

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Company's international auditors and reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong. As described in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix IX, a copy of the accountants' report is available for inspection.



18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

24th November, 2005

The Directors
Dongfeng Motor Group Company Limited
China International Capital Corporation (Hong Kong) Limited
Deutsche Bank AG, Hong Kong Branch
Merrill Lynch Far East Limited

Dear Sirs,

We set out below our report on the financial information, prepared under the basis of presentation set forth in note 1 to Section II below, regarding Dongfeng Motor Group Company Limited (東風汽車集團股份有限公司) (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31st December, 2002, 2003 and 2004, and each of the six months ended 30th June, 2004 and 2005 (the "Relevant Periods") for inclusion in the prospectus of the Company dated 24th November, 2005 (the "Prospectus").

Pursuant to a debt restructuring exercise of Dongfeng Motor Corporation ("DMC") (東風汽車公司), a state-owned enterprise, commenced in the year of 2000, the Company was established as a limited liability company on 18th May, 2001 under the name of Dongfeng Motor Co., Ltd. (東風汽車有限公司) in the People's Republic of China (the "PRC"). Thereafter, DMC is the holding company of the Company. On 26th March, 2003, the Company was renamed Dongfeng Automotive Industry Investment Co., Ltd. (東風汽車工業投資有限公司). On 6th September, 2004, the Company became a wholly state-owned limited liability company as more fully described in note 1 to Section II below. On 12th October, 2004, the Company was restructured into a joint stock limited liability company with a registered share capital of RMB6,020 million and was renamed Dongfeng Motor Group Company Limited (東風汽車集團股份有限公司).

The Group, its jointly-controlled entities and associates are principally engaged in the manufacture and sale of automobiles, engines and other automotive parts. The Company and its subsidiaries, jointly-controlled entities and associates were all established in the PRC and have adopted 31st December as their financial year end date. The management accounts of these companies were prepared in accordance with the relevant accounting principles and financial regulations applicable to these companies and certain of which were not audited by us. Particulars of the Company and its principal subsidiaries, jointly-controlled entities and associates are set out in note 3 to Section II below. For the purpose of this report, the directors of the Company (the “Directors”) have prepared the financial statements of the Group and of the Company for each of the three years ended 31st December, 2002, 2003 and 2004 (the “PRC GAAP Financial Statements”) in accordance with the PRC Enterprise Accounting Standards and the PRC Enterprise Accounting System (the “PRC GAAP”) for which the Directors are solely responsible. The PRC GAAP Financial Statements were audited by Ernst & Young Hua Ming, Certified Public Accountants registered in the PRC.

The financial information of the consolidated income statements, consolidated statements of changes in equity and cash flows of the Group for the Relevant Periods and the consolidated balance sheets of the Group and the balance sheets of the Company as at 31st December, 2002, 2003 and 2004, and 30th June, 2005 together with the notes thereto set out in this report (the “Financial Information”) has been prepared based on the audited PRC GAAP Financial Statements and the unaudited management accounts of the Group and the Company for each of the six months ended 30th June, 2004 and 2005 prepared in accordance with the PRC GAAP, after making such adjustments as appropriate to comply with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “IASB”), and has been prepared on the basis set out in note 1 to Section II below.

For the purpose of this report, we have carried out independent audit procedures on the Financial Information for the Relevant Periods in accordance with Statements of Auditing Standards and Hong Kong Standards on Auditing, where applicable, issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” issued by the HKICPA.

The Directors are responsible for the preparation of the Financial Information, which gives a true and fair view. The directors of the respective companies of the Group and its jointly-controlled entities are responsible for the preparation of the respective financial statements and management accounts, which give a true and fair view. In preparing the Financial Information, the financial statements and the management accounts which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgement and estimates are made which are prudent and reasonable, and that the reasons for any significant departure from applicable standards are stated. It is our responsibility to form an independent opinion on the Financial Information and to report our opinion.

In our opinion, the Financial Information prepared on the basis of presentation set out in note 1 to Section II below gives, for the purpose of this report, a true and fair view of the results and cash flows of the Group for the Relevant Periods and of the state of affairs of the Company and of the Group as at 31st December, 2002, 2003 and 2004, and 30th June, 2005.

(I) FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENTS

		Year ended 31 st December,			Six months ended 30 th June,	
	Notes	2002	2003	2004	2004	2005
		RMB million	RMB million	RMB million	RMB million	RMB million
Continuing operations:						
Revenue — Sale of goods	4	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	4, 5(a)	425	420	430	132	333
Gain on acquisition of subsidiaries and an associate	15(a), 17	301	12	—	—	—
Gain/(loss) on dilution of interests in certain businesses and investments, net	15(b)	—	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	5(c)	(389)	(252)	(104)	(39)	(144)
Share of profits and losses of associates		257	49	42	20	12
Profit before tax	4, 5(b)	5,526	4,787	3,174	1,286	1,022
Income tax expense	8	(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	1	(492)	(363)	—	—	—
Profit for the year/period		4,158	4,213	2,866	899	764
Attributable to:						
Equity holders of the parent	11	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	10	200	200	—	—	1,390
Earnings per share:						
— basic for the year/period . . .	11	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

CONSOLIDATED BALANCE SHEETS

	Notes	As at 31 st December,			As at
		2002	2003	2004	30 th June, 2005
		RMB million	RMB million	RMB million	RMB million
ASSETS					
Non-current assets					
Property, plant and equipment	12	16,512	9,827	11,925	13,023
Lease prepayments		836	272	335	363
Intangible assets	13	174	293	619	655
Goodwill	14	—	—	277	434
Investments in associates	17	504	417	293	342
Available-for-sale financial assets	18	205	111	194	192
Other long term assets		163	171	301	412
Deferred income tax assets	8	76	24	71	96
		<u>18,470</u>	<u>11,115</u>	<u>14,015</u>	<u>15,517</u>
Current assets					
Inventories	19	6,412	4,317	6,588	6,238
Trade receivables	20	1,710	504	1,068	1,951
Bills receivable	21	4,704	3,573	3,695	3,611
Prepayments, deposits and other receivables	22	2,017	1,199	1,509	1,860
Due from jointly-controlled entities	23	114	169	307	95
Other financial assets	24	392	377	217	130
Cash and cash equivalents	25	9,506	7,508	5,543	6,610
Restricted cash	25	210	28	509	846
		<u>25,065</u>	<u>17,675</u>	<u>19,436</u>	<u>21,341</u>
TOTAL ASSETS		<u>43,535</u>	<u>28,790</u>	<u>33,451</u>	<u>36,858</u>
EQUITY AND LIABILITIES					
Equity attributable to the equity holders of the parent					
Paid-up registered capital	26	10,763	10,763	6,020	6,020
Reserves	27	1,845	(1,343)	936	1,075
Retained profits/(accumulated losses)	27	(2,647)	632	1,081	212
Proposed dividend	10	—	—	—	1,390
		<u>9,961</u>	<u>10,052</u>	<u>8,037</u>	<u>8,697</u>
Minority interests		<u>3,355</u>	<u>2,554</u>	<u>2,078</u>	<u>2,095</u>
Total equity		<u>13,316</u>	<u>12,606</u>	<u>10,115</u>	<u>10,792</u>
Non-current liabilities					
Interest-bearing borrowings	28	4,359	1,401	2,727	3,192
Other long term liabilities		250	71	432	314
Provisions	29	—	219	215	208
Government grants	30	—	—	47	63
Deferred income tax liabilities	8	223	122	244	434
		<u>4,832</u>	<u>1,813</u>	<u>3,665</u>	<u>4,211</u>
Current liabilities					
Trade payables	31	7,682	3,980	5,142	6,520
Bills payable	32	3,100	2,222	2,315	2,229
Other payables and accrued liabilities	33	8,111	4,220	7,371	5,660
Due to jointly-controlled entities	23	—	23	60	131
Interest-bearing borrowings	28	5,981	3,569	4,403	6,891
Government grants	30	—	—	5	5
Income tax payable		153	94	77	95
Provisions	29	360	263	298	324
		<u>25,387</u>	<u>14,371</u>	<u>19,671</u>	<u>21,855</u>
TOTAL LIABILITIES		<u>30,219</u>	<u>16,184</u>	<u>23,336</u>	<u>26,066</u>
TOTAL EQUITY AND LIABILITIES		<u>43,535</u>	<u>28,790</u>	<u>33,451</u>	<u>36,858</u>

CONSOLIDATED CASH FLOW STATEMENTS

	Notes	Year ended 31 st December,			Six months ended 30 th June,	
		2002	2003	2004	2004	2005
		RMB million	RMB million	RMB million	RMB million	RMB million
Cash flows from operating activities						
Profit before tax from continuing operations		5,526	4,787	3,174	1,286	1,022
Loss before tax from discontinued operations		(492)	(363)	—	—	—
		5,034	4,424	3,174	1,286	1,022
Adjustments for:						
Share of profits and losses of associates		(257)	(49)	(42)	(20)	(12)
(Gain)/loss on dilution of interests in certain businesses and investments, net		—	(1,180)	(852)	6	—
Gain on acquisition of subsidiaries and an associate		(301)	(12)	—	—	—
(Gain)/loss on disposal of property, plant and equipment, net	5(b)	52	(97)	25	2	1
Provision/(write-back of provision) for bad and doubtful debts	5(b)	129	200	(101)	34	(15)
Exchange (gains)/losses, net	5(b)	61	116	106	(17)	(160)
Reorganisation expenses	5(b)	—	436	—	—	—
Depreciation and impairment, net						
— from continuing operations	5(b)	1,287	1,277	1,056	493	687
— from discontinued operations	1	305	244	—	—	—
		1,592	1,521	1,056	493	687
Amortisation of intangible assets						
— from continuing operations	5(b)	32	39	83	28	42
— from discontinued operations	1	2	6	—	—	—
		34	45	83	28	42
Net finance costs						
— from continuing operations	5(c)	389	252	104	39	144
— from discontinued operations		85	71	—	—	—
		474	323	104	39	144
Operating profit before working capital changes		6,818	5,727	3,553	1,851	1,709
Increase in trade, bills and other receivables, prepayments and deposits		(831)	(2,488)	(1,921)	(1,788)	(864)
(Increase)/decrease in inventories		(1,090)	(1,084)	(1,944)	(1,169)	526
(Increase)/decrease in other financial assets		(309)	(170)	(51)	(56)	87
(Increase)/decrease in amounts due from jointly-controlled entities		(62)	(55)	(138)	5	212
(Increase)/decrease in other long term assets		112	(66)	(109)	(195)	(81)
Increase in trade, bills and other payables, and accrued liabilities		3,283	2,105	3,006	2,352	1,794
Increase/(decrease) in amounts due to jointly-controlled entities		(5)	23	37	119	71
Increase in provisions		87	256	35	37	18
Decrease in government grants		—	—	(120)	(38)	(2)
Increase/(decrease) in other long term liabilities		27	75	2	(6)	(118)
Cash generated from operations		8,030	4,323	2,350	1,112	3,352
Interest paid		(626)	(483)	(259)	(110)	(238)
Income taxes paid		(363)	(260)	(222)	(114)	(98)
Net cash flows generated from operating activities		7,041	3,580	1,869	888	3,016

CONSOLIDATED CASH FLOW STATEMENTS (CONTINUED)

		Year ended 31st December,			Six months ended 30 th June,	
	Notes	2002	2003	2004	2004	2005
		RMB million	RMB million	RMB million	RMB million	RMB million
Cash flows from investing activities						
Purchases of property, plant and equipment		(2,766)	(3,187)	(2,985)	(1,056)	(1,796)
Increase in lease prepayments		(330)	(46)	(58)	(29)	(14)
Purchases of intangible assets		(46)	(229)	(290)	(47)	(78)
Purchases of available-for-sale financial assets		(25)	(33)	(139)	(27)	(4)
Investments in associates		(110)	(138)	(49)	(13)	(60)
Acquisition of subsidiaries, net of cash acquired	15(a)	1,006	—	—	—	—
Disposal of certain businesses and investments to a jointly-controlled entity attributable to a joint venture partner, net of cash acquired . . .	15(b)	—	(1,543)	872	36	—
Acquisition of jointly-controlled entities, net of cash acquired	16(a)	—	(36)	—	—	(22)
Acquisition of additional equity interests in jointly-controlled entities, net of cash acquired	16(b)	—	(120)	(655)	(26)	(27)
Proceeds from disposal of property, plant and equipment		693	1,807	430	143	247
Proceeds from disposal of available-for-sale financial assets		24	69	24	4	—
Proceeds from disposal of associates		—	50	105	46	—
Dividends from associates		37	40	18	18	27
Government grants received		—	—	172	83	18
Interest received		152	154	138	61	72
(Increase)/decrease in pledged time deposits		(66)	182	(481)	(459)	(337)
(Increase)/decrease in non-pledged time deposits with original maturity of three months or more when acquired		(594)	53	(30)	(1,064)	(734)
Net cash flows used in investing activities		(2,025)	(2,977)	(2,928)	(2,330)	(2,708)
Cash flows from financing activities						
Proceeds from borrowings		7,205	4,053	7,871	2,526	4,602
Repayment of borrowings		(7,711)	(4,579)	(6,471)	(2,588)	(2,173)
Repurchases of capital		—	—	(2,307)	—	(2,306)
Transfer of the Transferred Assets to DMC	1	—	(1,525)	—	—	—
Capital contribution from minority shareholders		264	34	139	86	—
Dividends paid to minority shareholders		(107)	(331)	(168)	(155)	(98)
Dividends paid		(200)	(200)	—	—	—
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
Cash and cash equivalents at beginning of year/period		3,951	8,418	6,473	6,473	4,478
Cash and cash equivalents at end of year/period	25	8,418	6,473	4,478	4,900	4,811

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to the equity holders of the parent						Minority interests	Total equity
	Paid-up registered capital	Deemed distribution	Statutory reserves	Proposed dividend	Retained profits/(accumulated losses)	Total		
	RMB million	RMB million	RMB million note 27(a)	RMB million	RMB million	RMB million	RMB million	RMB million
As at 1st January, 2002	10,763	—	934	—	(4,605)	7,092	1,740	8,832
Profit and total income for the year	—	—	—	—	3,069	3,069	1,089	4,158
Transfer to a reserve	—	—	911	—	(911)	—	—	—
Acquisition of subsidiaries (note 15(a))	—	—	—	—	—	—	369	369
Additional investments in subsidiaries	—	—	—	—	—	—	264	264
Equity dividends	—	—	—	—	(200)	(200)	(107)	(307)
As at 31st December, 2002 and 1st January, 2003	10,763	—	1,845	—	(2,647)	9,961	3,355	13,316
Profit and total income for the year	—	—	—	—	3,339	3,339	874	4,213
Transfer to a reserve	—	—	535	—	(535)	—	—	—
Additional investments in subsidiaries	—	—	—	—	—	—	34	34
Arising on disposal of subsidiaries to a jointly-controlled entity (note 15(b))	—	—	(783)	—	783	—	(1,208)	(1,208)
Distribution to DMC (note 1)	—	(2,791)	(149)	—	(108)	(3,048)	(170)	(3,218)
Equity dividends	—	—	—	—	(200)	(200)	(331)	(531)
As at 31st December, 2003 and 1st January, 2004	10,763	(2,791)	1,448	—	632	10,052	2,554	12,606
Capital reduction (note 26(a))	(2,791)	2,791	—	—	—	—	—	—
Repurchases of capital from the AMCs in the Equity Repurchase Transaction (note 26(b))	(4,613)	—	—	—	—	(4,613)	—	(4,613)
Capitalisation as a result of the Reorganisation (note 26(c))	2,661	—	(785)	—	(1,876)	—	—	—
Profit and total income for the year	—	—	—	—	2,598	2,598	268	2,866
Transfer to a reserve	—	—	591	—	(591)	—	—	—
Additional investments in subsidiaries	—	—	—	—	—	—	139	139
Arising on disposal of subsidiaries to a jointly-controlled entity (note 15(b))	—	—	(318)	—	318	—	(715)	(715)
Equity dividends	—	—	—	—	—	—	(168)	(168)
As at 31st December, 2004	<u>6,020</u>	<u>—</u>	<u>936</u>	<u>—</u>	<u>1,081</u>	<u>8,037</u>	<u>2,078</u>	<u>10,115</u>
As at 1st January, 2004	10,763	(2,791)	1,448	—	632	10,052	2,554	12,606
Profit and total income for the period	—	—	—	—	745	745	154	899
Transfer to a reserve	—	—	99	—	(99)	—	—	—
Additional investments in subsidiaries	—	—	—	—	—	—	86	86
Arising on disposal of subsidiaries to a jointly-controlled entity (note 15(b))	—	—	(7)	—	7	—	(3)	(3)
Equity dividends	—	—	—	—	—	—	(155)	(155)
As at 30th June, 2004	<u>10,763</u>	<u>(2,791)</u>	<u>1,540</u>	<u>—</u>	<u>1,285</u>	<u>10,797</u>	<u>2,636</u>	<u>13,433</u>
As at 1st January, 2005	6,020	—	936	—	1,081	8,037	2,078	10,115
Profit and total income for the period	—	—	—	—	660	660	104	764
Transfer to a reserve	—	—	139	—	(139)	—	—	—
Additional investment in a subsidiary of jointly-controlled entity (note 16(b))	—	—	—	—	—	—	11	11
Equity dividends	—	—	—	—	—	—	(98)	(98)
Proposed dividend	—	—	—	1,390	(1,390)	—	—	—
As at 30th June, 2005	<u>6,020</u>	<u>—</u>	<u>1,075</u>	<u>1,390</u>	<u>212</u>	<u>8,697</u>	<u>2,095</u>	<u>10,792</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

	Attributable to the equity holders of the parent					Total RMB million
	Paid-up registered capital	Deemed distribution	Statutory reserves	Proposed dividend	Retained profits/ (accumulated losses)	
	RMB million	RMB million	RMB million note 27(a)	RMB million	RMB million	
Reserves retained by:						
Company and subsidiaries	10,763	—	1,664	—	(2,604)	9,823
Jointly-controlled entities	—	—	181	—	(30)	151
Associates	—	—	—	—	(13)	(13)
As at 31st December, 2002	<u>10,763</u>	<u>—</u>	<u>1,845</u>	<u>—</u>	<u>(2,647)</u>	<u>9,961</u>
Company and subsidiaries	10,763	(2,791)	1,144	—	1,045	10,161
Jointly-controlled entities	—	—	304	—	(493)	(189)
Associates	—	—	—	—	80	80
As at 31st December, 2003	<u>10,763</u>	<u>(2,791)</u>	<u>1,448</u>	<u>—</u>	<u>632</u>	<u>10,052</u>
Company and subsidiaries	6,020	—	361	—	700	7,081
Jointly-controlled entities	—	—	575	—	336	911
Associates	—	—	—	—	45	45
As at 31st December, 2004	<u>6,020</u>	<u>—</u>	<u>936</u>	<u>—</u>	<u>1,081</u>	<u>8,037</u>
Company and subsidiaries	10,763	(2,791)	1,110	—	1,049	10,131
Jointly-controlled entities	—	—	430	—	184	614
Associates	—	—	—	—	52	52
As at 30th June, 2004	<u>10,763</u>	<u>(2,791)</u>	<u>1,540</u>	<u>—</u>	<u>1,285</u>	<u>10,797</u>
Company and subsidiaries	6,020	—	478	1,390	(567)	7,321
Jointly-controlled entities	—	—	597	—	751	1,348
Associates	—	—	—	—	28	28
As at 30th June, 2005	<u>6,020</u>	<u>—</u>	<u>1,075</u>	<u>1,390</u>	<u>212</u>	<u>8,697</u>

BALANCE SHEETS

		As at 31 st December,			As at
	Notes	2002	2003	2004	30 th June,
		RMB million	RMB million	RMB million	RMB million
ASSETS					
Non-current assets					
Property, plant and equipment	12	5,604	338	397	406
Lease prepayments		202	—	—	—
Intangible assets	13	8	—	—	—
Investments in subsidiaries	15	6,393	2,351	140	140
Investments in jointly-controlled entities	16	2,294	6,323	12,496	12,783
Investments in associates	17	120	43	53	53
Available-for-sale financial assets	18	67	13	68	68
Other long term assets		1	—	—	—
		<u>14,689</u>	<u>9,068</u>	<u>13,154</u>	<u>13,450</u>
Current assets					
Inventories	19	2,146	43	41	52
Trade receivables	20	521	15	58	392
Bills receivable	21	2,065	88	34	1
Prepayments, deposits and other receivables	22	1,799	112	56	146
Due from jointly-controlled entities	23	132	288	680	358
Cash and cash equivalents	25	1,932	716	892	746
Restricted cash	25	—	—	180	54
		<u>8,595</u>	<u>1,262</u>	<u>1,941</u>	<u>1,749</u>
TOTAL ASSETS		<u>23,284</u>	<u>10,330</u>	<u>15,095</u>	<u>15,199</u>
EQUITY AND LIABILITIES					
Equity attributable to the equity holders of the parent					
Paid-up registered capital	26	10,763	10,763	6,020	6,020
Reserves	27	532	(2,006)	344	454
Retained profits/(accumulated losses)	27	(4,314)	593	1,319	1
Proposed dividend	10	—	—	—	1,390
Total equity		<u>6,981</u>	<u>9,350</u>	<u>7,683</u>	<u>7,865</u>
Non-current liabilities					
Interest-bearing borrowings	28	3,044	—	600	1,000
Other long term liabilities		2	—	360	270
Deferred income tax liabilities	8	223	114	231	420
		<u>3,269</u>	<u>114</u>	<u>1,191</u>	<u>1,690</u>
Current liabilities					
Trade payables	31	3,203	52	56	58
Bills payable	32	1,321	—	—	—
Other payables and accrued liabilities	33	5,232	747	4,162	1,718
Due to jointly-controlled entities	23	18	64	263	399
Interest-bearing borrowings	28	3,175	—	1,740	3,469
Income tax payable		3	3	—	—
Provisions	29	82	—	—	—
		<u>13,034</u>	<u>866</u>	<u>6,221</u>	<u>5,644</u>
TOTAL LIABILITIES		<u>16,303</u>	<u>980</u>	<u>7,412</u>	<u>7,334</u>
TOTAL EQUITY AND LIABILITIES		<u>23,284</u>	<u>10,330</u>	<u>15,095</u>	<u>15,199</u>

(II) NOTES TO FINANCIAL INFORMATION**1. CORPORATE INFORMATION AND BASIS OF PRESENTATION**

The Company is a limited liability company established in the PRC. The registered office of the Company is located at No. 8, Car City Road North, Wuhan Economic Development Zone, Wuhan, Hubei, the PRC. The principal activities of the Group are described in note 3 below.

