Contents

Corporate Profile

Second Automotive Works (第二汽車制造廠), the predecessor of Dongfeng Motor Corporation, the parent of the Company, was established in September 1969 by the PRC Government in Shiyan, Hubei Province, PRC.

In 2000, Dongfeng Motor Corporation underwent a debt restructuring arrangement, with the Asset Management Companies to jointly form the Company. The Company was incorporated on 18 May, 2001.

In 2004, the Company was transformed into a joint stock limited company after repurchasing all equity interests held by shareholders other than Dongfeng Motor Corporation.

The Company initially issued H shares pursuant to a global offering in December 2005. Upon the issue of further H shares pursuant to the exercise of an over-allotment option on 13 December, 2005, the aggregate share capital of the Company was enlarged to RMB8,616,120,000, which comprised domestic shares and H shares of RMB5,760,388,000 (approximately 66.86%) and RMB2,855,732,000 (approximately 33.14%), respectively.

Currently, the Company has 13 subsidiaries, jointly-controlled entities and other companies in which the Company has direct equity interests, all of which constitute the Dongfeng Motor Group. The Dongfeng Motor Group is primarily engaged in the manufacture and sale of commercial vehicles, passenger vehicles, auto engines and parts, the manufacture of vehicle manufacturing equipment, as well as other automotive-related businesses.

In 2005, the Dongfeng Motor Group was one of the principal automotive manufacturers in the PRC in terms of sales revenue, and commanded a domestic market share of approximately 10.3% in terms of the total sales volume of commercial and passenger vehicles in the PRC, on the basis of statistics published by the China Association of Automobile Manufacturers. Consequently, the Dongfeng Motor Group has established a solid position in the industry and plays a leading role in certain sectors.

Chairman's Statement

Dear shareholders,

I am pleased to enclose the annual report for the year ended 31 December 2005 of Dongfeng Motor Group Company Limited for your review.

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 product ("GDP") of RMB18.23 trillion representing a growth of 9.9%, and GDP per capita exceeding USD1,700, on the basis of statistics published by the National Bureau of Statistics of China. The PRC's comprehensive national strength was further enhanced in 2005.

On the basis of statistics published by the China Association of Automobile Manufactures, the year 2005 was also a remarkable year for the development of the PRC automotive industry, with total sales increasing by 13.5% to 5.758 million vehicles, representing a moderately rapid overall growth. As one of the world's top three automobile consumer markets, 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 Dongfeng Motor Group. Benefiting from the continued growth of the PRC economy and automobile market, and its extensive and balanced product mix, the Dongfeng Motor Group realised a sales volume of vehicles of 595 thousand units for the year, representing an increase of 40.7% on the previous year, being 27.1 percentage points higher than the industry growth rate, ranking it first among the five largest automobile enterprises in China. On the basis of statistics published by the China Association of Automobile Manufactures. 351 thousand units of passenger vehicles were sold, representing a growth of 98.5% on the previous year, being more than 4 times higher than the passenger vehicle industry average. The market share in the passenger vehicle market is 3.4 percentage points higher than that of the previous year, reaching 8.8% with 244 thousand 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.

Chairman's Statement

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 expected to grow steadily and improve overall compared to the previous year. On the basis of statistics published by 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 6.4 million units. The Dongfeng Motor 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 Company on The Stock Exchange of Hong Kong Limited in December 2005 was the largest initial public offering in the automotive industry of 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, the Company 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.

Xu Ping
Chairman of the Board of Directors

Wuhan, the PRC
19 April, 2006

Business Overview

1. SALES REVENUE

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

Sales revenue from the major businesses of the Group in 2005

Business	Sales revenue *(RMB millions)*	Contribution to 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	**2,068**	5.0
Total	**41,735**	100.0

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. On the basis of statistics published by 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 *(units)*	No. of units sold *(units)*	Market share in terms of sales volume *(%)*
Commercial Vehicles	239,340	243,582	13.6
Trucks	206,308	210,104	13.8
Buses	33,032	33,478	12.4
Passenger Vehicles	358,878	351,219	8.8
Basic passenger cars	306,427	297,915	10.7
MPVs	18,600	18,800	12.1
SUVs	33,851	34,504	17.6
Total	598,218	594,801	10.3

3. RANKING OF DONGFENG MOTOR GROUP'S MAJOR VEHICLE LINES IN THE DOMESTIC MARKET

	Number of units sold by the Dongfeng Motor Group *(units)*	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 principal automotive manufacturers in the PRC in terms of sales of whole vehicles. Dongfeng Motor Group has 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 29.7% 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 8.8% 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 16.0% of the Group's sales revenue.

Business Overview

The Dongfeng Motor Group is also engaged in other automobile related business (including the manufacture of vehicle manufacturing equipment). In 2005, the sales revenue of other automobile related business accounted for approximately 5.0% 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's 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 Group

	2005		2004	
	Sales *(RMB million)*	**Percentage of the Group's total sales revenue *(%)***	Sales *(RMB million)*	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 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 nine series of passenger cars, one series of MPV and two 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.

Business Overview

(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) *Other 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 and municipalities/ 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

Business Overview

(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 provinces and municipalities/ cities covered	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 trail 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.

Management's Discussion and Analysis of Financial Condition and Results of Operations

FINANCIAL RESULTS OVERVIEW

Due to a change in proportionate consolidation of some companies in the Dongfeng Motor Group during the year ended 31 December 2005, 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 approximately 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 Company'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 investments of RMB852 million and the changes in the consolidation ratio of certain jointly-controlled entities, the adjusted net profit for 2004 amounted to approximately 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 approximately RMB5,274 million, representing an increase of approximately RMB3,405 million or 182.18% compared with approximately 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	
	Revenue from sales of the Group RMB million	***units sold by Dongfeng Motor Group***	*Revenue from sales of the Group RMB million*	*units sold by Dongfeng Motor Group*
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	**41,735**	**594,801**	32,737	422,676

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 demand for commercial vehicles. In 2005, the Dongfeng Motor Group's total sales volume of commercial vehicles recorded a slight decrease of 0.9% and the Group's revenue therefrom 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 Dongfeng Motor Group was ranked the first, instead of the second in 2004, in heavy trucks market while maintaining its position among the top players in the medium trucks market in terms of market share in 2005, on the basis of statistics published by the China Association of Automobile Manufacturers Dongfeng Motor 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 approximately RMB6,676 million, from approximately 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.

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.

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.

Management's Discussion and Analysis of Financial Condition and Results of Operations

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 an effective control over 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 0.86% points to 4.62%, down from 5.48% 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 mainly attributable to a higher demand for capital resulting from bank loans obtained for financing the repurchase of its shareholdings held by the 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 investments of RMB852 million and the changes in the proportionate consolidation ratio of certain jointly-controlled entities, the adjusted net profit for 2004 amounted to approximately 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 investments of RMB852 million and the changes in the proportionate consolidation ratio of certain jointly-controlled entities, the adjusted net profit for 2004 amounted to approximately 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
	RMB million	*RMB million*
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 of the Group amounted to approximately RMB4,203 million, representing an increase of 43.55%. 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 of the Group amounted of the Group to approximately RMB37 million, mainly reflecting the offsetting of the net proceeds from share issues of approximately RMB3,959 million and borrowings of approximately RMB10,338 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 Dongfeng Motor 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 Dongfeng Motor Group's enhancement of its inventory management; (2) the increase of the portion of product localisation and the reduction of auto parts' purchase time lag; and (3) the decrease of import order size of knock-down parts.

The Dongfeng Motor 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 Dongfeng Motor Group's enhancement of its collection management of account receivable.

CHANGES IN SHAREHOLDINGS

1. In 2004, Dongfeng Automobile Co., Ltd, which was a 70% owned subsidiary of Dongfeng Motor Co., Ltd., a joint venture company of the Company, acquired 51% equity interests of Zhengzhou Nissan Automobile Co., Ltd.. The Company had 17.85% indirect equity interests of Zhengzhou Nissan Automobile Co., Ltd. through Dongfeng Motor Co., Ltd. with effect from 1 March 2005.

2. In 2005, the Company and Dongfeng Motor Co., Ltd. entered into the Agreement regarding the Increase of Registered Capital of Dongfeng Motor Finance Co., Ltd. with the partners of their joint venture company, pursuant to which, the parties shall make additional capital contribution to Dongfeng Motor Finance Co., Ltd respectively. Upon additional capital contribution, the Company maintained its direct shareholding percentage in Dongfeng Motor Finance Co., Ltd unchanged while Dongfeng Motor Co., Ltd's shareholding percentage in Dongfeng Motor Finance Co., Ltd increased to 55% from 40%. Dongfeng Motor Finance Co., Ltd was proportionately consolidated into the Group from 40% to 47.5% since then.

3. In 2005, the Company acquired 9% equity interests of Dongfeng Honda Auto Parts Co., Ltd from other shareholders. Dongfeng Honda Auto Parts Co., Ltd was owned as to 44% from 35% by the Company since then.

RISK FACTORS

The Dongfeng Motor Group's business, financial condition and results of operations are subject primarily to such external factors as global economic activities, the price of raw materials, exchange rate fluctuations, policies on taxes and duties, regulation in the motor industry and finance costs, which are not wholly within the Dongfeng Motor Group's control.

Profiles of Directors, Supervisors and Senior Management

EXECUTIVE DIRECTORS

Xu Ping (徐平), aged 49, is the Chairman of the Board of Directors of the Company. Mr. Xu is a senior post-graduate engineer, having graduated in 1982 from Hefei Industrial University with a Bachelor's degree in Engineering, specializing in power plant and power systems. Mr. Xu joined Dongfeng Motor Corporation in 1982 and was the president of Dongfeng Motor Corporation's thermo-electricity factory. Mr. Xu has served as the Secretary of the Communist Party and Deputy General Manager of Dongfeng Motor Corporation since 2001. From 2003 to September 2005 Mr. Xu was also a director and a Vice President of Dongfeng Motor Co., Ltd. Mr. Xu has been the General Manager and the Secretary of the Communist Party of Dongfeng Motor Corporation (since June 2005), the Chairman of the Board of Directors of Dongfeng Motor Co., Ltd (since June 2005), Dongfeng Peugeot Citroën Automobiles Company Ltd (since June 2005) and Dongfeng Automobile Co., Ltd (since July 2005). Mr. Xu has more than 20 years of business and management experience in the automotive industry in the PRC.

Liu Zhangmin (劉章民), aged 57, is a Director and President of the Company. Mr Liu is a senior accountant and senior auditor, having graduated in industrial corporate finance from the Beijing Mechanical Industry Management College in 1986. Mr. Liu joined Dongfeng Motor Corporation in 1970 and was the Head of the Finance Department of Dongfeng Motor Corporation. Mr. Liu has also served as Deputy General Manager of Dongfeng Motor Corporation since 1995 and the Chief Accountant of Dongfeng Motor Corporation since April 2005. Mr. Liu is also a director of Dongfeng Motor Co., Ltd and the Chairman of Dongfeng Motor Finance Co., Ltd. Mr. Liu has more than 30 years of business and management experience in the automotive industry in the PRC.

Zhou Wenjie (周文杰), aged 54, is a Director and an Executive Vice President of the Company. He is also a senior economist. Mr. Zhou joined Dongfeng Motor Corporation in 1972, and from 1995 to 1999 was the Assistant General Manager of Dongfeng Motor Corporation. Since 2001, he has served as the Deputy General Manager of Dongfeng Motor Corporation. In addition, Mr. Zhou is also the Chairman of Dongfeng Honda Automobile Co., Ltd, Dongfeng Honda Engine Co., Ltd and Dongfeng Honda Auto Parts Co., Ltd, the Deputy Chairman of Dongfeng Peugeot Citroën Automobiles Company Ltd, and a director of Dongfeng Motor Co., Ltd and Honda Automobile (China) Co., Ltd. Mr. Zhou has over 30 years of business and management experience in the automotive industry.

Li Shaozhu (李紹燭), aged 45, is a Director of the Company. Mr. Li is a senior post-graduate engineer, graduated from Qinghua University in 1983 with a Bachelor's degree in Engineering Science, specializing in Casting Engineering and Equipment and received a Master's degree in Business Administration from Zhongnan Finance University in 1996. Mr. Li was appointed as a member of the National Master in Engineering Education Committee by the Second Academic Degrees Committee of the State Council. Mr. Li joined Dongfeng Motor Corporation in 1983 and was the General Manager of Dongfeng Automobile Co., Ltd. Mr. Li has served as Deputy General Manager of Dongfeng Motor Corporation since 1997. From July 2003 to September 2005, Mr. Li was the Vice President of Dongfeng Motor Co., Ltd. Mr. Li has more than 20 years of business and management experience in the automotive industry.

Fan Zhong (范仲), aged 53, is a Director of the Company. Mr. Fan is a senior post-graduate engineer. He graduated in 1982 from the Department of Machinery Engineering and Equipment of Shenyang Electrical and Mechanical College with a Bachelor's degree in Engineering Science. Prior to joining Dongfeng Motor Corporation, he was the Deputy Mayor of Beipiao City in Liaoning Province. He joined Dongfeng Motor Corporation in 1993 as Deputy General Manager of Dongfeng Chaoyang Diesel. From 1999 to 2001 and since 2001, Mr. Fan was the General Manager of Dongfeng Chaoyang Diesel. Since 2001, Mr. Fan has served as the Deputy Secretary of the Communist Party of Dongfeng Motor Corporation and has been the Chairman of the Board of Directors of Dongfeng Chaoyang Diesel Company. Mr. Fan has more than 20 years of business and management experience in the automotive industry in the PRC.

NON-EXECUTIVE DIRECTORS

Tong Dongcheng (童東城), aged 50, is a Director of the Company. Mr. Tong is a senior economist and graduated from the Central Party School in 1996, majoring in Economics and Management. He joined Dongfeng Motor Corporation in 1971, and has been the Deputy General Manager of Dongfeng Motor Corporation since 1997. In 2003, Mr. Tong became a Vice President of Dongfeng Motor Co., Ltd and has been a director of Dongfeng Motor Co., Ltd since September 2005. Mr. Tong has more than 30 years of business and management experience in the automotive industry in the PRC.

Ouyang Jie (歐陽潔), aged 49, is a Director of the Company. Mr. Ouyang is a senior post-graduate engineer, having graduated in 1982 from the Department of Casting of Hunan University with a Bachelor's degree in Engineering Science and received a Bachelor's degree in Economics from the PRC National University in 1988. Mr. Ouyang joined Dongfeng Motor Corporation in 1982 and has served as the Deputy General Manager of Dongfeng Motor Corporation since 1997. In 2003, Mr. Ouyang became a Vice President of Dongfeng Motor Co., Ltd. Mr. Ouyang has more than 20 years of experience in the automotive industry in the PRC.

Liu Weidong (劉衛東), aged 40, is a Director of the Company. Mr. Liu is a senior engineer. He graduated in 1988 from Wuhan Technical Institute with a Bachelor's degree in Engineering, specializing in the automotive industry and received a Master's degree in

Management from Wuhan Polytechnic University in 2003. He is currently a representative of the 10th National People's Congress. Mr. Liu joined Dongfeng Motor Corporation in 1988 and has been the Deputy General Manager of Dongfeng Motor Corporation and the General Manager of Dongfeng Peugeot Citroën Automobiles Company Ltd since 2001. Mr. Liu has more than 15 years of business and management experience in the automotive industry in the PRC.

Zhu Fushou (朱福壽), aged 44, is a Director of the Company. Mr. Zhu is a senior engineer. He graduated from Anhui Technical Institute with a Bachelor's degree in Engineering, majoring in Agricultural engineering, in 1984 and received a Master's degree in Business Administration from Zhongnan Finance University in 2001. Mr. Zhu joined Dongfeng Motor Corporation in 1984 and has served as a Standing Committee Member of the Communist Party of Dongfeng Motor Corporation since 2001. He is a director and the General Manager of Dongfeng Automobile Co., Ltd and has served as a Vice President of Dongfeng Motor Co., Ltd since September 2005. Mr. Zhu has more than 20 years of business and management experience in the automotive industry in the PRC.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Sun Shuyi (孫樹義), aged 66, is an independent Non-Executive Director of the Company. Mr. Sun graduated from the University of Science and Technology of China in 1963. He is currently a member of the National Committee of the 10th Chinese People's Political Consultative Conference; Vice President of the China Enterprise Confederation and the China Enterprise Directors Association; Vice Chairman of the China Federation of Industrial Economics and Vice Chairman of the China Institute for the Study of Multinational Companies. Mr. Sun was formerly Head of the Production System Department of the State Restructuring Commission, Deputy Director of the Office of the Central Financial and Economic Leading Group, Vice Minister of the Ministry of Personnel and Deputy Secretary of the Central Business Affairs Commission of the PRC. Mr. Sun is qualified in the PRC as a certified public accountant and a senior engineer. Mr. Sun has extensive experience in macro-economic management and an in-depth knowledge of finance.

Ng Lin-fung (吳連烽), aged 65, is an Independent Non-Executive Director of the Company. Mr. Ng was Deputy General Manager of Nanyang Commercial Bank and served the bank for over 30 years as head of the bank's credit operations. He is the Chairman and Managing Director of International Po Fung Finance Holdings Ltd, which he founded in 1999. Mr. Ng was the adviser to the Hong Kong and Macau Affairs Office of the State Council and Xin Hua News Agency on Hong Kong affairs. He is also a member of the Selection Committee for the First Government of the Hong Kong Special Administrative Region and a member of the Delegate Election Committee of the Hong Kong Special Administrative Region to the 9th and 10th National People's Congress.

Profiles of Directors, Supervisors and Senior Management

Yang Xianzu (楊賢足), aged 67, is an Independent Non-Executive Director of the Company. He graduated from Wuhan College of Post and Telecommunications in 1965. Mr. Yang is currently a member of the National Committee of the 10th Chinese People's Political Consultative Conference, Chairman of the Presidium of the China Federation of Industrial Economics; and Vice President of the China Enterprise Directors Association and the China Enterprise Confederation. Mr. Yang was formerly Vice Minister of the Ministry of Post and Telecommunications and Vice Minister of the Ministry of Information Industry, Chairman of the Board of Directors and General Manager of China United Telecommunications Corporation and Chief Executive of the Board of Directors and Chief Executive Officer of China Unicom (Hong Kong) Group Limited. Mr. Yang has over 40 years of experience in the telecommunication industry and is familiar with the management and operations of large enterprises as well as the corporate governance of listed companies.

SENIOR MANAGEMENT

Cai Wei (蔡瑋), aged 47, is a Vice President and the Secretary of the Board of Directors of the Company. Mr. Cai is a senior post-graduate engineer, having graduated from Hefei Industrial University in 1982 with a Bachelor's degree in Engineering Science, specializing in internal combustion engines. Mr. Cai joined Dongfeng Motor Corporation in 1982 and was the Deputy General Manager of the autoparts division of the Dongfeng Motor Corporation between November 2001 and July 2003. He was the Head of the Planning Department of Dongfeng Motor Corporation from July 2003 to September 2005 and has been a Vice President and the Secretary of the Board of Directors of the Company since October 2004. Mr. Cai is a director of Dongfeng Honda Automobile Co., Ltd and Dongfeng Peugeot Citroën Automobiles Company Ltd. Mr. Cai has more than 20 years of business and management experience in the automotive industry in the PRC.

SUPERVISORY COMMITTEE

Independent Supervisors

Wen Shiyang (溫世揚), aged 41, is an Independent Supervisor of the Company. Mr. Wen is the Deputy Dean of College of Law of Wuhan University and holds a Doctor's degree. He is a Professor of Civil and Commercial Law and a tutor to doctorate candidates. Mr. Wen specializes in civil law, company law and insurance law and has a number of published works. Mr. Wen is a General Affairs Officer of the Civil Law Institute of the China Law Association. He is also an independent non-executive director of Guodian Changyuan Electric Power Co., Ltd.

Profiles of Directors, Supervisors and Senior Management

Deng Mingran (鄧明然), aged 53, is an Independent Supervisor of the Company. Mr. Deng is the Dean of the Management College of Wuhan Polytechnic University and holds a Doctor's degree. He is a Professor of financial management and a tutor to doctorate candidates. Mr. Deng has committed to a number of national science research projects and has a number of published works. Mr. Deng is the Vice President of the Tertiary College Committee of Chinese Accounting Association. He is also an independent non-executive director of Hubei Chutian ExpressWay Co., Ltd.

Supervisors

Ye Huicheng (葉惠成), aged 56, is the chairman of the supervisory committee of the Company. Mr. Ye is a senior economist, having graduated from the Central Party School in 1988, majoring in Economics and Management. Mr. Ye joined Dongfeng Motor Corporation in 1968 and has served as the Secretary of the Disciplinary Committee of the Communist Party of Dongfeng Motor Corporation since 1997. He also served as the Standing Committee Member of the Communist Party and the Chairman of the Labour Union of Dongfeng Motor Corporation in 2001 and as the Deputy Secretary of the Communist Party, the Secretary of the Disciplinary Committee of the Communist Party and the Chairman of the Labour Union of Dongfeng Motor Co., Ltd in 2003.

Zhou Qiang (周強), aged 45, is a Supervisor of the Company. Mr. Zhou is a senior economist, having graduated from the Central Party School in 1992, specializing in Economics and Management. In 2005, he graduated from Qinghua University with an EMBA degree. Mr. Zhou joined Dongfeng Motor Corporation in 1978. From July 2003 to September 2005, Mr. Zhou was a Standing Committee Member of Dongfeng Motor Co., Ltd as well as Secretary of the Communist Party of the Commercial Vehicles Company of Dongfeng Motor Co., Ltd. He has been the Assistant to the General Manager and Director of Office Affairs of Dongfeng Motor Corporation since September 2005, and is now the Head of Office Affairs of Dongfeng Motor Group Company Limited.

Ren Yong (任勇), aged 42, is a Supervisor of the Company. Mr. Ren is a senior accountant, having graduated in 1986 from Central Broadcast and Telecommunication University, majoring in Industrial Corporate Management. Mr. Ren joined Dongfeng Motor Corporation in 1981. Mr. Ren was a Standing Committee Member of the Communist Party of Dongfeng Motor Co., Ltd and the Deputy General Manager of the Passenger Vehicle Company of Dongfeng Motor Co., Ltd since July 2003 and has been a Vice President of Dongfeng Motor Co., Ltd since September 2005.

Liu Yuhe (劉裕和), aged 57, is a Supervisor of the Company. Mr. Liu is a senior engineer, having graduated from the Department of Metal Heat Treatment of Qinghua University in 1992 and obtained a Master's degree in Engineering. Mr. Liu joined Dongfeng Motor

Corporation in 1971 and is now the Executive Deputy Manager and a director of Dongfeng Honda Automobile Co., Ltd. Mr. Liu is also a Director of Dongfeng Honda Engine Co. Ltd and Dongfeng Honda Auto Parts Co., Ltd.

Li Chunrong (李春榮), aged 41, is a Supervisor of the Company. Mr. Li is a senior economist, having graduated with a Bachelor's degree from Huazhong Technical Institute majoring in Vessel and Shipyard Electronic Automation in 1985. He graduated from Huazhong Technical Institute with a postgraduate degree in Management Systems in 1987, and joined Dongfeng Motor Corporation in the same year and is now the Standing Deputy General Manager of Dongfeng Yueda Kia Motor Co. Ltd. Mr. Li joined Dongfeng Motor Corporation in 1987.

Kang Li (康理), aged 42, is a Supervisor of the Company. Mr. Kang is a senior engineer, graduated from Luoyang Technical Institute in 1984 with a Bachelor's degree specializing in Casting Engineering and Equipment and received a Master's degree in Engineering from Huazhong Polytechnic University in 1996. Mr. Kang joined Dongfeng Motor Corporation in 1984 and is the Secretary of the Communist Party and Chairman of the Labour Union of Dongfeng Peugeot Citroën Automobiles Company Ltd.

JOINT COMPANY SECRETARIES

Hu Xindong (胡信東), aged 39, is Joint Company Secretary of the Company and the Head of Investors Relation Department. Mr. Hu is a senior engineer and graduated from the Department of Political Education of Hubei University in 1990 with a Bachelor of Law degree. He received a Master's degree in Business Administration from Maastricht School of Management, the Netherlands, in 2000 and obtained a Master's degree in Economics from Zhongnan Institute of Economics and Politics in 2001. Mr. Hu joined Dongfeng Motor Corporation in 1990 and was the Head of Office Affairs of Dongfeng Motor Corporation from July 2003 to September 2005. He has been the Head of the Legal Affairs Department of Dongfeng Motor Corporation since September 2005.

Lo, Yee Har, Susan (盧綺霞), aged 48, is Joint Company Secretary of the Company. Ms. Lo Yee Har, Susan is a director of Tricor Services Limited. Ms Lo is an associate member of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries. She has over 20 years of experience in the company secretarial area. She has provided services to many Hong Kong Stock Exchange listed companies over the years.

QUALIFIED ACCOUNTANT

Chan Yuk Tong (陳育棠), aged 43, is the Company's qualified accountant pursuant to Rule 3.24 of the Listing Rules. Mr. Chan is employed by the Company on a full time basis and is a member of the Company's senior management. Mr. Chan is a professional accountant. He is a FCPA of the Hong Kong Institute of Certified Public Accountants and a CPA of CPA Australia. Prior to joining the Company on 31 October 2005, Mr. Chan worked as Audit Principal at Ernst & Young and as executive director at Tak Sing Alliance Holdings Limited. Later he worked in G2000 (Apparel) Limited as the finance director and sales director. Mr. Chan graduated from the University of Newcastle in Australia with a Bachelor's degree in Commerce and received a Master's degree in Business Administration from the Chinese University of Hong Kong.

HEADS OF DEPARTMENTS

The head of the Audit Department of the Company is Mr. Wang Shuou

The head of the Personnel Department of the Company is Mr. Wang Xiangdong

The head of the Financial Accounting Department of the Company is Mr. Guo Miao

The head of the Technical Development Department of the Company is Mr. Huang Song

The head of the Operation Management Department of the Company is Mr. Yang Shaojie

The head of the President's Office is Mr. Zhou Qiang

The head of the Planning and Investment Department of the Company is Mr. Liao Zhenbo

The head of the Corporate Culture Department of the Company is Mr. Chen Yun

The head of the Supervisory Department of the Company is Mr. Zhang Changdong

The head of the Staff Relation Department of the Company is Mr. Zhou Shirong

The head of the Investors Relation Department of the Company is Mr. Hu Xindong

Report of the Directors

The Board of Directors hereby present the report of the directors and its annual report for the year ended 31 December 2005 together with the audited financial statements of the Company and the Group prepared in accordance with the International Financial Reporting Standards (the "IFRS").

PRINCIPAL ACTIVITIES

In the PRC, the Dongfeng Motor 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 Dongfeng Motor Group's vehicle manufacturing businesses and also for external sales. The Dongfeng Motor Group has also developed automotive-related businesses in China, including vehicle and vehicle manufacturing equipment import/export, auto finance, insurance agency 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.

RESULTS

The Group's results for the year ended 31 December 2005 and the state of affairs of the Company and the Group as at that date are set out in the audited financial statements on pages 58 to 164 in this annual report.

DIVIDENDS

Prior to listing on the Stock Exchange on 7 December 2005, the Company made a special distribution of RMB1,390 million. Consequently, the Board of Directors recommends that no further dividend should be declared in respect of the earnings of 2005 by the Company, subject to consideration and approval at the annual general meeting to be held on 16 June 2006.

Report of the Directors

DIVIDEND DISTRIBUTIONS BY THE COMPANY'S JOINTLY-CONTROLLED ENTITIES

In 2005, the Company's JCEs, in total, declared and paid aggregate dividends of approximately 457 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.

FINANCIAL SUMMARY

A summary of the operating results, assets and liabilities of the Group for the last four years is set out on pages 165 to 166 in this annual report.

BANK LOANS AND OTHER BORROWINGS

Details of the bank loans and other borrowings of the Company and the Group are set out in note 31 to the audited financial statements.

INTEREST CAPITALISED

Details of the interest capitalized of the Group for the year ended 31 December 2005 are set out in note 7 to the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Changes in the Company's and the Group's property, plant and equipment for the year ended 31 December 2005 are set out in note 14 to the audited financial statements.

DESIGNATED DEPOSITS AND OVERDUE TERM DEPOSITS

As at 31 December 2005, the Group had no designated deposits and overdue term deposits in any financial or other authorities.

RESERVES

Details of movements in reserves of the Group and the Company for the year ended 31 December 2005 are set out in note 30 to the audited financial statements and the consolidated statement of changes in equity on page 61 of the audited financial statements respectively.

Pursuant to Article 155 of the articles of association of the Company, if there are material discrepancies between the financial statements prepared in accordance with the accounting standards and regulations in the PRC and the financial statements prepared in accordance with international accounting standards or the accounting standards in place(s) where the company is listed, the after-tax profit to be allocated for the relevant accounting period shall be the lower of the after-tax profits in these financial statements.

The Board of Directors recommends allocation of 10% and 5% of total profit to the statutory public surplus reserve and statutory public welfare fund respectively and no allocation to the discretionary surplus reserve under the laws and articles of association, subject to consideration and approval at the annual general meeting to be held on 16 June 2006.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2005, the revenue attributable to the five largest customers accounted for is not more than 30% of the Group's total income for the year.

During the year ended 31 December 2005, the purchases (other than those of a capital nature) from the five largest suppliers accounted for no more than 30% of the Group's total purchases for the year.

SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES ("JCES") AND OTHER COMPANIES IN WHICH THE COMPANY HAS DIRECT EQUITY INTERESTS

As at 31 December 2005, details of the subsidiaries and JCEs as well as other companies in which the Company has direct equity interests are set out in notes 17, 18 and 19 respectively to the audited financial statements for the year.

SHARE CAPITAL

In December 2005, the Company issued 2,596,120,000 H Shares and Dongfeng Motor Corporation converted into H Shares and sold 259,612,000 Domestic Shares that it held in the Company. Details are set out in note 29 to the audited financial statements.

As at 31 December 2005, the aggregate share capital of the Company was RMB8,616,120,000 divided into 8,616,120,000 ordinary shares with a nominal value of RMB1 each, of which 5,760,388,000 were Domestic Shares representing approximately 66.86% of the aggregate number of shares in issue, and 2,855,732,000 were H Shares representing approximately 33.14% of the aggregate number of shares in issue.

STOCK APPRECIATION RIGHTS

In order to provide further incentive for the senior management of the Company, the shareholders of the Company adopted a plan of stock appreciation rights, or SARs, for the senior management of the Company. The plan is designed to link the financial interests of the Company's senior management with the Company's future results of operations and the performance of the H Shares. No Shares are to be issued under the SAR plan. Consequently, the shareholdings of the Company's shareholders will not be diluted as a result of the granting of SARs. The plan has been approved by the PRC State-owned Assets Supervision and Administration Commission.

In the first round of SARs, 55,665,783 SAR units were granted, equivalent to approximately 0.65% of the Company's registered share capital, or approximately 1.95% of the Company's H Share capital. The grant value of these first round SARs was the average share price at close of trading over the 30 business days preceding the date of grant. The date of grant was the thirty-first business day following the listing of the H Shares. There is a minimum period of two years from the date of grant before the SARs can be exercised and the following additional restrictions apply:

(a) in the third year following the date of grant, a maximum of 30% of the SARs granted may be exercised;

(b) in the fourth year following the date of grant, a further 35% of the SARs granted may be exercised; and

(c) in the fifth year following the date of grant, the remaining 35% of the SARs granted may be exercised.

The above implementation method was approved at the meeting of the Board of Directors held on 19 April 2006.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the PRC.

PROCEEDS FROM THE IPO AND THE USE THEREOF

The Company issued H Shares and completed the exercise of an over-allotment option in December 2005. As a result, the Company raised a sum of approximately RMB4,359 million and after deducting the cost of issue of approximately RMB400 million, the net proceeds received by the Company amount to approximately RMB3,959 million. All of these net proceeds have been used to settle the bank debts arising from the debt due to the Asset Management Companies incurred as a result of the buy-back of the equity interests in the Company held by the Asset Management Companies.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company, nor its subsidiaries nor JCEs purchased, sold or redeemed any of the Company's securities during the reporting period.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2005, the interests and short positions of the persons (other than directors and supervisors of the Company) entitled to exercise 5% or more of the voting power at any general meeting of the Company and the number of shares and underlying shares of the Company held by them are set out below, as recorded in the register required to be kept pursuant to Section 336 of the SFO.

Long positions and lending pool

Name	Class of Shares	Number of shares held	Percentage in the class of issued share capital (%)	Percentage in the total share capital
Dongfeng Motor Corporation	Domestic Shares	5,760,388,000[2]	100	66.86
UBS AG	H Shares	429,718,000[2]	15.05	4.99
Standard Chartered Holding Limited[1]	H Shares	242,282,000[2]	9.76	2.81
The Capital Group Companies, Inc.	H Shares	244,804,000[2]	8.57	2.84
Standard Chartered PLC	H Shares	242,282,000[2]	8.48	2.81
Temasek Holdings (Private) Limited	H Shares	224,802,000[2]	7.87	2.61
JPMorgan Chase & Co.	H Shares	175,140,600[2]	7.05	2.03
		114,616,600[3]	4.62	1.33
Cheah Cheng Hye	H Shares	171,344,000[2]	6.00	1.99
The Goldman Sachs Group, Inc.	H Shares	129,820,000[2]	5.23	1.51

1 As Standard Chartered PLC owns 100% interests in Standard Chartered Holdings Limited, which in turn owns 100% interests in Standard Chartered Bank, which in turn owns 100% interests in SCMB Overseas Limited, which in turn owns 100% interests in Standard Chartered Holdings (International) B.V., which in turn owns 100% interests in Standard Chartered MB Holdings B.V., which in turn owns 100% interests in Standard Chartered Asia Limited, which in turn owns 100% interests in Standard Chartered Private Equity Limited, Standard Chartered PLC and Standard Chartered Holding Limited are deemed to be the owners of the interests in the 242,282,000 H Shares in the Company held by Standard Chartered Private Equity Limited.

2 Long positions.

3 Lending Pool

Save as disclosed above, as at 31 December 2005, the Company had not been notified of any interests or short positions being held by any substantial shareholder in the shares or underlying shares of the Company.

DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY

The directors and senior management of the Company include:

Directors

Xu Ping	Chairman
Liu Zhangmin	Executive Director and President
Zhou Wenjie	Executive Director and Executive Vice President
Li Shaozhu	Executive Director
Fan Zhong	Executive Director
Tong Dongcheng	Non-Executive Director
Ouyang Jie	Non-Executive Director
Liu Weidong	Non-Executive Director
Zhu Fushou	Non-Executive Director
Sun Shuyi	Independent Non-Executive Director
Ng Lin-fung	Independent Non-Executive Director
Yang Xianzu	Independent Non-Executive Director

Mr. Miao Wei, the former Chairman of the Board of Directors of the Company, was promoted to become the Secretary of the Communist Party of Wuhan Municipality in 2005. He resigned from his position in the Company in May 2005 and was replaced by Mr. Xu Ping, the former Vice Chairman of the Board of Directors of the Company.

Senior Management

Cai Wei	Vice President and Secretary of the Board of Directors

Brief biographies of each of the directors and senior management are set out on pages 20 to 23 in this annual report.

Supervisors of the Company

The supervisors of the Company include:

Wen Shiyang	Independent Supervisor
Deng Mingran	Independent Supervisor
Ye Huicheng	Chairman of the Supervisory Committee
Zhou Qiang	Supervisor
Ren Yong	Supervisor
Liu Yuhe	Supervisor
Li Chunrong	Supervisor
Kang Li	Supervisor

Brief biographies of each supervisor are set out on pages 23 to 25 in this annual report.

DIRECTORS' AND SUPERVISORS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2005, none of the directors, supervisors or senior management of the Company had any interests or short positions in any Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be entered in the register required to be kept under section 352 of the SFO, or were required to be notified to the Company and the Stock Exchange under the Model Code for Securities Transactions by Directors of Listed Companies.

As at 31 December 2005, the Company did not grant to any director or supervisor of the company or their respective spouses or children under eighteen years of age any rights to subscribe for shares or debentures of the Company or any of its associated corporations.

CONFIRMATIONS OF INDEPENDENCE FROM INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received the annual written confirmations of independence from all independent non-executive directors, i.e. Mr. Sun Shuyi, Mr. Ng Lin-fung and Mr. Yang Xianzu, and is of the view that they are independent.

DIRECTORS' SERVICE CONTRACTS

No director is proposed for re-election of the forthcoming annual general meeting.

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is determinable by the Company or any of its subsidiaries or JCEs within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Except for service contracts, no director or supervisor of the Company has a material interest, whether directly or indirectly, in any material contract to which the Company or any of its subsidiaries was a party during the year ended 31 December 2005.

REMUNERATIONS OF DIRECTORS AND SUPERVISORS

Details of the remunerations of the directors and supervisors of the Company are set out in note 8 to the audited financial statements.

FIVE HIGHEST-PAID INDIVIDUALS

Information on the five highest-paid individuals of the Company is set out in note 9 to the audited financial statements.

EMPLOYEES

As at 31 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	Employees	Percentage of Total
Manufacturing	49,481	63.68
Engineering and technology	8,704	11.20
Management	14,018	18.04
Services	5,505	7.08
Total	77,708	100.00

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.

RETIREMENT BENEFITS

Details of the retirement benefits provided by the Group are set out in note 6(a) to the audited financial statements for the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into with any person, firm or legal person during the year ended 31 December 2005.

PUBLIC FLOAT

As at the date hereof, on the basis of publicly available information and to the best knowledge of the Company and its directors, more than 25% of the Company's total issued share capital is held by the public (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited).

CONNECTED TRANSACTIONS

For the year ended 31 December 2005, the continuing connected transactions between the Group and Dongfeng Motor Corporation and its associates, together with waivers and annual caps, were as follows:

1. Land Use Rights Leasing Agreement

The Group has on 29 October 2005 entered into a land use rights leasing agreement with Dongfeng Motor Corporation ("Land Use Rights Leasing Agreement"). The term of the lease commenced on 1 January 2006 and will expire on 31 August 2052.

The total annual rent payable under the Land Use Rights Leasing Agreement will be approximately RMB20.35 million payable every six months in arrears. The annual rent payable will be reviewed every three years and the new amount of rent payable will not be higher than the then prevailing market rent as confirmed by an independent valuer.

The annual cap for the connected transaction of land use rights lease is RMB20.35 million.

2. Provision of Ancillary Services

On 29 October 2005 the Company entered into agreements for the provision of ancillary services with Dongfeng Motor Corporation, whereby Dongfeng Motor Corporation will provide the following services to the Dongfeng Motor Group from 7 December 2005:

(i) Water Supply Agreement: Water is produced by the Parent Group and is supplied to the Dongfeng Motor Group (the "Water Supply Agreement");

(ii) Steam Supply Agreement: Steam is produced by the Parent Group and is supplied to the Dongfeng Motor Group (the "Steam Supply Agreement"); and

(iii) Electricity Supply Agreement: Electricity is produced by the Parent Group and is supplied to the Dongfeng Motor Group (the "Electricity Supply Agreement"),

(together the "Ancillary Services Agreements").

The above Ancillary Services Agreements each have a term of three years commencing on 7 December 2005.

The annual caps for the above connected transaction of water supply are RMB59 million, RMB64 million and RMB74 million for the three years ending 31 December 2007, respectively. The Dongfeng Motor Group paid RMB56 million of water supply fees to Dongfeng Motor Corporation for the year ended 31 December 2005. The payment for 2004 was RMB35 million.

The annual caps for the above connected transaction of steam supply are RMB111 million, RMB117 million and RMB120 million for the three years ended 31 December 2007, respectively. The Dongfeng Motor Group paid RMB99 million of steam supply fee to Dongfeng Motor Corporation for the year ended 31 December 2005. The payment for 2004 was RMB70 million.

The annual caps for the above connected transaction of electricity supply are RMB560 million, RMB545 million and RMB589 million for the three years ending 31 December 2007, respectively. In order to balance the demand for electricity between industrial and domestic users, the local electricity authority in Hubei Province from time to time regulates the consumption of electricity by industrial users during off-peak hours; the Group had to adjust its electricity consumption pattern and as a result increased its usage of electricity during normal and peak hours. As a result, the electricity supply fee paid by the Dongfeng Motor Group for the year ended 31st December 2005 to Dongfeng Motor Corporation was RMB603 million (the payment for 2004 was RMB381 million), exceeding the annual cap for this connected transaction[1].

3. Agreement for Mutual Supply of Auto Parts ("Mutual Supply Agreement")

Dongfeng Chaoyang Diesel Co., Ltd. ("Chaoyang Diesel") and the Company entered into an Agreement for the Mutual Supply of Auto Parts effective from 7 December 2005 and with a term of three years, whereby Chaoyang Diesel will supply diesel engines to the Dongfeng Motor Group and the Dongfeng Motor Group will supply other auto parts to Chaoyang Diesel.

The annual caps for the connected transaction of the Dongfeng Motor Group purchasing diesel engines from Chaoyang Diesel are RMB480 million, RMB570 million and RMB740 million for the three years ending 31 December 2007, respectively. Due to an unexpected increase in consumer demand in the PRC's automotive market in the fourth quarter of 2005, the purchase expense paid by the Dongfeng Motor Group for the year ended 31 December 2005 to Chaoyang Diesel was RMB554 million (the payment for 2004 was RMB380 million), exceeding the annual cap for this connected transaction[1].

1. Please refer to the announcement of the Company dated 20 April 2006 and the Company's Circular in relation to the Annual General Meeting to be held on 16 June 2006.

The annual caps for the connected transaction of Chaoyang Diesel purchasing auto parts from the Dongfeng Motor Group are RMB150 million, RMB230 million and RMB270 million for the three years ended 31 December 2007, respectively. Chaoyang Diesel paid RMB37 million to the Dongfeng Motor Group for purchasing auto parts for the year ended 31 December 2005. The payment for 2004 was RMB37 million.

4. Trademarks Licence Agreement

The Company and Dongfeng Motor Corporation entered into a Trademarks Licence Agreement on 29 October 2005, whereby Dongfeng Motor Corporation granted to the Company a non-exclusive right to use certain trademarks owned by and registered in the name of Dongfeng Motor Corporation. The agreement comes into effect on 7 December 2005 and the term of the licence is 10 years. Upon expiration of the term, the agreement automatically renews for another ten years after the expiry of each ten-year term.

5. Social Insurance Funds

For the year ended 31 December 2005, the Group made payments to the following funds: (1) basic pension fund; (2) supplementary pension fund; (3) medical insurance; (4) unemployment insurance; and (5) housing provident fund (together "Social Insurance Funds"). These payments were made to or through an independent department of Dongfeng Motor Corporation. This department is responsible for handling all matters relating to social insurance funds for all parts of the organisation located within Hubei Province.

For the year ended 31 December 2005, the continuing connected transactions conducted by the Company, its subsidiaries and the JCEs include:

1. *Purchases of auto parts and production facilities by the JCEs and the subsidiaries and Jointly-controlled Entities of Dongfeng Motor Co., Ltd from their joint venture partners (including their subsidiaries and associates)*

During the year ended 31 December 2005, each of Dongfeng Motor Co., Ltd, Dongfeng Peugeot Citroën Automobiles Company Ltd, Dongfeng Honda Automobile Co., Ltd, Dongfeng Honda Engine Co., Ltd, Dongfeng Honda Auto Parts Co., Ltd and Dongfeng Nissan Diesel Motor Co., Ltd (including each of these companies' subsidiaries and associates) regularly purchased auto parts and/or production facilities from the foreign joint venture partners of the Company and such purchases will continue for the duration of the joint venture term.

For the year ended 31 December 2005, the total amount of consideration paid by the JCEs in respect of purchases of auto parts and production facilities from the joint venture partners (including their subsidiaries and associates) was approximately RMB15,590 million. The payment by the JCEs for 2004 was RMB11,851 million.

2. ***Sales of passenger vehicle engines and related auto parts from Dongfeng Honda Engine Co., Ltd to Guangzhou Honda Automobile Co., Ltd pursuant to the arrangements among Dongfeng Motor Corporation, Honda Motor Co., Ltd and Guangzhou Automobile Group Co., Ltd***

Pursuant to the arrangements among Dongfeng Motor Corporation, Honda Motor Co., Ltd and Guangzhou Automobile Group Co., Ltd, Guangzhou Honda Automobile Co., Ltd purchases from Dongfeng Honda Engine Co., Ltd engines and other related auto parts needed by it to manufacture passenger vehicles for the duration of the joint venture term. For the year ended 31 December 2005, Guangzhou Honda Automobile Co., Ltd continued to purchase from Dongfeng Honda Engine Co., Ltd engines and auto parts needed by it.

3. ***Sales of auto parts by Dongfeng Bus Chassis Co., Ltd to Dongfeng Motor Co., Ltd***

Dongfeng Bus Chassis Co., Ltd manufactures bus chasses and sells them to Dongfeng Motor Co., Ltd. For the year ended 31 December 2005, the total amount of consideration paid by Dongfeng Motor Co., Ltd to Dongfeng Bus Chassis Co., Ltd for purchases of auto parts was approximately RMB975 million. The payment for 2004 was RMB1,278 million.

4. ***Technology licence and technical assistance between the JCEs and their subsidiaries on the one hand and their joint venture partners on the other hand***

Existing technology licence and technical assistance between the JCEs, their subsidiaries and their joint venture partners.

The JCEs make periodic payments of royalties to the foreign joint venture partners pursuant to the technology licence and technical assistance agreements entered into with the foreign joint venture partners of the Company in respect of existing vehicle models manufactured by the JCEs. The terms of the agreements relating to technology licences and technical assistance are fixed with reference to the expected life cycle of vehicle models.

For the year ended 31 December 2005, the total amount of the consideration paid by the JCEs in respect of purchases of technology licences and technical assistance between the JCEs, their subsidiaries and their joint venture partners was approximately RMB1,575 million. The payment by the JCEs for 2004 was RMB739 million.

In future joint operating periods, such technology licence and technical assistance fees will continue to be paid to foreign joint venture partners in accordance with existing umbrella agreements and contracts signed from time to time.

5. ***Value-added processing fees paid by Dongfeng Motor Co., Ltd to Guangzhou Aeolus Automobile Co., Ltd***

Pursuant to the agreement between the Company and Yulon Motor Co., Ltd, Guangzhou Aeolus Automobile Co., Ltd continued to provide value-added processing services relating to automobiles to Dongfeng Motor Co., Ltd and its subsidiaries for the year ended 31 December 2005. Dongfeng Motor Co., Ltd paid value-added processing fees to Guangzhou Aeolus Automobile Co., Ltd.

6. ***Transactions between Dongfeng Honda Auto Parts Co., Ltd and the other JCEs***

As part of the ordinary course of their business, Dongfeng Honda Engine Co., Ltd and Dongfeng Honda Automobile Co., Ltd regularly purchase auto parts from Dongfeng Honda Auto Parts Co., Ltd. Dongfeng Honda Auto Parts Co., Ltd also regularly purchases raw materials from the auto parts manufacturing businesses of Dongfeng Motor Co., Ltd and its subsidiaries.

For the year ended 31 December 2005, the aggregate net consideration arrived at by offsetting the consideration paid by Dongfeng Honda Auto Parts Co., Ltd to Dongfeng Motor Co., Ltd and its subsidiaries for the purchase of auto parts from the consideration paid by Dongfeng Honda Engine Co., Ltd and Dongfeng Honda Automobile Co., Ltd to Dongfeng Honda Auto Parts Co., Ltd for the purchase of auto parts was approximately RMB613 million. The net aggregate consideration for 2004 was RMB461 million.

7. ***Master Land Lease Contract between Dongfeng Motor Co., Ltd and Dongfeng Motor Corporation***

Pursuant to the land lease contract entered into between Dongfeng Motor Corporation and Nissan Motor Co., Ltd, Dongfeng Motor Co., Ltd leased land from Dongfeng Motor Corporation for a term equivalent to the term of Dongfeng Motor Co., Ltd.

For the year ended 31 December 2005, the annual rent paid by Dongfeng Motor Co., Ltd to Dongfeng Motor Corporation was approximately RMB107 million.

Report of the Directors

8. ***Sales of auto parts by Dongfeng Honda Auto Parts Co., Ltd to Honda Trading (China) Co., Ltd and Honda Motor (China) Co., Ltd***

Dongfeng Honda Auto Parts Co., Ltd regularly sells auto parts to Honda Trading (China) Co., Ltd and Honda Motor (China) Co., Ltd. Such auto parts are then exported by Honda Trading (China) Co., Ltd and Honda Motor (China) Co., Ltd to Honda Motor Co., Ltd. Dongfeng Honda Auto Parts Co., Ltd continued to sell auto parts to Honda Trading (China) Co., Ltd and Honda Motor (China) Co., Ltd for the year ended 31 December 2005.

9. ***Purchases of auto parts by Dongfeng Bus Chassis Co., Ltd from Dongfeng Motor Co., Ltd and its subsidiaries***

The principal business of Dongfeng Bus Chassis Co., Ltd is the manufacture of bus chassis for sale to the commercial vehicle manufacturing businesses of Dongfeng Motor Co., Ltd as well as to external customers. In order to manufacture its products, Dongfeng Bus Chassis Co., Ltd regularly purchases auto parts from Dongfeng Motor Co., Ltd and its subsidiaries.

For the year ended 31 December 2005, the total amount of consideration paid by Dongfeng Bus Chassis Co., Ltd to Dongfeng Motor Co., Ltd and those of its subsidiaries listed above for purchases of auto parts was approximately RMB966 million. The payment for 2004 was RMB1,277 million.

10. ***Sales of engines and other auto parts by Jetford Inc. to Dongfeng Motor Co., Ltd***

Since the formation of Dongfeng Motor Co., Ltd in 2003, it has been purchasing engines and other auto parts from Jetford Inc. on a regular basis in its ordinary course of business. The auto parts and engines purchased from Jetford Inc. are tailor-made for Dongfeng Motor Co., Ltd with unique technologies exclusively owned by Jetford Inc. The purchase of auto parts and engines from Jetford Inc. will continue until Dongfeng Motor Co., Ltd is in a position to produce such auto parts and engines.

For the year ended 31 December 2005, the total consideration paid by Dongfeng Motor Co., Ltd for purchases of engines and other auto parts from Jetford Inc. was approximately RMB138 million. The payment for 2004 was RMB276 million.

Transactions involving Dongfeng Motor Finance Co., Ltd

Based on the calculation prepared in accordance with the audited financial statements for the year ended 31 December 2005, Dongfeng Motor Finance Co., Ltd shall be regarded as a subsidiary of the Company from 1 January 2006, and the continuing transactions between Dongfeng Motor Finance Co., Ltd and Dongfeng Motor Corporation and its subsidiaries will constitute continuing connected transactions.

As at 31 December 2005, the total amounts deposited by Dongfeng Motor Corporation and its subsidiaries with Dongfeng Motor Finance Co., Ltd were approximately RMB564 million. Dongfeng Motor Finance Co., Ltd granted loans of approximately RMB68.5 million to Dongfeng Motor Corporation and its subsidiaries. Dongfeng Motor Corporation made entrusted loans of approximately RMB97.8 million to subsidiaries of Dongfeng Motor Corporation and member companies of the Dongfeng Motor Group through Dongfeng Motor Finance Co., Ltd.

The independent non-executive directors of the Company confirmed that all continuing connected transactions to which the Dongfeng Motor Group was a party for the year ended 31 December 2005:

(1) were conducted in the ordinary business of the Dongfeng Motor Group;

(2) were conducted on normal commercial terms, or made on terms no less favourable than terms available to or, as appropriate, from independent third parties, if there do not exist enough comparable transactions to determine whether such transactions are made on normal commercial terms or not;

(3) were conducted in accordance with the terms of the agreements governing them and the terms of the transactions are fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(4) the values of continuing connected transactions entered into between the Dongfeng Motor Group and connected persons of the Company which are subject to annual caps have not exceeded their respective annual cap, save that the values of the connected transaction of the Dongfeng Motor Group purchasing diesel engines from Chaoyang Diesel and the connected transactions of electricity supply by Dongfeng Motor Corporation to the Dongfeng Motor Group exceeded their annual caps for the year 2005[1].

1. Please refer to the announcement of the Company dated 20 April 2006 and the Company's Circular in relation to the Annual General Meeting to be held on 16 June 2006.

Report of the Directors

The auditors of the Company have reviewed each continuing connected transaction of the Company for the year ended 31 December 2005 as set out in pages 146 to 153 and pages 161 to 178 of the Company's prospectus dated 24 November 2005, and confirmed to the board that:

(1) each transaction was approved by the Board of Directors;

(2) each transaction was conducted in accordance with the pricing policies of the Dongfeng Motor Group;

(3) each transaction was conducted in accordance with the terms of the agreement governing it; and

(4) the values of continuing connected transactions entered into between the Dongfeng Motor Group and connected persons of the Company which are subject to annual caps have not exceeded their respective annual cap, save that the values of the connected transaction that the Dongfeng Motor Group purchasing diesel engines from Chaoyang Diesel and the connected transactions of electricity supply by Dongfeng Motor Corporation to the Dongfeng Motor Group exceeded their annual caps for the year 2005[1].

MATERIAL LEGAL PROCEEDINGS

As at 31 December 2005, the Dongfeng Motor Group was not involved in any material litigation or arbitration and no material litigation or claim was pending or threatened or made against the Dongfeng Motor Group as far as the Dongfeng Motor Group was aware.

MODEL CODE

After making specific enquiries with all directors, it is satisfied that the directors of the Company have strictly complied with the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong during the reporting period. The Company has not adopted a conduct code less strict than the Model Code in respect of securities transactions by directors.

1. Please refer to the announcement of the Company dated 20 April 2006 and the Company's Circular in relation to the Annual General Meeting to be held on 16 June 2006.

CORPORATE GOVERNANCE

The Company was in compliance with the Code Provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and actively complied with the recommended best practices.

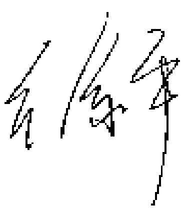
ACCOUNTING PRINCIPLES

For the year ended 31 December 2005, the Company did not adopt any new accounting principles.

AUDITORS

The Company appointed Ernst & Young and Ernst & Young Hua Ming as the Company's overseas and domestic auditors for the year ended 31 December 2005 respectively. A resolution will be submitted at the annual general meeting to reappoint Ernst & Young and Ernst & Young Hua Ming as the Company's overseas and domestic auditors for the year ended 31 December 2006 respectively, and authorize the directors to fix their remunerations.

By Order of the Board of Directors



Xu Ping
Chairman of the Board of Directors

Wuhan, the PRC
19 April 2006

Report of the Supervisory Committee

The Supervisory Committee has carried out its duties in accordance with the Company's Articles of Association. It has performed effective supervision, through the inspection of relevant documents and information of the Company and attending meetings of the Board of Directors, on the performance by the Board of Directors and the senior management of their statutory duties and their duties under the Company's Articles of Association, and on whether their acts were beneficial to and in the best interests of the shareholders, thus safeguarding the interests of the Company and its shareholders.

The Supervisory Committee is of the opinion that the decision-making process of the Company is in compliance with the Company's Articles of Association and relevant norms. The directors and the senior management of the Company observed their fiduciary duties and worked diligently and legally. Save as otherwise disclosed in this Annual Report, the Supervisory Committee is not aware that the directors and the senior management of the Company acted in breach of any laws and regulations, the Listing Rules of the Stock Exchange and the Articles of Association of the Company or against the interests of the shareholders.

The Supervisory Committee is of the view that the use of proceeds from the Company's recent initial public offering is in accordance with the disclosure in the Company's Prospectus and such use of proceeds has not been changed for other purposes.

The Supervisory Committee is of the opinion that the Company, having duly fulfilled its disclosure obligations in accordance with the requirements of the Listing Rules since its listing on The Stock Exchange of Hong Kong Limited, thus ensured the openness and transparency of the operational information of the Company.

The Supervisory Committee has reviewed the Company's 2005 financial statements and considers that the financial statements give a full, true and fair view of the operating results and financial position of the Company and the Group for the year and that the unqualified opinion and auditors' report by Ernst & Young, the auditors of the Company, are objective and fair.

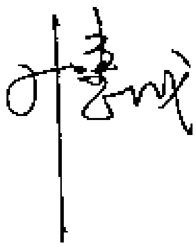
The Supervisory Committee is of the opinion that the connected transactions between the Company and the Group and their connected persons have been conducted at fair market price and on transaction terms, and is not aware of any circumstances prejudicial to the interests of the Company, the Dongfeng Motor Group or the Shareholders.

Report of the Supervisory Committee

The Supervisory Committee has seen the operating results and assets position of the Company in 2005 to its satisfaction. It is expected that the Company will continue seeking continuous revenue growth and exercising improved cost control and risk management, so as to consolidate on its solid foundation for steady and continuous development.

In 2006, the Supervisory Committee will continue to comply strictly with laws and the Company's Articles of Association and, while bearing in mind the missions and duties conferred by the shareholders, perform its duties in safeguarding the interests of the shareholders, the Company and the Dongfeng Motor Group.

By Order of the Supervisory Committee



Ye Huicheng
Chairman of the Supervisory Committee

Wuhan, the PRC
19 April 2006

Corporate Governance Report

1. OVERVIEW OF CORPORATE GOVERNANCE

The Company recognises the importance of the provision of transparency and accountability to its shareholders. The Company is committed to achieving high standards of corporate governance and believes that sound corporate governance is essential for the Company to maximize shareholders' value.

Currently, the Company's code on corporate governance practices includes, but is not limited to, the following:

- Articles of Association of Dongfeng Motor Group Company Limited
- Rules and Procedures of Shareholders' General Meetings
- Rules and Procedures of Meetings of the Board of Directors
- Rules and Procedures of Meetings of the Supervisory Committee
- Detailed Regulations for the Work of the Audit Committee
- Detailed Regulations for the Work of the Remuneration Committee
- Management Methods for Auditing Contracts
- Leaders' and Managers' Methods for Auditing Economic Responsibility
- Internal Auditors' Work Regulations
- Development Strategy Working Management Methods
- Directors' Management Methods
- Dispatched Directors' Management Flowchart
- Internal Operational Guidelines on Information Disclosure
- Methods for Sampling Items for Asset Appraisal
- Methods for Approving Items for Asset Appraisal
- Methods for Recording Items for Asset Appraisal
- Management Systems for Accounting Reports

- Management Systems for Financial Budgeting
- Temporary Methods for Financial Budget Analysis
- Management Methods for Statistics
- Temporary Methods for High Risk Investment Management

The Board of Directors has reviewed the relevant corporate governance documents adopted by the Company, and is of the view that the documents contain all the Code Provisions of the Code on Corporate Governance Practices (the "Corporate Governance Code"), with the exception of the code A.1.1 which provides that meetings of the Board of Directors shall be held at least four times a year, while the Articles of Association of the Company set out that board meetings shall be held at least twice a year. In 2005, the Board of Directors held six board meetings. The Company complied with Code A.1.1 of the Corporate Governance Code since its listing on The Stock Exchange of Hong Kong Limited on 7 December, 2005.

2. CODE ON CORPORATE GOVERNANCE PRACTICES

After listing on The Stock Exchange of Hong Kong Limited on 7 December, 2005, the Company has fully complied with the requirements of the Code Provisions of the Corporate Governance Code.

3. DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"). After specific enquiry of all directors by the Company, all directors have confirmed that they have fully complied with the Model Code for the period from 7 December 2005 to 31 December 2005.

Corporate Governance Report

4. BOARD OF DIRECTORS

The composition of the Board of Directors is as follows:

Xu Ping	Chairman
Liu Zhangmin	Executive Director and President
Zhou Wenjie	Executive Director and Executive Vice President
Li Shaozhu	Executive Director
Fan Zhong	Executive Director
Tong Dongcheng	Non-executive Director
Ouyang Jie	Non-executive Director
Liu Weidong	Non-executive Director
Zhu Fushou	Non-executive Director
Sun Shuyi	Independent Non-executive Director
Ng Lin Fung	Independent Non-executive Director
Yang Xianzu	Independent Non-executive Director

The Board of Directors meets twice a year (once every half year), and will hold special meetings when necessary. From 1st January to 31st December, 2005, the Board of Directors held six board meetings in total.

The following table sets out the attendance record for each director at meetings of the Board of Directors:

No.	Names	Position	attendance	Attendance rate
1	Miao Wei (苗圩)	Chairman (resigned in May 2005)	5	100%
2	Xu Ping (徐平)	Vice Chairman (re-designated as Chairman in May 2005)	6	100%
3	Liu Zhangmin (劉章民)	Executive Director and President	6	100%
4	Zhou Wenjie (周文杰)	Executive Director and Executive Vice President	6	100%
5	Fan Zhong (范仲)	Executive Director	6	100%
6	Li Shaozhu (李紹燭)	Non-executive Director (re-designated as Executive Director on 5th August, 2005)	6	100%
7	Tong Dongcheng (童東城)	Non-executive Director	6	100%
8	Ouyang Jie (歐陽潔)	Non-executive Director	6	100%
9	Liu Weidong (劉衛東)	Non-executive Director	6	100%
10	Zhu Fushou (朱福壽)	Non-executive Director	6	100%
11	Sun Shuyi (孫樹義)	Independent Non-executive Director	6	100%
12	Ng Lin-fung (吳連烽)	Independent Non-executive Director	6	100%
13	Yang Xianzu (楊賢足)	Independent Non-executive Director	6	100%

The Board of Directors is the standing decision-making organization of the Company. It leads and supervises the Company in a responsible and effective manner. All members of the Board of Directors are jointly and severally liable to all shareholders with regards to matters of management, supervision and operation of the Company.

Corporate Governance Report

The duties and responsibilities conferred on the Board of Directors include:

- convening shareholders' meetings and reporting on its work to shareholders;
- implementing resolutions of shareholders' meetings;
- determining the Company's business and investment plans;
- formulating the Company's annual budget and final accounts;
- formulating the Company's proposals for dividend and bonus distributions and for the increase or reduction of registered capital; and
- exercising other powers, duties and responsibilities as conferred by the Articles of Association.

The Board of Directors is responsible for preparing the financial statements for each accounting year to give a true and fair view of the financial position of the Company and its results and cash flow for the relevant period. In preparing the financial statements for the year ended 31 December 2005, the Board of Directors has adopted and applied the appropriate accounting policies in arriving at a prudent, fair and reasonable judgment and estimates, and has prepared the financial statements on a going concern basis.

Since the listing of the Company, the Board of Directors has been in compliance with Rule 3.10(1) of the Listing Rules, which requires a company to maintain at least three independent non-executive directors in the Board of Directors, and with Rule 3.10(2) of the Listing Rules, which requires one of those independent non-executive directors to be specialized in accounting or relevant financial management.

The Company has accepted the written confirmation of each of the independent non-executive directors in respect of their independence. The Company has accepted the written confirmation of each of the independent non-executive directors ascertaining that they are in compliance with Rule 3.13 of the Listing Rules in respect of their independence. The Company is of the opinion that all of the independent non-executive directors are independent.

Other than their working relationships with the Company, none of the directors, supervisors or senior management has any financial, business or family relationships or other material relationships with each other.

5. CHAIRMAN AND PRESIDENT OF THE COMPANY

Prior to May 2005, Mr. Miao Wei (苗圩) served as the Chairman and President of the Company. Subsequent to May 2005, Mr. Xu Ping (徐平) was elected as the Chairman and Mr. Liu Zhangmin (劉章民) was elected as the President of the Company. The roles of the Chairman and the President are two distinctively separate positions. The Articles of Association set out in detail the respective duties of the Chairman and the President. The Chairman is responsible for providing leadership for the Board of Directors and ensuring that the Board of Directors works effectively. The President is responsible for the Group's business development and management.

6. NON-EXECUTIVE DIRECTORS

All directors, including non-executive directors and independent non-executive directors, are appointed for a term of three years. All directors retire from their office at the expiry of their terms and are eligible for re-election at the following annual general meeting.

7. REMUNERATION OF DIRECTORS

The Company has set up a Board Remuneration Committee which consists of one executive Director and two independent non-executive Directors of the Company. The current chairman of the Board Remuneration Committee is Mr. Yang Xianzu and the other two members are Mr. Li Shaozhu and Mr. Ng Lin Fung. The Board Remuneration Committee considers and recommends to the Board of Directors the remuneration and other benefits paid by the Company to the directors. The remuneration of all directors is subject to regular monitoring by the Board Remuneration Committee to ensure that levels of remuneration and compensation are appropriate.

8. NOMINATION OF DIRECTORS

No nomination committee exists in the Company. The Company appoints new directors in accordance with a transparent procedure. According to the Articles of Association of the Company shareholders of the Company can nominate director candidates.

Written notice containing the intention to nominate a candidate and the candidate's express willingness to accept the nomination shall be delivered to the Company not earlier than the day when the notice of the shareholders' general meeting has been dispatched and not later than seven days prior to the convening of such meeting. The period between nomination and acceptance of nomination shall not be less than seven days.

9. AUDITORS' REMUNERATION

The Company's external auditors are Ernst & Young. The audit fee of the Company for the year ended 31 December 2005 was RMB10 million.

The Company also incurred approximately RMB98 million for the services provided by the reporting accountants in respect of the IPO and listing on The Stock Exchange of Hong Kong Limited. These services commenced on 2004 and it was not practicable to separate the amount payable for those services between the years 2004 and 2005.

10. AUDIT COMMITTEE

The Company has established an audit committee in compliance with the Rules 3.21 and 3.22 of the Listing Rules. The primary duties of the audit committee will be to review and supervise the financial reporting process and internal control system of the Company and provide advice and comments to the Board of Directors. The audit committee consists of three members who are all non-executive directors (including two independent non-executive directors) of the Company. The Chairman of the audit committee is Mr. Sun Shuyi, a qualified public accountant certified by the PRC Institute of Certified Public Accountants. The other members of the audit committee are Mr. Ouyang Jie and Mr. Ng Lin Fung.

11. SHAREHOLDERS' RIGHTS

In accordance with the Articles of Association of the Company, shareholders who solely or in aggregate hold 10% or more of the voting shares issued by the Company, have the right to call for an extraordinary general meeting in writing (the number of shares held by the shareholders is calculated on the day the relevant shareholders submit their written request).

The Company has adopted a policy of disclosing information to its shareholders in a timely manner. The annual general meeting shall serve as a communication channel between directors and shareholders. The chairman will chair the annual general meeting to ensure that the shareholders' views are communicated to the Board of Directors. During the annual general meeting, the chairman of the Board of Directors and its committees will all be present to answer any queries that shareholders may have.

The notice of annual general meeting shall be sent to all shareholders at least 45 days prior to the date of the meeting, It will state the purpose of the general meeting. Shareholders may propose to the Board of Directors procedures for making enquiries and put forth the proposed procedures at shareholders' general meetings.

12. AUTHORIZATION OF DIRECTORS

The Board of Directors formulates the strategies of the Company. Responsibility for execution of the Board of Directors' strategies and the Company's daily operations is delegated to the management.

Report of the Auditors

ERNST & YOUNG
安 永 會 計 師 事 務 所

To the members
Dongfeng Motor Group Company Limited
(A joint stock company incorporated in the People's Republic of China with limited liability)

We have audited the accompanying financial statements on pages 58 to 164 which have been prepared in accordance with International Financial Reporting Standards.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Report of the Auditors

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
19 April 2006

Consolidated Income Statement

Year ended 31 December 2005

	Notes	2005 RMB million	2004 RMB million
Revenue — Sale of goods	4	**41,735**	32,737
Cost of sales		**(35,639)**	(26,952)
Gross profit		**6,096**	5,785
Other income	4, 5	**1,007**	568
Gain on dilution of interests in certain businesses and investments, net	17	**—**	852
Selling and distribution costs		**(1,738)**	(1,384)
Administrative expenses		**(1,928)**	(1,793)
Other expenses, net		**(767)**	(654)
Finance costs	7	**(478)**	(242)
Share of profits and losses of associates		**29**	42
Profit before tax	6	**2,221**	3,174
Income tax expense	10	**(474)**	(308)
Profit for the year		**1,747**	2,866
Attributable to:			
Equity holders of the parent	11	**1,601**	2,598
Minority interests		**146**	268
		1,747	2,866
Dividend	12	**1,390**	—
Earnings per share attributable to ordinary equity holders of the parent:	13		
Basic for the year		**25.86 cents**	28.38 cents
Diluted for the year		**N/A**	N/A

Consolidated Balance Sheet

31 December 2005

	Notes	**2005** **RMB million**	2004 RMB million
ASSETS			
Non-current assets			
Property, plant and equipment	14	**14,414**	11,925
Lease prepayments		**350**	335
Intangible assets	15	**725**	619
Goodwill	16	**434**	277
Investments in associates	19	**372**	293
Available-for-sale financial assets	20	**163**	194
Loan to a jointly-controlled entity	21	**200**	—
Other long term assets		**397**	301
Deferred income tax assets	10	**73**	71
Total non-current assets		**17,128**	14,015
Current assets			
Inventories	22	**6,251**	6,588
Trade receivables	23	**1,436**	1,068
Bills receivable	24	**3,542**	3,695
Prepayments, deposits and other receivables	25	**1,576**	1,509
Due from jointly-controlled entities	26	**126**	307
Other financial assets	27	**109**	217
Cash and cash equivalents	28	**7,389**	5,543
Restricted cash	28	**423**	509
Total current assets		**20,852**	19,436
TOTAL ASSETS		**37,980**	33,451

Consolidated Balance Sheet

31 December 2005

	Notes	**2005 RMB million**	2004 RMB million
EQUITY AND LIABILITIES			
Equity attributable to the equity holders of the parent			
Paid-up registered capital	29	**8,616**	6,020
Reserves	30	**2,858**	936
Retained profits	30	**733**	1,081
		12,207	8,037
Minority interests		**2,127**	2,078
Total equity		**14,334**	10,115
Non-current liabilities			
Interest-bearing borrowings	31	**2,226**	2,727
Other long term liabilities		**222**	432
Provisions	32	**205**	215
Government grants	33	**67**	47
Deferred income tax liabilities	10	**564**	244
Total non-current liabilities		**3,284**	3,665
Current liabilities			
Trade payables	34	**5,757**	5,142
Bills payable	35	**2,873**	2,315
Other payables and accruals	36	**5,643**	7,371
Due to jointly-controlled entities	26	**366**	60
Interest-bearing borrowings	31	**5,309**	4,403
Government grants	33	**18**	5
Income tax payable		**69**	77
Provisions	32	**327**	298
Total current liabilities		**20,362**	19,671
TOTAL LIABILITIES		**23,646**	23,336
TOTAL EQUITY AND LIABILITIES		**37,980**	33,451

Xu Ping
Chairman

Liu Zhangmin
Executive Director and President

Consolidated Statement of Changes in Equity

Year ended 31 December 2005

		Attributable to the equity holders of the parent							
	Notes	**Paid-up registered capital/ share capital** RMB million	**Deemed distribution** RMB million	**Capital reserve** RMB million	**Statutory reserves** RMB million	**Retained profits** RMB million	**Total** RMB million	**Minority interests** RMB million	**Total equity** RMB million
At 1 January 2004		10,763	(2,791)	—	1,448	632	10,052	2,554	12,606
Capital reduction	29(a)	(2,791)	2,791	—	—	—	—	—	—
Repurchase of capital from shareholders (note 1)	29(b)	(4,613)	—	—	—	—	(4,613)	—	(4,613)
Capitalisation as a result of the reorganisation (note 1)	29(c)	2,661	—	—	(785)	(1,876)	—	—	—
Profit for the year		—	—	—	—	2,598	2,598	268	2,866
Transfer to reserves		—	—	—	591	(591)	—	—	—
Additional investments in subsidiaries		—	—	—	—	—	—	139	139
Arising on disposal of subsidiaries to a jointly-controlled entity	17	—	—	—	(318)	318	—	(715)	(715)
Equity dividends		—	—	—	—	—	—	(168)	(168)
At 31 December 2004 and 1 January 2005		6,020	—	—	936	1,081	8,037	2,078	10,115
Issue of shares upon listing	29(d)	2,257	—	1,502	—	—	3,759	—	3,759
Issue of shares upon exercising of the over-allotment option	29(e)	339	—	225	—	—	564	—	564
Share issuing expenses		—	—	(364)	—	—	(364)	—	(364)
Profit for the year		—	—	—	—	1,601	1,601	146	1,747
Transfer to reserves		—	—	—	559	(559)	—	—	—
Additional investment in a subsidiary of a jointly-controlled entity	18(b)	—	—	—	—	—	—	11	11
Equity dividend		—	—	—	—	—	—	(108)	(108)
Dividend	12	—	—	—	—	(1,390)	(1,390)	—	(1,390)
At 31 December 2005		8,616	—	1,363	1,495	733	12,207	2,127	14,334

Consolidated Cash Flow Statement

Year ended 31 December 2005

	Notes	**2005 RMB million**	2004 RMB million
Cash flows from operating activities			
Profit before tax		**2,221**	3,174
Adjustments for:			
Share of profits and losses of associates		**(29)**	(42)
Gain on dilution of interests in certain businesses and investments, net		**—**	(852)
Loss on disposal of items of property, plant and equipment, net	6	**14**	25
Loss on disposal of intangible assets	6	**8**	—
Provision/(write-back of provision) for bad and doubtful debts	6	**16**	(101)
Exchange losses/(gains) net	6	**(252)**	106
Depreciation and impairment, net	6	**1,357**	1,056
Amortisation of intangible assets	6	**112**	83
Finance costs	7	**478**	242
Interest income	5	**(141)**	(138)
Operating profit before working capital changes		**3,784**	3,553
Increase in trade and bills receivables and prepayments, deposits and other receivables		**(27)**	(1,921)
Decrease/(increase) in inventories		**513**	(1,944)
Decrease/(increase) in other financial assets		**115**	(51)
Decrease/(increase) in amounts due from jointly-controlled entities		**231**	(138)
Increase in other long term assets		**(66)**	(109)
Increase in trade, bills and other payables, and accruals		**1,749**	3,006
Increase in amounts due to jointly-controlled entities		**306**	37
Increase in provisions		**18**	35
Decrease in government grants		**(431)**	(120)
Increase/(decrease) in other long term liabilities		**(210)**	2
Cash generated from operations		**5,982**	2,350
Interest paid		**(522)**	(259)
Income tax paid		**(186)**	(222)
Net cash flows generated from operating activities		**5,274**	1,869

Consolidated Cash Flow Statement

Year ended 31 December 2005

	Notes	**2005 RMB million**	2004 RMB million
Cash flows from investing activities			
Purchases of items of property, plant and equipment		**(4,051)**	(2,985)
Increase in lease prepayments		**(1)**	(58)
Purchases of intangible assets		**(226)**	(290)
Purchases of available-for-sale financial assets		**(21)**	(139)
Loan to a jointly-controlled entity		**(250)**	—
Investments in associates		**(98)**	(49)
Disposal of certain businesses and investments to a jointly-controlled entity attributable to a joint venture partner, net of cash acquired	17	**—**	872
Acquisition of a jointly-controlled entity, net of cash acquired	18(a)	**(22)**	—
Acquisition of additional equity interests in jointly-controlled entities, net of cash acquired	18(b)	**(27)**	(655)
Proceeds from disposal of items of property, plant and equipment		**467**	430
Proceeds from disposal of available-for-sale financial assets		**28**	24
Proceeds from disposal of associates		**16**	105
Dividends from associates		**29**	18
Government grants received	33	**464**	172
Interest received	5	**141**	138
Decrease/(increase) in pledged time deposits		**86**	(481)
Increase in non-pledged time deposits with original maturity of three months or more when acquired		**(738)**	(30)
Net cash flows used in investing activities		**(4,203)**	(2,928)
Cash flows from financing activities			
Proceeds from borrowings		**10,338**	7,871
Repayment of borrowings		**(10,456)**	(6,471)
Repurchase of capital		**(2,306)**	(2,307)
Net proceeds from issue of shares		**3,959**	—
Capital contribution from minority shareholders		**—**	139
Dividends paid to minority shareholders		**(108)**	(168)
Dividends paid		**(1,390)**	—
Net cash flows generated from/(used in) financing activities		**37**	(936)
Net increase/(decrease) in cash and cash equivalents		**1,108**	(1,995)
Cash and cash equivalents at beginning of year		**4,478**	6,473
Cash and cash equivalents at end of year	28	**5,586**	4,478

Balance Sheet

31 December 2005

	Notes	2005 RMB million	2004 RMB million
ASSETS			
Non-current assets			
Property, plant and equipment	14	**479**	397
Investments in subsidiaries	17	**140**	140
Investments in jointly-controlled entities	18	**13,037**	12,496
Investments in associates	19	**73**	53
Available-for-sale financial assets	20	**68**	68
Loan to a jointly-controlled entity	21	**400**	—
Total non-current assets		**14,197**	13,154
Current assets			
Inventories	22	**55**	41
Trade receivables	23	**182**	58
Bills receivable	24	**2**	34
Prepayments, deposits and other receivables	25	**50**	56
Due from jointly-controlled entities	26	**128**	680
Cash and cash equivalents	28	**762**	892
Restricted cash	28	**—**	180
Total current assets		**1,179**	1,941
TOTAL ASSETS		**15,376**	15,095

Balance Sheet

31 December 2005

	Notes	**2005 RMB million**	2004 RMB million
EQUITY AND LIABILITIES			
Equity attributable to the equity holders of the parent			
Paid-up registered capital	29	**8,616**	6,020
Reserves	30	**1,957**	344
Retained profits/(accumulated losses)	30	**(94)**	1,319
Total equity		**10,479**	7,683
Non-current liabilities			
Interest-bearing borrowings	31	**500**	600
Other long term liabilities		**180**	360
Deferred income tax liabilities	10	**550**	231
Total non-current liabilities		**1,230**	1,191
Current liabilities			
Trade payables	34	**78**	56
Other payables and accruals	36	**862**	4,162
Due to jointly-controlled entities	26	**487**	263
Interest-bearing borrowings	31	**2,240**	1,740
Total current liabilities		**3,667**	6,221
TOTAL LIABILITIES		**4,897**	7,412
TOTAL EQUITY AND LIABILITIES		**15,376**	15,095

Xu Ping
Chairman

Liu Zhangmin
Executive Director and President

Notes to Financial Statements

31 December 2005

1. CORPORATE INFORMATION

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

1. CORPORATE INFORMATION (Continued)

(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 principally engaged in the manufacture and sale of automobiles, engines and other automotive parts. The registered office of the Company is located at No. 8 Car City Road North, Wuhan Economic and Technology Development Zone, Wuhan, Hubei, 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.

Notes to Financial Statements

2.1 BASIS OF PREPARATION

These 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, except for the following standards that have been early adopted as at 1 January 2002, which is the earliest date for the preparation of the financial information in relation to the listing of the Company's H shares:

IFRS 1 (amended 2004)	First-time Adoption of International Financial Reporting Standards;
IFRS 2	Share-based Payment;
IFRS 3	Business Combinations;
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations;
IAS 1 (amended 2004)	Presentation of Financial Statements;
IAS 2 (revised 2003)	Inventories;
IAS 7 (amended 2003)	Cash Flow Statements;
IAS 8 (revised 2003)	Accounting Policies, Changes in Accounting Estimates and Errors;
IAS 10 (amended 2004)	Events after the Balance Sheet Date;
IAS 12 (amended 2004)	Income Taxes;
IAS 14 (amended 2004)	Segment Reporting;
IAS 16 (amended 2004)	Property, Plant and Equipment;
IAS 17 (amended 2004)	Leases;
IAS 18 (amended 2004)	Revenue;
IAS 19 (amended 2004)	Employee Benefits;
IAS 20 (revised 2003)	Accounting for Government Grants and Disclosure of Government Assistances;
IAS 21 (revised 2003)	The Effect of Changes in Foreign Exchange Rates;
IAS 23 (amended 2003)	Borrowing Costs;
IAS 24 (revised 2003)	Related Party Disclosures;
IAS 27 (amended 2004)	Consolidated and Separate Financial Statements;
IAS 28 (amended 2004)	Investments in Associates;
IAS 31 (amended 2004)	Interests in Joint Ventures;
IAS 32 (amended 2004)	Financial Instruments: Disclosure and Presentation;
IAS 33 (amended 2004)	Earnings per Share;
IAS 36 (amended 2004)	Impairment of Assets;
IAS 37 (amended 2004)	Provisions, Contingent Liabilities and Contingent Assets;
IAS 38 (amended 2004)	Intangible Assets; and
IAS 39 (amended 2004)	Financial Instruments: Recognition and Measurement.

2.1 BASIS OF PREPARATION (Continued)

The consolidated financial statements 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.

These financial statements have been prepared under the going concern basis although the Company's current liabilities exceeded its current assets as at 31 December 2005. This is because the directors are of the opinion that the Company has obtained sufficient bank facilities such that the Company will have adequate fund to meet with its liabilities when they fall due. Various banks providing finance to the Company have also confirmed to the Company in writing that they will renew their respective bank facilities granted to the Company upon the respective expiry dates of such bank facilities.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries and jointly-controlled entities for the year ended 31 December 2005.

Subsidiaries are consolidated from the date on which control is transferred to the Group, and cease to be consolidated from the date on which control is transferred out of the Group.

The Group's interests in its jointly-controlled entities are accounted for by proportionate consolidation from the date on which joint control over the jointly-controlled entities is established, which includes recognising in the consolidated financial statements a proportionate share of each of the jointly-controlled entity's assets, liabilities, income and expenses with similar items on a line-by-line basis.

All significant intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

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

Minority interests represent the interests of outside shareholders in the results and net assets of the subsidiaries of the Company and its jointly-controlled entities.

2.2 IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following IFRSs and International Financial Reporting Interpretation ("IFRIC") that have been issued but are not yet effective. Unless otherwise stated, these IFRSs and IFRIC are effective for annual periods beginning on or after 1 January 2006:

IAS 1 (Amendment)	Capital Disclosures
IAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
IAS 21 (Amendment)	Net Investment in a Foreign Operation
IAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
IAS 39 (Amendment)	The Fair Value Option
IAS 39 & IFRS 4 (Amendments)	Financial Guarantee Contracts
IFRSs 1 & 6 (Amendment)	First-time Adoption of IFRSs and Exploration for and Evaluation of Mineral Resources
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRS 7	Financial Instruments: Disclosures
IFRIC-Int 4	Determining whether an Arrangement contains a Lease
IFRIC-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC-Int 6	Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment
IFRIC-Int 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC-Int 8	Scope of IFRS 2

The Group has commenced its assessment of the impact of these standards and interpretation but it is not yet in a position to state whether these standards and interpretation would have a material impact on its results of operations and financial position.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 venturers 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 venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

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

(b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly and indirectly, over the joint venture;

(c) an associate, if the 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, if the Company holds, directly and 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.

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 are stated at cost less any impairment losses.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Jointly-controlled entities

A joint-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 investments in its jointly-controlled entities are accounted for by proportionate consolidation, which involves recognising in the financial statements a proportionate share of the joint venture's assets, liabilities, income and expenses on a line-by-line basis. When the profit sharing ratio is different to the Group's equity interests in the jointly-controlled entities, the Group's share of their assets, liabilities, income and expenses is determined based on the agreed profit sharing ratio.

Gain or loss arising from assets contributed or sold by the Group to its jointly-controlled entities is recognised in the consolidated income statement to the extent that such gain or loss is attributable to the interests of other venturers when significant risks and rewards of ownership of the assets have been passed to the jointly-controlled entities and the assets are retained by the 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.

Associates

The Group's and its jointly-controlled entities' investments in their associates are accounted for under the equity method of accounting. These associates are entities in which the Group or its jointly-controlled entities have significant influence and which are neither subsidiaries nor jointly-controlled entities of the Group or its jointly-controlled entities.

The investments in associates are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's or its jointly-controlled entities' share of net assets of the associates, less any impairment in value. The consolidated income statement reflects the Group's or its jointly-controlled entities' share of the results of operations of the associates. The Group's and the jointly-controlled entities' investments in their associates include goodwill (net of accumulated impairment) on acquisition, which is treated in accordance with the accounting policy for goodwill stated below.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Associates (Continued)

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

Goodwill

Goodwill on acquisition of subsidiaries and jointly-controlled entities is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses and is not amortised. 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 IAS 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

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 on the basis of the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Foreign currency translation

These financial statements are presented in Renminbi ("RMB"), which is the functional and presentation currency of the Group and its jointly-controlled entities. 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 exchange differences are taken to the profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as 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.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment in value.

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 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 the 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (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 over the estimated useful life as follows:

Buildings	Over 10 to 45 years
Plant and equipment	Over 5 to 20 years

Construction in progress represents property, plant and equipment under construction, which are 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 categories of property, plant and equipment when completed and ready for use.

Lease prepayments

Lease prepayments represent acquisition costs of land use rights less impairment losses and are amortised on the straight-line basis over the lease terms.

Intangible assets

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 3 to 15 years.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

Research and development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an individual project is recognised 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 ability of resources to complete and the availability to measure reliably the expenditure during the development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure capitalised is amortised over the period of expected future sales from the related project.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, or more frequently when an indication of impairment arising during the reporting year.

Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to 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. Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired assets.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of assets (Continued)

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 is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Investments and other financial assets

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long term investments that are intended to be held to maturity, such as bonds, are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Available-for-sale financial assets

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

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.

Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials	Purchase cost on the weighted average basis
Finished goods and work in progress	Cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Trade and other receivables

Trade and other receivables are recognised and carried at their original amounts less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

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 cash management of the Group and its jointly-controlled entities.

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.

Interest-bearing borrowings

All borrowings are initially recognised at the fair value of the consideration received net of issue costs associated with the borrowings.

After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest rate method.

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

Derecognition of financial assets and liabilities

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;

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets and liabilities (Continued)

Financial assets (Continued)

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

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 profit or loss.

2.3 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 a group of financial assets is impaired.

Assets carried at amortised cost

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

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 or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument 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.

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

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the year.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability; or

- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecast transaction

A hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative financial instruments and hedging (Continued)

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains and losses from both are taken to profit or loss.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through profit or loss over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to profit or loss.

Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative financial instruments and hedging (Continued)

Fair value hedges (Continued)

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised in profit or loss.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised; the hedge no longer meets the criteria for hedge accounting; or the Group revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to profit or loss. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

Cash flow hedges

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 for their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of leased items are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on the straight-line basis over the lease terms.

Employee benefits

Retirement benefits

The Group's and its jointly-controlled entities' contributions to various defined contribution pension schemes regulated by the relevant municipal and provincial governments in the PRC and a supplemental pension scheme regulated by DFM are expensed as incurred. Further details of the defined contribution pension schemes and the supplemental pension scheme are set out in note 6(a) below.

Medical benefits

The Group's and its jointly-controlled entities' contributions to various defined contribution medical benefit plans organised by the relevant municipal and provincial governments in the PRC and a supplemental medical benefit plan organised by DFM are expensed as incurred. Further details of the defined contribution medical benefit plans and the supplemental medical benefit plan are set out in note 6(b) below.

Cash housing subsidies

Cash housing subsidies represented payments to housing subsidy plans implemented by the Group and a jointly-controlled entity in 2000. Cash housing subsidies related to past services of employees are fully recognised in the income statement on an one-off basis in the year of implementation of 2000. Cash housing subsidies related to present services of employees are recognised in the income statement when incurred. Further details of the housing subsidy plans are set out in note 6(c) below.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

Termination and early retirement benefits

Termination and early retirement benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group and its jointly-controlled entities recognise termination and early retirement benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without the possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due for more than 12 months after the balance sheet date are discounted to their present values using incremental borrowing rates available to the Group and the jointly-controlled entities. Further details of the termination and early retirement benefit plan are set out in note 6(d) below.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group or its jointly-controlled entities and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have been passed to the buyer and the amount of revenue can be measured reliably.

Rendering of services

Revenue is recognised by reference to the stage of completion. Stage of completion is measured by reference to the labour hours incurred to date as a percentage of the total estimated labour hours for each contract. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses that are recoverable.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue

Interest income

Revenue is recognised as interest income on accrual basis using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Dividend income

Revenue is recognised when the shareholders' right to receive payment has been established.

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 embodying economic benefits 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.

Provision for product warranties granted by the Group and its jointly-controlled entities for certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present value as appropriate.

Provisions for future environmental restoration costs and reorganisation expenses are made based on the present values of the future costs expected to be incurred.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

Government grants are recognised at their fair values 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.

Income tax

Current tax

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

Deferred income 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 income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability 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 taxable temporary differences associated with investments in subsidiaries, associates and jointly-controlled entities, 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax (Continued)

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

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in jointly-controlled entities, deferred income tax assets are recognised only 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 income 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 income tax assets to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year/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.

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

(a) the party, directly or indirectly, through one or more intermediaries, (i) control, 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); or

(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).

3. SIGNIFICANT ACCOUNTING ESTIMATES

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Deferred taxation

As at 31 December 2005, a deferred tax asset in relation to unused tax losses and other deductible temporary differences have been recognized in the consolidated balance sheet. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of the deferred tax asset may arise, which would be recognized in the income statement for the period in which such a reversal takes place.

4. REVENUE ON SALE OF GOODS AND SEGMENT INFORMATION

Revenue on sale of goods

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

Segment information

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in the PRC, and all of its assets are located in the PRC.

The Group's operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Summary details of these business segments are as follows:

Commercial vehicles	Manufacture and sale of commercial vehicles
Passenger vehicles	Manufacture and sale of passenger vehicles
Engines and other automotive parts	Manufacture and sale of engines and other automotive parts
Corporate and others	Corporate operations and manufacture and sale of other automobile related products

4. REVENUE ON SALE OF GOODS AND SEGMENT INFORMATION (Continued)

Segment information (Continued)

The Group accounts for intersegment sales and transfers at prices generally determined within the Group.

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.

4. REVENUE ON SALE OF GOODS AND SEGMENT INFORMATION (Continued)

Segment information (Continued)

Year ended 31 December 2005

	Commercial vehicles RMB million	Passenger vehicles RMB million	Engines and other automotive parts RMB million	Corporate and others RMB million	Eliminations RMB million	Total RMB million
Revenue						
Sales to external customers	11,193	21,798	6,676	2,068	—	41,735
Intersegment sales	—	—	3,425	—	(3,425)	—
Other income	68	177	185	577	—	1,007
Total	11,261	21,975	10,286	2,645	(3,425)	42,742
Results						
Segmental results	272	1,599	916	(117)	—	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						1,747
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						37,980
Segment liabilities	5,034	6,814	3,267	3,629	(3,267)	15,477
Unallocated liabilities						8,169
Total liabilities						23,646
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

4. REVENUE ON SALE OF GOODS AND SEGMENT INFORMATION (Continued)

Segment information (Continued)

Year ended 31 December 2004

	Commercial vehicles RMB million	Passenger vehicles RMB million	Engines and other automotive parts RMB million	Corporate and others RMB million	Eliminations RMB million	Total RMB million
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. OTHER INCOME

An analysis of the Group's other income is as follows:

		Group	
		2005	2004
		RMB	RMB
	Note	**million**	million
Government grants and subsidies	(a)	**431**	120
Net income from disposal of other materials		**273**	208
Interest income		**141**	138
Rendering of services		**18**	12
Others		**144**	90
		1,007	568

Note:

(a) An analysis of government grants and subsidies is as follows:

	Group	
	2005	2004
	RMB	RMB
	million	million
Subsidies for business development	**405**	79
Subsidies for relocation of offices and production plants	**6**	29
Others	**20**	12
	431	120

6. PROFIT BEFORE TAX

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

		Group	
	Notes	2005 RMB million	2004 RMB million
Cost of inventories recognised as expense		**35,639**	26,952
Provision/(write-back of provision) against inventories		**5**	(63)
Amortisation of intangible assets*		**112**	83
Depreciation		**1,306**	1,030
Auditor's remuneration		**15**	3
Minimum lease payments under operating leases in respect of land and buildings		**158**	113
Staff costs (excluding directors' and supervisors' remuneration (note 8)):			
— Wages and salaries		**1,727**	1,595
— Pension scheme costs	(a)	**248**	248
— Medical benefits costs	(b)	**40**	31
— Cash housing subsidies costs	(c)	**7**	8
		2,022	1,882

6. PROFIT BEFORE TAX (Continued)

	Group 2005 RMB million	2004 RMB million
Included in other expenses, net		
Loss on disposal of items of property, plant and equipment, net	**14**	25
Loss on disposal of intangible assets, net	**8**	—
Impairment of property, plant and equipment	**34**	26
Impairment of available-for-sale financial assets	**24**	—
Reversal of impairment of other financial assets	**(7)**	—
Provision/(write-back of provision) for bad and doubtful debts	**16**	(101)
Warranty expenses	**250**	120
Research costs	**719**	478
Exchange losses/(gains), net	**(252)**	106

* The amortisation of intangible assets is included in "Cost of sales" on the face of the consolidated income statement.

6. PROFIT BEFORE TAX (Continued)

(a) Retirement benefits

The Group's and its jointly-controlled entities' employees in the PRC are covered by various defined contribution pension schemes regulated by the relevant municipal and provincial governments in the PRC pursuant to which the municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and retired employees. In addition to the defined contribution pension schemes regulated by the relevant municipal and provincial governments in the PRC, the Group and most of its jointly-controlled entities located in Hubei Province (collectively referred to as the "Hubei Entities") also participate in a supplemental pension scheme regulated by DFM (the "Scheme") pursuant to which the Company is required to make a contribution based on a percentage of the wages of these employees of the Hubei Entities to the Scheme on a monthly basis, whereas DFM undertakes to assume the supplemental pension obligations and other pension benefits payable to the employees of the Hubei Entities. The Company has no further obligation to the Scheme beyond the defined contributions made. The contributions to the Scheme made by the Hubei Entities are expensed as incurred.

In accordance with the arrangement in place and for administrative reasons, the Company's contribution to the Scheme is settled directly with the Scheme by each of the Hubei Entities based on the amount of their respective contributions required to be borne by each of the Hubei Entities.

DFM agreed with the Company that it shall continue to assume the supplemental pension obligations and other pension benefits payable to the employees of the Hubei Entities and the Company shall continue to make contributions to the Scheme, on a monthly basis, based on a percentage of the wages of the employees of the Hubei Entities. DFM also agrees to indemnify the Company against any losses which may arise if the employees of the Hubei Entities claim against the Hubei Entities for their supplemental pension benefits and other pension benefits under the Scheme.

6. PROFIT BEFORE TAX (Continued)

(b) Medical benefits

The Group and its jointly-controlled entities contribute on a monthly basis to various defined contribution medical benefit plans organised by the relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the medical benefit obligations of all existing and retired employees under these plans. Contributions to these plans by the Group and the jointly-controlled entities are expensed as incurred.

In addition, the Hubei Entities also participate in a supplemental medical benefit plan regulated by DFM pursuant to which such companies contribute a percentage of the wages of their qualified employees to the plan, on a monthly basis, and DFM undertakes to assume the supplemental medical benefit obligations payable to existing and retired employees of the Hubei Entities. The Group and the jointly-controlled entities have no further obligations for medical benefits and supplemental medical benefits for their qualified employees under these plans. Contributions to these plans by the Group and the jointly-controlled entities are expensed as incurred.

DFM has agreed with the Company that it shall continue to assume the supplemental medical benefit obligations payable to the relevant employees of the Hubei Entities and such companies shall continue to make monthly contributions to the supplemental medical benefit plan based on a percentage of the wages of the employees. DFM also agrees to indemnify the Company against any losses which may arise if the employees of the Hubei Entities claim against the Hubei Entities for their supplemental medical benefits.

(c) Cash housing subsidies

In 2000, the Group and a jointly-controlled entity implemented cash housing subsidy plans pursuant to which the Group and the jointly-controlled entity undertook the obligation to pay cash housing subsidies to eligible employees who had not been allocated housing quarters at all or who had not been allocated housing quarters up to the prescribed standards. Retired employees of the Group existed at the time of the implementation of the Group's cash housing subsidy plans are also eligible to entitle the benefits under such plans. Employees who joined the jointly-controlled entity from 1 January 2003 onwards and the retired employees of such jointly-controlled entity were not entitled to any benefits under the cash housing subsidy plans.

6. PROFIT BEFORE TAX (Continued)

(c) Cash housing subsidies (Continued)

For cash housing subsidies related to service periods before 1 January 2000, they are fully recognised as expenses in the year of the implementation of such plans in 2000. For cash housing subsidies related to service periods starting from 1 January 2000, the payments are made on a monthly basis commencing from January 2000 for a period of up to 20 years for employees without being allocated housing quarters and for a period of 15 years for employees being allocated housing quarters but not up to the prescribed standards. The monthly payments are recognised in the income statement when incurred and are in line with the service periods of such employees.

(d) Termination and early retirement benefits

Prior to 2004, the Group implemented a termination and early retirement plan for certain qualified employees, pursuant to which the Group and its jointly-controlled entities had the obligation to pay early retirement benefits on a monthly basis to the relevant early retired employees until such employees reach their normal retirement age at which time they can join the governmental regulated pension schemes and the DFM regulated supplemental pension scheme.

The early retirement benefit obligations estimated by the directors were fully accrued and recognised in the respective year's income statement when the formal early retirement plan was demonstrably committed.

7. FINANCE COSTS

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

8. DIRECTORS' AND SUPERVISORS' REMUNERATION

Details of the directors' and supervisors' remuneration for the year disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Companies Ordinance are as follows:

	Group			
	Directors		Supervisors	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Fees	**—**	—	**—**	—
Other emoluments:				
— Salaries, allowances and benefits in kind	**1,875**	689	**1,374**	457
— Bonuses	**2,645**	2,160	**1,918**	920
— Pension scheme costs	**81**	42	**60**	27
Total	**4,601**	2,891	**3,352**	1,404

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

The name of directors and the supervisors of the Company and their remuneration for the year are as follows:

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Bonuses RMB'000	Pension scheme costs RMB'000	Total RMB'000
2005					
Executive directors:					
Xu Ping	—	257	354	9	620
Liu Zhangmin	—	205	310	9	524
Zhou Wenjie	—	217	283	9	509
Fan Zhong	—	205	283	9	497
Li Shaozhu	—	205	283	9	497
	—	1,089	1,513	45	2,647
Non-executive directors:					
Tong Dongcheng	—	205	283	9	497
Liu Weidong	—	190	283	9	482
Ouyang Jie	—	205	283	9	497
Zhu Fushou	—	186	283	9	478
	—	786	1,132	36	1,954
Independent non-executive directors:					
Sun Shuyi	—	—	—	—	—
Ng Lin-fung	—	—	—	—	—
Yang Xianzu	—	—	—	—	—
	—	—	—	—	—
	—	1,875	2,645	81	4,601

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Bonuses RMB'000	Pension scheme costs RMB'000	Total RMB'000
2005					
Supervisors:					
Ye Huicheng	—	205	283	9	497
Zhou Qiang	—	167	321	9	497
Ren Yong	—	377	554	9	940
Liu Yuhe	—	316	401	15	732
Li Chunrong	—	154	186	9	349
Kang Li	—	155	173	9	337
	—	1,374	1,918	60	3,352
Independent supervisors:					
Wen Shiyang	—	—	—	—	—
Deng Mingran	—	—	—	—	—
	—	—	—	—	—
	—	1,374	1,918	60	3,352

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

The name of directors and the supervisors of the Company and their remuneration for the year are as follows:

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Bonuses RMB'000	Pension scheme costs RMB'000	Total RMB'000
2004					
Executive directors:					
Miao Wei	—	118	498	8	624
Xu Ping	—	117	499	8	624
Liu Zhangmin	—	106	359	8	473
Zhou Wenjie	—	85	90	1	176
Fan Zhong	—	26	90	2	118
Li Shaozhu	—	26	90	2	118
	—	478	1,626	29	2,133
Non-executive directors:					
Tong Dongcheng	—	26	90	2	118
Liu Weidong	—	87	11	3	101
Ouyang Jie	—	26	90	2	118
Zhu Fushou	—	20	38	2	60
Sun Hongjin	—	—	122	—	122
Gu Linsheng	—	—	—	—	—
Gao Mingxiang	—	—	—	—	—
Chen Shihuang	—	47	183	4	234
	—	206	534	13	753
Independent non-executive directors:					
Sun Shuyi	—	—	—	—	—
Ng Lin-fung	—	—	—	—	—
Yang Xianzu	—	5	—	—	5
	—	5	—	—	5
	—	689	2,160	42	2,891

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Bonuses RMB'000	Pension scheme costs RMB'000	Total RMB'000
2004					
Supervisors:					
Ye Huicheng	—	106	359	8	473
Zhou Qiang	—	23	22	2	47
Ren Yong	—	94	92	2	188
Liu Yuhe	—	60	100	4	164
Li Chunrong	—	29	53	2	84
Kang Li	—	73	8	3	84
Jin Nanqiang	—	72	163	6	241
Xu Qiaoli	—	—	123	—	123
	—	457	920	27	1,404
Independent supervisors:					
Wen Shiyang	—	—	—	—	—
Deng Mingran	—	—	—	—	—
	—	—	—	—	—
	—	457	920	27	1,404

During the years ended 31 December 2004 and 2005, no emoluments were paid by the Group to any of the persons who are the directors or supervisors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. None of the persons who are the directors or supervisors of the Company waived or agreed to waive any emolument during the year.

There was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2004: five) directors and supervisors, details of whose remuneration are set out in note 8 above. The details of the remuneration of the remaining two (2004: nil) non-director and non-supervisor, highest paid employees for the year are as follows:

	Group	
	2005	2004
	RMB thousand	RMB thousand
Salaries, allowances and benefits in kind	**520**	—
Bonuses	**563**	—
Pension scheme costs	**17**	—
	1,100	—

The number of these non-director and non-supervisor, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2005	2004
RMB nil–RMB200,000	**—**	—
RMB200,001–RMB400,000	**—**	—
RMB400,001–RMB600,000	**2**	—
	2	—

During the year, no emoluments were paid by the Group to any of these non-director and non-supervisor, highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

10. TAXATION

	Group 2005 RMB million	2004 RMB million
Current income tax	**170**	241
Deferred income tax	**304**	67
Income tax charge for the year	**474**	308

(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 authorization 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.

10. TAXATION (Continued)

(b) 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.

(c) Deferred income tax

As at 31 December 2004 and 2005, the Company, its subsidiaries and certain of its jointly-controlled entities had aggregate tax losses of RMB2,801 million, and RMB1,654 million, respectively, which are available for offsetting against their respective taxable profits for the following five years after the year in which the losses arose. Deferred income tax assets have been recognised at the end of each year in respect of these losses to the extent of tax losses expected to be utilised. In addition, deferred income tax assets have been recognised at the end of each year in respect of temporary differences relating to certain future deductible expenses for the purpose of corporate income tax arising from the impairment of various assets.

At the end of the year, deferred income tax liabilities were mainly recognised for taxes that would be payable on the unremitted earnings of certain of the Company's subsidiaries, jointly-controlled entities or associates.

10. TAXATION (Continued)

(c) Deferred income tax (Continued)

A reconciliation of the income tax expense applicable to profit before tax at the statutory income tax rate for the country in which the Company and its subsidiaries are domiciled to the tax expense at the Group's effective income tax rate is as follows:

	Group			
	2005		2004	
	RMB million	**%**	RMB million	%
Profit before tax	**2,221**		3,174	
At the PRC statutory corporate income tax rate of 33%	**733**	**33.0**	1,047	33.0
Tax concessions and lower tax rates for specific provinces or locations	**(248)**	**(11.1)**	(489)	(15.4)
Income not subject to tax	**(88)**	**(4.0)**	(330)	(10.4)
Expenses not deductible for tax	**83**	**3.7**	99	3.1
Others	**(6)**	**(0.3)**	(19)	(0.6)
Tax charge at the Group's effective rate	**474**	**21.3**	308	9.7

10. TAXATION (Continued)

(c) Deferred income tax (Continued)

The Group's and the Company's deferred income tax is analysed as follows:

Group

	At 31 December		Year ended 31 December	
	2005	2004	**2005**	2004
	RMB million	RMB million	**RMB million**	RMB million
Deferred income tax liabilities				
Provision for distributable profits of subsidiaries, jointly-controlled entities and associates that are taxable when paid	**(605)**	(405)	**200**	(97)
Arising from acquisition of a jointly-controlled entity	**(14)**	—	**—**	—
Others	**(60)**	(13)	**47**	—
Gross deferred income tax liabilities	**(679)**	(418)		
Deferred income tax assets				
Losses available for offsetting against future taxable income	**85**	174	**89**	214
Impairment of property, plant and equipment	**23**	19	**(4)**	(7)
Others	**80**	52	**(28)**	(43)
Gross deferred income tax assets	**188**	245		
Deferred income tax charge			**304**	67
Net deferred income tax liabilities	**(564)**	(244)		
Net deferred income tax assets	**73**	71		

10. TAXATION (Continued)

(c) Deferred income tax (Continued)

Company

	At 31 December	
	2005	2004
	RMB million	RMB million
Deferred income tax liabilities		
Provision for distributable profits of subsidiaries, jointly-controlled entities and associates that are taxable when paid	**(605)**	(405)
Gross deferred income tax liabilities	**(605)**	(405)
Deferred income tax assets		
Losses available for offsetting against future taxable income	**55**	174
Gross deferred income tax assets	**55**	174
Net deferred income tax liabilities	**(550)**	(231)
Net deferred income tax assets	**—**	—

11. PROFIT FOR THE YEAR ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT

The profit for the year attributable to the equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company was RMB227 million (2004: RMB2,946 million) (note 30).

12. DIVIDEND

		Group	
		2005	2004
		RMB	RMB
	Note	**million**	million
Dividend of RMB23.09 cents (2004: nil) per ordinary share	(a)	**1,390**	—

(a) 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.

(b) In accordance with the articles of association of the Company, the net profit after tax of the Company for the purpose of profit distribution will be deemed to be the lesser of (i) the net profit determined in accordance with PRC GAAP and (ii) the net profit determined in accordance with IFRSs. Under the PRC Company Law and the Company's articles of association, net profit after tax can only be distributed as dividends after an allowance has been made for the following:

(i) Making up prior years' cumulative losses, if any.

(ii) Allocations to the statutory common reserve fund of at least 10% of after-tax profit, until the fund aggregates 50% of the Company's share capital. For the purpose of calculating the transfer to reserves, the profit after tax shall be the amount determined under PRC GAAP. The transfer to this reserve must be made before any distribution of dividends to shareholders.

The statutory common reserve fund can be used to offset previous years' losses, if any, and part of the statutory common reserve fund can be capitalised as the Company's share capital provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the share capital of the Company.

12. DIVIDEND (Continued)

(iii) Allocations of 5% to 10% of after-tax profit, as determined under PRC GAAP, to the Company's statutory public welfare fund, which is established for the purpose of providing collective welfare benefits to the Company's employees such as the construction of dormitories, canteens and other staff welfare facilities. The fund forms part of the shareholders' equity as individual employees can only use these facilities, while the title of such facilities is held by the Company. The transfer to this fund must be made before any distribution of dividends to shareholders.

(iv) Allocations to the discretionary common reserve if approved by the shareholders.

The above reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

For dividend distribution purposes, the amount that the Company's subsidiaries and jointly-controlled entities can legally distribute by way of a dividend is determined by reference to the profits as reflected in their financial statements prepared in accordance with PRC GAAP. These profits may differ from those dealt with in the financial statements, which are prepared in accordance with IFRSs.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on:

	2005 RMB million	2004 RMB million
Earnings:		
Profit for the year attributable to ordinary equity holders of the parent	**1,601**	2,598

	Number of shares	
	million	million
Shares:		
Weighted average number of shares in issue during the year	**6,192**	9,154

The Company's weighted average number of shares in issue used in the basic earning 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 financial statements) . Further details of the Reorganisation are set out in note 1 to the financial statements.

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

Notes to Financial Statements

31 December 2005

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB million	Plant and equipment RMB million	Construction in progress RMB million	Total RMB million
31 December 2005				
At 31 December 2004 and 1 January 2005:				
Cost	791	16,998	1,462	19,251
Accumulated depreciation and impairment	(285)	(6,997)	(44)	(7,326)
Net carrying amount	506	10,001	1,418	11,925
At 1 January 2005, net of accumulated depreciation and impairment	506	10,001	1,418	11,925
Additions	114	294	3,687	4,095
Acquisition of a jointly-controlled entity (note 18(a))	36	119	5	160
Acquisition of additional equity interests in a jointly-controlled entity (note 18(b))	2	50	3	55
Disposals	(21)	(322)	(138)	(481)
Reclassifications	43	1,809	(1,852)	—
Impairment	—	(39)	5	(34)
Depreciation provided during the year	(34)	(1,272)	—	(1,306)
At 31 December 2005, net of accumulated depreciation and impairment	646	10,640	3,128	14,414
At 31 December 2005:				
Cost	966	18,819	3,167	22,952
Accumulated depreciation and impairment	(320)	(8,179)	(39)	(8,538)
Net carrying amount	646	10,640	3,128	14,414

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group

	Buildings RMB million	Plant and equipment RMB million	Construction in progress RMB million	Total RMB million
31 December 2004				
At 1 January 2004:				
Cost	1,040	13,744	1,131	15,915
Accumulated depreciation and impairment	(335)	(5,709)	(44)	(6,088)
Net carrying amount	705	8,035	1,087	9,827
At 1 January 2004, net of accumulated depreciation and impairment	705	8,035	1,087	9,827
Additions	31	453	2,518	3,002
Acquisition of additional equity interests in a jointly-controlled entity (note 18(b))	24	1,292	209	1,525
Disposals	(29)	(149)	(277)	(455)
Disposals to a jointly-controlled entity attributable to a joint venture partner (note 17)	(13)	(742)	(163)	(918)
Reclassifications	(167)	2,123	(1,956)	—
Impairment	(12)	(14)	—	(26)
Depreciation provided during the year	(33)	(997)	—	(1,030)
At 31 December 2004, net of accumulated depreciation and impairment	506	10,001	1,418	11,925
At 31 December 2004:				
Cost	791	16,998	1,462	19,251
Accumulated depreciation and impairment	(285)	(6,997)	(44)	(7,326)
Net carrying amount	506	10,001	1,418	11,925

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Buildings RMB million	Plant and equipment RMB million	Construction in progress RMB million	Total RMB million
31 December 2005				
At 31 December 2004 and 1 January 2005:				
Cost	101	395	74	570
Accumulated depreciation and impairment	(96)	(77)	—	(173)
Net carrying amount	5	318	74	397
At 1 January 2005, net of accumulated depreciation and impairment	5	318	74	397
Additions	69	3	109	181
Disposals	(7)	(57)	(1)	(65)
Reclassifications	—	42	(42)	—
Depreciation provided during the year	(6)	(28)	—	(34)
At 31 December 2005, net of accumulated depreciation and impairment	61	278	140	479
At 31 December 2005:				
Cost	162	374	140	676
Accumulated depreciation and impairment	(101)	(96)	—	(197)
Net carrying amount	61	278	140	479

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Buildings RMB million	Plant and equipment RMB million	Construction in progress RMB million	Total RMB million
31 December 2004				
At 1 January 2004:				
Cost	166	362	15	543
Accumulated depreciation and impairment	(137)	(68)	—	(205)
Net carrying amount	29	294	15	338
At 1 January 2004, net of accumulated depreciation and impairment	29	294	15	338
Additions	5	39	69	113
Disposals	(23)	(9)	—	(32)
Reclassifications	—	10	(10)	—
Depreciation provided during the year	(6)	(16)	—	(22)
At 31 December 2004, net of accumulated depreciation and impairment	5	318	74	397
At 31 December 2004:				
Cost	101	395	74	570
Accumulated depreciation and impairment	(96)	(77)	—	(173)
Net carrying amount	5	318	74	397

In 2004, the directors considered it appropriate to reclassify certain machinery and equipment relating to the production premises completed in 2003 from buildings to plant and equipment in order to better reflect the nature of these assets.

The impairment of the property, plant and equipment of the Company, its subsidiaries and its jointly-controlled entities was mainly related to the full provision for idle production facilities, which were, in the opinion of the directors, without significant resale value.

The details of the above property, plant and equipment pledged to secure general banking facilities granted to the Group and its jointly-controlled entities are set out in note 31 below.

15. INTANGIBLE ASSETS

	Group 2005 RMB million	2004 RMB million
Cost:		
At beginning of year	**896**	431
Additions	**226**	290
Acquisition of additional equity interests in a jointly-controlled entity (note 18(b))	**—**	225
Disposal to a jointly-controlled entity attributable to a joint venture partner (note 17)	**—**	(44)
Disposals	**(8)**	(6)
At end of year	**1,114**	896
Accumulated amortisation:		
At beginning of year	**277**	138
Amortisation	**112**	83
Acquisition of additional equity interests in a jointly-controlled entity (note 18(b))	**—**	76
Disposal to a jointly-controlled entity attributable to a joint venture partner (note 17)	**—**	(14)
Disposals	**—**	(6)
At end of year	**389**	277
Net book value:		
At beginning of year	**619**	293
At end of year	**725**	619

16. GOODWILL

	Group	
	2005	2004
	RMB	RMB
	million	million
At beginning of year	**277**	—
Arising from acquisition of additional equity interests in a jointly-controlled entity (note 18(b))	**—**	277
Arising from acquisition of a jointly-controlled entity (note 18(a))	**157**	—
At end of year	**434**	277

The recoverable amount of goodwill has been determined based on value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by management. The discount rate applied to cash flow projections is 5%. No growth rate has been projected beyond five-year period.

17. INVESTMENTS IN SUBSIDIARIES

Company

	2005	2004
	RMB	RMB
	million	million
Unlisted investments, at cost	**140**	140

17. INVESTMENTS IN SUBSIDIARIES (Continued)

Company (Continued)

Particulars of the principal subsidiaries as at 31 December 2005 were as follows:

Name	Place of establishment and operations	Paid-up and registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
China Dongfeng Motor Industry Import and Export Co., Ltd.	PRC	RMB100,000,000	95.0	2.6	Marketing and sale of automobiles
Shanghai Dongfeng Motor Industry Import and Export Co., Ltd.	PRC	RMB30,000,000	—	97.6	Marketing and sale of automobiles

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

17. INVESTMENTS IN SUBSIDIARIES (Continued)

Company (Continued)

During 2004, the Group had the following significant changes in its holdings of subsidiaries:

Injection of certain businesses and investments as capital contributions into a jointly-controlled entity

In February and July 2004, the Company further injected certain of its assets into Dongfeng Motor Co., Ltd. as a further capital contribution. Dongfeng Motor Co., Ltd. was established in 2003 and each of the Company and its Japanese joint venture partner owned an equity interest of 50% in Dongfeng Motor Co., Ltd. since its establishment. The assets injected by the Company into Dongfeng Motor Co., Ltd. during 2004 mainly included, among others, cash of RMB115 million and the following investments (the "Investments"):

- a 70% equity interest in Dongfeng Automobile Co., Ltd.;
- a 75% equity interest in Dongfeng Electronic Technology Co., Ltd.;
- a 98.78% equity interest in Xiangfan Dongfeng Motor Electronical Equipment Co., Ltd.; and
- a 40% equity interest in Dongfeng Motor Finance Co., Ltd.

Meanwhile, the Japanese joint venture partner also contributed cash in an aggregate amount of RMB4,748 million to Dongfeng Motor Co., Ltd. as a corresponding capital contribution amount. Prior to the respective injections in 2004, the aggregate revenue and profit of the Investments contributed to the Group's revenue and profit attributable to the equity holders of the parent were RMB3,048 million and RMB188 million, respectively. As a result of the Company's injection of the aforesaid assets into Dongfeng Motor Co., Ltd., the Group's equity interests in the Investments were diluted, resulting in a deemed disposal gain of RMB852 million recognised in 2004.

17. INVESTMENTS IN SUBSIDIARIES (Continued)

Company (Continued)

Details of the carrying values of the assets and liabilities of the Group injected into Dongfeng Motor Co., Ltd. attributable to the Japanese joint venture partner are as follows:

	2004 RMB million
Property, plant and equipment	918
Lease prepayments	28
Intangible assets	30
Investments in associates	89
Available-for-sale financial assets	32
Other long term assets	25
Deferred income tax assets	3
Inventories	404
Trade and bills receivables	960
Prepayment, deposits and other receivables	281
Other financial assets	211
Cash and cash equivalents	1,502
Trade and bills payables	(1,169)
Other payables and accruals	(616)
Interest-bearing borrowings	(408)
Income tax payable	(31)
Provisions	(21)
Other long-term liabilities	(1)
Minority interests	(715)
Assets injected into Dongfeng Motor Co., Ltd. attributable to the Japanese joint venture partner	1,522
The Group's share of cash injected by the Japanese joint venture partner	2,374
Gain on dilution of interests in certain businesses and investments, net	852
	4,748
Net cash inflow arising on the aforesaid injections by the Company is as follows:	
Net cash injected into Dongfeng Motor Co., Ltd. attributable to the Japanese joint venture partner	(1,502)
Cash acquired from the Japanese joint venture partner	2,374
Net cash inflow	872

18. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

Company

	2005 RMB million	2004 RMB million
Unlisted investments, at cost	**13,037**	12,496

Particulars of the principal jointly-controlled entities as at 31 December 2005 were as follows:

Name	Place of establishment and operations	Paid-up and registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Dongfeng Honda Engine Co., Ltd.#	PRC	US$60,060,000	50.0	—	Manufacture and sale of automotive parts and components
Dongfeng Honda Auto Parts Co., Ltd.#	PRC	US$37,500,000	44.0	—	Manufacture and sale of automotive parts and components
Dongfeng Motor Co., Ltd.#	PRC	RMB16,700,000,000	50.0	—	Manufacture and sale of automobiles, automotive parts and components
Dongfeng Honda Automobile Co., Ltd.#	PRC	US$200,000,000	50.0	—	Manufacture and sale of automobiles, automotive parts and components

18. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Company (Continued)

Name	Place of establishment and operations	Paid-up and registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Dongfeng Peugeot Citroën Automobiles Company Ltd.#	PRC	RMB7,000,000,000	50.0	—	Manufacture and sale of automobiles, automotive parts and components
Dongfeng Nissan Diesel Motor Co., Ltd.#	PRC	RMB289,900,700	50.0	—	Manufacture and sale of automobiles, automotive parts and components
Dongfeng Motor Finance Co., Ltd.#	PRC	RMB558,770,352	20.0	27.5	Provision of finance services
Dongfeng Automobile Co., Ltd.##	PRC	RMB2,000,000,000	—	35	Manufacture and sale of automobiles, automotive parts and components
Dongfeng Electronics Technology Co., Ltd.##	PRC	RMB313,560,000	—	37.5	Manufacture and sale of automotive parts and components
Dongfeng Cummins Engines Co., Ltd.#	PRC	US$100,620,000	—	17.5	Manufacture and sale of automotive parts and components

18. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Company (Continued)

Name	Place of establishment and operations	Paid-up and registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Guangzhou Aeolus Automobile Co., Ltd.#	PRC	RMB520,000,000	—	30	Manufacture and sale of automobiles, automotive parts and components
Aeolus Xiangfan Motor Co., Ltd.#	PRC	RMB826,000,000	—	48.2	Manufacture and sale of automotive parts and components
Aeolus Automobile Co., Ltd.#	PRC	RMB173,350,000	—	31.5	Manufacture and sale of automobiles, automotive parts and components
Zhengzhou Nissan Automobile Co., Ltd.#	PRC	RMB250,000,000	—	17.9	Manufacture and sale of automobiles

\# Sino-foreign equity joint ventures

\## Joint stock limited liability companies

The above table lists the jointly-controlled entities of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other jointly-controlled entities would, in the opinion of the directors, result in particulars of excessive length.

Notes to Financial Statements

18. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Company (Continued)

The aggregate amounts of the assets, liabilities, revenue, expenses and minority interests of the Group's jointly-controlled entities attributable to the Group are as follows:

	2005 RMB million	2004 RMB million
Non-current assets	**15,802**	13,151
Current assets	**20,144**	18,529
Non-current liabilities	**(2,199)**	(2,480)
Current liabilities	**(17,204)**	(14,613)
Minority interests	**(2,251)**	(2,070)
Net assets	**14,292**	12,517
Total revenue	**41,281**	31,344
Total expenses	**(39,341)**	(29,272)
Minority interests	**(155)**	(185)
Profit attributable to equity holders of the parent	**1,785**	1,887

18. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Company (Continued)

During the years, the Group had the following significant changes in its holdings of jointly-controlled entities:

(a) *Acquisition of a jointly-controlled entity*

In March 2005, Dongfeng Automobile Co., Ltd., a 70%-owned subsidiary of Dongfeng Motor Co., Ltd., acquired 35% and 16% equity interests in Zhengzhou Nissan Automobile Co., Ltd. ("Zhengzhou Nissan") from CITIC Automobile Co., Ltd. and Zhengzhou Light Vehicle Manufacturing Plant, for a cash consideration of RMB241.8 million and RMB110.6 million, respectively.

Upon completion of these acquisitions, Dongfeng Automobile Co., Ltd. had a 51% equity interest in Zhengzhou Nissan which was thereafter accounted for as a jointly-controlled entity of Dongfeng Automobile Co., Ltd.

Since the date of acquisition, Zhengzhou Nissan had contributed a profit of RMB15 million to the Group's profit attributable to equity holders of the parent in 2005.

Had the aforesaid acquisition by Dongfeng Automobile Co., Ltd. taken place alone at the beginning of 2005, the Group's profit attributable to the equity holders of the parent and the revenue of the Group for the year would have been RMB1,600 million and RMB41,820 million, respectively.

18. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Company (Continued)

(a) ***Acquisition of a jointly-controlled entity*** (Continued)

The Group's share of the fair values of the identified assets and liabilities of Zhengzhou Nissan acquired in 2005 is as follows:

	2005 **RMB million**
Property, plant and equipment	**160**
Lease prepayments	**13**
Other long term assets	**12**
Inventories	**144**
Trade and bills receivables	**119**
Prepayment, deposits and other receivables	**25**
Cash and cash equivalents	**154**
Trade and bills payables	**(119)**
Other payables and accruals	**(59)**
Income tax payable	**(4)**
Interest-bearing borrowings	**(412)**
Deferred income tax liabilities	**(14)**
Fair value of net assets acquired	**19**
Goodwill arising on acquisition	**157**
	176
Consideration:	
Cash consideration	**176**
Net cash outflow arising on acquisition is as follows:	
Net cash acquired from the jointly-controlled entity	**154**
Cash paid	**(176)**
Net cash outflow	**(22)**

18. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Company (Continued)

(a) ***Acquisition of a jointly-controlled entity*** (Continued)

Included in the goodwill of RMB157 million recognised above are certain intangible assets of Zhenghou Nissan that cannot be individually separated and reliably measured due to their nature. In the opinion of the directors, assets included in this balance consist of customer loyalty, research activities of internal projects and voting power in the board of Zhengzhou Nissan, and they are not separable and therefore does not meet the criteria for recognition as an intangible asset under IAS 38.

(b) ***Acquisitions of additional equity interests in jointly-controlled entities***

(1) *Dongfeng Peugeot Citroën Automobiles Company Limited ("DPCA")*

(i) In January 2004, the Company and one of its joint venture partners injected cash amounting to RMB188 million and RMB312 million, respectively, into DPCA to increase its registered capital while the other joint venture partners' equity interests therein were diluted. As a result of the Company's cash injection, its share of paid-up registered capital of DPCA increased from 31.51% to 31.95%

(ii) In September and November 2004, the Company acquired an aggregate additional 18.05% equity interest in DPCA from certain joint venture partners for a total cash consideration of RMB1,263.8 million, of which RMB540 million is payable to these joint venture partners by six equal biannual instalments until 20 November 2007. Since then, the Company has had a 50% equity interest in DPCA.

Since the date of acquisition, DPCA had contributed a loss of RMB18 million to the Group's profit attributable to equity holders of the parent in 2004.

Had the aforesaid acquisition by the Company taken place alone at the beginning of 2004, the Group's profit attributable to equity holders of the parent and the revenue of the Group for the year would have been RMB2,514 million and RMB34,000 million, respectively.

18. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Company (Continued)

(b) ***Acquisitions of additional equity interests in jointly-controlled entities*** (Continued)

(2) *Dongfeng Bus Chassis Co., Ltd. ("DBC")*

Pursuant to the amendments to the articles of DBC, a then 51.63%-owned jointly-controlled entity of Dongfeng Motor Co., Ltd., on 1 January 2005, Dongfeng Motor Co., Ltd. obtained unilateral control over DBC. Since then, DBC became a 51.63%-owned subsidiary of Dongfeng Motor Co., Ltd.

(3) *Dongfeng Motor Finance Co., Ltd. ("DMF")*

In May 2005, the Company and Dongfeng Motor Co., Ltd. injected cash of RMB35 million and RMB170 million, respectively, into DMF to increase its registered capital while the other joint venture partner's equity interest therein was diluted. As a result of the aforesaid cash injections, the Company's share of paid-up registered capital of DMF remained at 20% while Dongfeng Motor Co., Ltd.'s share of paid-up registered capital thereof increased from 40% to 55%. The equity interest in DMF attributable to the Group increased from 40% to 47.5% since then.

Since the date of acquisition, DMF had contributed an immaterial additional profit to the Group's profit attributable to equity holders of the parent in 2005.

Had the aforesaid acquisition by Dongfeng Motor Co., Ltd. taken place alone at the beginning of 2005, the Group's profit attributable to equity holders of the parent and the revenue of the Group for the year would have been RMB1,606 million and RMB41,735 million, respectively.

18. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Company (Continued)

(b) ***Acquisitions of additional equity interests in jointly-controlled entities*** (Continued)

(4) *Dongfeng Honda Auto Parts Co., Ltd. ("DHAP")*

In June 2005, the Company acquired an additional 9% equity interest in DHAP from certain joint venture partners for total cash consideration of RMB45 million, and the Company's equity interest therein increased from 35% to 44%.

Since the date of acquisition, DHAP had contributed RMB7 million to the Group's profit attributable to equity holders of the parent in 2005.

Had the aforesaid acquisition by the Company taken place alone at the beginning of 2005, the Group's profit attributable to equity holders of the parent and the revenue of the Group for the year would have been RMB1,607 million and RMB41,767 million, respectively.

18. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Company (Continued)

(b) ***Acquisitions of additional equity interests in jointly-controlled entities*** (Continued)

(4) *Dongfeng Honda Auto Parts Co., Ltd. ("DHAP")* (Continued)

The fair values of additional identified assets and liabilities of DPCA, DBC, DMF and DHAP shared by the Group at the respective dates of acquisitions are summarised as follows:

	2005 RMB million	2004 RMB million
Property, plant and equipment	**55**	1,525
Lease prepayments	**1**	33
Intangible assets	**—**	149
Investment in an associate	**—**	2
Other long term assets	**18**	46
Inventories	**32**	731
Trade and bills receivables	**50**	152
Prepayment, deposits and other receivables	**77**	63
Cash and cash equivalents	**138**	257
Trade and bills payables	**(49)**	(420)
Other payables and accruals	**(26)**	(173)
Income tax payable	**(7)**	—
Interest-bearing borrowings	**(112)**	(1,168)
Provisions	**(1)**	(17)
Deferred income tax liabilities	**—**	(5)
Minority interests	**(11)**	—
Fair value of net assets acquired	**165**	1,175
Goodwill arising on acquisition	**—**	277
	165	1,452
Consideration:		
Cash consideration	**165**	1,452

18. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Company (Continued)

(b) ***Acquisitions of additional equity interests in jointly-controlled entities*** (Continued)

(4) *Dongfeng Honda Auto Parts Co., Ltd. ("DHAP")* (Continued)

	2005 RMB million	2004 RMB million
Net cash outflow arising on acquisition is as follows:		
Net cash acquired from the jointly-controlled entities	**138**	257
Cash paid	**(165)**	(912)
Net cash outflow	**(27)**	(655)

Included in the goodwill of RMB277 million recognised above during 2004 are certain intangible assets of DPCA that cannot be individually separated and reliably measured due to their nature. In the opinion of the directors, assets included in this balance consist of customer loyalty, research activities of internal projects and additional voting power in the board of DPCA, and they are not separable and therefore does not meet the criteria for recognition as an intangible asset under IAS 38.

19. INVESTMENTS IN ASSOCIATES

The Group's investments in associates represent its share of net assets of associates.

The Company's investments in associates are analysed as follows:

	2005 RMB million	2004 RMB million
Unlisted investments, at cost	**73**	53

Particulars of the principal associates as at 31 December 2005 were as follows:

Name	Place of establishment and operations	Paid-up and registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Shenzhen Hangsheng Electronics Co., Ltd.##	PRC	RMB128,000,000	—	13.1	Manufacture and sale of automotive parts and components
Zhanjiang Deli Carburetor Co., Ltd.#	PRC	US$21,250,000	—	12.0	Manufacture and sale of automotive parts and components

A sino-foreign equity joint ventures

A joint stock limited liability companies

19. INVESTMENTS IN ASSOCIATES (Continued)

The aggregate amounts of the assets, liabilities, revenue, expenses and minority interests of the associates of the Group and its jointly-controlled entities attributable to the Group are as follows:

	2005 RMB million	2004 RMB million
Non-current assets	**287**	194
Current assets	**396**	331
Non-current liabilities	**(39)**	(41)
Current liabilities	**(272)**	(189)
Minority interests	**—**	(2)
Net assets	**372**	293
Total revenue	**587**	433
Total expenses	**(561)**	(396)
Profit attributable to equity holders of the parent	**26**	37

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		**Company**	
	2005 RMB million	2004 RMB million	**2005 RMB million**	2004 RMB million
Unlisted investments, at fair value	**163**	194	**68**	68

21. LOAN TO A JOINTLY-CONTROLLED ENTITY

	Group		Company	
	2005	2004	**2005**	2004
	RMB million	RMB million	**RMB million**	RMB million
Loan to a jointly-controlled entity	**250**	—	**500**	—
Less: Current portion included in amounts due from jointly-controlled entities	**(50)**	—	**(100)**	—
Non-current portion	**200**	—	**400**	—

The loan to a jointly-controlled entity is unsecured and bears an interest rate of 4.65% per annum.

22. INVENTORIES

	Group		Company	
	2005	2004	**2005**	2004
	RMB million	RMB million	**RMB million**	RMB million
Raw materials	**2,784**	3,373	**12**	8
Work-in-progress	**599**	471	**18**	14
Finished goods	**2,868**	2,744	**25**	19
	6,251	6,588	**55**	41

23. TRADE RECEIVABLES

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.

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

	Group		**Company**	
	2005	2004	**2005**	2004
	RMB	RMB	**RMB**	RMB
	million	million	**million**	million
Within three months	**1,171**	860	**171**	51
More than three months but within one year	**208**	171	**7**	7
More than one year	**57**	37	**4**	—
	1,436	1,068	**182**	58

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23. TRADE RECEIVABLES (Continued)

Included in the above balances are the following balances with related parties:

	Group		Company	
	2005	2004	**2005**	2004
	RMB	RMB	**RMB**	RMB
	million	million	**million**	million
Subsidiaries	**—**	—	**4**	2
DFM	**—**	1	**—**	—
A joint venture partner	**13**	1	**—**	—
Associates	**18**	5	**—**	—
	31	7	**4**	2

The above balances are unsecured, interest-free and have no fixed terms of repayment.

24. BILLS RECEIVABLE

The maturity profiles of the bills receivable of the Group and the Company as at each of the balance sheet dates are as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB	RMB	**RMB**	RMB
	million	million	**million**	million
Within three months	**2,386**	2,372	**1**	31
More than three months but within one year	**1,156**	1,310	**1**	3
More than one year	**—**	13	**—**	—
	3,542	3,695	**2**	34

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in the prepayments, deposits and other receivables are the following balances with related parties:

	Group		Company	
	2005	2004	**2005**	2004
	RMB million	RMB million	**RMB million**	RMB million
DFM	**3**	9	**2**	1
Joint venture partners and their holding companies	**11**	7	**—**	—
Associates	**27**	27	**6**	—
Fellow subsidiaries	**5**	—	**5**	—
A minority shareholder of a jointly-controlled entity's subsidiary	**38**	—	**—**	—
	84	43	**13**	1

The above balances are unsecured, interest-free and have no fixed terms of repayment.

26. BALANCES WITH JOINTLY-CONTROLLED ENTITIES

The Group's balances with its jointly-controlled entities are unsecured, have no fixed terms of repayment and interest-free except for the loan to a jointly-controlled entity as disclosed in note 21.

The Company's balances with its jointly-controlled entities are unsecured, have no fixed terms of repayment and interest-free except for the loan to a jointly-controlled entity as disclosed in note 21.

27. OTHER FINANCIAL ASSETS

	Group	
	2005	2004
	RMB million	RMB million
Investments listed in the PRC, at fair value	**35**	50
Debt securities listed in the PRC, at fair value	**74**	167
	109	217

28. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	2004	**2005**	2004
	RMB million	RMB million	**RMB million**	RMB million
Cash and bank balances	**5,694**	4,656	**762**	994
Time deposits	**2,118**	1,396	**—**	78
	7,812	6,052	**762**	1,072
Less: Pledged bank balances and time deposits for securing general banking facilities	**(423)**	(509)	**—**	(180)
Cash and cash equivalents in the consolidated balance sheet	**7,389**	5,543	**762**	892
Less: Non-pledged time deposits with original maturity of three months or more when acquired	**(1,803)**	(1,065)	**—**	—
Cash and cash equivalents in the consolidated cash flow statement	**5,586**	4,478	**762**	892

Cash at banks earns interest at floating rates based on daily bank deposits rates. Short term time deposits are made for varying periods of between one day and one year depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

29. SHARE CAPITAL

	2005 RMB million	2004 RMB million
Registered, issued and fully paid:		
— 5,760,388,000 (2004: 6,020,000,000) Domestic Shares of RMB1.00 each	**5,760**	6,020
— 2,855,732,000 (2004: nil) H shares of RMB1.00 each	**2,856**	—
	8,616	6,020

A summary of the movements in the Company's registered capital is as follows:

	Notes	Registered capital RMB million	Domestic Shares of RMB1.00 each RMB million	H shares of RMB1.00 each RMB million	Total RMB million
At 1 January 2004		10,763	—	—	10,763
Capital reduction	(a)	(2,791)	—	—	(2,791)
Repurchase of capital from AMCs in the Equity Repurchase Transaction	(b)	(4,613)	—	—	(4,613)
Capitalisation of other reserves as a result of the Reorganisation	(c)	(3,359)	6,020	—	2,661
At 31 December 2004 and 1 January 2005		—	6,020	—	6,020
Sales of Domestic Shares by the ultimate holding company and conversion into H shares upon listing	(d)	—	(226)	226	—
Issuance of new H shares upon listing	(d)	—	—	2,257	2,257
Sales of Domestic Shares by the ultimate holding company and conversion into H shares upon full exercise of the Over-allotment Option	(e)	—	(34)	34	—
Issuance of new H shares upon full exercise of the Over-allotment Option	(e)	—	—	339	339
At 31 December 2005		—	5,760	2,856	8,616

Notes to Financial Statements

31 December 2005

29. SHARE CAPITAL (Continued)

Notes:

(a) The Company's registered capital was reduced pursuant to the Assets Transfer Transaction.

(b) On 6 September 2004, the Company repurchased all of the equity interests held by AMCs, totalling 42.86% of its then registered capital, for RMB4,613.5 million at book values which is repayable to these AMCs in three instalments by 31 May 2005 in the Equity Repurchase Transaction.

(c) On 12 October 2004, the Company was restructured into a joint stock limited liability company with an initial registered capital of RMB6,020 million, which was determined with reference to the PRC GAAP audited net assets of the Relevant Business amounting to RMB10,633.5 million (net of the Transferred Assets) and after a reduction of capital repurchased by the Company from AMCs of RMB4,613.5 million in the Equity Repurchase Transaction.

The registered capital of RMB6,020 million was divided into 6,020,000,000 Domestic Shares of nominal value of RMB1.00 each, all of which are credited as fully paid-up capital.

(d) On 7 December 2005, the Company issued 2,483,250,000 H shares, consisting of 2,257,500,000 new H shares and 225,750,000 H shares converted from Domestic Shares, with a par value of RMB1.00 each, to the public by way of placement and offer at HK$1.60 (equivalent to approximately RMB1.67) each. The gross proceeds received from the issue of the 2,257,500,000 new H shares amounted to RMB3,759 million. Part of such proceeds of RMB2,257 million was recorded as share capital, and the remaining balance of such proceeds of RMB1,502 million was recorded as capital reserve. The net proceeds from the sale of 225,750,000 Domestic Shares of RMB342 million were payable to the National Council for Social Security Fund, and was recorded as a payable.

(e) On 13 December 2005, an additional 372,482,000 H shares, consisting of 338,620,000 new H shares and 33,862,000 H shares converted from Domestic Shares, with a par value of RMB1.00 each were issued to the public by way of placement at HK$1.60 (equivalent to approximately RMB1.67) each as a result of the full exercise of the Over-allotment Option. The gross proceeds received from the issue of the 338,620,000 new H shares amounted to RMB564 million. Part of such proceeds of RMB339 million was recorded as share capital, and the remaining balance of such proceeds of RMB225 million was recorded as capital reserve. The net proceeds from the sale of 33,862,000 Domestic shares of RMB54 million were payable to the National Council for Social Security Fund, and was recorded as a payable.

The H shares rank pari passu, in all material respects, with the Domestic Shares of the Company.

30. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 61 of the financial statements.

Company

		Deemed distribution RMB million	Capital reserve RMB million	Statutory reserves RMB million note (a)	Retained profits/ (accumulated losses) RMB million	Total RMB million
At 1 January 2004		(2,791)	—	785	593	(1,413)
Capital reduction		2,791	—	—	—	2,791
Capitalisation as a result of the Reorganisation		—	—	(785)	(1,876)	(2,661)
Profit for the year		—	—	—	2,946	2,946
Transfer to reserves		—	—	344	(344)	—
At 31 December 2004 and 1 January 2005		—	—	344	1,319	1,663
Issue of new H shares upon listing	29(d)	—	1,502	—	—	1,502
Issue of new H shares upon exercising of the Over-allotment Option	29(e)	—	225	—	—	225
Share issuing expenses		—	(364)	—	—	(364)
Profit for the year		—	—	—	227	227
Transfer to reserves		—	—	250	(250)	—
Dividend		—	—	—	(1,390)	(1,390)
At 31 December 2005		—	1,363	594	(94)	1,863

30. RESERVES (Continued)

(a) Statutory reserves

In accordance with the Company Law of the PRC, the Company and its subsidiaries, jointly-controlled entities and associates are required to allocate 10% and 5% to 10% of their profits after tax (determined under PRC GAAP) to the statutory surplus reserve (the "SSR") and the statutory public welfare fund (which are collectively referred to as "statutory reserves"), respectively. No allocation to the SSR is required after the balance of such reserve reaches 50% of the registered capital of the respective companies. Subject to certain restrictions set out in the Company Law of the PRC, part of the SSR may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

Pursuant to the relevant laws and regulations for sino-foreign joint venture enterprises and memorandum and articles of association of the relevant companies, the Group's sino-foreign jointly-controlled entities are also required to make appropriations of certain of their profits thereof to their enterprise expansion funds and reserve funds, which are restricted as to use.

(b) Distributable reserves

As set out in note 12 above, for dividend distribution purposes, the Company's distributable profit is based on the lower of after-tax profit as determined under PRC GAAP and IFRSs following its restructuring into a joint stock limited liability company on 12 October 2004. The amount that the Company's subsidiaries and its jointly-controlled entities can legally distribute by way of a dividend is determined by reference to their profits as reflected in their financial statements prepared in accordance with PRC GAAP. These profits may differ from those dealt with in these financial statements, which are prepared in accordance with IFRSs.

In accordance with the Company Law of the PRC, the net profit after transfers to the SSR and the statutory public welfare fund can be distributed as dividends by the companies comprising the Group as set out above.

Under relevant laws and other regulatory requirements, the net profit of the Group's sino-foreign jointly-controlled entities after transfers to enterprise expansion fund and reserve fund can be distributed as dividends by the Group's sino-foreign jointly-controlled entities.

As at 31 December 2005, the Company did not have any profit available for distribution.

31. INTEREST-BEARING BORROWINGS

	Effective interest rate (%)	Maturity	Group 2005 RMB million	Group 2004 RMB million	Company 2005 RMB million	Company 2004 RMB million
Current						
Bank loans — secured	1.69–7.74	2006	**212**	213	**—**	—
Bank loans — secured	LIBOR+1	2006	**43**	—	**—**	—
Bank loans — unsecured	2.19–5.85	2006	**3,307**	2,620	**2,240**	1,740
Bank loans — unsecured	1–LIBOR +2.28	2006	**1,382**	1,524	**—**	—
Other loans — unsecured	0.72–5.31	2006	**365**	46	**—**	—
			5,309	4,403	**2,240**	1,740
Non-current						
Bank loans — secured	2–6.64	2008–2023	**606**	800	**—**	—
Bank loans — unsecured	2.95–5.85	2007–2009	**1,447**	1,709	**500**	600
Bank loans — unsecured	1–LIBOR +2.28	2007–2027	**170**	218	**—**	—
Bank loans — unsecured	SEBR+0.625	2008	**2**	—	**—**	—
Other loans — unsecured	2.25	2007	**1**	—	**—**	—
			2,226	2,727	**500**	600
			7,535	7,130	**2,740**	2,340

In 2004, unsecured bank loans of the Group and the Company of RMB2,090 million and RMB600 million, respectively, were guaranteed by the current minority shareholder of a subsidiary of a jointly-controlled entity (previously the minority shareholders of subsidiaries) at nil consideration.

Notes to Financial Statements

31. INTEREST-BEARING BORROWINGS (Continued)

The above secured bank loans were secured by certain assets of the Group and its jointly-controlled entities. An analysis of the carrying values of these assets consolidated by the Group is as follows:

Group

	2005 RMB million	2004 RMB million
Property, plant and equipment	**642**	4,451
Intangible assets	**38**	376
Inventories	**125**	2,009
Time deposits and bank balances	**35**	509
Other assets	**115**	1,122
	955	8,467

The carrying value of property, plant and equipment, intangible assets, inventories, and time deposits and bank balances of the jointly-controlled entities proportionately consolidated by the Group has been included above. The other assets represent other long term assets, trade, bills and other receivables, prepayments and deposits of the jointly-controlled entities proportionately consolidated by the Group.

31. INTEREST-BEARING BORROWINGS (Continued)

The maturity profiles of the interest-bearing borrowings of the Group and the Company are as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB million	RMB million	**RMB million**	RMB million
Bank loans repayable:				
Within one year or on demand	**4,945**	4,357	**2,240**	1,740
In the second year	**424**	328	**—**	—
In the third to fifth years, inclusive	**1,255**	1,465	**500**	600
Beyond five years	**545**	934	**—**	—
	7,169	7,084	**2,740**	2,340
Other loans repayable:				
Within one year or on demand	**365**	46	**—**	—
In the second year	**1**	—	**—**	—
	366	46	**—**	—
	7,535	7,130	**2,740**	2,340

32. PROVISIONS

The Group's provisions are analysed as follows:

	Environmental restoration costs RMB million	Warranty expenses RMB million	Reorganisation expenses RMB million	Total RMB million
At 31 December 2005:				
Current portion	102	225	—	327
Non-current portion	—	—	205	205
	102	225	205	532
At 31 December 2004:				
Current portion	102	196	—	298
Non-current portion	—	—	215	215
	102	196	215	513

The movements of the above provisions are analysed as follows:

	Environmental restoration costs RMB million	Warranty expenses RMB million	Reorganisation expenses RMB million	Total RMB million
At 1 January 2004:	109	154	219	482
Acquisition of an additional equity interest in a jointly-controlled entity (note 18(b))	—	17	—	17
Arising during the year	—	120	—	120
Utilised	—	(81)	(4)	(85)
Disposal of a jointly-controlled entity attributable to a joint venture partner (note 17)	(7)	(14)	—	(21)
At 31 December 2004 and 1 January 2005	102	196	215	513
Acquisition of an additional equity interest in a jointly-controlled entity (note 18(b))	—	1	—	1
Arising during the year	—	250	—	250
Utilised	—	(222)	(10)	(232)
At 31 December 2005	102	225	205	532

32. PROVISIONS (Continued)

Environmental restoration costs

In accordance with the prevailing regulations in the PRC, the Group and its jointly-controlled entity are required to restore to the original condition of land on which their production plants are located. The directors have estimated and provided for the expected costs of the restoration of the land.

Warranty expenses

The Group and certain of its jointly-controlled entities provide warranties for certain automobile products and undertake to repair or replace items that fail to perform satisfactorily. The amount of provision for product warranties is estimated based on the sales volume and past experience of the level of repairs and returns. The estimation is reviewed on an ongoing basis and is revised when appropriate.

Reorganisation expenses

A provision for reorganisation expenses was recorded by a jointly-controlled entity in 2003 in connection with the reorganisation of its workforce. The reorganisation plan was drawn up and announced to the employees of the jointly-controlled entities in December 2003.

33. GOVERNMENT GRANTS

The Group's government grants are analysed as follows:

	2005 RMB million	2004 RMB million
Current portion	**18**	5
Long term portion	**67**	47
	85	52

33. GOVERNMENT GRANTS (Continued)

The movements of the above government grants are analysed as follows:

	RMB million
At 1 January 2004	—
Received during the year	172
Recognised as other income during the year (note 5(a))	(120)
At 31 December 2004 and 1 January 2005	52
Received during the year	464
Recognised as other income during the year (note 5(a))	(431)
At 31 December 2005	85

34. TRADE PAYABLES

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

	Group		Company	
	2005	2004	**2005**	2004
	RMB million	RMB million	**RMB million**	RMB million
Within three months	**5,098**	4,452	**11**	56
More than three months but within one year	**514**	505	**61**	—
More than one year	**145**	185	**6**	—
	5,757	5,142	**78**	56

34. TRADE PAYABLES (Continued)

Included in the above balances are the following balances with related parties:

	Group		Company	
	2005	2004	**2005**	2004
	RMB	RMB	**RMB**	RMB
	million	million	**million**	million
DFM	**6**	7	**2**	1
Joint venture partners and their holding companies	**523**	537	**—**	—
Associates	**65**	7	**10**	—
	594	551	**12**	1

The above balances are unsecured, interest-free and have no fixed terms of repayment.

35. BILLS PAYABLE

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

Group

	2005	2004
	RMB	RMB
	million	million
Within three months	**1,085**	633
More than three months but within six Months	**1,788**	1,676
More than six months	**—**	6
	2,873	2,315

36. OTHER PAYABLES AND ACCRUALS

Included in the other payables and accruals are the following balances with related parties:

	Group		Company	
	2005	2004	**2005**	2004
	RMB million	RMB million	**RMB million**	RMB million
DFM	**13**	1,545	**2**	1,533
Joint venture partners	**177**	49	**—**	—
A minority shareholder of a jointly-controlled entity's subsidiary	**2**	1	**—**	—
Associates	**3**	—	**—**	—
	195	1,595	**2**	1,533

The above balances are unsecured, interest-free and have no fixed terms of repayment.

37. COMMITMENTS

(a) Operating lease commitments as lessee

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

	2005	2004
	RMB million	RMB million
Within one year or on demand	**—**	3
After one year but not more than five years	**50**	—
More than five years	**835**	—
	885	3

37. COMMITMENTS (Continued)

(a) Operating lease commitments as lessee (Continued)

The Company had no future rental payables under non-cancellable operating leases at the balance sheet date.

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 RMB million	2004 RMB million
Within one year or on demand	**83**	86
After one year but not more than five years	**328**	272
More than five years	**485**	237
	896	595

37. COMMITMENTS (Continued)

(b) Commitments

In addition to the operating lease commitments detailed in note 37(a) above, the Group and the Company had the following commitments at the balance sheet date:

	Group		Company	
	2005	2004	**2005**	2004
	RMB million	RMB million	**RMB million**	RMB million
Contracted, but not provided for:				
Property, plant and equipment	**86**	144	**86**	144
Capital contribution to jointly-controlled entities	**—**	458	**—**	458
	86	602	**86**	602
Authorised, but not contracted for:				
Property, plant and equipment	**3**	—	**3**	—

37. COMMITMENTS (Continued)

(b) Commitments (Continued)

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

38. CONTINGENT LIABILITIES

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

	Group		Company	
	2005	2004	**2005**	2004
	RMB	RMB	**RMB**	RMB
	million	million	**million**	million
Guarantees given to banks in connection with facilities granted to the following parties at nil consideration:				
— Subsidiaries	**—**	—	**—**	60
— Jointly-controlled entities	**844**	65	**1,561**	30
— Fellow subsidiaries	**—**	189	**—**	189
	844	254	**1,561**	279

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
	RMB	RMB
	million	million
Guarantees given to banks in connection with facilities granted to the following parties at nil consideration:		
— Associates	**10**	23
— Others	**111**	—
	121	23

39. RELATED PARTY TRANSACTIONS

Transactions with the DFM group, the Group's jointly-controlled entities, associates, joint venture partners and their holding companies, and a minority shareholder of a jointly-controlled entity's subsidiary

During the year, in addition to those disclosed in notes 1(a) and (b), 6(a), (b) and (d), 8, 17, 18(b)(1)(i), 18(b)(3) and 38, the Group and its jointly-controlled entities had the following significant transactions with their related parties:

	Notes	**2005 RMB million**	2004 RMB million
Purchases of automotive parts/raw materials from:	(i)		
— DFM		**24**	17
— Fellow subsidiaries		**—**	186
— Joint venture partners and their holding companies		**15,705**	10,128
— Associates		**642**	768
— Jointly-controlled entities		**2,728**	2,598
— A minority shareholder of a jointly-controlled entity's subsidiary		**138**	276
		19,237	13,973
Purchases of automobiles from:	(i)		
— An associate		**16**	—
— Jointly-controlled entities		**1,082**	1,334
		1,098	1,334
Purchases of water, steam and electricity from DFM	(ii)	**759**	486

39. RELATED PARTY TRANSACTIONS (Continued)

	Notes	2005 RMB million	2004 RMB million
Purchases of property, plant and equipment from:	(i)		
— A holding company of a joint venture partner		**149**	450
— A minority shareholder of jointly-controlled entity's subsidiary		**2**	—
		151	450
Rental expenses to DFM	(i)	**107**	74
Purchases of services from	(i)		
— DFM		**14**	—
— A joint venture partner		**12**	—
— An associate		**9**	—
— A jointly-controlled entity		**7**	13
— A minority shareholder of subsidiary		**4**	—
		46	13
Purchases of technology know-how from joint venture partners and their holding companies	(i)	**1,728**	739

39. RELATED PARTY TRANSACTIONS (Continued)

	Notes	2005 RMB million	2004 RMB million
Sales of automotive parts/raw materials to:	(i)		
— DFM		**20**	94
— Fellow subsidiaries		**—**	2
— A joint venture partner		**39**	2
— An associate		**10**	—
— Jointly-controlled entities		**694**	1,941
— A minority shareholder of a jointly-controlled entity's subsidiary		**4**	—
		767	2,039
Sales of automobiles:	(i)		
— an assoicate		**96**	—
— jointly-controlled entities		**107**	375
		203	375
Provision of services to:	(i)		
— An associate		**14**	—
— Jointly-controlled entities		**15**	—
		29	—

Notes:

(i) These transactions were conducted in accordance with terms agreed between the Group and its jointly-controlled entities and their related parties.

(ii) This transaction was conducted according to the prices and conditions regulated by the PRC government.

40. FINANCIAL INSTRUMENTS

Financial assets of the Group and its jointly-controlled entities mainly include cash and cash equivalents, pledged assets, trade and bills receivables, other financial assets, deposits, and other receivables. Financial liabilities of the Group mainly include bank and other loans, trade and bills payables, and other payables.

The carrying amounts of the financial instruments of the Group and its jointly-controlled entities approximated to their fair values as at each of the balance sheet dates. Fair value estimates are made at a specific point in time and based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, other interest-bearing loans and 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.

The Group also enters into derivative transactions, including principally forward currency contracts. The purpose is to manage the currency risk arising from the Group's operations and its sources of finance. The impact of such derivative transactions on the Group is immaterial.

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 interest rate risk, foreign currency risk and credit risk. The directors meet periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group introduces conservative strategies on its risk management. The directors review and agree policies for managing each of these risks and they are summarised below:

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to its interest-bearing borrowings. The Group does not use derivative financial instruments to hedge its interest rate risk.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk

The businesses of the Group and its jointly-controlled entities are principally located in the PRC. While most of the transactions of the Group and its jointly-controlled entities are conducted in RMB, certain of their purchases and borrowings were denominated in other currencies including, amongst others, United States dollars ("USD"), European currency unit ("ECU") and Japanese Yens. Fluctuations of the exchange rates of RMB against foreign currencies can affect the Group's results of operations.

During the year, a jointly-controlled entity entered into certain foreign currency forward and swap contracts, which do not qualify for hedge accounting, to manage its risks associated foreign currency fluctuations. As at the balance sheet date, the jointly-controlled entity had committed to sell a total notional amount of approximately ECU64 million for the purchase of USD.

As at the balance sheet, the fair value of these foreign currency forward and swap contracts were insignificant.

Credit risk

The cash and bank balances of the Group and its jointly-controlled entities are mainly deposits with state-owned banks in the PRC.

The Group and its jointly-controlled entities have credit policies in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group and its jointly-controlled entities do not have a significant exposure to any individual customer.

The carrying amount of each financial asset included in the these financial statements represents the maximum exposure of the Group and its jointly-controlled entities to credit risk in relation to their financial assets. In addition, the guarantees given by the Group and its jointly-controlled entities to banks in favour of banking facilities granted to the Company's fellow subsidiaries, the associates of the Group and its jointly-controlled entities represent their other exposure to credit risk. The Group and its jointly-controlled entities have no other financial assets carrying significant exposure to credit risk and have no significant concentration of credit risk.

42. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to confirm with the current year's presentation.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 April 2006.

Four Year Financial Summary

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last four financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below.

	Year ended 31 December			
	2005 RMB million	2004 RMB million	2003 RMB million	2002 RMB million
RESULTS				
Continuing operations:				
Revenue — Sale of goods	**41,735**	32,737	36,556	40,412
Cost of sales	**(35,639)**	(26,952)	(28,326)	(30,619)
Gross profit	**6,096**	5,785	8,230	9,793
Other income	**1,007**	568	570	575
Gain on acquisition of subsidiaries and an associate	**—**	—	12	301
Gain on dilution of interests in certain businesses and investments, net	**—**	852	1,180	—
Selling and distribution costs	**(1,738)**	(1,384)	(1,247)	(1,234)
Administrative expenses	**(1,928)**	(1,793)	(1,999)	(2,712)
Other expenses, net	**(767)**	(654)	(1,606)	(915)
Finance costs	**(478)**	(242)	(402)	(539)
Share of profits and losses of associates	**29**	42	49	257
Profit before tax	**2,221**	3,174	4,787	5,526
Income tax expense	**(474)**	(308)	(211)	(876)
Profit for the year from continuing operations	**1,747**	2,866	4,576	4,650
Discontinued operations:				
Loss for the year from discontinued operations	**—**	—	(363)	(492)
Profit for the year	**1,747**	2,866	4,213	4,158

Four Year Financial Summary

	Year ended 31 December			
	2005	2004	2003	2002
	RMB million	RMB million	RMB million	RMB million
Attributable to:				
Equity holders of the parent	**1,601**	2,598	3,339	3,069
Minority interests	**146**	268	874	1,089
	1,747	2,866	4,213	4,158
ASSETS, LIABILITIES AND MINORITY INTERESTS				
Total assets	**37,980**	33,451	28,790	43,535
Total liabilities	**(23,646)**	(23,336)	(16,184)	(30,219)
Minority interests	**(2,127)**	(2,078)	(2,554)	(3,355)
	12,207	8,037	10,052	9,961

Corporate Information

REGISTERED NAME

Dongfeng Motor Group Company Limited

REGISTERED ADDRESS

No. 8 Car City Road North
Wuhan Economic and Technology
Development Zone
Wuhan
Hubei 430056
PRC

PRINCIPAL PLACE OF BUSINESS IN THE PRC

CITIC Bank Building
No. 747, Jianshe Avenue
Hankou, Wuhan
Hubei 430015
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

28/F., Three Pacific Place
1 Queen's Road East,
Hong Kong SAR

COMPANY WEBSITE

www.dfmg.com.cn

COMPANY SECRETARIES

Hu Xindong
Lo Yee Har Susan *(ACS, ACIS)*

QUALIFIED ACCOUNTANT

Chan Yuk Tong
(FCPA of HKICPA and CPA of CPA Australia)

COMPLIANCE ADVISER

China International Capital Corporation
(Hong Kong) Limited

AUDITORS

Ernst & Young

HONG KONG H SHARE REGISTRAR

Computershare Hong Kong Investor
Services Limited
Shops 1712–1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong SAR

PLACE OF LISTING

The Stock Exchange of Hong Kong
Limited

STOCK CODE

00489

Definitions

In this annual report, unless the context otherwise requires, the following terms shall have the meanings set out below.

"Asset Management Companies"	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
"Associates"	has the meaning ascribed thereto under the Listing Rules
"Company"	東風汽車集團股份有限公司 (Dongfeng Motor Group Company Limited), a joint stock limited company registered in the PRC on 12th October, 2004 in accordance with the laws of the PRC or where the context refers to any time prior to the date of incorporation, those entities and businesses which were contributed to and conducted by the Company upon its establishment
"Dongfeng Joint Venture Companies"	Jointly-controlled Entities in which the Company, its subsidiaries or Jointly-controlled Entities (including their respective subsidiaries and Jointly-controlled Entitles) have equity interests as at 31 December 2005 and "Dongfeng Joint Venture Company" shall be construed accordingly. Please refer to page 170 of this annual report for further information regarding the references made in this annual report in relation to the Dongfeng Joint Venture Companies, Dongfeng Motor Group and the Group
"Dongfeng Motor Corporation"	東風汽車公司 (Dongfeng Motor Corporation), a state-owned enterprise incorporated under the laws of the PRC
"Dongfeng Motor Group"	the Group, the Dongfeng Joint Venture Companies and their respective subsidiaries and associates. All information given in this annual report with respect to the Dongfeng Motor Group includes information of the Group and all such companies collectively, without regard to the ownership level of the members of the Group in such companies. Please refer to further page 170 of this annual report for further information regarding the references made in this annual report in relation to the Dongfeng Joint Venture Companies, Dongfeng Motor Group and the Group

Definitions

"Group"	the Company and its subsidiaries. Please refer to page 170 of this annual report for further information regarding the references made in this annual report in relation to the Dongfeng Joint Venture Companies, Dongfeng Motor Group and the Group
"Joint Venture Company"	a joint venture company is a company set up by contractual agreement, whereby joint venture parties undertake an economic activity. A joint venture company operates as a separate entity in which each party has an interest

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

A joint venture company is treated by a joint venture party as:

(a) a subsidiary, if the joint venture party has unilateral control, directly or indirectly, over the joint venture company;

(b) a jointly-controlled entity, if the joint venture party does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;

(c) an associate, if the joint venture party does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

(d) an investment, if the joint venture party holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company

Definitions

"Jointly-controlled Entity" or "JCE"	a jointly-controlled entity is a Joint Venture Company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity. A joint venture party's investments in its Jointly-controlled Entities can be accounted for by proportionate consolidation, which involves recognizing a proportionate share of the joint venture's assets, liabilities, income and expenses with similar items in the consolidated financial statements of the joint venture party on a line-by-line basis. When the profit sharing ratio is different to the joint venture party's equity interests in the Jointly-controlled Entities, the joint venture party's share of their assets, liabilities, income and expenses is determined based on the agreed profit sharing ratio. The results of Jointly-controlled Entities are included in the joint venture party's profit and loss account to the extent of dividends received and receivable. The joint venture party's investments in Jointly-controlled Entities are treated as long term assets and are stated at cost less impairment losses
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
"Parent Group"	Dongfeng Motor Corporation and its subsidiaries (excluding the Group)
"PRC" or "China"	the People's Republic of China. Except where the context requires, geographical references in this prospectus to the PRC or China exclude Hong Kong, Macau or Taiwan
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

In this annual report, unless otherwise specified, all references to revenues, profits and other financial information of the Group include those of the relevant Dongfeng Joint Venture Companies to the extent that such information has been proportionately consolidated or otherwise reflected in the financial information set out in this annual report. Subject to the above and unless otherwise specified, all information in this annual report relating to the Dongfeng Motor Group includes information of the Group and all companies (including Dongfeng Joint Venture Companies 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 Dongfeng Joint Venture Companies.