicles, the Dongfeng Motor Group also manufactures commercial and passenger vehicle engines and a comprehensive range of auto parts. In 2005, the sales revenue of engines and auto parts accounted for approximately 16% of the Group's sales revenue.

The Dongfeng Motor Group is also engaged in the manufacture of vehicle manufacturing equipment. In 2005, the sales revenue of vehicle manufacturing equipment accounted for approximately 5% of the Group's sales revenue.

I. Major Businesses of the Dongfeng Motor Group

The principal products of the Dongfeng Motor Group include commercial vehicles, which comprise trucks and buses, and passenger vehicles, which comprise basic passenger cars, MPVs and SUVs. The trucks comprise heavy trucks, medium trucks and light trucks. In addition, the Dongfeng Motor Group manufactures engines, other auto parts and vehicle manufacturing equipment. The Dongfeng Motor Group is also engaged in other automotive-related businesses such as the import/export of vehicles and vehicle manufacturing equipment, auto finance businesses, insurance agency businesses and used car businesses.

The commercial vehicle business of the Dongfeng Motor Group was established in 1969, and has commanded a leading position in the PRC commercial vehicle industry for many years. Currently, the Dongfeng Motor Group commercial vehicle business is principally operated by Dongfeng Motor Co., Ltd.

The Dongfeng Motor Group's passenger vehicle business principally consists of the following companies: Dongfeng Motor Co., Ltd (the joint venture between the Company and Nissan Motor Co., Ltd), Dongfeng Peugeot Citroën Automobiles Company Ltd (the joint venture between the Company and the PSA Peugeot Citroën group) and Dongfeng Honda Automobile Co., Ltd (the joint venture between the Company and Honda Motor Co., Ltd).

The Dongfeng Motor Group's engines and auto parts business principally consists of Dongfeng Motor Co., Ltd, Dongfeng Peugeot Citroën Automobiles Company Ltd, Dongfeng Honda Engine Co., Ltd, Dongfeng Honda Auto Parts Co., Ltd and Dongfeng Honda Automobile Co., Ltd.

The Dongfeng Motor Group's vehicle manufacturing equipment business is principally operated by Dongfeng Motor Co., Ltd.

Sales revenue from the major businesses of the Dongfeng Motor Group

	2005		2004	
	Sales (RMB millions)	Percentage of the Group's total sales revenue (%)	Sales (RMB millions)	Percentage of the Group's total sales revenue (%)
Commercial vehicles	11,193	26.8	14,556	44.5
Passenger vehicles	21,798	52.2	9,212	28.1
Engines and other auto parts	6,676	16.0	7,685	23.5

(1) *Commercial vehicles*

As of 31 December 2005, the members of the Dongfeng Motor Group produced 29 principal basic series of commercial vehicles, including 23 principal basic series of trucks and 6 principal basic series of buses. Most of the commercial vehicles manufactured by the Dongfeng Motor Group are manufactured by Dongfeng Motor Co., Ltd. Commercial vehicles manufactured by the Dongfeng Motor Group are currently sold mainly through three major sales and services networks devoted exclusively to the provision of sales and services for the commercial vehicles manufactured by the Dongfeng Motor Group, which form one of the most extensive commercial vehicle sales and services networks in the PRC. As of 31 December 2005, the commercial vehicle production capacity of the Dongfeng Motor Group was 320,500 units.

(2) *Passenger vehicles*

As of 31 December 2005, the members of the Dongfeng Motor Group produced 12 series of passenger vehicles, including 9 series of passenger cars, 1 series of MPV and 2 series of SUV. The passenger vehicles manufactured by the Dongfeng Motor Group are currently sold with after-sales services through five independently managed sales and services networks throughout the PRC. Each of these networks sells one brand of passenger vehicle with after-sales services, and is managed by the relevant Joint Venture Company and the Group. As of 31 December 2005, the passenger vehicle production capacity of the Dongfeng Motor Group was 425,000 units.