In the opinion of the Directors, the ultimate holding company is Dongfeng Motor Corporation (“DMC”), a state-owned enterprise established in the PRC.

In May 2000, DMC entered into a debt restructuring agreement with China Huarong Asset Management Corporation (中國華融資產管理公司), China Cinda Asset Management Corporation (中國信達資產管理公司), China Orient Asset Management Corporation (中國東方資產管理公司), China Great Wall Asset Management Corporation (中國長城資產管理公司) and China Development Bank (國家開發銀行) (collectively referred to as the “AMCs”), pursuant to which DMC contributed its entire assets and liabilities to the Company as a capital injection and the AMCs converted their then debt receivables amounting to RMB4,613.5 million into the equity of the Company. Thereafter, the Company was established as a limited liability company on 18th May, 2001 and was renamed Dongfeng Automotive Industry Investment Co., Ltd on 26th March, 2003.

During the Relevant Periods, the Company underwent a reorganisation (the “Reorganisation”) to rationalise its business and restructure itself into a joint stock limited liability company. The Reorganisation involved the following steps:

- (i) Pursuant to an Assets Transfer Agreement of 26th August, 2004, the Company transferred the Group’s social function operations and non-core businesses (such as schools, kindergartens, hospitals, facilities for power, heating and water supplies, etc.), certain equity investments, and certain assets and liabilities (the “Transferred Assets”) at an aggregate consolidated net book value of RMB3,048 million to DMC with an effective date of 31st December, 2003, thereby reducing the capital owned by DMC, the Group’s reserves and retained profits by RMB2,791 million, RMB149 million and RMB108 million, respectively (the “Assets Transfer Transaction”). The core business of vehicles manufacturing and related businesses (the “Relevant Business”) remains with the Company;
- (ii) The Company entered into an equity repurchase agreement on 11th August, 2004 to repurchase 42.86% of its equity capital held by the AMCs for a total consideration of RMB4,613.5 million (the “Equity Repurchase Transaction”) which was completed on 6th September, 2004;
- (iii) As a result of the Equity Repurchase Transaction and the Assets Transfer Transaction, the Company became a wholly state-owned limited liability company and DMC then became its sole shareholder; and

- (iv) On 12th October, 2004, the Company was restructured into a joint stock limited liability company with a registered share capital of RMB6,020 million, which was determined based on the PRC GAAP audited net assets of RMB10,633.5 million (net of the Transferred Assets) at the base date of 31st December, 2003 succeeded by the Company pursuant to the restructuring of the Company into a joint stock limited liability company and after the deduction of the capital repurchased by the Company from the AMCs of RMB4,613.5 million in the Equity Repurchase Transaction. On the same date, the Company was renamed Dongfeng Motor Group Company Limited.

Pursuant to the Assets Transfer Transaction, the Group discontinued its social function operations and non-core businesses (the “Discontinued Operations”) and retains the Relevant Business only.

A summary of the assets and liabilities of the Discontinued Operations transferred to DMC effected on 31st December, 2003 was as follows:

	RMB million
Property, plant and equipment	3,346
Lease prepayments	357
Intangible assets	45
Inventories	804
Trade and bills receivable	781
Prepayments, deposits and other receivables	1,642
Cash and cash equivalents	1,525
Trade and bills payable	(1,291)
Other payables and accrued liabilities	(2,751)
Interest-bearing borrowings	(1,008)
Other long term liabilities	(232)
Minority interests	(170)
	<u>3,048</u>

The revenue, expenses and results of the Discontinued Operations for each of the two years ended 31st December, 2002 and 2003 are as follows:

	Year ended 31 st December,	
	2002	2003
	RMB million	RMB million
Revenue	1,978	2,164
Expenses	(2,470)	(2,527)
Loss before tax	(492)	(363)
Income tax expense	—	—
Loss for the year	<u>(492)</u>	<u>(363)</u>
Attributable to:		
Equity holders of the parent	(492)	(363)
Minority interests	—	—
	<u>(492)</u>	<u>(363)</u>

The net cash flows attributable to the Discontinued Operations for each of the two years ended 31st December, 2002 and 2003 are as follows:

	Year ended 31 st December,	
	2002	2003
	RMB million	RMB million
Operating activities	445	791
Investing activities	(394)	(532)
Financing activities	99	(596)
Net cash inflows/(outflows)	<u>150</u>	<u>(337)</u>
Additional information:		
Capital expenditure:		
— Property, plant and equipment	570	436
— Intangible assets	26	7
Depreciation of property, plant and equipment	305	244
Amortisation of intangible assets	<u>2</u>	<u>6</u>

The Financial Information is presented on the basis that the Company is a continuing entity and the Transferred Assets are included in the Financial Information up to the effective date of the Assets Transfer Transaction.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The Financial Information has been prepared in accordance with IFRSs, which have been adopted by the Company since its establishment. They comprise standards and interpretations approved by the IASB and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect, except for the following standards that have been early adopted as at the beginning of the Relevant Periods:

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

The Financial Information has been prepared under the historical cost convention, except for the measurement at fair value of foreign currency forward and swap contracts, available-for-sale financial assets and other financial assets.

Basis of consolidation

The Financial Information includes the financial statements of the Company, its subsidiaries and jointly-controlled entities for the Relevant Periods.

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

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

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

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

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

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

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control, directly 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.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

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

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

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

Associates

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

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

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

Goodwill

Goodwill on acquisition of subsidiaries and jointly-controlled entities is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses and is not amortised. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergy. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Foreign currency translation

The financial records of the Group and its jointly-controlled entities are maintained in Renminbi ("RMB") and the Financial Information is stated in RMB.

Transactions in foreign currencies are recorded at the applicable exchange rates ruling at the date of transaction as quoted by the People's Bank of China. Monetary assets and liabilities denominated in foreign currencies are retranslated at the applicable exchange rates ruling at the balance sheet date. All exchange differences are taken to the income statement.

Property, plant and equipment

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

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of that asset.

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

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

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

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of property, plant and equipment is the greater of the fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the income statement.

Lease prepayments

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

Intangible assets

The intangible assets mainly comprise purchased patents and licences which are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 3 to 15 years.

The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

Research and development costs

Research costs are expensed as incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure carried forward is amortised over the period of expected future sales from the related project.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, or otherwise when events or changes in circumstances indicate that the carrying value may not be recoverable.

Investments

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments which are classified as held for trading and available-for-sale are measured at fair value. Gains or losses on investments held for trading are recognised in the income statement. Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined by the Directors to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Other long term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity.

For investments carried at amortised cost, gains and losses are recognised in income statement when the investments are derecognised or impaired, as well as through the amortisation process. For investments that are actively traded in organised financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business at the balance sheet date. For investments where there is no quoted market price, fair value is determined by the Directors by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

All regular way purchases of financial assets are recognised on the trade date, i.e., the date at which the Group or its jointly-controlled entities commit to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Inventories

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

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

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

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

Trade and other receivables

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

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the cash management of the Group and its jointly-controlled entities.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Borrowings

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

After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specifying assets is deducted from the borrowing costs capitalised.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, capitalisation rates ranging between 3% and 6% have been applied to the expenditure on the individual assets during the Relevant Periods.

Leases

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

Employee benefits*Retirement benefits*

The Group's and its jointly-controlled entities' contributions to various defined contribution pension schemes regulated by the relevant municipal and provincial governments in the PRC and a supplemental pension scheme regulated by DMC are expensed as incurred. Further details of the defined contribution pension schemes and the supplemental pension scheme are set out in note 5(b)(i) below.

Medical benefits

The Group's and its jointly-controlled entities' contributions to various defined contribution medical benefit plans organised by the relevant municipal and provincial governments in the PRC and a supplemental medical benefit plan organised by DMC are expensed as incurred. Further details of the defined contribution medical benefit plans and the supplemental medical benefit plan are set out in note 5(b)(ii) below.

Cash housing subsidies

Cash housing subsidies represented payments to housing subsidy plans implemented by the Group and a jointly-controlled entity in 2000. Cash housing subsidies related to past services to employees are fully recognised in the income statement on an one-off basis in the year of implementation of 2000. Cash housing subsidies related to present services of employees are recognised in the income statement when incurred. Further details of the housing subsidy plans are set out in note 5(b)(iii) below.

Termination and early retirement benefits

Termination and early retirement benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group and its jointly-controlled entities recognise termination and early retirement benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without the possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due for more than 12 months after the balance sheet date are discounted to their present values using incremental borrowing rates available to the Group and the jointly-controlled entities. Further details of the termination and early retirement benefit plan are set out in note 5(b)(iv) below.

Revenue

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

Sale of goods

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

Rendering of services

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

Interest

Revenue is recognised as interest accrues (taking into account the effective yield on the assets).

Dividends

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

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources embodying economic benefits will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

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

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

Government grants

Government grants are recognised at their fair values where there is reasonable assurance that the grants will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Income tax

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

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

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and jointly-controlled entities, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- except where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in jointly-controlled entities, deferred income tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilised.

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

Related parties

Parties are considered to be related if one party has ability, directly or indirectly, to control the other party or exercise joint control or significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities.

Recoverable amount of non-current assets

At each reporting date, the Group and its jointly-controlled entities assess whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group and its jointly-controlled entities make a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Gain on acquisition

Any gain on acquisition of subsidiaries, jointly-controlled entities or associates is recognised in the consolidated income statement when the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiaries, jointly-controlled entities and associates it acquired exceeds the fair value of consideration it given out.

Use of estimates

The preparation of the financial statements of the Group and its jointly-controlled entities in accordance with IFRSs requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Derivative financial instruments

The Group and its jointly-controlled entities use derivative financial instruments, including foreign currency forward and swap contracts, to hedge its risks associated foreign currency fluctuations. Such derivative financial instruments are stated at fair value.

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

For the purpose of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to fair value hedges which meet the conditions for special hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the income statement. Where the adjustment is made to the carrying amount of a hedged interest-bearing financial instrument, the adjustment is amortised to the net profit and loss so that it is fully amortised by maturity.

In relation to cash flow hedges to hedge firm commitments which meet the conditions for special hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in net profit or loss.

When the hedged firm commitment results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same year/period in which the hedged firm commitment affects the net profit and loss, for example when the future sale actually occurs.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to net profit or loss for the year/period.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the year/period.

Derecognition of financial instruments

The derecognition of a financial instrument takes place when the Group and its jointly-controlled entities no longer control the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed to an independent third party.

3. PARTICULARS OF PRINCIPAL COMPANIES COMPRISING THE GROUP

Particulars of the principal companies comprising the Group, including its jointly-controlled entities and associates, which have substantially similar characteristics to private/public company incorporated in Hong Kong, are as follows:

Company name	Place and date of establishment and operations	Paid-up registered capital as at 30 th June, 2005		Percentage of equity interests attributable to the Company as at					Principal activities
				31 st December,			30 th June, 2005	Date of this report	
				2002	2003	2004			
The Company									
Dongfeng Motor Group Company Limited (i) ## 東風汽車集團股份有限公司	PRC 18 th May, 2001	RMB6,020,000,000							Investment holding
Subsidiaries									
China Dongfeng Motor Industry Import and Export Co., Ltd. (ii) 中國東風汽車工業進出口有限公司	PRC 27 th November, 2000	RMB100,000,000	Direct: Indirect:	95 5	95 2.6	95 2.6	95 2.6	95 2.6	Marketing and sale of automobiles
Shanghai Dongfeng Motor Industry Import and Export Co., Ltd. (iii) 上海東風汽車進出口有限公司	PRC 18 th November, 1996	RMB30,000,000	Direct: Indirect:	— 100	— 97.6	— 97.6	— 97.6	— 97.6	Manufacture and sale of automobiles
Dongfeng Chaoyang Diesel Company (iv) 東風朝陽柴油機有限責任公司	PRC 11 th August, 2001	RMB361,487,929 ***	Direct: Indirect:	88.1 —	—** —	— —	— —	— —	Manufacture and sale of automotive parts and components
Dongfeng Chaoyang Siyi Company (iv) 東風朝陽思益有限責任公司	PRC 1 st May, 2002	RMB225,945,812 ***	Direct: Indirect:	88.1 —	—** —	— —	— —	— —	Manufacture and sale of automotive parts and components
Dongfeng Nanchong Motor Co., Ltd. (v) 東風南充汽車有限公司	PRC 20 th January, 2000	RMB86,758,781 ***	Direct: Indirect:	70.2 —	—** —	— —	— —	— —	Manufacture and sale of automobile
Dongfeng Motor Fastener Co., Ltd. (ii) 東風汽車緊固件有限公司	PRC 21 st May, 1997	RMB106,000,000	Direct: Indirect:	99.5 0.5	—* —	— —	— —	— —	Manufacture and sale of automotive parts and components
Dongfeng Motor Wheel Rim Co., Ltd. (ii) 東風汽車車輪有限公司	PRC 20 th December, 1996	RMB145,340,437	Direct: Indirect:	99.5 0.5	—* —	— —	— —	— —	Manufacture and sale of automotive parts and components
Dongfeng Motor Pump Co., Ltd. (ii) 東風汽車泵業有限公司	PRC 27 th September, 1999	RMB48,000,000	Direct: Indirect:	99 1	—* —	— —	— —	— —	Manufacture and sale of automotive parts and components
Xiangfan Dongfeng Motor Electrical Equipment Co., Ltd. (ii) 襄樊東風汽車電氣有限責任公司	PRC 25 th April, 1995	RMB86,571,783	Direct: Indirect:	98.8 1.2	98.8 0.6*	—* —	— —	— —	Manufacture and sale of automotive parts and components
Dongfeng Behr Thermal Systems Co., Ltd. (ii) (Formerly known as Dongfeng Motor Radiators Co., Ltd.) 東風貝洱熱系統有限公司 (前稱東風散熱器有限公司)	PRC 29 th August, 1996	RMB138,636,000	Direct: Indirect:	98.6 1.4	—* —	— —	— —	— —	Manufacture and sale of automotive parts and components
Dongfeng Motor Special Vehicle Co., Ltd. (ii) 東風專用汽車有限公司	PRC 20 th July, 2001	RMB120,000,000	Direct: Indirect:	95.8 4.2	—* —*	— —	— —	— —	Manufacture and sale of automobiles
Dongfeng Piston & Bearing Co., Ltd. (ii) 東風活塞軸瓦有限公司	PRC 24 th December, 1997	RMB183,805,698	Direct: Indirect:	95.4 —	—* —	— —	— —	— —	Manufacture and sale of automotive parts and component

Company name	Place and date of establishment and operations	Paid-up registered capital as at 30 th June, 2005		Percentage of equity interests attributable to the Company as at					Principal activities
				31 st December,			30 th June, 2005	Date of this report	
				2002	2003	2004			
Subsidiaries (continued)									
Dongfeng Motor Propeller Shaft Co., Ltd. (ii) 東風汽車傳動軸有限公司	PRC 1 st December, 1997	RMB235,000,000	Direct: Indirect:	85 —	—* —	— —	— —	— —	Manufacture and sale of automotive parts and components
Dongfeng Motor Transmission Gear Co., Ltd. (ii) 東風汽車變速箱有限公司	PRC 23 rd June, 1997	RMB192,057,166	Direct: Indirect:	84.8 —	—* —	— —	— —	— —	Manufacture and sale of automotive parts and components
Dongfeng Liuzhou Motor Co., Ltd. (ii) 東風柳州汽車有限公司	PRC 19 th December, 1981	RMB190,248,819	Direct: Indirect:	75 —	—* —	— —	— —	— —	Manufacture and sale of automobiles, automotive parts and components
Dongfeng Hangzhou Motor Co., Ltd. (ii) 東風杭州汽車有限公司	PRC 8 th July, 1998	RMB270,580,000	Direct: Indirect:	51.7 —	—* —	— —	— —	— —	Manufacture and sale of automobiles, automotive parts and components
Dongfeng Xinjiang Motor Co., Ltd. (vi) 東風新疆汽車有限公司	PRC 8 th May, 2002	RMB75,000,000	Direct: Indirect:	66.7 —	—* —	— —	— —	— —	Manufacture and sale of automobiles, automotive parts and components
Dongfeng Motor Huizhou Co., Ltd. (vi) 東風汽車(惠州)有限公司	PRC 16 th May, 2002	RMB85,000,000	Direct: Indirect:	89.2 10.8	—* —*	— —	— —	— —	Manufacture and sale of automobiles, automotive parts and components
Dongfeng Axle Co., Ltd. (vii) # 東風車橋有限公司	PRC 2 nd December, 2002	RMB500,000,000	Direct: Indirect:	79.2 —	—* —	— —	— —	— —	Manufacture and sale of automotive parts and components
Dongfeng Automobile Co., Ltd. (viii) ## 東風汽車股份有限公司	PRC 21 st July, 1999	RMB2,000,000,000	Direct: Indirect:	70 —	70 —	—* —	— —	— —	Manufacture and sale of automobiles, automotive parts and components
Dongfeng Electronic Technology Co., Ltd. (ix) ## 東風電子科技股份有限公司	PRC 29 th April, 1998	RMB313,560,000	Direct: Indirect:	75 —	75 —	—* —	— —	— —	Manufacture and sale of automotive parts and components
Liuzhou Liuxin Motor Stamping Co., Ltd. (x) 柳州柳新汽車沖壓件有限公司	PRC 2 nd December, 1992	US\$12,000,000	Direct: Indirect:	— 52.5	— —*	— —	— —	— —	Manufacture and sale of automotive parts and components
Shenzhen Dongfeng Properties Co., Ltd. (xi) 深圳市東風置業有限公司	PRC 4 th February, 1994	RMB92,500,000	Direct: Indirect:	95 5	—* —	— —	— —	— —	Marketing and sale of automobiles, automotive parts and components
Dongfeng Shenzhen Motor Co., Ltd. (xii) 深圳東風汽車有限公司	PRC 20 th May, 1983	RMB11,720,000	Direct: Indirect:	75 —	—* —	— —	— —	— —	Marketing and sale of automobiles, automotive parts and components
Suzhou Dongfeng Precision Stamping Co., Ltd. (xiii) 蘇州東風精冲工程有限公司	PRC 16 th August, 1999	RMB63,216,841	Direct: Indirect:	84.9 —	—* —	— —	— —	— —	Manufacture and sale of automotive parts and components

