Notes to Financial Statements

31 December 2006

1. CORPORATE INFORMATION

Dongfeng Motor Group Company Limited is a joint stock limited liability company incorporated in the People's Republic of China (the "PRC"). The registered office of the Company is located at Special No. 1 Dongfeng Road, Wuhan Economic Development Zone, Wuhan, Hubei, the PRC.

During the year, the Group was principally engaged in the manufacture and sale of automobiles, engines and other automotive parts.

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Dongfeng Motor Corporation ("DMC"), 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 ("IAS") and Standing Interpretation Committee interpretations approved by the International Accounting Standards Committee that remain in effect. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest million except when otherwise indicated.

These 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 2006. This is because the directors of the Company have the following measures to ensure that the Company has adequate funds for its operations:

(1) as at 31 December 2006, the Company had unutilised banking facilities of RMB8,405 million, out of which RMB2,405 million can be utilised up to more than one year after 31 December 2006; and

2.1 BASIS OF PREPARATION (Continued)

(2) according to a notice received from People's Bank of China, the Company has been approved to issue short-term debentures to the extent of RMB4,000 million (inclusive of related interest payable) on or before the end of November 2007. Currently, short-term debentures with a face value of RMB1,900 million were issued and are repayable on 13 December 2007 at RMB1,900 million, and the Company has short-term debenture issuance facilities of RMB2,100 million (inclusive of related interest payable) available for its use on or before the end of November 2007.

In the opinion of the directors, the above financing arrangements will enable the Company to meet its financial obligations when due, and also enable the Company to have adequate working capital to meet its daily operation needs. The Company will not have a going concern issue arising from shortage of operating capital.

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 2006.

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 entities' 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.

The acquisition of subsidiaries and 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 identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

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. Acquisition of minority interests are accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2.2 IMPACT OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The principal accounting policies used in the preparation of these financial statements are consistent with those used in the annual audited financial statements for the year ended 31 December 2005, except that the Group has adopted the following new and amended IFRSs and International Financial Reporting Interpretations Committee Intrepretations ("IFRICs") during the year. Adoption of these revised standards and interpretations did not have any material effect on these financial statements of the Group. They did however give rise to additional disclosures.

IAS 39 Amendments	Financial Instruments: Recognition and Measurement
IFRIC 4	Determining whether an Arrangement contains a Lease

The principal effects of these changes are as follows:

(a) IAS 39 Financial Instruments: Recognition and Measurement

(i) *Amendment for financial guarantee contracts*

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

2.2 IMPACT OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

(a) IAS 39 Financial Instruments: Recognition and Measurement (Continued)

(ii) *Amendment for the fair value option*

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

(iii) *Amendment for cash flow hedge accounting of forecast intragroup transactions*

This amendment has revised IAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(b) IFRIC 4 Determining whether an Arrangement contains a Lease

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

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

The Group has not applied the following new and revised IFRSs and IFRICs, that have been issued but are not yet effective, in these financial statements.

IAS 1 Amendment	Presentation of Financial Statements: Capital Disclosures
IAS 23 (Revised)	Borrowing Costs
IFRS 7	Financial Instruments: Disclosures
IFRS 8	Operating Segments
IFRIC 7	Applying the Restatement Approach under IAS 29 *Financial Reporting in Hyperinflationary Economics*
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment
IFRIC 11	IFRS 2 — Group and Treasury Share Transaction
IFRIC 12	Service Concession Arrangements

The IAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

The IAS 23 (Revised) shall be applied for annual periods beginning on or after 1 January 2009. The revised standard requires all borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying assets. The choice of immediately recognise such cost as an expense is eliminated.

IFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosures requirements of IAS 32.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

IFRS 8 shall be applied for annual periods beginning on or after 1 January 2009 and will replace the existing IAS 14 "Segment Reporting". IFRS 8 requires an entity to adopt the "management approach" to report on the financial performance of its operating segments. Generally, the information to be reported would be that used internally for the purpose of evaluating segment performance and deciding resources allocation to operating segments. Such information may be different from what is used for preparing the income statement and balance sheet. IFRS 8 therefore requires explanations of the basis on how the segment information is prepared and reconciled to the income statement and balance sheet.

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

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

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

Change in segment identification

During the year, the Group changed its identification of reportable business segments. The Group consolidated its previous four segments, namely, "Commercial vehicles", "Passenger vehicles", "Engines and other automotive parts" and "Corporate and others" into three new business segments namely, "Commercial vehicles", "Passenger vehicles" and "Corporate and others". The main change relates to the allocation of the activities pertaining to the previous "Engines and other automotive parts" segment into the respective "Passenger vehicles" segment and "Commercial vehicles" segment to the extent to which such activities are related. In the opinion of the directors, the new basis of segment identification provides a more appropriate presentation of the segment information. Prior year segment information is restated for comparative purposes.

2.5 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint ventures (Continued)

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 Group/Company has unilateral control, directly and indirectly, over the joint venture company;

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

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

(d) an equity investment accounted for in accordance with IAS 39, if the Group/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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Jointly-controlled entities (Continued)

The Group's investments in its jointly-controlled entities are accounted for by proportionate consolidation, which involves recognising its share of the jointly-controlled entities' assets, liabilities, income and expenses with similar items in the consolidated financial statements 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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 acquirees' 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.

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.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries and jointly-controlled entities, after assessment, is recognised immediately in the income statement.

Impairment of non-financial assets other than goodwill

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 calculated as 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, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of depreciation/ amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

2.5 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).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment 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 an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment over its estimated useful life after taking into account its estimated residual value over the estimated useful life as follows:

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate categories of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (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. Development expenditure which does not meet these criteria is expensed when incurred. 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, commencing from the date when the underlying products are put into commercial use.

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 year.

Lease prepayments

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

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.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. 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 subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

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. Held-to-maturity investments 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.

2.5 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.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

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 the income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Assets carried at amortised cost (Continued)

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.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

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. Impairment losses on these assets are not reversed.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities at amortised cost (including interest-bearing borrowings)

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

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

Financial guarantee contracts

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

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with interest rate and 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 the income statement.

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 an unrecognised firm commitment (except for foreign currency risk); 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 highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment.

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 objectives 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative financial instruments and hedging (Continued)

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

Fair value hedges

The change in the fair value of a hedging derivatives is recognised in the income statement. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in the income statement.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the income statement 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 the income statement.