(3) *Engines and other auto parts*

Members of the Dongfeng Motor Group manufacture passenger and commercial vehicle engines mainly for their internal use and also for external sales. As of 31 December 2005, the total engine production capacity of the Dongfeng Motor Group was approximately 920,000 units. The members of the Dongfeng Motor Group which manufacture engines are Dongfeng Motor Co., Ltd, Dongfeng Peugeot Citroën Automobile Company Ltd, Dongfeng Honda Engine Co., Ltd and Dongfeng Honda Automobile Co., Ltd. Dongfeng Motor Co., Ltd manufactures Dongfeng series and Cummins series diesel and petrol commercial vehicle engines, as well as Nissan series sedan engines; Dongfeng Honda Engine Co., Ltd and Dongfeng Honda Automobile Co., Ltd manufacture Honda series sedan engines; Dongfeng Peugeot Citroën Automobile Company Ltd manufactures Citroën series and Peugeot series sedan engines.

In addition to the manufacture of engines, members of the Dongfeng Motor Group also manufacture a range of auto parts for commercial and passenger vehicles, including power transmission systems (mainly comprised of gear box, clutch, and transmission shaft), vehicle bodies (mainly comprised of pressed products), chassis (mainly comprised of axles, car frames and chassis parts), electronic parts and other parts.

(4) *Vehicle manufacturing equipment and other automotive-related businesses*

The Dongfeng Motor Group is also engaged in the manufacture of vehicle manufacturing equipment through Dongfeng Motor Co., Ltd. Vehicle manufacturing equipment manufactured by Dongfeng Motor Co., Ltd includes machine tools, coating equipment, pressing and forging moulds, and measuring and cutting tools. In addition, Dongfeng Motor Co., Ltd provides various equipment maintenance services.

In addition to the products described above, the Dongfeng Motor Group is engaged in various other automotive-related businesses, including vehicle and vehicle manufacturing equipment import/export, auto finance, insurance agency and used car businesses.

II. Sales and Services Network

The motor vehicles manufactured by the Dongfeng Motor Group are sold with after-sales services in the PRC through eight major sales and services networks.

Each of these eight sales and services networks sells vehicles manufactured by a particular Joint Venture Company with after-sales services, and is managed by the relevant Joint Venture Company independently of the other members of the Dongfeng Motor Group. The sales outlets which comprise each network are generally owned and operated by independent third parties. The Dongfeng Motor Group provides after-sales services through these distribution and services networks.

The commercial vehicles manufactured by the Dongfeng Motor Group are mainly distributed with after-sales services through three major sales and services networks, which are devoted to the distribution of, and after-sales services for, the commercial vehicles manufactured by Dongfeng Motor Co., Ltd.

The commercial vehicle distribution and sales and services networks operated by Dongfeng Motor Co., Ltd together form one of the most extensive sales and services networks of commercial vehicle in the PRC.

The passenger vehicles manufactured by the Dongfeng Motor Group are mainly sold with after-sales services through five sales and services networks. Each of these networks sells one brand of passenger vehicle with after-sales services, and is operated by the relevant Joint Venture Company independently of the Group.

(1) *Sales and services network for commercial vehicles*

The Dongfeng Motor Group is currently one of the commercial vehicle manufacturers in the PRC operating the most extensive after-sales services networks.

The following table sets out the details of the major domestic after-sales services networks for commercial vehicles of the Dongfeng Motor Group as at 31 December 2005.

Company	No. of after-sales services outlets	No. of first-level outlets	No. of second-level outlets	No. of provinces/cities covered
Dongfeng Motor Co., Ltd (commercial vehicle company)	560	361	199	31/323
Dongfeng Automobile Co., Ltd	446	446	0	31/257
Dongfeng Liuzhou Motor Co., Ltd	406	406	0	28/318

(2) *Sales and services network for passenger vehicles*

The passenger vehicle sales and services network operated by the Dongfeng Motor Group, which comprises passenger vehicle sales and services networks operated by Dongfeng Motor Co., Ltd, Dongfeng Peugeot Citroën Automobiles Company Ltd and Dongfeng Honda Automobile Co., Ltd, is currently one of the most extensive sales and services networks of passenger vehicle in the PRC automotive market.

The following table sets out the details of the different major domestic aftersales services networks for passenger vehicles of the Dongfeng Motor Group as at 31 December 2005.