Company name	Place and date of establishment and operations	Paid-up registered capital as at 30 th June, 2005		Percentage of equity interests attributable to the Company as at					Principal activities
				31 st December,			30 th June, 2005	Date of this report	
				2002	2003	2004			
Subsidiaries (continued)									
Wuhan Dongfeng Stamping Co., Ltd. (xiv) 武漢東風沖壓件有限公司	PRC 24 th October, 1996	RMB80,000,000	Direct: Indirect:	60 —	—* —	— —	— —	— —	Manufacture and sale of automotive parts and components
Guangzhou Aeolus Automobile Co., Ltd. (xv) # 廣州風神汽車有限公司	PRC 4 th December, 2001	RMB520,000,000	Direct: Indirect:	60 —	—* —	— —	— —	— —	Manufacture and sale of automobiles, automotive parts and components
Aeolus Xiangfan Motor Co., Ltd. (xv) # 風神襄樊汽車有限公司	PRC 6 th August, 2002	RMB826,000,000	Direct: Indirect:	— 60.3	— —*	— —	— —	— —	Manufacture and sale of automotive parts and components
Aeolus Automobile Co., Ltd. (xvi) # 風神汽車有限公司	PRC 21 st February, 2000	RMB173,350,000	Direct: Indirect:	45 18	—* —*	— —	— —	— —	Manufacture and sale of automobiles, automotive parts and components
Dongfeng Automobile Suspension Co., Ltd. (ii) 東風汽車懸架彈簧有限公司	PRC 29 th August, 1996	RMB50,409,000	Direct: Indirect:	98 2	—* —*	— —	— —	— —	Manufacture and sale of automotive parts and components
Hubei Dongfeng Motor Industry Import and Export Co., Ltd. (ii) 湖北東風汽車工業進出口有限公司	PRC 19 th January, 2001	RMB10,000,000	Direct: Indirect:	— 100	— —*	— —	— —	— —	Marketing and sale of automotive parts and components
Shenzhen Aeolus Auto Trade Co., Ltd. (xi) (Formerly known as Shenzhen Dongfeng Machinery and Equipment Co., Ltd.) 深圳市風神汽車貿易有限公司 (前稱深圳市東風機電設備有限公司)	PRC 18 th January, 2000	RMB60,000,000	Direct: Indirect:	— 70	— —*	— —	— —	— —	Marketing and sale of automobiles
Jointly-controlled entities									
Dongfeng Honda Engine Co., Ltd. (xvii) # 東風本田發動機有限公司	PRC 26 th May, 1998	US\$60,060,000	Direct: Indirect:	50 —	50 —	50 —	50 —	50 —	Manufacture and sale of automotive parts and components
Dongfeng Honda Auto Parts Co., Ltd. (xviii) # 東風本田汽車零部件有限公司	PRC 23 rd December, 1994	US\$25,000,000	Direct: Indirect:	35 —	35 —	35 —	44 —	44 —	Manufacture and sale of automotive parts and components
Dongfeng Motor Co., Ltd. (xix) # 東風汽車有限公司	PRC 20 th May, 2003	RMB16,700,000,000	Direct: Indirect:	— —	50 —	50 —	50 —	50 —	Manufacture and sale of automobiles, automotive parts and components
Dongfeng Honda Automobile Co., Ltd. (xx) # (Formerly known as Wuhan Wantong Motor Co., Ltd.) 東風本田汽車有限公司 (前稱武漢萬通汽車有限公司)	PRC 20 th January, 1993	US\$148,000,000	Direct: Indirect:	— —	50 —	50 —	50 —	50 —	Manufacture and sale of automobiles, automotive parts and components
Dongfeng Peugeot Citroën Automobiles Company Ltd. (xxi) # 神龍汽車有限公司	PRC 11 th May, 1992	RMB7,000,000,000	Direct: Indirect:	31 —	31.5 —	50 —	50 —	50 —	Manufacture and sale of automobiles, automotive parts and components

Company name	Place and date of establishment and operations	Paid-up registered capital as at 30 th June, 2005		Percentage of equity interests attributable to the Company as at					Principal activities
				31 st December,			30 th June, 2005	Date of this report	
				2002	2003	2004			
Jointly-controlled entities (continued)									
Dongfeng Automobile Co., Ltd. (viii) ## 東風汽車股份有限公司	PRC 21 st July, 1999	RMB2,000,000,000	Direct: Indirect:	— —	— —	— 35*	— 35	— 35	Manufacture and sale of automobiles, automotive parts and components
Dongfeng Electronic Technology Co., Ltd. (ix) ## 東風電子科技股份有限公司	PRC 29 th April, 1998	RMB313,560,000	Direct: Indirect:	— —	— —	— 37.5*	— 37.5	— 37.5	Manufacture and sale of automotive parts and components
Dongfeng Nissan Diesel Motor Co., Ltd. (xxii) # 東風日產柴汽車有限公司	PRC 29 th May, 1996	RMB289,900,700	Direct: Indirect:	50 —	50 —	50 —	50 —	50 —	Manufacture and sale of automobiles, automotive parts and components
Dongfeng Motor Finance Co., Ltd. (ii) # (Formerly known as Dongfeng Motor Industrial Finance Co., Ltd.) 東風汽車財務有限公司 (前稱東風汽車工業財務公司)	PRC 30 th July, 1992	RMB558,770,352	Direct: Indirect:	60 —	60 —	20 20*	20 27.5	20 27.5	Provision of finance services
Dongfeng Cummins Engines Co., Ltd. (xxiii) # 東風康明斯發動機有限公司	PRC 14 th May, 1996	US\$100,620,000	Direct: Indirect:	— 35	— 35	— 17.5*	— 17.5	— 17.5	Manufacture and sale of automotive parts and components
Dongfeng Motor Mould Co., Ltd. (vii) 東風汽車模具有限公司	PRC 18 th December, 2003	RMB158,000,000	Direct: Indirect:	— —	— 49.6*	— 49.6	— 49.6	— 49.6	Manufacture and sale of automotive parts and components
Dongfeng Motor Fastener Co., Ltd. (ii) 東風汽車緊固件有限公司	PRC 21 st May, 1997	RMB106,000,000	Direct: Indirect:	— —	— 50.2*	— 50.2	— 50.2	— 50.2	Manufacture and sale of automotive parts and components
Dongfeng Motor Wheel Rim Co., Ltd. (ii) 東風汽車車輪有限公司	PRC 20 th December, 1996	RMB145,340,437	Direct: Indirect:	— —	— 50.2*	— 50.2	— 50.2	— 50.2	Manufacture and sale of automotive parts and components
Dongfeng Motor Pump Co., Ltd. (ii) 東風汽車泵業有限公司	PRC 27 th September, 1999	RMB48,000,000	Direct: Indirect:	— —	— 50.5*	— 50.5	— 50.5	— 50.5	Manufacture and sale of automotive parts and components
Xiangfan Dongfeng Motor Electrical Equipment Co., Ltd. (ii) 襄樊東風汽車電氣有限責任公司	PRC 25 th April, 1995	RMB86,571,783	Direct: Indirect:	— —	— —	— 50*	— 50	— 50	Manufacture and sale of automotive parts and components
Dongfeng Behr Thermal Systems Co., Ltd. (ii) (Formerly known as Dongfeng Motor Radiators Co., Ltd.) 東風貝洱熱系統有限公司 (前稱東風散熱器有限公司)	PRC 29 th August, 1996	RMB138,636,000	Direct: Indirect:	— —	— 50.7*	— 25	— 25	— 25	Manufacture and sale of automotive parts and components
Dongfeng Motor Special Vehicle Co., Ltd. (ii) 東風專用汽車有限公司	PRC 20 th July, 2001	RMB120,000,000	Direct: Indirect:	— —	— 50*	— 50	— 50	— 50	Manufacture and sale of automobiles
Dongfeng Piston & Bearing Co., Ltd. (ii) 東風活塞軸瓦有限公司	PRC 24 th December, 1997	RMB183,805,698	Direct: Indirect:	— —	— 47.7*	— 47.7	— 47.7	— 47.7	Manufacture and sale of automotive parts and components
Dongfeng Motor Propeller Shaft Co., Ltd. (ii) 東風汽車傳動軸有限公司	PRC 1 st December, 1997	RMB235,000,000	Direct: Indirect:	— —	— 42.5*	— 42.5	— 42.5	— 42.5	Manufacture and sale of automotive parts and components

Company name	Place and date of establishment and operations	Paid-up registered capital as at 30 th June, 2005		Percentage of equity interests attributable to the Company as at					Principal activities
				31 st December,			30 th June, 2005	Date of this report	
				2002	2003	2004			
Jointly-controlled entities (continued)									
Dongfeng Motor Transmission Gear Co., Ltd. (ii) 東風汽車變速箱有限公司	PRC 23 rd June, 1997	RMB192,057,166	Direct: Indirect:	— —	— 42.4*	— 42.4	— 42.4	— 42.4	Manufacture and sale of automotive parts and components
Dongfeng Liuzhou Motor Co., Ltd. (ii) 東風柳州汽車有限公司	PRC 19 th December, 1981	RMB190,248,819	Direct: Indirect:	— —	— 37.5*	— 37.5	— 37.5	— 37.5	Manufacture and sale of automobiles, automotive parts and components
Dongfeng Hangzhou Motor Co., Ltd. (ii) 東風杭州汽車有限公司	PRC 8 th July, 1998	RMB270,580,000	Direct: Indirect:	— —	— 25.8*	— 25.8	— 25.8	— 25.8	Manufacture and sale of automobiles, automotive parts and components
Dongfeng Xinjiang Motor Co., Ltd. (vi) 東風新疆汽車有限公司	PRC 8 th May, 2002	RMB75,000,000	Direct: Indirect:	— —	— 33.3*	— 33.3	— 33.3	— 33.3	Manufacture and sale of automobiles, automotive parts and components
Dongfeng Motor Huizhou Co., Ltd. (vi) 東風汽車(惠州)有限公司	PRC 16 th May, 2002	RMB85,000,000	Direct: Indirect:	— —	— 50.3*	— 50.3	— 50.3	— 50.3	Marketing and sale of automobiles, automotive parts and components
Dongfeng Axle Co., Ltd. (vii) # 東風車橋有限公司	PRC 2 nd December, 2002	RMB500,000,000	Direct: Indirect:	— —	— 39.6*	— 39.6	— 39.6	— 39.6	Manufacture and sale of automotive parts and components
Liuzhou Liuxin Motor Stamping Co., Ltd. (x) 柳州柳新汽車沖壓件有限公司	PRC 2 nd December, 1992	US\$12,000,000	Direct: Indirect:	— —	— 26.3*	— 26.3	— 26.3	— 26.3	Manufacture and sale of automotive parts and components
Shenzhen Dongfeng Properties Co., Ltd. (xi) 深圳市東風置業有限公司	PRC 4 th February, 1994	RMB92,500,000	Direct: Indirect:	— —	— 52.4*	— 52.4	— 52.4	— 52.4	Marketing and sale of automobiles, automotive parts and components
Dongfeng Shenzhen Motor Co., Ltd. (xii) 深圳東風汽車有限公司	PRC 20 th May, 1983	RMB11,720,000	Direct: Indirect:	— —	— 37.5*	— 37.5	— 37.5	— 37.5	Marketing and sale of automobiles, automotive parts and components
Suzhou Dongfeng Precision Stamping Co., Ltd. (xiii) 蘇州東風精冲工程有限公司	PRC 16 th August, 1999	RMB63,216,841	Direct: Indirect:	— —	— 42.4*	— 42.4	— 42.4	— 42.4	Manufacture and sale of automotive parts and components
Wuhan Dongfeng Stamping Co., Ltd. (xiv) 武漢東風沖壓件有限公司	PRC 24 th October, 1996	RMB80,000,000	Direct: Indirect:	— —	— 30*	— 30	— 30	— 30	Manufacture and sale of automotive parts and components
Guangzhou Aeolus Automobile Co., Ltd. (xv) # 廣州風神汽車有限公司	PRC 4 th December, 2001	RMB520,000,000	Direct: Indirect:	— —	— 30*	— 30	— 30	— 30	Manufacture and sale of automobiles, automotive parts and components
Aeolus Xiangfan Motor Co., Ltd. (xv) # 風神襄樊汽車有限公司	PRC 6 th August, 2002	RMB826,000,000	Direct: Indirect:	— —	— 48.2*	— 48.2	— 48.2	— 48.2	Manufacture and sale of automotive parts and components

Company name	Place and date of establishment and operations	Paid-up registered capital as at 30 th June, 2005		Percentage of equity interests attributable to the Company as at					Principal activities
				31 st December,			30 th June, 2005	Date of this report	
				2002	2003	2004			
Jointly-controlled entities (continued)									
Aeolus Automobile Co., Ltd. (xvi) # 風神汽車有限公司	PRC 21 st February, 2000	RMB173,350,000	Direct: Indirect:	— —	— 31.5*	— 31.5	— 31.5	— 31.5	Marketing and sale of automobiles, automotive parts and components
Dongfeng Tramp Special Vehicle Co., Ltd. (vii) 老河口東風創普專用汽車有限公司	PRC 6 th December, 2003	RMB14,750,000	Direct: Indirect:	— —	— 50	— 50	— 50	— 50	Repair and maintenance of automobiles
Dongfeng Automobile Suspension Co., Ltd. (ii) 東風汽車懸架彈簧有限公司	PRC 29 th August, 1996	RMB50,409,000	Direct: Indirect:	— —	— 50*	— 50	— 50	— 50	Manufacture and sale of automotive parts and components
Hubei Dongfeng Motor Industry Import and Export Co., Ltd. (ii) 湖北東風汽車工業進出口有限公司	PRC 19 th January, 2001	RMB10,000,000	Direct: Indirect:	— —	— 50*	— 50	— 50	— 50	Marketing and sale of automotive parts and components
Dongfeng Suizhou Special Motor Co., Ltd. (xxiv) 東風隨州專用汽車有限公司	PRC 26 th September, 2004	RMB114,012,841	Direct: Indirect:	— —	— —	— 30	— 30	— 30	Manufacture and sale of automobiles
Shenzhen Aeolus Auto Trade Co., Ltd. (xi) (Formerly known as Shenzhen Dongfeng Machinery and Equipment Co., Ltd.) 深圳市風神汽車貿易有限公司 (前稱深圳市東風機電設備有限公司)	PRC 18 th January, 2000	RMB60,000,000	Direct: Indirect:	— —	— 36.8*	— 36.8	— 36.8	— 36.8	Marketing and sale of automobiles
Zhengzhou Nissan Automobile Co., Ltd. (xxv) # 鄭州日產汽車有限公司	PRC 1 st June, 1993	RMB250,000,000	Direct: Indirect:	— —	— —	— —	— 17.9	— 17.9	Manufacture and sale of automobiles
Associates									
Wuhan Wantong Motor Co., Ltd. (xx) # 武漢萬通汽車有限公司	PRC 20 th January, 1993	US\$28,000,000	Direct: Indirect:	30.2 —	— —	— —	— —	— —	Manufacture and sale of automobiles, automotive parts and components
Shenzhen Hangsheng Electronics Co., Ltd. (xxvi) ## 深圳市航盛電子股份有限公司	PRC 6 th December, 1993	RMB128,000,000	Direct: Indirect:	— 25.3	— 13.3*	— 13.1	— 13.1	— 13.1	Manufacture and sale of automotive parts and components
Zhanjiang Deli Carburetor Co., Ltd. (xxvii) # 湛江德利化油器有限公司	PRC 11 th November, 1992	US\$21,250,000	Direct: Indirect:	— 24	— 24	— 12*	— 12	— 12	Manufacture and sale of automotive parts and components

* These companies were injected by the Company as capital contributions into Dongfeng Motor Co., Ltd. in 2003 and 2004. Further details of which are set out in note 15(b) below.

** These companies were transferred to DMC in 2003. Further details of which are set out in note 1 above.

*** These amounts represented paid-up registered capital amounts of companies included in the Transferred Assets as at 31st December, 2003, the effective date of the Assets Transfer Transaction. Further details of the Assets Transfer Transaction are set out in note 1 above.

Sino-foreign equity joint ventures

Joint stock limited liability companies

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

Notes:

- (i) The statutory accounts of the Company for the years ended 31st December, 2002 and 2003 were audited by Shine Wing Certified Public Accountants Co., Ltd., Certified Public Accountants registered in the PRC. The statutory accounts of the Company for the year ended 31st December, 2004 and the PRC GAAP Financial Statements were audited by Ernst & Young Hua Ming, Certified Public Accountants registered in the PRC. The management accounts for the six months ended 30th June, 2004 and 2005 have not been audited.
- (ii) The statutory accounts of these companies for the years ended 31st December, 2002, 2003 and 2004 were audited by Shine Wing Certified Public Accountants Co., Ltd., Certified Public Accountants registered in the PRC. The management accounts of these companies for the six months ended 30th June, 2004 and 2005 have not been audited.
- (iii) The statutory accounts of this company for the years ended 31st December, 2002 and 2003 were audited by Shanghai Huaxia Certified Public Accountants Co., Ltd., Certified Public Accountants registered in the PRC, and the statutory accounts of this company for the year ended 31st December, 2004 were audited by Shine Wing Certified Public Accountants Co., Ltd., Certified Public Accountants registered in the PRC. The management accounts of this company for the six months ended 30th June, 2004 and 2005 have not been audited.
- (iv) The statutory accounts of these companies for the years ended 31st December, 2002 and 2003 were audited by Shine Wing Certified Public Accountants Co., Ltd., Certified Public Accountants registered in the PRC.
- (v) The statutory accounts of this company for the years ended 31st December, 2002 and 2003 were audited by Sichuan Hua Qiang CPAs Co., Ltd., Certified Public Accountants registered in the PRC.
- (vi) The statutory accounts of these companies for the period ended 31st December, 2002 and the years ended 31st December, 2003 and 2004 were audited by Shine Wing Certified Public Accountants Co., Ltd., Certified Public Accountants registered in the PRC. The management accounts of these companies for the six months ended 30th June, 2004 and 2005 have not been audited.
- (vii) The statutory accounts of these companies for the period ended 31st December, 2003 and the year ended 31st December, 2004 were audited by Shine Wing Certified Public Accountants Co., Ltd., Certified Public Accountants registered in the PRC. The management accounts of these companies for the six months ended 30th June, 2004 and 2005 have not been audited.
- (viii) The statutory accounts of this company for the years ended 31st December, 2002, 2003 and 2004 were audited by Baker Tilly China, Certified Public Accountants registered in the PRC. The management accounts of this company for the six months ended 30th June, 2004 and 2005 have not been audited.
- (ix) The statutory accounts of this company for the years ended 31st December, 2002, 2003 and 2004 were audited by Hubei Daxin Certified Public Accountant Co., Ltd., Certified Public Accountants registered in the PRC. The management accounts of this company for the six months ended 30th June, 2004 and 2005 have not been audited.
- (x) The statutory accounts of this company for the years ended 31st December, 2002, 2003 and 2004 were audited by Guangxi Zhengze Certified Public Accountants Co., Ltd., Certified Public Accountants registered in the PRC. The management accounts of this company for the six months ended 30th June, 2004 and 2005 have not been audited.

