

Report of the Directors

The Board of Directors hereby present the report of the directors and its annual report for the year ended 31 December 2006 together with the audited financial statements of the Company and its subsidiaries and jointly-controlled entities prepared in accordance with the International Financial Reporting Standards (the “IFRS”).

PRINCIPAL ACTIVITIES

The Dongfeng Motor Group is engaged in the manufacture and sale of commercial vehicles, passenger vehicles, engines and auto parts and also the manufacture of vehicle manufacturing equipment, both are to support the Dongfeng Motor Group’s vehicle manufacturing businesses and also for external sales. The Dongfeng Motor Group has also developed automotive-related businesses, including vehicle and vehicle manufacturing equipment import/export, auto finance, insurance agency and used car businesses.

Substantially all of the Dongfeng Motor Group’s vehicles, engines and auto parts business as well as automotive-related businesses are carried out through subsidiaries, JCEs and other companies in which it has direct equity interests. The Company and its subsidiaries, JCEs and the other shareholders in the other companies in which the Company has a direct equity interest, jointly manage branding, strategy, operations, marketing and other areas in accordance with the relevant joint venture agreements.

RESULTS

The Group’s results for the year ended 31 December 2006 and the state of affairs of the Company and the Group as at that date are set out in the audited financial statements on pages 60 to 158 in this annual report.

DIVIDENDS

The Board of Directors recommends the distribution of an annual dividend of RMB4 cents for the year ended 31 December 2006, subject to consideration and approval at the annual general meeting to be held on 18 June 2007.

DIVIDEND DISTRIBUTIONS BY THE COMPANY’S JOINTLY-CONTROLLED ENTITIES

In 2006, the Company’s JCEs, in total, declared and paid aggregate dividends of approximately RMB1,139 million to the Company. Although the exact amounts of dividend distributions are not set each year, pursuant to each of the joint venture agreements, distributions are required to be paid out of the profit made by the relevant JCE (after payments of income tax) in accordance with the relevant PRC law as determined by the directors of each JCE as being appropriate dividend distributions based on the circumstances of each JCE. When determining dividend distributions, the directors of each JCE will offset losses of previous years and deduct from the profit made by

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the relevant JCE the portion of profit to be allocated for applicable legal reserves as required under PRC laws and regulations and company reserve (including but not limited to amounts allocated to cover the relevant JCE's working capital or to increase capital or expand production), employee bonus and welfare and company development. Pursuant to each of the joint venture agreements, distributions of profit will be made in proportion to the capital contributions paid by the relevant joint venture party and the Company respectively in accordance with the PRC law.

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

FINANCIAL SUMMARY

A summary of the operating results, assets and liabilities of the Group for the last five years ended 31 December 2006 is set out on pages 159 to 160 in this annual report.

BANK LOANS AND OTHER BORROWINGS

Details of the bank loans and other borrowings of the Group are set out in note 32 to the audited financial statements.

INTEREST CAPITALISED

Details of the interest capitalised of the Group for the year ended 31 December 2006 are set out in note 7 to the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Changes in the Company's and the Group's property, plant and equipment for the year ended 31 December 2006 are set out in note 15 to the audited financial statements.

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DESIGNATED DEPOSITS AND OVERDUE TERM DEPOSITS

As at 31 December 2006, the Group had no designated deposits and overdue term deposits in any financial or other authorities.

RESERVES

Details of movements in reserves of the Company and the Group for the year ended 31 December 2006 are set out in note 31 to the audited financial statements and the consolidated statement of changes in equity on page 63 of the audited financial statements, respectively.

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

The Board of Directors recommends allocation of 10% of total profit to the statutory public surplus reserve and no allocation to the discretionary surplus reserve under the law and the Articles of Association, subject to consideration and approval at the annual general meeting to be held on 18 June 2007.

DONATIONS

The Group made no donation for the year ended 31 December 2006.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2006, the revenue attributable to the five largest customers accounted for no more than 30% of the Group's total revenue for the year.

During the year ended 31 December 2006, the purchases (other than those of a capital nature) from the five largest suppliers accounted for no more than 30% of the Group's total purchases for the year.

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

As at 31 December 2006, details of the subsidiaries and JCEs as well as other companies in which the Company has direct equity interests are set out in notes 18, 19 and 20 respectively to the audited financial statements for the year.