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. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the income statement.

When an unrecognised firm commitment is designed 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 the income statement. The changes in the fair value of the hedged instrument are also recognised in the income statement.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised immediately in the income statement.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative financial instruments and hedging (Continued)

Cash flow hedges (Continued)

If the forecast transaction or firm commitment is no longer expected to occur, the amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents (Continued)

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.

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.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

- where the deferred tax liability arises from 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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

- 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.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

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

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in jointly-controlled entities, deferred 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 tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.5 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.

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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 DMC 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 DMC 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 a 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.

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. Further details of the termination and early retirement benefit plan are set out in note 6(d) below.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group are granted stock appreciation rights, which can only be settled in cash ("cash settlement transactions").

The cost of cash-settlement transactions is measured initially at fair value at the grant date using the Black-Scholes formula, taking into account the terms and conditions upon which the instruments were granted (note 6(e)). The fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is measured at each balance sheet date up to and including the settlement date with changes in fair value recognised in the income statement.

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.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Deferred taxation

As at 31 December 2006, deferred tax assets in relation to unused tax losses and other deductible temporary differences have been recognised in the consolidated balance sheet. The realisability of the deferred tax assets 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 assets may arise, which would be recognised 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. As detailed in note 2.4 to the financial statements, the Group adopted a new segment reporting basis and consolidated its businesses into three new business segments during the year. Summary details of these business segments are as follows:

Commercial vehicles	Manufacture and sale of commercial vehicles, and the related engines and other automotive parts
Passenger vehicles	Manufacture and sale of passenger vehicles, and the related 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 following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005.

Year ended 31 December 2006

	Commercial vehicles RMB million	Passenger vehicles RMB million	Corporate and others RMB million	Total RMB million
Segment revenue				
Sales to external customers	13,215	34,219	830	48,264
Other income	129	376	231	736
Total	13,344	34,595	1,061	49,000
Results				
Segmental results	81	3,814	(614)	3,281
Loss on dilution of interests in jointly-controlled entities				(252)
Finance costs				(411)
Share of profits and losses of associates	26	33	2	61
Profit before tax				2,679
Income tax expense				(428)
Profit for the year				2,251
Assets and liabilities				
Segment assets	9,542	23,261	9,633	42,436
Investments in associates	300	165	21	486
Unallocated assets				1,191
Total assets				44,113
Segment liabilities	5,074	8,885	4,476	18,435
Unallocated liabilities				8,856
Total liabilities				27,291

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

Segment information (Continued)

Year ended 31 December 2006 (Continued)

	Commercial vehicles RMB million	Passenger vehicles RMB million	Corporate and others RMB million	Total RMB million
Other segment information				
Capital expenditure:				
— Property, plant and equipment	659	1,713	415	2,787
— Intangible assets	22	574	85	681
Depreciation of property, plant and equipment	427	985	67	1,479
Amortisation of intangible assets	20	109	26	155
Impairment losses recognised in the income statement	24	21	7	52

Year ended 31 December 2005

	Commercial vehicles RMB million	Passenger vehicles RMB million	Corporate and others RMB million	Total RMB million
Segment revenue				
Sales to external customers	12,989	27,915	831	41,735
Other income	160	270	577	1,007
Total	13,149	28,185	1,408	42,742
Results				
Segmental results	75	2,771	(176)	2,670
Finance costs				(478)
Share of profits and losses of associates	7	17	5	29
Profit before tax				2,221
Income tax expense				(474)
Profit for the year				1,747

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

Segment information (Continued)

Year ended 31 December 2005 (Continued)

	Commercial vehicles RMB million	Passenger vehicles RMB million	Corporate and others RMB million	Total RMB million
Assets and liabilities				
Segment assets	10,921	19,302	6,617	36,840
Investments in associates	290	38	44	372
Unallocated assets				768
Total assets				37,980
Segment liabilities	4,344	7,505	3,007	14,856
Unallocated liabilities				8,790
Total liabilities				23,646
Other segment information				
Capital expenditure:				
— Property, plant and equipment	701	2,879	471	4,051
— Intangible assets	44	153	29	226
Depreciation of property, plant and equipment	401	830	75	1,306
Amortisation of intangible assets	14	89	9	112
Impairment losses recognised in the income statement	34	16	1	51

Due to the change in the segment identification, certain balances and figures in the segment information for the year ended 31 December 2005 have been reclassified to conform with the current year's presentation. Further details of the change in segment identification are set out in note 2.4 to the financial statements.

5. OTHER INCOME

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

		Group	
		2006	2005
	Note	**RMB million**	RMB million
Government grants and subsidies (note 34)	(a)	**138**	431
Net income from disposal of other materials		**260**	273
Interest income		**162**	141
Rendering of services		**15**	18
Others		**161**	144
		736	1,007

Note:

(a) An analysis of the Group's government grants and subsidies is as follows:

	Group	
	2006	2005
	RMB million	RMB million
Subsidies for business development	**132**	405
Subsidies for relocation of offices and production plants	**—**	6
Others	**6**	20
	138	431

Government grants received for which related expenditure has not yet been undertaken are recognised as deferred income in the balance sheet. There are no unfulfilled conditions or contingencies relating to these grants.

6. PROFIT BEFORE TAX

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

	Notes	Group 2006 RMB million	Group 2005 RMB million
Cost of inventories recognised as expense		**40,058**	35,639
Provision against inventories		**59**	5
Amortisation of intangible assets*		**155**	112
Depreciation		**1,479**	1,306
Auditor's remuneration		**18**	15
Minimum lease payments under operating leases in respect of land and buildings		**159**	158
Staff costs (excluding directors' and supervisors' remuneration (note 9)):			
— Wages and salaries		**1,857**	1,727
— Pension scheme contributions	(a)	**269**	248
— Medical benefits costs	(b)	**74**	40
— Cash housing subsidies costs	(c)	**9**	7
— Stock appreciation rights expense	(e)	**25**	—
		2,234	2,022
Included in other expenses, net			
Loss on disposal of items of property, plant and equipment, net		**57**	14
Loss on disposal of intangible assets, net		**—**	8
Gain on disposal of available-for-sale financial assets		**(4)**	—
Impairment of property, plant and equipment		**48**	34
Impairment of available-for-sale financial assets		**8**	24
Reversal of impairment of other financial assets		**(4)**	(7)
Impairment/(reversal of impairment) of trade and other receivables		**(6)**	16
Warranty expenses (note 33)		**317**	250
Research costs		**905**	719
Exchange gains, net		**(9)**	(252)

* 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 DMC (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 DMC 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.