- (xi) The statutory accounts of these companies for the years ended 31st December, 2002 and 2003 were audited by Shenzhen Shi Xing Yue Partnership Certified Public Accountants, Certified Public Accountants registered in the PRC, and the statutory accounts of these companies for the year ended 31st December, 2004 were audited by Shine Wing Certified Public Accountants Co., Ltd., Certified Public Accountants registered in the PRC. The management accounts of these companies for the six months ended 30th June, 2004 and 2005 have not been audited.
- (xii) The statutory accounts of this company for the year ended 31st December, 2002 were audited by Shenzhen Caixin Certified Public Accountants, Certified Public Accountants registered in the PRC, and the statutory accounts of this company for the years ended 31st December, 2003 and 2004 were audited by Shine Wing Certified Public Accountants Co., Ltd., Certified Public Accountants registered in the PRC. The management accounts of this company for the six months ended 30th June, 2004 and 2005 have not been audited.
- (xiii) The statutory accounts of this company for the years ended 31st December, 2002 and 2003 were audited by Jiangsu Gong Zheng Certified Public Accountants Co., Ltd., Certified Public Accountants registered in the PRC, and the statutory accounts of this company for the year ended 31st December, 2004 were audited by Shine Wing Certified Public Accountants Co., Ltd., Certified Public Accountants registered in the PRC. The management accounts of this company for the six months ended 30th June, 2004 and 2005 have not been audited.
- (xiv) The statutory accounts of this company for the year ended 31st December, 2002 were audited by Hubei Jinxin Certified Public Accountants Co., Ltd., Certified Public Accountants registered in the PRC, and the statutory accounts of this company for the years ended 31st December, 2003 and 2004 were audited by Shine Wing Certified Public Accountants Co., Ltd., Certified Public Accountants registered in the PRC. The management accounts of this company for the six months ended 30th June, 2004 and 2005 have not been audited.
- (xv) The statutory accounts of these companies for the period ended 31st December, 2002 and the years ended 31st December, 2003 and 2004 were audited by Ernst & Young Hua Ming, Certified Public Accountants registered in the PRC. The management accounts of these companies for the six months ended 30th June, 2004 and 2005 have not been audited.
- (xvi) The statutory accounts of this company for the years ended 31st December, 2002, 2003 and 2004 were audited by Ernst & Young Hua Ming, Certified Public Accountants registered in the PRC. The management accounts of this company for the six months ended 30th June, 2004 and 2005 have not been audited.
- (xvii) The statutory accounts of this company for the years ended 31st December, 2002, 2003 and 2004 were audited by Guangzhou Yangcheng Certified Public Accountants Co., Ltd., Certified Public Accountants registered in the PRC. The management accounts of this company for the six months ended 30th June, 2004 and 2005 have not been audited.
- (xviii) The statutory accounts of this company for the years ended 31st December, 2002, 2003 and 2004 were audited by Huizhou Shi Zhengda Certified Public Accountants Co., Ltd., Certified Public Accountants registered in the PRC. The management accounts of this company for the six months ended 30th June, 2004 and 2005 have not been audited.
- (xix) The statutory accounts of this company for the period ended 31st December, 2003 and the year ended 31st December, 2004 were audited by Ernst & Young Hua Ming, Certified Public Accountants registered in the PRC. The management accounts of this company for the six months ended 30th June, 2004 and 2005 have not been audited.

- (xx) The statutory accounts of this company for the years ended 31st December, 2002 and 2003 were audited by Zhongqin Wanxin Certified Public Accountants Co., Ltd., Certified Public Accountants registered in the PRC, and the statutory accounts of this company for the year ended 31st December, 2004 were audited by Shine Wing Certified Public Accountants Co., Ltd., Certified Public Accountants registered in the PRC. The management accounts of this company for the six months ended 30th June, 2004 and 2005 have not been audited.
- (xxi) The statutory accounts of this company for the years ended 31st December, 2002 and 2003 and 2004 were audited by Deloitte Touche Tohmatsu Certified Public Accountants Ltd., Certified Public Accountants registered in the PRC. The management accounts of this company for the six months ended 30th June, 2004 and 2005 have not been audited.
- (xxii) The statutory accounts of this company for the years ended 31st December, 2002 and 2003 and 2004 were audited by Zhejiang East Certified Public Accountants Company Limited, Certified Public Accountants registered in the PRC. The management accounts of this company for the six months ended 30th June, 2004 and 2005 have not been audited.
- (xxiii) The statutory accounts of this company for the years ended 31st December, 2002, 2003 and 2004 were audited by PricewaterhouseCoopers Zhong Tian Certified Public Accountants, Certified Public Accountants registered in the PRC. The management accounts of this company for the six months ended 30th June, 2004 and 2005 have not been audited.
- (xxiv) The statutory accounts of this company for the period ended 31st December, 2004 were audited by Shine Wing Certified Public Accountants Co., Ltd., Certified Public Accountants registered in the PRC. The management accounts of this company for the six months ended 30th June, 2004 and 2005 have not been audited.
- (xxv) The management accounts of this company for the six months ended 30th June, 2005 have not been audited.
- (xxvi) The statutory accounts of this company for the years ended 31st December, 2002 and 2003 were audited by Yuehua Certified Public Accountants Co., Ltd., Certified Public Accountants registered in the PRC, and the statutory accounts of this company for the year ended 31st December, 2004 were audited by Shenzhen Pengcheng Certified Public Accountants, Certified Public Accountants registered in the PRC. The management accounts of this company for the six months ended 30th June, 2004 and 2005 have not been audited.
- (xxvii) The statutory accounts of this company for the years ended 31st December, 2002, 2003 and 2004 were audited by Zonjia Certified Public Accountants Co., Ltd., Certified Public Accountants registered in the PRC. The management accounts of this company for the six months ended 30th June, 2004 and 2005 have not been audited.

4. REVENUE ON SALE OF GOODS AND SEGMENT INFORMATION

Revenue on sale of goods

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

VAT is payable by the buyers to the Group and its jointly-controlled entities based on 17% of the sales generally and is payable to the tax bureau by the Group and its jointly-controlled entities after offsetting against the VAT paid by the Group and its jointly-controlled entities based on 17% of purchases generally. The sales of certain passenger vehicles by the Group and its jointly-controlled entities are also subject to CT at rates ranging from 3% to 8%. Pursuant to the tax notice of Caishui (2003)28, Aeolus Automobile Co., Ltd. enjoys a CT reduction of 30%, which was effective from September 2000, and Guangzhou Aeolus Automobile Co., Ltd. enjoys a CT reduction of 30% which was effective from July 2002 for their sales of Fengshen mini motor EQ7200-II and EQ7200-III. The CT reduction is net-off against CT recognised in the income statement.

Segment information

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

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

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

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

Business segments

The following tables present revenue, profit and certain asset and liability and expenditure information regarding the business segments of the Group and its jointly-controlled entities dealt with in the Financial Information.

Year ended 31st December, 2002

	Commercial vehicles	Passenger vehicles	Engines and other automotive parts	Corporate and others	Eliminations	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Continuing operations:						
Revenue						
Sales to external customers	23,258	8,421	6,659	2,074	—	40,412
Intersegment sales	—	—	6,648	—	(6,648)	—
Other income	39	13	104	269	—	425
Gain on acquisition of subsidiaries	62	239	—	—	—	301
Total	<u>23,359</u>	<u>8,673</u>	<u>13,411</u>	<u>2,343</u>	<u>(6,648)</u>	<u>41,138</u>
Results						
Segment results	<u>1,703</u>	<u>2,076</u>	<u>2,306</u>	<u>(411)</u>	—	5,674
Unallocated expenses						(16)
Net finance costs						(389)
Share of profits and losses of associates	(2)	196	28	35	—	257
Profit before tax						5,526
Income tax expense						(876)
Profit for the year from continuing operations						4,650
Discontinued operations:						
Loss for the year from discontinued operations						(492)
Profit for the year						<u>4,158</u>
Assets and liabilities						
Segment assets of continuing operations	11,985	8,923	11,846	5,214	(1,276)	36,692
Investments in associates of continuing operations	121	—	241	142	—	504
Segment assets of discontinued operations						5,456
Unallocated assets						883
Total assets						<u>43,535</u>
Segment liabilities of continuing operations	6,033	2,557	6,266	4,483	(1,276)	18,063
Segment liabilities of discontinued operations						1,440
Unallocated liabilities						10,716
Total liabilities						<u>30,219</u>
Other segment information						
Continuing operations:						
Capital expenditure*:						
— Property, plant and equipment	192	637	1,197	170	—	2,196
— Intangible assets	7	6	2	5	—	20
Depreciation of property, plant and equipment*	195	287	633	104	—	1,219
Amortisation of intangible assets*	1	20	11	—	—	32
Impairment losses*	<u>11</u>	<u>—</u>	<u>26</u>	<u>31</u>	<u>—</u>	<u>68</u>

* Details of such information of discontinued operations are set out in note 1 above.

Year ended 31st December, 2003

	Commercial vehicles	Passenger vehicles	Engines and other automotive parts	Corporate and others	Eliminations	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Continuing operations:						
Revenue						
Sales to external customers	15,567	11,248	8,281	1,460	—	36,556
Intersegment sales	—	—	6,745	—	(6,745)	—
Other income	67	32	148	173	—	420
Gain on acquisition of an associate	—	—	12	—	—	12
Total	<u>15,634</u>	<u>11,280</u>	<u>15,186</u>	<u>1,633</u>	<u>(6,745)</u>	<u>36,988</u>
Results						
Segment results	<u>570</u>	<u>1,906</u>	<u>1,787</u>	<u>(447)</u>	—	3,816
Unallocated gains						1,180
Unallocated expenses						(6)
Net finance costs						(252)
Share of profits and losses of associates	(20)	—	33	36	—	49
Profit before tax						4,787
Income tax expense						(211)
Profit for the year from continuing operations						4,576
Discontinued operations:						
Loss for the year from discontinued operations						(363)
Profit for the year						<u>4,213</u>
Assets and liabilities						
Segment assets of continuing operations	7,316	8,158	9,468	4,234	(1,343)	27,833
Investments in associates of continuing operations	41	—	289	87	—	417
Unallocated assets						540
Total assets						<u>28,790</u>
Segment liabilities of continuing operations	3,975	2,013	3,204	3,149	(1,343)	10,998
Unallocated liabilities						5,186
Total liabilities						<u>16,184</u>
Other segment information						
Continuing operations:						
Capital expenditure*:						
— Property, plant and equipment	581	703	1,245	222	—	2,751
— Intangible assets	33	39	141	9	—	222
Depreciation of property, plant and equipment*	261	286	547	127	—	1,221
Amortisation of intangible assets*	1	20	17	1	—	39
Impairment losses*	<u>82</u>	<u>(7)</u>	<u>(19)</u>	<u>—</u>	<u>—</u>	<u>56</u>

* Details of such information of discontinued operations are set out in note 1 above.

Year ended 31st December, 2004

	Commercial vehicles	Passenger vehicles	Engines and other automotive parts	Corporate and others	Eliminations	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Continuing operations:						
Revenue						
Sales to external customers	14,556	9,212	7,685	1,284	—	32,737
Intersegment sales	—	—	4,716	—	(4,716)	—
Other income	26	102	122	180	—	430
Total	<u>14,582</u>	<u>9,314</u>	<u>12,523</u>	<u>1,464</u>	<u>(4,716)</u>	<u>33,167</u>
Results						
Segment results	<u>445</u>	<u>614</u>	<u>1,865</u>	<u>(540)</u>	—	2,384
Unallocated gains						852
Net finance costs						(104)
Share of profits and losses of associates . .	(1)	—	32	11	—	42
Profit before tax						3,174
Income tax expense						<u>(308)</u>
Profit for the year from continuing operations						2,866
Discontinued operations:						
Loss for the year from discontinued operations						—
Profit for the year						<u>2,866</u>
Assets and liabilities						
Segment assets of continuing operations . .	5,946	13,821	10,284	5,060	(2,944)	32,167
Investments in associates of continuing operations	51	—	203	39	—	293
Unallocated assets						991
Total assets						<u>33,451</u>
Segment liabilities of continuing operations	3,574	4,437	4,088	6,730	(2,944)	15,885
Unallocated liabilities						7,451
Total liabilities						<u>23,336</u>
Other segment information						
Continuing operations:						
Capital expenditure:						
— Property, plant and equipment	424	1,280	1,065	216	—	2,985
— Intangible assets	32	180	21	57	—	290
Depreciation of property, plant and equipment	122	493	365	50	—	1,030
Amortisation of intangible assets	12	37	27	7	—	83
Impairment losses	<u>3</u>	<u>2</u>	<u>1</u>	<u>20</u>	<u>—</u>	<u>26</u>

Six months ended 30th June, 2004

	Commercial vehicles	Passenger vehicles	Engines and other automotive parts	Corporate and others	Eliminations	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Continuing operations:						
Revenue						
Sales to external customers	6,814	4,377	3,988	580	—	15,759
Intersegment sales	—	—	2,681	—	(2,681)	—
Other income	25	16	61	30	—	132
Total	<u>6,839</u>	<u>4,393</u>	<u>6,730</u>	<u>610</u>	<u>(2,681)</u>	<u>15,891</u>
Results						
Segment results	<u>193</u>	<u>323</u>	<u>1,195</u>	<u>(400)</u>	—	1,311
Unallocated expenses						(6)
Net finance costs						(39)
Share of profits and losses of associates . . .	(1)	—	16	5	—	20
Profit before tax						1,286
Income tax expense						<u>(387)</u>
Profit for the period from continuing operations						899
Discontinued operations:						
Loss for the period from discontinued operations						—
Profit for the period						<u>899</u>
Other segment information						
Continuing operations:						
Capital expenditure:						
— Property, plant and equipment	159	745	90	62	—	1,056
— Intangible assets	11	—	2	34	—	47
Depreciation of property, plant and equipment	65	228	176	24	—	493
Amortisation of intangible assets	<u>5</u>	<u>10</u>	<u>10</u>	<u>3</u>	<u>—</u>	<u>28</u>

Six months ended 30th June, 2005

	Commercial vehicles	Passenger vehicles	Engines and other automotive parts	Corporate and others	Eliminations	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Continuing operations:						
Revenue						
Sales to external customers	6,821	10,379	3,004	988	—	21,192
Intersegment sales	—	—	1,849	—	(1,849)	—
Other income	18	58	118	139	—	333
Total	<u>6,839</u>	<u>10,437</u>	<u>4,971</u>	<u>1,127</u>	<u>(1,849)</u>	<u>21,525</u>
Results						
Segment results	<u>233</u>	<u>486</u>	<u>565</u>	<u>(130)</u>	—	1,154
Net finance costs						(144)
Share of profits and losses of associates . . .	(2)	—	13	1	—	12
Profit before tax						1,022
Income tax expense						(258)
Profit for the period from continuing operations						764
Discontinued operations:						
Loss for the period from discontinued operations						—
Profit for the period						<u>764</u>
Assets and liabilities						
Segment assets of continuing operations . .	8,112	13,681	9,870	6,896	(3,307)	35,252
Investments in associates of continuing operations	49	—	249	44	—	342
Unallocated assets						1,264
Total assets						<u>36,858</u>
Segment liabilities of continuing operations	5,195	4,883	3,429	5,254	(3,307)	15,454
Unallocated liabilities						10,612
Total liabilities						<u>26,066</u>
Other segment information						
Continuing operations:						
Capital expenditure:						
— Property, plant and equipment	46	1,407	206	137	—	1,796
— Intangible assets	18	20	40	—	—	78
Depreciation of property, plant and equipment	73	370	203	28	—	674
Amortisation of intangible assets	5	30	5	2	—	42
Impairment losses	<u>10</u>	<u>—</u>	<u>1</u>	<u>2</u>	<u>—</u>	<u>13</u>

5. OTHER INCOME AND EXPENSES

(a) Other income

The Group's other income from continuing operations is as follows:

	Year ended 31 st December,			Six months ended 30 th June,	
	2002	2003	2004	2004	2005
	RMB million	RMB million	RMB million	RMB million	RMB million
Government grants and subsidies	252	154	120	40	157
Net income from disposal of other materials	35	127	208	78	125
Rendering of services	29	11	12	3	3
Others	109	128	90	11	48
	<u>425</u>	<u>420</u>	<u>430</u>	<u>132</u>	<u>333</u>

(b) Profit before tax

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

	Year ended 31 st December,			Six months ended 30 th June,	
	2002	2003	2004	2004	2005
	RMB million	RMB million	RMB million	RMB million	RMB million
Costs of inventories recognised as an expense	30,619	28,326	26,952	12,627	18,426
Provision/(write-back of provision) against inventories	15	37	(63)	7	11
Amortisation of intangible assets*	32	39	83	28	42
Depreciation	1,219	1,221	1,030	493	674
Auditors' remuneration	3	3	3	1	1
Minimum lease payments under operating leases in respect of land and buildings	54	107	113	49	76
Staff costs (excluding the Directors' and supervisors' remuneration):					
— Wages and salaries	2,889	2,315	1,595	753	919
— Pension scheme costs (note i)	273	288	248	130	137
— Medical benefits costs (note ii)	26	21	31	13	17
— Cash housing subsidies costs (note iii)	24	16	8	4	3
	<u>3,212</u>	<u>2,640</u>	<u>1,882</u>	<u>900</u>	<u>1,076</u>
<i>Included in other expenses, net</i>					
(Gain)/loss on disposal of property, plant and equipment, net	52	(97)	25	2	1
Impairment of property, plant and equipment	52	50	26	—	13
Impairment of available-for-sale financial assets	16	6	—	—	—
Provision/(write-back of provision) for bad and doubtful debts	129	200	(101)	34	(15)
Warranty expenses	171	256	120	85	135
Research costs	439	471	478	225	298
Exchange (gains)/losses, net	61	116	106	(17)	(160)
Reorganisation expenses	—	436	—	—	—
	<u>—</u>	<u>436</u>	<u>—</u>	<u>—</u>	<u>—</u>

* The amortisation of intangible assets for the Relevant Periods is included in "Cost of sales" on the face of the consolidated income statements during the Relevant Periods.

Notes:

(i) Retirement benefits

The Group's and its jointly-controlled entities' employees in the PRC are covered by various defined contribution pension schemes regulated by the relevant municipal and provincial governments in the PRC pursuant to which the municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and retired employees.

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

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

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

(ii) Medical benefits

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

In addition, the Hubei Entities also participate in a supplemental medical benefit plan regulated by DMC pursuant to which such companies contribute a percentage of the wages of their qualified employees to the plan, on a monthly basis, and DMC undertakes to assume the supplemental medical benefit obligations payable to existing and retired employees of the Hubei Entities.

The Group and the jointly-controlled entities have no further obligations for medical benefits and supplemental medical benefits for their qualified employees under these plans. Contributions to these plans by the Group and the jointly-controlled entities are expensed as incurred.

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

(iii) Cash housing subsidies

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

For cash housing subsidies related to service periods before 1st January, 2000, they are fully recognised as expenses in the year of implementation of such plans of 2000.

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

(iv) Termination and early retirement benefits

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

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

(c) Net finance costs

The Group's net finance costs from continuing operations are as follows:

	Year ended 31 st December,			Six months ended 30 th June,	
	2002	2003	2004	2004	2005
	RMB million	RMB million	RMB million	RMB million	RMB million
Interest on overdrafts, bank loans and other borrowings wholly repayable:					
— within five years	451	320	168	66	164
— beyond five years	65	52	65	26	64
Interest on discounted bills	23	36	26	18	10
	539	408	259	110	238
Less: Amount capitalised in construction in progress	—	(6)	(17)	(10)	(22)
Total interest expense	539	402	242	100	216
Bank interest income	(150)	(150)	(138)	(61)	(72)
	389	252	104	39	144

6. DIRECTORS' AND SUPERVISORS' REMUNERATION

Details of the Directors' and supervisors' remuneration during the Relevant Periods, disclosed pursuant to the Rules Governing of the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	Directors					Supervisors				
	Year ended 31 st December,			Six months ended 30 th June,		Year ended 31 st December,			Six months ended 30 th June,	
	2002	2003	2004	2004	2005	2002	2003	2004	2004	2005
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
Fee	—	—	—	—	—	—	—	—	—	—
Other emoluments:										
— Salaries, allowances and benefits in kind	563	542	689	209	1,059	267	255	457	98	593
— Bonuses	1,722	1,356	2,160	—	—	666	359	920	—	—
— Pension scheme costs	34	43	42	15	47	15	18	27	8	29
Total	2,319	1,941	2,891	224	1,106	948	632	1,404	106	622

The name of the Directors and the supervisors of the Company and their remuneration for the Relevant Periods are as follows:

	Year ended 31 st December,			Six months ended 30 th June,	
	2002	2003	2004	2004	2005
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
<u>Name of the Directors</u>					
Miao Wei	616	617	624	64	135
Xu Ping	616	617	624	64	135
Liu Zhangmin	465	467	473	58	109
Zhou Wenjie	—	—	176	—	115
Fan Zhong	—	—	118	—	109
Li Shaozhu	—	—	118	—	109
Tong Dongcheng	—	—	118	—	109
Liu Weidong	—	—	101	—	122
Ouyang Jie	—	—	118	—	109
Zhu Fushou	—	—	60	—	54
Sun Shuyi	—	—	—	—	—
Ng Lin-fung	—	—	—	—	—
Yang Xianzu	—	—	5	—	—
Sun Hongjun	279	77	122	—	—
Gu Linsheng	32	33	—	—	—
Gao Mingxiang	32	33	—	—	—
Chen Shihuang	279	97	234	38	—
	<u>2,319</u>	<u>1,941</u>	<u>2,891</u>	<u>224</u>	<u>1,106</u>
<u>Name of the supervisors</u>					
Ye Huicheng	465	467	473	58	109
Zhou Qiang	—	—	47	—	53
Ren Yong	—	—	188	—	133
Liu Yuhe	—	—	164	—	150
Li Chunrong	—	—	84	—	71
Kang Li	—	—	84	—	106
Wen Shiyang	—	—	—	—	—
Deng Mingran	—	—	—	—	—
Jin Nanqiang	253	91	241	48	—
Xu Qiaoli	230	74	123	—	—
	<u>948</u>	<u>632</u>	<u>1,404</u>	<u>106</u>	<u>622</u>

During the Relevant Periods, no emoluments were paid by the Group to any of the persons who are the Directors or supervisors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. None of the persons who are the Directors or supervisors of the Company waived or agreed to waive any emoluments during the Relevant Periods.