Company	No. of after-sales services outlets	No. of first-level outlets	No. of second level outlets	No. of covered Provinces (municipalities)/cities	Product type serviced
Dongfeng Nissan Passenger Vehicle Company	240	200	40	31/119	Nissan passenger vehicles
Dongfeng Peugeot Citroën Automobiles Company Ltd	339	339	—	31/128	Citroën passenger vehicles
	138	138	—	29/100	Peugeot passenger vehicles
Dongfeng Honda Automobile Co., Ltd	70	70	—	31/53	Honda passenger vehicles
Dongfeng Liuzhou Motor Co., Ltd	185	181	4	29/136	Dongfeng Future passenger vehicles
Zhengzhou Nissan Automobile Co., Ltd	310	289	21	31/248	Nissan passenger vehicles

III. Major Research & Development Work of the Dongfeng Motor Group in 2005

The development of new models of the third-generation 1.5 ton highly flexible offroad vehicle series is already in its final prototype stage. The development of the second-generation 3.5 ton off-road vehicle series is complete and has passed the national final stage. Active preliminary research on the third-generation of highly flexible medium off-road vehicles has been started.

The development of mixed power passenger cars/buses has passed the final stage test and acceptance organised by the PRC Ministry of Science and Technology.

The research and development of an electronically controlled injection CNG bus: Dongfeng's large natural gas city buses with these engines have passed the final stage test and acceptance at national level.

The research and development of commercial vehicles was primarily as follows: the D310 driving cab, D310 series vehicles and DCi11 engine project are developing smoothly and will be launched onto the market soon; the development of the Tornado series of vehicles and 8-11 metre buses is completed; the development of new products, including light vehicles such as Dongfeng's "Dream Truck" and the "Star of Dongfeng" series, and the Jinba driving cab and a new pickup is complete and has received good market responses.

Research on new technology for commercial vehicles was as follows: the preliminary development of electrically controlled common rail injection technology for engines, whole vehicle electronic control technology, Europe III/Europe IV and above emission technology and power train integration technology has made significant progress, and reliability design, simulation analysis technology, system matching technology and trial verification technology have been further strengthened.

The research and development of passenger vehicles was primarily as follows: the development of Fukang improved vehicles 2005 was completed and the vehicles have been launched to the market; the development of the brand new passenger car products Tiida Sedan and Tiida Hatchback and Dongfeng Honda 2.4L CR-V 2005 is complete and the vehicles have been successfully launched to the market.

Outlook and Future Prospects

Being both the last year of the “Tenth Five-year Plan” and the foundation year of the “Eleventh Five-year Plan”, the year 2005 was a remarkable year for the development of the PRC economy, with gross domestic products (“GDP”) of RMB18.23 trillion representing a growth of 9.9%, and GDP per capita exceeding USD1,700 according to National Bureau of Statistics of China. The PRC’s comprehensive national strength was further enhanced in 2005.

The year 2005 was also a remarkable year for the development of the PRC automotive industry, with total sales increasing by 13.54% to 5.758 million vehicles, representing a moderately rapid overall growth. As the world’s third largest automobile consumer market, the PRC has become an important integral part of the international automobile market. The sustainable growth prospects for the PRC automobile market are promising.

The year 2005 was a brilliant year for the Group. Benefiting from the continued growth of the PRC economy and automobile market, and its extensive and balanced product mix, the Group realised a sales volume of vehicles of 595,000 units for the year, representing an increase of 34% on the previous year, being 19.5% points higher than the industry growth rate, ranking it first among the five largest automobile enterprises in China. 351,000 units of passenger vehicles were sold, representing a growth of 88.8% on the previous year, being more than 4 times higher than the passenger vehicle industry. The market share in the passenger vehicle market is 3.1% points higher than that of the previous year, reaching 8.8% with 243,000 units of commercial vehicles being sold. We continue to maintain the leading position in the commercial vehicle market.

Looking ahead, the next five years will be decisive for the Company as it seeks to strengthen and grow from its new starting point. We will focus on the cultivation and enhancement of our capability in the three areas of “sustainable profitability, autonomous innovation and internationalized operations”. Our vision is to become a leading domestic, and a first-class international, automotive manufacturer, with sustainable long term growth and maintaining and improving the capability of making ever rising profit and returns.