DMC 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. DMC 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 DMC pursuant to which such companies contribute a percentage of the wages of their qualified employees to the plan, on a monthly basis, and DMC 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.

DMC 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. DMC 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 DMC 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.

(e) Stock appreciation rights

On 19 April 2006, the Company's board of directors approved a plan of stock appreciation rights ("SARs") for the senior management of the Group with a term of six years with effect from 23 January 2006. The plan is designed to link the financial interests of the Company's senior management with the Company's future results of operations and the performance of the H shares. No shares are to be issued under the SAR plan. Consequently, the shareholdings of the Company's shareholders will not be diluted as a result of the granting of SARs.

6. PROFIT BEFORE TAX (Continued)

(e) Stock appreciation rights (Continued)

The rights to the SAR units will have an exercise period of six years from the date of grant and can be exercised in the third, fourth and fifth year following the date of grant and the total number of the rights exercised by an individual shall not in aggregate exceed 30%, 65% and 100%, respectively, of the total rights granted to the individual. The exercise price of the SARs as approved by the board of directors on 19 April 2006 is HK$2.01, being the average share price at the close of trading over the 30 business days preceding the date of grant. The SARs which are not exercised on 22 January 2012 shall not be exercised and shall lapse upon their expiry.

Upon exercise of the said rights, the exercising individual will, subject to the restrictions under the plan, receive a payment in RMB, after deducting any applicable withholding tax, equal to the product of the number of rights exercised and the difference between the exercise price and market price of the H shares of the Company at the time of exercise.

The Company granted 55,665,783 SAR units during the year ended 31 December 2006 and recognised a compensation expense over the applicable vesting period. The compensation expense recognised for the year ended 31 December 2006 amounted to RMB36 million (2005: Nil). Of which RMB11 million was included in the directors and supervisors' remuneration set out in note 9 to the financial statements. As at 31 December 2006, 55,665,783 (2005: Nil) SAR units were outstanding.

The fair value of SARs is measured using the Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the SARs, expected volatility (based on weighted average historic volatility), weighted average expected life of the SARs (based on general SAR holder behaviour), expected dividends, and the risk free interest rate (based on Hong Kong Exchange Fund Note). Changes in the subjective input assumptions could materially affect the fair value estimate of the SARs.

The following table lists the inputs to the Black-Scholes option pricing model used for the measurement of the fair value of SARs for the year ended 31 December 2006:

Dividend yield (%)	1.22
Expected volatility (%)	49.24
Risk free interest rate (%)	3.480–3.694
Expected life of option (years)	6
Share price on measurement date (HK$)	3.77

7. FINANCE COSTS

	Group	
	2006	2005
	RMB million	RMB million
Interest on bank loans, and other borrowings wholly repayable:		
— within five years	**272**	358
— beyond five years	**114**	127
Interest on discounted bills	**59**	37
Interest on short-term debentures	**7**	—
	452	522
Less: Amount capitalised in construction in progress	**(41)**	(44)
Net interest expense	**411**	478

8. LOSS ON DILUTION OF INTERESTS IN JOINTLY-CONTROLLED ENTITIES

In October and December 2006, Dongfeng Automobile Co., Ltd. ("DFAC") and Dongfeng Electronics Technology Co., Ltd. ("DFTC"), subsidiaries of a jointly-controlled entity of the Company with their shares listed on the Shanghai Stock Exchange, have approved in their respective shareholders' meetings to launch a share reform scheme under the requirement of the relevant PRC government authorities, respectively. Pursuant to the scheme which was completed in October and December 2006 respectively, the jointly-controlled entity of the Company was required to grant a certain portion of its shares in DFAC and DFTC to the other shareholders who held the tradeable shares in DFAC and DFTC free of consideration in order to convert the non-tradeable shares in DFAC and DFTC held by the jointly-controlled entity into tradeable shares. Accordingly, the Company's indirect equity interest in DFAC and DFTC were diluted from 35.0% to 30.1% and from 37.5% to 32.5%, respectively, and the dilution loss in aggregate of RMB252 million attributable to the decrease in the share of net assets of DFAC and DFTC was accounted for as a dilution loss in the consolidated income statement for the year ended 31 December 2006.

9. 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 Hong Kong Companies Ordinance are as follows:

	Group			
	Directors		Supervisors	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Fees	**468**	—	**94**	—
Other emoluments:				
— Salaries, allowances and benefits in kind	**1,791**	1,875	**1,334**	1,374
— Bonuses	**3,046**	2,645	**1,774**	1,918
— Stock appreciation rights	**8,079**	—	**2,939**	—
— Pension scheme contributions	**102**	81	**70**	60
Total	**13,486**	4,601	**6,211**	3,352

During the year, certain directors were granted stock appreciation rights, in respect of their services to the Group, further details of which are set out in note 6(e) to the financial statements. The fair value of the rights which has been recognised in the income statement over the vesting period was determined at the date of grant and at each reporting date. The amount included in the financial statements for the current year is included in this directors' remuneration disclosure.

9. DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

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

2006	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Bonuses RMB'000	Stock appreciation rights RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:						
Xu Ping	—	243	410	1,061	11	1,725
Liu Zhangmin	—	198	370	1,061	11	1,640
Zhou Wenjie	—	199	330	851	14	1,394
Fan Zhong	—	198	330	851	11	1,390
Li Shaozhu	—	195	330	851	11	1,387
	—	1,033	1,770	4,675	58	7,536
Non-executive directors:						
Tong Dongcheng	—	195	330	851	11	1,387
Liu Weidong	—	195	330	851	11	1,387
Ouyang Jie	—	195	330	851	11	1,387
Zhu Fushou	—	173	286	851	11	1,321
	—	758	1,276	3,404	44	5,482
Independent non-executive directors:						
Sun Shuyi	156	—	—	—	—	156
Ng Lin-fung	156	—	—	—	—	156
Yang Xianzu	156	—	—	—	—	156
	468	—	—	—	—	468
	468	1,791	3,046	8,079	102	13,486
Supervisors						
Ye Huicheng	—	195	330	851	11	1,387
Zhou Qiang	—	169	210	453	11	843
Ren Yong	—	409	386	453	9	1,257
Liu Yuhe	—	273	444	420	17	1,154
Li Chunrong	—	133	187	342	11	673
Kang Li	—	155	217	420	11	803
	—	1,334	1,774	2,939	70	6,117
Independent supervisors:						
Wen Shiyang	47	—	—	—	—	47
Deng Mingran	47	—	—	—	—	47
	94	—	—	—	—	94
	94	1,334	1,774	2,939	70	6,211

9. DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

The names of the directors and supervisors of the Company and their remuneration for the year are as follows: (Continued)

2005	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Bonuses RMB'000	Stock appreciation rights RMB'000	Pension scheme contributions RMB'000	Total RMB'000
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
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

9. DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

During the years ended 31 December 2005 and 2006, 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.