There was no arrangement under which a Director or a supervisor of the Company waived or agreed to waive any remuneration during the Relevant Periods.

7. FIVE HIGHEST PAID EMPLOYEES

The number of the five highest paid employees of the Group during the Relevant Periods is analysed as follows:

	Year ended 31 st December,			Six months ended 30 th June,	
	2002	2003	2004	2004	2005
Directors and supervisors	4	4	5	—	5
Non-director and non-supervisor employees	<u>1</u>	<u>1</u>	<u>—</u>	<u>5</u>	<u>—</u>
	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

Details of the remuneration of the above non-director and non-supervisor employees during the Relevant Periods are as follows:

	Year ended 31 st December,			Six months ended 30 th June,	
	2002	2003	2004	2004	2005
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
Salaries, allowances and benefits in kind	367	508	—	1,134	—
Pension scheme costs	<u>—</u>	<u>11</u>	<u>—</u>	<u>15</u>	<u>—</u>
	<u>367</u>	<u>519</u>	<u>—</u>	<u>1,149</u>	<u>—</u>

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

	Year ended 31 st December,			Six months ended 30 th June,	
	2002	2003	2004	2004	2005
RMB nil — RMB200,000	—	—	—	2	—
RMB200,001 — RMB400,000	1	—	—	3	—
RMB400,001 — RMB600,000	<u>—</u>	<u>1</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>1</u>	<u>1</u>	<u>—</u>	<u>5</u>	<u>—</u>

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

8. TAXATION

(i) Corporate income tax

Under the relevant PRC Income Tax Law and the respective regulations, except for certain preferential treatment available to the Company, its subsidiaries and its jointly-controlled entities, the entities within the Group are subject to corporate income tax at the rate of 33%. Certain major tax benefits are listed below.

(ii) Concessions for foreign investment enterprise

Pursuant to the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises and the applicable local tax regulations, the following subsidiaries and jointly-controlled entities of the Company are entitled to tax concessions as follows:

Name of subsidiary/ jointly-controlled entity	Details of tax concessions
Dongfeng Motor Finance Co., Ltd.	Exemption from corporate income tax for the year ended 31 st December, 2004 and a 50% reduction in the applicable tax rate for corporate income tax for the two years ending 31 st December, 2006.
Aeolus Automobile Co., Ltd.	Exemption from corporate income tax for the two years ended 31 st December, 2001 and a 50% reduction in the applicable tax rate for corporate income tax for the three years ended 31 st December, 2004.
Dongfeng Honda Automobile Co., Ltd.	Exemption from corporate income tax for the two years ended 31 st December, 2001 and a 50% reduction in the applicable tax rate for corporate income tax for the three years ended 31 st December, 2004.
Dongfeng Honda Engine Co., Ltd.	Exemption from corporate income tax for the two years ended 31 st December, 2001 and a 50% reduction in the applicable tax rate for corporate income tax for the three years ended 31 st December, 2004.
Dongfeng Honda Auto Parts Co., Ltd.	Exemption from corporate income tax for the two years ended 31 st December, 2002 and a 50% reduction in the applicable tax rate for corporate income tax for the three years ending 31 st December, 2005.
Guangzhou Aeolus Automobile Co., Ltd.	Exemption from corporate income tax for the two years ended 31 st December, 2003 and a 50% reduction in the applicable tax rate for corporate income tax for the three years ending 31 st December, 2006.
Aeolus Xiangfan Motor Co., Ltd.	Exemption from corporate income tax for the two years ended 31 st December, 2003 and a 50% reduction in the applicable tax rate for corporate income tax for the three years ending 31 st December, 2006.
Dongfeng Peugeot Citroën Automobiles Company Ltd.	Exemption from corporate income tax for the two years ended 31 st December, 2004 and a 50% reduction in the applicable tax rate for corporate income tax for the three years ending 31 st December, 2007.
Dongfeng Motor Co., Ltd.	Exemption from corporate income tax for the two years ending 31 st December, 2005 and a 50% reduction in the applicable tax rate for corporate income tax for the three years ending 31 st December, 2008.

(iii) Entities subject to reduced corporate income tax rates

Those companies with business units located in Special Developing Areas and Pudong are entitled to a reduced corporate income tax rate of 15%. They include Dongfeng Electronic Technology Co., Ltd., Aeolus Automobile Co., Ltd., Shenzhen Dongfeng Properties Co., Ltd. and Dongfeng Motor Co., Ltd.

Other companies with specific approvals are also entitled to a reduced corporate income tax rate of 15% for a specific period; Dongfeng Axle Co., Ltd. has obtained approval to adopt a reduced corporate income tax rate of 15% from 2003 as it was registered in Xiangfan High Technology Development Zone. Dongfeng Liuzhou Motor Co., Ltd. has obtained approval to adopt a reduced corporate income tax rate of 15% from 2001 to 2010 since it is a domestic enterprise located in Western China.

Dongfeng Automobile Co., Ltd. is qualified as a high technology enterprise located in Xiangfan High Technology Development Zone and, as such, is entitled to adopt a reduced corporate income tax rate of 15%.

(iv) Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the Relevant Periods.

(v) Deferred income tax

As at 31st December, 2002, 2003 and 2004 and 30th June, 2005, the Company, its subsidiaries and certain of its jointly-controlled entities had aggregate tax losses of RMB3,447 million, RMB4,730 million, RMB2,801 million, and RMB3,272 million, respectively, which are available for offsetting against their respective taxable profits for the following five years after the year in which the losses arose. Deferred income tax assets have been recognised at the end of each of the Relevant Periods in respect of these losses to the extent of tax losses expected to be utilised. In addition, deferred income tax assets have been recognised at the end of each of the Relevant Periods in respect of temporary differences relating to certain future deductible expenses for the purpose of corporate income tax arising from the impairment of various assets.

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

Major components of income tax expense of continuing operations for the Relevant Periods are as follows:

	Year ended 31 st December,			Six months ended 30 th June,	
	2002 RMB million	2003 RMB million	2004 RMB million	2004 RMB million	2005 RMB million
Consolidated income statement					
<i>Current income tax</i>					
Current income tax charge					
— The Group and its jointly-controlled entities	463	260	236	153	105
— Associates	—	—	5	—	2
<i>Deferred income tax</i>					
Relating to the original and reversal of temporary differences . . .	413	(49)	67	234	151
Income tax charge for the year/period from continuing operations . . .	<u>876</u>	<u>211</u>	<u>308</u>	<u>387</u>	<u>258</u>

A reconciliation of the income tax expense applicable to profit before tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the Relevant Periods is as follows:

	Year ended 31 st December,			Six months ended 30 th June,	
	2002	2003	2004	2004	2005
	RMB million	RMB million	RMB million	RMB million	RMB million
Profit before tax from continuing operations	5,526	4,787	3,174	1,286	1,022
Loss before tax from discontinued operations	(492)	(363)	—	—	—
	<u>5,034</u>	<u>4,424</u>	<u>3,174</u>	<u>1,286</u>	<u>1,022</u>
At PRC statutory corporate income tax rate of 33%	1,661	1,460	1,047	424	337
Tax concessions and lower tax rates for specific provinces or locations	(685)	(849)	(489)	(142)	(74)
Income not subject to tax	(219)	(640)	(330)	(1)	(25)
Expenses not deductible for tax	133	243	99	84	36
Others	(14)	(3)	(19)	22	(16)
Total income tax charge for the year/period	<u>876</u>	<u>211</u>	<u>308</u>	<u>387</u>	<u>258</u>
The Group's effective income tax rate	<u>17%</u>	<u>5%</u>	<u>10%</u>	<u>30%</u>	<u>25%</u>

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

The Group

	As at 31 st December,			As at 30 th June, 2005	Year ended 31 st December,			Six months ended 30 th June,	
	2002	2003	2004		2002	2003	2004	2004	2005
	RMB million	RMB million	RMB million		RMB million	RMB million	RMB million	RMB million	RMB million
<i>Deferred income tax liabilities</i>									
Provision for distributable profits of subsidiaries, jointly-controlled entities and associates that are taxable when paid	(611)	(502)	(405)	(480)	337	(109)	(97)	51	75
Others	<u>(1)</u>	<u>(8)</u>	<u>(13)</u>	<u>(27)</u>	<u>(1)</u>	<u>7</u>	<u>—</u>	<u>—</u>	<u>—</u>
Gross deferred income tax liabilities	<u>(612)</u>	<u>(510)</u>	<u>(418)</u>	<u>(507)</u>					
<i>Deferred income tax assets</i>									
Losses available for offsetting against future taxable income	388	388	174	90	82	—	214	206	84
Impairment of property, plant and equipment	41	12	19	18	5	29	(7)	(5)	1
Others	<u>36</u>	<u>12</u>	<u>52</u>	<u>61</u>	<u>(10)</u>	<u>24</u>	<u>(43)</u>	<u>(18)</u>	<u>(9)</u>
Gross deferred income tax assets	<u>465</u>	<u>412</u>	<u>245</u>	<u>169</u>					
Deferred income tax charge					<u>413</u>	<u>(49)</u>	<u>67</u>	<u>234</u>	<u>151</u>
Net deferred income tax liabilities	<u>(223)</u>	<u>(122)</u>	<u>(244)</u>	<u>(434)</u>					
Net deferred income tax assets ...	<u>76</u>	<u>24</u>	<u>71</u>	<u>96</u>					

The Company

	As at 31 st December,			As at
	2002	2003	2004	30 th June,
	RMB million	RMB million	RMB million	RMB million
<i>Deferred income tax liabilities</i>				
Provision for distributable profits of subsidiaries, jointly-controlled entities and associates that are taxable when paid	(611)	(502)	(405)	(480)
Gross deferred income tax liabilities	(611)	(502)	(405)	(480)
<i>Deferred income tax assets</i>				
Losses available for offsetting against future taxable income	388	388	174	60
Gross deferred income tax assets	388	388	174	60
Net deferred income tax liabilities	(223)	(114)	(231)	(420)
Net deferred income tax assets	—	—	—	—

9. PROFIT FOR THE YEAR/PERIOD ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT

The profit for the year/period attributable to the equity holders of the parent for each of the Relevant Periods dealt with in the financial statements of the Company are as follows:

	RMB million
Year ended 31 st December, 2002	(49)
Year ended 31 st December, 2003	5,360
Year ended 31 st December, 2004	2,946
Six months ended 30 th June, 2004	(33)
Six months ended 30 th June, 2005	182

10. DIVIDENDS

In 2002 and 2003, the Company declared and paid dividends of RMB200 million and RMB200 million, respectively. No dividend was declared during the year ended 31st December, 2004 and the six months ended 30th June, 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 DMC. This was approved in the shareholder's meeting on the same date. As the dividend was declared after the last balance sheet date of 30th June, 2005, it has not been recognised as a liability as at 30th June, 2005. Further details of which are set out in notes 38(e) and (f) below.

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

11. EARNINGS PER SHARE

The calculation of basic earnings per share amounts is based on:

	Year ended 31 st December,			Six months ended 30 th June,	
	2002	2003	2004	2004	2005
	RMB million	RMB million	RMB million	RMB million	RMB million
Earnings:					
Profit for the year/period attributable to the equity holders of the parent	<u>3,069</u>	<u>3,339</u>	<u>2,598</u>	<u>745</u>	<u>660</u>
	million	million	million	million	million
Shares:					
Weighted average number of domestic shares in issue during the Relevant Periods used in basic earnings per share calculation	<u>10,634</u>	<u>10,634</u>	<u>9,154</u>	<u>10,634</u>	<u>6,020</u>

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 as described in note 1 above). Further details of the Reorganisation are set out in notes 1 and 26.

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

12. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings	Plant and equipment	Construction in progress	Total
	RMB million	RMB million	RMB million	RMB million
As at 1st January, 2002, net of accumulated depreciation and impairment	1,389	13,238	1,208	15,835
Additions	220	1,135	1,411	2,766
Acquisition of subsidiaries (note 15(a))	—	229	3	232
Disposals	(128)	(466)	(151)	(745)
Reclassifications	103	1,439	(1,542)	—
Impairment	(12)	(30)	(10)	(52)
Depreciation for the year	(97)	(1,427)	—	(1,524)
As at 31st December, 2002 and 1st January, 2003, net of accumulated depreciation and impairment	1,475	14,118	919	16,512
Additions	630	633	1,930	3,193
Acquisition of a jointly-controlled entity (note 16(a))	—	47	—	47
Acquisition of additional equity interest in a jointly-controlled entity (note 16(b))	—	44	—	44
Disposals	(441)	(1,159)	(110)	(1,710)
Disposal to a jointly-controlled entity attributable to a joint venture partner (note 15(b))	(214)	(2,809)	(375)	(3,398)
Transfer to DMC (note 1)	(670)	(2,549)	(127)	(3,346)
Reclassifications	16	1,102	(1,118)	—
Impairment	(2)	(16)	(32)	(50)
Depreciation for the year	(89)	(1,376)	—	(1,465)
As at 31st December, 2003 and 1st January, 2004, net of accumulated depreciation and impairment	705	8,035	1,087	9,827
Additions	31	453	2,518	3,002
Acquisition of additional equity interest in a jointly-controlled entity (note 16(b))	24	1,292	209	1,525
Disposals	(29)	(149)	(277)	(455)
Disposal to a jointly-controlled entity attributable to a joint venture partner (note 15(b))	(13)	(742)	(163)	(918)
Reclassifications	(167)	2,123	(1,956)	—
Impairment	(12)	(14)	—	(26)
Depreciation for the year	(33)	(997)	—	(1,030)
As at 31st December, 2004, net of accumulated depreciation and impairment	506	10,001	1,418	11,925
As at 1st January, 2004, net of accumulated depreciation and impairment	705	8,035	1,087	9,827
Additions	13	285	768	1,066
Acquisition of additional equity interest in a jointly-controlled entity (note 16(b))	—	33	3	36
Disposals	(12)	(88)	(45)	(145)
Disposal to a jointly-controlled entity attributable to a joint venture partner (note 15(b))	(2)	(36)	—	(38)
Reclassifications	139	422	(561)	—
Depreciation for the period	(27)	(466)	—	(493)
As at 30th June, 2004, net of accumulated depreciation and impairment	816	8,185	1,252	10,253
As at 1st January, 2005, net of accumulated depreciation and impairment	506	10,001	1,418	11,925
Additions	16	217	1,585	1,818
Acquisition of a jointly-controlled entity (note 16(a))	36	119	5	160
Acquisition of additional equity interests in jointly-controlled entities (note 16(b))	2	50	3	55
Disposals	(9)	(112)	(127)	(248)
Reclassifications	11	816	(827)	—
Impairment	—	(11)	(2)	(13)
Depreciation for the period	(14)	(660)	—	(674)
As at 30th June, 2005, net of accumulated depreciation and impairment	548	10,420	2,055	13,023

The Group

	Buildings	Plant and equipment	Construction in progress	Total
	RMB million	RMB million	RMB million	RMB million
As at 1st January, 2002				
Cost	2,218	22,100	1,284	25,602
Accumulated depreciation and impairment	(829)	(8,862)	(76)	(9,767)
Net carrying amount	<u>1,389</u>	<u>13,238</u>	<u>1,208</u>	<u>15,835</u>
As at 31st December, 2002				
Cost	2,387	24,332	1,005	27,724
Accumulated depreciation and impairment	(912)	(10,214)	(86)	(11,212)
Net carrying amount	<u>1,475</u>	<u>14,118</u>	<u>919</u>	<u>16,512</u>
As at 31st December, 2003				
Cost	1,040	13,744	1,131	15,915
Accumulated depreciation and impairment	(335)	(5,709)	(44)	(6,088)
Net carrying amount	<u>705</u>	<u>8,035</u>	<u>1,087</u>	<u>9,827</u>
As at 31st December, 2004				
Cost	791	16,998	1,462	19,251
Accumulated depreciation and impairment	(285)	(6,997)	(44)	(7,326)
Net carrying amount	<u>506</u>	<u>10,001</u>	<u>1,418</u>	<u>11,925</u>
As at 30th June, 2004				
Cost	1,053	14,417	1,296	16,766
Accumulated depreciation and impairment	(237)	(6,232)	(44)	(6,513)
Net carrying amount	<u>816</u>	<u>8,185</u>	<u>1,252</u>	<u>10,253</u>
As at 30th June, 2005				
Cost	849	18,111	2,100	21,060
Accumulated depreciation and impairment	(301)	(7,691)	(45)	(8,037)
Net carrying amount	<u>548</u>	<u>10,420</u>	<u>2,055</u>	<u>13,023</u>

The Company

	Buildings	Plant and equipment	Construction in progress	Total
	RMB million	RMB million	RMB million	RMB million
As at 1st January, 2002, net of accumulated depreciation and impairment	1,048	4,026	466	5,540
Additions	148	411	475	1,034
Disposals	(62)	(286)	(56)	(404)
Reclassifications	98	379	(477)	—
Impairment	—	(11)	(7)	(18)
Depreciation for the year	(64)	(484)	—	(548)
As at 31st December, 2002 and 1st January, 2003, net of accumulated depreciation and impairment	1,168	4,035	401	5,604
Additions	198	99	218	515
Capital contribution to a subsidiary	—	(80)	—	(80)
Capital contribution to a jointly-controlled entity	(261)	(2,086)	(403)	(2,750)
Disposals	(478)	(312)	(5)	(795)
Transfer to DMC	(546)	(1,273)	(54)	(1,873)
Reclassifications	—	142	(142)	—
Impairment	—	28	—	28
Depreciation for the year	(52)	(259)	—	(311)
As at 31st December, 2003 and 1st January, 2004, net of accumulated depreciation and impairment	29	294	15	338
Additions	5	39	69	113
Disposals	(23)	(9)	—	(32)
Reclassifications	—	10	(10)	—
Depreciation for the year	(6)	(16)	—	(22)
As at 31st December, 2004, net of accumulated depreciation and impairment	5	318	74	397
As at 1st January, 2004, net of accumulated depreciation and impairment	29	294	15	338
Additions	—	2	1	3
Disposals	—	(8)	—	(8)
Depreciation for the period	(3)	(8)	—	(11)
As at 30th June, 2004, net of accumulated depreciation and impairment	26	280	16	322
As at 1st January, 2005, net of accumulated depreciation and impairment	5	318	74	397
Additions	—	5	22	27
Disposals	—	(7)	—	(7)
Reclassifications	—	17	(17)	—
Depreciation for the period	(3)	(8)	—	(11)
As at 30th June, 2005, net of accumulated depreciation and impairment	2	325	79	406

The Company

	Buildings	Plant and equipment	Construction in progress	Total
	RMB million	RMB million	RMB million	RMB million
As at 1st January, 2002				
Cost	1,743	7,959	522	10,224
Accumulated depreciation and impairment	(695)	(3,933)	(56)	(4,684)
Net carrying amount	<u>1,048</u>	<u>4,026</u>	<u>466</u>	<u>5,540</u>
As at 31st December, 2002				
Cost	1,907	8,374	464	10,745
Accumulated depreciation and impairment	(739)	(4,339)	(63)	(5,141)
Net carrying amount	<u>1,168</u>	<u>4,035</u>	<u>401</u>	<u>5,604</u>
As at 31st December, 2003				
Cost	166	362	15	543
Accumulated depreciation and impairment	(137)	(68)	—	(205)
Net carrying amount	<u>29</u>	<u>294</u>	<u>15</u>	<u>338</u>
As at 31st December, 2004				
Cost	101	395	74	570
Accumulated depreciation and impairment	(96)	(77)	—	(173)
Net carrying amount	<u>5</u>	<u>318</u>	<u>74</u>	<u>397</u>
As at 30th June, 2004				
Cost	166	350	16	532
Accumulated depreciation and impairment	(140)	(70)	—	(210)
Net carrying amount	<u>26</u>	<u>280</u>	<u>16</u>	<u>322</u>
As at 30th June, 2005				
Cost	101	405	79	585
Accumulated depreciation and impairment	(99)	(80)	—	(179)
Net carrying amount	<u>2</u>	<u>325</u>	<u>79</u>	<u>406</u>

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

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

The details of the above property, plant and equipment pledged to secure general banking facilities granted to the Group and its jointly-controlled entities are set out in note 28 below.