SHARE CAPITAL

As at 31 December 2006, the aggregate share capital of the Company was RMB8,616,120,000 divided into 8,616,120,000 ordinary shares with a nominal value of RMB1 each, of which 5,760,388,000 were Domestic Shares representing approximately 66.86% of the aggregate number of shares in issue, and 2,855,732,000 were H Shares representing approximately 33.14% of the aggregate number of shares in issue.

STOCK APPRECIATION RIGHTS

The shareholders of the Company adopted a plan of stock appreciation rights, or SARs, for the senior management of the Company. The plan is designed to link the financial interests of the Company's senior management with the Company's future results of operations and the performance of H Shares. No Shares are to be issued under the SAR plan. Consequently, the shareholdings of the Company's shareholders will not be diluted as a result of the granting of SARs.

In the first round of SARs, 55,665,783 SAR units were granted, equivalent to approximately 0.65% of the Company's registered share capital, or approximately 1.95% of the Company's H Share capital. The date of grant was the thirty-first business day following the listing of the H Shares, i.e. 23 January 2006. The grant price was the average share price at close of trading over the 30 business days preceding the date of grant, i.e. HK\$2.01. There is a minimum period of two years from the date of grant before the SARs can be exercised and the following additional restrictions apply:

- (a) in the third year following the date of grant, a maximum of 30% of the SARs granted may be exercised;
- (b) in the fourth year following the date of grant, a further 35% of the SARs granted may be exercised;
- (c) in the fifth year following the date of grant, the remaining 35% of the SARs granted may be exercised.

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The first round grant implementation plan has been approved by the State-owned Assets Supervision and Administration Commission, and was approved at the meeting of the Board of Directors held on 19 April 2006.

The Company implemented the second round SAR grant plan in 2007, and the date of grant was 15 January 2007. In this round of SARs, 31,417,349 SAR units were granted, equivalent to approximately 0.36% of the Company's registered share capital, or approximately 1.10% of the Company's H Share capital. The grant price of this round of SARs grant was HK\$3.10, representing the higher of the average share price at close of trading over the 5 business days preceding the date of grant and the share price at close of trading on the date of grant. There is a minimum period of two years from the date of grant before the SARs can be exercised and the following additional restrictions apply:

- (a) in the third year following the date of grant, a maximum of 40% of the SARs granted may be exercised;
- (b) in the fourth year following the date of grant, a further 30% of the SARs granted may be exercised;
- (c) in the fifth year following the date of grant, the remaining 30% of the SARs granted may be exercised.

The second round grant implementation plan has been approved by the State-owned Assets Supervision and Administration Commission of the State Council, and was approved at the meeting of the Board of Directors held on 18 April 2007.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

SIGNIFICANT FINANCING

The Company issued the first tranche of its short-term debentures in the inter-bank debenture market of PRC on 12 December 2006. The short-term debentures were issued on a discounted basis for an amount of RMB1,900,000,000 at a face value of RMB100 each. The issue price was RMB96.52 each and the term of maturity was 365 days.

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The issue has been approved by the 2005 Annual General Meeting and approved by the People's Bank of China. The debentures were issued to institutional investors in the PRC inter-bank debenture market (save as those prohibited from purchasing such debentures by State laws and regulations). Dealings in the said debentures in the PRC inter-bank debenture market commenced on 14 December 2006.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, the name of the persons (other than directors and supervisors) entitled to exercise 5% or more of the voting rights at any general meeting of the Company and the number of underlying shares are set out below, as recorded in the register required to be kept pursuant to Section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Notes: (L) — Long Position, (S) — Short Position, (P) — Lending Pool

Name of substantial shareholder	Class of Shares	Number of shares held	Percentage in the class of issued share capital (%)	Percentage in the total share capital (%)
Dongfeng Motor Corporation	Domestic Shares	5,760,388,000(L)	100	66.86
JPMorgan Chase & Co.	H Shares	457,598,065(L)	16.02	5.31
		159,063,475(P)	5.57	1.85
The Capital Group Companies, Inc.	H Shares	312,823,000(L)	10.95	3.63
UBS AG	H Shares	288,970,000(L)	10.10	3.35
		4,200,000(S)	0.15	0.05
SCMB Overseas Limited	H Shares	242,282,000(L)	9.76	2.81
Standard Chartered Asia Limited	H Shares	242,282,000(L)	9.76	2.81
Standard Chartered Bank	H Shares	242,282,000(L)	9.76	2.81
Standard Chartered Holding Limited	H Shares	242,282,000(L)	9.76	2.81
Standard Chartered Holdings (International) B.V.	H Shares	242,282,000(L)	9.76	2.81
Standard Chartered MB Holdings B.V.	H Shares	242,282,000(L)	9.76	2.81
Standard Chartered Private Equity Limited	H Shares	242,282,000(L)	9.76	2.81
Halbis Capital Management (Hong Kong) Limited	H Shares	170,912,000(L)	5.98	1.98
Fidelity International Limited	H Shares	149,426,000(L)	5.23	1.73
Platinum Asset Management Limited	H Shares	147,050,600(L)	5.15	1.71

