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**DONGFENG MOTOR GROUP COMPANY LIMITED\***

**東風汽車集團股份有限公司**

*(於中華人民共和國註冊成立的股份有限公司)*

*(股份代號: 489)*

**2008 ANNUAL RESULTS ANNOUNCEMENT**

The Board of Directors (the “Board”) of Dongfeng Motor Group Company Limited (the “Company”) is pleased to announce the audited consolidated results of the Company, its subsidiaries and together with its jointly-controlled entities (the “Group” or the “Dongfeng Motor Group”) for the year ended 31 December 2008 together with the comparative figures in 2007.

In this annual results announcement, unless otherwise specified, all references to revenues, profits and other financial information of the Group include those of the relevant jointly-controlled entities to the extent that such information has been proportionately consolidated or otherwise reflected in the financial information set out in this annual results announcement. Subject to the above and unless otherwise specified, all information in this announcement relating to the Dongfeng Motor Group includes information of the Group and all companies (including jointly-controlled entities and associates) in which the members of the Group have direct or indirect equity interests, without regard to the ownership level of, or the proportion of interest held by, the members of the Group in such companies.

## CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2008

	Notes	2008 RMB million	2007 RMB million
Revenue – Sale of goods	3	70,569	59,318
Cost of sales		<u>(58,688)</u>	<u>(49,503)</u>
Gross profit		11,881	9,815
Other income	4	1,228	935
Selling and distribution costs		( 3,359)	( 2,642)
Administrative expenses		( 2,591)	( 2,545)
Other expenses, net		( 1,969)	( 1,432)
Finance costs	6	( 393)	( 365)
Share of profits and losses of associates		<u>95</u>	<u>69</u>
Profit before tax	5	4,892	3,835
Income tax	7	<u>( 647)</u>	<u>202</u>
Profit for the year		<u>4,245</u>	<u>4,037</u>
Attributable to:			
Equity holders of the parent		4,040	3,770
Minority interests		<u>205</u>	<u>267</u>
		<u>4,245</u>	<u>4,037</u>
Dividend	8	<u>388</u>	<u>388</u>
Earnings per share attributable to ordinary equity holders of the parent:			
Basic for the year	9	<u>46.89 cents</u>	<u>43.76 cents</u>
Diluted for the year		<u>N/A</u>	<u>N/A</u>

## CONSOLIDATED BALANCE SHEET

31 December 2008

	Notes	2008 RMB million	2007 RMB million
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		18,189	16,438
Lease prepayments		671	475
Intangible assets		1,627	1,484
Goodwill		483	477
Interests in associates		787	677
Available-for-sale financial assets		137	136
Other long term assets		1,128	832
Deferred tax assets		795	333
Total non-current assets		<u>23,817</u>	<u>20,852</u>
<b>Current assets</b>			
Inventories		9,356	7,573
Trade receivables	10	2,101	2,229
Bills receivable		6,516	7,983
Prepayments, deposits and other receivables		3,470	2,717
Due from jointly-controlled entities		386	289
Financial assets at fair value through profit or loss		6	81
Pledged bank balances and time deposits		1,697	931
Cash and cash equivalents		12,416	9,542
Total current assets		<u>35,948</u>	<u>31,345</u>
<b>TOTAL ASSETS</b>		<u><u>59,765</u></u>	<u><u>52,197</u></u>

## CONSOLIDATED BALANCE SHEET (Continued)

31 December 2008

	Notes	2008 RMB million	2007 RMB million
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to the equity holders of the parent</b>			
Issued capital		8,616	8,616
Reserves		4,903	4,155
Retained profits		7,458	4,554
Proposed final dividend		388	388
		<u>21,365</u>	<u>17,713</u>
Minority interests		2,837	2,686
<b>Total equity</b>		<u>24,202</u>	<u>20,399</u>
<b>Non-current liabilities</b>			
Interest-bearing borrowings		1,781	2,514
Other long term liabilities		27	44
Provisions		129	163
Government grants		83	53
Deferred tax liabilities		80	24
Total non-current liabilities		<u>2,100</u>	<u>2,798</u>
<b>Current liabilities</b>			
Trade payables	11	10,259	9,650
Bills payable		6,308	4,812
Other payables and accruals		8,305	7,502
Due to jointly-controlled entities		333	288
Interest-bearing borrowings		6,919	5,751
Government grants		23	35
Income tax payable		779	417
Provisions		537	545
Total current liabilities		<u>33,463</u>	<u>29,000</u>
<b>TOTAL LIABILITIES</b>		<u>35,563</u>	<u>31,798</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>59,765</u>	<u>52,197</u>
Net current assets		<u>2,485</u>	<u>2,345</u>
Total assets less current liabilities		<u>26,302</u>	<u>23,197</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### Year ended 31 December 2008

	Attributable to the equity holders of the parent						Minority interests	Total equity
	Issued capital RMB million	Capital reserve RMB million	Statutory reserves RMB million	Retained profits RMB million	Proposed final dividend RMB million	Total RMB million	RMB million	RMB million
As at 1 January 2007	8,616	1,363	2,012	1,952	345	14,288	2,534	16,822
Profit for the year	-	-	-	3,770	-	3,770	267	4,037
Transfer to reserves	-	-	780	( 780)	-	-	-	-
Acquisition of an additional interest in a jointly-controlled entity	-	-	-	-	-	-	44	44
Acquisition of an additional interest in a jointly-controlled entity's subsidiary	-	-	-	-	-	-	( 74)	( 74)
Deemed disposal of interests in a jointly-controlled entity's subsidiaries to a jointly-controlled entity	-	-	-	-	-	-	( 27)	( 27)
Partial disposal of an interest in a jointly-controlled entity's subsidiary	-	-	-	-	-	-	80	80
Capital contribution from minority shareholders	-	-	-	-	-	-	9	9
Dividends paid to minority shareholders	-	-	-	-	-	-	( 147)	( 147)
Final 2006 dividend declared and paid	-	-	-	-	( 345)	( 345)	-	( 345)
Proposed final dividend	-	-	-	( 388)	388	-	-	-
As at 31 December 2007	8,616	1,363	2,792	4,554	388	17,713	2,686	20,399
Profit for the year	-	-	-	4,040	-	4,040	205	4,245
Transfer to reserves	-	-	748	( 748)	-	-	-	-
Acquisition of an additional interest in a jointly-controlled entity's subsidiary	-	-	-	-	-	-	( 2)	( 2)
Acquisition of a subsidiary by a jointly-controlled entity	-	-	-	-	-	-	7	7
Capital contributions from minority shareholders	-	-	-	-	-	-	38	38
Dividends paid to minority shareholders	-	-	-	-	-	-	( 97)	( 97)
Final 2007 dividend declared and paid	-	-	-	-	( 388)	( 388)	-	( 388)
Proposed final dividend	-	-	-	( 388)	388	-	-	-
As at 31 December 2008	8,616	1,363	3,540	7,458	388	21,365	2,837	24,202

## NOTES TO FINANCIAL STATEMENTS

31 December 2008

### 1. CORPORATE INFORMATION

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

During the year, the Company, its subsidiaries and jointly-controlled entities (collectively referred to as the “Group”) were principally engaged in the manufacture and sale of automobiles, engines and other automotive parts.

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

### 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which comprise standards and interpretations approved by the International Accounting Standards Board (“IASB”), and International Accounting Standards (“IAS”) and Standing Interpretation Committee interpretations approved by the International Accounting Standards Committee that remain in effect and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest million except when otherwise indicated.

These financial statements have been prepared under the historical cost convention, except for the measurement at fair value of foreign currency forward and swap contracts, available-for-sale financial assets and other financial assets at fair value through profit or loss.

## NOTES TO FINANCIAL STATEMENTS (Continued)

31 December 2008

### 2.2 IMPACT OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The principal accounting policies used in the preparation of these financial statements are consistent with those used in the annual audited financial statements for the year ended 31 December 2007, except that the Group has adopted the following new amendments to IFRSs and new International Financial Reporting Interpretations (“IFRICs”) during the year. Adoption of these amendments to IFRSs and new IFRICs did not have any significant effect on these financial statements. They did however give rise to additional disclosures.