13. INTANGIBLE ASSETS

The Group

	Year ended 31 st December,			Six months ended 30 th June,	
	2002	2003	2004	2004	2005
	RMB million	RMB million	RMB million	RMB million	RMB million
Cost:					
At beginning of year/period	386	434	431	431	896
Additions	46	229	290	47	78
Acquisition of subsidiaries (note 15(a))	2	—	—	—	—
Acquisition of additional equity interest in a jointly-controlled entity (note 16(b))	—	5	225	3	—
Disposal to a jointly-controlled entity attributable to a joint venture partner (note 15(b))	—	(55)	(44)	—	—
Disposals	—	(128)	(6)	—	(5)
Transfer to DMC (note 1)	—	(54)	—	—	—
At end of year/period	<u>434</u>	<u>431</u>	<u>896</u>	<u>481</u>	<u>969</u>
Accumulated amortisation:					
At beginning of year/period	226	260	138	138	277
Amortisation charge for the year/period	34	45	83	28	42
Acquisition of additional equity interest in a jointly-controlled entity (note 16(b))	—	4	76	1	—
Disposal to a jointly-controlled entity attributable to a joint venture partner (note 15(b))	—	(34)	(14)	—	—
Disposals	—	(128)	(6)	—	(5)
Transfer to DMC (note 1)	—	(9)	—	—	—
At end of year/period	<u>260</u>	<u>138</u>	<u>277</u>	<u>167</u>	<u>314</u>
Net book value:					
At beginning of year/period	<u>160</u>	<u>174</u>	<u>293</u>	<u>293</u>	<u>619</u>
At end of year/period	<u>174</u>	<u>293</u>	<u>619</u>	<u>314</u>	<u>655</u>

The Company

	Year ended 31 st December,			Six months ended 30 th June,	
	2002	2003	2004	2004	2005
	RMB million	RMB million	RMB million	RMB million	RMB million
Cost:					
At beginning of year/period	—	8	—	—	—
Additions	8	—	—	—	—
Capital contribution to a jointly-controlled entity	—	(8)	—	—	—
At end of year/period	<u>8</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Accumulated amortisation:					
At beginning and end of year/period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net book value:					
At beginning of year/period	<u>—</u>	<u>8</u>	<u>—</u>	<u>—</u>	<u>—</u>
At end of year/period	<u>8</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

14. GOODWILL*The Group*

	Year ended 31 st December,			Six months ended 30 th June,	
	2002	2003	2004	2004	2005
	RMB million	RMB million	RMB million	RMB million	RMB million
At beginning of year/period	—	—	—	—	277
Arising from acquisition of additional equity interest in a jointly- controlled entity (note 16(b))	—	—	277	—	—
Arising from acquisition of a jointly-controlled entity (note 16(a)) . . .	—	—	—	—	157
At end of year/period	—	—	277	—	434
	==	==	==	==	==

15. INVESTMENTS IN SUBSIDIARIES*The Company*

	As at 31 st December,			As at 30 th June,
	2002	2003	2004	2005
	RMB million	RMB million	RMB million	RMB million
Unlisted investments, at cost	6,421	2,351	140	140
Impairment	(28)	—	—	—
	6,393	2,351	140	140
	==	==	==	==

Particulars of the principal subsidiaries of the Company are set out in note 3 above.

During the Relevant Periods, apart from those disclosed in note 1 above, the Group had the following significant changes in its holdings of subsidiaries:

(a) Acquisition of subsidiaries

In 2002, a 60%-owned subsidiary of the Company acquired a 30% equity interest in Aeolus Automobile Co., Ltd., a then 45%-owned associate of the Company, for a cash consideration of RMB150 million. In the same year, the Company also acquired a further 31.33% equity interest in Xiangfan Heavy Vehicle Axle Co., Ltd., a then 45%-owned associate of the Company, for a cash consideration of RMB46 million.

Upon the completion of the aforesaid acquisitions, the Group had effective 63% and 76.33% equity interests in Aeolus Automobile Co., Ltd. and Xiangfan Heavy Vehicle Axle Co., Ltd., respectively.

Since the respective dates of acquisition, Aeolus Automobile Co., Ltd. contributed a loss of RMB27 million whereas Xiangfan Heavy Vehicle Axle Co., Ltd. contributed a profit of RMB179 million to the Group's profit attributable to the equity holders of the parent in 2002.

Had the aforesaid acquisitions by the Company taken place alone at the beginning of 2002, the Group's profit attributable to the equity holders of the parent would have been RMB3,352 million and the revenue of the Group from continuing operations would have been RMB43,443 million for that year.

The fair values of the combined identifiable assets and liabilities of Aeolus Automobile Co., Ltd. and Xiangfan Heavy Vehicle Axle Co., Ltd., acquired by the Group are as follows:

	Year ended 31 st December, 2002
	RMB million
Property, plant and equipment	232
Lease prepayments	1
Intangible assets	2
Available-for-sale financial assets	18
Inventories	418
Trade and bills receivables	372
Prepayments, deposits and other receivables	756
Other financial assets	40
Cash and cash equivalents	1,202
Trade and bills payables	(832)
Other payables and accrued liabilities	(578)
Interest-bearing borrowings	(91)
Income tax payable	(28)
Provisions	(5)
Other long term liabilities	(12)
Minority interests	(369)
Fair value of net assets acquired	1,126
Gain arising on acquisition	(301)
	<u>825</u>
Consideration:	
Cash consideration	196
Reclassification from investments in associates	629
	<u>825</u>
Net cash inflow arising on acquisition is as follows:	
Net cash acquired from subsidiaries	1,202
Cash paid	(196)
Net cash inflow	<u>1,006</u>

(b) *Injection of certain businesses and investments as capital contributions into a jointly-controlled entity*

In April 2003, the Company entered into a joint venture agreement with a Japanese automobile manufacturer for the establishment of Dongfeng Motor Co., Ltd., a joint venture company, which carries out the manufacture and sale of automobiles, automotive parts and components in the PRC.

In July 2003, pursuant to the joint venture agreement, the Company injected certain of its assets, liabilities and investments into Dongfeng Motor Co., Ltd., which represented almost all of the Company's commercial vehicles manufacturing business and certain of its passenger vehicles and automotive parts manufacturing businesses whereas the Japanese joint venture partner contributed cash of RMB3,602 million to Dongfeng Motor Co., Ltd. as an initial capital contribution. As a result of the formation of Dongfeng Motor Co., Ltd., the Group's interests in these assets, liabilities and investments were diluted and a deemed disposal gain of RMB1,180 million was recognised. In relation to the formation of Dongfeng Motor Co., Ltd., reorganisation expenses attributable to the Group amounting to RMB436 million were incurred in 2003. The reorganisation involved the restructuring of the Group's businesses at an expense of RMB217 million, and the workforce of Dongfeng Motor Co., Ltd. at an expense of RMB219 million (further details of which are set out in note 29 below).

In addition, in February and July 2004, the Company further injected certain of its assets into Dongfeng Motor Co., Ltd. as a further capital contribution. The assets injected by the Company into Dongfeng Motor Co., Ltd. mainly included, amongst others, cash of RMB115 million and the following investments (the "Investments"):

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

Meanwhile, the Japanese joint venture partner also contributed cash in an aggregate amount of RMB4,748 million to Dongfeng Motor Co., Ltd. as a corresponding capital contribution amount. Prior to the respective injections in 2004, the aggregate revenue and profit of the Investments contributed to the Group's revenue and profit attributable to the equity holders of the parent were RMB3,048 million and RMB188 million, respectively. As a result of the Company's injection of the aforesaid assets into Dongfeng Motor Co., Ltd., the Group's equity interests in the Investments were diluted, resulting in a deemed disposal loss of RMB6 million and a deemed disposal gain of RMB858 million recognised in February 2004 and July 2004, respectively. In addition, an aggregate of deferred income tax liabilities of the Group amounting to RMB248 million for the year ended 31st December, 2004 in respect of the future payment of distributable reserves of the Investments, of which RMB37 million was related to such deferred income tax liabilities recognised in the six months ended 30th June, 2004, was reversed and credited to the consolidated income statement upon the aforesaid injections.

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

	Year ended 31 st December,		Six months ended 30 th June, 2004
	2003	2004	
	RMB million	RMB million	RMB million
Property, plant and equipment	3,398	918	38
Lease prepayments	269	28	—
Intangible assets	21	30	—
Investments in associates	127	89	13
Available-for-sale financial assets	52	32	—
Other long term assets	71	25	—
Deferred income tax assets	—	3	—
Inventories	2,405	404	14
Trade and bills receivables	2,374	960	31
Prepayments, deposits and other receivables	799	281	6
Other financial assets	185	211	—
Cash and cash equivalents	3,344	1,502	11
Trade and bills payables	(4,549)	(1,169)	(19)
Other payables and accrued liabilities	(2,581)	(616)	(8)
Interest-bearing borrowings	(3,871)	(408)	(22)
Income tax payable	(59)	(31)	(8)
Provisions	(134)	(21)	—
Other long term liabilities	(22)	(1)	—
Minority interests	(1,208)	(715)	(3)
Assets injected into Dongfeng Motor Co., Ltd. attributable to the Japanese joint venture partner	621	1,522	53
The Group's share of cash injected by the Japanese joint venture partner	1,801	2,374	47
Gain/(loss) on dilution of interests in certain businesses and investments, net	1,180	852	(6)
	<u>3,602</u>	<u>4,748</u>	<u>94</u>
Net cash inflow/(outflow) arising on the aforesaid injections by the Company is as follows:			
Net cash injected into Dongfeng Motor Co., Ltd. attributable to the Japanese joint venture partner	(3,344)	(1,502)	(11)
Cash acquired from the Japanese joint venture partner	1,801	2,374	47
Net cash inflow/(outflow)	<u>(1,543)</u>	<u>872</u>	<u>36</u>

16. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

The Company

	As at 31 st December,			As at 30 th June, 2005
	2002	2003	2004	
	RMB million	RMB million	RMB million	RMB million
Unlisted investments, at cost	<u>2,294</u>	<u>6,323</u>	<u>12,496</u>	<u>12,783</u>

Particulars of the principal jointly-controlled entities of the Company are set out in note 3 above.

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

	As at 31 st December,			As at
	2002	2003	2004	30 th June,
	RMB million	RMB million	RMB million	RMB million
Non-current assets	3,506	8,919	13,151	14,602
Current assets	3,004	12,193	18,529	19,993
Non-current liabilities	(983)	(1,645)	(2,480)	(2,510)
Current liabilities	(2,654)	(11,748)	(14,613)	(16,655)
Minority interests	—	(1,143)	(2,070)	(2,187)
Net assets	<u>2,873</u>	<u>6,576</u>	<u>12,517</u>	<u>13,243</u>

	Year ended 31 st December,			Six months ended	
	2002	2003	2004	2004	2005
	RMB million	RMB million	RMB million	RMB million	RMB million
Total revenue	5,447	16,934	31,344	14,570	20,876
Total expenses	(4,654)	(15,743)	(29,272)	(13,372)	(20,034)
Minority interests	—	(155)	(185)	(72)	(107)
Profit attributable to the equity holders of the parent	<u>793</u>	<u>1,036</u>	<u>1,887</u>	<u>1,126</u>	<u>735</u>

In addition to the changes in the Group's holdings of subsidiaries as disclosed in note 15 above, the Group had the following significant changes in its holdings of jointly-controlled entities:

(a) Acquisition of jointly-controlled entities

In February 2003, the Company entered into agreements with its joint venture partners for the acquisitions of a 19.76% equity interest in Wuhan Wantong Motor Co., Ltd., a then 30.24%-owned associate of the Company for a total cash consideration of US\$5,532,000 (or approximately RMB46 million).

Upon the completion of the above acquisition, the Company had a 50% equity interest in Wuhan Wantong Motor Co., Ltd., which was subsequently renamed Dongfeng Honda Automobile Co., Ltd., and was thereafter accounted for by the Group as a jointly-controlled entity.

Since the date of acquisition, Wuhan Wantong Motor Co., Ltd. had contributed a loss of RMB24 million to the Group's profit attributable to the equity holders of the parent in 2003.

Had the aforesaid acquisition by the Company taken place alone at the beginning of 2003, the Group's profit attributable to the equity holders of the parent would have been RMB3,341 million and the revenue of the Group from continuing operations would have been RMB36,563 million for that year.

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

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

Since the date of acquisition, Zhengzhou Nissan Automobile Co., Ltd. had contributed a loss of RMB3 million to the Group's profit attributable to the equity holders of the parent for the six months ended 30th June, 2005.

Had the aforesaid acquisition by Dongfeng Automobile Co., Ltd. taken place alone at the beginning of the six months ended 30th June, 2005, the Group's profit attributable to the equity holders of the parent would have been RMB659 million and the revenue of the Group would have been RMB21,277 million for that period.

The Group's share of the fair values of the identifiable assets and liabilities of Wuhan Wantong Motor Co., Ltd. and Zhengzhou Nissan Automobile Co., Ltd. acquired in 2003 and in the six months ended 30th June, 2005, respectively, are as follows:

	Year ended 31 st December, 2003	Six months ended 30 th June, 2005
	RMB million	RMB million
Property, plant and equipment	47	160
Lease prepayments	16	13
Other long term assets	13	12
Inventories	22	144
Trade and bills receivables	38	119
Prepayments, deposits and other receivables	4	25
Cash and cash equivalents	10	154
Trade and bills payables	(21)	(119)
Other payables and accrued liabilities	(12)	(59)
Income tax payable	—	(4)
Interest-bearing borrowings	(2)	(412)
Deferred income tax liabilities	—	(14)
Fair value of net assets acquired	115	19
Goodwill arising from acquisition	—	157
	<u>115</u>	<u>176</u>
Consideration:		
Cash consideration	46	176
Reclassification from investments in associates	69	—
	<u>115</u>	<u>176</u>
Net cash outflow arising on acquisition is as follows:		
Net cash acquired from the jointly-controlled entity	10	154
Cash paid	(46)	(176)
Net cash outflow	<u>(36)</u>	<u>(22)</u>

Included in the goodwill of RMB157 million recognised above are certain intangible assets of Zhengzhou Nissan Automobile Co., Ltd. that cannot be individually separated and reliably measured due to their nature. In the opinion of the Directors, assets included in this balance consist of customer loyalty, research activities of internal projects and voting power in the board of Zhengzhou Nissan Automobile Co., Ltd.

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

(1) *Dongfeng Peugeot Citroën Automobiles Company Ltd.*

(i) In October 2002, the Company agreed to subscribe for an additional equity interest in Dongfeng Peugeot Citroën Automobiles Company Ltd. The details of which are as follows:

- In January 2003, the Company and a joint venture partner injected RMB188 million and RMB312 million, respectively, into Dongfeng Peugeot Citroën Automobiles Company Ltd. to increase its registered capital while the other joint venture partners' equity interests therein were diluted. The Company's and the joint venture partner's injections into Dongfeng Peugeot Citroën Automobiles Company Ltd. were satisfied by cash and capitalisation of the joint venture partner's receivable from Dongfeng Peugeot Citroën Automobiles Company Ltd., respectively. As a result of the Company's cash injection, its share of paid-up registered capital of Dongfeng Peugeot Citroën Automobiles Company Ltd. increased from 31% to 31.51%; and
- In January 2004, the Company and the joint venture partner further injected cash amounting to RMB188 million and RMB312 million, respectively, into Dongfeng Peugeot Citroën Automobiles Company Ltd. to increase its registered capital while the other joint venture partners' equity interests therein were further diluted. As a result of the Company's cash injection, its share of paid-up registered capital of Dongfeng Peugeot Citroën Automobiles Company Ltd. further increased from 31.51% to 31.95%.

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

Since the respective dates of acquisition, Dongfeng Peugeot Citroën Automobiles Company Ltd. had contributed immaterial additional profit and an additional loss of RMB18 million to the Group's profit attributable to the equity holders of the parent in 2003 and 2004, respectively.

Had the aforesaid acquisitions by the Company taken place alone at the beginning of 2003 and 2004, the Group's profit attributable to the equity holders of the parent would have been RMB3,339 million in 2003 and RMB2,514 million in 2004 and the revenue of the Group from continuing operations would have been RMB36,556 million and RMB34,000 million, respectively, for those years.

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

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

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

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

Since the date of acquisition, Dongfeng Motor Finance Co., Ltd had contributed immaterial additional profit to the Group's profit attributable to the equity holders of the parent for the six months ended 30th June, 2005.

Had the aforesaid acquisition by Dongfeng Motor Co., Ltd taken place alone at beginning of 2005, the Group's profit attributable to the equity holders of the parent would have been RMB665 million for the six months ended 30th June, 2005 and the revenue of the Group would have been RMB21,192 million for that period.

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

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

Since the date of acquisition, Dongfeng Honda Auto Parts Co., Ltd. had contributed immaterial additional profit to the Group's profit attributable to the equity holders of the parent for the six months ended 30th June, 2005.

Had the aforesaid acquisition by the Company taken place alone at beginning of 2005, the Group's profit attributable to the equity holders of the parent would have been RMB666 million for the six months ended 30th June, 2005 and the revenue of the Group would have been RMB21,224 million for that period.

The fair values of additional identifiable assets and liabilities of Dongfeng Peugeot Citroën Automobiles Company Ltd., Dongfeng Bus Chassis Co., Ltd., Dongfeng Motor Finance Co., Ltd., and Dongfeng Honda Auto Parts Co., Ltd. consolidated by the Group are summarised as follows:

	Year ended 31 st December,		Six months ended 30 th June,	
	2003	2004	2004	2005
	RMB million	RMB million	RMB million	RMB million
Property, plant and equipment	44	1,525	36	55
Lease prepayments	—	33	1	1
Intangible assets	1	149	2	—
Investment in an associate	—	2	—	—
Other long term assets	—	46	—	18
Inventories	8	731	14	32
Trade and bills receivables	6	152	4	50
Prepayments, deposits and other receivables	105	63	6	77
Cash and cash equivalents	68	257	162	138
Trade and bills payables	(9)	(420)	(8)	(49)
Other payables and accrued liabilities	(2)	(173)	(4)	(26)
Income tax payable	—	—	—	(7)
Interest-bearing borrowings	(33)	(1,168)	(25)	(112)
Provisions	—	(17)	—	(1)
Deferred income tax liabilities	—	(5)	—	—
Minority interests	—	—	—	(11)
Fair value of net assets acquired	188	1,175	188	165
Goodwill arising from acquisitions	—	277	—	—
	<u>188</u>	<u>1,452</u>	<u>188</u>	<u>165</u>
Consideration:				
Cash consideration	<u>188</u>	<u>1,452</u>	<u>188</u>	<u>165</u>
Net cash outflow arising on acquisitions is as follows:				
Net cash acquired from jointly-controlled entities	68	257	162	138
Cash paid	<u>(188)</u>	<u>(912)</u>	<u>(188)</u>	<u>(165)</u>
Net cash outflow	<u>(120)</u>	<u>(655)</u>	<u>(26)</u>	<u>(27)</u>

Included in the goodwill of RMB277 million recognised above are certain intangible assets of Dongfeng Peugeot Citroën Automobiles Company Ltd. that cannot be individually separated and reliably measured due to their nature. In the opinion of the Directors, assets included in this balance consist of customer loyalty, research activities of internal projects and additional voting power in the board of Dongfeng Peugeot Citroën Automobiles Company Ltd.

17. INVESTMENTS IN ASSOCIATES

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

In 2003, the Company received a 45% equity interest in Qinghai Dongfeng Motor Auto Parts Co., Ltd. from the PRC government at nil consideration, thereby a gain of RMB12 million was recognised. The Company's entire 45% equity interest in Qinghai Dongfeng Motor Auto Parts Co., Ltd. was then injected by the Company into Dongfeng Motor Co., Ltd. in July 2003 as part of the initial capital contribution, details of which are set out in note 15(b) above.