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DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

The directors and senior management of the Company during the year were:

Directors

Xu Ping	Executive Director and Chairman
Liu Zhangmin	Executive Director and President
Zhou Wenjie	Executive Director and Executive Vice President
Li Shaozhu	Executive Director
Fan Zhong	Executive Director
Tong Dongcheng	Non-Executive Director
Ouyang Jie	Non-Executive Director
Liu Weidong	Non-Executive Director
Zhu Fushou	Non-Executive Director
Sun Shuyi	Independent Non-Executive Director
Ng Lin-fung	Independent Non-Executive Director
Yang Xianzu	Independent Non-Executive DirectorSenior Management
Cai Wei	Vice President and Secretary of the Board of Directors

Brief biographies of each of the directors and senior management are set out on pages 23 to 25 in this annual report.

Supervisors

The supervisors of the Company during the year were:

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

Brief biographies of each supervisor are set out on pages 26 to 27 in this annual report.

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

As at 31 December 2006, none of the directors, supervisors or senior management of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance), which were required to be entered in the register required to be kept under section 352 of the Securities and Futures Ordinance, or were required to be notified to the Company and the Stock Exchange under the Model Code for Securities Transactions by Directors of Listed Companies.

As at 31 December 2006, the Company did not grant to any director or supervisor of the company or their respective spouses or children under eighteen years of age any rights to subscribe for shares or debentures of the Company or any of its associated corporations.

CONFIRMATIONS OF INDEPENDENCE FROM INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

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

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company or any of its subsidiaries or JCEs within one year without payment of compensation, other than statutory compensation.

No supervisor is proposed for re-election at the forthcoming annual general meeting.

No supervisor proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company or any of its subsidiaries or JCEs within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Except for service contracts, no director or supervisor of the Company has a material interest, whether directly or indirectly, in any contract of significance to which the Company or any of its subsidiaries and JCEs was a party during the year ended 31 December 2006.

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REMUNERATIONS OF DIRECTORS AND SUPERVISORS

Details of the remunerations of the directors and supervisors of the Company are set out in note 9 to the audited financial statements.

FIVE HIGHEST-PAID INDIVIDUALS

Information on the five highest-paid individuals of the Company is set out in note 10 to the audited financial statements.

EMPLOYEES

As at 31 December 2006, the Dongfeng Motor Group had a total of 88,530 full-time employees. The numbers of employees in various divisions and their percentage of the total number of employees are as follows:

Division	Employees	Percentage of Total
Manufacturing	54,260	61.29%
Engineering and technology	10,392	11.74%
Management	17,020	19.22%
Services	6,858	7.75%
Total	88,530	100.00%

The remuneration package of the Dongfeng Motor Group's employees includes salary, bonuses and allowances. The Dongfeng Motor Group has joined the social insurance payment programme organised by the Dongfeng Automobile Social Insurance Association. In accordance with the relevant national and local laws and regulations on labour and social welfare, each member of the Dongfeng Motor Group is required to pay in respect of each of its relevant employees a monthly social insurance premium covering pension insurance, medical insurance, unemployment insurance, occupational injury insurance and insurance for maternity leave.

The Dongfeng Motor Group endeavours to provide trainings for its employees. The scope of the completed and on-going training programs includes management skills and technology training, overseas exchange programs and other courses. The Dongfeng Motor Group also encourages its employees to engage in self-learning programs by awarding scholarships.

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The Stock Appreciation Rights (“SARs”) are granted to members of the Board of Directors and the supervisory committee (excluding independent non-executive directors and independent supervisors), senior management, heads of business departments of the Company, directors and senior management of the JCEs appointed by the Company, as well as other key employees. The Board of Directors or its remuneration committee is authorized to determine which other key employees are eligible for the SARs.

