MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Group's consolidated financial statements and historical consolidated financial data, in each case together with the accompanying notes, set out in the Accountants' Report at Appendix I to this prospectus. The following discussion contains certain forward-looking statements that involve risks and uncertainties. The Group's future results could differ materially from those discussed below. Factors that could cause or contribute to such differences include, without limitation, those discussed in the sections headed "Risk Factors" and "Business" and elsewhere in this prospectus.

For the purposes of this section, unless the context otherwise requires, references to "2002", "2003" and "2004" refer to the Group's financial year ended 31st December of such year.

Overview

The Dongfeng Motor Group was one of the three largest automotive manufacturers in the PRC in terms of sales revenue in 2004, with an extensive product range comprising both commercial vehicles and passenger vehicles. Apart from manufacturing whole commercial and passenger vehicles, members of the Dongfeng Motor Group also manufacture commercial and passenger vehicle engines and a comprehensive range of auto parts for commercial and passenger vehicles, both for their internal use and external sales. In addition, the Dongfeng Motor Group is engaged in the manufacture of vehicle manufacturing equipment as well as other automotive related businesses, such as vehicle import/export businesses and vehicle manufacturing equipment import/export businesses, auto finance businesses, insurance agency businesses and used car businesses.

Impact of the Dongfeng Joint Venture Companies on the financial results of the Group

Proportionate Consolidation of Dongfeng Joint Venture Companies

Substantially all of the Group's businesses are operated through the Dongfeng Joint Venture Companies, the majority of which are accounted for as Jointly-controlled Entities and consolidated into the accounts of the Group on a proportionate consolidation basis in accordance with IFRSs. In the three years ended 31st December, 2004 and the six months ended 30th June, 2005, the three jointly-controlled Dongfeng Joint Venture Companies which were the largest contributors to the Group's revenue and net assets were:

(i) Dongfeng Motor Co., Ltd, which was established in May 2003 and which was proportionately consolidated into the Group's financial results on a 50% basis in the second half of 2003, 2004 and the six months ended 30th June, 2005;

(ii) Dongfeng Peugeot Citroën Automobiles Company Ltd, which was established in May 1992 and which was proportionately consolidated into the Group's financial results on a 31.0% basis in 2002, on a 31.51% basis in 2003, on an approximately 31.95% basis for the eight months ended 31st August, 2004, on an approximately 40.97% basis for the next three months ended 30th November, 2004, and on a 50% basis for the rest of 2004 and the six months ended 30th June, 2005; and

(iii) Dongfeng Honda Engine Co., Ltd, which was established in May 1998 and which was proportionately consolidated into the Group's financial results on a 50% basis for each of 2002, 2003, 2004 and the six months ended 30th June, 2005.

Please refer to the section of this prospectus headed "Business — Overview of the Business of the Group" for further details on the relative importance of these Dongfeng Joint Venture Companies as contributors to the Group's results of operations during each of the Relevant Periods. Other details of these Dongfeng Joint Venture Companies are set out in the section of this prospectus headed "History, Reorganisation and Group Structure".

Accounting treatment of Dongfeng Peugeot Citroën Automobiles Company Ltd, Dongfeng Honda Engine Co., Ltd, Dongfeng Honda Auto Parts Co., Ltd and Dongfeng Nissan Diesel Motor Co., Ltd

The equity interests in each of Dongfeng Peugeot Citroën Automobiles Company Ltd, Dongfeng Honda Engine Co., Ltd, Dongfeng Honda Auto Parts Co., Ltd and Dongfeng Nissan Diesel Motor Co., Ltd were injected into the Company by Dongfeng Motor Corporation with effect from 1st April, 2000 as part of debt restructuring arrangements undertaken by Dongfeng Motor Corporation and approved by the SETC.

Under PRC law:

(a) the share transfer procedures needed to transfer legal title in these Joint Venture Companies were only completed in 2004 upon the obtaining of consent from each relevant joint venture partner and the approval from the Ministry of Commerce; and

(b) Dongfeng Motor Corporation remained a party to the relevant joint venture contracts until the above share transfer procedures were completed.

Notwithstanding (a) and (b) above, however, the effective date of the debt restructuring and the transfer of the equity interests of these Joint Venture Companies from Dongfeng Motor Corporation to the Company remains 1st April, 2000 in accordance with (i) the debt restructuring agreement approved by the SETC, (ii) the approval issued by the SETC, and (iii) the approval of the valuation report relating to the debt restructuring arrangements issued by the Ministry of Finance. Accordingly, each of these Joint Venture Companies has been accounted for in the Group's consolidated financial information from the beginning of the Relevant Periods.

Comparability of financial results of 2002, 2003, 2004 and six months ended 30th June, 2004 and six months ended 30th June, 2005

Due to the change in the structure of the Group, as well as the events which are set out in Note 15 and Note 16 of the Accountants' Report in Appendix I to this prospectus, the financial information of 2002 is not directly comparable with that of 2003, the financial information of 2003 is not directly comparable with that of 2004 and the financial information of six months ended 30th June, 2004 is not directly comparable with that of the six months ended 30th June, 2005.

In particular, the following events (each a "Proportionate Consolidation Event") requiring proportionate consolidation have affected the comparability of financial information:

(i) In July 2003, as part of the arrangements relating to the establishment of Dongfeng Motor Co., Ltd, (A) the Company injected the majority of its commercial vehicle businesses, its entire business of manufacturing the Nissan series of passenger vehicles, and the majority of its auto parts manufacturing businesses and all of its vehicle manufacturing equipment businesses into Dongfeng Motor Co., Ltd, and (B) Nissan Motor Co., Ltd contributed in cash in U.S. dollars equivalent to approximately RMB3,602 million to Dongfeng Motor Co., Ltd as part of its planned capital contribution (approximately 43.1% of the total agreed capital contribution to be paid by Nissan Motor Co., Ltd under the relevant joint venture agreement). Please refer to Note 15(b) of the Accountants' Report set out in Appendix I to this prospectus for further details.

As the Company only holds 50% of the equity interests in Dongfeng Motor Co., Ltd (with the other 50% equity interests now being held by Nissan (China) Investment Co., Ltd), and as the Company's interests in Dongfeng Motor Co., Ltd have been proportionately consolidated into the consolidated accounts of the Group as permitted under IFRSs, only 50% of the financial data attributable to those assets and businesses which were injected by the Company into Dongfeng Motor Co., Ltd were consolidated into the consolidated accounts of the Group from 1st July, 2003. In addition, Nissan Motor Co., Ltd has made various contributions, both tangible (such as part of the planned capital contribution of RMB3,602 million) and intangible (such as the contribution of its management expertise and production techniques) to Dongfeng Motor Co., Ltd.

(ii) In February 2004, the Company injected its entire 98.78% equity interests in Xiangfan Dongfeng Motor Electrical Equipment Co., Ltd into Dongfeng Motor Co., Ltd as part of the agreed capital contribution to Dongfeng Motor Co., Ltd while Nissan Motor Co., Ltd contributed in cash in U.S. dollars equivalent to RMB94 million to Dongfeng Motor Co., Ltd as its corresponding capital contribution to Dongfeng Motor Co., Ltd.

(iii) On 1st July, 2004, the Company injected its entire equity interest in two of its then subsidiaries, Dongfeng Automobile Co., Ltd (which is engaged in the manufacture and sale of light trucks and engines) and Dongfeng Electronic Technology Co., Ltd (which is engaged in the manufacture and sale of auto parts), into Dongfeng Motor Co., Ltd as part of the agreed capital contribution to Dongfeng Motor Co., Ltd. Both Dongfeng Automobile Co., Ltd and Dongfeng Electronic Technology Co., Ltd have "A" Shares which are listed on the Shanghai Stock Exchange. At the same time, the Company further injected RMB115 million in Dongfeng Motor Finance Co., Ltd into Dongfeng Motor Co., Ltd. These injections of equity interests and cash by the Company were matched by an injection in cash in U.S. dollars equivalent to approximately RMB4,654 million Dongfeng Motor Co., Ltd of by Nissan (China) Investment Co., Ltd.

Similar to the reasons set out in paragraph (i) above, as the Company's interests in Dongfeng Motor Co., Ltd have been proportionately consolidated into the consolidated accounts of the Group as permitted by IFRSs, only 50% of the financial data attributable to those assets and businesses which were injected by the Company into Dongfeng Motor Co., Ltd on 1st July, 2004 were proportionately consolidated into the consolidated accounts of the Group after 1st July, 2004.

(iv) During the Relevant Periods, the Company's equity interest in Dongfeng Peugeot Citroën Automobiles Company Ltd increased from 31% in 2002 to 50% at the end of 2004. The financial data of Dongfeng Peugeot Citroën Automobiles Company Ltd was proportionately consolidated in the consolidated accounts of the Group on the bases set out in paragraph (ii) of the section headed "Financial Information — Impact of the Dongfeng Joint Venture Companies on the financial results of the Group — Proportionate Consolidation of Dongfeng Joint Venture Companies". For further details, please refer to Note 16, "Investments in Jointly-controlled entities — (b) Acquisitions of additional equity interests in a jointly-controlled entity" to Section II "Notes to Financial Information" of the Accountants' Report set out in Appendix I to this prospectus.

Selected Historical Financial Information of the Group

The following consolidated income statements for the three years ended 31st December, 2004 and for the six months ended 30th June, 2004 and 2005, and the selected consolidated balance sheet information as of 31st December, 2002, 2003 and 2004 and 30th June, 2005 set forth below are derived from the Accountants' Report set out in Appendix I to this prospectus. In preparing the consolidated financial information for the Group, financial data not originally stated in IFRSs were converted into IFRSs and further adjustments were made for proportionate consolidation as permitted by IFRSs. The basis of presentation is set out in Note 1 to Section II "Notes to Financial Information" of the Accountants' Report set out in Appendix I to this prospectus.

Consolidated Income Statements

	Year ended 31st December,			Six months ended 30th June,	
	2002	2003	2004	2004	2005
	RMB million	RMB million	RMB million	RMB million	RMB million
Continuing operations:					
Revenue — Sales of goods	40,412	36,556	32,737	15,759	21,192
Cost of sales	(30,619)	(28,326)	(26,952)	(12,627)	(18,426)
Gross profit	9,793	8,230	5,785	3,132	2,766
Other income	425	420	430	132	333
Gain on acquisition of subsidiaries and an associate	301	12	—	—	—
Gain/(loss) on dilution of interests in certain businesses and investments, net	—	1,180	852	(6)	—
Selling and distribution costs	(1,234)	(1,247)	(1,384)	(676)	(802)
Administrative expenses	(2,712)	(1,999)	(1,793)	(886)	(873)
Other expenses, net	(915)	(1,606)	(654)	(391)	(270)
Net finance costs	(389)	(252)	(104)	(39)	(144)
Share of profits and losses of associates	257	49	42	20	12
Profit before tax	5,526	4,787	3,174	1,286	1,022
Income tax expense	(876)	(211)	(308)	(387)	(258)
Profit for the year/period from continuing operations	4,650	4,576	2,866	899	764
Discontinued operations:					
Loss for the year from discontinued operations	(492)	(363)	—	—	—
Profit for the year/period	4,158	4,213	2,866	899	764
Attributable to:					
Equity holders of the parent	3,069	3,339	2,598	745	660
Minority interests	1,089	874	268	154	104
	4,158	4,213	2,866	899	764
Dividends	200	200	—	—	1,390
Earnings per share:					
— basic for the year/period	28.86 cents	31.40 cents	28.38 cents	7.01 cents	10.96 cents
— diluted for the year/period	N/A	N/A	N/A	N/A	N/A

Selected Consolidated Balance Sheet Information

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB million	RMB million	RMB million	RMB million
ASSETS				
Non-current assets	18,470	11,115	14,015	15,517
Current assets	25,065	17,675	19,436	21,341
Total assets	43,535	28,790	33,451	36,858
EQUITY AND LIABILITIES				
Total equity	13,316	12,606	10,115	10,792
Non-current liabilities	4,832	1,813	3,665	4,211
Current liabilities	25,387	14,371	19,671	21,855
Total equity and liabilities	43,535	28,790	33,451	36,858

Major Factors Affecting the Group's Results of Operations

The Group's results of operations and the period-to-period comparability of its financial results are affected by a number of factors, including:

- **Demand for vehicles in China** — The results of operations of the Group are affected by the demand for vehicles in China. The demand for vehicles in China in recent years has been driven by a number of factors, including China's growing GDP and the increased buying power of China's growing middle class, the increasing urbanization of China's population, and improving road transportation infrastructure. The Chinese government has also adopted policies encouraging the purchase of automobiles by its citizens, such as opening China's domestic auto financing market to foreign participants. Other factors, such as changes in economic conditions, which in turn are influenced by the PRC government's macroeconomic policies, may have the effect of decreasing the demand for vehicles in China. Any significant change in demand for vehicles in China will affect the Group's results of operations. Please refer to the sections in this prospectus headed "Industry Overview" and "Risk Factors — Risks relating to the PRC Automotive Industry" for further details of factors which may affect demand for vehicles in China and the PRC automotive industry in general.

- **Increasing competition** — PRC automotive manufacturers face increasing competition both from domestic competitors and foreign imports. Both the Group and a number of its competitors have recently announced major production capacity expansions in the PRC in order to take advantage of perceived long-term growth trends in the PRC automotive market. Higher levels of competition contributed to price cuts in the PRC commercial and passenger vehicle segments in 2003 and 2004, which have adversely affected the Group's revenue for those periods. Increasing competition has led to oversupply and price cuts and could continue to do so, which could adversely affect the Group's results of operations. Please refer to the section of this prospectus headed "Risk Factors — Risks relating to the PRC Automotive Industry."

- **Cost of raw materials, auto parts and components** — A significant portion of the supplies used in production by the Dongfeng Motor Group include raw materials, auto parts and components.