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

	As at 31 st December,			As at
	2002	2003	2004	30 th June,
	RMB million	RMB million	RMB million	2005 RMB million
Unlisted investments, at cost	120	43	53	53

Particulars of the principal associates of the Group and its jointly-controlled entities are set out in note 3 above.

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

	As at 31 st December,			As at
	2002	2003	2004	30 th June,
	RMB million	RMB million	RMB million	2005 RMB million
Non-current assets	412	211	194	248
Current assets	837	500	331	449
Non-current liabilities	(184)	(42)	(41)	(38)
Current liabilities	(511)	(252)	(189)	(317)
Minority interests	(50)	—	(2)	—
Net assets	504	417	293	342

	Year ended 31 st December,			Six months ended	
	2002	2003	2004	30 th June,	
	RMB million	RMB million	RMB million	2004 RMB million	2005 RMB million
Total revenue	2,546	776	433	205	233
Total expenses	(2,275)	(727)	(396)	(185)	(223)
Minority interests	(14)	—	—	—	—
Profit attributable to the equity holders of the parent	257	49	37	20	10

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

The Group

	As at 31 st December,			As at
	2002	2003	2004	30 th June,
	RMB million	RMB million	RMB million	2005 RMB million
Unlisted investments, at fair value	205	111	194	192

The Company

	As at 31 st December,			As at
	2002	2003	2004	30 th June,
	RMB million	RMB million	RMB million	2005 RMB million
Unlisted investments, at fair value	67	13	68	68

19. INVENTORIES*The Group*

	As at 31 st December,			As at
	2002	2003	2004	30 th June,
	RMB million	RMB million	RMB million	RMB million
Raw materials	2,940	2,121	3,373	3,112
Work-in-progress	749	339	471	565
Finished goods	2,723	1,857	2,744	2,561
Net book value	<u>6,412</u>	<u>4,317</u>	<u>6,588</u>	<u>6,238</u>

The Company

	As at 31 st December,			As at
	2002	2003	2004	30 th June,
	RMB million	RMB million	RMB million	RMB million
Raw materials	842	11	8	15
Work-in-progress	192	7	14	12
Finished goods	1,112	25	19	25
Net book value	<u>2,146</u>	<u>43</u>	<u>41</u>	<u>52</u>

20. TRADE RECEIVABLES

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

An aged analysis of the trade receivables, net of provision for bad and doubtful debts, of the Group and the Company as at each of the balance sheet dates during the Relevant Periods, based on due date, are as follows:

The Group

	As at 31 st December,			As at
	2002	2003	2004	30 th June,
	RMB	RMB	RMB	2005
	million	million	million	million
Within three months	1,202	444	860	1,663
More than three months but within one year	260	42	171	218
More than one year	248	18	37	70
	<u>1,710</u>	<u>504</u>	<u>1,068</u>	<u>1,951</u>

Included in the above balances are the following balances with related parties of the Group and its jointly-controlled entities, attributable to the Group:

	As at 31 st December,			As at
	2002	2003	2004	30 th June,
	RMB	RMB	RMB	2005
	million	million	million	million
DMC	—	1	1	—
Joint venture partners	2	8	1	6
Associates	<u>1</u>	<u>33</u>	<u>5</u>	<u>2</u>
	<u>3</u>	<u>42</u>	<u>7</u>	<u>8</u>

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

The Company

	As at 31 st December,			As at
	2002	2003	2004	30 th June,
	RMB	RMB	RMB	2005
	million	million	million	million
Within three months	287	4	51	357
More than three months but within one year	67	7	7	35
More than one year	<u>167</u>	<u>4</u>	<u>—</u>	<u>—</u>
	<u>521</u>	<u>15</u>	<u>58</u>	<u>392</u>

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

	As at 31 st December,			As at
	2002	2003	2004	30 th June,
	RMB	RMB	RMB	2005
	million	million	million	million
Subsidiaries	127	3	2	4
An associate	<u>1</u>	<u>—</u>	<u>—</u>	<u>1</u>
	<u>128</u>	<u>3</u>	<u>2</u>	<u>5</u>

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

21. BILLS RECEIVABLE

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

The Group

	As at 31 st December,			As at
	2002	2003	2004	30 th June,
	RMB	RMB	RMB	RMB
	million	million	million	million
Within three months	2,644	2,461	2,372	1,761
More than three months but within six months	2,013	1,110	1,310	1,850
More than six months	47	2	13	—
	<u>4,704</u>	<u>3,573</u>	<u>3,695</u>	<u>3,611</u>

The Company

	As at 31 st December,			As at
	2002	2003	2004	30 th June,
	RMB	RMB	RMB	RMB
	million	million	million	million
Within three months	1,021	28	31	—
More than three months but within six months	1,044	60	3	1
	<u>2,065</u>	<u>88</u>	<u>34</u>	<u>1</u>

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in the prepayments, deposits and other receivables are the following balances with related parties of the Group and its jointly-controlled entities, attributable to the Group:

The Group

	As at 31 st December,			As at
	2002	2003	2004	30 th June,
	RMB	RMB	RMB	RMB
	million	million	million	million
DMC	100	60	9	5
Fellow subsidiaries	—	—	—	3
Certain AMCs	55	54	—	—
Joint venture partners and their holding companies	12	12	7	9
Associates	—	1	27	26
	<u>167</u>	<u>127</u>	<u>43</u>	<u>43</u>

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

The Company

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

	As at 31 st December,			As at
	2002	2003	2004	30 th June, 2005
	RMB million	RMB million	RMB million	RMB million
Subsidiaries	1,138	10	—	—
DMC	77	34	1	4
Fellow subsidiaries	—	—	—	3
Certain AMCs	55	54	—	—
Associates	—	—	—	11
	<u>1,270</u>	<u>98</u>	<u>1</u>	<u>18</u>

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

23. BALANCES WITH JOINTLY-CONTROLLED ENTITIES

The Group's balances with its jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment.

The Company's balances with its jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment.

24. OTHER FINANCIAL ASSETS*The Group*

	As at 31 st December,			As at
	2002	2003	2004	30 th June, 2005
	RMB million	RMB million	RMB million	RMB million
Investments listed in the PRC, at fair value	107	73	50	35
Debt securities listed in the PRC, at fair value	285	304	167	95
	<u>392</u>	<u>377</u>	<u>217</u>	<u>130</u>

25. CASH AND CASH EQUIVALENTS, PLEDGED BANK BALANCES AND TIME DEPOSITS*The Group*

	As at 31 st December,			As at
	2002	2003	2004	30 th June, 2005
	RMB million	RMB million	RMB million	RMB million
Cash and bank balances	7,951	5,663	4,656	4,796
Time deposits	1,765	1,873	1,396	2,660
	9,716	7,536	6,052	7,456
<i>Less:</i> Pledged bank balances and time deposits for securing general banking facilities	(210)	(28)	(509)	(846)
Cash and cash equivalents in the consolidated balance sheets	9,506	7,508	5,543	6,610
<i>Less:</i> Non-pledged time deposits with original maturity of three months or more when acquired	(1,088)	(1,035)	(1,065)	(1,799)
Cash and cash equivalents in the consolidated cash flow statements	8,418	6,473	4,478	4,811

The Company

	As at 31 st December,			As at
	2002	2003	2004	30 th June, 2005
	RMB million	RMB million	RMB million	RMB million
Cash and bank balances	1,924	715	994	772
Time deposits	8	1	78	28
	1,932	716	1,072	800
<i>Less:</i> Pledged bank balances and time deposits for securing general banking facilities	—	—	(180)	(54)
Cash and cash equivalents in the balance sheets	1,932	716	892	746

26. REGISTERED CAPITAL

	As at 31 st December,			As at
	2002	2003	2004	30 th June, 2005
	RMB million	RMB million	RMB million	RMB million
Fully paid-up registered capital	10,763	10,763	6,020	6,020

The movements in the Company's registered capital during the Relevant Periods are as follows:

	Notes	Year ended 31 st December,			Six months ended 30 th June,	
		2002	2003	2004	2004	2005
		RMB million	RMB million	RMB million	RMB million	RMB million
At beginning of year/period		10,763	10,763	10,763	10,763	6,020
Capital reduction	(a)	—	—	(2,791)	—	—
Repurchases of capital from AMCs in the Equity Repurchase Transaction	(b)	—	—	(4,613)	—	—
Capitalisation of other reserves as a result of the Reorganisation	(c)	—	—	2,661	—	—
At end of year/period		<u>10,763</u>	<u>10,763</u>	<u>6,020</u>	<u>10,763</u>	<u>6,020</u>

Notes:

- (a) The Company's registered capital was reduced pursuant to the Assets Transfer Agreement.
- (b) On 6th September, 2004, the Company repurchased all of the equity interests held by AMCs, totalling 42.86% of its then registered capital, for RMB4,613.5 million at book values which is repayable to these AMCs in three instalments by 31st May, 2005 in the Equity Repurchase Transaction.
- (c) On 12th October, 2004, the Company was restructured into a joint stock limited liability company with an initial registered capital of RMB6,020 million, which was determined with reference to the PRC GAAP audited net assets of the Relevant Business amounting to RMB10,633.5 million (net of the Transferred Assets) and after a deduction of the capital repurchased by the Company from the AMCs of RMB4,613.5 million in the Equity Repurchase Transaction.

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

27. RESERVES

The Group

The amounts of the Group's reserves and the movements therein for each of the Relevant Periods are presented in the consolidated statements of changes in equity set out on pages I-7 and I-8 above.

The Company

	Deemed distribution	Statutory reserves	Proposed dividend	Retained profits/ (accumulated losses)	Total
	RMB million	RMB million	RMB million	RMB million	RMB million
		note (a)			
As at 1st January, 2002	—	58	—	(3,591)	(3,533)
Loss for the year	—	—	—	(49)	(49)
Transfer to a reserve	—	474	—	(474)	—
Equity dividends	—	—	—	(200)	(200)
As at 31st December, 2002 and 1st January, 2003	—	532	—	(4,314)	(3,782)
Profit for the year	—	—	—	5,360	5,360
Transfer to a reserve	—	253	—	(253)	—
Deemed distribution to DMC	(2,791)	—	—	—	(2,791)
Equity dividends	—	—	—	(200)	(200)
As at 31st December, 2003 and 1st January, 2004	(2,791)	785	—	593	(1,413)
Capital reduction	2,791	—	—	—	2,791
Capitalisation as a result of the Reorganisation	—	(785)	—	(1,876)	(2,661)
Profit for the year	—	—	—	2,946	2,946
Transfer to a reserve	—	344	—	(344)	—
As at 31st December, 2004	—	344	—	1,319	1,663
As at 1st January, 2004	(2,791)	785	—	593	(1,413)
Loss for the period	—	—	—	(33)	(33)
As at 30th June, 2004	(2,791)	785	—	560	(1,446)
As at 1st January, 2005	—	344	—	1,319	1,663
Profit for the period	—	—	—	182	182
Transfer to a reserve	—	110	—	(110)	—
Proposed dividend	—	—	1,390	(1,390)	—
As at 30th June, 2005	—	454	1,390	1	1,845

(a) Statutory reserves

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

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

(b) Distributable reserves

As set out in note 10 above, for dividend distribution purposes, the Company's distributable profit is based on the lower of after-tax profit as determined under the PRC GAAP and IFRSs following its restructuring into a joint stock limited liability company on 12th October, 2004. The amount that the Company's subsidiaries and its jointly-controlled entities can legally distribute by way of a dividend is determined by reference to their profits as reflected in their financial statements prepared in accordance with the PRC GAAP. These profits may differ from those dealt with in the Financial Information, which are prepared in accordance with IFRSs.

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

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

On 29th October, 2005, the Directors proposed to declare a dividend of RMB23.09 cents per domestic share amounting to RMB1,390 million to DMC that was approved in the shareholder's meeting on the same date. For further details of which, please refer to notes 10 and 38(e) and (f).

As at 30th June, 2005, the Company had profits available for distribution amounting to RMB1 million following the aforesaid declaration of dividend.

28. INTEREST-BEARING BORROWINGS*The Group*

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

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

	As at 31 st December,			As at
	2002	2003	2004	30 th June, 2005
	RMB million	RMB million	RMB million	RMB million
Property, plant and equipment	3,299	2,799	4,451	5,043
Intangible assets	86	107	376	360
Inventories	499	1,003	2,009	1,119
Time deposits and bank balances	210	28	509	846
Other assets	833	927	1,122	1,270
	<u>4,927</u>	<u>4,864</u>	<u>8,467</u>	<u>8,638</u>

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

In addition, the above bank loans included amounts of RMB2,100 million as at 30th June, 2005 (2004: RMB2,090 million; 2003: RMB1,153 million; 2002: RMB2,870 million), the repayment of which were guaranteed by DMC and the current minority shareholders of the subsidiaries of a jointly-controlled entity (previously the minority shareholders of subsidiaries) at nil consideration.

In November, 2005, the guarantees given by DMC in respect of certain bank loans of a jointly-controlled entity amounting to RMB807 million attributable to the Group were agreed by the lending bank to be replaced by the guarantees given by the Company prior to listing of the Company's H shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

The Group's bank loans bore interest rates ranging from 0.30% per annum to 9.07% per annum during the Relevant Periods.

The Group's other loans bore interest at rates ranging from 3.75% per annum to 10.80% per annum during the Relevant Periods.

The Group's loan from DMC represented a loan of RMB500 million advanced by DMC to a jointly-controlled entity of the Company that being proportionately consolidated. The loan bore interest at a rate of 5.58% per annum. In November 2005, the Company advanced an unsecured loan of RMB500 million to the jointly-controlled entity for the settlement of its loan from DMC of RMB500 million.

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

	As at 31 st December,			As at
	2002	2003	2004	30 th June, 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
<i>Less:</i> Portion classified as current liabilities	(5,981)	(3,569)	(4,403)	(6,891)
Non-current portion	<u>4,359</u>	<u>1,401</u>	<u>2,727</u>	<u>3,192</u>

The Company

	As at 31 st December,			As at
	2002	2003	2004	30 th June, 2005
	RMB million	RMB million	RMB million	RMB million
Unsecured bank loans	<u>6,219</u>	<u>—</u>	<u>2,340</u>	<u>4,469</u>

Included in the above unsecured bank loans of the Company were bank loans of RMB1,000 million as at 30th June, 2005 (2004: RMB600 million; 2003: nil; 2002: RMB1,155 million), the repayment of which were guaranteed by the current minority shareholder of a subsidiary of a jointly-controlled entity (previously the minority shareholder of a subsidiary) at nil consideration.

The Company's bank loans bore interest at rates ranging from 5.04% per annum to 5.88% per annum during the Relevant Periods.

The maturity profile of the interest-bearing borrowings of the Company as at each of the balance sheet dates during the Relevant Periods is as follows:

	As at 31 st December,			As at
	2002	2003	2004	30 th June, 2005
	RMB million	RMB million	RMB million	RMB million
Within one year or on demand	3,175	—	1,740	3,469
In the second year	1,570	—	—	—
In the third to fifth years, inclusive	1,410	—	600	1,000
Beyond five years	64	—	—	—
	6,219	—	2,340	4,469
<i>Less:</i> Portion classified as current liabilities	(3,175)	—	(1,740)	(3,469)
Non-current portion	<u>3,044</u>	<u>—</u>	<u>600</u>	<u>1,000</u>

29. PROVISIONS

The Group's provisions are analysed as follows:

	Environmental restoration costs	Warranty expenses	Reorganisation expenses	Total
	RMB million	RMB million	RMB million	RMB million
As at 31 st December, 2002				
Current portion	<u>204</u>	<u>156</u>	<u>—</u>	<u>360</u>
As at 31 st December, 2003				
Current portion	109	154	—	263
Non-current portion	<u>—</u>	<u>—</u>	<u>219</u>	<u>219</u>
	<u>109</u>	<u>154</u>	<u>219</u>	<u>482</u>
As at 31 st December, 2004				
Current portion	102	196	—	298
Non-current portion	<u>—</u>	<u>—</u>	<u>215</u>	<u>215</u>
	<u>102</u>	<u>196</u>	<u>215</u>	<u>513</u>
As at 30 th June, 2004				
Current portion	109	191	—	300
Non-current portion	<u>—</u>	<u>—</u>	<u>219</u>	<u>219</u>
	<u>109</u>	<u>191</u>	<u>219</u>	<u>519</u>
As at 30 th June, 2005				
Current portion	102	222	—	324
Non-current portion	<u>—</u>	<u>—</u>	<u>208</u>	<u>208</u>
	<u>102</u>	<u>222</u>	<u>208</u>	<u>532</u>

The movements of the above provisions during the Relevant Periods were analysed as follows:

	Environmental restoration costs	Warranty expenses	Reorganisation expenses	Total
	RMB million	RMB million	RMB million	RMB million
As at 1st January, 2002	192	76	—	268
Acquisition of subsidiaries (note 15(a))	—	5	—	5
Arising during the year	12	171	—	183
Utilised	—	(96)	—	(96)
At 31st December, 2002 and 1st January, 2003	204	156	—	360
Arising during the year	—	256	219	475
Utilised	—	(219)	—	(219)
Disposal of a jointly-controlled entity attributable to a joint venture partner (note 15(b))	(95)	(39)	—	(134)
At 31st December, 2003 and 1st January, 2004	109	154	219	482
Acquisition of additional equity interest in a jointly-controlled entity (note 16(b))	—	17	—	17
Arising during the year	—	120	—	120
Utilised	—	(81)	(4)	(85)
Disposal of a jointly-controlled entity attributable to a joint venture partner (note 15(b))	(7)	(14)	—	(21)
As at 31st December, 2004	102	196	215	513
At 1st January, 2004	109	154	219	482
Arising during the period	—	85	—	85
Utilised	—	(48)	—	(48)
As at 30th June, 2004	109	191	219	519
At 1st January, 2005	102	196	215	513
Acquisition of additional equity interest in a jointly-controlled entity (note 16(b))	—	1	—	1
Arising during the period	—	135	—	135
Utilised	—	(110)	(7)	(117)
As at 30th June, 2005	102	222	208	532

The Company's provisions are analysed as follows:

	Environmental restoration costs	Warranty expenses	Total
	RMB million	RMB million	RMB million
As at 31st December, 2002			
Current portion	48	34	82
As at 31st December, 2003	—	—	—
As at 31st December, 2004	—	—	—
As at 30th June, 2004	—	—	—
As at 30th June, 2005	—	—	—

The movements of the above provisions during the Relevant Periods were analysed as follows:

	Environmental restoration costs	Warranty expenses	Total
	RMB million	RMB million	RMB million
As at 1st January, 2002	48	27	75
Arising during the year	—	7	7
At 31st December, 2002 and 1st January, 2003	48	34	82
Capital contribution to a jointly-controlled entity	(48)	(34)	(82)
At 31st December, 2003 and 1st January, 2004	—	—	—
Arising during the year	—	—	—
As at 31st December, 2004	—	—	—
At 1st January, 2004	—	—	—
Arising during the period	—	—	—
As at 30th June, 2004	—	—	—
At 1st January, 2005	—	—	—
Arising during the period	—	—	—
As at 30th June, 2005	—	—	—

Environmental restoration costs

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

Warranty expenses

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

Reorganisation expenses

A provision for reorganisation expenses was recorded by a jointly-controlled entity in 2003 in connection with the reorganisation of its workforce. The reorganisation plan was drawn up and announced to the employees of the jointly-controlled entity in December 2003. The reorganisation is expected to be completed by 2006.

30. GOVERNMENT GRANTS

The government grants and subsidies recognised by the Group as other income in 2002 and 2003 mainly represented refunds of corporate income tax and VAT to the Company, and CT to its subsidiaries.

In 2004, certain jointly-controlled entities received cash subsidies from DMC and government authorities in the PRC amounting to RMB65 million and RMB107 million, respectively, attributable to the Group.

The cash subsidies received from DMC originated from the PRC government for the State's specified production construction projects of certain jointly-controlled entities and DMC in turn gave the relevant subsidies to these jointly-controlled entities. These construction projects were completed, and RMB23 million and RMB1 million were recognised by the Group as other income for the year ended 31st December, 2004 and for the six months ended 30th June, 2005, respectively, over the useful life of the relevant construction projects.

The cash subsidies from the government authorities in the PRC were granted to encourage continuous business development in Guangzhou and for the relocation of offices and production plants of certain jointly-controlled entities. For the year ended 31st December, 2004 and for the six months ended 30th June, 2005, RMB97 million and RMB1 million, respectively, were recognised by the Group as other income pursuant to the conditions attached to these grants.