RETIREMENT BENEFITS

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

MANAGEMENT CONTRACTS

No contracts concerning the management or administration of the whole or any substantial part of the business of the Company were entered into with any person, firm or legal person during the year ended 31 December 2006.

PUBLIC FLOAT

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

CONNECTED TRANSACTIONS

For the year ended 31 December 2006, the continuing connected transactions between the Dongfeng Motor Group and Dongfeng Motor Corporation and its associates, together with the annual caps exempted subject to the Listing Rules, were as follows:

1. Land Use Rights Leasing Agreement

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

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

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

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2. Provision of Ancillary Services

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

- (i) Water Supply Agreement: Water is produced by the Parent Group and is supplied to the Dongfeng Motor Group (the “Water Supply Agreement”);
- (ii) Steam Supply Agreement: Steam is produced by the Parent Group and is supplied to the Dongfeng Motor Group (the “Steam Supply Agreement”); and
- (iii) Electricity Supply Agreement: Electricity is produced by the Parent Group and is supplied to Dongfeng Motor Group (the “Electricity Supply Agreement”),

(together the “Ancillary Services Agreements”).

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

The annual caps for the above connected transaction of water supply are RMB59 million, RMB64 million and RMB74 million for the three years ending 31 December 2007, respectively. The Dongfeng Motor Group paid RMB53 million of water supply fees to Dongfeng Motor Corporation for the year ended 31 December 2006. The payment for 2005 was RMB56 million.

The annual caps for the above connected transaction of steam supply are RMB111 million, RMB117 million and RMB120 million for the three years ended 31 December 2007, respectively. The Dongfeng Motor Group paid RMB69 million of steam supply fee to Dongfeng Motor Corporation for the year ended 31 December 2006. The payment for 2005 was RMB99 million.

The previous annual caps for the above connected transaction of electricity supply were RMB560 million, RMB545 million and RMB589 million for the three years ending 31 December 2007, respectively. However, these annual caps for the connected transaction of electricity supply were subsequently reviewed and adjusted to RMB734 million and RMB857 million for the year 2006 and 2007 respectively, at the annual general meeting on 16 June 2006. The electricity supply fee paid by the Dongfeng Motor Group for the year ended 31st December 2006 to Dongfeng Motor Corporation was RMB634 million, the payment for 2005 was RMB603 million.

3. Agreement for Mutual Supply of Auto Parts (“Mutual Supply Agreement”)

On 29 October 2005, Dongfeng Chaoyang Diesel Co., Ltd. (“Chaoyang Diesel”) and the Company entered into an Agreement for the Mutual Supply of Auto Parts effective from 7 December 2005 and with a term of three years, whereby Chaoyang Diesel will supply diesel engines to the Dongfeng Motor Group and the Dongfeng Motor Group will supply other auto parts to Chaoyang Diesel.

The previous annual caps for the connected transaction of the Dongfeng Motor Group purchasing diesel engines from Chaoyang Diesel were RMB480 million, RMB570 million and RMB740 million for the three years ending 31 December 2007, respectively. However, these annual caps for the connected transaction of the Dongfeng Motor Group purchasing diesel engines from Chaoyang Diesel were subsequently reviewed and adjusted to RMB830 million and RMB1,017 million for the year 2006 and 2007 respectively, at the annual general meeting on 16 June 2006. The purchase expense paid by the Dongfeng Motor Group for the year ended 31 December 2006 to Chaoyang Diesel was RMB564 million. The payment for 2005 was RMB554 million.

The annual caps for the connected transaction of Chaoyang Diesel purchasing auto parts from the Dongfeng Motor Group are RMB150 million, RMB230 million and RMB270 million for the three years ended 31 December 2007, respectively. Chaoyang Diesel paid RMB44 million to the Dongfeng Motor Group for purchasing auto parts for the year ended 31 December 2006. The payment for 2005 was RMB37 million.

4. Trademarks Licence Agreement

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

5. Social Insurance Funds

For the year ended 31 December 2006, the Group made payments to the following funds according to local regulations in the PRC: (1) basic pension fund; (2) supplementary pension fund; (3) medical insurance; (4) unemployment insurance; and (5) housing provident fund (together “Social Insurance Funds”). These payments were made to or through an independent department of Dongfeng Motor Corporation. This department is responsible for handling all matters relating to social insurance funds for all parts of the organisation located within Hubei Province.

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6. Continuing Connected Transactions

For the year ended 31 December 2006, the continuing connected transactions conducted by the Company, its subsidiaries and the JCEs include:

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

During the year ended 31 December 2006, each of Dongfeng Motor Co., Ltd, Dongfeng Peugeot Citroën Automobiles Company Ltd, Dongfeng Honda Automobile Co., Ltd, Dongfeng Honda Engine Co., Ltd, Dongfeng Honda Auto Parts Co., Ltd and Dongfeng Nissan Diesel Motor Co., Ltd (including each of these companies' subsidiaries and associates) regularly purchased auto parts and/or production facilities from the foreign joint venture partners of the Company and such purchases will continue for the duration of the joint venture term.

For the year ended 31 December 2006, the total amount of consideration paid by the JCEs in respect of purchases of auto parts and production facilities from the joint venture partners (including their subsidiaries and associates) was approximately RMB19,384 million. The payment for 2005 was RMB15,590 million.

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

Pursuant to the arrangements among Dongfeng Motor Corporation, Honda Motor Co., Ltd and Guangzhou Automobile Group Co., Ltd, Guangzhou Honda Automobile Co., Ltd purchases from Dongfeng Honda Engine Co., Ltd engines and other related auto parts needed by it to manufacture passenger vehicles for the duration of the joint venture term. For the year ended 31 December 2006, Guangzhou Honda Automobile Co., Ltd continued to purchase from Dongfeng Honda Engine Co., Ltd engines and auto parts needed by it.

- (iii) *Sales of auto parts by Dongfeng Bus Chassis Co., Ltd to Dongfeng Motor Co., Ltd*

Dongfeng Bus Chassis Co., Ltd manufactures bus chassis and sells them to Dongfeng Motor Co., Ltd. For the year ended 31 December 2006, the total amount of consideration paid by Dongfeng Motor Co., Ltd to Dongfeng Bus Chassis Co., Ltd for purchases of auto parts was approximately RMB424 million. The payment for 2005 was RMB975 million.

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- (iv) *Technology licence and technical assistance between the JCEs and their subsidiaries on the one hand and their joint venture partners on the other hand*

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

For the year ended 31 December 2006, the total amount of the consideration paid by the JCEs in respect of purchases of technology licences and technical assistance stated above was approximately RMB1,658 million. The payment for 2005 was RMB1,575 million.

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

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

Pursuant to the agreement between the Company and Yulon Motor Co., Ltd, Guangzhou Aeolus Automobile Co., Ltd continued to provide value-added processing services relating to automobiles to Dongfeng Motor Co., Ltd and its subsidiaries for the year ended 31 December 2006. Dongfeng Motor Co., Ltd paid value-added processing fees to Guangzhou Aeolus Automobile Co., Ltd.

- (vi) *Transactions between Dongfeng Honda Auto Parts Co., Ltd and the other JCEs*

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

For the year ended 31 December 2006, the aggregate net consideration arrived at by offsetting the consideration paid by Dongfeng Honda Auto Parts Co., Ltd to Dongfeng Motor Co., Ltd and its subsidiaries for the purchase of auto parts from the consideration paid by Dongfeng Honda Engine Co., Ltd and Dongfeng Honda Automobile Co., Ltd to Dongfeng Honda Auto Parts Co., Ltd for the purchase of auto parts was approximately RMB725 million. The net aggregate consideration for 2005 was RMB613 million.

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- (vii) *Master Land Lease Contract between Dongfeng Motor Co., Ltd and Dongfeng Motor Corporation*

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

For the year ended 31 December 2006, the annual rent paid by Dongfeng Motor Co., Ltd to Dongfeng Motor Corporation was approximately RMB141 million.

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

Dongfeng Honda Auto Parts Co., Ltd regularly sells auto parts to Honda Trading (China) Co., Ltd and Honda Motor (China) Co., Ltd. Such auto parts are then exported by Honda Trading (China) Co., Ltd and Honda Motor (China) Co., Ltd to Honda Motor Co., Ltd. Dongfeng Honda Auto Parts Co., Ltd continued to sell auto parts to Honda Trading (China) Co., Ltd and Honda Motor (China) Co., Ltd for the year ended 31 December 2006.

- (ix) *Purchases of auto parts by Dongfeng Bus Chassis Co., Ltd from Dongfeng Motor Co., Ltd and its subsidiaries.*

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

For the year ended 31 December 2006, the total amount of consideration paid by Dongfeng Bus Chassis Co., Ltd to Dongfeng Motor Co., Ltd and its subsidiaries for purchases of auto parts was approximately RMB587 million. The payment for 2005 was RMB966 million.

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

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

For the year ended 31 December 2006, the total amount of consideration paid by Dongfeng Motor Co., Ltd for purchases of engines and other auto parts from Jetford Inc. was RMB52 million. The payment for 2005 was RMB138 million.

7. The connected transactions involving Dongfeng Motor Finance Co., Ltd

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

As of 31 December 2006, Dongfeng Motor Finance Co., Ltd granted loans of approximately RMB42 million to Dongfeng Motor Corporation and its subsidiaries.

8. Establishment of Dongfeng Nissan Auto Finance Co., Ltd

On 30 August 2006, the Company entered into a joint venture agreement with Nissan Motor Co., Ltd (“Nissan”) to establish a joint venture company, Dongfeng Nissan Auto Finance Co., Ltd. (東風日產汽車金融有限公司) in Shanghai, the PRC. The purpose of this joint venture company is to promote the sale, in the PRC, of passenger vehicles manufactured or imported by Dongfeng Motor Co., Ltd. or its subsidiaries using trademarks or brand names owned by Nissan, and other passenger vehicles manufactured by Dongfeng Motor Co., Ltd. or its subsidiaries. The registered capital of this joint venture company is proposed to be RMB500 million, to be contributed by Nissan and the Company in the amount of RMB325 million and RMB175 million, representing 65% and 35% respectively of the registered capital of the joint venture company. Dongfeng Motor Co., Ltd, a Jointly-controlled Entity of the Company, is owned as to 50% by the Company and as to 50% by Nissan (China) Investment Co, Ltd, a wholly-owned subsidiary of Nissan. Therefore, Nissan is regarded as a connected person of the Company under the Listing Rules because it is an associate of a substantial shareholder of Dongfeng Motor Co., Ltd (which is required by the Stock Exchange to be regulated in a

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manner consistent with the regulation of subsidiaries of the Company, as a condition to its listing on the Stock Exchange), and the establishment of the joint venture company between Nissan and the Company constitutes a connected transaction under the Listing Rules.

The independent non-executive directors of the Company confirmed that all continuing connected transactions to which the Dongfeng Motor Group was a party for the year ended 31 December 2006:

- (1) were conducted in the ordinary business of the Dongfeng Motor Group;
- (2) were conducted on normal commercial terms, or made on terms no less favourable than terms available to or, as appropriate, from independent third parties, if there do not exist enough comparable transactions to determine whether such transactions are made on normal commercial terms or not;
- (3) were conducted in accordance with the terms of the agreements governing them and the terms of the transactions are fair and reasonable and in the interests of the shareholders of the Company as a whole; and
- (4) the values of continuing connected transactions entered into between the Dongfeng Motor Group and connected persons of the Group which are subject to annual caps have not exceeded their respective annual cap.

After reviewing the above current year's connected transactions, the auditors of the Company confirmed the matters stated in Rule 14A.38 of the Listing Rules.

MATERIAL LEGAL PROCEEDINGS

As of 31 December 2006, the Dongfeng Motor Group was not involved in any material litigation or arbitration and no material litigation or claim was pending or threatened or made against the Dongfeng Motor Group as far as the Dongfeng Motor Group was aware.

MODEL CODE

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

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CORPORATE GOVERNANCE

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

ACCOUNTING PRINCIPLES

During the year of 2006, the Company did not adopt any new accounting principles.

AUDITORS

The Company appointed Ernst & Young and Ernst & Young Hua Ming as the Company's overseas and domestic auditors respectively for the year ended 31 December 2006. A resolution will be submitted at the annual general meeting to reappoint Ernst & Young and Ernst & Young Hua Ming as the Company's overseas and domestic auditors respectively for the year ended 31 December 2007, and authorize the directors to fix their remunerations.

By Order of the Board of Directors



Xu Ping

Chairman of the Board of Directors

Wuhan, the PRC
18 April 2007