Fluctuations in the price of raw materials, auto parts and components have had, and will continue to have, an impact on the Group's results of operations. Because a significant portion of Dongfeng Motor Group's auto parts and components are purchased from abroad, fluctuations in foreign exchange rates have had, and will continue to have, an impact on the cost of auto parts and components.

- **Regulatory environment of the PRC** — Tightening of regulations applicable to the PRC automotive industry may increase the production and other costs of the Dongfeng Motor Group in complying with such regulations. This may have an adverse impact on the Group's results of operations. Please refer to the section in this prospectus headed "Risk Factors — Risks relating to the PRC Automotive Industry" for a more detailed discussion on the impact of certain regulatory changes on the Group's results of operations.

- **Taxes** — The entities within the Group are subject to corporate income tax at rates of between 15% and 33% except for certain preferential treatment available to the Company, its subsidiaries and its jointly-controlled Joint Venture Companies. For instance, the Joint Venture Companies within the Group are exempted from corporate income tax for two years commencing from their first profitable year and are entitled to a 50% reduction in corporate income tax for three years thereafter. Please refer to Note 8 to Section II "Notes to Financial Statements" of the Accountants' Report at Appendix I to this prospectus for further details. Any changes in PRC tax policies which were to significantly decrease or eliminate the tax benefits described above would directly and adversely affect the Group's profitability.

- **Equity interests in Joint Venture Companies** — A substantial proportion of the Group's businesses are operated through the Dongfeng Joint Venture Companies, and any Dongfeng Joint Venture Companies which are Jointly-controlled Entities are, and will be, consolidated into the accounts of the Group on a proportionate consolidation basis as permitted by IFRSs. Accordingly, if the Group acquires, disposes of, or otherwise alters its shareholding in any Jointly-controlled Entities, the Group's financial results will be affected.

- **Value of Renminbi** — The value of the Renminbi may fluctuate due to a number of factors. Since 1994, the official exchange rate for the conversion of Renminbi to U.S. dollars has generally been stable. However, starting from 21st July, 2005, China moved into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. The exchange rate of the U.S. dollar against Renminbi was adjusted by the People's Bank of China to approximately U.S.$1.00 = RMB8.11 on 21st July, 2005. Any significant change in the value of the Renminbi will affect the Group's results of operations. Please refer to the section in this prospectus headed "Risk Factors — Risks relating to the PRC".

Other variables relate to the overall state of the economy of the PRC and the fiscal and other economic policies of the PRC's central and local governments, both of which are not within the Dongfeng Motor Group's control. Please refer to the section in this prospectus headed "Risk Factors" and the section headed "Financial Information — Market Risks" for a more detailed discussion of the various factors which may adversely affect the Group's results of operations.

Substantially all of the Group's revenues and profits have been derived in the PRC and, in accordance with its current strategy, will continue to be derived in the PRC. Consequently, the Group's performance will continue to be affected by political, economic, legal and other developments in the PRC.

Critical Accounting Policies

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties and that could potentially result in materially different results under different assumptions and conditions.

The Company's subsidiaries and Jointly-controlled Entities prepare their statutory accounts under their accounting policies in accordance with PRC GAAP. Their accounting policies under the PRC GAAP are not materially different from those of the Group. The Accountants' Report has been prepared in accordance with IFRSs and adjustments have been made to the accounts of the Company's subsidiaries and Jointly-controlled Entities so as to comply with the Group's accounting policies under IFRSs. The Company's principal accounting policies are set forth in Note 2 to Section II of the Accountants' Report. IFRSs requires that the Company adopt the accounting policies and make the estimates that its directors believe are most appropriate in the circumstances for the purposes of giving a true and fair view of the Company's results of operations and financial condition. However, different policies, estimates and assumptions in critical areas could lead to materially different results. The Company has identified below the accounting policies that it believes are the most critical to its consolidated financial statements and that involve the most significant estimates and judgments.

Joint Venture Companies

A Joint Venture Company of the Company is a company set up by contractual agreement, whereby the Group and other parties undertake an economic activity. A Joint Venture Company of the Company operates as a separate entity in which the Group and the other parties have an interest.

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

A Joint Venture Company of the Company is treated as:

(a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the Joint Venture Company;

(b) a Jointly-controlled Entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the Joint Venture Company;

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

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

Jointly-controlled Entities

A Jointly-controlled Entity is a Joint Venture Company which is subject to joint control, resulting in none of the participating parties having unilateral control over the activities of the Jointly-controlled Entity.

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

The results of Jointly-controlled Entities of the Group are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's investments in its Jointly-controlled Entities are treated as long term assets and are stated at cost less impairment losses.

Property, plant and equipment

In accounting for property, plant and equipment, the Group must make estimates about the expected useful lives of the assets, the expected residual values of the assets, and the potential for impairment based on the fair value of the assets and the cash flows they generate.

The following table shows a breakdown of the Group's property, plant and equipment along with information about depreciation lives of these groups:

Asset	Depreciation Life
Buildings	over 10 to 45 years
Plant and equipment	over 5 to 20 years

The Dongfeng Motor Group reviews the carrying values of the property, plant and equipment for impairment when events or circumstances indicate the carrying value may not be recoverable. Factors that would indicate potential impairment may include, but are not limited to, significant decreases in the market value of the property, plant and equipment, a significant change in the asset's physical condition, and operating or cash flow losses associated with the use of the property, plant and equipment. Impairment losses are recognized in the income statement.

There is an inherent risk in estimating the future cash flows used in the impairment test. If the cash flows do not materialize as estimated, there is a risk the impairment charges recognized to date may be inaccurate, or further impairment charges may be necessary in the future.

Allowance for doubtful debts

The Group extends credit to customers and other parties in the normal course of business and maintains an allowance for doubtful debts for estimated losses resulting from the inability or unwillingness of customers to make required payments. The Group bases such estimates on its historical experience, existing economic conditions and any specific customer collection issues it has identified. Uncollectible accounts receivable are written off when the Group determines that the balance will not be collected. While such losses have historically been within the Group's expectations and the provision established, the Group may not continue to experience the same credit loss rates it has in the past. Circumstances in some of the industries in which the Group's customers operate may affect their operating performance and cash flows, which in turn may affect the Group's ability to collect its accounts receivables. As circumstances develop, the financial condition of specific customers changes or additional information becomes available, adjustments to the allowance for doubtful debts may be required.

Deferred income tax

Deferred income tax is provided in full, using the liability method, for all significant temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements. The Group records a valuation allowance, when appropriate, to adjust deferred tax asset balances to the amount it expects to realize. The Group considers, as applicable, the amount of taxable income available in carryback years, future taxable income and potential tax planning strategies in assessing the potential need for a valuation allowance. The Group will require future taxable income in order to fully realize its net deferred tax assets. Should the Group determine that it will not likely realize all or part of its net deferred income tax assets in the future, an adjustment to the deferred tax asset balance would be charged to the income tax provision in the period such determination is made.

Sales Allowances

At the time of sale, the Group records as a reduction of revenue the estimated impact of the sales allowances in the form of dealer and customer incentives. There may be numerous types of incentives available at any particular time. Some factors used in estimating the cost of incentives include the volume of vehicles that will be affected by the incentive programs offered by product and the rate of customer acceptance of any incentive program. If the actual number of vehicles differs from this estimate, or if a different mix of incentives occurs, the sales allowances could be affected.

Product warranties

Provisions for estimated expenses related to product warranties are made at the time products are sold. These estimates are established using historical information about the nature, frequency, and average cost of warranty claims. Management actively studies trends of warranty claims and takes action to improve quality and minimize warranty claims. Management believes that the warranty reserves levels are appropriate; however, actual claims incurred could differ from the original estimates, requiring adjustments to the reserves.

Provisions for environmental costs

Provisions for future environmental restoration costs are based on the present value of the future costs expected to be incurred. The Group has provided reserves to cover probable and estimable liabilities, taking into account currently available information and the Group's contractual rights of indemnification. However, estimates of future response costs are necessarily imprecise. Accordingly, there can be no assurance that the Group will not become involved in future litigation or other proceedings or, if the Group were found to be responsible or liable in any litigation or proceeding, that such costs would not be material.

In addition to the foregoing critical accounting policies, a description of the Group's treatment of inventory and provision for inventory is set forth in "Business — Inventory Control", and a description of the Group's treatment of trade receivables is set forth in "Business — Sales and Services Network — Payment terms".

Consolidated Results of Operations and Discussion of the Results

Results of Operations

The following table summarises the Group's historical results of operations as a percentage of total revenues for the periods shown:

	Year ended 31st December,			Six months ended 30th June,	
	2002	2003	2004	2004	2005
	%	%	%	%	%
Continuing operations:					
Revenue — Sales of goods	100.0	100.0	100.0	100.0	100.0
Cost of sales	(75.8)	(77.5)	(82.3)	(80.1)	(86.9)
Gross profit	24.2	22.5	17.7	19.9	13.1
Other income	1.1	1.1	1.3	0.8	1.5
Gain on acquisition of subsidiaries and an associate	0.7	—	—	—	—
Gain/(loss) on dilution of interests in certain businesses and investments, net	—	3.2	2.6	—	—
Selling and distribution costs	(3.0)	(3.4)	(4.2)	(4.3)	(3.8)
Administrative expenses	(6.7)	(5.4)	(5.5)	(5.6)	(4.1)
Other expenses, net	(2.2)	(4.3)	(2.0)	(2.5)	(1.3)
Net finance costs	(1.0)	(0.7)	(0.3)	(0.2)	(0.7)
Share of profits and losses of associates	0.6	0.1	0.1	0.1	0.1
Profit before tax	13.7	13.1	9.7	8.2	4.8
Income tax expense	(2.2)	(0.6)	(0.9)	(2.5)	(1.2)
Profit for the year/period from continuing operations	11.5	12.5	8.8	5.7	3.6
Discontinued operations:					
Loss for the year from discontinued operations	(1.2)	(1.0)	—	—	—
Profit for the year/period	10.3	11.5	8.8	5.7	3.6
Attributable to:					
Equity holders of the parent	7.6	9.1	8.0	4.7	3.1
Minority interests	2.7	2.4	0.8	1.0	0.5
	10.3	11.5	8.8	5.7	3.6

General

The following discussion is based on the Group's historical results of operations. As a result of the factors discussed above, such results of operations may not be indicative of the Group's future operating performance.

Continuing operations:

Revenue

Since the injection by the Company of the majority of its commercial vehicle businesses, its entire business of manufacturing the Nissan series of passenger vehicles, the majority of its auto parts manufacturing businesses and all of its vehicle manufacturing equipment businesses into Dongfeng Motor Co., Ltd in July 2003, the Group has derived, and continues to derive, substantially all of its revenues from sales of motor vehicles and auto parts and components by Dongfeng Joint Venture Companies with foreign partners in China. Revenue of the Group represents the net invoiced value of goods sold, after allowances for trade discounts and returns, and excludes sales taxes.

Intersegment Revenue

The intersegment revenue of the Group represented the sales of engines and other auto parts of the Group's entities in the "Engines and other auto parts" segment to other entities in other business segments and was fully eliminated on consolidation.

Cost of Sales

Cost of sales of the Group represents costs of goods sold which consist mainly of costs of raw materials, costs of automotive spare parts and components and labour and production costs which have been directly incurred during the production process.

Gross Profit Margin

Gross profit means revenue less cost of sales of the Group. Gross profit margin is gross profit as a percentage of revenue. For the three years ended 31st December, 2004 and the six months ended 30th June, 2004 and 2005, the Group's gross profit margin from continuing operations (after elimination of intra-group transactions) was 24.2%, 22.5%, 17.7%, 19.9% and 13.1%, respectively. The following table sets forth the gross profit margin (including intra-group transactions) for each of the major business segments of the Dongfeng Motor Group for 2002, 2003 and 2004 and the six months ended 30th June, 2004 and 2005:

	Year ended 31st December,			Six months ended 30th June,	
Business Segments	**2002**	**2003**	**2004**	**2004**	**2005**
	(%)	**(%)**	**(%)**	**(%)**	**(%)**
Commercial Vehicles	12.1	10.3	8.3	9.6	7.7
Passenger Vehicles	29.7	27.9	18.8	22.1	11.6
Engines and Other Auto Parts	31.5	21.9	21.8	22.0	19.7
Corporate and Others	13.3	13.2	11.9	7.4	7.6

Other Income

Other income mainly comprises government grants and subsidies and net income from disposal of other materials, service fees and other income.

Gain on Acquisition of Subsidiaries and an Associate

Acquisition of subsidiaries and an associate comprise the additional equity interests acquired by the Group in Aeolus Automobile Co., Ltd, and Xiangfan Heavy Vehicle Axle Co., Ltd in 2002, and the equity interest received by the Group in Qinghai Dongfeng Motor Auto Parts Co., Ltd (青海東風汽車零部件有限責任公司) from the PRC government in 2003 at no cost.

Net Gain/(loss) on Dilution of Interests in certain Businesses and Investments

Net gain/(loss) on dilution of interests in certain businesses and investments was recognised due to the injection of almost all of the Company's commercial vehicles manufacturing business and certain of its passenger vehicles and auto parts manufacturing businesses into Dongfeng Motor Co., Ltd as capital contributions in 2003 and 2004, as part of the joint venture arrangements of Dongfeng Motor Co., Ltd.

Selling and Distribution Costs

Selling and distribution costs mainly comprise salaries and staff related benefits for sales personnel, transportation and storage costs, advertising and marketing expenses, and other sales-related costs.

Administrative Expenses

Administrative expenses mainly comprise salaries and staff related benefits for administrative staff, administration-related property, plant and equipment depreciation expenses, assumption of losses of social function operation entities by the Company, and other administration-related expenses.

Net Other Expenses

Net other expenses mainly comprise research costs, net exchange gains or losses, impairment of property, plant and equipment, provisions for bad and doubtful debts, reorganisation expenses, warranty provisions and other such expenses.

Net Finance Costs

Net finance costs comprise interest on borrowings and financial charges for bills discounted, less amounts capitalised and bank interest income.