During the six months ended 30 June, 2005, the Company and certain entities of a jointly-controlled entity received cash subsidies from government authorities in the PRC amounting to RMB173 million attributable to the Group. These cash subsidies from the government authorities in the PRC were mainly granted to encourage continuous business development in Guangzhou and the relocation of offices and production plants of the Company and certain jointly-controlled entities. For the six months ended 30th June, 2005, RMB155 million was recognised by the Group as other income pursuant to the conditions attached to these grants.

As at 31st December, 2004 and 30th June, 2005, the government grants recognised as deferred income amounted to RMB52 million and RMB68 million, respectively.

31. TRADE PAYABLES

An aged analysis of the trade payables of the Group and the Company as at each of the balance sheet dates during the Relevant Periods, based on due date, are as follows:

The Group

	As at 31 st December,			As at
	2002	2003	2004	30 th June,
	RMB	RMB	RMB	RMB
	million	million	million	million
Within three months	5,319	3,435	4,452	5,820
More than three months but within one year	1,448	397	505	561
More than one year	915	148	185	139
	<u>7,682</u>	<u>3,980</u>	<u>5,142</u>	<u>6,520</u>

Included in the above balances are the following balances with related parties of the Group and its jointly-controlled entities, attributable to the Group:

	As at 31 st December,			As at
	2002	2003	2004	30 th June,
	RMB million	RMB million	RMB million	RMB million
DMC	—	4	7	10
Fellow subsidiaries	—	1	—	1
Joint venture partners and their holding companies	98	191	537	404
Minority shareholders of jointly-controlled entities' subsidiaries	—	—	—	1
Associates	10	10	7	13
	<u>108</u>	<u>206</u>	<u>551</u>	<u>429</u>

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

The Company

	As at 31 st December,			As at
	2002	2003	2004	30 th June,
	RMB million	RMB million	RMB million	RMB million
Within three months	2,356	2	56	5
More than three months but within one year	619	40	—	50
More than one year	228	10	—	3
	<u>3,203</u>	<u>52</u>	<u>56</u>	<u>58</u>

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

	As at 31 st December,			As at
	2002	2003	2004	30 th June,
	RMB million	RMB million	RMB million	RMB million
Subsidiaries	413	—	—	—
DMC	—	1	1	2
Fellow subsidiaries	—	1	—	1
An associate	—	—	—	5
	<u>413</u>	<u>2</u>	<u>1</u>	<u>8</u>

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

32. BILLS PAYABLE

The maturity profiles of the bills payable of the Group and the Company as at each of the balance sheet dates during the Relevant Periods are as follows:

The Group

	As at 31 st December,			As at
	2002	2003	2004	30 th June, 2005
	RMB million	RMB million	RMB million	RMB million
Within three months	1,340	2,127	633	738
More than three months but within six months	1,730	95	1,676	1,485
More than six months	30	—	6	6
	<u>3,100</u>	<u>2,222</u>	<u>2,315</u>	<u>2,229</u>

The Company

	As at 31 st December,			As at
	2002	2003	2004	30 th June, 2005
	RMB million	RMB million	RMB million	RMB million
Within three months	530	—	—	—
More than three months but within six months	761	—	—	—
More than six months	30	—	—	—
	<u>1,321</u>	<u>—</u>	<u>—</u>	<u>—</u>

33. OTHER PAYABLES AND ACCRUED LIABILITIES

Included in the other payables and accrued liabilities are the following balances with related parties of the Group and its jointly-controlled entities, attributable to the Group:

The Group

	As at 31 st December,			As at
	2002	2003	2004	30 th June, 2005
	RMB million	RMB million	RMB million	RMB million
DMC	5	480	1,545	1,458
Fellow subsidiaries	—	1	—	—
Joint venture partners	9	44	49	153
Minority shareholders of subsidiaries	82	—	—	—
A minority shareholder of a jointly-controlled entity's subsidiary	—	1	1	2
Associates	3	5	—	4
	<u>99</u>	<u>531</u>	<u>1,595</u>	<u>1,617</u>

The above balances are unsecured, interest-free and have no fixed terms of repayment. In November 2005, the amounts due to DMC as at 30 June, 2005 was repaid by the Group. Further details are set out in note 38(f) below.

The Company

Included in the other payables and accrued liabilities are the following balances with related parties of the Company:

	As at 31st December,			As at
	2002	2003	2004	30th June, 2005
	RMB million	RMB million	RMB million	RMB million
Subsidiaries	794	27	—	—
DMC	5	480	1,533	1,442
Fellow subsidiaries	—	1	—	—
A minority shareholder of a subsidiary	80	—	—	—
Associates	3	—	—	—
	<u>882</u>	<u>508</u>	<u>1,533</u>	<u>1,442</u>

The above balances are unsecured, interest-free and have no fixed terms of repayment. In November 2005, the amount due to DMC as at 30 June, 2005 was repaid by the Company. Further details are set out in note 38(f) below.

34. COMMITMENTS AND CONTINGENCIES

(a) Operating lease commitments as lessee

(i) The Group's future minimum rentals payable under non-cancellable operating leases as at each of the balance sheet dates during the Relevant Periods are as follows:

	As at 31st December,			As at
	2002	2003	2004	30th June, 2005
	RMB million	RMB million	RMB million	RMB million
Within one year	7	3	3	1
After one year but not more than five years	16	13	—	—
More than five years	8	138	—	—
	<u>31</u>	<u>154</u>	<u>3</u>	<u>1</u>

The Company had no future rentals payable under non-cancellable operating leases as at each of the balance sheet dates during the Relevant Periods.

(ii) In addition to the above, the Group's share of future minimum rentals payable under non-cancellable operating leases of its jointly-controlled entities, which are not included in note 34(a)(i) above, as at each of the balance sheet dates during the Relevant Periods are as follows:

	As at 31st December,			As at
	2002	2003	2004	30th June, 2005
	RMB million	RMB million	RMB million	RMB million
Within one year	2	10	86	63
After one year but not more than five years	—	32	272	238
More than five years	—	172	237	311
	<u>2</u>	<u>214</u>	<u>595</u>	<u>612</u>

(b) Commitments

(i) In addition to the operating lease commitments detailed in note 34(a) above, the Group and the Company had the following commitments as at each of the balance sheet dates during the Relevant Periods:

The Group

	As at 31 st December,			As at 30 th June, 2005
	2002	2003	2004	
	RMB million	RMB million	RMB million	RMB million
Contracted, but not provided for:				
Property, plant and equipment	460	68	144	104
Capital contribution to jointly-controlled entities	376	5,101	458	261
Acquisition of certain equity interest in a jointly-controlled entity	—	632	—	—
	<u>836</u>	<u>5,801</u>	<u>602</u>	<u>365</u>
Authorised, but not contracted for:				
Property, plant and equipment	<u>17</u>	<u>160</u>	<u>—</u>	<u>36</u>

The Company

	As at 31 st December,			As at 30 th June, 2005
	2002	2003	2004	
	RMB million	RMB million	RMB million	RMB million
Contracted, but not provided for:				
Property, plant and equipment	15	—	144	104
Capital contribution to subsidiaries	102	—	—	—
Capital contribution to jointly-controlled entities	376	5,101	458	261
Acquisition of certain equity interest in a jointly-controlled entity	—	632	—	—
	<u>493</u>	<u>5,733</u>	<u>602</u>	<u>365</u>
Authorised, but not contracted for:				
Property, plant and equipment	<u>—</u>	<u>160</u>	<u>—</u>	<u>36</u>

(ii) In addition, the Group's share of capital commitments of its jointly-controlled entities, which are not included in note 34(b)(i) above, as at each of the balance sheet dates during the Relevant Periods are as follows:

	As at 31 st December,			As at 30 th June, 2005
	2002	2003	2004	
	RMB million	RMB million	RMB million	RMB million
Contracted, but not provided for:				
Property, plant and equipment	142	948	2,507	2,230
Capital contribution to a jointly controlled entity	—	—	12	—
	<u>142</u>	<u>948</u>	<u>2,519</u>	<u>2,230</u>
Authorised, but not contracted for:				
Property, plant and equipment	213	238	2,141	1,941
Acquisition of a jointly-controlled entity	—	—	141	—
	<u>213</u>	<u>238</u>	<u>2,282</u>	<u>1,941</u>

(iii) In addition to the above, pursuant to an agreement of March 2005, Dongfeng Motor Co., Ltd., a jointly-controlled entity of the Company, agreed to dispose of its 29.23% equity interest in Dongfeng Axle Co., Ltd. to a third party for a cash consideration of RMB283.5 million in order to restructure Dongfeng Axle Co., Ltd. into a fifty-fifty joint venture between Dongfeng Motor Co., Ltd. and a third party. Up to the date of this report, this transaction has not been completed.

(c) Contingent liabilities

(i) The Group and the Company had the following contingent liabilities as at each of the balance sheet dates during the Relevant Periods:

The Group

	As at 31 st December,			As at
	2002	2003	2004	30 th June, 2005
	RMB million	RMB million	RMB million	RMB million
Guarantees given to banks in connection with facilities granted to the following parties at nil consideration:				
— jointly-controlled entities	—	49	65	63
— Fellow subsidiaries	—	282	189	160
— An associate	9	—	—	—
	<u>9</u>	<u>331</u>	<u>254</u>	<u>223</u>

The Company

	As at 31 st December,			As at
	2002	2003	2004	30 th June, 2005
	RMB million	RMB million	RMB million	RMB million
Guarantees given to banks in connection with facilities granted to the following parties at nil consideration:				
— Subsidiaries	529	53	60	—
— jointly-controlled entities	—	—	30	30
— Fellow subsidiaries	—	282	189	160
	<u>529</u>	<u>335</u>	<u>279</u>	<u>190</u>

(ii) In addition, the Group's share of contingent liabilities of its jointly-controlled entities, which are not included in note 34(c)(i) above, as at each of the balance sheet dates during the Relevant Periods are as follows:

	As at 31 st December,			As at
	2002	2003	2004	30 th June, 2005
	RMB million	RMB million	RMB million	RMB million
Guarantees given to banks in connection with facilities granted to:				
— Associates	—	15	23	10
— Others	—	—	—	11
	<u>—</u>	<u>15</u>	<u>23</u>	<u>21</u>

35. RELATED PARTY TRANSACTIONS

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

During the Relevant Periods, in addition to those disclosed in notes 1(i) and (ii), 5(b)(i), (ii) and (iv), 6, 15(b), 16(b)(1)(i), 16(b)(3), 30, 34(c), the Group and its jointly-controlled entities had the following significant transactions with their related parties:

	Notes	Year ended 31 st December,			Six months ended 30 th June,	
		2002	2003	2004	2004	2005
		RMB million	RMB million	RMB million	RMB million	RMB million
Purchases of automotive parts/raw materials from:	(a)					
— DMC		—	—	17	16	20
— Fellow subsidiaries		—	—	186	186	—
— Joint venture partners and their holding companies		2,438	6,592	10,128	4,438	6,297
— Associates		134	193	768	260	142
— Jointly-controlled entities		472	2,109	2,598	1,011	1,617
— A minority shareholder of a jointly-controlled entity's subsidiary		—	338	276	130	28
		<u>3,044</u>	<u>9,232</u>	<u>13,973</u>	<u>6,041</u>	<u>8,104</u>
Purchases of automobiles from jointly-controlled entities	(a)	<u>62</u>	<u>118</u>	<u>1,334</u>	<u>689</u>	<u>427</u>
Purchases of property, plant and equipment from:	(a)					
— A holding company of a joint venture partner		—	—	450	50	14
— A minority shareholder of a jointly-controlled entity's subsidiary		—	—	—	—	2
		<u>—</u>	<u>—</u>	<u>450</u>	<u>50</u>	<u>16</u>
Purchases of water, steam and electricity from DMC	(b)	<u>—</u>	<u>—</u>	<u>486</u>	<u>270</u>	<u>304</u>
Rental expenses to DMC	(a)	<u>—</u>	<u>—</u>	<u>74</u>	<u>37</u>	<u>61</u>
Purchases of services from:	(a)					
— a joint venture partner		—	—	—	—	5
— a jointly-controlled entity		—	—	13	13	1
		<u>—</u>	<u>—</u>	<u>13</u>	<u>13</u>	<u>6</u>
Purchases of technology know-how from joint venture partners and their holding companies	(a)	<u>148</u>	<u>643</u>	<u>739</u>	<u>224</u>	<u>1,348</u>
Use of trademarks of DMC	(c)	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

	Notes	Year ended 31 st December,			Six months ended 30 th June,	
		2002	2003	2004	2004	2005
		RMB million	RMB million	RMB million	RMB million	RMB million
Sales of automotive parts/raw materials to:	(a)					
— DMC		—	—	94	76	9
— Fellow subsidiaries		—	—	2	2	—
— A joint venture partner		10	84	2	—	17
— An associate		38	—	—	—	—
— Jointly-controlled entities		453	1,737	1,941	1,390	367
— A minority shareholder of a jointly-controlled entity's subsidiary		—	—	—	—	3
		<u>501</u>	<u>1,821</u>	<u>2,039</u>	<u>1,468</u>	<u>396</u>
Sales of automobiles to:	(a)					
— An associate		—	13	—	—	—
— Jointly-controlled entities		—	—	375	34	68
		<u>—</u>	<u>13</u>	<u>375</u>	<u>34</u>	<u>68</u>
Provisions of services to:	(a)					
— An associate		—	—	—	—	7
— Jointly-controlled entities		—	52	—	—	13
		<u>—</u>	<u>52</u>	<u>—</u>	<u>—</u>	<u>20</u>
Provision of water, steam and electricity to a jointly-controlled entity	(b)	<u>—</u>	<u>169</u>	<u>—</u>	<u>—</u>	<u>—</u>
Sales of property, plant and equipment to a jointly-controlled entity	(a)	<u>—</u>	<u>17</u>	<u>—</u>	<u>—</u>	<u>—</u>
Rental income from a jointly-controlled entity	(a)	<u>—</u>	<u>8</u>	<u>—</u>	<u>—</u>	<u>—</u>

In the opinion of the Directors, the above transactions were conducted in the ordinary course of business and will continue after the listing of the Company's H shares on the Hong Kong Stock Exchange.

Notes:

- (a) *These transactions were conducted in accordance with terms agreed between the Group and its jointly-controlled entities and their related parties.*
- (b) *These transactions were conducted according to the prices and conditions regulated by the PRC government.*
- (c) *During the Relevant Periods, the Group and certain of its jointly-controlled entities used certain trademarks of DMC at nil consideration for their automobiles sold.*

(ii) Transactions with other state-owned enterprises in the PRC

The Group operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively “State-owned Enterprises”). During the Relevant Periods, the Group had transactions with State-owned Enterprises including, but not limited to, sales of automobiles and other automotive components and purchases of raw materials and automotive parts and components. The Directors consider that transactions with other State-owned Enterprises are activities in the ordinary course of the Group’s business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and the other State-owned Enterprises are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services, and such pricing policies do not depend on whether or not the customers are State-owned Enterprises. Having due regard to the substance of the relationships, the Directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

36. FINANCIAL INSTRUMENTS

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

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

37. CONCENTRATION OF RISK

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

Interest rate risk

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

Foreign currency risk

The businesses of the Group and its jointly-controlled entities are principally located in the PRC. While most of the transactions of the Group and its jointly-controlled entities are conducted in RMB, certain of their purchases and borrowings were denominated in other currencies including, amongst others, U.S. Dollar ("USD"), European Currency Unit ("ECU") and Japanese Yen. Fluctuation of the exchange rates of RMB against foreign currencies can affect the Group's results of operations.

During the six months ended 30th June, 2005, a jointly-controlled entity entered into certain foreign currency forward and swap contracts, which do not qualify for hedge accounting, to manage its risks associated foreign currency fluctuations. As at 30th June, 2005, the jointly-controlled entity had committed to sell a total notional amount of approximately ECU39 million for the purchase of USD.

As at 30th June, 2005, the fair value of these foreign currency forward and swap contracts was insignificant.

Credit risk

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

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

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

38. EVENTS AFTER THE BALANCE SHEET DATE

(a) On 29th October, 2005, the Company entered into a land use rights leasing agreement with DMC in relation to the leases of certain parcels of land (the "Leased Properties") used by the Group. The tenure of all these leases will commence on the first day of the month immediately after the day the dealings of the Company's shares commenced on the Hong Kong Stock Exchange and will expire on 31st August, 2052. The aggregate annual rental of these leases is approximately RMB20.35 million payable every six months in arrears. The annual rental payable for the Leased Properties will be reviewed every three years and the new amount of rental payable will not be higher than the prevailing market rent as confirmed by an independent professional qualified valuer.

Further details of the land use rights leasing agreement with DMC are set out in the section headed "Land Use Rights Leasing Agreement" under the "Business" section of the Prospectus.

(b) On 29th October, 2005, the Company entered into a “Water Supply Agreement”, a “Steam Supply Agreement”, and an “Electricity Supply Agreement” (together referred to as the “Ancillary Services Agreements”) with DMC. Pursuant to the Ancillary Services Agreements, DMC will supply water, steam and electricity to the Company at prices prescribed in the Ancillary Services Agreements for three years commencing on the day the dealings of the Company’s shares commenced on the Hong Kong Stock Exchange.

The Ancillary Services Agreements can be terminated by either party by giving three months’ prior written notice. However, pursuant to the Ancillary Services Agreements, DMC shall not terminate the provision of services under any circumstances if the Company cannot conveniently obtain the aforesaid services from a third party.

Further details of the Ancillary Services Agreements are set out in the section headed “Provision of Ancillary Services” under the “Business” section of the Prospectus.

(c) On 29th October, 2005, the Company and Dongfeng Chaoyang Diesel Company, a subsidiary of DMC, entered into a “Mutual Supply Agreement” which is effective on the day the dealings of the Company’s shares commenced on the Hong Kong Stock Exchange for a term of three years.

Pursuant to the Mutual Supply Agreement, Dongfeng Chaoyang Diesel Company undertakes that in any transactions between it and the Group, it shall not (i) provide diesel engines to the Group on terms that are less favourable than those it offers to third parties; or (ii) receive any automotive parts from the Group on terms that are more favourable than those this Group offers to third parties or offered to it by third parties.

Moreover, Dongfeng Chaoyang Diesel Company and the Company have agreed that, with the terms and conditions offered by an independent third party being equal, they shall give priority in sourcing the automotive parts from each other. Subject to the above, and if the automotive parts supplied by Dongfeng Chaoyang Diesel Company cannot satisfy the needs of the Group in any respect, the Group may obtain those automotive parts from third parties.

In addition, Dongfeng Chaoyang Diesel Company has agreed that the Group is entitled to provide the relevant products to third parties provided that it will not affect the provision of automotive parts to the Group under the Mutual Supply Agreement. Dongfeng Chaoyang Diesel Company has agreed to give priority in the provision of automotive parts to the Group.

Further details of the Mutual Supply Agreement are set out in the section headed “Agreement for Mutual Supply of Auto Parts” under the “Business” section of the Prospectus.

(d) On 29th October, 2005, the Company and DMC entered into a “Trademarks Licence Agreement” whereby DMC has granted to the Company a non-exclusive right to use certain trademarks owned by and registered under the name of DMC (the “Licensed Trademarks”), effective on the day the dealings of the Company’s shares commenced on the Stock Exchange. The Licensed Trademarks are currently being used by the Group.

The Licensed Trademarks were licensed at no cost to the Company for a fixed period of ten years. Unless agreed by the parties otherwise, upon the expiration of the terms, the Trademarks Licence Agreement automatically renews for another ten years after the expiry of each ten-year terms.

Further details of the Trademarks Licence Agreement are set out in the section headed “Trademarks Licence Agreement” under the “Business” section of the Prospectus.

(e) On 29th October, 2005, the Directors proposed to declare a dividend of RMB23.09 cents per domestic share amounting to RMB1,390 million to DMC that was approved in the shareholder's meeting on the same date.

(f) In November 2005, the Company drew unsecured bank loans in an aggregate amount of RMB3,000 million, of which RMB2,500 million is repayable in May 2006 and the remaining RMB500 million is repayable in November 2008. Among such loans, RMB1,390 million was used to pay dividends to DMC and RMB1,428 million was used to settle the amounts due to DMC in November 2005.

(III) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group and the Company in respect of any period subsequent to 30th June, 2005.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong