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.

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.

Notes to Financial Statements

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.

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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'000	RMB'000
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	RMB
	million	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	2004
	RMB million	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.

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	2004
	RMB	RMB
	million	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 RMB million	2004 RMB 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 RMB million	2004 RMB 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	Percentage of equity interest attributable to the Company 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 million	RMB million	**RMB million**	RMB 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

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

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.

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 RMB million	2004 RMB million	**2005 RMB million**	2004 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 million	RMB million	**RMB million**	RMB 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 million	RMB 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.