Share of Profits and Losses of Associates

This represents share of profits and losses of associates of the Group, mainly Aeolus Automobile Co. Ltd, which became a subsidiary of the Group in September 2002 and which subsequently formed part of the Company's assets and businesses which were injected into Dongfeng Motor Co., Ltd upon Dongfeng Motor Co., Ltd's establishment in May 2003.

Income Tax Expense

Under the relevant PRC Income Tax Law and the respective regulations, the Group is subject to corporate income tax at rates ranging from 15% to 33% of its assessable income (as calculated in accordance with relevant PRC regulations).

According to the Income Tax Law for Foreign Investment Enterprises and Foreign Enterprises and other policies related to income tax relief, companies within the Dongfeng Motor Group with foreign investments are exempted from corporate income tax for two years, starting from their first profitable year, and are then entitled to a 50% reduction in corporate income tax for three years thereafter. Please refer to Note 8 — "Taxation" to the Accountants' Report at Appendix I to this prospectus for further details of the income tax regime to which the Group and the Dongfeng Joint Venture Companies was subject to during each of the Relevant Periods, as well as further details of the income tax expenses of the Group.

The effective income tax rates of the Group were approximately 17%, 5% and 10% for the three years ended 31st December, 2002, 2003 and 2004, respectively, and 30% and 25% for the six months ended 30th June, 2004 and 2005, respectively. The effective tax rates of the Group decreased from 17% in 2002 to 5% and 10% in 2003 and 2004, respectively, mainly due to (i) the increase in profit before tax of companies which were entitled to tax concessions and lower tax rates for specific provinces and locations; and (ii) the recognition of gains on dilution of interests in businesses and investments that are not taxable. The higher effective tax rate of 30% for the six months ended 30th June, 2004 than that of 2004 was mainly because more non-taxable income was earned in the second half of 2004 as a result of (i) higher profit before tax of companies which were entitled to tax concessions and lower tax rates for specific provinces and locations in that period; and (ii) a non-taxable gain on dilution of interests in businesses and investments amounting to RMB858 million only being recognised in that period.

Loss from Discontinued Operations

Loss from discontinued operations mainly represents the net loss of the social function operations, non-core businesses and certain equity investments prior to the transfer of such operations and businesses to Dongfeng Motor Corporation at the effective date of 31st December, 2003 pursuant to the assets transfer agreement dated 26th August, 2004.

Minority Interests

Minority interests mainly relate to the sharing of profits of Dongfeng Automobile Co., Ltd, Dongfeng Electronic Technology Co., Ltd, Xiangfan Heavy Vehicle Axle Co., Ltd (襄樊重型車橋股份有限公司), Guangzhou Aeolus Automobile Co., Ltd and Aeolus Automobile Co., Ltd (previously subsidiaries of the Company and currently subsidiaries of Dongfeng Motor Co., Ltd) with their respective minority shareholders.

Earnings per share

The calculation of basic earnings per share amounts is based on the Net Profit of the Group for the Relevant Periods divided by the weighted average number of Domestic Shares of the Company in issue during those respective periods. The Company's weighted average number of Domestic Shares in issue during the Relevant Periods used in the basic earnings per share calculation is determined on the assumption that the 6,020,000,000 Domestic Shares of RMB1 each issued as a result of the Reorganisation had been in issue throughout the Relevant Periods and as adjusted to add back the deemed 4,613,500,000 Domestic Shares of RMB1 each in issue for the period prior to 6th September, 2004 (the effective date when the Company repurchased such shares pursuant to the Equity Repurchase Transaction).

No diluted earnings per share are disclosed as no diluting events existed during the Relevant Periods.

Six months ended 30th June, 2005 compared with six months ended 30th June, 2004

Comparability of results for the six months ended 30th June, 2005 to results for the six months ended 30th June, 2004

Due to the arrangements relating to the establishment of Dongfeng Motor Co., Ltd, and the reasons set out in the sub-section above headed "Overview — Impact of the Dongfeng Joint Venture Companies on the financial results of the Group — Comparability of financial results of 2002, 2003, 2004 and six months ended 30th June, 2004 and six months ended 30th June, 2005", the financial results of the Group for the six months ended 30th June, 2005 are not directly comparable with the financial results of the Group for the six months ended 30th June, 2004 or, on a relative basis to 2004.

Revenue

The table below sets out the analysis of sales to external customers of the Donfeng Motor Group for each of the six months ended 30th June, 2004 and 2005:

Category	Six months ended 30th June, 2005		Six months ended 30th June, 2004	
	Revenue RMB (millions)	Number of vehicles sold by the Dongfeng Motor Group	Revenue (RMB millions)	Number of vehicles sold by the Dongfeng Motor Group
Commercial vehicles	6,821	140,758	6,814	118,616
Passenger vehicles	10,379	164,490	4,377	89,480
Engines and other auto parts	3,004	n/a	3,988	n/a
Corporate and others	988	n/a	580	n/a
Total	**21,192**		**15,759**	

Total revenue of the Group from sales to external customers increased RMB5,433 million, or approximately 34.5%, to RMB21,192 million for the six months ended 30th June, 2005 from RMB15,759 million for the same period in 2004. The overall increase in the Group's total revenue of RMB5,433 million reflected increases of RMB7 million, RMB6,002 million and RMB408 million in revenue from the sales of commercial vehicles, passenger vehicles and corporate and others business respectively and a decrease of RMB984 million in revenue from the sales of engines and auto parts, to external customers of the Dongfeng Motor Group.

The revenue from sales of commercial vehicles to external customers stayed flat for the six months ended 30th June, 2005 compared with the same period in 2004. There was an increase in the average selling prices of commercial vehicles for the six months ended 30th June, 2005 compared with the same period in 2004 as a result of the Group producing more high-end truck products to optimise its product mix, and an increase in the sales volume of light trucks from 24,213 units for the six months ended 30th June, 2004 to 45,912 units for the same period in 2005 as a result of the Group's effort in selling higher end light trucks, partially offset by Proportionate Consolidation Events and a slight decrease in the sales volume of heavy trucks from 50,204 units for the six months ended 30th June, 2004, to 47,732 units for the same period ended in 2005 due to the Group's marketing plans and efforts in optimizing its product mix.

The revenue from sales of passenger vehicles to external customers increased by approximately 137.1% to RMB10,379 million for the six months ended 30th June, 2005 from RMB4,377 million for the same period in 2004. The increase was primarily due to (i) an increase in the sales volume of passenger vehicles from 89,480 units for the six months ended 30th June, 2004 to 164,490 units for the same period in 2005 as a result of launching new models including Nissan Teana, Nissan Tiida, Dongfeng Honda CR-V and Dongfeng Peugeot 307; (ii) a slight increase in the overall average selling prices of the passenger vehicles as a result of launching new passenger vehicle models with higher selling prices and (iii) Proportionate Consolidation Events.

The revenues from sales of engines and other auto parts to external customers decreased by approximately 24.7% to RMB3,004 million for the six months ended 30th June, 2005 from RMB3,988 million for the same period in 2004. The overall revenue from sales of engines and other auto parts to external customers decreased primarily due to (i) Proportionate Consolidation Events, and (ii) a decrease in the average selling prices due to the adjustment in product mix and sales structure and increase in competition. The decrease was partially offset by an increase in the sales volume of engines sold to Guangzhou Honda Automobile Co., Ltd by approximately 26,700 units, or approximately 32.6%, compared with the six months ended 30th June, 2004.

Revenue from corporate and others increased 70.3% from RMB580 million for the six months ended 30th June, 2004 to RMB988 million for the six months ended 30th June, 2005, primarily due to an increase in trading activities of KD parts and the export of commercial vehicles due to the increase in demand of commercial vehicles.

Intersegment Revenue

Intersegment revenue decreased by approximately 31.0% to RMB1,849 million for the six months ended 30th June, 2005 from RMB2,681 million for the same period in 2004. The decrease in intersegment revenue was primarily due to a decrease in the supply of engines and other auto parts to internal customers primarily due to Proportionate Consolidation Events and a reduction in the internal demand for engines used in heavy and medium trucks.

Cost of Sales and Gross Profit Margin

Cost of sales of the Group increased by RMB5,799 million, or 45.9%, to RMB18,426 million for the six months ended 30th June, 2005 from RMB12,627 million for the same period in 2004. The overall increase in cost of sales was primarily due to (i) an increase in the sales volume of commercial and passenger vehicles and engines and other auto parts, and partially due to (ii) the general increase in the price of raw materials, in particular steel, which started in the second half of 2004. The increase was partially offset by the Proportionate Consolidation Events.

The table below sets out the gross profit margin in relation to the major business segments of the Group for the six months ended 30th June, 2004 and 2005:

	Six months ended 30th June, 2005	**Six months ended 30th June, 2004**
Gross profit margin of the Group (after elimination of intra-group transactions)	13.1%	19.9%
Gross profit margin (including intra-group transactions) attributable to:		
— Commercial vehicles	7.7%	9.6%
— Passenger vehicles	11.6%	22.1%
— Engines and other auto parts	19.7%	22.0%
— Corporate and others	7.6%	7.4%

The gross profit margin of the Group (after elimination of intra-group transactions) decreased to 13.1% for the six months ended 30th June, 2005 from 19.9% for the same period in 2004. The decrease was mainly due to a drop in the gross profit margin (including intra-group transactions) for commercial and passenger vehicles.

The gross profit margin for commercial vehicles decreased to 7.7% for the six months ended 30th June, 2005 from 9.6% for the same period in 2004. The decrease was primarily due to the general increase in the prices of raw materials, particularly steel, a major raw material for manufacturing commercial vehicles. The decrease was partially offset by an increase in the average selling prices of commercial vehicles, as a result of the Group producing more high-end truck products.

The gross profit margin for passenger vehicles decreased to 11.6% for six months ended 30th June, 2005 from 22.1% for the same period ended in 2004. The decrease was primarily due to (i) price cuts on existing passenger vehicles of Dongfeng Motor Co., Ltd and of Dongfeng Peugeot Citroën Automobiles Company Ltd due to increase in competition, and (ii) the increased costs of auto parts imported from Japan and Europe, as a result of the appreciation of the Japanese Yen and the Euro for six months ended 30th June, 2005 compared with those for the six months ended 30th June, 2004. The decrease was partially offset by the launch of new models, which have higher gross profit margin, including Dongfeng Peugeot 307, Dongfeng Honda CR-V and Nissan Teana.

Other Income

Other income for the six months ended 30th June, 2005 was RMB333 million, which represented an increase of 152.3% from the Group's other income of RMB132 million for the same period in 2004. The rise in other income was primarily due to (i) an increase in government grants in the six months ended 30th June, 2005 to RMB157 million from RMB40 million in the same period in 2004, and (ii) the increase in net income from the disposal of other materials in the six months ended 30th June, 2005 to RMB125 million from RMB78 million in the same period in 2004.

Selling and Distribution Costs

Selling and distribution costs for the six months ended 30th June, 2005 were RMB802 million, which represented an increase of 18.6% from the Group's selling and distribution costs of RMB676 million for the same period in 2004. The increase in the Group's distribution costs was primarily due to (i) an increase in sales volumes of vehicles; (ii) an increase in advertising expenses to promote newly launched models; and (iii) an increase in transportation and storage costs as a result of increased sales volumes. The table below sets out the breakdown of key components of distribution costs for the six months ended June, 2005 and 2004, respectively:

Component	**Six months ended 30th June, 2005**	**Six months ended 30th June, 2004**
	(RMB millions)	
Salaries and staff related welfare for sales personnel	94	76
Transportation and storage costs	204	114
Advertising and marketing expenses	353	224
Others	151	262
Total	802	676

Administrative Expenses

Administrative expenses for the six months ended 30th June, 2005 were RMB873 million, which represented a slight decrease from the Group's administrative expenses of RMB886 million for the same period in 2004. The table below sets out the breakdown of key components of administrative expenses for the six months ended 30th June, 2005 and 2004, respectively:

Component	Six months ended 30th June, 2005	Six months ended 30th June, 2004
	(RMB millions)	
Salaries and staff related welfare for administrative staff	448	416
Administration-related fixed assets depreciation expenses	57	42
Others	368	428
Total	873	886

Net Other Expenses

The Group's net other expenses decreased 30.9% from RMB391 million for the first six months of 2004 to RMB270 million for the first six months ended 30th June, 2005. The decrease was primarily due to foreign exchange gains from the depreciation of the Euro in the amount of RMB160 million recognised for the six months ended 30th June, 2005. The RMB-Euro exchange rate as of 30th June, 2005 was lower than the exchange rate on 31st December, 2004. The decrease was partially offset by an increase in research and development costs and an increase in provision for warranties to customers.

Net Finance Costs

Net finance costs for the six months ended 30th June, 2005 were RMB144 million, which represented an increase of 269.2% from the Group's net finance costs of RMB39 million for the same period in 2004. The increase was primarily due to increased interest expense as a result of raising bank loans to buy back equity stakes held by the AMCs in 2004 and the Proportionate Consolidation Events.

Share of Profits and Losses of Associates

Share of profits and losses of associates for the six months ended 30th June, 2005 was RMB12 million, which represented a decrease of 40% from the Group's share of profits and losses of associates of RMB20 million for the same period in 2004. The drop in share of profits and losses of associates was primarily due to the Proportionate Consolidation Events.

Income Tax Expenses

Income tax expenses for the six months ended 30th June, 2005 were RMB258 million, which represented a decrease of 33.3% from the Group's income tax expenses of RMB387 million for the same period in 2004. The decrease in income tax expenses was primarily due to a decrease in deferred income tax in the amount of RMB83 million charged to the income statement.

Minority Interests

Minority interests for the six months ended 30th June, 2005 were RMB104 million, which represented a decrease of 32.5% from the Group's minority interests of RMB154 million for the same period in 2004. The drop in minority interests was primarily due to the Proportionate Consolidation Events.

Net Profit of the Group

As a result of the foregoing factors, the Net Profit of the Group decreased by RMB85 million, or 11.4%, from RMB745 million for the six months ended 30th June, 2004 to RMB660 million for the same period in 2005. The Net Profit of the Group as a percentage of the Group's revenue decreased to 3.1% for the six months ended 30th June, 2005 from 4.7% for the same period in 2004.

2004 compared with 2003

Comparability of results for 2004 to results for 2003

Due to the arrangements relating to the establishment of Dongfeng Motor Co., Ltd, and the Proportionate Consolidation Events set out in the sub-section above headed "Overview — Impact of the Dongfeng Joint Venture Companies on the financial results of the Group — Comparability of financial results of 2002, 2003, 2004 and six months ended 30th June, 2004 and six months ended 30th June, 2005", the financial results of the Group for 2004 are not directly comparable with the financial results of the Group for 2003.

Revenue

The table below sets out the analysis of sales to external customers of the Dongfeng Motor Group from continuing operations for the years ended 2004 and 2003

	Year ended 31st December, 2004		Year ended 31st December, 2003	
	Revenue RMB (millions)	Number of vehicles sold by the Dongfeng Motor Group[1]	Revenue RMB (millions)	Number of vehicles sold by the Dongfeng Motor Group[1]
Commercial vehicles	14,556	245,702	15,567	224,439
Passenger vehicles	9,212	176,974	11,248	178,330
Engines and other auto parts	7,685	n/a	8,281	n/a
Corporate and others	1,284	n/a	1,460	n/a
Total	32,737		36,556	

Note:

(1) Please note that while the revenue figures in the above table reflect the proportionately consolidated revenues of the Group, the figures relating to the number of vehicles sold by the Dongfeng Motor Group in the above table represent the actual total number of vehicles sold by the Dongfeng Motor Group during the period stated.

Total revenue from continuing operations of the Group from sales to external customers decreased RMB3,819 million, or approximately 10.4%, to RMB32,737 million in 2004 from RMB36,556 million in 2003. The overall decrease in the Group's total revenue from continuing operations of RMB3,819 million reflected decreases of RMB1,011 million, RMB2,036 million, RMB596 million and RMB176 million in revenue from continuing operations of the Group from the sales of commercial vehicles, passenger vehicles, engines and auto parts, and corporate and other business respectively, to external customers of the Dongfeng Motor Group.

As discussed in the sub-section above headed "Comparability of financial results of 2002, 2003, 2004 and six months ended 30th June, 2004 and six months ended 30th June, 2005", the overall decrease in revenue from continuing operations of the Group between 2003 and 2004 was primarily due to the fact that only 50% of the revenue generated from the assets and businesses injected by the

Company into Dongfeng Motor Co., Ltd on 1st July, 2003 was consolidated into the Group's revenue after 1st July, 2003, as compared with 100% of such revenues being included in the Group's revenue prior to 1st July, 2003. In addition, only 50% of the revenue attributable to those assets and businesses which were injected by the Company into Dongfeng Motor Co., Ltd on 1st July, 2004 were consolidated into the consolidated amounts of the Group after 1st July, 2004, as compared with 100% of such revenues being included in the Group's revenue prior to 1st July, 2004.

The revenues from continuing operations of the Group from sales of commercial vehicles to external customers decreased by approximately 6.5% from RMB15,567 million in 2003 to RMB14,556 million in 2004. This decrease was due to the Proportionate Consolidation Events, a decrease in the average selling prices of light trucks in 2004 compared with 2003, a decrease in the sales volume of medium trucks from 59,081 units in 2003 to 55,031 units in 2004 and a decrease in the sales volume of light trucks from 54,644 units in 2003 to 50,545 units in 2004, respectively, as a result of increased competition. However, this was partly offset by an increase in the average selling prices of both heavy and medium trucks compared with 2003, as a result of the Group producing more high-end truck products to optimise its product mix and an increase in sales volume of heavy trucks from 82,323 units in 2003 to 110,131 units in 2004.

The revenues from continuing operations of the Group from sales of passenger vehicles to external customers decreased RMB2,036 million, or approximately 18.1%, from RMB11,248 million in 2003 to RMB9,212 million in 2004. This decrease reflected primarily (i) the Proportionate Consolidation Events, (ii) the overall decrease in sales volumes of passenger vehicles from 178,330 units in 2003 to 176,974 units in 2004, (iii) the decreases in average selling prices of passenger vehicles produced by Dongfeng Peugeot Citroën Automobiles Company Ltd due to intense competition and (iv) the decreases in average selling prices of passenger vehicles of Dongfeng Motor Co., Ltd (namely the Nissan Bluebird III and the Nissan Sunny Series) due to increased competition. The decline in revenues was partially offset by an increase in revenues from the sale of newly launched car models including Nissan Teana, Dongfeng Peugeot 307 and Dongfeng Honda CR-V.

The revenues from continuing operations of the Group from sales of engines and other auto parts to external customers decreased by RMB596 million, or approximately 7.2%, to RMB7,685 million in 2004 from RMB8,281 million in 2003. The overall revenue from continuing operations of the Group from sales of engines and other auto parts to external customers decreased primarily because of (i) the Proportionate Consolidation Events, (ii) decreased average selling prices due to increased competition, and (iii) the intentional reduction of sales of commercial vehicle engines and auto parts to external customers in order to increase the supply to internal customers to satisfy the increasing demand for heavy trucks. The decrease was partially offset by an increase in the sales volume of engines sold to Guangzhou Honda Automobile Co., Ltd by approximately 85,000 units, or approximately 67.7%, compared with 2003.

Intersegment Revenue

Intersegment revenue from continuing operations of the Group decreased by RMB2,029 million from RMB6,745 million in 2003 to RMB4,716 million in 2004. The decrease in intersegment revenue from continuing operations of the Group was primarily due to the Proportionate Consolidation Events.

Cost of Sales and Gross Profit Margin

Cost of sales from continuing operations of the Group decreased by RMB1,374 million, or 4.9%, to RMB26,952 million in 2004 from RMB28,326 million in 2003. The overall decrease in cost of sales from continuing operations of the Group was primarily due to the Proportionate Consolidation Events.

The table below sets out the gross profit margin from continuing operations in relation to the major business segments of the Group for 2004 and 2003:

	2004	2003
Gross profit margin of the Group (after elimination of intra-group transactions)	17.7%	22.5%
Gross profit margin (including intra-group transactions) attributable to:		
— Commercial vehicles	8.3%	10.3%
— Passenger vehicles	18.8%	27.9%
— Engines and other auto parts	21.8%	21.9%
— Corporate and others	11.9%	13.2%

The gross profit margin from continuing operations of the Group (after elimination of intra-group transactions) decreased to 17.7% in 2004 from 22.5% in 2003. The decrease was mainly due to a drop in the gross profit margin from continuing operations of the Group (including intra-group transactions) for passenger vehicles.

The gross profit margin from continuing operations of the Group (including intra-group transactions) for commercial vehicles decreased to 8.3% in 2004 from 10.3% in 2003. This decrease was primarily due to (i) the general increases in the prices of raw materials, particularly steel, a major raw material for manufacturing commercial vehicles, (ii) increases in costs incurred for quality improvements and (iii) decreases in the average selling prices of light trucks due to increased competition. The decrease in gross profit margin was partially offset by an increase in the average selling prices of both heavy and medium trucks, as a result of the Dongfeng Motor Group producing more high-end truck products.

The gross profit margin from continuing operations of the Group (including intra-group transactions) for passenger vehicles decreased to 18.8% in 2004 from 27.9% in 2003. This decrease was primarily due to (i) the general increases in the prices of materials, particularly steel, a major raw material for manufacturing passenger vehicles, (ii) significant price cuts for passenger vehicles of Dongfeng Motor Co., Ltd (namely, the Nissan Bluebird III and the Nissan Sunny series) and of Dongfeng Peugeot Citroën Automobiles Company Ltd (namely, the Fukang, Elysée and Xsara series) due to increased competition, and (iii) the increase in costs of auto parts imported from Japan and Europe, as a result of the appreciation of the Japanese Yen and the Euro in 2004.

The gross profit margin from continuing operations of the Group (including intra-group transactions) for engines and other auto parts decreased to 21.8% in 2004 from 21.9% in 2003. This decrease was due to (i) increased production of engines of lower margin which contributed less profit per unit than other engines, and (ii) increases in the prices of major raw materials for manufacturing auto parts.

The gross profit margin from continuing operations of the Group (including intra-group transactions) for corporate and others decreased to 11.9% of 2004 from 13.2% in 2003.

Other Income

Other income for 2004 was RMB430 million, which represented an increase of 2.4% from the Group's other income of RMB420 million from continuing operations in 2003.

Gain on Dilution of Interests in certain Businesses and Investments

The net gain on dilution of interests in certain businesses and investments in 2004 was RMB852 million which was recognised due to the further capital contributions by the Company by injecting certain of its assets into Dongfeng Motor Co., Ltd in February and July 2004, as part of the joint venture arrangements of Dongfeng Motor Co., Ltd. The assets injected by the Company into Dongfeng Motor Co., Ltd mainly included, amongst others, cash of RMB115 million and a 70% equity interest in Dongfeng Automobile Co., Ltd; a 75% equity interest in Dongfeng Electronic Technology Co., Ltd; a 98.78% equity interest in Xiangfan Dongfeng Motor Electrical Equipment Co., Ltd; and a 40% equity interest in Dongfeng Motor Finance Co., Ltd.

Selling and Distribution Costs

Selling and distribution costs in 2004 were RMB1,384 million, which represented an increase of 11.0% from the Group's selling and distribution costs of RMB1,247 million from continuing operations in 2003. The increase in the Group's selling and distribution costs from continuing operations was primarily due to (i) an increase in the Group's advertising and marketing expenses from continuing operations to RMB509 million in 2004 from RMB379 million in 2003 (which was primarily due to increased advertising and marketing expenses of Dongfeng Peugeot Citroën Automotive Company Ltd as a result of the launch of a new model, namely Dongfeng Peugeot 307 and of Dongfeng Motor Co., Ltd as a result of increased competition), and (ii) an increase in the other selling and distribution costs of the Group as a result of measures taken by Dongfeng Motor Co., Ltd to market its products, partly offset by a decline in transportation and storage costs due to the Proportionate Consolidation Events. The table below sets out the breakdown of key components of selling and distribution costs from continuing operations of the Group for 2004 and 2003, respectively:

Component	**Year ended 31st December, 2004**	**Year ended 31st December, 2003**
	(RMB million)	
Salaries and staff related welfare for sales personnel	160	150
Transportation and storage costs	287	394
Advertising and marketing expenses	509	379
Others	428	324
Total	1,384	1,247

Administrative Expenses

Administrative expenses in 2004 were RMB1,793 million, which represented a decrease of 10.3% from the Group's administrative expenses of RMB1,999 million from continuing operations in 2003. Although other administrative costs, such as rental, management fees and various professional fees increased, there was a drop in overall administrative expenses because of Proportionate Consolidation Events. The table below sets out the breakdown of key components of administrative expenses from continuing operations of the Group for 2003 and 2004, respectively:

Component	Year ended 31st December, 2004	Year ended 31st December, 2003
	(RMB million)	
Salaries and staff related welfare for administrative staff	813	1,104
Administration-related property, plant and equipment depreciation expenses	95	110
Others	885	785
Total	1,793	1,999

Net Other Expenses

The Group's net other expenses from continuing operations decreased by 59.3% from RMB1,606 million in 2003 to RMB654 million in 2004. This was primarily due to (i) the Proportionate Consolidation Events (ii) a decrease in warranty provision as a result of a decrease in the number of warranty claims as a result of quality improvement and (iii) a decrease in provision for bad and doubtful debts due to management's effort on debt collection partially offset by an increase in research and development costs relating to additional innovation projects and purchases of testing equipment. In addition, reorganisation expenses of RMB436 million incurred by Dongfeng Motor Co., Ltd in connection with its formation in 2003, which did not recur in 2004, also contributed to the decrease in net other expenses in 2004.

Net Finance Costs

Net finance costs in 2004 were RMB104 million, which represented a decrease of 58.7% from the Group's net finance costs from continuing operations of RMB252 million in 2003. The drop in net finance costs from continuing operations of the Group was primarily due to (i) a decrease in interest expense following the repayment of borrowings after 30th June, 2003, and (ii) the Proportionate Consolidation Events.

Share of Profits and Losses of Associates

Share of profits of associates in 2004 was RMB42 million, which represented a decrease of 14.3% from the Group's share of profits associates from continuing operations of RMB49 million in 2003. The drop in share of profits of associates was primarily due to Proportionate Consolidation Events.

Income Tax Expense

Income tax expenses in 2004 were RMB308 million, which represented an increase of 46.0% from the Group's income tax expense from continuing operations of RMB211 million in 2003. The increase in income tax expense was primarily due to an increase in the deferred income tax from continuing operations in the amount of RMB116 million charged to the income statement.

Loss from Discontinued Operations

According to the assets transfer agreement dated 26th August, 2004, all benefits and liabilities of the discontinued operations should be attributed to and be borne by Dongfeng Motor Corporation commencing from 1st January, 2004, therefore, no results relating to discontinued operations were recognised in 2004.

Minority Interests

Minority interests in 2004 were RMB268 million, which represented a decrease of 69.3% from the Group's minority interests of RMB874 million in 2003. The drop in minority interests was primarily due to (i) the decrease in profit of Guangzhou Aeolus Automobile Co., Ltd, a previously 60% owned subsidiary of the Company which became a 60% owned subsidiary of Dongfeng Motor Co., Ltd in July 2003, and (ii) Proportionate Consolidation Events.

Net Profit of the Group

As a result of the foregoing factors, the Net Profit of the Group decreased by RMB741 million, or 22.2%, from RMB3,339 million in 2003 to RMB2,598 million in 2004. The Net Profit of the Group as a percentage of the Group's revenue decreased to 8.0% in 2004 from 9.1% in 2003.

2003 compared with 2002

Comparability of 2003 results to 2002 results

Due to the arrangements relating to the establishment of Dongfeng Motor Co., Ltd, and the reasons set out in the sub-section above headed "Overview — Impact of the Dongfeng Joint Venture Companies on the financial results of the Group — Comparability of financial results of 2002, 2003, 2004 and six months ended 30th June, 2004 and six months ended 30th June, 2005", the financial results of the Group for 2003 are not directly comparable with the financial results of the Group in 2002.

Revenue

The table below sets out the analysis of sales to external customers of the Group from continuing operations for the years ended 2003 and 2002:

	Year ended 31st December, 2003		Year ended 31st December, 2002	
	Revenue RMB (millions)	**Number of vehicles sold by the Dongfeng Motor Group [1]**	**Revenue (RMB millions)**	**Number of vehicles sold by the Dongfeng Motor Group [1]**
Commercial vehicles	15,567	224,439	23,258	250,750
Passenger vehicles	11,248	178,330	8,421	128,994
Engines and other auto parts	8,281	n/a	6,659	n/a
Corporate and others	1,460	n/a	2,074	n/a
Total	36,556		40,412	

Note:

(1) Please note that while the revenue figures in the above table reflect the proportionately consolidated revenues of the Group, the figures relating to the number of vehicles sold by the Dongfeng Motor Group in the above table represent the actual total number of vehicles sold by the Dongfeng Motor Group during the period stated.

Total revenue from continuing operations of the Group from sales to external customers decreased RMB3,856 million, or approximately 9.5%, to RMB36,556 million in 2003 from RMB40,412 million in 2002. This decrease of RMB3,856 million comprised a decrease of RMB7,691 million in revenue from continuing operations of the Group from sales of commercial vehicles to external customers and a decrease of RMB614 million in revenue from continuing operations of the Group from corporate and others, which was offset by an increase of RMB1,622 million in revenue from continuing operations of the Group from sales of engines and other auto parts to external customers, and an increase in revenue from continuing operations of the Group from sales of passenger vehicles to external customers of RMB2,827 million.

As explained in the sub-section above headed "Comparability of 2003 results to 2002 results", the main reason for the overall decrease in revenue from continuing operations of the Group between 2002 and 2003 was the formation of Dongfeng Motor Co., Ltd in 2003, upon which only 50% of the revenue generated by the assets and businesses injected by the Company into Dongfeng Motor Co., Ltd was consolidated into the Group's revenues.

More particularly, the fall in revenue from continuing operations of the Group from sales of commercial vehicles to external customers of RMB7,691 million, or 33.1%, from RMB23,258 million in 2002 to RMB15,567 million in 2003, reflected primarily the injection of substantially all the Company's commercial vehicle manufacturing businesses into Dongfeng Motor Co., Ltd in mid-2003 and the subsequent proportionate consolidation of only 50% of the revenue generated by these businesses into the consolidated revenues from continuing operations of the Group, as well as a drop in unit price of some categories of commercial vehicles manufactured by the Dongfeng Motor Group. In 2003, the sales volume of all commercial vehicles manufactured by the Dongfeng Motor Group (including heavy trucks) was approximately 10.5% lower than sales volume of all commercial vehicles manufactured by the Dongfeng Motor Group in 2002. Please refer to the section of this prospectus headed "Business — Details of products manufactured by the Dongfeng Motor Group" for further details of the drop in unit sales of commercial vehicles from 2002 to 2003.

The drop in unit sales of all commercial vehicles sold by the Dongfeng Motor Group in 2003 was in turn primarily attributable to the effect of SARS on sales and a general drop in demand for trucks, particularly medium trucks, in the PRC. The Dongfeng Motor Group decreased its market share in the PRC medium trucks sector (in terms of sales volume achieved) from 43.7% in 2002 to 43.3% in 2003. The increasing competition in the commercial vehicle segment (particularly the light trucks sub-segment) of the PRC automotive industry caused a decline in prices.

Despite only half of the revenues generated from the business of manufacturing the Nissan series of passenger vehicles being consolidated into the revenues of the Group in the second half of 2003 due to the formation of Dongfeng Motor Co., Ltd, revenues from continuing operations of the Group from sales of passenger vehicles to external customers still increased 33.6% to RMB11,248 million in 2003 from RMB8,421 million in 2002 as a result of particularly strong demand for passenger vehicles in 2003. As a percentage of the Group's total revenues from continuing operations, sales of passenger vehicles from continuing operations of the Group to external customers accounted for 30.8% in 2003 compared to 20.8% in 2002.

These increases primarily reflected (i) increases in sales volumes of the Nissan Bluebird (an increase from approximately 39,700 units sold in 2002 to approximately 43,600 units sold in 2003), (ii) the launch of the Nissan Sunny (with approximately 21,340 units sold in 2003), (iii) increases in sales of the Dongfeng Citroën Elysée (an increase from approximately 28,400 units sold in 2002 to approximately 48,000 units sold in 2003) and (iv) the launch of the Dongfeng Future (with approximately 10,080 units sold in 2003) which more than offset the price cuts on existing models of passenger cars. Please refer to the section of this prospectus headed "Business — Details of Products Manufactured by the Dongfeng Motor Group — Passenger Vehicles" for further details of unit sales of the various passenger vehicles manufactured by the Dongfeng Motor Group during 2002 and 2003.

The increase in revenue from continuing operations of the Group from sales of engines and other auto parts to external customers of RMB1,622 million, or approximately 24.4%, from RMB6,659 million in 2002 to RMB8,281 million in 2003, was mainly attributable to increased sales of Honda passenger vehicle engines from Dongfeng Honda Engine Co., Ltd to Guangzhou Honda Automobile Co., Ltd and a reduction in the proportion of engines and other auto parts manufactured by members of the Dongfeng Motor Group for self-use rather than sales to third parties, and was achieved despite falling sales of Dongfeng Cummins engines in 2003.

Intersegment Revenue

Intersegment revenue from continuing operations of the Group increased by RMB97 million from RMB6,648 million in 2002 to RMB6,745 million in 2003. Despite the Proportionate Consolidation Events, the increase in intersegment revenue from continuing operations of the Group was primarily due to the increase in the supply of engines and other auto parts to internal customers to meet the increased production of the commercial vehicles.

Cost of Sales and Gross Profit Margin

Cost of sales from continuing operations of the Group decreased by RMB2,293 million, or 7.5%, to RMB28,326 million in 2003 from RMB30,619 million in 2002. This overall decrease in cost of sales from continuing operations of the Group was generally in line with the drop in sales, as explained above, and was primarily due to the proportionate consolidation of only 50% of the costs of sales incurred in respect of those businesses which were injected by the Company into Dongfeng Motor Co., Ltd upon its formation in mid-2003.

The table below sets out the gross profit margin of the Group from continuing operations and major business segments of the Group for 2002 and 2003:

	2003	2002
Gross profit margin of the Group (after elimination of intra-group transactions)	22.5%	24.2%
Gross profit margin (including intra-group transactions) attributable to:		
— Commercial vehicles	10.3%	12.1%
— Passenger vehicles	27.9%	29.7%
— Engines and other auto parts	21.9%	31.5%
— Corporate and others	13.2%	13.3%

The gross profit margin from continuing operations of the Group (after elimination of intra-group transactions) decreased to 22.5% in 2003 from 24.2% in 2002, reflecting declines in the gross profit margins from continuing operations (including intra-group transactions) for commercial vehicles, passenger vehicles and engines and other auto parts.

The gross profit margin from continuing operations of the Group (including intra-group transactions) attributable to commercial vehicles manufactured by the Dongfeng Motor Group decreased to 10.3% in 2003 from 12.1% in 2002, primarily due to increased procurement costs resulting from the price increase of raw materials (especially steel, iron and coal) and the decline in prices of commercial vehicles caused by increased competition (particularly in the light trucks subsegment).

The gross profit margin from continuing operations of the Group (including intra-group transactions) for passenger vehicles decreased to 27.9% in 2003 from 29.7% in 2002. These decreases resulted primarily from:

(i) price cuts on existing models of passenger cars due to increased competition throughout the PRC passenger vehicles market, in particular for the Dongfeng Citroën Elysée, the Dongfeng Citroën Fukang and the Nissan Bluebird; and

(ii) an increase in procurement costs due to an increase in the cost of raw materials and imported auto parts and components, which was in turn largely attributable to fluctuations of the Euro and the Japanese Yen against the Renminbi between 2002 and 2003.

The gross profit margin from continuing operations of the Group (including intra-group transactions) for engines and other auto parts decreased to 21.9% in 2003 from 31.5% in 2002. This decrease resulted primarily from (i) a decrease in the gross profit margin generated by Guangzhou Honda Automobile Co., Ltd, which in turn contributed to a decrease in the average price per unit of engines produced by Dongfeng Honda Engine Co., Ltd as a result of the profit sharing arrangements detailed in the section of this prospectus headed "History, Reorganisation and Group Structure — Joint Venture Developments"; and (ii) a decrease in the gross profit margin generated by Dongfeng Automobile Co., Ltd.

Other Income

Other income from continuing operations of the Group decreased by RMB5 million, or 1.2%, to RMB420 million in 2003 from RMB425 million in 2002 despite an increase in gains on disposal of other materials from continuing operations of the Group from RMB35 million in 2002 to RMB127 million in 2003 as a result of the increase in the Group's production volume. Such decrease was mainly due to a decline in government grants and subsidies from continuing operations of the Group from RMB252 million in 2002 to RMB154 million in 2003. In 2002, such government grants and subsidies mainly represented tax refunds to the Company. Since the tax paid by the Group from continuing operations decreased in 2003 due to a decrease in taxable profit in that year, the related refunds also decreased.

Gain on Acquisition of Subsidiaries and an Associate

The gains on acquisition of subsidiaries and an associate of the Group from continuing operations in 2003 was RMB12 million, a decrease from RMB301 million in 2002, which was recognised due to the equity interest in Qinghai Dongfeng Motor Auto Parts Co., Ltd (青海東風汽車零部件有限責任公司) received by the Group from the PRC government for zero consideration.

Gain on Dilution of Interests in certain Businesses and Investments

The gains on dilution of interests in certain businesses and investments of the Group from continuing operations in 2003 was RMB1,180 million which was recognised due to the initial capital contribution by the Company as part of the injection of all of its commercial vehicles manufacturing business and certain of its passenger vehicles and auto parts manufacturing businesses into Dongfeng Motor Co., Ltd in July 2003, pursuant to the joint venture arrangements of Dongfeng Motor Co., Ltd.

Selling and Distribution Costs

Selling and distribution costs of the Group from continuing operations increased by RMB13 million, or 1.1%, to RMB1,247 million in 2003 from RMB1,234 million in 2002 despite the proportionate consolidation of only 50% of the distribution costs incurred in connection with those businesses which were injected by the Company into Dongfeng Motor Co., Ltd in July 2003. This increase was primarily due to increased advertising expenses and an increase in transportation and storage costs and salaries and staff related welfare for sales personnel associated with distribution network expansions undertaken in 2003.

The table below sets out the breakdown of key components of selling and distribution costs from continuing operations of the Group for 2003 and 2002, respectively:

Component	**Year ended 31st December, 2003**	**Year ended 31st December, 2002**
	(RMB million)	
Salaries and staff related welfare for sales personnel	150	136
Transportation and storage costs	394	326
Advertising and marketing expenses	379	287
Others	324	485
Total	1,247	1,234

Administrative Expenses

Administrative expenses from continuing operations of the Group decreased RMB713 million, or 26.3%, to RMB1,999 million in 2003 from RMB2,712 million in 2002. This overall decrease in administrative expenses payable by the Group in 2003 as compared with 2002 was mainly attributable to the proportionate consolidation of only 50% of the administrative expenses incurred in respect of (i) the businesses which were injected by the Company into Dongfeng Motor Co., Ltd in July 2003 and (ii) a special performance — linked bonus of RMB490 million to the employees, which was accrued in 2002, but not in 2003.

The table below sets out the breakdown of key components of administrative expenses of the Group from continuing operations for 2003 and 2002, respectively:

Component	Year ended 31st December, 2003	Year ended 31st December, 2002
	(RMB million)	
Salaries and staff related welfare for administrative staff	1,104	1,737
Administration-related property, plant and equipment depreciation expenses	110	137
Others	785	838
Total	1,999	2,712

Net Other Expenses

Net other expenses of the Group from continuing operations increased by RMB691 million, or 75.5%, to RMB1,606 million in 2003 from RMB915 million in 2002. The increase was primarily due to increases in warranty provision expenses, provision for bad and doubtful debts, research costs and exchange losses of the Group from continuing operations in 2003, despite the proportionate consolidation of only 50% of the expenses attributable to the assets and businesses which were injected by the Company into Dongfeng Motor Co., Ltd upon its formation in July 2003. In addition, such increase was also due to the reorganisation expenses incurred by Dongfeng Motor Co., Ltd in 2003 in respect of its formation in an amount of RMB436 million. The increase in provision for bad and doubtful debts of the Group from continuing operations was mainly due to the increase in the proportion of receivables aged over three years.

Net Finance Costs

Net finance costs of the Group from continuing operations decreased by RMB137 million, or 35.2%, to RMB252 million in 2003 from RMB389 million in 2002. This overall decrease in net finance costs was primarily attributable to (i) the proportionate consolidation of only 50% of the net finance costs incurred in respect of those businesses which were injected by the Company into Dongfeng Motor Co., Ltd upon its formation in July 2003, (ii) a reduction in outstanding bank borrowings owed by Dongfeng Peugeot Citroën Automobiles Company Limited attributable to the Group from RMB1,988 million in 2002 to RMB1,819 million in 2003 and (iii) a reduction in outstanding debt owed by Dongfeng Motor Co., Ltd attributable to the Group of RMB909 million in the second half of 2003.

Share of Profits and Losses of Associates

Share of profits and losses of associates of the Group from continuing operations decreased by RMB208 million, or 80.9%, to RMB49 million in 2003 from RMB257 million in 2002. This decrease is primarily due to the fact that Aeolus Automobile Co. Ltd ceased to be an associate of the Group in September 2002, as a result of the increase of the Company's direct and indirect equity interests attributable to the Group in Aeolus Automobile Co., Ltd from 45% in 2001 to 63% in 2002.

Income Tax Expense

Income tax expenses of the Group from continuing operations decreased by RMB665 million, or 75.9%, to RMB211 million in 2003 from RMB876 million in 2002 despite stable tax rates. This decrease primarily reflected a decrease in the Group's profit before tax from continuing operations by RMB739 million from RMB5,526 million in 2002 to RMB4,787 million in 2003.

Loss from Discontinued Operations

Loss from discontinued operations decreased by RMB129 million from RMB492 million in 2002 to RMB363 million in 2003, mainly due to an increase in earnings from the provision of utility services.

Minority Interests

Minority interests decreased by RMB215 million, or 19.7%, to RMB874 million in 2003 from RMB1,089 million in 2002. This decrease primarily reflected the formation of Dongfeng Motor Co., Ltd, whereby only 50% of the Group's minority interests had been consolidated since the second half of 2003.

Net Profit of the Group

As a result of the foregoing factors, the Net Profit of the Group increased by RMB270 million, or 8.8%, from RMB3,069 million in 2002 to RMB3,339 million in 2003, and the Net Profit of the Group as a percentage of the Group's revenue increased to 9.1% in 2003 from 7.6% in 2002.

Additional financial information

Certain additional financial information for several of the major Dongfeng Joint Venture Companies is set out in the section of this prospectus headed "Business — Overview of the Business of the Group".

LIQUIDITY AND CAPITAL RESOURCES

To date the Group has funded its operations principally from internal funds, proceeds from the sale of its products and the products of the Dongfeng Joint Venture Companies, capital contribution from the shareholders of the Dongfeng Joint Venture Companies and bank borrowings. As a result, the liquidity of the Group would be affected to the extent there is a significant decrease in demand for or pricing of the products of the Group and the Dongfeng Joint Venture Companies or a significant change in the availability of bank loans.

Cash Flow

The Group

The following table presents selected cash flow data from the Group's consolidated cash flow statements for 2002, 2003 and 2004 and the six month periods ended 30th June, 2004 and 2005.

	Year ended 31st December,			Six months Ended 30th June,	
	2002	2003	2004	2004	2005
	RMB million	RMB million	RMB million	RMB million	RMB million
Net cash flows generated from operating activities	7,041	3,580	1,869	888	3,016
Net cash flows used in investing activities	(2,025)	(2,977)	(2,928)	(2,330)	(2,708)
Net cash flows generated from/(used in) financing activities	(549)	(2,548)	(936)	(131)	25
Net increase/(decrease) in cash and cash equivalents	4,467	(1,945)	(1,995)	(1,573)	333

Six months ended 30th June, 2005

Net cash generated from operating activities in the six months ended 30th June, 2005 was RMB3,016 million. This amount reflected primarily: (i) profit before tax of RMB1,022 million; (ii) an increase in trade, bills and other payables and accrued liabilities of RMB1,794 million which was due primarily to (a) increased purchases of supplies and raw materials by Dongfeng Motor Co., Ltd; and (b) the fact that the credit period provided by the Company's suppliers increased from two months to three months, despite a decrease in amounts due to Dongfeng Motor Corporation and its subsidiaries amounting to RMB83 million. The Group's balances with Dongfeng Motor Corporation and its subsidiaries as at 30th June, 2005 were mainly related to trading among the Group, Dongfeng Motor Corporation and its subsidiaries and an amount of RMB723 million payable to Dongfeng Motor Corporation as a result of the Reorganisation. These balances were fully repaid in November 2005; (iii) depreciation and impairment of RMB687 million; (iv) a decrease in balances with Jointly-controlled Entities amounting to RMB283 million and (v) a decrease in inventories of RMB526 million. The Group's balances with Jointly-controlled Entities as at 30th June, 2005 are mainly related to trading among Dongfeng Joint Venture Companies. These amounts were partly offset by an increase in trade, bills and other receivables, prepayments and deposits of RMB864 million which included a decrease in amounts due from Dongfeng Motor Corporation and its subsidiaries amounting to RMB2 million. The Group's amounts due from Dongfeng Motor Corporation and its subsidiaries as at 30th June, 2005 were mainly related to trading among the Group, Dongfeng Motor Corporation and its subsidiaries. Receivables, prepayments and deposits increased primarily due to increased sales volumes of vehicles.

Net cash used in investing activities in the six months ended 30th June, 2005 was RMB2,708 million, and was primarily attributable to purchases of property, plant and equipment of RMB1,796 million primarily relating to (i) capacity expansions undertaken and (ii) development of new products, an increase in pledged time deposits of RMB337 million and an increase in non-pledged time deposits with original maturity of three months or more when acquired of RMB734 million in this period in both cases to secure bank borrowings, which were partly offset by proceeds from the disposal of obsolete property, plant and equipment of RMB247 million.

Net cash generated from financing activities in the six months ended 30th June, 2005 was RMB25 million, primarily reflecting proceeds of borrowings of RMB4,602 million partly offset by the cash outflow from repayment of borrowings and repurchases of capital in connection with the repayment of the AMC Debt.

In the six months ended 30th June, 2005, the Group had a net increase in cash and cash equivalents of RMB333 million, as compared with a net decrease of RMB1,995 million in 2004, bringing the cash and cash equivalents position to RMB4,811 million as of 30th June, 2005, as compared with RMB4,478 million as of 31st December, 2004.

Six months ended 30th June, 2004

Net cash generated from operating activities in the six months ended 30th June, 2004 was RMB888 million. This amount reflected primarily: (i) profit before tax of RMB1,286 million; (ii) an increase in trade, bills and other payables and accrued liabilities of RMB2,352 million which was due primarily to increased purchases of supplies and raw materials by Dongfeng Motor Co., Ltd ; and (iii) depreciation and impairment of RMB493 million, and was partly offset by an increase in trade, bills and other receivables, prepayments and deposits of RMB1,788 million and an increase in inventories of RMB1,169 million. Receivables increased primarily due to a decrease in the reendorsement of bills receivable by Dongfeng Motor Co., Ltd as payments to creditors and the initiation of credit sales to selected customers by certain subsidiaries of Dongfeng Motor Co., Ltd. Inventories increase primarily due to increased purchases of raw materials in connection with the production and launch of new passenger vehicle models.

Net cash used in investing activities in the six months ended 30th June, 2004 was RMB2,330 million, and was primarily attributable to purchases of property, plant and equipment of RMB1,056 million primarily relating to capacity expansions undertaken, an increase in pledged time deposits of RMB459 million and an increase in non-pledged time deposits with original maturity of three months or more when acquired of RMB1,064 million in this period, in which case due to secure bank borrowings, which were partly offset by proceeds from disposal of property, plant and equipment of RMB143 million and cash acquired as a result of disposal of certain investments to Dongfeng Motor Co., Ltd of RMB36 million.

Net cash used in financing activities in the six months ended 30th June, 2004 was RMB131 million, primarily reflecting the cash outflow from repayment of borrowings, partly offset by proceeds from borrowings.

In the six months ended 30th June, 2004, the Group had a net decrease in cash and cash equivalents of RMB1,573 million, as compared with a net decrease of RMB1,945 million in 2003, bringing the cash and cash equivalents position to RMB4,900 million as of 30th June, 2004, as compared with RMB6,473 million as of 31st December, 2003.

2004

Net cash flows generated from operating activities in 2004 was RMB1,869 million. This amount reflected primarily: (i) profit before tax of RMB3,174 million; (ii) an increase in trade, bills and other payables and accrued liabilities of RMB3,006 million, which was due primarily to (a) increased purchases of supplies and raw materials by Dongfeng Motor Co., Ltd and (b) an increase in amounts due to Dongfeng Motor Corporation and its subsidiaries amounting to RMB1,066 million. The Group's amounts due to Dongfeng Motor Corporation and its subsidiaries as at 31st December, 2004 are mainly related to trading among the Group, Dongfeng Motor Corporation and its subsidiaries and an amount of RMB723 million payable to Dongfeng Motor Corporation as a result of the Reorganisation; and (iii) depreciation and impairment of RMB1,056 million, and was partly offset by (i) a non-cash dilution gain in the amount of RMB852 million in respect of the injection by the Company of certain businesses and investments into Dongfeng Motor Co., Ltd as further capital contribution to it, (ii) an increase in trade, bills and other receivables, prepayments and deposits of RMB1,921 million, which included a decrease in amounts due from Dongfeng Motor Corporation and its subsidiaries amounting to RMB51 million. The Group's amounts due from Dongfeng Motor Corporation and its subsidiaries as at 31st December, 2004 are mainly related to trading among the Group, Dongfeng Motor Corporation and its subsidiaries; (iii) an increase in inventories of RMB1,944 million. Receivables increased primarily due to an increase in credit sales and an increase in prepayments to suppliers in connection with the purchase of raw materials, and inventories increased mainly due to an accumulation of inventories to avoid the increase in raw materials prices, and (iv) an increase in balances with Jointly-controlled Entities amounting to RMB101 million. The amounts relating to the Group's Jointly-controlled Entities as at 31st December, 2004 are mainly related to trading among Dongfeng Joint Venture Companies.

Net cash flows used in investing activities in 2004 was RMB2,928 million, and was primarily attributable to (i) purchases of property, plant and equipment of RMB2,985 million primarily relating to capacity expansions undertaken, (ii) purchases of RMB290 million of intangible assets consisting of costs incurred for the implementation of an SAP system by Dongfeng Motor Co., Ltd and for purchasing technical knowhow and licences for the production of Dongfeng Peugeot 307, (iii) cash outflow due to increases in the equity interest in Dongfeng Peugeot Citroën Automobiles Company Ltd of RMB655 million (being the net effect of the Group's cash payments of RMB912 million and additional cash of Dongfeng Peugeot Cirtroën Automobiles Company Ltd of RMB257 million consolidated by the Group), and (iv) an increase in pledged time deposits to secure bank borrowings of RMB481 million, which were partly offset by proceeds from disposal of property, plant and equipment of RMB430 million and cash acquired as a result of the disposal of certain assets and liabilities to Dongfeng Motor Co., Ltd of RMB872 million (being the net effect of the outflow of cash of RMB1,502 million and additional cash contribution from the foreign joint venture partner of RMB2,374 million consolidated by the Group).

Net cash flows used in financing activities in 2004 was RMB936 million, primarily reflecting the cash outflow from repayment of borrowings and amounts paid for the Company's repurchase of capital, partly offset by proceeds from borrowings.

In 2004, the Group had a net decrease in cash and cash equivalents of RMB1,995 million, as compared with a net decrease of RMB1,945 million in 2003, bringing the cash and cash equivalents position to RMB4,478 million as of 31st December, 2004, as compared with RMB6,473 million as of 31st December, 2003.

2003

Net cash flows generated from operating activities in 2003 was RMB3,580 million. This amount reflected primarily (i) profit before tax of RMB4,424 million, (ii) depreciation and impairment of RMB1,521 million, and (iii) an increase in trade, bills and other payables and accrued liabilities of RMB2,105 million which also included an increase in amounts due to Dongfeng Motor Corporation and its subsidiaries amounting to RMB481 million. The amounts due to Dongfeng Motor Corporation and its subsidiaries as at 31st December, 2003 are mainly related to trading among the Group, Dongfeng Motor Corporation and its subsidiaries, partly offset by (i) a non-cash dilution gain in the amount of RMB1,180 million in respect of the injection by the Company of certain businesses and investments into Dongfeng Motor Co. Ltd. for the purpose of the formation of Dongfeng Motor Co. Ltd., (ii) an increase in trade, bills and other receivables, prepayments and deposits of RMB2,488 million due to an increase in sales and prepayments for raw material purchases, which was partly offset by a decrease in amounts due from Dongfeng Motor Corporation and its subsidiaries amounting to RMB39 million. The Group's amounts due from Dongfeng Motor Corporation and its subsidiaries as at 31st December, 2003 are mainly related to trading among the Group, Dongfeng Motor Corporation and its subsidiaries, (iii) an increase in the Group's balance with Jointly-controlled Entities amounting to RMB32 million. The Group's balances with the Jointly-controlled Entities as at 31st December, 2002 are mainly related to trading among Dongfeng Joint Venture Companies and the return of retained profits on investments (injected into Dongfeng Motor Co., Ltd by the Company in 2003 and 2004) from Dongfeng Motor Co., Ltd to the Company and (iv) an increase in inventories of RMB1,084 million due to an increase in purchases of raw materials for production. Net cash generated from operating activities in 2003 was considerably lower than net cash generated from operating activities in 2002 primarily because of the effect of the proportional consolidation of Dongfeng Motor Co. Ltd.'s results into the Group's financial results in 2003, as described under the subsection above headed "Overview" and because of a decline in profits resulting from increased costs.

Net cash flows used in investing activities in 2003 was RMB2,977 million and comprised mainly (i) purchases of property, plant and equipment used in the Group's production amounting to RMB3,187 million, (ii) cash outflows in respect of (a) the Group's injection of certain businesses, subsidiaries and associates into Dongfeng Motor Co., Ltd as an initial capital contribution to Dongfeng Motor Co., Ltd upon its formation amounting to RMB1,543 million (being the net effect of cash of RMB3,344 million disposed of and additional cash from the foreign joint venture partner's cash contribution of RMB1,801 million consolidated by the Group), (b) the acquisition of an additional 19.76% equity interest in Dongfeng Honda Automobile Co., Ltd for cash amounting to RMB36 million (being the net effect of the consideration of the acquisition of RMB46 million paid and additional cash from Dongfeng Honda Automobile Co., Ltd amounting to RMB10 million consolidated by the Group) and (c) the further capital injection into Dongfeng Peugeot Citroën Automobiles Company Ltd of cash amounting to RMB120 million (being the net effect of cash of RMB188 million contributed by the Group and additional cash from Dongfeng Peugeot Citroën Company Ltd. amounting to RMB68 million consolidated by the Group), (iii) purchases of intangible assets amounting to RMB229 million, and (iv) investments in various associates, amounting to RMB138 million, partly offset by the proceeds from disposals of property, plant and equipment amounting to RMB1,807 million due to the disposal of obsolete plant and machinery for the production of phased-out commercial vehicles prior to the formation of Dongfeng Motor Co., Ltd.

Net cash flows used in financing activities in 2003 was RMB2,548 million, primarily reflecting the cash outflows from repayment of borrowings and dividend payments partly offset by proceeds from borrowings.

In 2003, the Group had a net decrease in cash and cash equivalents of RMB1,945 million, as compared with a net increase of RMB4,467 million in 2002, bringing the cash and cash equivalents position to RMB6,473 million as of 31st December, 2003, as compared with RMB8,418 million as of 31st December, 2002.

2002

Net cash flows generated from operating activities in 2002 was RMB7,041 million. This amount primarily reflected (i) profit before tax of RMB5,034 million, (ii) an increase in trade, bills and other payables and accrued liabilities of RMB3,283 million attributable to an increase in purchases of property, plant and equipment and inventories, including an increase in amounts due to Dongfeng Motor Corporation and its subsidiaries amounting to RMB5 million; the Group's amounts due to Dongfeng Motor Corporation and its subsidiaries as at 31st December, 2002 are mainly related to trading among the Group, Dongfeng Motor Corporation and its subsidiaries, and (iii) depreciation and impairment of RMB1,592 million, partly offset by (i) an increase in inventories of RMB1,090 million due to the increase in purchases of raw materials for production, (ii) an increase in trade, bills and other receivables, prepayments and deposits amounting to RMB831 million, due to an increase in sales and an increase in amounts due from Dongfeng Motor Corporation and its subsidiaries amounting to RMB95 million; the Group's amounts due from Dongfeng Motor Corporation and fellow subsidiaries as at 31st December, 2002 are mainly related to trading among the Group, Dongfeng Motor Corporation and its subsidiaries, and (iii) an increase in other financial assets amounting to RMB309 million, and (iv) an increase in balances with Jointly-controlled Entities amounting to RMB67 million.

The amounts relating to the Group's Jointly-controlled Entities as at 31st December, 2002 are mainly related to tradings among Dongfeng Joint Venture Companies and return of retained profits on investments (injected into Dongfeng Motor Co., Ltd by the Company in 2003 and 2004) from Dongfeng Motor Co., Ltd to the Company.

Net cash flows used in investing activities in 2002 was RMB2,025 million and was comprised primarily of (i) RMB2,766 million used for the purchase of property, plant and equipment for expansion and improvement of production capacity and (ii) an increase of RMB594 million in non-pledged time deposits with original maturity of three months or more when acquired, offset partly by (i) additional cash acquired of RMB1,006 million in connection with the Group's acquisition of an additional 30% equity interest in Aeolus Automobile Co. Ltd. and of an additional 31.33% equity interest in Xiangfan Heavy Vehicle Axle Co., Ltd (being the net effect of total cash consideration of RMB196 million paid for these acquisitions and total additional cash contribution of RMB1,202 million by Aeolus Automobile Co. Ltd. and Xiangfan Heavy Vehicle Axle Co., Ltd consolidated by the Group) and (ii) proceeds of the disposal of obsolete property, plant and equipment of RMB693 million.

Net cash flows used in financing activities in 2002 was RMB549 million, primarily reflecting the net cash outflows from repayment of borrowings and dividend payments, partly offset by proceeds from borrowings.

In 2002, the Group had a net increase in cash and cash equivalents of RMB4,467 million, bringing the cash and cash equivalents position to RMB8,418 million as of 31st December, 2002, as compared with RMB3,951 million as of 31st December, 2001.

The Company

As the accounts of the Group have been prepared on a proportionate consolidation basis in accordance with IFRSs, a substantial proportion of the consolidated cash flow data set out above is the cash flow data of jointly-controlled Dongfeng Joint Venture Companies which have been proportionately consolidated into the cash flow data of the Group, but over which the Company has no majority control. The following table presents selected cash flow data from the Company's unaudited unconsolidated cash flow statements for 2002, 2003 and 2004 and the six months ended 30th June, 2004 and 2005.

	Year ended 31st December,			Six months ended 30th June,	Six months ended 30th June,
	2002	2003	2004	2004	2005
	RMB million	RMB million	RMB million	RMB million	RMB million
Net cash flows generated from operating activities	1,209	1,548	1,617	530	35
Net cash flows generated from/(used in) investing activities	(1,131)	(2,080)	(1,474)	(352)	87
Net cash generated from/(used in) financing activities	(179)	(684)	33	—	(268)
Net increase/(decrease) cash and cash equivalents	(101)	(1,216)	176	178	(146)

The Company had net cash generated from operating activities of the Company for the Relevant Periods that mainly included net cash inflow from the Company's sales of commercial vehicles and auto parts and dividend income.

The net cash flows generated from investing activities recorded by the Company during the Relevant Periods mainly comprised purchases of property, plant and equipment, net of proceeds from disposal of property, plant and equipment, and investments in Jointly-controlled Entities and subsidiaries.

The net cash flows generated from financing activities mainly comprised proceeds from borrowings, repayment of borrowings, and repurchases of registered capital.

As at 30th September, 2005, the Company maintained credit facilities of RMB7,550 million in aggregate, from which the Company had drawn down RMB4,159 million.

As at 10th November, 2005, the Company maintained credit facilities with certain PRC banks, with a maximum credit limit of RMB10,850 million in aggregate of which RMB8,350 million can be drawn down within one year from 2005 and RMB2,500 million can be drawn down within three years from 2005. As at 10th November, 2005, the Company drew down loans of RMB7,159 million from these credit facilities.

Capital Expenditures

The Group's principal requirements for capital expenditures are in relation to the expansion of the Group's production capacity and modernization of existing plant and machinery for commercial vehicles, passenger vehicles and engines and other auto parts. The Group made capital expenditures of RMB2,812 million, RMB3,416 million, RMB3,275 million and RMB1,874 million in 2002, 2003, 2004 and the first six months of 2005, respectively, primarily related to property, plant and equipment and intangible assets for its principal capital expenditure requirements.

The Company made capital expenditures of RMB1,042 million, RMB512 million, RMB122 million and RMB27 million in 2002, 2003, 2004 and the first six months of 2005, respectively, primarily related to production capacity expansions, and production equipment enhancements and licence fees incurred in respect of the introduction of new products. These capital expenditures were funded by bank loans and the Group's internally generated funds.

As part of its future growth strategy, the members of the Dongfeng Motor Group have approved capital expenditures aggregating approximately RMB6.1 billion and RMB7.3 billion for 2005 and 2006, respectively, towards capital expenditures for commercial vehicles, passenger cars and engines and other auto parts. The following table shows the Group's current estimate of capital expenditures for 2005, 2006, 2007, and 2008 primarily in relation to commercial vehicles, passenger vehicles and engines and other auto parts for:

- Modernization of existing plant and machinery, continued improvement of plant productivity, and further enhancements of the quality and reliability of the products of the Group
- Expansion of production capacity (assuming that all necessary approvals and consents are obtained and assuming that both equipment and financing are obtainable on a timely basis and that construction proceeds on a schedule typical of other production capacity expansions of similar size and technology).

	2005	2006	2007	2008
		(RMB 'million)		
Commercial vehicles	304	1,351	2,305	748
Passenger vehicles	4,742	2,785	3,915	1,572
Engines and other auto parts	899	2,578	1,801	1,327
Other	152	577	423	587

Note:

(1) The capital expenditure amounts relate to the entire investment amounts in each of the product segments, and not amounts attributable to the Company's equity interest in them. Should these planned capital expenditures be realized, they will be proportionately reflected in the future consolidated financial statements of the Group.

The Group anticipates that the funds needed to finance the capital expenditures tabled above will be financed by the internally generated funds and bank borrowings of the relevant Dongfeng Joint Venture Company.

The estimated amounts of expenditures set out above may vary from the actual amounts of expenditures for a variety of reasons, including changes in market conditions, competition, and other factors.

The Group's current plan with respect to future capital expenditures is subject to change based on the evolution of its business plan, including potential acquisitions, the progress of its capital projects, market conditions and its outlook of future business conditions. Other than as required by law, the Group does not undertake any obligation to publish updates of its capital expenditure plans. For more information, please refer to the section of this prospectus headed "Risk Factors — Forward-looking information included in this prospectus may prove inaccurate".

Working Capital

Taking into account the net cash flow from operating activities, the available existing banking facilities (including the renewal or extensions of these banking facilities upon their expiration or their subsequent new banking facilities) and the estimated net proceeds available to the Group from the Global Offering, the Directors confirm that the Group has sufficient working capital for at least the next 12 months from the Prospectus Date.

INDEBTEDNESS

Borrowings

The Group's consolidated borrowings as at 31st December, 2002, 2003 and 2004, 30th June, 2005 and 30th September, 2005, being the latest practicable date for the purpose of calculating the indebtedness of the Group, were as follows:

	As at 31st December,			As at 30th June,	As at 30th September,
	2002	2003	2004	2005	2005
	RMB million	RMB million	RMB million	RMB million	RMB million (unaudited)
Secured bank loans	1,060	715	1,013	1,080	964
Unsecured bank loans	9,047	3,975	6,071	8,642	8,342
	10,107	4,690	7,084	9,722	9,306
Unsecured:					
Loan from Dongfeng Motor Corporation	—	—	—	250	250
Other loans	233	280	46	111	89
	10,340	4,970	7,130	10,083	9,645

The Group's above borrowings during the Relevant Periods bore interest at the rates ranging from 0.30% to 10.80% per annum.

The maturity profile of the interest-bearing borrowings of the Group as at each of the balance sheet date during the Relevant Periods was as follows:

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB million	RMB million	RMB million	RMB million
Within one year or on demand	5,981	3,569	4,403	6,891
In the second year	1,898	653	328	436
In the third to fifth years, inclusive	2,064	383	1,465	2,188
Beyond five years	397	365	934	568
	10,340	4,970	7,130	10,083
Less: Portion classified as current liabilities	(5,981)	(3,569)	(4,403)	(6,891)
Non-current portion	4,359	1,401	2,727	3,192

The Group's gearing ratio was 23.8%, 17.3%, 21.3% and 27.4% as at 31st December, 2002, 31st December, 2003, 31st December, 2004 and 30th June, 2005 respectively. The gearing ratio is calculated by dividing the Group's consolidated borrowings by the total assets of the Group and has not taken into account the proceeds from the Global Offering. The decrease in the gearing ratios from 23.8% as at 31st December, 2002 to 17.3% as at 31st December, 2003 was primarily due to the repayment of borrowings and the increase in the gearing ratio to 21.3% and 27.4% as at 31st December, 2004 and as at 30th June, 2005, respectively was primarily due to the drawing down of additional borrowings in order to finance the repurchases of the Company's registered capital.

Included in the above consolidated borrowings as at 30th September, 2005 were secured bank loans without guarantees of RMB230 million, secured bank loans with guarantees of RMB734 million, unsecured bank loans with guarantees of RMB1,444 million, unsecured bank loans without guarantees of RMB6,898 million, and unsecured other loans without guarantees of RMB339 million.

The Group's loan from Dongfeng Motor Corporation represented a loan of RMB500 million advanced by Dongfeng Motor Corporation to a Jointly-controlled entity of the Company that being proportionately consolidated. In November 2005, the Company advanced an unsecured loan of RMB500 million to the jointly-controlled entity for the settlement of its loan from Dongfeng Motor Corporation amounting to RMB500 million.

In November 2005, the Company drew down several bank loans in an aggregate amount of RMB3,000 million, of which RMB2,500 million, bearing an interest of 4.698% per annum, is repayable in May 2006, and RMB500 million, bearing an interest rate of 5.184% per annum, is repayable in November 2008. All such loans are unsecured banks loans. Among such loans, RMB1,390 million was used to pay dividends to Dongfeng Motor Corporation and RMB1,428 million will be used to settle the amounts due to Dongfeng Motor Corporation in November 2005.

As at 30th September, 2005, the secured consolidated bank loans were secured by certain property, plant and equipment, intangible assets, inventories, bank deposits and balances, and other assets, including other long-term assets, trade, bills and other receivables, and prepayments and deposits, of the Group's Jointly-controlled Entities.

In November, 2005, the guarantees given by Dongfeng Motor Corporation in respect of certain secured bank loans of a jointly-controlled entity amounting to RMB807 million attributable to the Group was agreed by the lending bank to be replaced by the guarantees given by the Company prior to Listing.

Save as disclosed above, the Directors confirm that there has been no material change in the Group's indebtedness since 30th September, 2005.

Contingent Liabilities

(i) The Group and the Company had the following contingent liabilities as at the balance sheet dates indicated below:

	The Group					The Company				
	As at 31st December,			As at 30th June,	As at 30th September,	As at 31st December,			As at 30th June,	As at 30th September,
	2002	2003	2004	2005	2005	2002	2003	2004	2005	2005
	RMB million	RMB million	RMB million	RMB million	RMB million (unaudited)	RMB million	RMB million	RMB million	RMB million	RMB million (unaudited)
Guarantees given to banks in connection with facilities granted to:										
— Subsidiaries	—	—	—	—	—	529	53	60	—	—
— Jointly-controlled Entities	—	49	65	63	68	—	—	30	30	30
— Fellow subsidiaries	—	282	189	160	160	—	282	189	160	160
— An associate	9	—	—	—	—	—	—	—	—	—
	9	331	254	223	228	529	335	279	190	190

(ii) In addition, the Group's share of contingent liabilities of its Jointly-controlled Entities, which are not included in paragraph (i) above, as at each of the balance sheet dates indicated below were as follows:

	As at 31st December,			As at 30th June,	As at 30th September,
	2002	2003	2004	2005	2005
	RMB million	RMB million	RMB million	RMB million	RMB million (unaudited)
Guarantees given to banks in connection with facilities granted to or for purposes of:					
— Associates	—	15	23	10	10
— Other	—	—	—	11	11
	—	15	23	21	21

Except as disclosed above, the Group did not have any outstanding loan capital, bank overdrafts, and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits or hire purchase commitments, or guarantees or other material contingent liabilities outstanding as at 30th September, 2005, apart from intra-group liabilities, which have been disregarded for these purposes.

Save as disclosed in this prospectus, the Directors have confirmed that there has not been any material change in the contingent liabilities of the Group since 30th September, 2005.

Capital Commitments

Set forth below are the aggregate amounts of Group's capital commitments (which do not include the Group's share of capital commitments of its JCEs) as of 30th September, 2005:

	RMB million
Contracted, but not provided for:	
Property, plant and equipment	92
Capital contribution to Jointly-controlled Entities	206
	298
Authorised, but not contracted for:	
Property, plant and equipment	20

In addition, the Group's share of capital commitments of its Jointly-controlled Entities, which are not included in the above, were as follows:

	RMB million
Contracted, but not provided for:	
Property, plant and equipment	2,247
Authorised, but not provided for:	
Property, plant and equipment	1,516

Contractual commitments

As at 30th September, 2005, the Group did not have significant future rentals payable under non-cancelable operating leases (which do not include the Group's share of contractual commitments of its JCEs):

The Group's share of contractual commitments of its Jointly-controlled Entities as of 30th September, 2005 was as follows:

	Payments Due by Period				
Contractual Commitments	**Total**	**Less than 1 year**	**1-2 years**	**3-5 years**	**More than 5 years**
	RMB millions	**RMB million**	**RMB million**	**RMB million**	**RMB million**
Operating leases	649	65	64	185	335

DISCLOSURE OF CERTAIN ADVANCES AND FINANCIAL ASSISTANCE RELATED MATTERS

The Directors have confirmed that as at the Latest Practicable Date there are no circumstances which, had they been required to comply with Rules 13.13 to 13.19 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

PROFIT FORECAST

The Directors forecast that, on the bases set out in Appendix III to this prospectus and in the absence of unforeseen circumstances, the estimated Group's consolidated profit attributable to the equity holders of the parent for the year ending 31st December, 2005 will not be less than RMB1,520 million.

The following is an illustrative statement of unaudited pro forma adjusted net tangible assets of the Group which has been prepared for the purpose of illustrating the effect of the Global Offering as if they had taken place on 30th June, 2005 and is based on the Group's audited consolidated equity attributable to the equity holders of the parent as at 30th June, 2005 as shown in the accountants' report, the text of which is set out in Appendix I to this prospectus, and is adjusted as follows:

	The Group's audited consolidated equity attributable to the equity holders of the parent as at 30th June, 2005	Less: Goodwill and Intangible assets	Add: Estimated net proceeds receivable by the Company from the Global Offering	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible asset value per Share	Unaudited pro forma adjusted net tangible asset value per Share
			Note 1	Note 2	Note 3	Note 4
	RMB million	RMB million	RMB million	RMB million	RMB	HK$ equivalent
Based on an Offer Price of HK$1.45 per H Share	8,697	(1,089)	3,016	10,624	1.28	1.23
Based on an Offer Price of HK$1.85 per H Share	8,697	(1,089)	3,926	11,534	1.39	1.34

This statement has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of financial position of the Group following the Global Offering.

Notes:

1. *The estimated net proceeds from the Share Offer are based on an Offer Price of HK$1.45 or HK$1.85 per H Share after deduction of the underwriting fees and other related expenses payable by the Group and takes no account of any H Share which may be issued upon exercise of the Over-allotment Option.*

2. *The unaudited pro forma adjusted net tangible assets are calculated without taking into account any H Shares which may be issued upon exercise of the Over-allotment Option and the dividend of RMB1,390 million approved in the shareholder's meeting of the Company on 29th October, 2005.*

3. *The unaudited pro forma adjusted net tangible asset value per Share is calculated based on 8,277,500,000 Shares in issue immediately following the completion of the Global Offering without taking into account any H Shares which may be issued upon exercise of the Over-allotment Option.*

4. *The unaudited pro forma adjusted net tangible asset value per Share is converted into Hong Kong dollars at an exchange rate of RMB1.0428 to HK$1.00, the PBOC Rate prevailing on 7th November, 2005.*

5. *With reference to the valuation of the Group's property interests as set out in Appendix IV to this prospectus, the aggregate revalued amount of the property interests of the Group, less the amount attributable to minority interests, was approximately RMB1,452 million (equivalent to approximately HK$1,392 million based on an exchange rate of RMB1.0428 to HK$1.00, the PBOC Rate prevailing on 7th November, 2005). The unaudited net book values of these properties as at 30th June, 2005 and 31st August, 2005 less the amount attributable to minority interests were approximately RMB1,176 million and RMB1,171 million, respectively (equivalent to approximately HK$1,128 million and HK$1,123 million, respectively based on an exchange rate of RMB1.0428 to HK$1.00, the PBOC Rate prevailing on 7th November, 2005) and the difference represented depreciation of these properties for the two months ended 31st August, 2005. Therefore, the revaluation surplus as at 31st August, 2005 is approximately RMB281 million (equivalent to approximately HK$269 million based on an exchange rate of RMB1.0428 to HK$1.00, the PBOC Rate prevailing on 7th November, 2005), which has not been included in the above unaudited pro forma adjusted net tangible assets of the Group.* ***Such a revaluation surplus will not be recorded in the Group's financial statements for the year ending 31st December, 2005 as the Group accounts for its property interests at cost.*** *If such revaluation surplus was included in the Group's financial statements for the year ending 31st December, 2005, an additional depreciation charges of approximately RMB6 million (equivalent to approximately HK$6 million based on an exchange rate of RMB1.0428 to HK$1.00, the PBOC Rate prevailing on 7th November, 2005) would be incurred.*

On a pro forma fully diluted basis and on the assumption that the Global Offering had been completed and a total of 8,277,500,000 Shares were in issue throughout the year ending 31st December, 2005 (not taking into account any H Shares that may be issued pursuant to the exercise of the Over-allotment Option), the forecast earnings per Share is HK¢17.61 (representing a fully diluted price/earnings multiple of approximately 8.23 times, based on an Offer Price of HK$1.45 per H Share or representing a fully diluted price/earnings multiple of approximately 10.51 times, based on an Offer Price of HK$1.85 per H Share).

DIVIDENDS

For 2002 and 2003, the Company declared and paid dividends of RMB200 million each year. No dividend was declared for 2004. On 29th October, 2005, the Directors proposed to declare a dividend of RMB23.09 cents per Domestic Share amounting to RMB1,390 million to Dongfeng Motor Corporation that was approved in the shareholder's meeting on the same date. The dividend of RMB1,390 million was paid by the Company to Dongfeng Motor Corporation in November 2005 by drawing down several unsecured bank loans. See the section of this prospectus headed "Financial Information — Indebtedness" for further information of such bank loans.

The Directors currently intend to declare dividends of between 15% and 20% of the Company's distributable profits after Listing.

Prior to the completion of the Global Offering, the amount which the Company, its subsidiaries and its JCEs could legally distribute by way of dividend was determined by reference to the profits as reflected in their financial statements prepared in accordance with PRC GAAP. These profits differ from those reflected in this prospectus, which are prepared in accordance with IFRSs.

Under PRC law, upon listing of the Company's H Shares on the Stock Exchange, the Company is required to distribute dividends only from the Company's distributable profits. None of the Group's contributions to the statutory funds may be used for dividend purposes.

In accordance with the applicable requirements of the Company Law, the Company may only distribute dividends after it has made allowance for:

- cumulative prior year losses, if any;
- allocation to the statutory surplus reserve (the minimum aggregate allocation to the statutory surplus reserve each year is 10% of the Company's after-tax profit, until the aggregate amount of such reserve fund exceeds 50% of the registered capital of the Company);
- allocation to the statutory public welfare fund (the minimum allocation to the statutory public welfare fund each year is 5% of the Company's after-tax profit); and
- allocation to a discretionary surplus reserve if approved by the Company's shareholders and after allocation is made to the statutory reserve (i.e., the statutory surplus reserve and the statutory public welfare fund).

In addition, the declaration of dividends is subject to the discretion of the Directors, and the amounts of dividends actually declared and paid to holders of H Shares will also depend upon the following factors:

- general business conditions of the Company;
- financial results of the Company;
- capital requirements of the Company;
- interests of the Company's shareholders; and
- any other factors which the Board may deem relevant.

The Company will declare dividends, if any, in Renminbi with respect to the H Shares on a per share basis and will pay such dividends in Hong Kong dollars. Any final dividend payment for a fiscal period will be subject to shareholders' approval. Under the Company Law and the Articles of Association, all of the Company's shareholders have equal rights to dividends and distributions. Holders of H Shares will share proportionately on a per share basis in all dividends and other distributions declared by the Company and approved by the Company's shareholders in a shareholders' meeting.

DIVIDEND DISTRIBUTIONS BY THE COMPANY'S JOINTLY-CONTROLLED ENTITIES

In 2002, 2003 and 2004, the Company's JCEs, in total, declared and paid aggregate dividends of approximately RMB176 million, RMB392 million and RMB429 million respectively to the Company. Although the exact amounts of dividend distributions are not set each year, pursuant to each of the joint venture agreements, distributions are required to be paid out of the profit made by the relevant JCE (after payments of income tax) in accordance with the relevant PRC law as determined by the directors of each JCE as being appropriate dividend distributions based on the circumstances of each JCE. When determining dividend distributions, the directors of each JCE will offset losses of previous years and deduct from the profit made by the relevant JCE the portion of profit to be allocated for applicable legal reserves as required under PRC laws and regulations and company reserve (including but not limited to amounts allocated to cover the relevant JCE's working capital or to increase capital or expand production), employee bonus and welfare and company development. Pursuant to each of the joint venture agreements, distributions of profit will be made in proportion to the capital contributions paid by the relevant joint venture party and the Company respectively in accordance with the PRC law.

For the six months ended 30th June, 2005, the Company's JCEs declared and paid an aggregate dividend of RMB268 million to the Company.

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

DISTRIBUTABLE RESERVES

As at 30th June, 2005, the Company had distributable profit amounting to RMB1 million, which was determined based on the lower of after-tax profit as determined under PRC GAAP and IFRSs after deduction of the minimum transfers to the statutory surplus reserve as set out above and after declaration of dividend of RMB1,390 million on 29th October, 2005.

MARKET RISKS

Interest rate changes

The Dongfeng Motor Group's exposure to market risk for changes in interest rates relates primarily to fluctuations in interest rates on its short-term and long-term debt and the ability of Dongfeng Motor Group to borrow further funds. The Group does not currently hedge against interest rate risk. An increase in interest rates would also adversely affect the ability of prospective purchasers of vehicles to obtain financing and hence overall vehicle demand (if financing is required by the prospective purchasers). Higher interest rates may adversely affect the Group's revenue, gross profits and net income.

Inflation and Deflation

In recent years, China has not experienced significant inflation or deflation, and thus neither inflation nor deflation has had a significant effect on the Group's business during the past three years. According to the China Statistical Bureau, China's overall national inflation rate, as represented by percentage increases in the general consumer price index, was 1.2% in 2003. China experienced deflation of 0.8% in 2002. In 2004, China's inflation rate increased to 3.9%.

Foreign currency fluctuations

Most of the supplies purchased by the Group from abroad are from Europe and Japan, and a substantial proportion of the Group's supply purchases are settled in U.S. Dollars. In addition, a substantial portion of Dongfeng Peugeot Citroën Automobiles Company Ltd's outstanding debt is denominated in Euro. Consequently, foreign currency fluctuations, particularly fluctuations in the U.S. Dollar, Euro or Japanese Yen against the Renminbi have affected, and may continue to affect, the Group's results of operations. Please refer to "Risk Factors — Foreign currency fluctuations may adversely affect the Group's financial condition and results of operations" for further details. As at the Latest Practicable Date, in accordance with PRC automotive industry practice, neither the Company nor any of its major Joint Venture Companies, except Dongfeng Peugeot Citroën Automobiles Company Ltd, engages in any currency hedging activities. As a substantial portion of Dongfeng Peugeot Citroën Automobiles Company Ltd's outstanding debt is denominated in Euro, Dongfeng Peugeot Citroën Automobiles Company Ltd engages in hedging activities from time to time to reduce its exposure against the Euro's fluctuations. In order to reduce further its own exposure to fluctuations in foreign currencies, in particular, its attributable Euro exposure of Dongfeng Peugeot Citroën Automobiles Company Ltd, the Company intends to engage in hedging activities from time to time, subject to market developments. As a result, the Company could potentially be exposed to losses arising from the non-performance of the counterparties to such hedging transactions.

Fluctuation in the price of certain commodities

The Group's primary exposure to commodity risk arises from its dependence on certain raw materials, primarily steel and iron, as well as the price of energy used in the manufacturing process. For a description of this risk, please refer to the section of this prospectus headed "Risk Factors — Risks relating to the PRC Automotive Industry — Increases in the cost of raw materials and energy have increased, and may continue to increase, the cost of manufacturing throughout the PRC automotive industry". In accordance with PRC automotive industry practice, the Group currently does not hedge against commodity risk.

POST BALANCE SHEET DATE EVENTS

Please refer to Note 38 of the Accountants' Report set out in Appendix I of this Prospectus for details of certain events affecting the Group and its Jointly-controlled Entities which occurred after 30^{th} June, 2005.

NO MATERIAL ADVERSE CHANGE

The Directors have confirmed that there is no material adverse change in the Group's financial or trading position since 30^{th} June, 2005 (being the date to which the Group's latest consolidated financial results were prepared as set out in the Accountants' Report set out in Appendix I to this prospectus).