The year 2006 is the first year of the “Eleventh Five-year Plan” of the PRC. The PRC economy is expected to maintain its rapid growth, while the automotive market is likely to grow steadily and improve overall compared to the previous year. According to the China Association of Automobile Manufacturers, the PRC automotive market will maintain a growth rate of approximately 10–15% in 2006, and the sales of automobiles for the full year is expected to exceed 6,400,000 units. The Group will maintain its operational policy of prioritizing efficiency, continue to strengthen the localization of production to reduce costs, continue to promote managerial improvement, further improve operational quality and endeavor to consolidate and maintain the leading operating profit margins in the industry, so as to ensure the success of its newly launched passenger vehicles and its new generation of medium and heavy trucks. We will proactively capture new market opportunities. In addition to consolidating our dominant market position in our traditional market, we will exploit international markets and expand rural markets, focus on structural optimization and technical advancement, conduct projects selectively and enhance the sustainability of our core businesses.

The successful listing of the Group on the Hong Kong Stock Exchange in December 2005 was the largest initial public offering in the automotive industry in the PRC in history. The successful listing laid the foundation for full accession to the international capital market and participation in international capital operations for the Group. With full support and cooperation from investors, administrative and regulatory authorities, Dongfeng Motor Group Company Limited was successfully listed and achieved good progress. With sincere aspiration and abundant confidence, we will achieve our commitments to the capital market with benign operation and sustainable growth, continuously creating value for our shareholders, customers, employees and society.

Financial Results Overview

Due to a change in proportionate consolidation of some companies in the Group during the Reporting Period, the financial information of 2005 is not directly comparable with that of 2004.

In 2005, operating revenue amounted to approximately RMB41,735 million, representing an increase of approximately RMB8,998 million or 27.5% compared with the 2004 figure of RMB32,737 million. This was a result of the Group maintaining its established development tactics, taking full advantage of its scale, networks, business and services, making reasonable investments and implementing aggressive cost control measures by implementing effective competition strategy and marketing steps, so as to continue improving budget and evaluation management. The profit attributable to shareholders amounted to approximately RMB1,601 million, exceeding the forecast profit attributable to shareholders of not less than RMB1,520 million as disclosed at the time of the Group's public offering and listing of H shares on the Stock Exchange of Hong Kong at the end of 2005 by approximately 5.33%. Taking adjustments for proportionate consolidation and the dilutive effects on revenue into account, the profit attributable to the shareholders of the Group for 2005 grew year-on-year by approximately 21.3% [Note 1].

Note 1: Excluding net gain generated by dilution of interests in certain businesses and investment of RMB852 million and the changes in the proportionate consolidation ratio of certain jointly-controlled entities, the adjusted net profit for 2004 amounted to RMB1,320 million, representing an increase of approximately RMB281 million or 21.3% when compared with the net profit of 2005.

In 2005, net cash inflows from operating activities of the Group was RMB5,274 million, representing an increase of approximately RMB3,405 million or 182.18% compared with RMB1,869 million in 2004, indicating a strong performance of cash flows generated from operating activities.

REVENUE

Total revenue of the Group for 2005 amounted to approximately RMB41,735 million, representing an increase of approximately RMB8,998 million or 27.5% compared with approximately RMB32,737 million for 2004, reflecting increases of approximately RMB12,586 million and RMB784 million in revenue from the sales of passenger vehicles to external customers and from other auto-related businesses of the Group respectively, and decreases of approximately RMB3,363 million and RMB1,009 million in revenue from sales of commercial vehicles, and engines and other auto parts, respectively.

Classes	2005		2004	
	<i>RMB million</i>	<i>units</i>	<i>RMB million</i>	<i>units</i>
Passenger vehicles	21,798	351,219	9,212	176,974
Commercial vehicles	11,193	243,582	14,556	245,702
Engines and auto parts	6,676	N/A	7,685	N/A
Others	2,068	N/A	1,284	N/A
Total	<u>41,735</u>	<u>594,801</u>	<u>32,737</u>	<u>422,676</u>

Note: It should be noted that the revenue figures in the above table reflected the proportionate consolidated revenue of the Group. However, the related figures of the units of vehicles sold by the Group in the above table represented the actual units sold by the Group, not adjusted on a proportionate consolidation basis, for the indicated periods.

Revenue of the Group from sales of passenger vehicles increased by approximately RMB12,586 million or 136.6%, from approximately RMB9,212 million in 2004 to approximately RMB21,798 million for 2005. The total sales volumes of passenger vehicles increased by 98.5% to 351,219 units in 2005 from 176,974 units in 2004, mainly due to: (1) revenue growth brought about by the increase of sales volume of vehicles; (2) new models such as the Nissan Teana, Dongfeng Honda CR-V and Dongfeng Peugeot 307, released by the Group in 2004, entering a peak sales period in 2005; and (3) the TIIDA, newly released in 2005, being widely recognized by the market.

In 2005, subject to such factors as the cyclical nature of economic growth, higher oil prices and policy factors, the PRC commercial vehicles market as a whole weakened, resulting in a slight decrease in the total market demand for commercial vehicles. In 2005, the Group's total sales volume of commercial vehicles recorded a slight decrease of 0.9% and revenue thereof decreased by 23.1%, mainly due to the impact of macro-economic austerity measures and other factors. Sales volumes of heavy trucks decreased from 110,131 units in 2004 to 71,652 units in 2005. However, the Group maintained its competitive advantage in the domestic commercial vehicles market. In terms of commercial vehicle market sub-segments, the Group was ranked the first, instead of the second in 2004, in heavy trucks market while maintaining its first position in medium trucks market in terms of market share in 2005. The Group's sales volumes of light trucks increased from 50,545 units in 2004 to 82,569 units in 2005, ranking the second instead of the third. An increase in the sales revenue from light trucks partly offset the decrease in sales revenue from heavy trucks.

In 2005, revenue from the sale of engines and other auto parts to external customers decreased by approximately 13.13% to RMB6,676 million, from RMB7,685 million in 2004. This overall decrease in revenue was primarily due to: (1) changes in product mix and sales structure; and (2) lower sales of engines and other auto parts for commercial vehicles. The decrease was partly offset by increased sales of engines to Guangzhou Honda Automobile Co., Ltd.

OTHER INCOME

Total other income of the Group in 2005 was approximately RMB1,007 million, representing an increase of approximately RMB439 million compared with approximately RMB568 million in 2004. The increase in other income was mainly attributable to the sales of other goods and materials and grants received from the government for the purpose of supporting the development of automotive technologies and automobile projects.

COST OF SALES AND GROSS PROFIT MARGIN

In 2005, the total cost of sales of the Group was approximately RMB35,639 million, representing an increase of approximately RMB8,687 million compared with approximately RMB26,952 million in 2004. This increase was due to an increase in the sales volumes of passenger vehicles and other auto parts, and the rise in the price of raw materials, particularly steel, for automobile production.

The gross profit margin of the Group decreased to 14.6%, from 17.7% in 2004, primarily due to lower gross profit margins for commercial vehicles and passenger vehicles. However, the gross profit margin of the Group had improved to 16.2% in the second half of 2005, higher than that in the first half of 2005, as a result of taking a number of aggressive cost reduction measures, including raising the domestic production ratio, reducing the use of funds and cutting various costs and expenses.

In 2005, the gross profit margin on passenger vehicles decreased to 14.5%, from 18.8% in 2004, primarily due to the decrease in the selling prices of high-end passenger vehicles resulting from greater competition. The gross profit margin had improved to 17.1% in the second half of 2005, higher than that in the first half of 2005.

In 2005, the gross profit margin of commercial vehicles decreased to 7.4% from 8.3% in 2004, which was mainly attributable to changes in product structure and market conditions, and the general increase in the prices of raw materials, particularly steel.

SELLING AND DISTRIBUTION COSTS

In 2005, the selling and distribution costs of the Group amounted to approximately RMB1,738 million, representing an increase of approximately RMB354 million when compared with approximately RMB1,384 million in 2004. This was due to higher selling and distribution costs resulting from increased sales volumes of vehicles and the marketing of many new models.

In 2005, the sales and distribution costs of the Group as a percentage of sales revenue decreased by 0.07% points to 4.16%, down from 4.23% in 2004, reflecting higher productivity of the sales and distribution costs of the Group.

ADMINISTRATIVE EXPENSES

In 2005, the total administrative expenses of the Group amounted to approximately RMB1,928 million, representing an increase of approximately RMB135 million when compared with approximately RMB1,793 million in 2004. This was due to increased business volume and proportionate consolidation. In 2005, the administrative expenses of the Group as a percentage of sales revenue decreased by 0.85% points to 4.62%, down from 5.47% in 2004, reflecting administrative expenses of the Group further under control.

STAFF COSTS

In 2005, the staff costs of the Group amounted to approximately RMB1,727 million, representing an increase of approximately RMB132 million when compared with approximately RMB1,595 million in 2004. This was due to an increase in the sales volume of vehicles resulting in a higher demand for labour.

DEPRECIATION CHARGES

With a view to expanding its business, the Group made greater investments in buildings, machinery and equipment for production purposes. In 2005, Group depreciation charges, amounted to approximately RMB1,306 million, representing an increase of approximately RMB276 million compared with the 2004 figure of approximately RMB1,030 million.

RESEARCH AND DEVELOPMENT COSTS

In 2005, the Group made higher investments in research and development. The research and development costs incurred by the Group in 2005 increased by approximately RMB241 million, or 50.4%, to approximately RMB719 million, from approximately RMB478 million in 2004.

NET FINANCE COSTS

The net finance costs of the Group for 2005 amounted to approximately RMB478 million, representing an increase of approximately RMB236 million compared with approximately RMB242 million in 2004. Such an increase is attributable to a higher demand for capital resulting from bank loans obtained for financing the repurchase of its shareholdings held by asset management companies and increase investment in property, plant and equipment for production purpose. The interest-bearing liabilities of the Company in 2004 and 2005 primarily resulted from obtaining bank loans for financing the repurchase of shareholdings held by asset management companies, which were fully repaid within a month after the listing with the proceeds therefrom. The increase of net finance costs should be an increase specific to this stage by judging from the business development of the Group and its estimated cash flows.

INCOME TAX

The income tax expenses of the Group for 2005 amounted to approximately RMB474 million, representing an increase of approximately RMB166 million compared with approximately RMB308 million for 2004. This increase is mainly due to a higher taxable income and an increase in deferred income taxes.

THE GROUP'S NET PROFIT

Based on the above reasons, the net profit of the Group decreased by approximately RMB997 million to approximately RMB1,601 million from approximately RMB2,598 million in 2004. Taking adjustments for proportionate consolidation and the dilutive effects on revenue into account, the profit attributable to the shareholders of the Group in 2005 recorded a year-on-year increase of approximately 21.3% [Note 2].

Note 2: Excluding net gain generated by dilution of interests in certain businesses and investment of RMB852 million and the changes in the proportionate consolidation ratio of certain jointly-controlled entities, the adjusted net profit for 2004 amounted to RMB1,320 million, representing an increase of approximately RMB281 million or 21.3% when compared with the net profit of 2005

The audited consolidated earnings per share decreased to approximately RMB25.86 cents in 2005 from approximately RMB28.38 cents in 2004. Taking adjustments for proportionate consolidation and the dilutive effects on revenue into account, the earnings per share of the Group for 2005 grew year-on-year by approximately 79.3% [Note 3].

Note 3: Excluding net gain generated by dilution of interests in certain businesses and investment of RMB852 million and the changes in the proportionate consolidation ratio of certain jointly-controlled entities, the adjusted net profit for 2004 amounted to RMB1,320 million. The adjusted earnings per share for 2004 was RMB14.42 cents. The earnings per share for 2005 grew by 79.3% when compared with the adjusted earnings per share for 2004.

LIQUIDITY AND SOURCE OF CAPITAL

The Group raises funds through operations, bank loans and listings to meet its working capital requirements. The funds raised by the Group are mainly used for operating activities, capital expenditure and repayment of short and long term loans.

	2005	2004
	<i>RMB million</i>	<i>RMB million</i>
Net cash flows generated from operating activities	5,274	1,869
Net cash used in investing activities	(4,203)	(2,928)
Net cash generated from/(used in) financing activities	37	(936)
Net increase/(decrease) in cash and cash equivalents	1,108	(1,995)

For the year ended 31 December 2005, net cash inflows from operating activities amounted to RMB5,274 million, representing an increase of approximately RMB3,405 million. This principally represents: (1) profit before tax amounting to approximately RMB2,221 million; (2) an increase of approximately RMB1,749 million in trade, bills and other payables and accrued liabilities; (3) depreciation and impairment of approximately RMB1,357 million; and (4) a decrease of approximately RMB513 million in inventories.

For the year ended 31 December 2005, net cash used in investing activities amounted to approximately RMB4,203 million, representing an increase of 43.54%. This is mainly attributable to the purchase of property, plant and equipment to the value of approximately RMB4,051 million, generally relating to expansion of capacity and development of new products. During the year, an increase of approximately RMB738 million in unsecured time deposits has been partly offset by proceeds of approximately RMB467 million from the disposal of obsolete property, plant and equipment.