IAS 39 and IFRS 7 Amendments	Amendments to IAS 39 <i>Financial Instruments: Recognition and Measurement</i> and IFRS 7 <i>Financial Instruments: Disclosures - Reclassification of Financial Assets</i>
IFRIC 11	IFRS 2 — <i>Group and Treasury Share Transaction</i>
IFRIC 12	<i>Service Concession Arrangements</i>
IFRIC 14	IAS 19 — <i>The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>

The principal effects of adopting these new amendments to IFRSs and IFRICs are as follows:

- (a) Amendments to IAS 39 *Financial Instruments — Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures — Reclassification of Financial Assets*

The amendments to IAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held-to-maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

## NOTES TO FINANCIAL STATEMENTS (Continued)

31 December 2008

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

- (a) Amendments to IAS 39 *Financial Instruments — Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures — Reclassification of Financial Assets* (continued)

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to IFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

- (b) IFRIC 11 – IFRS 2 – *Group and Treasury Share Transaction*

IFRIC 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group buys the instruments from another party, or the shareholders provide the equity instruments needed. IFRIC 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

- (c) IFRIC 12 – *Service Concession Arrangements*

IFRIC 12 applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. As the Group is not an operator, therefore, this interpretation has had no impact on the financial position or results of operations of the Group.

- (d) IFRIC 14 – IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

IFRIC 14 addresses how to assess the limit under IAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognized as an asset, including situations when a minimum funding requirement exists. The interpretation does not have material effect on these financial statements.

## NOTES TO FINANCIAL STATEMENTS (Continued)

31 December 2008

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

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

IFRS 1 and IAS 27 Amendments	Amendments to IFRS 1 <i>First-time Adoption of IFRSs</i> and IAS 27 <i>Consolidated and Separated Financial Statements - Costs of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i> <sup>1</sup>
IFRS 2 Amendments	Amendments to IFRS 2 <i>Share-based Payments – Vesting Conditions and Cancellations</i> <sup>1</sup>
IFRS 3 (Revised)	<i>Business Combinations</i> <sup>2</sup>
IFRS 8	<i>Operating Segments</i> <sup>1</sup>
IAS 1 (Revised)	<i>Presentation of Financial Statements</i> <sup>1</sup>
IAS 23 (Revised)	<i>Borrowing Costs</i> <sup>1</sup>
IAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i> <sup>2</sup>
IAS 32 and IAS 1 Amendments	Amendments to IAS 32 <i>Financial Instruments: Presentation</i> and IAS 1 <i>Presentation of Financial Instruments – Puttable Financial Instruments and Obligations Arising on Liquidation</i> <sup>1</sup>
IAS 39 Amendment	Amendment to IAS 39 <i>Financial Instruments: Recognition and Measurements – Eligible Hedged Items</i> <sup>2</sup>
IFRIC 13	<i>Customer Loyalty Programmes</i> <sup>3</sup>
IFRIC 15	<i>Agreements for the Construction of Real Estate</i> <sup>1</sup>
IFRIC 16	<i>Hedges of a Net Investment in a Foreign Operation</i> <sup>4</sup>
IFRIC 17	<i>Distribution of Non-cash Assets to Owners</i> <sup>2</sup>
IFRIC 18	<i>Transfer of Assets from Customers</i> <sup>2</sup>

Apart from the above, the IASB has also issued improvements to IFRSs\* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to IFRS 5 which is effective for annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2008

<sup>4</sup> Effective for annual periods beginning on or after 1 October 2008

\* Improvements to IFRSs contains amendments to IFRS 5, IFRS 7, IAS 1, IAS 8, IAS 10, IAS 16, IAS 18, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41

## NOTES TO FINANCIAL STATEMENTS (Continued)

31 December 2008

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

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, it has concluded that while the adoption of IFRS 8 and IAS 1 (Revised) may result in new or amended disclosures and the adoption of IFRS 3 (Revised) and IAS 27 (Revised) may result in changes in accounting policies, these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

### 3. REVENUE ON SALE OF GOODS AND SEGMENT INFORMATION

#### Revenue on sale of goods

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

#### Segment information

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

The Group's operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of these business segments are as follows:

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

31 December 2008

### 3. REVENUE ON SALE OF GOODS AND SEGMENT INFORMATION (continued)

#### Segment information (continued)

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2008 and 2007.

Year ended 31 December 2008

	Commercial vehicles RMB million	Passenger vehicles RMB million	Corporate and others RMB million	Total RMB million
<b>Segment revenue</b>				
Sales to external customers	20,980	48,660	929	70,569
<b>Results</b>				
Segmental results	173	5,689	( 672)	5,190
Finance costs				(393)
Share of profits and losses of associates	61	36	(2)	95
Profit before tax				4,892
Income tax expense				( 647)
Profit for the year				4,245
<b>Assets and liabilities</b>				
Segment assets	11,816	34,376	10,151	56,343
Interests in associates	364	168	255	787
Unallocated assets				2,635
Total assets				59,765
Segment liabilities	6,484	14,573	4,947	26,004
Unallocated liabilities				9,559
Total liabilities				35,563
<b>Other segment information</b>				
Capital expenditure:				
- Property, plant and equipment	815	3,059	206	4,080
- Intangible assets	50	301	74	425
- Lease prepayments	121	30	49	200
Depreciation of property, plant and equipment	524	1,416	85	2,025
Amortisation of intangible assets	30	160	62	252
Provision against inventories	147	54	-	201
Impairment losses recognised in the income statement	198	65	29	292
Warranty provision	139	275	-	414

NOTES TO FINANCIAL STATEMENTS (Continued)

31 December 2008

3. REVENUE ON SALE OF GOODS AND SEGMENT INFORMATION (continued)

Segment information (continued)

Year ended 31 December 2007

	Commercial vehicles RMB million	Passenger vehicles RMB million	Corporate and others RMB million	Total RMB million
<b>Segment revenue</b>				
Sales to external customers	<u>16,901</u>	<u>41,655</u>	<u>762</u>	<u>59,318</u>
<b>Results</b>				
Segmental results	<u>162</u>	<u>4,678</u>	<u>( 709)</u>	4,131
Finance costs				( 365)
Share of profits and losses of associates	30	47	( 8)	69
Profit before tax				3,835
Income tax credit				202
Profit for the year				<u>4,037</u>
<b>Assets and liabilities</b>				
Segment assets	11,307	27,283	11,449	50,039
Interests in associates	301	171	205	677
Unallocated assets				1,481
Total assets				<u>52,197</u>
Segment liabilities	6,385	11,203	5,504	23,092
Unallocated liabilities				8,706
Total liabilities				<u>31,798</u>
<b>Other segment information</b>				
Capital expenditure:				
- Property, plant and equipment	589	2,052	215	2,856
- Intangible assets	27	273	74	474
- Lease prepayments	1	12	22	35
Depreciation of property, plant and equipment	477	1,227	79	1,783
Amortisation of intangible assets	22	176	45	243
Provision against inventories	17	23	2	42
Impairment losses recognised in the income statement	19	1	18	38
Impairment losses reversed in the income statement	( 15)	( 24)	( 7)	( 46)
Warranty provision	<u>126</u>	<u>342</u>	<u>-</u>	<u>468</u>

## NOTES TO FINANCIAL STATEMENTS (Continued)

31 December 2008

### 4. OTHER INCOME

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

	2008 RMB million	2007 RMB million
Government grants and subsidies	260	195
Net income from disposal of other materials	455	321
Interest income	301	190
Rendering of services	28	19
Others	184	210
	<u>1,228</u>	<u>935</u>

### 5. PROFIT BEFORE TAX

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

	2008 RMB million	2007 RMB million
Cost of inventories recognised as expense	58,688	49,503
Provision against inventories	201	42
Amortisation of intangible assets	252	243
Depreciation	2,025	1,783
Loss on disposal of items of property, plant and equipment, net	44	49
Impairment of property, plant and equipment	177	26
Impairment of intangible assets	30	-
Impairment of available-for-sale financial assets	19	12
Exchange gains, net	( 229)	( 217)
Impairment/(Write-back of impairment) of trade and other receivables	66	( 46)
	<u>66</u>	<u>( 46)</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

31 December 2008

6.	FINANCE COSTS	2008 RMB million	2007 RMB million
	Interest on bank loans and other borrowings wholly repayable:		
	- within five years	205	169
	- beyond five years	121	133
	Interest on discounted bills	62	88
	Interest on short-term debentures	<u>102</u>	<u>69</u>
		490	459
	Less: Amount capitalised in construction in progress	<u>( 97)</u>	<u>( 94)</u>
	Net interest expense	<u><u>393</u></u>	<u><u>365</u></u>
7.	INCOME TAX	2008 RMB million	2007 RMB million
	Current income tax	1,055	642
	Deferred income tax	<u>( 408)</u>	<u>( 844)</u>
	Income tax expense/(credit) for the year	<u><u>647</u></u>	<u><u>( 202)</u></u>
(a)	Corporate income tax		
	Under the PRC Corporate Income Tax Law and the respective regulations, the corporate income tax for the Company, its subsidiaries and its jointly-controlled entities is calculated at rates ranging from 7.5% to 25%, on their estimated assessable profits for the year based on the existing legislation, interpretations and practices in respect thereof. As certain of the Company's subsidiaries and jointly-controlled entities are foreign investment enterprises, after obtaining authorisation from the respective tax authorities, these subsidiaries and jointly-controlled entities are subject to a full corporate income tax exemption for the first two years and a 50% reduction in the succeeding three years, commencing from the first profitable year.		
(b)	Hong Kong profits tax		
	No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year.		
(c)	Deferred income tax		
	Deferred tax assets were mainly recognised in respect of temporary differences relating to certain future deductible expenses for the purpose of corporate income tax.		

NOTES TO FINANCIAL STATEMENTS (Continued)

31 December 2008

7. INCOME TAX (Continued)

On 16 March 2007, the National People's Congress approved the PRC Corporate Income Tax Law (the "New CIT Law"), which became effective from 1 January 2008. The New CIT Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested enterprises and foreign-invested enterprises, which results in a reduction of the corporate income tax rate from 33% to 25%. The effect of the New CIT Law was reflected in the calculation of deferred income tax as at 31 December 2007.

According to IAS 12 *Income Taxes*, deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the

A reconciliation of the income tax expense/(credit) applicable to profit before tax at the statutory corporate income tax rate for the PRC in which the Group are domiciled to the tax expense/(credit) at the Group's effective income tax rate, and a reconciliation of the applicable rate (i.e. the statutory corporate income tax rate) to the effective income tax rate, are as follows:

	2008		2007	
	RMB million	%	RMB million	%
Profit before tax	<u>4,892</u>		<u>3,835</u>	
At the PRC statutory corporate income tax rate of 25% (2007: 33%)	1,223	25.0	1,265	33.0
Tax concessions and lower tax rates for specific provinces or locations	( 495)	(10.1)	( 849)	(22.2)
Effect on opening deferred income tax due to the enactment of the New CIT Law	-	-	( 521)	(13.6)
Income not subject to corporate income tax	( 120)	( 2.5)	( 132)	( 3.4)
Expenses not deductible for corporate income tax	<u>39</u>	<u>0.8</u>	<u>35</u>	<u>0.9</u>
Income tax expense/(credit) at the Group's effective income tax rate	<u>647</u>	<u>13.2</u>	<u>( 202)</u>	<u>( 5.3)</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

31 December 2008

8.	DIVIDEND	2008 RMB million	2007 RMB million
	Proposed final – RMB0.045 (2007: RMB0.045) per ordinary share	<u>388</u>	<u>388</u>

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

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

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

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

The calculation of basic earnings per share is based on:

	2008 RMB million	2007 RMB million
Earnings:		
Profit for the year attributable to ordinary equity holders of the parent	<u>4,040</u>	<u>3,770</u>
	Number of shares million	million
Shares:		
Weighted average number of ordinary shares in issue during the year	<u>8,616</u>	<u>8,616</u>

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

31 December 2008

### 10. TRADE RECEIVABLES

Sales of the Group's 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 may offer these customers credit terms that are generally between 30 and 180 days. For sales of engines and other automotive parts, the Group generally offer their customers credit terms that are between 30 and 180 days. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables, net of provision for impairment, of the Group, based on the invoice date, is as follows:

	2008 RMB million	2007 RMB million
Within three months	1,493	1,939
More than three months but within one year	593	232
More than one year	<u>15</u>	<u>58</u>
	<u>2,101</u>	<u>2,229</u>

The movements in the provision for impairment of trade receivables are as follows:

	2008 RMB million	2007 RMB million
At 1 January	987	1,003
Impairment loss recognised/(reversed)	55	( 28)
Acquisition of an additional interest in a jointly-controlled entity	-	83
Deemed disposal of interests in a jointly-controlled Entity's subsidiaries to a jointly-controlled entity	-	( 1)
Amount written off as uncollectible	<u>( 52)</u>	<u>( 70)</u>
	<u>990</u>	<u>987</u>

As at 31 December 2008, trade receivables with an aggregate nominal value of RMB891 million (2007: RMB787 million) were impaired and fully provided for. The remaining individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

NOTES TO FINANCIAL STATEMENTS (Continued)

31 December 2008

10. TRADE RECEIVABLES (Continued)

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	2008 RMB million	2007 RMB million
Neither past due nor impaired	1,479	1,905
Less than three months pass due	<u>23</u>	<u>22</u>
	<u>1,502</u>	<u>1,927</u>

Receivables that were neither past due nor impaired relate to a large number of diversified customers to whom there was no recent history of default.

11. TRADE PAYABLES

An aged analysis of the trade payables of the Group, based on the invoice date, is as follows:

	2008 RMB million	2007 RMB million
Within three months	9,361	7,783
More than three months but within one year	757	1,684
More than one year	<u>141</u>	<u>183</u>
	<u>10,259</u>	<u>9,650</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

31 December 2008

12. COMMITMENTS

(a) Operating lease commitments as lessee

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

	2008 RMB million	2007 RMB million
Within one year	151	113
After one year but not more than five years	490	463
More than five years	<u>1,783</u>	<u>1,746</u>
	<u>2,424</u>	<u>2,322</u>

(b) Capital commitments

In addition to the operating lease commitments detailed in note 12(a) above, the Group had the following capital commitments at the balance sheet date:

	2008 RMB million	2007 RMB million
Contracted, but not provided for:		
Property, plant and equipment	2,292	3,005
Capital contribution to an associate	<u>-</u>	<u>10</u>
	<u>2,292</u>	<u>3,015</u>
Authorised, but not contracted for:		
Property, plant and equipment	<u>2,164</u>	<u>1,090</u>

## NOTES TO FINANCIAL STATEMENTS (Continued)

31 December 2008

### 13. CONTINGENT LIABILITIES

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

	2008 RMB million	2007 RMB million
Bank acceptance bills discounted with recourse	816	1,268
Bank acceptance bills endorsed with recourse	3,958	4,377
Guarantees given to banks in connection with facilities granted to the following parties at nil consideration:		
- Jointly-controlled entities	622	724
- Associates	53	53
- Other third parties	9	20
Pending litigation	<u>6</u>	<u>5</u>
	<u>5,464</u>	<u>6,447</u>

No financial liabilities were recorded for the above guarantees given to banks as, in the opinion of the directors, the fair values of the financial guarantee contracts were not material as at 31 December 2007 and 2008.

## Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors, I hereby present the annual report of the Company for 2008 for your review.

The year 2008 was a remarkable year for the automobile industry of the PRC. Amid global financial crisis, austerity measures as well as changes in policy and regulation of the PRC, the production and sales of automobile industry experienced severe fluctuation during the year. The sales of vehicles shrank sharply in the second half of the year after a strong growth in the first half of the year. The annual sales volume of vehicles of automobile manufacturers in the PRC was approximately 9,381,000 units, representing an increase of approximately 6.7% over last year. However, the growth rate represented a drop of approximately 15.1 percentage points when compared with that of 2007.

Despite a number of unfavourable factors, Dongfeng Motor Group recorded satisfactory sales. In 2008, the aggregate sales volume of vehicles of the Dongfeng Motor Group was approximately 1,058,000 units, representing an increase of approximately 11.4% over last year, which is approximately 4.7 percentage points higher than the industry average. Of the sales volume, passenger vehicles and commercial vehicles accounted for approximately 727,000 units and approximately 331,000 units, representing an increase of approximately 14.0% and approximately 6.1% over last year, which is approximately 6.7 percentage points and approximately 0.8 percentage points higher than the industry averages, respectively. Leveraging on its diversified product mix to expand in different market segments, the Dongfeng Motor Group successfully mitigated its exposure to the downturn of automobile industry in the PRC. In 2008, the Dongfeng Motor Group commanded a market share of approximately 11.3%, representing an increase of approximately 0.5 percentage points over 2007.

In 2008, the Group's sales revenue was approximately RMB70,569 million, representing a year-on-year increase of approximately 19.0% and a compound growth rate for the last three years of approximately 19.1%. Profit attributable to shareholders of the Company was approximately RMB4,040 million, representing a year-on-year increase of approximately 7.2% and a compound growth rate for the last three years of approximately 36.2%. The earnings per share was approximately RMB46.89 cents, representing an increase of approximately 7.2% over last year. If the write-back of deferred tax for previous years accounted in the annual results of last year is excluded, the actual operating results of 2008 would present a growth of approximately 24.3% over last year. The Dongfeng Motor Group is one of the most profitable auto makers in the PRC.

## Chairman's Statement (Continued)

In 2008, the Dongfeng Motor Group promptly adjusted its investment plans according to the changes in the macro economy and automobile industry of the PRC. The total investment for the year was approximately RMB6,151 million which was reasonably adequate for expansion of capacity to meet market demand while at the same time the capacity investment was controlled at a reasonable level. As at the end of 2008, the total annual whole vehicle production capacity of the Dongfeng Motor Group amounted to approximately 1,312,000 units. The Dongfeng Motor Group also achieved significant improvement in various aspects of operations such as advertising and marketing, the optimization and expansion of distribution network, research and development and protection of intellectual property rights, energy saving and environmental protection, production safety as well as the protection of employees' interests in 2008.

Looking forward, despite the uncertainties in the automobile industry in the PRC, we consider this just a temporary turbulence faced by the industry, which is still in its fast-growth phase in 2009. Furthermore, with the introduction of various stimulus policies and measures for the automobile industry by the PRC government, we are confident that the long term development of the industry would be promising. The Dongfeng Motor Group has made appropriate business arrangements for 2009. In spite of the difficult situation ahead, the Dongfeng Motor Group will continue to improve its operations and turn challenges into opportunities so as to achieve a general improvement in its operation and results.

Xu Ping  
Chairman

Wuhan, the PRC  
14 April 2009

## **BUSINESS OVERVIEW**

### **I Major Businesses of the Dongfeng Motor Group**

The principal products of the Dongfeng Motor Group include commercial vehicles (heavy duty trucks, medium trucks, light trucks, buses and engines, auto parts and vehicle manufacturing equipment of commercial vehicles) and passenger vehicles (sedans, MPVs, SUVs and engines, auto parts and vehicle manufacturing equipment of passenger vehicles). In addition, the Dongfeng Motor Group is also engaged in the import/export of vehicles and equipment, finance, insurance agency and used car trading.

The Dongfeng Motor Group's commercial vehicle business, which was established in 1969, has commanded a leading position in the PRC commercial vehicle industry for many years. Currently, the Dongfeng Motor Group's commercial vehicle business is principally operated by Dongfeng Motor Co., Ltd.

The Dongfeng Motor Group's passenger vehicle business is principally operated by the following joint ventures: Dongfeng Motor Co., Ltd (the joint venture company between the Company and Nissan Motor Co. Ltd. (through Nissan (China) Investment Co. Ltd), Dongfeng Peugeot Citroën Automobiles Company Ltd (the joint venture between the Company and the PSA Peugeot Citroën Group), and Dongfeng Honda Automobile Co., Ltd (the joint venture between the Company and Honda Motor Co., Ltd (partly through Honda Motor (China) Investment Co., Ltd). The passenger vehicle engines and auto parts business of the Dongfeng Motor Group is principally operated by Dongfeng Motor Co., Ltd, Dongfeng Peugeot Citroën Automobiles Company Ltd, Dongfeng Honda Engine Co., Ltd, Dongfeng Honda Auto Parts Co., Ltd and Dongfeng Honda Automobile Co., Ltd.

In recent years, the Dongfeng Motor Group has strengthened its alternative fuel vehicle business, which is principally operated by Dongfeng Electrical Motor Joint Stock Co., Ltd.

The Dongfeng Motor Group's vehicle manufacturing equipment business is principally operated by Dongfeng Motor Co., Ltd.

The Dongfeng Motor Group's auto finance business is principally operated by the following companies: Dongfeng Nissan Auto Finance Co., Ltd (the joint venture company between the Company and Nissan Motor Co. Ltd) and Dongfeng Motor Finance Co., Ltd (the joint venture company between the Company and Dongfeng Motor Co., Ltd).

#### **1. Commercial vehicles**

As at 31 December 2008, the Dongfeng Motor Group produced 36 series of commercial vehicles, including 30 series of trucks and 6 series of buses. The commercial vehicles manufactured by the Dongfeng Motor Group are sold mainly through four major sales and service networks exclusively for commercial vehicles manufactured by the Dongfeng Motor Group, which form one of the most extensive commercial vehicle sales and service networks in the PRC.

Commercial vehicle engines produced by the Dongfeng Motor Group are mainly provided for internal use and external sales. Dongfeng Motor Co., Ltd and Dongfeng Automobile Co., Ltd, mainly produce Dongfeng series and Dongfeng Cummins series diesel and petrol commercial vehicle engines.

In addition to engines, the Dongfeng Motor Group also manufactures a range of auto parts for commercial vehicles, including power transmission systems (mainly comprised of gear box, clutch and transmission shaft), vehicle bodies (mainly comprised of die parts) and chassis (mainly comprised of axles, car frames and chassis parts), electronic components and other parts.

## **2. Passenger vehicles**

As at 31 December 2008, the Dongfeng Motor Group produced 25 series of passenger vehicles, including 16 series of sedan, 4 series of MPV and 5 series of SUV. The passenger vehicles manufactured by the Dongfeng Motor Group are sold through seven independently managed sales and service networks throughout the PRC. Each of these networks provides sales and after-sales services for one brand of passenger vehicles.

The passenger vehicle engines manufactured by Dongfeng Motor Co., Ltd, Dongfeng Peugeot Citroën Automobile Company Ltd and Dongfeng Honda Automobile Co., Ltd are mainly for internal use, while those manufactured by Dongfeng Honda Engine Co., Ltd are mainly for external sales.

In addition to engines, the Dongfeng Motor Group also produces a range of auto parts for passenger vehicles, including power transmission systems (mainly comprised of gear box, clutch and transmission shaft), vehicle bodies (mainly comprised of die parts), chassis (mainly comprised of axles, car frames and chassis parts), electronic components and other parts.

## **3. Other businesses**

The Dongfeng Motor Group is also engaged in the manufacture of vehicle manufacturing equipment through Dongfeng Motor Co., Ltd. The vehicle manufacturing equipment produced by Dongfeng Motor Co., Ltd includes machine tools, coating equipment, die and forging moulds, and measuring and cutting tools. Dongfeng Motor Co., Ltd also provides equipment maintenance services.

The Dongfeng Motor Group is also engaged in the import/export of vehicles and equipment, finance, insurance agency, and used car trading,

## II Business Operations during the year under Review

### 1. Production and sales volume and market share for whole vehicles of the Dongfeng Motor Group

As at 31 December 2008, the production and sales volumes for whole vehicles of the Dongfeng Motor Group were 1,060,937 units and 1,057,922 units respectively. According to statistics published by the China Association of Automobile Manufacturers, the Dongfeng Motor Group had a market share of 11.3% in terms of sales volume of commercial and passenger vehicles made by domestic manufacturers in 2008. The following table sets out the production and sales volumes of commercial and passenger vehicles of the Dongfeng Motor Group as well as their respective market shares in terms of sales volume in 2008:

	No. of units produced (units)	No. of units sold (units)	Market share in terms of sales volume (%) <sup>1</sup>
Commercial Vehicles	334,094	330,530	12.6
Trucks	290,117	285,737	12.5
Buses	43,977	44,793	13.2
Passenger Vehicles	726,843	727,392	10.8
Basic passenger cars	575,260	580,258	11.5
MPVs	24,359	25,489	12.9
SUVs	127,224	121,645	27.2
Total	1,060,937	1,057,922	11.3

<sup>1</sup> Calculated based on the statistics published by the China Association of Automobile Manufacturers

### 2. Market ranking of the Dongfeng Motor Group's major vehicle lines in domestic market in 2008

	Number of vehicles sold by the Dongfeng Motor Group (units)	Ranking in domestic market <sup>2</sup>
Heavy trucks	104,217	3
Medium trucks	50,654	1
Light trucks	130,866	2
Basic passenger cars	580,258	3
MPVs	25,489	4
SUVs	121,645	1

<sup>2</sup> Calculated based on the statistics published by the China Association of Automobile Manufacturers

### 3. Sales revenue

As at 31 December 2008, the annual sales revenue of the Group was approximately RMB70,569 million.

Business	Sales revenue (RMB millions)	Contribution to the Group's sales revenue (%)
Commercial vehicles	20,980	29.7%
Passenger vehicles	48,660	69.0%
Others	929	1.3%
<b>Total</b>	<b>70,569</b>	<b>100.0%</b>

### III. Sales and Service Networks

The sales and after-sales services of motor vehicles of the Dongfeng Motor Group are provided through sales and service networks under 11 brand names in China. Each of these 11 sales and service networks provides sales and after-sales services of vehicles of a particular manufacturer and is independently managed by third parties, which are not connected with any member of the Dongfeng Motor Group.

Sales and after-sales services of commercial vehicles are mainly provided through four major sales and service networks.

	Brand names	No. of sales outlets	No. of after-sales service outlets	No. of provinces covered
Dongfeng Motor Co., Ltd (Commercial Vehicle Company)	Dongfeng (heavy and medium)	260	580	31
Dongfeng Automobile Co., Ltd	Dongfeng (light)	706	794	31
Dongfeng Liuzhou Motor Co., Ltd	Dongfeng (heavy and medium)	196	492	30
Dongfeng Nissan Diesel Motor Co., Ltd	Dongfeng Nissan Diesel	56	96	31

Sales and after-sales of passenger vehicles are mainly provided through seven major sales and service networks.

	Brand names	No. of sales outlets	No. of after-sales service outlets	No. of provinces covered
Dongfeng Peugeot Citroën Automobiles Company Ltd	Dongfeng Citroën	248	253	31
Dongfeng Peugeot Citroën Automobiles Company Ltd	Dongfeng Peugeot	156	156	30
Dongfeng Motor Co., Ltd (Dongfeng Nissan Passenger Vehicle Company)	Dongfeng Nissan	488	423	31
Dongfeng Liuzhou Motor Co., Ltd	Dongfeng Future	398	182	31
Dongfeng Honda Automobile Co., Ltd	Dongfeng Honda	230	230	31
Zhengzhou Nissan Automobile Co., Ltd	Zhengzhou Nissan	762	341	31
Dongfeng Automobile Co., Ltd	Dongfeng (Pickup)	762	341	31

## IV. Production Capacity, Production Capacity Distribution and Future Expansion Plans

As at 31 December 2008, the total whole vehicle production capacity of the Dongfeng Motor Group was approximately 1,312,000 units. The total production capacity of engines was approximately 1,460,000 units, among which the production capacities of commercial vehicles and commercial vehicle engines were approximately 402,000 units and 240,000 units respectively; the production capacities of passenger vehicles and passenger vehicle engines were approximately 910,000 units and approximately 1,220,000 units, respectively.

The following table shows the production capacity distribution of vehicles and engines of the Dongfeng Motor Group as at 31 December 2008:

### 1. Production capacity of commercial vehicles

#### 1.1 Whole vehicle:

Company	Production capacity ( <sup>0</sup> 000 units)
Dongfeng Motor Co., Ltd	394
Dongfeng Nissan Diesel Motor Co., Ltd	2
Dongfeng Special Commercial Vehicle Co., Ltd	6

#### 1.2 Engines:

Company	Production capacity ( <sup>0</sup> 000 units)
Dongfeng Motor Co., Ltd	240

### 2. Production capacity of passenger vehicles

#### 2.1 Whole vehicle:

Company	Production capacity ( <sup>0</sup> 000 units)
Dongfeng Motor Co., Ltd	450
Dongfeng Peugeot Citroën Automobiles Company Ltd	300
Dongfeng Honda Automobile Co., Ltd	160

## 2.2. Engines:

Company	Production capacity (’000 units)
Dongfeng Motor Co., Ltd	300
Dongfeng Peugeot Citroën Automobiles Company Ltd	400
Dongfeng Honda Automobile Co., Ltd	160
Dongfeng Honda Engine Co., Ltd	360

According to the market forecast and the business plan of the Dongfeng Motor Group, the Dongfeng Motor Group is expected to expand its production capacity and improve its utility to meet the demand of its products. By 2009, the production capacity of whole vehicles is expected to reach approximately 1,380,000 units.

## V Investment in 2008 and Investment Plan for the next two years

Investment in fixed assets during 2008 amounted to approximately RMB6,151 million. In 2008, the Dongfeng Motor Group strictly managed its investments by adhering to the principle of rationality and profitability, resulting in steady progress in the following three aspects of investment project development:

1. Introduction of new products and development of new models in order to cope with the increasingly competitive market. Maintain and expand the market share despite the slowdown of the growth of the domestic automobile market.
2. Upgrading technology and production capacity to meet the rapid growth of sales and the need of product development. On the other hand, investment in production capacity and recurring investment are reduced or deferred to minimise investment risks.
3. Strengthen its research and development capabilities to improve the core competitiveness and sustainability of the Dongfeng Motor Group.

In the next two years, the Dongfeng Motor Group will, according to its strategies and business plans, continue to improve its R&D capability, to introduce new products, to design new vehicle models, to upgrade production technology and capacity of certain business units and to improve energy conservation and emission reduction. For investment management, the Dongfeng Motor Group will expand production capability, rationalise investment portfolio and adjust investment strategies. The total investment of the Dongfeng Motor Group is expected to be approximately RMB7,800 million and RMB9,800 million in 2009 and 2010 respectively.

## **VI Intellectual Property and Research and Development**

### **1. New Products Development and Research and Development**

- (1) Commercial vehicles: The development of more than 70 models of the “Kingrun” series was completed on the D530 platform and was successfully launched in 2008. Dongfeng Automobile Co., Ltd completed the development and industrialisation of the third generation Dongfeng light trucks series based on the designs of Dongfeng Xiao Bawang (東風小霸王), Dongfeng Jin Ba (東風金霸) and Dongfeng Duolika (東風多利卡). Development of more than 300 models of 11 types of 3 series was carried out. The Dongfeng Motor Group is amongst one of the first batch to complete the upgrading and replacement of heavy, medium and light commercial vehicles which meet the national emission standard III of the PRC. The quality and technology of the products command a leading position in domestic market. Expansion of the Dongfeng Kinland/T-LIFT series gains significant market acceptability and significant shares in both domestic and overseas markets.
- (2) Passenger vehicles: A number of new passenger vehicle models including the new Dongfeng Peugeot 307 hatchback, 207 sedan, Dongfeng Citroën New c-Elysée, C-Quatre , Dongfeng Nissan New Teana and X-trail were introduced into the market and commenced production during 2008. The sales of New c-Elysée reached 55,000 units in the year, proving another success of the Dongfeng Motor Group’s self-developed products.
- (3) Alternative fuel green vehicles: The Dongfeng Motor Group continued to participate in two national projects under the “863 Program (High Technology Research and Development Program)” and completed the development of 15 hybrid electric urban buses complying with the National IV Emission Standard which were used in the Beijing Olympic Games. The development of hybrid power MPV by Dongfeng Liuzhou Motor Co., Ltd was completed and published in the national product list in 2008. Significant progress has been made in the development of alternative fuel high power compressed natural gas (“CNG”) and liquid natural gas (“LNG”) engines, establishing two series of CNG and LNG vehicles.

## **2. Further enhancement of R&D capability**

### **(1) Significant improvement in R&D capability**

In 2008, the Dongfeng Motor Group's technical centre enhanced its research and development capabilities by upgrading its testing equipment and ancillary facilities. Construction of the new research and development base has commenced and is scheduled to be completed in two years. The new research and development base of Dongfeng Automobile Co., Ltd. commenced operation in September 2008 to cater the need of research and development resources. The newly completed volatile organic compounds and smell laboratory of Dongfeng Peugeot Citroen Automobile Company Ltd is the first cabin air quality laboratory equipped with comprehensive analysis ability in the PRC automobile industry. Dongfeng Nissan Passenger Vehicle Company has completed the construction of various key equipment, which improved its research and development capabilities.

### **(2) Published R&D results hit new records in terms of number and technical achievement**

In 2008, the “Dongfeng 1.5 ton high performance off-road vehicles development” project received the first prize at the State Scientific and Technological Progress Award, which was the highest award granted to the automobile industry of China for 22 years and had widespread influence to the whole industry. The “Dongfeng hybrid electric urban buses development” project was awarded the first prize at the Scientific and Technological Progress Award of the Automobile Industry in China and Scientific and Technological Progress Award of Hubei Province. During the year, the Dongfeng Motor Group received a total of 19 scientific and technological advancement awards, including 1 first prize, 5 second prizes and 13 third prizes. Mr Xu Man Nian, Deputy General Product Designer of Technical Center of the Dongfeng Motor Group, was awarded the “Excellent Talents of Automobile Industry in China Award”.

### **(3) Effective measures for protection of intellectual property and core technology**

In 2008, the Dongfeng Motor Group has filed a total of 348 patent applications and 34 invention patent applications. The number of patents owned by the Dongfeng Motor Group is among the highest in the automobile industry.

### **(4) Progress made in accreditation and standardization**

In 2008, the Dongfeng Motor Group has successfully filed and published 2071 new vehicle products and altered and extended 831 new models. 3,315 vehicle models were approved by the relevant state and local authorities to be included in environmental catalogues. The applications for China Compulsory Certification (CCC) for new products were made to 245 units and 410 units were changed. 30 production bases have passed the examinations of the relevant certification authorities and obtained relevant accreditation.

## **VII Performance of Social Responsibilities**

### **1. Product quality and services**

In 2008, the Dongfeng Motor Group consistently adhered to the quality management philosophy of “*Focusing on and Satisfying Every Customer*”. Leverage on its strategic edges through international cooperation, the Dongfeng Motor Group continued to absorb and implement the advanced quality management measures in the international market. With emphasis on its quality control over the entire production value chain, quality of product designs and sales services, active control and prevention of product quality related exposures and improvement of product quality, the corporate image and brand value of the Dongfeng Motor Group has been enhanced.

In recent years, the Dongfeng Motor Group’s staff awareness and knowledge of quality assurance have been enhanced. The optimisation of QCD (quality, cost and delivery), the most common practice of daily quality assurance was widely accepted and recognised by its staff.

### **2. Energy conservation and environment protection**

The Dongfeng Motor Group has established and optimised its energy conservation implementation, monitoring and assessment systems according to the principles of “stringent standard, strict requirement, extensive coverage and compulsory compliance”, laying solid foundation for the long term efficient mechanism of energy conservation. When compared with 2005, energy consumption with RMB10,000 in added value at current price dropped by over 40%, which was higher than the annual benchmark of 26% of the Dongfeng Motor Group. The carbon dioxide emission and chemical oxygen demand decreased by 7.82% and 22.77%, respectively, in 2008, as compared to those of 2005, which outperformed the control benchmarks set by the Dongfeng Motor Group by 1.82 and 14.77 percentage points respectively.

In 2008, the Dongfeng Motor Group successfully restrained pollution issue. The passing rate of pollution inspection of the Dongfeng Motor Group was over 98%. The Dongfeng Motor Group has complied with all applicable environmental protection regulations. A number of environmental protection measures of the Dongfeng Motor Group are of the highest standard of the country or the industry and are of or approximate the standard of developed countries. Dongfeng Nissan Passenger Vehicle Company, Huadu Plant was recognised as a “National Environmentally-Friendly Enterprise” (國家環境友好企業), while the “120,000 vehicles project” (12萬輛建設工程) of Dongfeng Honda Automobile Co., Ltd was awarded the title of “National Environmentally-Friendly Project” (國家環境友好工程) by the Ministry of Environment Protection.

### **3. Production safety**

During 2008, the Dongfeng Motor Group adhered to the target of “integrated management with safety as priority and precaution as focus” and implemented safety production accountability system.

### **4. Protection of statutory rights of the employees**

In 2008, with the target of establishing a harmonious enterprise and sharing the corporate achievements with the employees to establish a harmonious and steady labour relationship, the Dongfeng Motor Group actively protects the statutory rights of the employees. Such work includes: (1) promoting the establishment of a harmonious mechanism for labour relationship; (2) promoting the establishment of an employee representative meeting system and an open and democratic management system for the plants; (3) enhancing the vocational education to raise the skill and technical level of the employees; (4) actively helping the employees with economic difficulties; and (5) improving production safety and labour protection and providing hygienic and healthy working environment for the employees.

## **VIII Business Prospects**

According to the target of the national restructuring and revitalisation project for automobile industry, the total sales volume of domestically manufactured vehicle will reach 10 million units in 2009 with an annual growth rate of 10% in the next few years.

Except for certain business units, the Dongfeng Motor Group’s production capacity is in general sufficient for the expected growth in the next two to three years. The Dongfeng Motor Group will further expand the domestic and overseas markets and enhance capacity utilization rate to achieve a higher growth rate in terms of sales volume rather than production capability.

The Dongfeng Motor Group is expected to launch over 10 types of new passenger vehicles, including middle-high class vehicles, medium sedans, compact and cross type passenger vehicles and approximately six series of commercial vehicles in the next two years.

The Dongfeng Motor Group will focus on enhancing operation efficiency and resources utilization rate to maintain its leading position in terms of cost, quality and revenue.

The Dongfeng Motor Group is committed to keeping the production and sales ahead of the expansion of the production in the automobile industry, achieve steady increase of the market share and consolidate and uplift the existing position in the automobile industry in China.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL RESULTS OVERVIEW

During the year, revenue of the Group amounted to approximately RMB70,569 million, representing an increase of approximately RMB11,251 million, or 19.0%, when compared with approximately RMB59,318 million for last year. Profit attributable to shareholders of the Company amounted to approximately RMB4,040 million for the year, representing an increase of approximately RMB270 million, or 7.2%, when compared with approximately RMB3,770 million for last year. Earnings per share were approximately RMB46.89 cents, up by approximately RMB3.13 cents, or 7.2%, when compared with approximately RMB43.76 cents for last year.

After excluding the one-time write-back of deferred tax for previous years of approximately RMB521 million arising from the unification of income tax for domestic and foreign enterprises policy of the PRC (the “Tax Unification Policy”), the adjusted profit attributable to shareholders of the Company for the previous year amounted to approximately RMB3,249 million. The adjusted earnings per share for the previous year was RMB37.71 cents. The profit attributable to shareholders of the Company for the year increased by approximately RMB791 million, representing a growth of 24.3%, over the adjusted profit attributable to shareholders of the Company for the previous year. The earnings per share for the year increased by RMB9.18 cents, representing a growth of 24.3%, over the adjusted earnings per share for the previous year.

During the year, net cash inflow from operating activities of the Group was strong. It amounted to approximately RMB7,748 million, representing an increase of approximately RMB2,646 million, or 51.9%, when compared with approximately RMB5,102 million for the previous year.

## REVENUE

The growth rates in production and sales of vehicles of the automobile industry in the PRC for the first half of the year slowed down as compared with the corresponding period last year due to unfavorable factors including the continued rise in the price of raw materials and energy, and the dampened consumption demand resulted from fluctuations in macro economies encountered during the first half of the year. Nevertheless, the performance was still strong. However, when stepping into the second half of the year, the production and sales of vehicles of the automobile industry shrank rapidly in the second half of the year due to the impact of the global financial crisis and the changes in the domestic macro-economic and policies and regulations of the PRC. The accumulated sales volume of vehicles of automobile manufacturers in the PRC for the period grew by approximately 6.7% over last year, representing a drop of approximately 15.1 percentage points over last year. With its efforts in overcoming those unfavorable factors, capturing the growth opportunities in different market segment by having rich product lines and swiftly adjusting its product mix, the sales volume of vehicles of the Dongfeng Motor Group successful surpassed the accumulated vehicle sales target of 1 million units, reaching 1,057,922 units, representing a growth of approximately 11.4% over last year, which is notably higher than the industry level of approximately 6.7%. The market share in terms of sales volume of the Dongfeng Motor Group also increased from approximately 10.8% last year to approximately 11.3% this year. During the year, the total revenue of the Group amounted to approximately RMB70,569 million, an increase of approximately RMB11,251 million, or 19.0%, from approximately RMB59,318 million for the previous year.

	2008		2007	
	Revenue from sales RMB million	Units sold	Revenue from sales RMB million	Units sold
Passenger vehicles	48,660	727,392	41,655	638,013
Commercial vehicles	20,980	330,530	16,901	311,513
Others	929	N/A	762	N/A
<b>Total</b>	<b>70,569</b>	<b>1,057,922</b>	<b>59,318</b>	<b>949,526</b>

*Note: It should be noted that the revenue figures in the above table reflect the proportionate consolidated revenue of the Group. However, the corresponding figures of the units of vehicles sold in the above table represent the actual units sold by the Dongfeng Motor Group, not adjusted on a proportionate consolidation basis, for the indicated years.*

During the year, the revenue of the Group from sales of passenger vehicles increased by approximately RMB7,005 million, representing a growth of approximately 16.8%, from approximately RMB41,655 million for the previous year to approximately RMB48,660 million. Of which, the revenue from sales of whole passenger vehicles increased by approximately RMB6,087 million, representing a growth of approximately 18.0%, from approximately RMB33,742 million in the previous year to approximately RMB39,829 million.

Despite the impact of the global financial crisis and the changes in the domestic macro-economic and policies and regulations of the PRC, the revenue from sales of whole passenger vehicles still recorded a substantial growth of approximately 18.0%. This is mainly due to the increase of approximately 14.0% in the total sales volume of whole passenger vehicles to 727,392 units from 638,013 units in the previous year, notably higher than the industry growth rate of approximately 7.3% for whole passenger vehicles. The market share in terms of sales volume of the Dongfeng Motor Group for the year increased to approximately 10.8% from approximately 10.1% in 2007. In order to cater for changes and demand of the market, meeting the market demand by its rich product lines, the Dongfeng Motor Group has successively launched new products, including models such as Dongfeng Nissan Qashqai, Dongfeng Nissan LIVINA C-GEAR, Dongfeng Nissan 2008 Sylphy, Dongfeng Nissan New Teana, Dongfeng Nissan X-trail, Dongfeng Peugeot 307 hatchback, Dongfeng Citroen C-Quatre and Dongfeng Citroen New c-Elysee. For middle-class vehicles, the sales of Dongfeng Nissan “TIIDA+Sylphy” maintained stable. The sales of Dongfeng Honda SUV remained strong during the year. According to the latest data published by the China Association of Automobile Manufacturers, the sales of SUVs grew the fastest amongst passenger vehicles, which attained a growth of approximately 25.3% over the same period last year and was more than 3.7 times faster than that growth of sedan. Sales volume of Dongfeng Honda New Generation CRV, continuously ranking top of SUVs, exceeded 80,000 units for the year, a significant increase of over 34,000 units over last year, representing a growth of approximately 74.7%, which is much higher than the growth in the industry. The sales of Dongfeng Honda CIVIC also continued to be strong during the year.

During the year, the revenue from sales of commercial vehicles for the year was approximately RMB20,980 million, representing an increase of approximately RMB4,079 million or approximately 24.1% when compared with approximately RMB16,901 million for the previous year. Of which, the revenue from sales of whole commercial vehicles was approximately RMB18,002 million, representing an increase of approximately RMB3,246 million or approximately 22.0% when compared with approximately RMB14,756 million for the previous year. Benefited from the rapid growth of the national economies and the automobile industry, the higher growth rate in the commercial vehicles market for the first half of 2008 remained. However, stepping into the second half of the year, the sales of commercial vehicles of the Dongfeng Motor Group shrank rapidly in the second half of the year due to the economic impact at home and abroad. Despite these unfavorable factors, the sales volume in whole commercial vehicles of the Dongfeng Motor Group increased from 311,513 units for the previous year to 330,530 units for the year, representing a growth of approximately 6.1%, which exceeded the growth rate of approximately 5.3% of the whole commercial vehicles industry by approximately 0.8 percentage points. The overall market shares of commercial vehicles of the Dongfeng Motor Group in terms of sales volume still recorded a slight increase from approximately 12.5% for the corresponding period last year to approximately 12.6% for the year. The Dongfeng Motor Group continued to improve and upgrade its commercial vehicles business. The sales of Dongfeng “Kinland” and Dongfeng “T-LIFT” heavy duty trucks series remained robust.

## **COST OF SALES AND GROSS PROFIT**

The total costs of sales of the Group for the year was approximately RMB58,688 million, representing an increase of approximately RMB9,185 million over approximately RMB49,503 million for the previous year. The total gross profit of the Group for the year was approximately RMB11,881 million, representing an increase of approximately RMB2,066 million over approximately RMB9,815 million for the previous year, representing a growth of 21.0%. The gross margin increased by 0.3 percentage points from 16.5% for the previous year to 16.8% for the year. The Group managed to control the downward impact on the gross profit margin of the rise on costs of raw materials, energy and labour by vigorously stepping up cost control and optimisation of workflow, accelerating localisation together with the benefit from appreciation of Renminbi.

During the year, the gross profit margin of passenger vehicles increased to approximately 19.0% from approximately 18.3% of the previous year, and that of whole passenger vehicles increased to approximately 18.2% from approximately 17.5% of the previous year. Apart from the effect arising from cost control and optimisation of workflow, the sales of the new products launched by the Group continued to be robust, in particular Dongfeng Honda New Generation CRV has continued to rank top of SUVs, enabling the Group to improve its overall gross profit margin of passenger vehicles.

During the year, the gross profit margin of commercial vehicles slightly dropped to approximately 11.6% from approximately 12.0% of the previous year, and that of whole commercial vehicles of the Group remained at the 2007 level of approximately 11.5%. Being the first to upgrade all series of products of commercial vehicles and achieve its structural adjustment and restructuring of the product mix, the gross margin of heavy commercial vehicles increased with the growth in both the sales volume and the average selling prices, which has effectively reduced the impact of the dropping gross margin of light and medium commercial vehicles and rises in costs of raw materials, energy and labour on the overall gross margin of the commercial vehicle business.

## **OTHER INCOME**

During the year, the total other income of the Group amounted to approximately RMB1,228 million, representing an increase of approximately RMB293 million when compared with approximately RMB935 million for the previous year. The increase in other income is mainly attributable to: (1) an increase of approximately RMB65 million in grants received from the government for the purpose of supporting the development of automotive technologies and automobile projects of automobiles; (2) an increase of approximately RMB134 million in the import and sales of steels and auto parts; and (3) the increase of approximately RMB111 million in bank deposit interest due to an increase in fixed bank deposits from satisfactory sales and adequate cash flows for the year.

## **SELLING AND DISTRIBUTION COSTS**

During the year, the selling and distribution costs of the Group amounted to approximately RMB3,359 million, representing an increase of approximately RMB717 million when compared with approximately RMB2,642 million of the previous year. The selling and distribution costs as a percentage of sales revenue increased by approximately 0.3 percentage points to approximately 4.8% from 4.5% of the previous year. The increase in the selling and distribution costs was mainly due to the increase in transportation costs and the robust production and sales. Moreover, there was an increase in the advertising and exhibition expenses and the market development expenses as a result of the launch of various new models.

## **ADMINISTRATIVE EXPENSES**

During the year, the total administrative expenses of the Group amounted to approximately RMB2,591 million, representing an increase of approximately RMB46 million when compared with approximately RMB2,545 million for the previous year. This was mainly due to higher staff costs, depreciation charges and amortisation expenses of intangible assets. During the year, a write-back in the amortisation of the fair value of stock appreciation rights of approximately RMB91 million was recorded and amortisation of the fair value of stock appreciation rights amounted to approximately RMB111 million for the previous year, resulting in a decline in the increase in administration expenses by approximately RMB202 million. During the year, the administration expenses as a percentage of sales revenue decreased by 0.6 percentage points to approximately 3.7%, down from approximately 4.3% of the previous year due the increase in sales, the Group's control over administration expenses and the difference in amortising the fair value of stock appreciation rights. Excluding the effect of the difference in amortising the fair value of stock appreciation rights, the administrative expenses as a percentage of sales revenue decreased by 0.3 percentage points to 3.8%, down from 4.1% in the previous year.

## **OTHER EXPENSES**

During the year, other expenses were approximately RMB1,969 million, representing an increase of approximately RMB537 million when compared with approximately RMB1,432 million for the previous year. The increase was mainly due to (1) the increase in technology development and transfer expenses by approximately RMB361 million to approximately RMB1,450 million from approximately RMB1,089 million in the previous year; and (2) the impairment provision for the special-purpose manufacturing equipment for old vehicle models of approximately RMB177 million during the year, representing an increase of approximately RMB151 million when compared with that of approximately RMB26 million for the previous year.

## **STAFF COSTS**

During the year, the staff costs (including directors' and supervisors' emoluments) of the Group amounted to approximately RMB3,209 million, representing an increase of approximately RMB181 million when compared with approximately RMB3,028 million for the previous year. This was due to higher demand for labour and a general rise in salaries brought about by an increase in market demand for automobiles. During the year, a write-back in the amortisation of the fair value of stock appreciation rights of approximately RMB91 million was recorded and amortisation of the fair value of stock appreciation rights amounted to approximately RMB111 million for the previous year, resulting in a decline in the increase in staff costs by approximately RMB202 million.

## **DEPRECIATION CHARGES**

In recent years, with a view to expanding its business and increasing its production capacity, more investments in plant and equipment were made. During the year, the depreciation charges amounted to approximately RMB2,025 million, representing an increase of approximately RMB242 million when compared with approximately RMB1,783 million for the previous year.

## **FINANCE COSTS**

During the year, the finance costs of the Group amounted to approximately RMB393million, representing an increase of approximately RMB28 million when compared with approximately RMB365 million for the previous year. While the effective interest rate decreased during the year, the finance costs increased slightly mainly due to the slight increase in the total borrowings during the year.

## **INCOME TAX**

The income tax of the Group during the year amounted to approximately RMB647 million, representing a difference of approximately RMB849 million when compared with the income tax credit of approximately RMB202 million for the previous year. The effective tax rate for the year was approximately 13.2%. Should the one-off write-back of deferred tax of approximately RMB521 million for previous years arising from the State Tax Unification Policy be excluded, the adjusted effective tax rate would be approximately 8.3%. The increase in the effective tax rate was mainly due to the upward adjustment of the tax rates for certain companies of the Group arising from the tax reform.

## NET PROFIT

Based on the foregoing reasons, the profit attributable to shareholders of the Company amounted to approximately RMB4,040 million for the year, representing an increase of approximately RMB270 million, or a growth of approximately 7.2%, when compared with approximately RMB3,770 million for the previous year. Earnings per share were approximately RMB46.89 cents, up by approximately RMB3.13 cents, or a growth of approximately 7.2%, when compared with approximately RMB43.76 cents for the previous year.

After excluding the one-time write-back of deferred tax for previous years of approximately RMB521 million arising from the State Tax Unification Policy in the previous year, the Group's adjusted profit attributable to shareholders of the Company for the previous year amounted to approximately RMB3,249 million. The adjusted earnings per share for the previous year was approximately RMB37.71 cents. The profit attributable to shareholders of the Company for the year increased by approximately RMB791 million, or a growth of approximately 24.3%, when compared with the adjusted profit attributable to shareholders of the Company for the previous year. The earnings per share of the Group for the year increased by RMB9.18 cents, or a growth of approximately 24.3%, when compared with the adjusted earnings per share for the previous year.

During the year, the Group's net profit margin, as a percentage of profit attributable to shareholders of the Company to total revenue, was approximately 5.7%, representing a decrease of 0.7 percentage points when compared with that of 6.4% for the previous year. However, when compared with the net profit margin for the previous year after adjusting for the one-off write-back of deferred tax for previous years arising from the State Tax Unification Policy of approximately 5.5%, there was an increase of approximately 0.2 percentage points.

During the year, the Group's return on net assets, as a percentage of profit attributable to shareholders of the Company to average net assets, was approximately 20.7%, representing a decrease of 2.9 percentage points when compared with that of 23.6% for the previous year. However, when compared with the return on net assets for the previous year after adjusting for the one-off write-back of deferred tax for previous years arising from the State Tax Unification Policy of approximately 20.3%, there was an increase of approximately 0.4 percentage points.

## LIQUIDITY AND SOURCES OF CAPITAL

	<b>2008</b>	2007
	<b>RMB million</b>	RMB million
Net cash inflows from operating activities	<b>7,748</b>	5,102
Net cash outflows from investing activities	<b>(7,780)</b>	(3,280)
Net cash inflows'(outflows) from financing activities	<b>123</b>	(378)
Net increase in cash and cash equivalents	<b>91</b>	1,444

During the year, net cash inflows from operating activities amounted to approximately RMB7,748 million. This principally represents: (1) profit before tax and non-cash items of depreciation and impairment amounting to approximately RMB7,385 million; (2) a decrease of approximately RMB796 million in trade receivables, bills receivable and prepayments, deposits and other receivables; and (3) an increase of approximately RMB3,013 million in trade, bills and other payables and accrued liabilities. During the year, cash flows generated from operating activities of the Group were strong.

During the year, net cash used in investing activities of the Group amounted to approximately RMB7,780 million. This principally represents (1) the purchase of property, plant and equipment of approximately RMB3,983 million for the expansion of production capacity and development of new products; and (2) the increase of approximately RMB2,783 million in pledged bank balances and time deposits and unpledged time deposits with an original maturity of three months or more.

During the year, net cash inflows from financing activities of the Group amounted to approximately RMB123 million, mainly due to the increase in borrowings of approximately RMB570 million as reduced by the payment of dividends of approximately RMB388 million to the shareholders.

During the year, the increase in cash and cash equivalents (excluding the pledged bank balances and time deposits and unpledged time deposits with an original maturity of three months or more) of the Group amounted to approximately RMB91 million. As at 31 December 2008, cash and cash equivalents amounted to approximately RMB7,194 million, and cash and bank balances (including the pledged bank balances and time deposits and unpledged time deposits with an original maturity of three months or more) amounted to approximately RMB14,113 million, representing a significant increase by approximately RMB3,640 million when compared with approximately RMB10,473 million as at 31 December 2007. As at 31 December 2008, net cash (cash and bank balances less borrowings) of the Group significantly increased to approximately RMB5,413 million from approximately RMB2,208 million as at 31 December 2007.

As at 31 December 2008, the Group's equity ratio, as a percentage of total borrowings to total shareholders' equity, was 40.7%, representing an improvement from the 2007 level of 46.7%.

As at 31 December 2008, the Group's liquidity ratio was 1.07 times, representing a slight decline over the 2007 level of 1.08 times. As at 31 December 2008, the Group's quick ratio was 0.79 times, representing a slight decline over the 2007 level of 0.82 times.

The Group strengthened the inventory control during the year and inventory turnover days amounted to 58 days, representing a slight increase from 56 days in 2007.

The Group's turnover days of account receivable (including bills receivable) significantly decreased to 45 days from 63 days of the previous year, and the turnover days of account receivable (excluding bills receivable) decreased to 11 days from 14 days of the previous year. The turnover days of bills receivable decreased to 34 days from 49 days of the previous year. The Group accepted promissory notes issued by creditworthy banks for strengthening the marketing efforts. The Group adopts stringent policies for the management of bills receivable and only accepts applications by customers with trustworthy and strengths, while the credit risks related to bank promissory notes are assumed by the customers banks.

## **DIVIDENDS**

The Board of Directors recommends to distribute a dividend of RMB0.045 per share for the year ended 31 December 2008 (2007: RMB0.045) per share.

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

## **MAJOR ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES**

There were no major acquisitions or disposals of subsidiaries, jointly-controlled entities and associates by the Company for the year.

## **MATERIAL LEGAL PROCEEDINGS**

As at 31 December 2008, the Group was not involved in any material litigation or arbitration and no material litigation or claim was pending or threatened or made against the Group as far as the Group was aware.

## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

Neither the Company nor any of its subsidiaries nor any jointly-controlled entities purchased, sold or redeemed any of the Company's securities during the year.

## **CORPORATE GOVERNANCE**

The Company has fully complied with the requirements of the Code Provisions of the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year.

## **CLOSURE OF REGISTER OF MEMBERS**

In order to determine the name list of shareholders who are entitled to attend the annual general meeting and qualified for the proposed final dividend for the year ended 31 December 2008, the register of members of the Company will be closed from Tuesday, 19 May 2009 to Thursday, 18 June 2009, both days inclusive, during which period, no registration of shareholders and no transfers of shares will be effected. In order to be qualified to attend and vote at the annual general meeting and qualified for the proposed final dividend for the year ended 31 December 2008, holders of H shares whose transfers have not been registered shall deposit the transfer documents together with the relevant share certificates at the H share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Room 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong at or before 4: 30 pm on Monday, 18 May 2009.

## **REVIEW OF THE ACCOUNTS**

The audit committee has reviewed the audited financial reports for the year ended 31 December 2008 of the Company and the Group.

## **BOARD OF DIRECTORS**

As at the date of this announcement, Mr Xu Ping, Mr Liu Zhangmin, Mr Zhou Wenjie, Mr Li Shaozhu and Mr Fan Zhong are the executive directors of the Company, Mr Tong Dongcheng, Mr Ouyang Jie, Mr Liu Weidong and Mr Zhu Fushou are the non-executive directors of the Company and Mr Sun Shuyi, Mr Ng Lin-fung and Mr Yang Xianzu are the independent non-executive directors of the Company.

On behalf of the Board of Directors  
Xu Ping  
Chairman

Wuhan, the PRC, 14 April 2009

*\* For identification only*