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2005: three) directors and supervisors, details of whose remuneration are set out in note 9 above. The details of the remuneration of the remaining two non-director and non-supervisor, highest paid employees for the year ended 31 December 2005 are as follows:

	Group	
	2006	2005
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	—	520
Bonuses	—	563
Pension scheme contributions	—	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	
	2006	2005
Nil–RMB200,000	—	—
RMB200,001–RMB400,000	—	—
RMB400,001–RMB600,000	—	2
	—	2

11. INCOME TAX EXPENSE

	Group	
	2006	2005
	RMB million	RMB million
Current income tax	**388**	170
Deferred income tax	**40**	304
Income tax charge for the year	**428**	474

(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 jointly-controlled entities are foreign-invested enterprises, after obtaining authorisation from respective tax authorities, these subsidiaries and 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.

(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 2005 and 2006.

(c) Deferred income tax

Deferred 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.

Deferred 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.

11. INCOME TAX EXPENSE (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 PRC in which the Company and its subsidiaries and jointly-controlled entities are domiciled to the tax expense at the Group's effective income tax rate is as follows:

	Group			
	2006		2005	
	RMB million	**%**	RMB million	%
Profit before tax	**2,679**		2,221	
At the PRC statutory corporate income tax rate of 33%	**884**	**33.0**	733	33.0
Tax concessions and lower tax rates for specific provinces or locations	**(456)**	**(17.0)**	(248)	(11.1)
Income not subject to tax	**(145)**	**(5.4)**	(88)	(4.0)
Expenses not deductible for tax	**147**	**5.5**	83	3.7
Others	**(2)**	**(0.1)**	(6)	(0.3)
Tax charge at the Group's effective rate	**428**	**16.0**	474	21.3

11. INCOME TAX EXPENSE (Continued)

(c) Deferred income tax (Continued)

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

Group

	As at 31 December		Year ended 31 December	
	2006	2005	**2006**	2005
	RMB million	RMB million	**RMB million**	RMB million
Deferred tax liabilities				
Provision for distributable profits of subsidiaries, jointly-controlled entities and associates that are taxable when paid	**(732)**	(605)	**127**	200
Arising from acquisition of a jointly-controlled entity	**(13)**	(14)	**(1)**	—
Others	**(3)**	(60)	**(57)**	47
Gross deferred tax liabilities	**(748)**	(679)		
Deferred tax assets				
Losses available for offsetting against future taxable income	**—**	85	**85**	89
Impairment of items of property, plant and equipment	**34**	23	**(11)**	(4)
Others	**183**	80	**(103)**	(28)
Gross deferred tax assets	**217**	188		
Deferred income tax charge			**40**	304
Net deferred tax liabilities	**(745)**	(564)		
Net deferred tax assets	**214**	73		

11. INCOME TAX EXPENSE (Continued)

(c) Deferred income tax (Continued)

Company

	As at 31 December	
	2006	2005
	RMB million	RMB million
Deferred tax liabilities		
Provision for distributable profits of subsidiaries, jointly-controlled entities and associates that are taxable when paid	**(732)**	(605)
Gross deferred tax liabilities	**(732)**	(605)
Deferred tax assets		
Losses available for offsetting against future taxable income	**—**	55
Gross deferred tax assets	**—**	55
Net deferred tax liabilities	**(732)**	(550)
Net deferred tax assets	**—**	—

12. PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to the equity holders of the parent for the year ended 31 December 2006 includes a profit of RMB721 million (2005: RMB227 million) which has been dealt with in the financial statements of the Company (note 31).

13. DIVIDEND

	Group	
	2006	2005
	RMB million	RMB million
Special dividend — nil (2005: RMB23.09 cents) per ordinary share	**—**	1,390
Proposed final — RMB4 cents (2005: nil) per ordinary share	**345**	—
	345	1,390

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

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 Accounting Standards for Business Enterprises and Accounting System for Business Enterprises ("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.

(iii) Allocations to the discretionary common reserve fund 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.

13. DIVIDEND (Continued)

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.

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

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year.

The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year.

The calculation of basic earnings per share is based on:

	2006	2005
	RMB million	RMB million
Earnings:		
Profit for the year attributable to ordinary equity holders of the parent	**2,081**	1,601

	Number of shares	
	million	million
Shares:		
Weighted average number of shares in issue during the year	**8,616**	6,192

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

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB million	Plant and equipment RMB million	Construction in progress RMB million	Total RMB million
31 December 2006				
At 31 December 2005 and 1 January 2006:				
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
At 1 January 2006, net of accumulated depreciation and impairment	646	10,640	3,128	14,414
Additions	34	294	2,500	2,828
Disposals	(2)	(119)	(23)	(144)
Reclassifications	79	3,795	(3,874)	—
Impairment	(4)	(44)	—	(48)
Depreciation provided during the year	(49)	(1,430)	—	(1,479)
At 31 December 2006, net of accumulated depreciation and impairment	704	13,136	1,731	15,571
At 31 December 2006:				
Cost	1,076	22,587	1,767	25,430
Accumulated depreciation and impairment	(372)	(9,451)	(36)	(9,859)
Net carrying amount	704	13,136	1,731	15,571

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group

	Buildings RMB million	Plant and equipment RMB million	Construction in progress RMB million	Total RMB million
31 December 2005				
At 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 19(a))	36	119	5	160
Acquisition of additional equity interests in jointly-controlled entities (note 19(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

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Buildings RMB million	Plant and equipment RMB million	Construction in progress RMB million	Total RMB million
31 December 2006				
At 31 December 2005 and 1 January 2006:				
Cost	162	374	140	676
Accumulated depreciation and impairment	(101)	(96)	—	(197)
Net carrying amount	61	278	140	479
At 1 January 2006, net of accumulated depreciation and impairment	61	278	140	479
Additions	—	3	141	144
Disposals	—	(1)	(22)	(23)
Reclassifications	—	239	(239)	—
Depreciation provided during the year	(6)	(19)	—	(25)
At 31 December 2006, net of accumulated depreciation and impairment	55	500	20	575
At 31 December 2006:				
Cost	162	610	20	792
Accumulated depreciation and impairment	(107)	(110)	—	(217)
Net carrying amount	55	500	20	575

15. 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 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

The impairment of items of 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 items of property, plant and equipment pledged to secure general banking facilities granted to the Group and its jointly-controlled entities are set out in note 32 below.

16. INTANGIBLE ASSETS

Group

	2006 **RMB million**	2005 RMB million
Cost:		
At beginning of year	**1,114**	896
Additions	**681**	226
Disposals	**(2)**	(8)
At end of year	**1,793**	1,114
Accumulated amortisation:		
At beginning of year	**389**	277
Amortisation	**155**	112
Disposals	**(2)**	—
At end of year	**542**	389
Net book value:		
At beginning of year	**725**	619
At end of year	**1,251**	725

The details of the intangible assets pledged to secure general banking facilities granted to the Group and its jointly-controlled entities are set out in note 32 below.

17. GOODWILL

Group

	2006 **RMB million**	2005 RMB million
At beginning of year	**434**	277
Arising from acquisition of a jointly-controlled entity (note 19(a))	**—**	157
At end of year	**434**	434

17. GOODWILL (Continued)

The recoverable amount of goodwill has been determined based on a 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 the cash flow projections is 6%. No growth rate has been projected beyond the five-year period.

18. INVESTMENTS IN SUBSIDIARIES

Company

	2006 RMB million	2005 RMB million
Unlisted investments, at cost	**140**	140

Particulars of the principal subsidiaries as at 31 December 2006 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
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.

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

Company

	2006 **RMB million**	2005 RMB million
Unlisted investments, at cost	**13,037**	13,037

Particulars of the principal jointly-controlled entities as at 31 December 2006 were as follows:

Name	Place of establishment and operations	Paid-up 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
Dongfeng Peugeot Citroën Automobiles Company Ltd.#	PRC	RMB7,000,000,000	50.0	—	Manufacture and sale of automobiles, automotive parts and components

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Company (Continued)

Name	Place of establishment and operations	Paid-up registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
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	—	30.1	Manufacture and sale of automobiles, automotive parts and components
Dongfeng Electronics Technology Co., Ltd.##	PRC	RMB313,560,000	—	32.5	Manufacture and sale of automotiveparts and components
Dongfeng Cummins Engines Co., Ltd.#	PRC	US$100,620,000	—	15.0	Manufacture and sale of automotive parts and components
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

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Company (Continued)

Name	Place of establishment and operations	Paid-up registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
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	—	15.3	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.

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:

	2006 RMB million	2005 RMB million
Non-current assets	**18,329**	15,802
Current assets	**23,803**	20,144
Non-current liabilities	**(2,535)**	(2,199)
Current liabilities	**(21,249)**	(17,204)
Minority interests	**(2,662)**	(2,251)
Net assets	**15,686**	14,292
Total revenue	**48,087**	41,281
Total expenses	**(45,463)**	(39,341)
Minority interests	**(190)**	(155)
Profit attributable to equity holders of the parent	**2,434**	1,785

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Company (Continued)

During 2005, the Group had the following significant changes in its holdings of jointly-controlled entities:

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

In March 2005, DFAC, 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, DFAC had a 51% equity interest in Zhengzhou Nissan which was thereafter accounted for as a jointly-controlled entity of DFAC. DFAC cannot exercise control over Zhengzhou Nissan due to certain restrictions under the memorandum and articles of association of Zhengzhou Nissan.

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 DFAC 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.

19. 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
Prepayments, deposits and other receivables	25
Cash and cash equivalents	154
Trade and bills payables	(119)
Other payables and accrued liabilities	(59)
Income tax payable	(4)
Interest-bearing borrowings	(412)
Deferred 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 and cash equivalent acquired from the jointly-controlled entity	154
Cash paid	(176)
Net cash outflow	(22)

19. 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 Zhengzhou 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 do not meet the criteria for recognition as an intangible asset under IAS 38.

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

(1) *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.

(2) *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.

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Company (Continued)

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

(3) *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.

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Company (Continued)

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

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

	2005 RMB million
Property, plant and equipment	55
Lease prepayments	1
Other long term assets	18
Inventories	32
Trade and bills receivables	50
Prepayment, deposits and other receivables	77
Cash and cash equivalents	138
Trade and bills payables	(49)
Other payables and accrued liabilities	(26)
Income tax payable	(7)
Interest-bearing borrowings	(112)
Provisions	(1)
Minority interests	(11)
Fair value of net assets acquired	165
Goodwill arising on acquisition	—
	165
Consideration:	
Cash consideration	165
Net cash outflow arising on acquisition is as follows:	
Net cash and cash equivalent acquired from the jointly-controlled entities	138
Cash paid	(165)
Net cash outflow	(27)

20. 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:

	2006 RMB million	2005 RMB million
Unlisted investments, at cost	**73**	73

Particulars of the principal associates as at 31 December 2006 were as follows:

Name	**Place of establishment and operations**	**Paid-up registered capital**	**Percentage of equity interest attributable to the Company Direct**	**Indirect**	**Principal activities**
Shenzhen Hangsheng Electronics Co., Ltd.##	PRC	RMB128,000,000	—	12.5	Manufacture and sale of automotive parts and components
Zhanjiang Deli Carburetor Co., Ltd.#	PRC	US$21,250,000	—	16.0	Manufacture and sale of automotive parts and components

\# A sino-foreign equity joint venture

\## A joint-stock limited liability company

The above table lists the associates of the Group 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 associates would, in the opinion of the directors, result in particulars of excessive length.

20. 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:

	2006 RMB million	2005 RMB million
Non-current assets	**296**	287
Current assets	**622**	396
Non-current liabilities	**(34)**	(39)
Current liabilities	**(390)**	(272)
Minority interests	**(8)**	—
Net assets	**486**	372
Total revenue	**989**	587
Total expenses	**(939)**	(561)
Minority interest	**1**	—
Profit attributable to equity holders of the parent	**51**	26

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		**Company**	
	2006 RMB million	2005 RMB million	**2006 RMB million**	2005 RMB million
Unlisted investments, at fair value	**127**	163	**68**	68

22. LOAN TO A JOINTLY-CONTROLLED ENTITY

	Group		Company	
	2006	2005	**2006**	2005
	RMB million	RMB million	**RMB million**	RMB million
Loan to a jointly-controlled entity	**200**	250	**400**	500
Less: Current portion included in amounts due from jointly-controlled entities	**(50)**	(50)	**(100)**	(100)
Non-current portion	**150**	200	**300**	400

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

23. INVENTORIES

	Group		Company	
	2006	2005	**2006**	2005
	RMB million	RMB million	**RMB million**	RMB million
Raw materials	**2,954**	2,784	**13**	12
Work-in-progress	**635**	599	**20**	18
Finished goods	**3,539**	2,868	**22**	25
	7,128	6,251	**55**	55

The details of the inventories pledged to secure general banking facilities granted to the Group and its jointly-controlled entities are set out in note 32 below.

24. 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 impairment, of the Group and the Company, based on the due date, is as follows:

	Group		**Company**	
	2006 RMB million	2005 RMB million	**2006 RMB million**	2005 RMB million
Within three months	**1,361**	1,171	**206**	171
More than three months but within one year	**157**	208	**3**	7
More than one year	**44**	57	**2**	4
	1,562	1,436	**211**	182

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

	Group		**Company**	
	2006 RMB million	2005 RMB million	**2006 RMB million**	2005 RMB million
Subsidiaries	**—**	—	**2**	4
A joint venture partner	**5**	13	**—**	—
Associates	**6**	18	**—**	—
A minority shareholder of a jointly-controlled entity's subsidiary	**34**	—	**—**	—
	45	31	**2**	4

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

25. 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	
	2006 **RMB million**	2005 RMB million	**2006** **RMB million**	2005 RMB million
Within three months	**3,707**	2,386	**—**	1
More than three months but within one year	**2,067**	1,156	**6**	1
	5,774	3,542	**6**	2

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

	Group		Company	
	2006 **RMB million**	2005 RMB million	**2006** **RMB million**	2005 RMB million
DMC	**—**	3	**—**	2
Joint venture partners and their holding companies	**4**	11	**—**	—
Associates	**15**	27	**5**	6
Fellow subsidiaries	**—**	5	**—**	5
A minority shareholder of a jointly-controlled entity's subsidiary	**69**	38	**—**	—
Subsidiaries	**—**	—	**2**	—
	88	84	**7**	13

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

27. BALANCES WITH JOINTLY-CONTROLLED ENTITIES

The Group's and the Company's balances with its jointly-controlled entities are unsecured, have no fixed terms of repayment and are interest-free except for the loan to a jointly-controlled entity as disclosed in note 22.

28. OTHER FINANCIAL ASSETS

Group

	2006 **RMB million**	2005 RMB million
Investments listed in the PRC, at fair value	**31**	35
Debt securities listed in the PRC, at fair value	**29**	74
	60	109

29. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	Group		Company	
	2006	2005	**2006**	2005
	RMB million	RMB million	**RMB million**	RMB million
Cash and bank balances	**5,785**	5,694	**668**	762
Time deposits	**2,442**	2,118	**—**	—
	8,227	7,812	**668**	762
Less: Pledged bank balances and time deposits for securing general banking facilities (note 32)	**(790)**	(423)	**—**	—
Cash and cash equivalents in the consolidated balance sheet	**7,437**	7,389	**668**	762
Less: Non-pledged time deposits with original maturity of three months or more when acquired	**(1,778)**	(1,803)	**—**	—
Cash and cash equivalents in the consolidated cash flow statement	**5,659**	5,586	**668**	762

Cash at banks earns interest at floating rates based on daily bank deposit 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.

30. SHARE CAPITAL

Group and Company

	2006 **RMB million**	2005 RMB million
Registered, issued and fully paid:		
— 5,760,388,000 (2005: 5,760,388,000) Domestic Shares of RMB1.00 each	**5,760**	5,760
— 2,855,732,000 (2005: 2,855,732,000) H shares of RMB1.00 each	**2,856**	2,856
	8,616	8,616

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

	Notes	**Domestic Shares of RMB1.00 each** RMB million	**H shares of RMB1.00 each** RMB million	**Total** RMB million
At 1 January 2005		6,020	—	6,020
Sales of Domestic Shares by the ultimate holding company and conversion into H shares upon listing	(a)	(226)	226	—
Issuance of new H shares upon listing	(a)	—	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	(b)	(34)	34	—
Issuance of new H shares upon full exercise of the Over-allotment Option	(b)	—	339	339
At 31 December 2005 and 2006		5,760	2,856	8,616

30. SHARE CAPITAL (Continued)

Group and Company (Continued)

Notes:

(a) 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 reserves. 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.

(b) 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 reserves. 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.

31. 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 63 of the financial statements.

Company

	Notes	Capital reserve RMB million	Statutory reserves RMB million note (a)	Retained profits/ (accumulated losses) RMB million	Proposed final dividend RMB million	Total RMB million
At 1 January 2005		—	344	1,319	—	1,663
Issue of new H shares upon listing	30(a)	1,502	—	—	—	1,502
Issue of new H shares upon exercising of the Over-allotment Option	30(b)	225	—	—	—	225
Share issuing expenses		(364)	—	—	—	(364)
Profit for the year		—	—	227	—	227
Transfer to reserves		—	250	(250)	—	—
Special dividend		—	—	(1,390)	—	(1,390)
At 31 December 2005 and 1 January 2006		1,363	594	(94)	—	1,863
Profit for the year		—	—	721	—	721
Transfer to reserve		—	221	(221)	—	—
Proposed final dividend		—	—	(345)	345	—
At 31 December 2006		1,363	815	61	345	2,584

31. RESERVES (Continued)

Company (Continued)

Notes:

(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.

Starting from 1 January 2006 onward, the Company and its subsidiaries, jointly-controlled entities and associates are not required to provide further appropriation from profit to the statutory public welfare fund pursuant to the revised Company Law. The balance of the statutory public welfare fund as at 1 January 2006 was converted into the SSR.

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 13, 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 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 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 the enterprise expansion fund and the reserve fund can be distributed as dividends by the Group's sino-foreign jointly-controlled entities.

32. INTEREST-BEARING BORROWINGS

	Effective interest rate (%)	Maturity	Group 2006 RMB million	Group 2005 RMB million	Company 2006 RMB million	Company 2005 RMB million
Current						
Bank loans — secured	2–6.73	2007	**1,368**	834	**—**	—
Bank loans — secured	LIBOR+1.5	2007	**33**	43	**—**	—
Bank loans — unsecured	4.86–6.25	2007	**801**	3,307	**—**	2,240
Bank loans — unsecured	LIBOR+2.28	2007	**1,475**	1,382	**—**	—
Debentures — unsecured	3.6055	2007	**1,841**	—	**1,841**	—
Other loans — unsecured	0.72–5.31	2007	**403**	365	**340**	—
			5,921	5,931	**2,181**	2,240
Non-current						
Bank loans — secured	2–5.83	2008-2023	**1,208**	606	**—**	—
Bank loans — unsecured	5.43–6.48	2008-2009	**692**	1,447	**—**	500
Bank loans — unsecured	LIBOR+2.28	2008-2027	**185**	170	**—**	—
Bank loans — unsecured	SEBR+6.25	2008	**1**	2	**—**	—
Other loans — unsecured	2.25	2008	**1**	1	**—**	—
			2,087	2,226	**—**	500
			8,008	8,157	**2,181**	2,740

32. 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

	2006 RMB million	2005 RMB million
Property, plant and equipment	1,085	642
Intangible assets	57	38
Inventories	130	125
Time deposits and bank balances	790	423
Other assets	1,439	737
	3,501	1,965

The carrying values of property, plant and equipment, intangible assets, inventories, and time deposits and bank balances of the jointly-controlled entities proportionately consolidated by the Group have 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.

The short term debentures were issued, in the inter-bank debenture market of the PRC on 12 December 2006, on a discount basis of RMB1,900 million at a face value of RMB100 each. The issue price was RMB96.52 each and the term of maturity was 365 days.

Other loans of the Group and the Company included an amount of RMB320 million (2005: nil) borrowed from DMC which is unsecured, repayable within one year and bears interest at 3.6% per annum.

32. INTEREST-BEARING BORROWINGS (Continued)

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

	Group		Company	
	2006 **RMB million**	2005 RMB million	**2006** **RMB million**	2005 RMB million
Bank loans repayable:				
Within one year or on demand	**3,677**	5,566	**—**	2,240
In the second year	**65**	425	**—**	—
In the third to fifth years, inclusive	**1,442**	1,255	**—**	500
Beyond five years	**579**	545	**—**	—
	5,763	7,791	**—**	2,740
Debentures repayable within one year	**1,841**	—	**1,841**	—
Other loans repayable:				
Within one year or on demand	**403**	365	**340**	—
In the second year	**1**	1	**—**	—
	404	366	**340**	—
	8,008	8,157	**2,181**	2,740

33. 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 2006:				
Current portion	102	310	—	412
Non-current portion	—	—	193	193
	102	310	193	605
At 31 December 2005:				
Current portion	102	225	—	327
Non-current portion	—	—	205	205
	102	225	205	532

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 2005	102	196	215	513
Acquisition of additional equity interest in a jointly-controlled entity (note 19(b))	—	1	—	1
Arising during the year	—	250	—	250
Utilised	—	(222)	(10)	(232)
At 31 December 2005 and 1 January 2006	102	225	205	532
Arising during the year	—	317	—	317
Utilised	—	(232)	(12)	(244)
At 31 December 2006	102	310	193	605

33. PROVISIONS (Continued)

Environmental restoration costs

In accordance with the prevailing regulations in the PRC, the Group and its jointly-controlled entities 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.

34. GOVERNMENT GRANTS

The Group's government grants are analysed as follows:

	2006 **RMB million**	2005 RMB million
Current portion	**28**	18
Long term portion	**51**	67
	79	85

34. GOVERNMENT GRANTS (Continued)

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

	RMB million
At 1 January 2005	52
Received during the year	464
Recognised as other income during the year (note 5(a))	(431)
At 31 December 2005 and 1 January 2006	85
Received during the year	132
Recognised as other income during the year (note 5(a))	(138)
At 31 December 2006	79

35. 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	
	2006 RMB million	2005 RMB million	**2006 RMB million**	2005 RMB million
Within three months	**6,804**	5,098	**36**	11
More than three months but within one year	**589**	514	**25**	61
More than one year	**195**	145	**11**	6
	7,588	5,757	**72**	78

35. TRADE PAYABLES (Continued)

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

	Group		Company	
	2006	2005	**2006**	2005
	RMB million	RMB million	**RMB million**	RMB million
DMC	**18**	6	**1**	2
Joint venture partners and their holding companies	**563**	523	**—**	—
Associates	**71**	65	**4**	10
A minority shareholder of a jointly-controlled entity's subsidiary	**2**	—	**—**	—
	654	594	**5**	12

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

36. BILLS PAYABLE

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

	2006	2005
	RMB million	RMB million
Within three months	**2,049**	1,085
More than three months but within six months	**2,096**	1,788
	4,145	2,873

37. OTHER PAYABLES AND ACCRUALS

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

	Group		Company	
	2006	2005	**2006**	2005
	RMB million	RMB million	**RMB million**	RMB million
DMC	**28**	13	**1**	2
Joint venture partners	**222**	177	**—**	—
A minority shareholder of a jointly-controlled entity's subsidiary	**—**	2	**—**	—
Associates	**4**	3	**1**	—
	254	195	**2**	2

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

38. COMMITMENTS

(a) Operating lease commitments as lessee

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

	Group		Company	
	2006	2005	**2006**	2005
	RMB million	RMB million	**RMB million**	RMB million
Within one year or on demand	**2**	—	**2**	—
After one year but not more than five years	**67**	50	**67**	50
More than five years	**789**	835	**789**	835
	858	885	**858**	885

38. COMMITMENTS (Continued)

(a) Operating lease commitments as lessee (Continued)

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:

	2006 RMB million	2005 RMB million
Within one year or on demand	95	83
After one year but not more than five years	359	328
More than five years	569	485
	1,023	896

(b) Commitments

In addition to the operating lease commitments detailed in note 38(a) above, the Group and the Company had the following capital commitments at the balance sheet date:

	Group		Company	
	2006 RMB million	2005 RMB million	2006 RMB million	2005 RMB million
Contracted, but not provided for:				
Property, plant and equipment	9	86	9	86
Capital contribution to an associate	175	—	175	—
	184	86	184	86
Authorised, but not contracted for:				
Property, plant and equipment	—	3	—	3

38. COMMITMENTS (Continued)

(b) Commitments (Continued)

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

	2006 RMB million	2005 RMB million
Contracted, but not provided for:		
Property, plant and equipment	**1,785**	1,675
Authorised, but not contracted for:		
Property, plant and equipment	**1,355**	1,210

39. CONTINGENT LIABILITIES

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

	Group		Company	
	2006 RMB million	2005 RMB million	2006 RMB million	2005 RMB million
Guarantees given to banks in connection with facilities granted to the following parties at nil consideration:				
— Subsidiaries	**—**	—	**116**	—
— Jointly-controlled entities	**742**	844	**1,402**	1,561
	742	844	**1,518**	1,561

39. CONTINGENT LIABILITIES (Continued)

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

	2006 RMB million	2005 RMB million
Guarantees given to banks in connection with facilities granted to the following parties at nil consideration:		
— Associates	**53**	10
— Others	**85**	111
Pending litigation	**32**	—
	170	121

No financial liabilities were recorded for the above guarantees given to banks as, in the opinion of the directors, the fair values of the financial guarantee contracts were not material as at 31 December 2005 and 2006.

40. RELATED PARTY TRANSACTIONS

(a) Transactions with the DMC 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 elsewhere in these financial statements, the Group and its jointly-controlled entities had the following significant transactions with their related parties:

	Notes	**2006 RMB million**	2005 RMB million
Purchases of automotive parts/raw materials from:	(i)		
— DMC		**31**	24
— Joint venture partners and their holding companies		**18,522**	15,705
— Associates		**706**	642
— Jointly-controlled entities		**2,270**	2,728
— Minority shareholders of jointly-controlled entities' subsidiaries		**213**	138
		21,742	19,237
Purchases of automobiles from:	(i)		
— An associate		**5**	16
— Jointly-controlled entities		**1,476**	1,082
— A minority shareholder of a jointly-controlled entity's subsidiary		**3**	—
		1,484	1,098
Purchases of water, steam and electricity from DMC	(ii)	**749**	759

40. RELATED PARTY TRANSACTIONS (Continued)

(a) (Continued)

	Notes	2006 RMB million	2005 RMB million
Purchases of items of property, plant and equipment from:	(i)		
— A holding company of a joint venture partner		**203**	149
— A jointly-controlled entity		**12**	—
— A minority shareholder of a jointly-controlled entity's subsidiary		**—**	2
— An associate		**33**	—
		248	151
Rental expenses to DMC	(i)	**141**	107
Purchases of services from	(i)		
— DMC		**10**	14
— A joint venture partner		**6**	12
— An associate		**16**	9
— A jointly-controlled entity		**12**	7
— A minority shareholder of a subsidiary		**—**	4
		44	46
Purchases of technology know-how from joint venture partners and their holding companies	(i)	**1,638**	1,728

40. RELATED PARTY TRANSACTIONS (Continued)

(a) (Continued)

	Notes	2006 RMB million	2005 RMB million
Sales of automotive parts/raw materials to:	(i)		
— DMC		**48**	20
— Fellow subsidiaries		**4**	—
— A joint venture partner		**40**	39
— An associate		**26**	10
— Jointly-controlled entities		**752**	694
— Minority shareholders of jointly-controlled entities' subsidiaries		**127**	4
		997	767
Sales of automobiles to:	(i)		
— A joint venture partner		**2**	—
— An associate		**197**	96
— Jointly-controlled entities		**197**	107
— A minority shareholder of a jointly-controlled entity's subsidiary		**4**	—
		400	203
Provision of services to:	(i)		
— An associate		**2**	14
— Jointly-controlled entities		**27**	15
		29	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 agreed between the Group and its jointly-controlled entities and their related parties.

40. RELATED PARTY TRANSACTIONS (Continued)

(b) Outstanding balances with related parties:

(i) Details of the Group's loan to a jointly-controlled entity as at the balance sheet date are included in note 22 to the financial statements.

(ii) Details of the Group's balances with its related parties as at the balance sheet date are disclosed in notes 24, 26, 35 and 37 to the financial statements.

(iii) Details of the Group's balances with jointly-controlled entities as at the balance sheet date are disclosed in note 27 to the financial statements.

(iv) Details of the Group's loans from its holding company as at the balance sheet date are disclosed in note 32 to the financial statements.

(c) Compensation of key management personnel of the Group:

	2006	2005
	RMB'000	RMB'000
Short term employees benefits	**7,945**	7,812
Stock appreciation rights	**11,018**	—
Post-employment benefits	**172**	141
Total compensation paid to key management personnel	**19,135**	7,953

Further details of directors' emoluments are included in note 9 to the financial statements.

41. FINANCIAL INSTRUMENTS

Financial assets of the Group and its jointly-controlled entities mainly include cash and cash equivalents, pledged deposits, trade and bills receivables, available-for-sale and other financial assets, deposits, due from/loan to jointly-controlled entities and other receivables. Financial liabilities of the Group mainly include bank and other loans, debentures, trade and bills payables, due to jointly-controlled entities 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 are 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.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, other interest-bearing borrowings 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 foreign currency swap and forward currency contracts. The purpose is to manage the foreign 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.

42. 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 units ("ECU") and Japanese yen. Fluctuations in 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 with foreign currency fluctuations. As at the balance sheet date, the jointly-controlled entity had committed to sell a total notional amount of approximately ECU27 million and USD93 million for the purchase of USD and RMB, respectively.

As at the balance sheet, the fair values 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 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.

43. POST BALANCE SHEET EVENTS

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

44. COMPARATIVE AMOUNTS

As further explained in note 2.4 to the financial statements, due to the change in segment identification during the year, certain items and balances in the segment information have been reclassified to allow a more appropriate presentation of the segment information. The relevant comparative amounts have been reclassified to conform with the current year's presentation.

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 April 2007.