For the year ended 31 December 2005, net cash from financing activities amounted to approximately RMB37 million, mainly reflecting the offsetting of the net proceeds from share issues of approximately RMB3,959 million and borrowings of approximately RMB10,332 million by repayment of borrowings of approximately RMB10,456 million, the payment for the repurchase of share capital of approximately RMB2,306 million and the payment of a dividend of approximately RMB1,390 million.

As at 31 December 2005, the net increase in cash and cash equivalents of the Group amounted to approximately RMB1,108 million, representing an increase of approximately RMB3,103 million. As of 31 December 2005, cash and cash equivalents of the Group amounted to approximately RMB5,586 million.

The Group's turnover days of inventory decreased by 18 days to 55 days as compared with 73 days in 2004. Such decrease was mainly due to: (1) the Group's enhancement of its inventory management; (2) the increase of the portion of product localisation; and (3) the decrease of import order size of knock-down parts.

The Group's turnover days of account receivable decreased by 9 days to 44 days as compared with 53 days in 2004. Such decrease was mainly due to the Group's enhancement of its collection management of account receivable.

DIVIDENDS

Prior to listing on the Stock Exchange on 7 December 2005, the Company made a special distribution of approximately RMB1,390 million. Consequently, the Board of Directors do not recommend any further dividend in respect of the earnings of 2005 (2004: Nil).

DIVIDEND DISTRIBUTIONS BY THE COMPANY'S JOINTLY-CONTROLLED ENTITIES

In 2005, the Company's 6 principal jointly-controlled entities (the "JCEs"), in total, declared and paid aggregate dividends of approximately RMB457 million to the Company. Although the exact amounts of dividend distributions are not set each year, pursuant to each of the joint venture agreements, distributions are required to be paid out of the profit made by the relevant JCE (after payments of income tax) in accordance with the relevant PRC law as determined by the directors of each JCE as being appropriate dividend distributions based on the circumstances of each JCE. When determining dividend distributions, the directors of each JCE will offset losses of previous years and deduct from the profit made by the relevant JCE the portion of profit to be allocated for applicable legal reserves as required under PRC laws and regulations and company reserve (including but not limited to amounts allocated to cover the relevant JCE's working capital or to increase capital or expand production), employee bonus and welfare and company development. Pursuant to each of the joint venture agreements, distributions of profit will be made in proportion to the capital contributions paid by the relevant joint venture party and the Company respectively in accordance with the PRC law.

None of the JCEs has any specific dividend policies other than those disclosed above. However, if both the Company and the joint venture partners both agree, the JCEs can declare dividend when there is distributable profit. Since dividend distribution is the primary channel for return of investment to the Company and the relevant joint venture partner in respect of each JCE, in the past, the JCEs have fully paid out all profits for each year after offsetting losses of previous years, after deducting applicable legal reserve as required under PRC laws and regulations and after allocations were made by each relevant JCE for company reserve (including but not limited to amounts allocated to cover working capital or to increase capital or expand production). In the future, it is the intention of the Company and the relevant joint venture partner to continue to declare dividends when there is distributable profits for the relevant JCE, subject to agreement between the Company and the relevant joint venture partner on the appropriate dividend distributions based on the circumstances of each JCE and pursuant to the provisions of the relevant joint venture agreement and applicable PRC laws and regulations.

PROCEEDS FROM THE IPO AND THE USE THEREOF

The Company issued H Shares on 6th December, 2005 and completed an over-allotment on 13th December, 2005. As a result, the Company raised a sum of approximately RMB4,755 million and after deducting the cost of issue of approximately RMB400 million and contribution to the Chinese National Social Security Fund of approximately RMB396 million, the net proceeds received by the Company amount to approximately RMB3,959 million. All of the net proceeds from the Global Offering have been used to settle the bank debts arising from the debt due by asset management corporations incurred as a result of the buy-back of the equity interests in the Company held by certain asset management corporations and China Development Bank.

MAJOR ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES

1. On 15 October 2004, Dongfeng Automobile Co., Ltd together with CITIC Group and Zhengzhou Light Vehicle Manufacturing Plant entered into an agreement to acquire 35% of the equity interests in Zhengzhou Nissan Automobile Co., Ltd from CITIC Group for a consideration of RMB241.8 million, and 16% of the equity interests in Zhengzhou Nissan Automobile Co., Ltd from Zhengzhou Light Vehicle Manufacturing Plant for a consideration of RMB110.6 million. Approval from the Ministry of Commerce was received on 24 December 2004, and this acquisition was completed in March 2005.
2. In 2005, the Company and Dongfeng Motor Co., Ltd. entered into an Agreement for Increasing Registered Capital in Dongfeng Motor Finance Co., Ltd with their joint venture partners, pursuant to which the Company and Dongfeng Motor Co., Ltd. injected additional capital into the finance company. As a result of the injection, the percentage of the Company's direct shareholdings therein remained unchanged while those of Dongfeng Motor Co., Ltd. increased from 40% to 55%. Since then, the percentage of the Group's combined shareholdings in this finance company has increased to 47.5% from 40%.
3. In 2005, the Company acquired a 9% equity interest in Dongfeng Honda Auto Parts Co., Ltd. from other shareholders. Since then, the percentage of the Company's shareholdings therein has increased from 35% to 44%.

Save as disclosed above, there are no major acquisitions or disposals of subsidiaries, jointly-controlled entities and associates by the Company for the year ended 31 December, 2005.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2005, the Group had a total of 77,708 full-time employees. The numbers of employees in various divisions and their percentage of the total number of employees are as follows:

Division	Employee	Percentage of Total
Manufacturing	49,481	63.68
Engineering and technology	8,704	11.20
Management	14,018	18.04
Services	<u>5,505</u>	<u>7.08</u>
Total	<u><u>77,708</u></u>	<u><u>100.00</u></u>

The remuneration package of the Group's employees includes salary, bonuses and allowances. The Group has joined the social insurance payment programme organised by the Dongfeng Automobile Social Insurance Association. In accordance with the relevant national and local laws and regulations on labour

and social welfare, each member of the Group is required to pay in respect of each of its relevant employees a monthly social insurance premium covering pension insurance, medical insurance, unemployment insurance, occupational injury insurance and insurance for maternity leave.

The Group endeavours to provide trainings for its employees. The scope of the induction and on-going training programs includes management skills and technology training, overseas exchange programs and other courses. The Group also encourages its employees to engage in self-learning programs by awarding scholarships.

The SARs are granted to members of the board of directors and the supervisory committee (excluding independent non-executive directors and independent supervisors), senior management, heads of business departments of the Company, directors and senior management of the JCEs appointed by the Company, as well as other key employees. The board of directors or its remuneration committee is authorized to determine which other key employees are eligible for the SARs.

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

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December, 2005.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December 2005 with the Code Provisions of the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules.

REVIEW OF THE ACCOUNTS

The Audit Committee reviewed the audited results of the Group for the year ended 31 December 2005.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the name list of shareholders who are entitled to attend the annual general meeting, the register of members of the Company will be closed from Wednesday, 17 May 2006 to Friday, 16 June 2006, both days inclusive, during which period, no registration of shareholders and no transfers of shares will be effected. In order to qualify to attend and vote at the annual general meeting, holders of H shares whose transfers have not been registered shall deposit the transfer documents together with the relevant share certificates at the H share registrar of the Company, Computershare Hong Kong Investor Services Limited, 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong at or before 4:00 pm on 16 May 2006.

BOARD OF DIRECTORS

As at the date of this report, the directors of the Company are Mr. Xu Ping, Mr. Liu Zhangmin, Mr. Zhou Wenjie, Mr. Li Shaozhu, Mr. Fan Zhong as executive directors, Mr. Tong Dongcheng, Mr. Ouyang Jie, Mr. Liu Weidong, Mr. Zhu Fushou as non-executive directors, and Mr. Sun Shuyi, Mr. Ng Lin-fung, Mr. Yang Xianzu as independent non-executive directors.

SUPERVISORY COMMITTEE

As at the date of this report, the supervisors of the Company are Mr. Ye Huicheng, Mr. Zhou Qiang, Mr. Ren Yong, Mr. Liu Yuhe, Mr. Li Chunrong and Mr. Kang Li as supervisors, and Mr. Wen Shiyang and Mr. Deng Mingran as independent supervisors.

By order of the Board
Xu Ping
Chairman

Wuhan, the PRC
19 April 2006

** For identification purposes only*

*Please also refer to the published version of this announcement in **South China Morning Post**.*